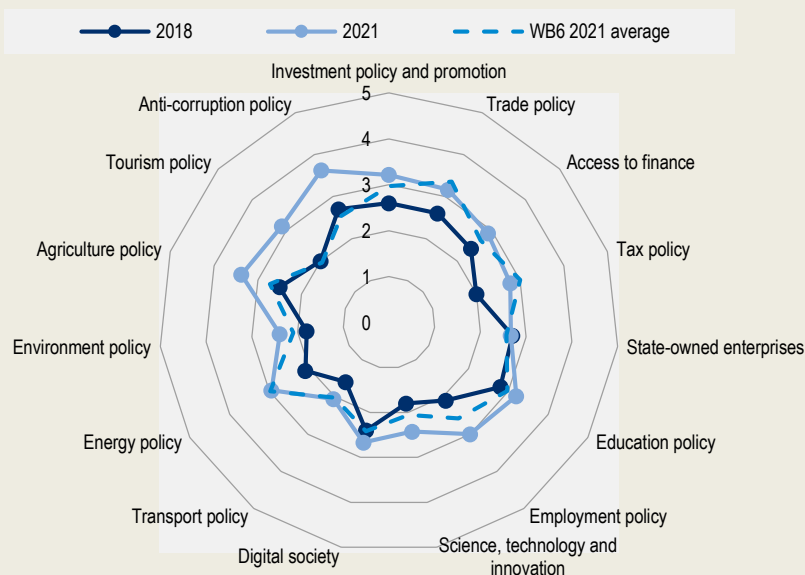


23 Montenegro profile

Key findings

Figure 23.1. Scores for Montenegro (2018 and 2021)



Note: Dimensions are scored on a scale of 0 to 5. Scores for 2021 are not directly comparable to the 2018 scores due to the addition/removal of relevant qualitative indicators. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See Scoring approach section for information on the assessment methodology. Scores for Dimension 5 Competition Policy are not included in the figure due to different scoring methodology (see Scoring approach).

Montenegro has made progress since the publication of the Competitiveness Outlook 2018 report in all the policy dimensions with the exception of State-Owned enterprises (Figure 23.1). Most of the improvements have been in the legal and regulatory environment, which forms a solid basis to improve the overall competitiveness of the economy. Its main achievements are as follows:

- **Significant new tax measures** have aligned Montenegro's tax system with recent international tax trends and have strengthened the scope for international tax co-operation. The economy joined the OECD/G20 Inclusive Framework on Base Erosion and Profit Sharing in December 2019. The OECD Global Forum on Transparency and Exchange of Information for Tax Purposes has started a peer review of Montenegro's readiness to exchange information on request (EOIR). Montenegro also signed the Convention on Mutual Administrative Assistance in Tax Matters in October 2019 and is in the process of amending its transfer pricing rules via a reform of the Law on Corporate Profit.
- **School participation levels are increasing.** As of 2019, Montenegro had achieved net universal primary school enrolment (99.9%), though lower secondary education is not quite there yet (92.3%). Net enrolment in upper secondary education (89%) has gradually increased and is on track to meet OECD (92.5%) and European Union (93%) averages in the coming years. Moreover, Montenegro has one of the lowest early school-leaving rates in the region (5% in 2019), well below the EU target of less than 10% of early school leavers by 2020.
- **Labour laws are aligned with EU standards.** Labour market flexibility and labour standards for workers in certain fields have improved. In addition, the capacity of the public employment services (PES) has been strengthened, in particular by improving the tools and instruments available to PES counsellors, such as a profiling tool for the unemployed.

- **The science, technology and innovation (STI) policy framework has advanced significantly.** Montenegro developed a set of guidelines for smart specialisation in 2018, and is the first of the six Western Balkans (WB6) economies to adopt a smart specialisation strategy (covering 2019-2024), which received a conditionally positive assessment by the European Commission services. Action plans are in place to support implementation of the strategic framework, and budget allocations have increased in recent years. A new Law on Incentive Measures for Research and Innovation Development and a revised Law on Innovation Activity strengthen the legal framework for STI.
- **The energy sector is guided by a comprehensive energy policy.** Three of the four pillars of the EU's Third Energy Package (transparency, non-discrimination and a strong regulatory framework) have mostly been implemented. This is confirmed by the Energy Community, which rates Montenegro as the highest performer in the Western Balkans regarding transposition and implementation of the Energy Package. Recent changes to the Energy Law have removed the requirement for government consent to the statute of the regulator, which is a step towards reducing the risk of political influence over the regulator and reaffirms its independence.
- **Tourism destination accessibility has increased.** The economy has expanded the eligible categories for removing visa requirements and adopted special regimes for border crossings for tourists during the high season. Accommodation capacity and quality has improved through measures to facilitate investments in high-quality accommodation, and a consistent accommodation quality standard framework based on EU standards.
- **Agro-food system regulation has improved.** Notably, phytosanitary and veterinary standards have been further harmonised with EU standards. Several regulations on seed products were updated in 2019, and there has been continuous improvement in harmonising by-laws and rulebooks on product regulations with EU directives.

Priority areas

While Montenegro did not score below the WB6 average in 13 dimensions of the 15 policy dimensions scored in the assessment, there are several areas in which Montenegro still needs to step up its efforts (Figure 23.1):

- **Improve investment promotion and facilitation.** The recently established Montenegro Investment Agency (MIA) does not have a formal mandate to provide aftercare services. The government needs to clearly define the MIA's responsibilities for aftercare services, notably by expanding the agency's mandate and/or producing a clear system for enquiries. Providing aftercare services will require strong co-operation with other institutions and regulatory bodies. The many current incentives could prove difficult to navigate for foreign investors. Increasing the clarity and awareness of these incentives through more transparent qualification criteria, and targeting foreign investors through awareness-raising campaigns, would be beneficial for the overall competitiveness of the economy. The government should also reinforce mechanisms for evaluating the cost and benefits of the incentives, their appropriate duration, and their transparency.
- **Introduce alternative equity-based finance.** Businesses' access to finance heavily relies on bank lending. The use of alternative equity instruments, such as initial public offerings, business angels and venture capital, is limited. Integrating crowdfunding into the legislative framework could provide a feasible alternative source of finance. In addition, conducting awareness campaigns on the existence of capital markets and the advantages they offer to firms could also help to enhance the existing structure.
- **Review the effectiveness of the current state ownership arrangements and develop a state ownership policy.** Montenegro has not yet developed an overarching ownership policy

for state-owned enterprises (SOEs) that lays out why the government owns companies and how it expects them to create value. While ownership rights exercised at different levels that have diverse competencies (e.g. government, state funds, line ministries), the authorities should ensure that these state actors operate under a unified ownership policy. Given that the authorities have chosen to prioritise private investments in their SOE sector, they should review the need for the state to continue holding minority shares and also produce an aggregate report on the performance of the state's portfolio.

- **Continue to boost investment in the scientific research system.** With 734 researchers per million inhabitants, the number of researchers in Montenegro is much lower than the EU average (4 000 researchers per million inhabitants). More comprehensive measures should be put in place to build human resource capacity in priority STI areas and increase the attractiveness of research as a profession. Moreover, Montenegro should continue building a national and regional research infrastructure. Timely completion of the Science and Technology Park in Podgorica and affiliated impulse centres, coupled with sustained funding, will improve integration between academia and the private sector. Efforts should also be made to get the pilot technology transfer office at the Centre of Excellence at the University of Montenegro up and running.
- **Strengthen programmes for the digital transformation of the private sector.** The budget and the number of businesses applying for digital transformation programmes remain relatively low. Moreover, despite the proliferation of ICT training programmes, their lack of relevance to industry is widening the gap between the skills available and those sought by ICT sector companies. Developing a common digital competence framework for ICT professionals would help to meet the needs of the labour market. The government needs to review and evaluate existing support programmes to promote the adoption of e-business and e-commerce by small and medium-sized enterprises (SMEs), and to identify areas for improvement. In doing so, greater co-operation between ICT training providers and the private sector should be systematised following EU and international good practices
- **Introduce a land-use management framework.** Although there is a regulatory framework related to land-use management in place, little progress has been made to implement it. The pressure on land and soil resources is growing, especially in the context of a pronounced decrease in agricultural land, from 38% in 2012 to 18.5% in 2016. While the use of agricultural land is regulated by law, the legal framework does not prescribe the maximum concentrations of hazardous and harmful substances allowed on other types of land (industrial land, playgrounds, parks or residential areas). Montenegro needs a clear policy framework for cleaning up contaminated land, as well as concrete guidelines to help identify land that needs decontaminating.

Economic context

Key economic features

Montenegro is a small service-based economy with a large tourism sector. In 2019, services accounted for 58.7% of gross domestic product (GDP) and 73% of employment in Montenegro, with the highest contributions coming from wholesale and retail trade, accommodation related to the large tourism sector, real estate, and transportation and storage. Over the past decade, the services sector's GDP contribution has expanded considerably at the expense of both industry and agriculture. The GDP share of industry, including construction, declined from 22.3% in 2001 to 16.1% in 2019, while its contribution to employment declined from 25% to 19.1%. Currently manufacturing accounts for just 4% of GDP and 6.4% of

employment. Meanwhile, the contribution of agriculture, forestry and fishing to GDP has nearly halved since 2001, from 10.8% to 6.4%. Today this sector accounts for just 7.8% of employment, the smallest contribution in the Western Balkan (WB) region (World Bank, 2020^[1]).

As a very small economy that is open to trade and capital flows but that lacks an independent monetary policy,¹ Montenegro is highly vulnerable to external shocks and business cycle fluctuations. As a result, the growth of its economy has been more volatile than the other WB economies. For example, in the run-up to the global financial crisis between 2005 and 2008, the Montenegrin economy was expanding at an average annual growth rate of 7.5%, well above most regional peers (World Bank, 2019^[2]), on the back of a credit boom fuelled by high capital inflows (46% of GDP at their peak in 2008). During this period, progress on the privatisation and structural reform and business-friendly environment agenda helped to attract considerable foreign direct investment (FDI) and portfolio investment. However, the bust that followed the global financial crisis, when capital inflows declined dramatically, was much bigger than in neighbouring economies, resulting in a GDP contraction of 5.8% in 2009. Similarly, Montenegro experienced a more severe recession (2.7% decline in GDP growth) in the wake of the Eurozone crisis in 2012 (World Bank, 2019^[2]). The most recent economic contraction caused by the COVID-19 pandemic is estimated at 15.2% in 2020, much more substantial than in the other WB economies (EC, 2020^[3]). The low fiscal space and limited room for discretionary fiscal spending, especially in the wake of the current crisis, further limits the public sector's ability to absorb these external shocks.

Over the past few years, while growth has been buoyed by significant infrastructure investment and strong consumption growth, substantial imbalances have persisted. Gross fixed capital formation rose from 20% to 27% of GDP between 2013 and 2019 on the back of high growth in public infrastructure investment (mainly the Bar-Boljare Highway), as well as significant private investment in energy and tourism infrastructure. Public consumption has also contributed strongly to GDP growth despite fiscal consolidation. Export performance has also improved in recent years. Exports' contribution to GDP rose modestly from 40.6% in 2014 to 43.7% in 2019 (Table 23.1), supported by the tourism sector, which accounts for roughly half of total exports. However, the domestic production base remains low and consumption and investment are highly dependent on imports, which has led to persistently high external imbalances. The trade deficit in 2019 amounted to 21% of GDP, and the current account deficit has exceeded 15% of GDP throughout the last five years (World Bank, 2020^[1]). These external imbalances have been exacerbated significantly by the COVID-19 crisis (see the COVID-19 section below).

Montenegro also suffers from a relatively undiversified export base, adding to its vulnerability to external shocks. Goods exports, which account for 14% of total exports (MONSTAT, 2019^[4]), include mainly metals, which are highly susceptible to price fluctuations and offer relatively little in terms of value-added. Service exports are meanwhile dominated by travel and tourism services (65% of total service exports) (World Bank, 2019^[5]), which are highly susceptible to external shocks, as witnessed during the latest crisis (see the COVID-19 section below).

Despite the strong growth, labour market challenges have persisted. At 64.8%, the labour market participation rate is low compared to the EU average of 73.3%, and lower than most other Western Balkan economies (World Bank, 2019^[6]). The participation rate is particularly low for youth (36.5%) (World Bank, 2019^[6]) and women (57.9%) (World Bank, 2019^[7]). Unemployment remained high at 14.9% in 2019, particularly among the youth (29.3%) (EC, 2021^[8]). The crisis has further exaggerated this challenge, with unemployment rising to 18.4% in 2020. Finally, the gains in employment over the past few years have been rather limited for vulnerable groups (World Bank, 2016^[9]). The COVID-19 crisis has highlighted how labour market challenges stem from an insufficiently diversified economy that is more susceptible to external shocks (see the COVID-19 section below).

Long-term GDP growth and employment prospects are hampered by weak productivity, which reflects significant and deep-standing structural challenges in the economy. Labour productivity, measured as output per worker, is considerably lower than the EU average. The productivity gap is the largest in the

services sector, which employs the highest share of the labour force in Montenegro. Here the output per worker is more than four times lower than the EU average (World Bank, 2019^[10]). The weak productivity growth in spite of significant capital accumulation over the past decade also points to weaknesses in the efficient use of this capital. Significant outstanding structural challenges explain these outcomes, including an inadequately skilled labour force, limited access to finance for SMEs, corruption and informality – see Structural economic challenges. The high increase in wages, which has outpaced the growth in productivity, has weakened competitiveness over the past decade (World Bank, 2016^[9]).

Table 23.1. Montenegro: Main macroeconomic indicators (2015-20)

Indicator	Unit of measurement	2015	2016	2017	2018	2019	2020
GDP growth ¹	% year-on-year	3.4	2.9	4.7	5.1	4.1	-15.2
GDP per capita ²	Current international \$	16 333	18 199	19 682	21 547	23 344	20 567
National GDP ²	USD billion	4.05	4.37	4.85	5.50	5.54	4.78
Inflation ¹	Consumer price index, annual % change	1.4	0.1	2.8	2.9	0.5	-0.8
Current account balance ¹	% of GDP	-11.0	-16.2	-16.1	-17.0	-15.0	-26.0
Exports of goods and services ¹	% of GDP	42.1	40.6	41.1	42.9	43.7	25.8
Imports of goods and services ¹	% of GDP	60.6	63.1	64.5	66.7	64.8	60.6
Net FDI ¹	% of GDP	16.9	9.4	11.3	6.9	7.0	11.2
Public and publicly guaranteed debt ³	% of GDP	73.7	71.4	69.1	74.1	80.0	109.2*
External debt ⁴	% of GDP	166.2	162.6	160.6	164.7	170.2	..
Unemployment ¹	% of total labour force	17.8	18.0	16.4	15.5	15.4	18.4
Youth unemployment ²	% of total labour forces ages 15-24	37.6	35.9	31.7	29.5	25.3	..
International reserves ¹	In months of imports of G&S	3.4	3.6	3.7	4.0	5.1	8.2
Remittance inflows ²	% of GDP	11.6	11.0	10.8	10.7	10.5	12.6
Credit growth ¹	% year-on-year	0.8	1.3	11.8	8.5	4.5	3.2
Lending interest rate ⁵	% annual average	8.93	7.97	7.20	6.53	6.18	5.91
Stock markets (if applicable) ¹	Average index	11 956	11 115	10 952	10 390	10 980	10 336

Note: G&S = goods and services ; *estimates for 2020.

1. (EC, 2021^[11]), EU Candidate Countries' and Potential Candidates' Economic Quarterly (CEEQ) Q1 2021,

https://ec.europa.eu/info/sites/default/files/economy-finance/tp048_en.pdf.

2. (World Bank, 2021^[12]), World Bank WDI data, <https://databank.worldbank.org/source/world-development-indicators>.

3. (World Bank, 2020^[13]), World Bank Western Balkans Regular Economic Report, <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>.

4. (EBRD, 2020^[13]) *Transition Report 2020-21*, <https://2020.tr-ebd.com/countries>.

5. (IMF, n.d.^[15]), IMF Data, <https://data.imf.org/regular.aspx?key=61545855>.

Improving the skills of the population and enhancing the prospects for the low-skilled and poorest groups are the most critical challenges for ensuring sustainable and inclusive long-term growth in Montenegro. In light of the unfavourable demographic trends and high outmigration – with emigrants making up 20% of the resident population (ILO, 2019^[16]) – especially by high-skilled workers, the importance of strengthening labour productivity is critical. This will require rectifying the weaknesses in the education system in order to provide adequate and sufficient skills to meet the needs of the labour market; strengthening active labour market policies; and supporting adult education in order to create a nimbler workforce. Strengthening social safety nets whilst also expanding the employment opportunities of low-skilled workers will also be critical in ensuring that growth is more equitable and sustainable.

Strengthening the institutional environment and easing the outstanding frictions in the business climate will also be essential for strengthening SME investment and growth and attracting FDI in manufacturing and

service sectors with high export potential. This includes tackling corruption, further improving public services, reducing the administrative and regulatory burden on businesses, and tackling the still relatively widespread informality.

Last but not least, boosting macroeconomic growth and ensuring that it is more balanced and less volatile will also require stronger fiscal and financial policies. In the short to medium term this would entail fiscal consolidation and reducing the relatively large public debt that has further increased in the wake of the COVID-19 economic crisis. Ensuring long-term growth will also require removing structural obstacles to countercyclical fiscal policy development, which are critical in the context of the limited monetary policy options for addressing external shocks. In the same context of limited central bank tools for influencing the credit flow in the economy, strengthening financial supervision will also be important for ensuring macroeconomic stability.

Sustainable development

Over the past decade, Montenegro has made progress towards the targets of Agenda 2030 for Sustainable Development, but considerable challenges still remain in achieving the Sustainable Development Goals (SDGs), as shown in Table 23.2. Montenegro is on track to achieve or has maintained the achievement of the SDGs in only two main areas: 6 and 17 – clean water and sanitation and partnerships for the goals. However, even in these areas some challenges persist.

Table 23.2. Montenegro's progress towards achieving the SDGs

SDG	Current assessment	Trends
1 - No poverty	Challenges remain	Moderately improving
2 - Zero hunger	Major challenges remain	Stagnating
3 - Good health and well-being	Significant challenges remain	Moderately improving
4 - Quality education	Challenges remain	Moderately improving
5 - Gender equality	Significant challenges remain	Stagnating
6 - Clean water and sanitation	Significant challenges remain	On track or maintaining SDG achievement
7 - Affordable and clean energy	Challenges remain	Moderately improving
8 - Decent work and economic growth	Significant challenges remain	Moderately improving
9 - Industry, innovation and infrastructure	Significant challenges remain	Moderately improving
10 - Reduced inequalities	Major challenges remain	Information unavailable
11 - Sustainable cities and communities	Significant challenges remain	Stagnating
12 - Responsible consumption and production	Major challenges remain	Information unavailable
13 - Climate action	Significant challenges remain	Stagnating
14 - Life below water	Major challenges remain	Stagnating
15 - Life on land	Major challenges remain	Decreasing
16 - Peace, justice and strong institutions	Significant challenges remain	Moderately improving
17 - Partnerships for the goals	Challenges remain	On track or maintaining SDG achievement

Note: The order of progress (from greatest to least) is as follows: SDG achieved; challenges remain; significant challenges remain; major challenges remain.

Source: (Sachs, 2021^[17]), *Sustainable Development Report 2021, the Decade of Action for the Sustainable Development*, <https://s3.amazonaws.com/sustainabledevelopment.report/2021/2021-sustainable-development-report.pdf>.

There has been moderate improvement in many areas. In the area of poverty, while the headcount ratio of those living on USD 1.90 per day is lower than the SDG target, the target for the headcount ratio of those living on USD 2.30 per day has not been achieved. Health outcomes have been improving, but the death rates due to cardiovascular disease, cancer, diabetes and other non-communicable diseases are still above the targets. In the area of quality education, the SDG target of 100% of net primary enrolment has been achieved, but at 89.9% the lower secondary completion rate has decreased. In the area of affordable clean energy, access to electricity is high but challenges persist in accessing clean fuels and

technology. High unemployment remains an important challenge despite progress achieved over the past decade. The share of the population using the Internet and with mobile broadband subscription has increased, but limited investment in research and development (R&D) is holding back progress towards the SDG on industry, innovation and infrastructure. Finally, in the area of peace and institutions, more progress is needed to reduce corruption, eliminate child labour, as well as improve property rights and the freedom of the media (Sachs, 2021^[17]).

Progress towards a number of SDGs has stagnated. In the area of gender equality, significant challenges remain in access to family planning and the ratio of female-to-male mean years of education received has decreased. Air pollution and insufficient quality of the public transport network negatively impact the quality of city life. More action is also needed to reduce carbon dioxide (CO₂) emissions, particularly those stemming from energy use (Sachs, 2021^[17]).

The most significant challenges according to the SDG assessment lie in the areas of inequality, responsible production and consumption, and life on land and below water. At 40.5, the Gini coefficient, which measures income inequality, is still well above the target value of 27.5. Montenegro continues to produce significant amounts of waste, and recycling and reuse remain limited. Last but not least, significant efforts are needed to protect terrestrial and marine biodiversity and reduce terrestrial and marine pollution (Sachs, 2021^[17]).

Structural economic challenges

Montenegro faces a number of key structural challenges that undermine its competitiveness, productivity, investment and exports.

Skills gaps are a key obstacle to employment

- **Skills gaps** contribute to unemployment and undermine economic upgrading. Despite high spending on education, which at 4.5% of GDP is nearly on a par with OECD economies, Montenegro's relatively weak student performance in international standardised tests points to considerable gaps in the provision of quality education. For example, in the latest Programme for International Student Assessment (PISA), just over 50% of students achieved the minimal level of proficiency in the three testing subjects (reading, mathematics and science), which is well below the OECD average of over 75% (OECD, 2020^[18]).
- **Skills mismatches** negatively impact employment as well as firm growth. This is a particular challenge for innovative firms, 45% of which reported that a lack of skills was a problem in filling skilled manual labour vacancies (World Bank, 2018^[19]). An inadequately educated workforce was also identified as a challenge by 10% of firms (World Bank, 2019^[20]). Soft skills including language, leadership, critical thinking and initiative were the key missing skills, but many firms also cited challenges in hiring due to lack of technical skills (World Bank, 2018^[19]). A study by the European Commission's Directorate General for Education and Culture (DG EAC) has found that for every ten students that enter the education system in Montenegro, only two find a well-matched job. Low-skilled workers face the biggest challenges in finding employment – the number of unemployed people in this category has tripled between 2013 and 2017 (ETF, 2019^[21]).
- **Low labour force participation**, particularly among young people and women, brain drain and the ageing population exacerbate skills-related challenges and weaken long-term growth prospects. The capacities of the youth are particularly underused as the share of young people who are not in education, employment or training (NEET) remains high at 17.3%, while the youth labour force participation rate is low at just 37%. Female activity rates also remain below aspirational peers in the EU at 58%, reflecting constraints related to child-care and traditional values and norms regarding women's place in society. With many high-skilled workers emigrating to more developed countries, and in light of the shrinking labour force, addressing the skills

challenges is of utmost importance for setting Montenegro's economy on a higher and more sustainable long-term growth path.²

The business and investment climate faces persistent challenges

Montenegro has significantly improved the business and investment climate, yet some notable challenges persist. Thanks to reforms that reduced the regulatory and administrative burden on businesses, Montenegro currently ranks 50th out of 190 economies in the World Bank's Doing Business report (World Bank, 2019^[22]). Nevertheless, there are some areas where further progress is needed in order to create an environment conducive to investment and enterprise innovation, internationalisation and growth.

- **Starting a business** in Montenegro is more difficult than in most economies around the world. The process entails more procedures (8 compared to the 4.9 OECD average and 1 for the global leaders) and is more time-consuming than in other economies (12 days in Montenegro vs. 9 for the OECD average and 0.5 for the highest performers). Obtaining an electricity connection is also more costly and time-consuming: it takes on average 131 days in Montenegro to get connected, compared to 75 days for the OECD and 18 days for top performers. The cost is also more than twice as high as the OECD and well above the no-cost benchmark of the top performer (World Bank, 2019^[22]).
- **Corruption** remains an important challenge for doing business in Montenegro. In the latest Business Environment and Enterprise Performance Survey (BEEPS), Montenegrin firms reported an above-average incidence of bribery and share of public transactions that require an informal gift compared to global and Europe and Central Asia region peers. The highest share of firms that responded to the survey noted expectations of gifts for obtaining licences and permits and for meetings with tax officials (World Bank, 2019^[20]). Incidentally, Montenegrin firms are more likely to have to meet tax officials in person than in other peer economies.
- **Informal sector competition** represents an important constraint for businesses in Montenegro. In the latest enterprise survey, 58% of firms stated that they compete against informal competitors, and nearly a quarter of all firms identified informal competition as a major obstacle for their business. The impact is highest among SMEs, particularly in the manufacturing sector. The size of the informal sector is estimated at 28-33% of Montenegro's GDP and its share in total employment is estimated at over 20% (EC, 2019^[23]).
- **Despite a notable rise in entrepreneurship over the past decade, firm growth is constrained by access to finance.** Strict collateral requirements represent an important barrier for businesses. While the share of loans that require collateral is in line with the OECD average at around 60%, the level of collateral required – at 209% of the borrowed amount – is more than double the OECD average of 88%.³ The collateral requirements are particularly limiting for micro and small enterprises (MSMEs), which have limited assets. The banks' preference for real estate collateral further compounds this challenge for MSMEs – see Access to finance (Dimension 3). The high collateral requirements reflect in part the lack of adequate information on creditors. However, progress has been made in this regard as coverage of the public credit registry in Montenegro has increased from 30.8% in 2018 to 41% in 2019, and information is regularly updated.⁴ Nevertheless, financing for start-ups and other higher risk ventures remains very limited.

Key sectors are being held back

- **Tourism:** The tourism sector is one of the most important sectors in Montenegro. In 2019, travel and tourism accounted for 32% of GDP and 33% of total employment (World Travel and Tourism Council, 2020^[24]). However, the sector still suffers from high seasonality, which reduces employment and skills development as well as accessibility – see Tourism policy (Dimension 15). This undermines the quality of service, which is critical for developing the low-density high-end

tourism compatible with Montenegro's geographical and infrastructural constraints. The growth in high-end tourism is also constrained by inadequate waste management, poor water quality and uncontrolled development as these are all detrimental to the environmental as well as cultural heritage – see Environment policy (Dimension 13).

- **Agriculture:** As a small and predominantly mountainous economy, Montenegro does not have a large agriculture sector. Even so, the sector contributes significantly to Montenegro's goods exports and has significant potential for further growth. As noted in the introduction, the share of agriculture, forestry and fishing in GDP is small and has declined significantly over the past two decades, from 10.4% in 2001 to 6.4% in 2019. However, in 2018, agricultural products represented a relatively high portion (18.8%) of total exports.⁵ Agricultural productivity is undermined by high land fragmentation, lack of adequate infrastructure for irrigation, limited access to mechanisation and limited investment in R&D – see Agriculture policy (Dimension 14).
- **Information and communications technology (ICT):** The ICT sector has considerable potential to boost Montenegro's service exports and contribute to the development of the knowledge economy. Despite growth in recent years, the sector still faces significant challenges, especially the insufficient supply of skilled workers; their poor wage competitiveness (ICT sector wages are considerably higher in Montenegro than in other WB economies); underdeveloped collaboration between the sector and the relevant educational institutions; lack of access to finance, particularly for start-ups and high-risk venture capital; and weaknesses in the ICT infrastructure.⁶

A greener growth model would improve well-being

- **Air pollution:** Air pollution is a significant concern in Montenegro, with the annual mean exposure to PM_{2.5} (particulate matter) reaching 21 micrograms per cubic metre (µg/m³).⁷ This is twice the recommended limit of 10 µg/m³ set by the World Health Organisation (World Bank, 2017^[25]) (WHO, 2018^[26]). The main sources of pollution include steelmaking, agricultural processing, and the aluminium and tourism industries. Air pollution is further elevated in the winter months when domestic heating by solid fuels is added to the mix (IAMAT, 2020^[27]).
- **Climate change:** Montenegro has made great progress in advancing climate change mitigation legislative and policy frameworks. Nevertheless, the economic output per unit of CO₂ remains low (Environment Protection Agency, 2020^[28]), and the highest emissions come from electricity and heat generation (61.4% in 2018, highlighting the fossil-fuel based energy production), and transport, which accounts for a little over 20% (Ministry of Sustainable Development and Tourism, 2020^[29]). When it comes to climate change adaptation, a Disaster Risk Assessment was being prepared at the time of drafting and some flood risk management measures have been implemented, but more is needed to assess and adapt to the wide range of climate related risks going forward – see Environment policy (Dimension 13).

COVID-19 has exacerbated structural challenges

Montenegro was the Western Balkan economy hit hardest by the COVID-19 pandemic. In the second and third quarter (Q) of 2020, GDP declined by over 20% year on year (y-o-y), driven primarily by a sharp decline in exports (55.9% y-o-y in Q2, 70.1% y-o-y in Q3 of 2020), which reflected the loss of the summer tourism season as well as the decline in economic activity in major trading partners in the EU and the Western Balkan region. Weakening domestic demand compounded the impact of lost exports on the Montenegrin economy. Consumption fell by 5.4% in 2020, while annual investment contracted by 12.3%. As a result, annual GDP fell by 15.2% (Table 23.1) (EC, 2021^[30]; EC, 2020^[31]).

The crisis has exacerbated internal and external imbalances. The current account deficits have widened as exports contracted more strongly than imports – the current account deficit reached 26% of GDP at the end of 2020. Meanwhile, the negative impact on tax revenues, combined with higher government

expenditures due to fiscal support and higher healthcare spending, resulted in a widening of the fiscal deficit to 11% of GDP in 2020. As a result, public debt rose to 105% of the GDP (EC, 2021^[30]).

The labour market was strongly affected by the COVID-19 crisis despite the government's measures to stave off some of the impact of the crisis. Since the start of the crisis, the government has introduced four packages of fiscal support for enterprises affected by the pandemic (Box 23.1). These packages have included measures such as wage subsidies for employees in affected companies, deferral of tax and social security payments, exemptions from payment of utility bills, moratoria on loan repayments and moratoria on enforcement of claims against enterprises in affected sectors. The government also created an Investment Development Fund to provide liquidity support to affected enterprises.⁸ The tourism and agriculture sectors were further supported by interest rate subsidies on new loans, and a reduction in the value-added tax (VAT) rate for the hospitality industry (from 21% to 7%). Despite these important measures, the effective loss of the tourism season – overnight stays declined by nearly 80% in January to November 2020 – resulted in a sharp increase in unemployment, from 15.4% in 2019 to 18.4% at the end of 2020, reversing a seven-year trend of steady improvement.

The impact on vulnerable households and poverty was mitigated by the government's support measures. Financial assistance was provided to low-income pensioners and social welfare beneficiaries, and health and education workers received domestic travel vouchers. Additional support was provided to individuals who lost their jobs as a result of the crisis through social security schemes and employment programmes. Vulnerable households were also supported through electricity subsidies from the state-owned power distribution company, which were doubled in the second package of economic measures.

Box 23.1. Montenegro's tax response to COVID-19

As part of its responses to the COVID-19 pandemic, Montenegro carried out a number of tax measures, which included:

1. Payments of income taxes by individuals, companies and the self-employed were deferred in March 2020 for 90 days.
2. A one-off EUR 50 cash transfer was paid to beneficiaries of material assistance and of pension and disability insurance.
3. Loan repayments were deferred for a period of 90 days, at the request of individuals and companies, starting in March 2020.
4. A public loan scheme to improve the liquidity of the self-employed and companies impacted by the crisis. It allowed for a maximum amount of EUR 3 million per beneficiary. This scheme benefits from a simplified procedure, no approval fee and an interest rate of 1.5%.
5. Tax-debt repayments were made more flexible, including no interest for late payments of tax arrears.
6. A 60-day deferral of payment for customs duty and VAT was put in place in March 2020 for companies that could not continue their activity as a result of the crisis.
7. The reduced VAT rate (7%) was extended to certain catering and accommodation services.
8. Donations of medical goods to public entities were exempted from VAT.

Montenegro implemented a relatively wide set of responses to COVID-19 compared to other WB6 economies. For example, few WB6 economies implemented a public loan scheme, deferred loan repayments or offered direct cash transfers to households, which are centrepieces of Montenegro's response to COVID-19. Montenegro's comprehensive COVID-19 response package broadly aligns with those of OECD/G20 countries (OECD, 2020^[31]).

Despite this support, many of the economy's structural challenges have played a role in either amplifying the impact of the COVID-19 pandemic or limiting the scope of the policy responses to reduce its impact. The crisis has, therefore, provided important lessons on how to build more resilient economies and institutions:

- **Fiscal policy:** The fiscal response has been important for reducing the economic fallout from the COVID-19 crisis, but has resulted in a significant deterioration in the fiscal position and an increase in public debt. In the context of weaker prospective revenues in the wake of the crisis, particularly if the recovery is slow, improving the efficiency of public spending will be critical over the coming months. It will also be vital to prioritise expenditures that can support the recovery and promote productivity growth and structural transformation for stronger and more resilient long-term growth. This includes increasing public investment, which has suffered significantly due to high and rising current expenditures. The crisis also highlighted the importance of rebuilding fiscal buffers in the post-crisis period. In addition to better management of expenditures this will also require tackling some of the structural constraints that undermine revenue performance and allow for more discretionary fiscal expenditures to counteract future shocks.
- **Innovation and technology adoption:** The COVID-19 crisis has starkly demonstrated the importance of firm adaptability to meet new challenges and changing circumstances. The crisis has also revealed the advantages that firms which have embraced digitalisation and modern practices have over others. The resilience of the post-COVID recovery will therefore depend on the extent to which structural issues limiting firm innovation and technology adoption are addressed and to what extent digitalisation and digital skills become mainstreamed.
- **Access to finance:** The crisis has highlighted the significance of a well-developed and diversified financial sector that can respond to the financing needs of enterprises – not only in times of crisis but also during the recovery phase. As in the rest of the region, the main instruments for providing additional liquidity to enterprises during the crisis came from the government through subsidised lending or lending guarantees. But a robust financial sector comprised of diversified financial institutions that can provide financing for riskier and innovative ventures – not just well-established enterprises with a long history of operation and significant assets – will be very important through the recovery phase and beyond.
- **Informality:** The large size of the informal sector, and the significant share of informal employment even within the formal sector, have limited the scope of the measures aimed at protecting the income and employment of people in the most affected sectors. Informality is widespread in the sectors most affected by the crisis, including retail trade and tourism, and this segment has not been able to benefit from the government subsidies and other relief and support measures. Developing a more resilient economy will also depend on the extent to which incentives for formalisation can be enhanced and the oversight and sanctioning of non-compliance improved.
- **Health sector:** Pre-existing poor health outcomes and inefficiencies in the health system have increased Montenegro's vulnerability to COVID-19 and any future pandemics. This challenge is compounded by relatively low spending on health care (8.42% of GDP in 2018 compared to 12.6% in the OECD).⁹ Furthermore, health-sector revenues are highly sensitive to employment and economic downturns since they are financed largely by payroll contributions.¹⁰ Going forward, Montenegro will need to strengthen the resilience of its health sector through more funding; better pandemic preparedness, including training health workers; and increasing the supply of equipment by strengthening supply chains for essential medicines and other supplies, etc.

EU accession process

Montenegro began its EU accession journey in 2008 when it submitted its application for EU membership. The Stabilisation and Association Agreement (SAA) came into force in September 2010 and Montenegro was granted EU candidate status in December 2010. Since then, Montenegro has advanced relatively rapidly along the accession path compared to most other Western Balkan economies. Accession negotiations began on 29 June 2012 and as of February 2021, Montenegro had opened 33 out of 35 negotiating chapters, 3 of which had been provisionally closed.

Further progress in the accession process and Montenegro's eventual joining of the EU will strongly depend on adopting and aligning its legislation with the EU *acquis*, effective implementation of this legislation, and structural reforms that will enable the economy to meet the competitive pressures and other requirements of joining the EU bloc. The findings and recommendations published in this Competitiveness Outlook 2021 provide the monitoring and guidance needed for the government in meeting the requirements related to a number of critical chapters of the *acquis* when negotiating its accession to the EU. The Competitiveness Outlook also provides a good basis for assessing the critical challenges that the economy faces as a starting point for the development of the Economic Reform Programmes (Box 23.2).

Box 23.2. Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates prepare Economic Reform Programmes (ERPs) which play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness, and improve conditions for inclusive growth and job creation. The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda.

The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. Public Financial Management
2. Green transition
3. Digital transformation
4. Business environment and reduction of the informal economy
5. Research, development and innovation
6. Economic integration reforms
7. Energy market reforms
8. Transport market reforms
9. Agriculture, industry and services
10. Education and skills
11. Employment and labour market
12. Social protection and inclusion
13. Healthcare systems

The structural reforms part of the ERPs is organised in two parts:

- A first part identifies and analyses the three key challenges across those 13 areas. The identification and prioritisation of key challenges imply a clear political commitment at the highest level to address them and the ERPs should propose a relevant number of reform measures to decisively tackle each of them in the next three years.
- A second part provides an analysis of the remaining areas (not included as key challenges) and may propose additional reforms to address them.

The European Commission and the European Central Bank then assess these programmes, which form the basis for a multilateral economic policy dialogue involving the enlargement economies, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include economy-specific policy guidance reflecting the most pressing economic reform needs. The findings of the Competitiveness Outlook provide guidance to the six Western Balkans EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: (European Commission, 2021^[32]), Guidance for the Economic Reform Programmes 2022-2024 of the Western Balkans and Turkey, https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/erp_2022-2024_guidance_note.pdf; (European Commission, 2018^[33]), Economic Reform Programmes: Western Balkans and Turkey, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>.

EU financial and development support

Montenegro has received considerable financial support from the EU, which has been its largest provider of financial assistance. Through the EU pre-accession funds, a total of EUR 506.2 million was allocated to Montenegro for the period 2007-20. The financing is aimed to assist the economy in improving its outcomes across the following areas: democracy and governance; rule of law and fundamental rights; environment and climate action; transport; competitiveness and innovation; education, employment and social policies; agriculture and rural development; and regional and territorial co-operation.

On 6 October 2020 the European Commission adopted the Economic and Investment Plan for the Western Balkans, which seeks to support the long-term economic recovery of the region, a green and digital transition and regional integration and convergence with the EU. The plan envisages the mobilisation of up to EUR 9 billion in investment in sustainable transport, human capital, competitiveness and inclusive growth.¹¹

In addition to grant funding, the EU also provides important guarantees that support public and private investment by reducing the risks and costs associated with those investments. The new Western Balkans Guarantee Facility is expected to mobilise up to EUR 20 billion in investment over the coming decade.¹²

The Connectivity Agenda seeks to support investments in sustainable transport and clean energy. Set up under the Western Balkans Investment Framework, the latest package, which was presented at the Western Balkans Summit in Sofia on 10 November 2020, completes the delivery of the EU's 2015 pledge to finance EUR 1 billion of investment to support better connectivity in the WB region. It also represents the first step in implementing the flagship projects under the Economic and Investment Plan for the region.

Scope and methods

Process

Following the first two Competitiveness Outlook assessments, published in 2016 and 2018, the third Competitiveness Outlook assessment cycle for the WB6 economies was launched virtually (due to the COVID-19 pandemic) on 3 April 2020. The OECD team introduced Montenegro's Competitiveness Outlook Government and Statistical Office Co-ordinators¹³ to the new digitalised assessment frameworks (see Assessment methodology and process chapter for details). The two primary documents for assessing each of the 16 policy dimensions – the qualitative questionnaire and statistical data sheet – were explained in depth, giving particular attention to new questions and indicators. The OECD team also explained digital

solutions to be used to disseminate the material together with the detailed guidelines, tutorials and information on the assessment process, methodology and timeline.

Following the launch of the assessment, the Ministry of Economic Development disseminated the materials among all 16 Policy Dimension Co-ordinators and Statistical Office contact points in Montenegro. Where additional guidance was needed, the OECD team held teleconferences with Dimension Co-ordinators and Statistical Office contact points in April and May 2020.

All 16 Dimension Co-ordinators and Statistical Office contact points completed the assessment between April and May 2020. They assigned a score (see Scoring approach) to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessments (qualitative questionnaires and statistical data sheets) were returned to the OECD team between May and July 2020.

The OECD reviewed the inputs and, where necessary, requested additional information from the Ministry of Economic Development, Policy Dimension Co-ordinators and Statistical Office contact points. The updated assessment materials were sent back to the OECD between July and September 2020. In addition, the OECD organised policy roundtable meetings between October and November 2020 to fill in any remaining data gaps, to get a better understanding of the policy landscape, and to collect additional information for indicators where necessary.

Based on the inputs received, the OECD compiled the initial key findings for each of the 16 policy dimensions. It then held consultations on these findings with local non-government stakeholders (including chambers of commerce, academia and NGOs) in November 2020. As a follow up, the OECD presented the preliminary findings, recommendations and scores to the Competitiveness Outlook Government Co-ordinator,¹⁴ Policy Dimension Co-ordinators and Statistical Office contact points at a virtual meeting on 17 December. The draft Competitiveness Outlook economy profile of Montenegro was made available to the Government of Montenegro for their review and feedback from mid-January to mid-February 2021.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 0 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 0 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 23.3).

For further details on the Competitiveness Outlook methodology, as well as the changes in the last assessment cycle, please refer to the Assessment methodology and process chapter.

Table 23.3. Competitiveness Outlook scoring system

Level 5	Level 4 plus independent impact evaluation. Results of monitoring and impact evaluation inform policy framework design and implementation updates in line with OECD good practice
Level 4	Level 3 plus evidence that the framework is monitored and, if necessary, adjusted accordingly
Level 3	Level 2 plus some concrete indications that the policy framework is being implemented effectively
Level 2	Framework specifically addressing the policy area concerned is solidly in place, officially adopted by the government or parliament (where applicable). The framework includes policy features necessary for it to have an impact
Level 1	Existing draft or pilot policy framework with signs of government activity addressing the policy area concerned
Level 0	No framework (e.g. law, institution, project, initiative) exists for the policy topic concerned

Exceptions

Unlike the other 15 policy dimensions, Competition policy (Dimension 5) is assessed using yes/no answers to 71 questions in a dedicated questionnaire. A “yes” response (coded as 1) indicates that a criterion has been adopted, whereas a “no” (coded as 0) indicates the criterion has not been adopted. The overall score

reflects the number of criteria adopted. Moreover, some qualitative indicators which have been added to this edition of the assessment for the first time are not scored due to the recent character of the policy practice they capture and the unavailability of relevant data.

Investment policy and promotion (Dimension 1)

Introduction

Montenegro's performance on the investment dimension has improved since the last assessment. The economy's score has increased from 2.6 in the 2018 Competitiveness Outlook (OECD, 2018^[34]) to 3.2 in the 2021 assessment, with notable progress having been made on all sub-dimensions. Although the economy has significantly improved its institutional framework by creating a new investment promotion agency, the Montenegro Investment Agency (MIA), with an extended mandate and capacities, the MIA has just started its work and the new scores for investment promotion and facilitation do not yet reflect these improvements. Montenegro ranks second amongst the WB6 economies for economic performance. While Montenegro is among the top WB6 performers for its investment policy, its investment promotion and facilitation performance still lags behind its neighbours (Table 23.4).

Table 23.4. Montenegro's scores for investment policy and promotion

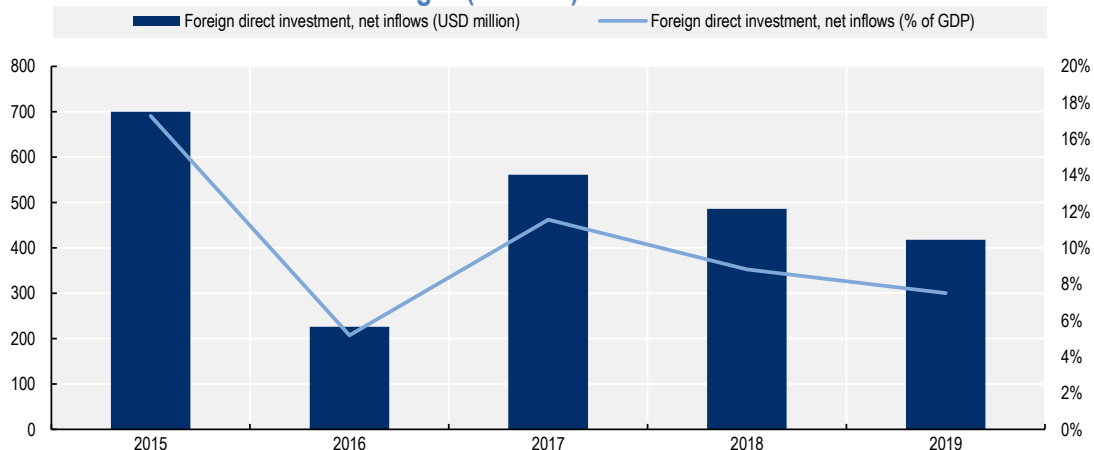
Dimension	Sub-dimension	Score	WB6 average
Investment policy and promotion dimension	Sub-dimension 1.1: Investment policy framework	3.6	3.2
	Sub-dimension 1.2: Investment promotion and facilitation	2.8	3.0
	Sub-dimension 1.3: Investment for green growth	3.0	2.0
Montenegro's overall score		3.2	3.0

State of play and key developments

Montenegro is the leading WB6 economy for attracting FDI. Net FDI inflows have averaged USD 487 million a year over the last five years (Figure 23.2). In 2019, the economy's net FDI inflows accounted for 8.4% of GDP. This figure is higher than neighbouring economies: 8.3% for Serbia, 7.8% for Albania, 3.8% for Kosovo and North Macedonia, and 1.9% for Bosnia and Herzegovina. It is also higher than the average for upper-middle income economies (1.6%) and OECD economies (1.5%).

FDI in Montenegro is mostly concentrated in the tourism, energy, telecommunications, banking and construction sectors. Its origins are diverse, with no single economy dominating. The most significant investments have originated from Hungary, Italy, Russia and Serbia, with new interest coming from Azerbaijan, China, Turkey, the United Arab Emirates and the United States.

Figure 23.2. Net FDI inflows to Montenegro (2015-19)



Source: (World Bank, 2020^[11]), *World Development Indicators*, <https://datacatalog.worldbank.org/dataset/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934255817>

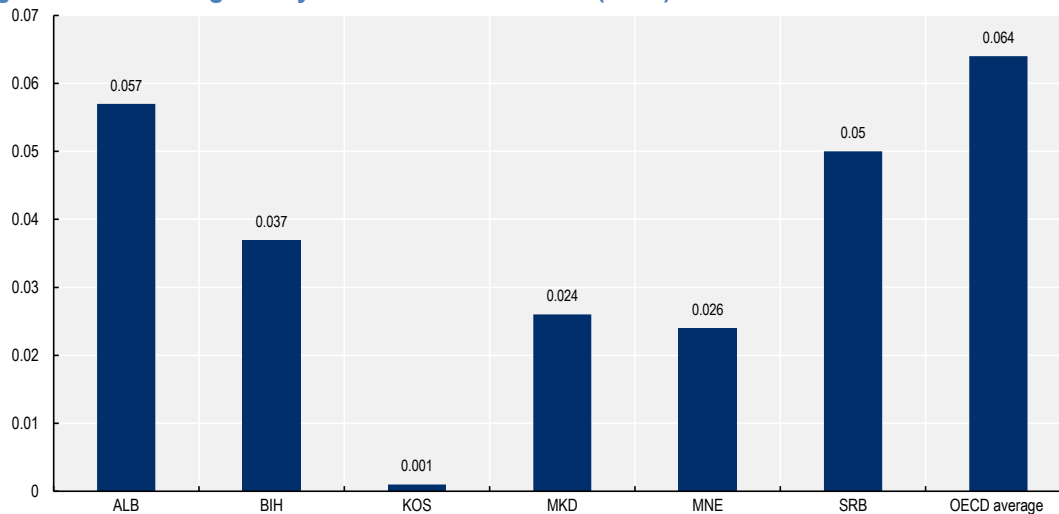
Sub-dimension 1.1: Investment policy framework

Overall, Montenegro has a clear and comprehensive **legal framework for investment** activities and conducting business. The main law governing investment activities is the Foreign Investment Law (FIL), adopted in 2014. The FIL provides investors with national treatment, makes no restrictions in terms of investment activities, foreign companies can own 100% of a domestic company, and profits and dividends can be repatriated without limitations or restrictions. Montenegro has enacted sectoral and business-related laws¹⁵ outlining guarantees and safeguards for investors in accordance with EU standards. Recent positive developments reinforcing the investment framework include the adoption of a public-private partnership law as well as a public procurement law at the end of 2019.

The government is endeavouring to ensure that the regulatory framework for investment is consistent, clear, transparent, readily accessible and does not impose undue burdens. In May 2019, the government adopted the Individual Reform Action Plan for implementing the Regional Investment Reform Agenda at the national level (IRAP), which represents a set of concrete reform actions in three areas of investment policy: investment entry and establishment, investment protection and retention, and investment attraction and promotion, all of which were completed in December 2020. The IRAP was adopted within the framework of the Investment Pillar of the Multi Annual Plan for Regional Economic Area (MAP REA) to continue the implementation of the commitments outlined under the investment pillar of the MAP REA 2017-2021. These efforts will continue through the Common Regional Market Plan 2012-2024.

The Ministry of Economy publishes the most important legislation concerning trade and investments on its website.¹⁶ The development of laws, treaties and regulations involves stakeholder consultations and includes relevant ministries and other public bodies. Public participation in policy making and implementation is secured through the relevant decrees.¹⁷ Nevertheless, NGOs – including business associations – have complained about recent policy-making and legislative processes that lacked public consultation and involvement of key stakeholders (EC, 2020^[35]).

In Montenegro, the market is open and **exceptions to national treatment** are very limited. The economy's score in the OECD FDI Regulatory Restrictiveness Index (Figure 23.3),¹⁸ which assesses and benchmarks market access and exceptions to national treatment, was 0.03 in 2018. This indicates that the economy maintains only a handful of restrictions (notably in the transport sector), making its FDI regime less restrictive than the average OECD economy (0.064) (World Bank, 2020^[36]). This suggests that foreign investment rules do not constitute impediments to FDI. However, the economy does not have a negative list indicating the sectors where foreign investment is prohibited or conditioned and outlining which discriminatory conditions apply.

Figure 23.3. FDI Regulatory Restrictiveness Index (2019)

Note: Restrictions are evaluated on a scale of 0 (open) to 1 (closed).

Source: (OECD, 2020^[37]), *FDI Regulatory Restrictiveness Index (database)*, <http://www.oecd.org/investment/fdiindex.htm>.

Investor protection against expropriation without fair compensation is enshrined in the constitution and its modalities are defined in the Law on Expropriation. The law stipulates that expropriation measures are taken only in a non-discriminatory manner, for a public purpose, under due process of law, and with fair compensation. It does not however recognise the concept of indirect expropriation. The expropriation law clearly defines the procedures for calculating compensation fees, including that the expropriation fee is determined by a commission of five members, at least three of whom are forensic experts in the relevant profession.

Administrative-judicial protection from expropriation decisions is available for dissatisfied parties; it also determines the fee for expropriation. Thus, a party can file an appeal against an expropriation decision with the Ministry of Finance. If the party is not satisfied with the decision of the Ministry of Finance, it can initiate an administrative dispute against it in the Administrative Court of Montenegro. Dissatisfied parties also have the opportunity to initiate civil proceedings in regular courts.

Montenegro has signed a large number of bilateral investment treaties (BITs),¹⁹ which constitute an additional layer of protection for foreign investors. The Government of Montenegro is currently in the process of reforming its existing network of BITs and defining a new BIT model that will balance investor protection provisions and national strategic interests, while fully complying with EU standards and good international practices.

Foreign investors have the same rights and remedies under the national court system as domestic investors when it comes to **dispute settlement**. The justice system is continuing its reform efforts under the 2019-2022 judicial reform strategy,²⁰ which focuses notably on the independence, efficiency and professionalisation of the judiciary. Overall, the judiciary system is independent but remains vulnerable to political interference. Its financial resources have been slowly but steadily increasing over 2016-2020 to reach EUR 39.1 million (EC, 2020^[35]). However, according to similar EU reports, it remains lower than the judiciary budgets of other WB6 economies. Overall, the court system is functioning well, and investors can generally rely on it for a wide range of disputes. Montenegro has commercial courts which have first-instance jurisdiction in commercial matters. Judges are trained to hear complex commercial disputes and the backlog of cases is decreasing. Though the disposition time (the average time from filing to decision) for commercial cases increased from 107 days in 2018 to 116 days in 2019, it remains comparable to OECD economies.

Montenegro is stepping up its efforts to offer alternative dispute resolution mechanisms. It ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) in 2012 and the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) in 2006. By virtue of their adherence to the New York Convention, foreign arbitral awards are recognised. Moreover, Montenegro signed the United Nations Singapore Convention on Mediation in 2019.

Montenegro also adopted the Arbitration Act in 2015 and is in the process of adopting the Law on Alternative Dispute Resolution (ADR),²¹ which provides for compulsory recourse to ADR mechanisms for specific types of cases. According to the European Commission, Montenegro is recording a positive trend in alternative dispute resolution for which a programme and accompanying action plan for 2019-21 were adopted at the end of 2018. In 2019, 917 cases were referred for mediation, up from 629 cases in 2018 and 437 in 2017, while 403 cases were resolved through mediation in 2019, compared to 107 in 2018 (EC, 2020^[35]).

Montenegro has sound **intellectual property (IP) rights laws**, which are harmonised with EU legislation and contain the minimum requirements of the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Montenegro is a member of the World Intellectual Property Organization and adheres to the main international treaties and conventions on IP rights. The Ministry of Economic Development of Montenegro is the public authority in charge of registration, protection and enforcement of IP rights, and co-ordinates closely with other IP institutions, including customs. Since 2018, following a restructuring of the administration, the IP office is part of the Ministry of Economy. It should be noted that following these changes, the staffing of the office was reduced.

Montenegro is strengthening its **IPR enforcement** and implementation. It has reinforced the capacity of the intellectual property rights co-ordination team and the attached working group through regular training. The Ministry of Economic Development has strengthened its co-ordination with other IP-related institutions and boosted its efforts to sensitise businesses and the public and provide them with better access to information on IP rights. The Commercial Court of Montenegro, as a specialised court, has the exclusive jurisdiction for resolving disputes in the field of intellectual property. The Commercial Court has a Department for Disputes on the Protection of Copyright and Intellectual Property Rights, which has ten judges who are regularly trained professionally in this area.

The government has also reinforced its **IP rights awareness raising and access to information**. The Ministry of Economic Development has initiated measures such as seminars and campaigns to proactively raise awareness on IP, as well as capacity-building programmes on how to file for IP protection. In addition, relevant information about registered IP rights is available on the ministry's website,²² as are patent registers and other databases on IP rights.

Sub-dimension 1.2: Investment promotion and facilitation

Montenegro is currently modernising its **investment promotion agency structure and strategy**. The last Competitiveness Outlook reported that the Montenegrin Investment Promotion Agency (MIPA) was constantly short-staffed, had limited capacities and a mandate focused solely on investment promotion. Following the adoption of the new PPP law in October 2019, MIPA and the Secretariat for Development Projects have ceased to exist and the Montenegro Investment Agency (MIA) was established in 2020 with significantly more employees and a much broader set of responsibilities. By the end of 2020, the MIA had 27 employees compared to the 5 previously employed by MIPA. According to the organisation's Personnel Plan, it seeks to increase the total number of employees to 42 by 2021.

The establishment of the MIA is expected to reinforce Montenegro's **investment facilitation services and activities**. It has recently been put in charge of revamping administrative systems to speed up procedures and provide the conditions for efficient work, which requires close co-operation between the agency and relevant ministries. While the former agency MIPA was not involved in any business registration

procedures, the MIA provides investors with information on all the necessary steps for business registration, as well as on which institutions to reach out to in the process. The Government of Montenegro has also approved an action plan aimed at helping businesses by digitalising and cutting unnecessary procedures, including for company registrations, and establishing an e-cadastre.

Key recent progress on simplifying company registration include:

- Developing two rulebooks²³ which clarify the registration procedure, the single registration application of economic entities, and the content and manner of keeping the Central Registry of Economic Entities.
- Merging the 16 previous forms for registering a business into a single form, and progressing on electronic company registration through eFirma.
- Cutting various registration fees: for example the fee for establishing a joint stock company has been reduced from EUR 50 to EUR 40, and the minimum capital for electronic registration of a one-member limited liability company for resident founders has been reduced to EUR 1.

Following its establishment, the MIA has started developing **investor targeting** actions. It is trying to move from MIPA's reactive stance to a more proactive targeting of potential investors and countries. For instance, in 2020 the MIA embarked on an investor outreach campaign for the furniture manufacturing sector with financial and technical assistance from the World Bank. It has also defined target countries and started organising missions.

Montenegro has put a complex and multi-layered **investor incentive** scheme in place to attract investment. Incentives are provided by the state and include 1) subsidies (mostly through the Program for Improving Competitiveness, consisting of 10 programme lines to provide financial and non-financial support to potential and existing entrepreneurs, SMEs and large enterprises, as well as clusters); 2) tax relief (write-offs, deferrals of taxes and contributions); 3) loans with lower interest rates (through the Investment Development Fund's loans); and 4) guarantees. In addition, incentives and facilitation measures are provided to investors in Free Zones and Business Zones or by the Law for Specific Projects, while other incentives are provided by municipalities and for investing in least developed areas, primarily in the north (OECD, 2017^[38]). However, the system could prove difficult to navigate for foreign investors due to lack of awareness and clarity on qualifications (EC, 2020^[35]). On the control side, the government ensures the transparency of state aid in the annual report on granted state aid by the Agency for Protection of Competition, which is publicly available on its website.

The establishment of the MIA is also a positive step towards improving **aftercare services**, which requires strong co-operation with other institutions and regulatory bodies. Although the agency does not have a formal mandate to provide aftercare services, it still answers investors' enquiries on an ad hoc basis.

Sub-dimension 1.3: Investment for green growth

Overall, Montenegro has started to develop a sound green **investment policy and promotion** strategy. Its national strategy, the Smart Specialisation Strategy of Montenegro (S3.me) 2019-2024, based on the EU's cohesion policy, promotes green growth and building a legal framework that encourages green investment (Ministry of Science of Montenegro, 2019^[39]). This strategy paves the way for future green investment programmes as it defines the priorities and focal areas to be developed for sustainable and green growth. In addition, Montenegro has adopted two very key laws regulating green investments and innovation: the new Law on Innovation Activity and the Law on Incentives for the Development of Research and Innovation. These are accompanied by an implementing body, the Innovation Council, and an innovation fund that supports targeted projects.

Montenegro respects core investment principles such as investor protection, intellectual property rights protection and non-discrimination in areas inclined to attract green investment. In addition, the government has developed policies, laws, market-based instruments and regulations in the energy sector to encourage

private investment for green growth, while including sustainable development provisions in the new BIT model. Additional measures are also adopted at the local level to encourage private green initiatives. Several programmes have been developed with international organisations for achieving green investment, notably the Growing Green Business in Montenegro 2018-2021 project developed in co-operation with the United Nations Development Program (UNDP).

Montenegro has also developed a strong framework for **choosing public and private partnerships for green growth**. It has recently adopted a favourable regulatory framework through the new Law on Public-Private Partnerships in 2019 that reinforces its ability to mobilise and scale-up green investments by leveraging domestic and international public and private investments in large-scale projects, including infrastructure. The new PPP law was developed in co-operation with donors following good international practices. It includes financial sustainability, value for money and environmental performance as key elements of feasibility studies of proposed PPP projects. In addition, a risk-sharing principle is clearly stated in the PPP law. Finally, the new MIA will be in charge of facilitating, promoting and monitoring PPP projects, including those for green investment.

The way forward for investment policy

Over the past decade, Montenegro has developed a solid track record in attracting and promoting investment, building on its openness and business-friendly environment. It has initiated important reforms, notably the establishment of a new institutional framework for investment promotion. It could further these efforts and remain an attractive investment destination through the following actions:

- **Improve the transparency and inclusiveness of policy making.** More open and inclusive policy-making processes help to ensure that policies will better match the needs and expectations of citizens and businesses. Improving the public consultation process and including foreign investors would lead to better targeted and more effective policies.
- **Continue efforts aimed at encouraging the use of alternative dispute mechanisms.** These mechanisms can help alleviate the pressure on the judiciary system, build trust and create a more business-friendly environment for conflict resolution. Conducting awareness-raising campaigns to increase the use of alternative dispute mechanisms will reassure prospective investors that fair resolution processes exist in the event of commercial disputes.
- **Accelerate the establishment of the MIA, clarify its aftercare mandate, and reinforce its capacity and resources** in order to improve its investment facilitation and aftercare services. Increased resources would help streamline the large mandate of MIA, while greater inter-institutional co-ordination would avoid repetitive and overlapping objectives. In addition, the government needs to clearly define the MIA's responsibilities for aftercare services, notably by expanding the agency's mandate and producing a clear system for enquiries.
- **Streamline the multiple investment incentives** and reinforce mechanisms for evaluating their cost and benefits, their appropriate duration, and their transparency. The government should increase the clarity and awareness of these incentives through greater transparency on their qualification criteria and by targeting foreign investors through awareness-raising campaigns.
- **Further reinforce the MIA's green investment promotion activities.** Montenegro should systematically consult with the private sector and other local stakeholders in the design and implementation of strategies and plans, policies and regulations that are relevant for green investment.

Trade policy (Dimension 2)

Introduction

Montenegro's performance on the trade policy dimension has improved since the last assessment. The economy's score has increased from 2.6 in the 2018 Competitiveness Outlook to 3.2 in the 2021 assessment (Figure 23.1), with notable progress on all sub-dimensions. Montenegro has improved inter-ministerial consultations on trade policy by establishing new bodies and adopting cross-sectoral strategies, including for implementing its WTO commitments. In addition, the economy has improved its regulatory framework for implementing public consultation standards through a new decree on state administration,²⁴ which aims to systematise the public consultation process and promote stakeholder participation in trade policy design.

As regards trade in services, Montenegro has put in place policies to liberalise its services markets. As a result, significant progress has been made in lowering non-tariff barriers that were restricting services. Efforts have been primarily regional, with the conclusion of the Central European Free Trade Agreement (CEFTA) Additional Protocol 6 in December 2019 and its ratification in June 2021. Montenegro continues to improve its trade policies. Some nodes still exist. The economy could focus on lifting and modifying some economy-wide restrictive measures affecting foreign entities from third countries wishing to invest and operate in Montenegro. The context of the COVID-19 pandemic has undermined the efforts of many states to lower barriers to trade. However, Montenegro is one of the few economies not to have introduced trade restrictions. This is particularly important in a context where recent OECD studies of member economies tend to show a growth in the number of trade-restricting regulations in 2020 (OECD, 2021^[40]).

Finally, Montenegro is the regional leader in e-commerce trade flows in terms of increase in business-to-consumer (B2C) sites and trade flows made through the Internet, with a very low degree of trade restrictions in digitally enabled services. However, there have been no substantial changes to the e-commerce policy framework since 2018. Implementation efforts have not evolved fast enough, co-ordination mechanisms are absent and programme planning is insufficient, leading to inadequate monitoring and evaluation processes. These explain its below-average score on this sub-dimension (Table 23.5).

Table 23.5. Montenegro's scores for trade policy

Dimension	Sub-dimensions	Score	WB6 average
Trade policy dimension	Sub-dimension 2.1: Trade policy framework	3.5	3.5
	Sub-dimension 2.2: Services trade restrictiveness	n.a.	n.a.
	Sub-dimension 2.3: E-commerce and digitally enabled services	2.5	3.1
Montenegro's overall score		3.2	3.4

State of play and key developments

Montenegro's exports of goods and services have been growing steadily since 2015, though this growth has been affected by the COVID-19 pandemic. Foreign trade overall increased from 105.6% of GDP in 2017 to 108.5% in 2019 (in real terms), compared with 103% in 2015. In 2019, Montenegro's exports of goods and services represented 43.7% of GDP, while imports of goods and services were 64.8%.²⁵

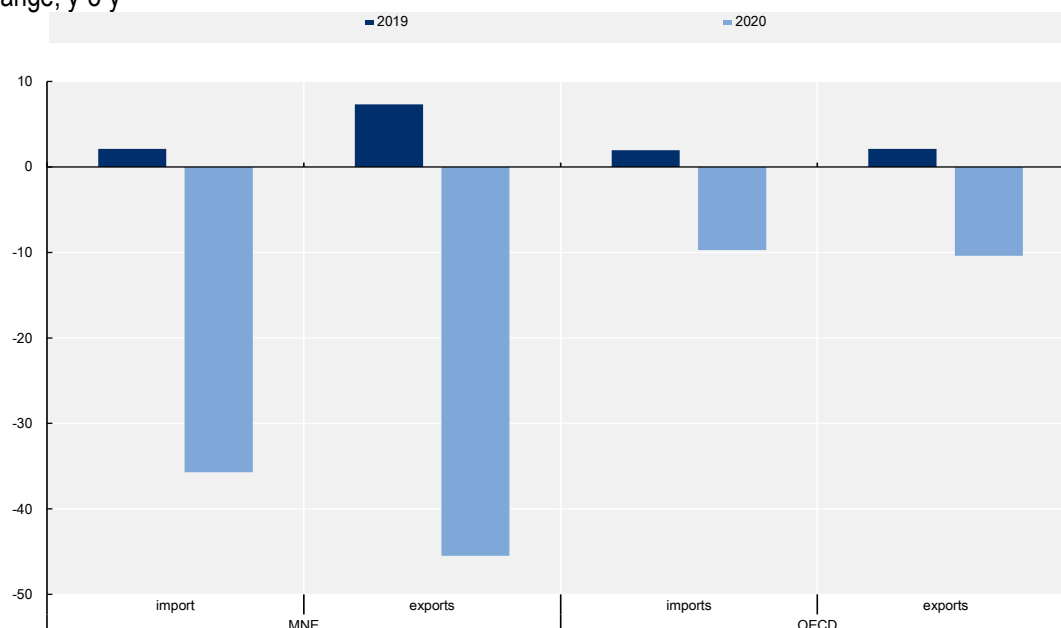
Exports of goods reached EUR 465.6 million in 2019, while imports reached EUR 2.5 billion. The external deficit in trade in goods and services accounted for 21.1% of GDP in 2019. Montenegro is a net exporter of commercial services, with commercial exports accounting for EUR 1.7 billion against EUR 677.6 million in imports.

Serbia is Montenegro's main trading partner, accounting for 23.6% of total exports in 2018, followed by Hungary (11.7%) and Bosnia and Herzegovina (7.8%). Montenegro's main supplier is also Serbia, with 19.3% of Montenegro's imports coming from Serbia, followed by China and Germany (10.1% and 9.2% respectively). As for the European Union, it accounted for 44% of Montenegro's exports and 48.5% of its imports in 2018.

Like all economies, Montenegro has been heavily affected by the COVID-19 pandemic. The pandemic-related export bans, restrictions on the movement of people and closures of shops and services led to a significant decline in imports and exports in Q2-Q3 2020 compared to 2019 (imports down 35% and exports 45%; Figure 23.4).

Figure 23.4. Impact of COVID-19 on trade, Montenegro versus the OECD (2019-20)

% change, y-o-y



Note: y-o-y = year-on-year.

Source: (IMF, 2020^[41]), *World Economic Outlook*, <https://www.imf.org/en/Publications/WEO/weo-database/2020/October>, (OECD, 2020^[42]) *OECD Economic Outlook*, Volume 2020 Issue 1, <https://dx.doi.org/10.1787/0d1d1e2e-en>.

StatLink  <https://doi.org/10.1787/888934255836>

The tourism sector, which accounts for 25% of the economy's GDP, is expected to contract by 12.4% in 2020. The tourism and travel industry has been hit hard by the movement-of-people restrictions imposed to limit the spread of COVID-19. The decrease in tourism has also affected other related industries, such as food, entertainment and retail, as well as tourism-related investment – see also Tourism policy (Dimension 15). In 2020, Montenegro's current account deficit (CAD) is projected to increase to 16.8% of GDP, making it the largest in the WB6 region (World Bank, 2019^[43]).

The closure of EU borders to non-EU citizens, as well as other regulatory responses in the Western Balkans, have particularly affected freight transport services. The Western Balkan economies set up the CEFTA co-ordinating body to exchange information on trade in goods at the beginning of the pandemic. They also set up priority "green lanes" with the EU and "green corridors" within the WB6 to facilitate the free movement of essential goods through priority "green" border/customs crossings (within the WB6 and with the EU). At the peak of the crisis (April to May 2020), most road transport in WB6 economies passed through these green lanes and corridors, and they have helped to maintain a certain degree of international trade in goods in the region. Only about 20% of the goods that benefited from the green corridor regime (i.e. within the WB6) were basic necessities, the rest being regular trade. Such inclusive regional

co-operation has proven very efficient in mitigating the consequences of the COVID-19 pandemic and is helping economies to recover.

Sub-dimension 2.1: Trade policy framework

A fundamental principle of regulatory transparency is that the regulatory development process is open to all relevant stakeholders through formal and informal consultations before and after adoption. These co-ordination and consultation mechanisms have a positive impact on the efficiency of economic activities and the level of market openness, as they can improve the quality and enforceability of regulations (OECD, 2019^[44]). In addition to laws setting out consultation obligations, governments are also adopting secondary standards such as guidelines to better systematise the public-private consultation (PPC) process. These include clear and detailed directives for conducting the process in a consistent manner regardless of the institution carrying out the PPC.

Montenegro has a robust regulatory framework for **institutional co-ordination on trade policy formulation**. The Ministry of Economic Development, the main ministry in charge of designing trade policies, regularly involves other ministries²⁶ in the development of trade regulations at all stages of the policy-making process.

Progress has been made since the previous cycle of analysis, with new platforms for inter-institutional co-ordination being established in 2018. These include the Government Working Group for Trade Policy Review process (TRP),²⁷ and increased competencies for the National Trade Facilitation Committee (NTFC)²⁸ with the adoption of a new strategy for trade facilitation for 2018-2022.²⁹ These developments have allowed the Ministry of Economic Development to consult on trade with an increased number of agencies and institutions (e.g. ministries of economics, agriculture, infrastructure, industry, customs authority, national standardisation body).

Progress has been made on the regulatory framework for **public-private consultation (PPC)** standards. The new Decree on State Administration (2018)³⁰ introduces a mandatory consultation procedure in which the government must hold a public hearing when preparing laws and strategies. This is obligatory unless the changes concern “extraordinary, urgent or unpredictable circumstances”.³¹ The use of simplified legislative procedures (thus bypassing the consultation process) that affect the business community is a real challenge in the region (OECD, 2019^[44]). Montenegro has made efforts to address this problem and to subject the majority of its regulations, particularly those related to trade, to a normal legislative process. This positive trend was already apparent in the previous assessment cycle; around 10% of all laws in 2016-2018 were adopted without PPC (Montenegro Ministry of Public Administration, Digital Society and Media, 2020^[45]). In addition, it is now mandatory for the government to invite those stakeholders it deems relevant to provide inputs and comment on draft laws.³² The Decree on State Administration has also extended the scope of public consultations to include national strategies. An online participation platform has also been created to facilitate public consultations.³³ Following the consultations, the ministry responsible for the draft regulation publishes a report on the consultation process on its website and the e-government portal, and disseminates it to the entities that participated in the process.³⁴

As far as monitoring is concerned, regulatory impact analysis (RIA) was formally introduced in 2012 and enhanced further in 2018. A mandatory RIA report must accompany each legislative proposal submitted to the government for approval. Montenegro has a well-developed procedure for RIA, and the Ministry of Finance – as the central RIA unit in Montenegro – conducts the evaluation process efficiently. Since the last assessment cycle, RIAs have been systematically produced, though their quality could be improved further. They do not always compare several policy options and lack other important elements, such as assessments of impacts on the stakeholders most affected. Their publication also has room for improvement. Only 51% of them, according to the most recent report available, were published within the deadlines imposed by the law.

The Ministry of Public Administration, Digital Society and Media produces statistics on the number of legislative projects that have been subject to PPCs; reports for 2018 and 2019 are available. The reports are comprehensive and detailed but still published on an ad hoc basis. There is an upward trend in the participation by interested members of public in the policy-making process, with an increase in the number of comments received compared to 2018. In addition, there is also a notable trend in the number of comments accepted. For comparison, in 2019 the percentage of accepted comments out of the total number of comments received was 77%, in contrast to 2018 when the percentage of accepted comments out of the total number of comments received was 51% (Montenegro Ministry of Public Administration, Digital Society and Media, 2020^[45]).

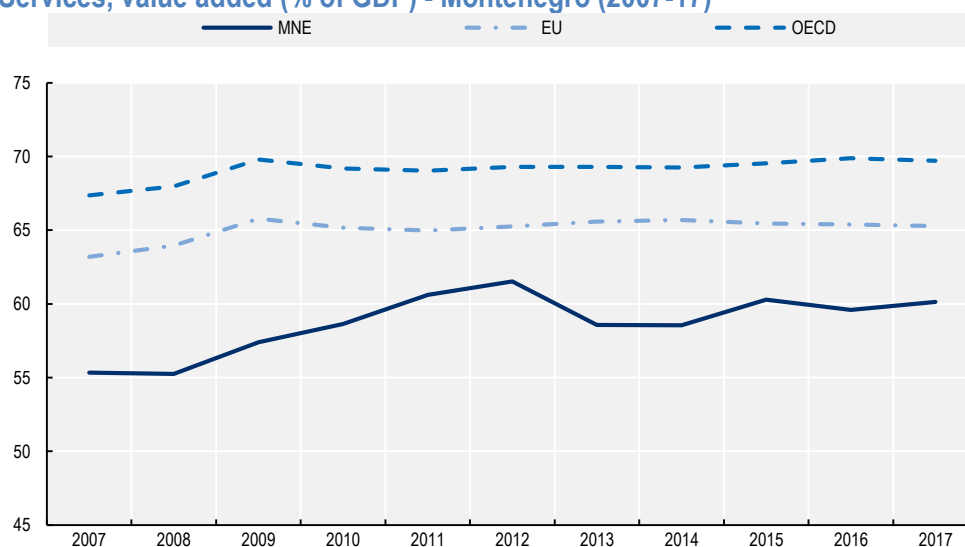
As regards bilateral and multilateral free trade agreements, Montenegro has not extended its **free trade agreement network** since the last cycle of analysis. The economy has been a member of the Central European Free Trade Agreement (CEFTA) since 2007 and entered the Stabilization and Association Agreement in 2010. Shortly after it joined the WTO in 2012, Montenegro concluded a Free Trade Agreement with Ukraine, liberalising the goods market for most agricultural and industrial products while opening the market for services linked to the transport of gas and fuel, as well as additional liberalisation of passenger, freight and ancillary services in road transport.

Recently, Montenegro strengthened its treaty network by signing the Additional Protocol 5 (on Trade Facilitation) to the CEFTA on 18 April 2018. Shortly afterwards, on 19 November 2018, Montenegro replaced Protocol II of the original (2010) Free Trade Agreement with Turkey in June 2019, redefining the term "originating products" and methods of administrative co-operation. Additionally, Protocol I was revised to include additional agricultural concessions, and a new Protocol III on trade in services was concluded in 2019. Montenegro is also currently amending its free trade agreements with CEFTA economies as regards rules of origin.

Sub-dimension 2.2: Services trade restrictiveness

Services contribute close to two-thirds of GDP in the WB6, underlining how strongly economic growth, innovation and job creation depend on effective policies that promote open and competitive markets for services. Montenegro is particularly dependent on services as they contribute to more than half of its GDP (58.7% in 2017), and account for 72.9% of employment (Figure 23.5).

Figure 23.5. Services, value added (% of GDP) - Montenegro (2007-17)



Source: (World Bank, 2020^[11]), *World Development Indicators (database)*, <http://data.worldbank.org/datacatalog/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934255855>

The potential gains from liberalising services trade are significant because increased domestic and foreign competition, complemented by effective regulation, can enhance performance (OECD, 2018^[34]) and lower trade costs related to regulatory barriers (Box 23.3).

Box 23.3. The costs of regulatory barriers to trade in services

OECD analysis reveals that services trade restrictions significantly affect trade by raising the costs for firms to operate in the host economy (Rouzet and Spinelli, 2016^[46]). Trade costs arise both from policies that explicitly target foreign suppliers, and more generally from domestic regulation that falls short of best practice in the area of competition and rule making. The costs resulting from barriers to trade in services are much higher than those from trade in manufactured goods.

Trading services is costly. The studies show that policy-induced services trade costs are relatively high. Expressed as percentages of total trade value, average multilateral costs for cross-border services trade are around 57% for communication services and 54% for business services, around 60% for transport services, around 103% for insurance services, and around 255% for financial services. Even exporting to the most liberal countries still requires compliance with regulation at a cost that corresponds to around 30% of the export value in most sectors, and nearly 90% for financial services. Within the European Single Market, however, services trade costs are significantly lower – policy-induced costs of cross-border services trade are around 10% in most sectors and around 32% for financial services.

Source: (Benz and Jaax, 2020^[47]), *The Costs of Regulatory Barriers to Trade in Services: New estimates of ad valorem tariff equivalents*, <https://dx.doi.org/10.1787/bae97f98-en>.

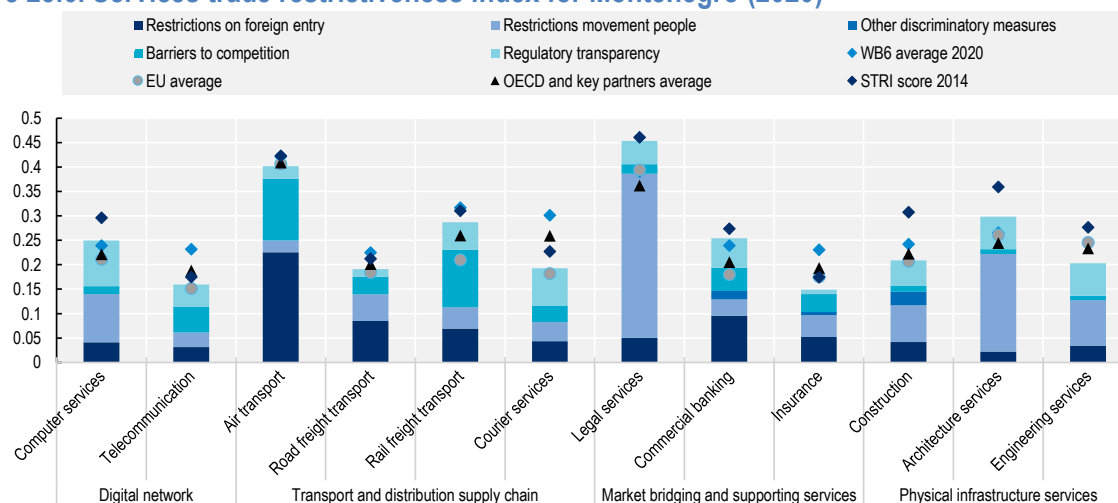
The OECD Services Trade Restrictiveness Index (STRI) was used to **analyse barriers to trade for 12 services sectors** in Montenegro. The OECD STRI project is a unique, evidence-based diagnostic instrument that inventories trade restrictions in 48 economies,³⁵ allowing economies to benchmark their services regulations against global best practice, identify outlier restrictions, and prioritise reform efforts. For this Competitiveness Outlook assessment cycle, the 12 services sectors are grouped into four clusters: 1) transport and distribution supply chain (air transport, road transport, rail transport, courier); 2) market bridging and supporting services (commercial banking, insurance, legal services); 3) physical infrastructure services (construction, architecture, engineering); and 4) digital network services (computer services, telecommunications).

Information was collected from the WB6 economies' laws and regulations, and indices were calculated for seven years (2014-20). These composite indices compute restrictions across five policy areas: foreign entry, movement of people, barriers to competition, regulatory transparency and other discriminatory measures. The indices quantify regulatory restrictions in each of the 5 policy areas for the 12 sectors by giving them a value between 0 and 1. Complete openness to trade in services gives a score of 0, while being completely closed to foreign service providers yields a score of 1.³⁶

Each policy area is composed of a series of measures. These measures are called "horizontal" if they are present in all sectors, or "sector specific" if they only affect a particular sector.³⁷ The STRI measures the most-favoured-nation (MFN) restrictions and does not take into account any preferential regimes, such as regional trade agreements or mutual recognition agreements (Geloso Grosso et al., 2015^[48]).

Figure 23.6 shows the STRI indices for each of the sectors, as well as the average scores for the WB6, EU and OECD. Within the region, Montenegro scores below the WB6 average in 5 out of 12 sectors. Of these, telecommunications, insurance and engineering services are the three least restrictive compared to the WB6 average, while courier, legal and architecture services are the most restrictive sectors.

Figure 23.6. Services trade restrictiveness index for Montenegro (2020)



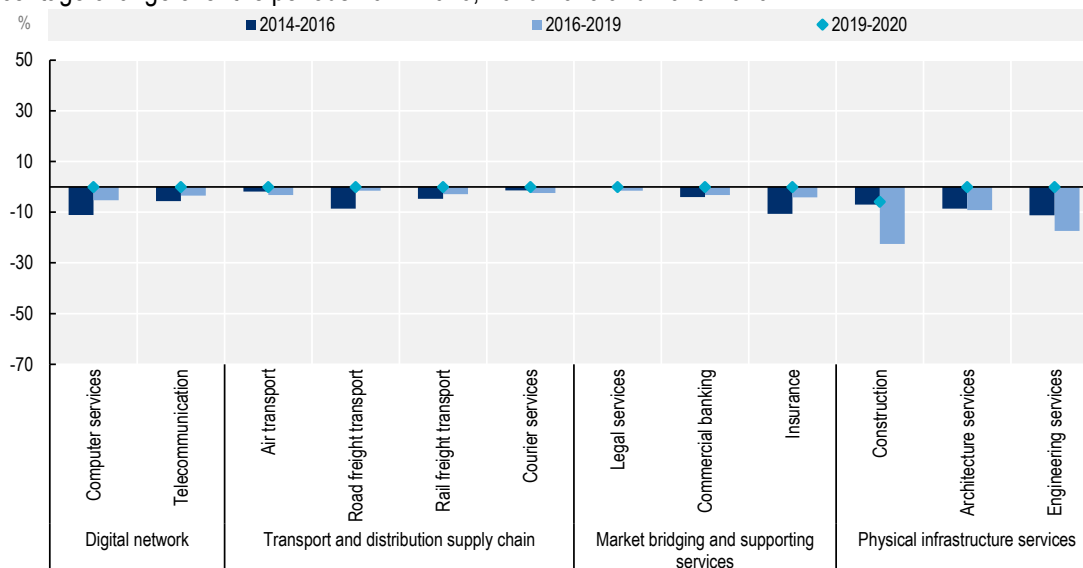
Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and therefore are not covered by STRI indices; key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand. Source: (OECD, 2020^[49]), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

StatLink <https://doi.org/10.1787/888934255874>

Montenegro has progressively eased barriers to services trade over time, with the most pronounced reforms taking place between 2016-19 (Figure 23.7). The slowdown in reforms to open up services markets in 2019-20 is explained by the focus of all regulatory change in the economy on measures to safeguard public health and the economy in the context of the COVID-19 pandemic. It should be noted that there were no trends towards regulatory protectionism in the WB6 region, including Montenegro, in 2020. This is particularly important in a context where recent OECD studies of member states tend to show a growth in the number of regulations restricting services in 2020 (OECD, 2021^[40]).

Figure 23.7. Evolution of STRI scores by sector in Montenegro (2014-2020)

Percentage change over the periods 2014-2016, 2016-2019 and 2019-2020



Note: Negative values indicate a reduction in the restrictiveness of the economy's trade regulatory environment.

Source: (OECD, 2020^[49]), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

StatLink <https://doi.org/10.1787/888934255893>

The following analysis starts with the horizontal measures that are included in all sectors and that hamper services trade in the economy as a whole – especially in the area of general business regulation, restrictions that affect the movement of service providers, standards for the cross-border transfer of personal data, the legal framework for public procurement and the screening of foreign investment. It then reviews each of the 12 sectors analysed, displaying the STRI scores, explaining what drives the results, and providing a brief description of the most common restrictions and good practices.

Cumbersome horizontal business regulations affect firms' ability to operate

In terms of *general business regulations*, Montenegro has taken major steps towards harmonisation with EU standards in the area of company law; further harmonisation of regulations in this area is planned in the coming years. There are a number of areas in which Montenegro could focus its future regulation efforts. This is the case for the acquisition or use of land and real estate by foreigners, which is not fully liberalised. There are purchase restrictions for foreign nationals in some areas – such as natural monuments, land located less than one kilometre from the border, any island area and agricultural land.

Likewise, Montenegro maintains a minimum capital deposit requirement for the establishment of joint stock companies. This measure is present in the majority of EU Member States, but is nevertheless considered restrictive under the STRI as it constitutes an obstacle for foreign service providers' ability to operate.

Restrictions on the movement of people are also an issue in Montenegro. Although significant progress has been made in easing the conditions for the movement of people between the CEFTA economies through the conclusion of Additional Protocol 6 to the CEFTA agreement, people from economies outside CEFTA or the EU are subject to restrictive requirements. Montenegro, according to the Law on Foreigners,³⁸ applies quotas and labour market tests for work permits issued to third-country nationals, and although intra-corporate transferees (ICTs) are exempt from the quotas (which is beneficial for Montenegro's degree of openness), they are subject to labour market tests. Labour market tests are undertaken to determine whether suitably qualified local workers are available (or could easily be trained to do the work). They typically involve seeking advice from industry representatives and government agencies to determine current skill shortages. The length of stay for independent service suppliers, contractual service suppliers and ICTs in Montenegro is limited to 12 months. This duration is comparable with those EU Member States participating in the STRI project, but shorter than best practice elsewhere, which is more than 36 months (OECD, 2020^[49]).

From the perspective of trade, *regulations for the cross-border transfer of personal data* are aligned with those of the EU. Transfers to non-EEA (European Economic Area) economies may take place where these ensure an adequate level of data protection or, failing that, where appropriate safeguards (e.g. binding corporate rules or standard data protection clauses) are in place.

Similarly, in this evaluation round, data based on World Bank Doing Business indicators showed that *business registration procedures* in Montenegro take up to 12 days and consist of 8 different procedures, while best practice examples indicate shorter and less cumbersome procedures (less than 9 days and up to 5 procedures) (World Bank, 2019^[22]). However, in the third quarter of 2020, Montenegro implemented a series of regulations to simplify physical registration³⁹ and introduced an electronic registration procedure for companies. Similarly, the economy has also lowered the various fees related to the opening of a business⁴⁰ and facilitated payment procedures.⁴¹ Although the benefits of these regulations will only be felt in 2021, and therefore reflected in the next round of STRI analysis, these regulatory efforts are positive.

In *public procurement* Montenegro does not impose domestic price preferences or conditions on foreign contractors to source personnel and products locally when selecting tenders and awarding contracts. The procurement process does not bias the conditions of competition in favour of local firms. Furthermore, the economy's public procurement regulation explicitly states that the contracting authority may not specify the conditions under which national or territorial conditions are exercised in the procurement process. The

process is determined by the estimated value of a procurement classified into three different threshold categories. There is no procurement regime applied to suppliers below the value thresholds.

Montenegro's laws do not contain any elements restricting trade in services in terms of investment screening. *Screening of foreign investments* refers to cases where laws or regulations enable governments or regulators to alter or prohibit foreign investment projects; the consideration of economic motives or economic interests is explicitly included in the criteria for approval. In Montenegro, regulations do not mandate that economic interests should be considered in the review of foreign investments. The conditions or criteria are vague and the consideration of economic motives are not ruled out. The economy does not set a threshold above which a foreign investment project is subject to screening.

A final horizontal element that affects some economies is the ability of foreigners from third countries to obtain the necessary business visas. Ease of business travel is an important complement to the cross-border offer and commercial presence in services. These are mainly measures affecting the duration of issuance and the cost of business visas. The Law on Foreigners stipulates that the procedure for obtaining a business visa in Montenegro should not take more than 10 days, with the possibility of extending the time for issuing a decision to 30 days if necessary. In practice, a period of 10-15 days is the norm. The cost of obtaining a visa is USD 147 and the applicant must submit 10 different documents. These procedures are all more burdensome and costly than the best practices identified by the OECD, but it is important to note that since 2016 Montenegro has brought its visa application procedure closer to the standards set in the EU visa code.

How restrictive are individual services sectors?⁴²

Beyond regulatory measures that affect Montenegro's trade in services across the board, a certain number of sector-specific restrictions are observed in the 12 sectors analysed.

Air transport services are defined as passenger and freight air transport, carried domestically or internationally (code 51 under the International Standard Industrial Classification – ISIC – Revision 4). In light of the range of air transport subsectors, the STRI project focuses on measures affecting carriers' transport of passengers and goods between points. Airport management and other aviation services are only relevant where regulations can affect the ability of foreign carriers to transport passengers and goods between points. The other aviation services are covered more fully in the STRI for logistics services. The STRI scores can range from 0 to 1, with 0 signalling a completely open sector, while 1 indicates a sector closed to foreign service suppliers. The 2020 scores for all OECD member states and STRI partners in this sector range between 0.165 and 0.601, while the WB6 average is 0.421 which is roughly in line with EU (0.406) and OECD (0.409) averages. With a score of 0.401, Montenegro is the third least-restrictive of the WB6 economies (Figure 23.6).

Restrictions on foreign entry figure prominently in Montenegro's STRI results for air services. Like 40 other OECD and STRI key partners (OECD, 2020^[50]), Montenegro limits the equity share that foreign natural or juridical persons can hold in an air transport services company to 49%. This restriction is, however, in line with European Union legislation. The leasing of foreign aircraft without crew (dry lease) and with crew (wet lease) are allowed, but subject to prior authorisation.

The other major category that influences the degree of restriction concerns *barriers to competition*. Like several economies, Montenegro maintains public ownership in the aviation sector through a national airline, Montenegro Airlines. However, the national air carrier does not provide cargo services.

Montenegro, airport slot allocation is aligned with EU regulations; slots are allocated in a fair and transparent manner. The general principle is that an air carrier having operated its particular slots for at least 80% during the summer/winter scheduling period is entitled to the same slots in the equivalent scheduling period of the following year (grandfather rights) which is very common across countries. To mitigate this restriction, Montenegro reallocates slots which are not sufficiently used by air carriers (the so

called "use it or lose it" rule), an effective competition protection measure in the sector. The STRI score is, however, limited by the economy prohibition of commercial exchange of slots, a practice which is more restrictive than the EU *acquis*, where slots can be freely transferred.⁴³

Road freight transport (ISIC Rev 4 code 4293). The 2020 scores for all OECD member states and STRI partners in this sector range between a very low 0.124 and a high 0.624. The WB6 average is in the liberal bracket, with a score of 0.225, demonstrating the region's open approach to road freight transport services. With a score of 0.191, Montenegro is the third most open of the WB6 economies, performing better than the OECD average (0.201) but remaining more restrictive than the EU average (0.184). Unlike some OECD and STRI key partners, Montenegro does not impose many sector-specific regulations on this sector (Figure 23.6).

As regards *foreign entry restrictions*, Montenegro has a standing practice of limiting capacity in the domestic transport sector by instituting transport licenses or permits, with a fixed number of permits for a given time period.

In the area of *barriers to competition*, fees are set by the government for transportation management certification, issuing of licenses, license copy statements, licenses for international carriage of goods, and special permits for foreign carriers. But transport prices are set freely by the operators, which increases the competition in the sector.

Rail freight transport (ISIC code 4912) is provided over a dedicated network in which the market structure may take different forms. The two most common are: 1) vertically integrated rail services firms owning and managing both the infrastructure and the operation of freight services; and 2) vertical separation between infrastructure management and operations (the case in Montenegro). Regardless of the market structure, there are well-established best practice regulations that also take into account competition from other modes of transport, particularly road transport. The 2020 scores for all OECD member states and STRI partners in this sector range between a very open 0.129 to a completely restricted score of 1. The WB6 average (0.316) is relatively low. Montenegro is the third most restrictive economy of the WB6 and its score (0.287) is higher than the EU (0.209) and the OECD (0.259) averages. It is also worth mentioning that the economy is more restrictive than the EU's worst performer (Poland) (OECD, 2020^[51]) (Figure 23.6).

In terms of *foreign entry*, according to the railway law, non-resident foreign carriers can use the Montenegrin railroad under the conditions set by international agreements. Montenegro is only connected by railroad to Albania and Serbia. The bilateral agreement with Albania is only applicable for the railroad sector going from the border to the nearest stations in both economies: Bajza in Albania and Tuzi in Montenegro. Transit rights are not provided. The fact that licenses and certificates in railway traffic are required in order to enter the market has a negative effect on the STRI score.

As regards *restrictions on the movement of people*, licenses are required in order to practise. However, positively, there are laws in place which establish processes for recognising qualifications gained abroad, which mitigates this restriction.

Barriers to competition are an important contributor to Montenegro's STRI performance in rail transport services. Access fees are regulated and are calculated by the infrastructure manager according to certain pre-defined criteria. The fees must be approved by the government. Transfer and trading of infrastructure capacity are prohibited and there is a dominance on the infrastructure. The Montenegrin state owns the majority share capital of Montecargo, a major firm in the sector. This negatively affects competition, and consequently the STRI score in the sector.

The courier services sector (ISIC Rev 4 code 53) comprises postal and courier activities. While courier services have traditionally been an important means of communication, the rise of modern ICT has reduced its use for communication. The STRI for courier services covers regulations that have an impact on pick-up, transport, delivery (door-to-door delivery) services of letters, parcels, and express delivery services regardless of who provides the services. These services include both addressed and unaddressed items.

The 2020 scores for all OECD member states and STRI partners are between 0.106 and 0.881, while the WB6 average is 0.301. With a score of 0.193, Montenegro is one of the least-restrictive WB6 economies, still scoring higher than the EU (0.181) but lower than the OECD (0.259) averages (Figure 23.6).

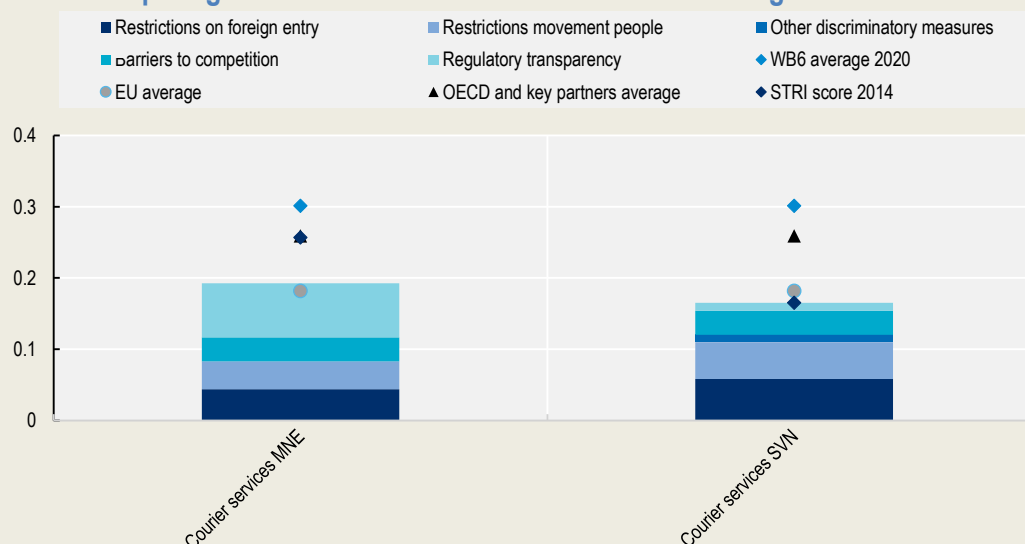
In terms of sector specific restrictions on the *movement of people*, legal and natural persons registered as providing transport of goods must file an application to the Montenegro Agency for Electronic Communications and Postal Services (AECPS) for providing commercial postal services. However, this is a very common measure in the postal sectors.

Foreign entry restrictions contribute significantly to the performance of many economies; Montenegro is no exception. Such restrictions are present in the form of a license needed in order to enter the market as prescribed by the Law on Postal Services.⁴⁴ Postal services are carried out under either a special licence, or a decision on the fulfilment of all conditions for carrying out postal services. Among the measures that have contributed most to the liberalisation of this sector, Montenegro has abolished all reserved services for the designated postal operator (DPO) in 2013, thus increasing its openness in this sector and bringing it closer to the best performers in the EU (Box 23.4).

Box 23.4. Making the best of the STRI tools: Comparing courier services in Slovenia and Montenegro

The joint use of STRI tools helps identify the regulatory elements that weigh on the restrictiveness index and consequently on the degree of openness of a sector. A comparative study of the STRI 2020 indices of Slovenia and Montenegro (Figure 23.8) highlights certain elements.

Figure 23.8. Comparing courier services restrictiveness in Montenegro and Slovenia



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; MNE=Montenegro; SVN=Slovenia
Source: OECD2020 STRI; CO2021 STRI

StatLink  <https://doi.org/10.1787/888934255912>

Comparing both economies using the STRI Sector Brief 2020 and indices, Montenegro has a relatively low score in the courier services sector compared to other OECD STRI participants. Likewise, Slovenia has a very open and liberal courier services market, scoring amongst the lowest indices in this sector. The Postal Act of 1997 brought Slovenian legislation in the postal sector partially into line with the EU *acquis*. The complete liberalisation of postal services was achieved with the adoption the new Postal Services Act in April 2002 and secondary acts in 2003. Currently, courier services are Slovenia's least restrictive STRI sector. The economy maintains only a few sector-specific restrictions, notably the

existence of a state-owned designated postal operator and limits on the proportion of shares that can be acquired by foreign investors.

Comparing both economies using the STRI policy simulator, it appears that only a limited number of regulatory measures dictates the weight difference between Slovenia and Montenegro's STRIs. This suggests that Montenegro could substantially reduce its restrictiveness index to the average levels found in the STRI by lifting specific restrictions:

- In the area of *restrictions on movement of people*, the scoring of both economies is largely driven by the quotas on foreign services suppliers. Additionally, both states allow only very short stays for foreign service providers. However, Slovenia has aligned its regulatory environment with international good practice on the length of stay of intra-corporate transferees. Overall, lifting limitations on movement of people based on the Slovenian example could decrease Montenegro's courier restrictiveness index value by 0.008. Going beyond Slovenia's reforms, lifting all restrictions on movement of people could decrease Montenegro's index by 0.052.
- In the *barriers to competition* category, unlike Montenegro Slovenia does not apply any preferential tax or subsidy treatment to the national DPO. Lifting this restriction could decrease Montenegro's courier index value by 0.011.

Source: (OECD, 2017^[52]), *Services Trade Policies and the Global Economy*, <https://doi.org/10.1787/9789264275232-en>; (OECD, 2020^[53]), *OECD Services Trade Restrictiveness Index (STRI) - STRI Sectoral Brief: Postal and Courier Services 2020*, <https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-sector-note-courier.pdf>.

As regards *barriers to competition*, the universal service provider is the State-owned Post Office Montenegro d.o.o Podgorica, designated by the AECPS under a public tender procedure, which is in line with EU regulations. The Post Office Montenegro Podgorica is the only postal operator with the technical capacity to provide universal services across the entire territory of Montenegro. The DPO obtains preferential tax or subsidy treatment and is entitled to compensation if the operation of the universal postal service incurs a net cost that represents an unfair financial burden on the universal postal operator. Box 23.4 presents a detailed case study of how Montenegro could reduce the restrictions in this sector.

Legal services (ISIC Rev 4 code 691) cover advisory and representation services in domestic and international law, and where relevant, measures are compiled separately for each of them. International law includes advisory services in the home country law, third country law, international law, as well as a right to appear in international commercial arbitration. Domestic law extends to advising and representing clients before a court or judicial body in the law of the host country. The 2020 scores for all OECD member states and STRI partners in the legal services sector range between a very open 0.141 and a completely closed 1. With a score of 0.454, Montenegro is the fifth most-restrictive economy in the WB6, scoring just above the WB6 (0.391), EU (0.394) and OECD (0.382) averages (Box 23.6).

Though foreign equity limits are rarely used in legal services amongst OECD member states, most of those countries restrict the ownership of law firms to locally qualified lawyers, particularly in the area of domestic law. Ownership restrictions are often coupled with requirements that the majority of the board (or equity partners in the case of partnerships) and the manager of law firms be locally qualified (OECD, 2020^[54]). This is not the case in Montenegro, which is competitive in this respect. Its result, which is in the median of the OECD, is due to *restrictions on movement of people*, such as the requirement to practice locally for at least one year, licensing and recognition procedures for foreign qualifications. These include nationality and residence requirements for practising, as well as the obligation to pass a local examination or to engage in local practice prior to recognition of the qualification.

Montenegro separates domestic lawyers (who practice national law) from foreign lawyers (who practice their national, international or European law). In both cases, a separate registration with the Bar Association exists.

Attorneys practising domestic Montenegrin law must be registered in the directory of attorneys regulated by the Bar Association. Only citizens of Montenegro (and EU citizens who have been practising law in Montenegro for at least three years and that have passed the Bar exam) can practise domestic law.

Since 2017, EU lawyers can advise on their home country law, the European Union law and the International law without being registered as a foreign lawyer. Third country nationals are bound by the obligation of being registered as foreign lawyers with the Bar Association. Once registered, third country nationals can represent their clients in front of Montenegrin jurisdictions but only jointly with a local attorney who has the right and duty to practise legal profession in Montenegro. Foreign attorneys are also limited in their interaction with the Bar Association as they cannot be elected to its bodies or employ a law trainee. It is only after three years of practice in Montenegro that an attorney entered in the directory of foreign lawyers, can be registered in the directory of foreign attorneys-at-law under the name “attorney” (i.e. full scope of legal practice).

There is no temporary licensing in place. Nevertheless, with the 2017 amendment, some activities may be performed by an attorney from an EU Member State who is not registered in the directory of foreign attorneys-at-law. An attorney from an EU Member State must submit a written notice to the Bar Association of their intention to perform activities and attach a proof of entry in the registry for practising law in their home country, as well as proof of professional liability insurance in the home country.

As regards *restrictions on foreign entry*, local presence is required for cross-border supply of legal services. In order to practise, licensed lawyers must declare an address or a representative who has an address in Montenegro for administrative purposes, especially for receiving correspondence. Commercial association is prohibited between lawyers and other professionals. It is important to note, however, that foreign lawyers who establish a limited liability company in Montenegro may provide consultancy services and they can co-operate with other professionals as they don't have the status of law firms.

In the area of *barriers to competition*, the Bar Association of Montenegro regulates all attorneys' tariffs, which is considered as a restriction to competition in the legal sector. Registered lawyers are forbidden to advertise – these restrictions further undermine the STRI score.

Commercial banking (ISIC divisions 64-66) is defined as deposit-taking, lending and payment services. Commercial banking services are traded business to business, as well as business to consumer for retail banking. Efficient banking services are one of the backbones of dynamic economies; they provide financing for investment and trade across productive activities, and thus underly all value chains.

The 2020 scores for all OECD member states and STRI partners in the commercial banking sector range between 0.131 and 0.517. The WB6 average is 0.239, above the EU (0.180) and OECD (0.205) averages. With a score of 0.254, Montenegro is the third least restrictive of the WB6 economies for this services sector (Box 23.6).

Montenegro applies restrictions on cross-border mergers and acquisitions. A legal person may not acquire a qualifying holding in a bank without the prior approval of the Central Bank. Those who hold a qualifying participation in a bank may not increase their participation in the capital or voting rights in the bank to reach over 20%, 33% or 50% of the voting rights or capital of the bank, without the prior approval of the Central Bank. A foreign bank may open a representative office in Montenegro but this office may not deal with the bank's affairs. Only a commercial presence has this capacity. The criteria to obtain a licence are more stringent for foreign companies. The foreign bank must provide numerous documents proving that they have a credit rating of at least an A and that the deposit protection system in the origin country has at least the same level of protection as the Montenegrin deposit protection system. The legislation does not state

that applicants must be informed of the reason for denial of licences, an omission which further damages the STRI score.

In the area of *barriers to competition*, Montenegro's risk-weighting methodology is still not fully aligned with Basel Committee on Banking Supervision (BCBS) standards. According to its 2020 policy, the Central Bank will adopt and monitor the implementation of a comprehensive set of secondary legislation enabling the application of the Law on Credit Institutions, aimed at full execution of Basel III requirements,⁴⁵ and recent amendments to relevant EU regulations (CRD V and CRR2). The law will enter into force in January 2022.⁴⁶ Contractual and default interest rates, as well as interest rates on deposits, are regulated. The bank is obliged to calculate and report active effective interest rates on loans and effective passive interest rates on deposits received and to inform clients and the public about the amount of effective interest rates in a format determined by a Central Bank regulation.

Insurance services (ISIC Rev 4 code 651 and 652) comprise life insurance, property and casualty insurance, reinsurance and auxiliary services. Private health insurance and private pensions are not covered.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.104 and 0.565. With a score of 0.149, Montenegro is the second least restrictive of the WB6 economies for the insurance services sector, scoring below the EU (0.175), OECD (0.193) and WB6 (0.231) averages (Box 23.6).

Restrictions on the *movement of people* are applied through licence requirements. Criteria to obtain a licence are more stringent for foreign companies. Foreign affiliates are subject to a list of additional submissions including a report on the last three years of operations, audit reports on the financial statements for the previous business year, the opinion of the home country's supervisory authority on the applicant's business and approval to establish the affiliate in Montenegro, among others.

There are also *restrictions on foreign entry*. The regulatory body will reject the request from a foreign company if insurance companies based in Montenegro are prevented from performing insurance business under the same conditions as insurance companies in that state. Under the STRI guidelines, this measure is marked as reciprocity based and is therefore restrictive.

Construction services (ISIC Rev 4 codes 41 and 42) cover the construction of buildings (residential and non-residential) as well as construction work for civil engineering. **Architecture services** and related technical consultancy (ISIC Rev 4 code 711) constitute the backbone of the construction sector, with key roles in building design and urban planning. **Engineering services** (ISIC Rev 4 code 711) cover several related activities, such as engineering and integrated engineering services, and engineering related scientific and technical consulting services.

An important feature is the regulatory complementarity between architectural, engineering and construction services. Often, architectural and engineering activities are combined in projects proposed by a single firm, and are sometimes subsumed within the building and construction sector. The scope of the STRI definition for architectural services includes several related activities, such as architectural consulting and pre-design services, architectural design, contract administration services, and urban planning and landscape architecture services. Engineering services are the backbone of construction and procurement. Engineers are involved in the construction of key infrastructure, such as buildings and roads. They also play an important role in the development of production processes and the adoption of new technologies. Finally, construction services have historically played an important role in the functioning of economies, providing the infrastructure for other industries. These services account for a significant share of GDP and employment in most economies. Public works, such as roads and public buildings, account for about half of the construction services market. Therefore, the STRI for construction services covers detailed information on public procurement procedures.

The 2020 scores for construction services for all OECD member states and STRI partners range between 0.123 and 0.464, while the WB6 average is 0.242. Montenegro (0.209) is the third-least restrictive of the WB6 economies for the construction services sector, scoring lower than the OECD (0.222) and WB6 (0.242) averages, but higher than the EU average (0.207) (Box 23.6).

The 2020 scores for the architecture sector for all OECD member states and STRI partners range between 0.113 to 0.684. With a score of 0.298, Montenegro is the most restrictive of the WB6 economies in this sector. It is more restrictive than the EU (0.260), OECD (0.244) and WB6 (0.265) averages. Finally, the 2020 scores in engineering for all OECD member states and STRI partners range between 0.118 and 0.575. Montenegro (0.203) is the second-least restrictive of the WB6 economies in this sector, scoring below the EU (0.245), OECD (0.233) and WB6 (0.244) averages.

For all three sectors, *restrictions on the movement of people* are present in the form of licensing requirements which need to be respected in order to provide engineering services in Montenegro. Since 2017, a foreign entity from an EEA Member State in possession of an authorisation from its economy of origin can operate in Montenegro provided that the authorisation is related to the activity governed by the law. A foreign entity from a non-EEA Member State may also perform activities in compliance with the law governing the recognition of foreign qualifications under the principle of reciprocity. Foreign construction engineers are required to take a local examination. For architecture and engineering, a temporary licence can be issued for up to one year, which is a restrictive measure in this sector.

On the positive side, Montenegro has a procedure for recognising foreign qualifications. In the process of issuing a licence to a foreign certified engineer, foreign educational qualifications are checked according to the law on recognition of foreign qualifications.

Computer services (ISIC Rev 4 codes 62 and 63) include computer programming, consultancy and related activities, and information service activities. The 2020 scores for all OECD member states and STRI partners range between 0.123 and 0.448. With a score of 0.249, Montenegro is the third least restrictive of the WB6 economies, scoring above the EU (0.211), OECD (0.221) and WB6 (0.239) averages. This sector is very rarely regulated by sectoral legislation. Montenegro subjects computer services to general laws that apply to the economy as a whole. This is why restrictions on the movement of people account for one-third of the total scores in computer services (Box 23.6).

Telecommunication services (ISIC Rev 4 codes 611 and 612) cover all wired and wireless telecommunications activities. These services are at the core of the information society and provide the network over which other services including computer services, audio-visual services, professional services and many more are traded. The 2020 scores for all OECD member states and STRI partners range between 0.108 and 0.682. Montenegro is in the high bracket for the restrictiveness of its telecoms sector with a score of 0.159, which makes it the second-most restrictive of the WB6 economies. It scores above the EU average (0.151) but below the OECD (0.188) and WB6 (0.231) averages (Box 23.6).

The STRI participant economies' results in the telecommunications sector are usually driven by two policy areas: 1) restrictions on the entry of foreigners; and 2) barriers to competition. In all OECD member states, barriers to competition account for 30% of the total STRI scores in the sector. This reflects the particular characteristics of the sector as well as the policy environment in which it operates. It is a capital-intensive network industry and its strategic importance has led many economies to restrict foreign investment and activity in the sector.

In order to ensure fair competition in the telecommunications market, Montenegro has an independent telecommunications regulator, the Agency for Electronic Communications and Postal Services (EKIP), which is separate from stakeholders and the government and operates without state intervention. EKIP has sufficient regulatory powers to regulate the sector effectively through *ex ante* regulations applied in accordance with EU precepts. These ensure that no single operator with significant market power (SMP) in certain market segments (inevitable in certain cases) is bound by appropriate pro-competition

regulations. *Ex ante* regulations are based on regular market analysis and are readily available on the EKIP website. The government does not maintain any state-owned enterprise (SOE) in this sector. Montenegro applies a "use-it-or-lose-it" policy to frequency bands⁴⁷ - an important measure that prevents incumbent operators from monopolising valuable frequency licences, as well as free tradable spectrum and telecom services.

In absolute terms, the regulatory framework of Montenegro's telecommunications sector is competitive. It is only constrained by economy-wide measures, most notably on the movement of people. Although telecommunications lend themselves easily to cross-border trade from a technical point of view, restrictions on the movement of people account for a modest share of the total STRI score in this sector. Cumbersome procedures for obtaining visas and registering companies negatively affect the sector to some extent as well.

Sub-dimension 2.3: E-commerce and digitally enabled services

E-commerce can bring about significant gains for businesses, driving firms' process innovation. In addition, it enlarges businesses' market scope, reduces operational costs at various stages of business activities and facilitates market access, thus intensifying competition (OECD, 2013^[55]). E-commerce also benefits consumers by providing information on goods and services, helping consumers identify sellers and compare prices, while offering convenient delivery and the ability to purchase easily via a computer or mobile device (OECD, 2013^[55]).

In the context of the COVID-19 pandemic, e-commerce appears to have been essential for maintaining trade flows despite the restrictions put in place to preserve public health (OECD, 2020^[56]). Buying online rather than in person also reduces the risk of infection. Being able to keep selling in locked-down economies preserves jobs despite social distancing and movement restrictions. Finally, e-commerce increases the acceptance of prolonged physical distancing among the population and allows them to maintain a certain level of consumption. It is sure that 2020 will be a turning point in electronic commerce. This digital transformation underlines the importance of adopting a more holistic approach to policies as well as increasing international co-operation (Ferencz, 2019^[57]); (OECD, 2020^[58]).

This sub-dimension assesses those policies which are implemented in parallel and in addition to those discussed under Digital society (Dimension 10). However, it is mainly focused on the trade in digitally enabled services given the rapid growth of trade in services in the region.

Modern e-commerce regulations should focus on a number of key elements, such as electronic documentation and signature, online consumer protection, data protection and privacy, cyber security, intellectual property regulations, and intermediary liability. On the other hand, an attractive regulatory environment should refrain from maintaining disproportionately restrictive measures, such as licensing requirements for e-commerce platforms, limitations on the type of goods that can be sold online (other than for generally accepted public policy considerations), and restrictions on cross-border data flows.

Quantitative data show that e-commerce is developing rapidly in Montenegro. In 2019, 99.3% of Montenegro's businesses had access to the Internet; 83.6% of these connected enterprises had a business website. The Statistical Office of Montenegro (MONSTAT) reports that 26.9% of companies receive orders via the Internet and around 26.7% place their orders online (MONSTAT, 2019^[59]). Montenegro is a regional leader in global competitiveness in the field of ICT; revenue in the e-commerce market is projected to grow in the coming years to achieve a peak annual growth rate of 13.7% by 2025.⁴⁸ However, the share of consumers buying online is still lower than in EU Member States. This gap is likely to narrow in the coming years as a result of the structural changes to the economy caused by the COVID-19 crisis. The majority of companies in Montenegro switched to electronic trade during the lockdown.

There have been no substantive changes to **the e-Commerce policy framework** since the last assessment cycle. Montenegro has an enabling regulatory environment for e-commerce. The Montenegrin Law on Electronic Commerce adopted in 2004 (with subsequent amendments in 2010, 2011 and 2013), regulates e-commerce services and provides legal certainty for businesses and consumers in this area. The law is largely aligned with EU *acquis* and the EU Directive on e-Commerce.⁴⁹ Regulations related to e-commerce fall under the competence of several institutions. The Ministry of Public Administration is responsible for adopting the law; the Ministry of Economic Development helps implement it in relevant areas of trading and business good practices; and its implementation is supervised by inspectors for information society services.

In practice, however, according to the authorities themselves, co-ordination mechanisms are lacking and programme planning is poor, leading to inadequate monitoring and evaluation for effective policy revision. To mitigate these issues, the Ministry for Public Administration will propose a new strategy for digital transformation for the period 2021-25. Relevant e-commerce indicators were identified in the Strategy for the Information Society Development for Digital Business 2020, which outlines strategic development tools with a view to reaching the EU standards set out in the Digital Agenda 2020 and the Digital Single Market Strategy.

The OECD digital STRI captures **the restrictiveness of digitally enabled services** by identifying cross-cutting barriers that inhibit or completely prevent firms from supplying services using digital networks, irrespective of the sector in which they operate. The regulatory data underlying the digital STRI were extracted from the OECD STRI database and from data collected under public laws and regulations affecting digitally enabled services. Digital STRIs are the result of aggregating the identified barriers to trade into composite indices. Digital STRI scoring uses a binary system: scores are assigned a value of 0 when there are no trade restrictions and a value of 1 when full restrictions are in place. The rating takes into account the specific regulatory and market characteristics as well as the links and hierarchies among regulatory measures affecting digitally enabled services (Ferencz, 2019^[57]); (OECD, 2020^[58]).

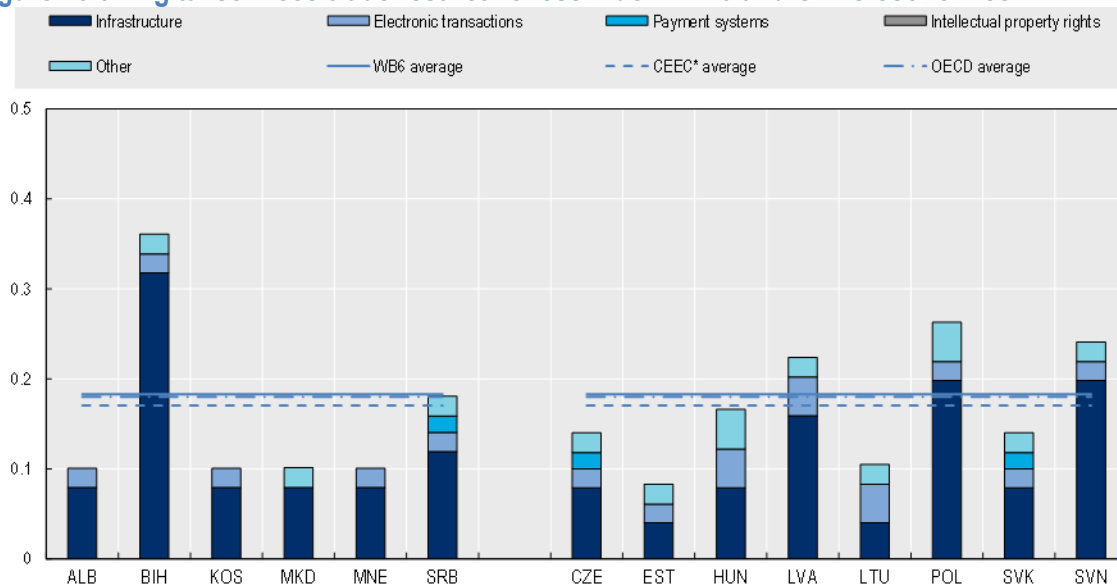
The 2020 digital STRI scores for all OECD and partner states in this sector are moderate to high, ranging from 0.043 to 0.488, and with an average of 0.183. Montenegro is in the lower bracket for the restrictiveness of its digital sector, with an overall score of 0.101. This reflects, among other things, the complete absence of restrictions in some of the categories analysed by the OECD Digital STRI as displayed in Figure 23.9.

The digital STRI scores across OECD countries are regularly driven by infrastructure and connectivity measures. This is usually the consequence of the lack of effective telecoms infrastructure regulations, especially in the area of interconnection. However, this is not a limitation in Montenegro, which benefits from regulations that are relatively well aligned with international good practice and are not excessively restrictive. Similarly, although Montenegro has stricter rules than the OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data (OECD, 2013^[60]) in this area, it does not impose overly burdensome conditions on cross-border data flows, beyond those put in place to ensure the protection and security of personal data. However, like 11 other digital STRI economies, Montenegro requires some types of data to be stored locally, though this is mitigated by allowing the transfer of copies abroad as long as the Montenegrin authorities can have direct access to the data upon request.

No specific licences or authorisations for e-commerce activities are required, other than normal commercial licences. This eases the establishment of electronically enabled services and makes the economy all the more attractive to foreign suppliers. International standards for electronic contracts and key electronic authentication measures such as recognition of electronic signatures are generally in place.

Montenegro is open in the categories of intellectual property rights and payment systems from a regulatory point of view. The regulations in place do not treat foreigners less favourably than nationals in terms of intellectual property protection.

Figure 23.9. Digital services trade restrictiveness index: WB6 and CEEC economies



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; *CEE=Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia (Bulgaria, Croatia, and Romania are not OECD member states nor OECD STRI Partner economies and therefore do not have calculated STRI indices); the absence of a category in the graph means that it is exempt from restrictions. Source: (OECD, 2020^[49]), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

StatLink  <https://doi.org/10.1787/888934255931>

The way forward for trade policy

Despite some important steps taken to improve the trade policy framework, especially in the area of public consultations, the Government of Montenegro could improve its decision making further by paying attention to the following:

- **Adopt a system for evaluating regulatory frameworks by implementing public consultation standards.** A comprehensive system for review, based on both qualitative indicators (e.g. broadness of consultation, stakeholder satisfaction with their involvement) and quantitative indicators (e.g. frequency of consultations), would help to measure the success of reforms and allow for the adjustment of consultation frameworks where necessary.
- **Enforce the effective application of regulatory impact analysis.** Despite the existence of a well-developed procedure for RIA, its implementation can be improved. The analysis of the impact of legislative proposals could be more comprehensive. The government needs to build line ministries' capacity to undertake impact assessments and to evaluate the effects of legislative proposals, especially for trade-related matters.
- **Further enhance the existing process for evaluating the Public-Private Consultation frameworks.** There is a need to sustain and deepen the current process of regular review of consultation frameworks. The Ministry of Public Administration, Digital Society and Media already collects the necessary statistics on the established objectives of effectiveness, efficiency, inclusion and transparency. Its efforts should now be focused on harmonising and systematising evaluation as well as developing performance indicators that measure the degree of openness and transparency of consultations. In doing so, Montenegro can draw inspiration from the United Kingdom's guidelines on PPCs (Box 23.5). Ideally, a monitoring programme with an adequate budget and office independent from the government could be introduced to allow for systematic evaluations. In addition, training could be provided in the use of various quantitative and qualitative approaches to measure compliance with the minimum standards set by regulatory frameworks for

public consultations. Moreover, the increased participation of the business community in the consultation process demonstrates a potential to be exploited in Montenegro to improve the process. Montenegro should follow the example of the stakeholder involvement in the European Commission policy cycle (Box 23.6) to develop a feedback mechanism to improve its consultations.

- **Broaden trade in services efforts beyond regional trade agreements.** Significant improvements have been made among the WB economies to open services trade through the conclusion of CEFTA Additional Protocol 6 in December 2019. Nonetheless, the STRI analysis in this section has provided some insights into where domestic reforms could help to attract new businesses and improve competitiveness.
- **Lift some of the stringent restrictions on services in trade:**
 - **Ease conditions on the temporary movement of natural persons** by removing the remaining quotas and labour market tests which apply to foreign services suppliers. This would further encourage innovation and knowledge transfer, and contribute to economic growth.
 - **Reduce the remaining barriers to market entry and competition** in the courier sector (Box 23.4) as well as the legal and architecture services sectors, and make further efforts to increase competitiveness.
 - **Lift the requirement for third-country foreign architecture service providers to completely re-take their university degree.**
 - **Amend the preferential subsidy treatment** for the designated postal provider in the courier sector.
 - **Amend the prohibition of commercial association between lawyers and professionals,** along with the local presence requirement which states that licensed lawyers must declare an address or a representative who has an address in Montenegro in order to practise in the economy.
- **Strengthen the regulatory framework for e-commerce** by creating co-ordination mechanisms and strengthening programme planning in order to establish an effective monitoring and evaluation process to improve policy revision. A first step could be to review and assess the impact of previously implemented programmes on the digitisation of Montenegrin businesses in order to identify gaps in the design of regulatory measures governing e-commerce. A set of indicators for private sector ICT take-up, including e-commerce, should be developed and regularly monitored.

Box 23.5. Consultation guidelines in the United Kingdom

The United Kingdom's 2008 Code of Practice is a good example of how a government can provide its civil servants with a powerful tool to improve the consultation process and its review, even though it is not legally binding and only applies to formal, written consultations. The 16-page Code of Practice is divided into 7 criteria, to be followed for every consultation:

- Criterion 1: When to consult. Formal consultation should take place at a stage when there is scope to influence the policy outcome.
- Criterion 2: Duration of consultation exercises. Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
- Criterion 3: Clarity of scope and impact. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
- Criterion 4: Accessibility of consultation exercises. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

- Criterion 5: The burden of consultation. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
- Criterion 6: Responsiveness of consultation exercises. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
- Criterion 7: Capacity to consult. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

The Code of Practice was replaced with the much shorter "Consultation Principles" in 2012. The Consultation Principles highlight the need to pay specific attention to proportionality (adjusting the type and scale of consultation to the potential impacts of the proposals or decision being taken) and to achieve real engagement rather than merely following a bureaucratic process.

Source: (UK Government, 2008^[61]), *Code of practice on consultation*, www.bis.gov.uk/files/file47158.pdf; (UK Government, 2016^[62]), *Consultation principles 2016*, www.gov.uk/government/uploads/system/uploads/attachment_data/file/492132/0160111_Consultation_principles_final.pdf.

Box 23.6. Stakeholder engagement throughout the policy cycle at the European Commission

Following the adoption of the 2015 Better Regulation Guidelines, the European Commission has extended its range of consultation methods to enable stakeholders to express their views over the entire lifecycle of a policy. It uses a variety of different tools to engage with stakeholders at different points in the policy process. Feedback and consultation input is taken into account by the Commission when further developing the legislative proposal or delegated/implementing act, and when evaluating existing regulation.

At the initial stage of policy development, the public has the possibility to provide feedback on the Commission's policy plans through roadmaps and inception impact assessments (IIA), including data and information they may possess on all aspects of the intended initiative and impact assessment. Feedback is taken into account by the Commission services when further developing the policy proposal. The feedback period for roadmaps and IIAs is four weeks.

As a second step, a consultation strategy is prepared setting out consultation objectives, targeted stakeholders and the consultation activities for each initiative. For most major policy initiatives, a 12-week public consultation is conducted through the website "Your voice in Europe" and may be accompanied by other consultation methods. The consultation activities allow stakeholders to express their views on key aspects of the proposal and main elements of the impact assessment under preparation.

Stakeholders can provide feedback to the Commission on its proposals and their accompanying final impact assessments once they are adopted by the College. Stakeholder feedback is presented to the European Parliament and Council and aims to feed into the further legislative process. The consultation period for adopted proposals is eight weeks. Draft delegated acts and important implementing acts are also published for stakeholder feedback on the European Commission's website for a period of four weeks. At the end of the consultation, an overall synopsis report should be drawn up covering the results of the different consultation activities that took place.

Finally, the Commission also consults stakeholders as part of the *ex post* evaluation of existing EU regulation. This includes feedback on evaluation roadmaps to review existing initiatives, public

consultations on evaluations of individual regulations and “fitness checks” (i.e. comprehensive policy evaluations assessing whether the regulatory framework for a policy sector is fit for purpose). In addition, stakeholders can provide their views on existing EU regulation at any time on the website “Lighten the load – Have your say”.

Source: (OECD, 2017^[63]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy* (draft), www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm; (OECD, 2016^[64]), *Pilot database on stakeholder engagement practices in regulatory policy. Second set of practice examples*; (EC, 2015^[65]), *Better Regulation Guidelines*, https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en.

Access to finance (Dimension 3)

Introduction

With an overall score of 2.7, Montenegro is the WB6's second-best performer (after Serbia) for access to finance (Table 23.6). Montenegro has increased its score by 0.5 since the previous assessment (Figure 23.1), reflecting changes in the legal framework.

Table 23.6. Montenegro's scores for access to finance

Dimension	Sub-dimensions	Score	WB6 average
Access to finance dimension	Sub-dimension 3.1: Access to bank finance	3.1	3.4
	Sub-dimension 3.2: Access to alternative financing sources	2.1	1.9
	Sub-dimension 3.3: Mobilisation of long-term financing	3.5	2.8
Montenegro's overall score		2.7	2.6

State of play and key developments

Sub-dimension 3.1: Access to bank finance

Montenegro's financial sector is bank-dominated, with the banking sector accounting for around 92% of total assets in the financial sector, followed by insurance companies (5%). Between 2010 and 2019, the cumulative market share of the top three banks dropped from 57% to 42%, reflecting an increase in competition in the banking sector. As of January 2020, six domestic and seven foreign banks were operating in the economy. In 2019, two domestic banks declared bankruptcy, initiated by the Central Bank of Montenegro. An external, independent review of the asset quality of all 13 banks started in February 2020, with a view to strengthening stability and confidence in the banking system. The review is expected to be concluded in 2021 (EC, 2020^[66]).

Montenegro benefits from a well-established **legal and regulatory framework for the banking industry**. The banking law, most recently amended in November 2017, governs the foundation, management, operations and supervision of banks operating in Montenegro. Basel II⁵⁰ recommendations have been fully implemented. The law does not impose any barriers to the entry and operation of foreign banks. The conditions to obtain a licence from the Central Bank of Montenegro are the same for both domestic and foreign banks.

In December 2019, the law on the resolution of credit institutions and the law on credit institutions were finalised under the supervision of the Central Bank of Montenegro. By improving the minimum capital requirements, as well as the leverage and the liquidity coverage ratios for the banking industry, the laws aim to bring Montenegro's regulatory framework in line with Basel III core principles. Although they were planned to enter in force in January 2021, difficulties caused by COVID-19 has postponed implementation until January 2022 following the request of the Association of Montenegrin Banks.

The law on credit institutions applies uniformly to all credit institutions as recommended by the European Banking Authority,⁵¹ and has the same approach regardless of the size of business. As Montenegro is a euroized economy, no special capital requirements exist for foreign exchange or for the mandatory disclosure of the risk of foreign exchange borrowing.

A functional **cadastre and registration system** is in place and the information is available on the Real Estate Administration's (REA) website. There are three types of cadastral records: 1) registry cadastre; 2) land cadastre; and 3) real estate cadastre. As in the previous assessment, the ownership of the pledges of registered assets (fixed and non-fixed) remains largely documented (75%) and covers 100% of the urban territory.

Collateral requirements remain strict and high, rendering access to bank loans challenging for businesses in Montenegro. Around 60% of loans require collateral in Montenegro, close to the OECD average (58%). However, 209% of the borrowed amount is required as collateral in Montenegro, compared to an average of 88% in the OECD economies (World Bank, 2019^[20]). The Montenegrin legal framework allows secured creditors to create and enforce their rights over non-fixed assets such as securities, movable assets and stocks; however, real estate and land remain the most common collateral for loans. Moreover, there is no limitation in terms of threshold regulation under which collaterals are flexible for small business, and banks can adopt their own policies, potentially limiting smaller firms access to liquidity without immovable collaterals.

Montenegro lacks a national credit guarantee scheme for **credit enhancement and risk mitigation**. However, in March 2019 the Investment Development Fund (IDF) of Montenegro signed an agreement worth EUR 75 million with the European Investment Fund under the COSME Loan Guarantee Facility programme to improve the access to finance for micro and small enterprises. The programme aims to support entrepreneurs who are unable to provide adequate collateral. It foresees subsidising interest rates for SMEs with an average value of 3%, compared to the average 5% interest rates applied by commercial banks. SMEs have been able to benefit from the programme since mid-2020.

Moreover, to mitigate the effects of the COVID-19 pandemic, the government has created a new credit line under the IDF to improve the liquidity of SMEs up to a maximum amount of EUR 3 million per beneficiary. SMEs can apply through a simplified procedure with no approval fee and an interest rate of 1.5%. In addition, in January 2021 the government introduced an interest rate subsidy with a 12-month grace period for firms operating in the agriculture sector.

One public credit registry exists in Montenegro under the supervision of the Central Bank. It includes both positive and negative **credit information** on borrowers, and is accessible to financial institutions and the public upon motivated requests. In addition to daily updates on information collected by the credit registry for newly issued loans, coverage increased from 38.8% in 2018 to 41% of the adult population in 2019 (World Bank, 2019^[22]). The law on data protection provides for comprehensive consumer rights on the use of personal data and allows users to correct mistakes in credit reports. However, the law does not stipulate a minimum time limit for data storage.

Sub-dimension 3.2: Access to alternative financing sources

The legal and regulatory framework to support **factoring and leasing** is improving; however, the use of these options is very limited: their combined share in the total financial sector assets represents around 0.9%. According to the latest available data from the Central Bank, factoring volume decreased from EUR 3.3 million to EUR 1 million between 2011 and 2019. This is directly linked to the change of the law in 2018 (see below), which meant that only one company could obtain a work license. By contrast, the volume of leasing increased from EUR 1.6 million to EUR 40.3 million between 2011 and 2019.

The Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-credit and Credit-guarantee Operations took effect in May 2018. It provides the framework for factoring and leasing activities, and assigns the Central Bank the supervisory role. For the first time in Montenegro,⁵² the law regulates factoring and purchase of receivables. Financial leasing was previously partially covered under the Law on Banks adopted in 2011 and now benefits from a more comprehensive dedicated regulation under the new law. Overall, the new law significantly improves these activities and aligns the regulatory framework with international standards (Rosca, 2017^[67]). Another novelty is that following the recent extension to the regulatory framework, factoring and leasing are supervised by the Central Bank of Montenegro. Previously factoring companies were only obliged to report to the tax administration. Since Q1 2019, licensed firms have started to report to the central bank quarterly.

There is no clear definition of **venture capital** activities in Montenegro; however, the regulatory frameworks allow these activities to be established as specialised investment funds, regulated by the law on investment

funds adopted in 2018. The law contains basic provisions, such as rules on the method for determining net asset value, and detailed requirements for investors. However, the lack of a regulation covering seed and early investors limits the development of venture capital activities in Montenegro. According to a government statement, a law on alternative investment funds is planned to be drafted by the capital market authority. However, no clear timeline could be identified. The Enterprise Innovation Fund (ENIF), which is a stand-alone venture capital fund covering the Western Balkans region, has invested in two start-ups at the seed stage – Uhura (EUR 400 000) and Om3ga solutions (Daktilograf) (EUR 30 000) – since 2014.

Business angel networks have recently started operating in the economy; however, there is no legal definition. Montenegro recorded a total of 13 investments in 2018 and 2019 by one active network, with a respective value of EUR 1.5 million and EUR 2.1 million (EBAN, 2019^[68]).

There is no dedicated law or body that governs **crowdfunding** activities. Crowdfunding is regulated by several laws;⁵³ however, none provide the mandatory form of the contract between parties, allowing it to be concluded at all parties' own risk. As a result, crowdfunding in Montenegro is based solely on the goodwill of donors without any obligation of the applicant towards the donors. In 2019 a total of EUR 300 000 was raised through crowdfunding, a substantial increase on 2017 when only EUR 4 000 was raised. This indicates a moderately increasing level of confidence on the part of investors in crowdfunding. According to the government, an action plan (CrowdStream) is planned under the Danube Transnational Programme to draft and implement a crowdfunding law by 2024. Box 23.7 illustrates how clear laws in Lithuania have helped boost the crowdfunding sector.

Initial coin offering (ICO) based on blockchain technology is in the incipient phases of development, while the use of cryptocurrencies is allowed in Montenegro. The Capital Market Authority (CMA) – a financial services commission and an independent regulatory agency – has organised several cycles of education on the use of blockchain technology in the financial market and in public administration in order to explore the possibilities of its applications in both sectors. In addition, the government has reported that the CMA is working on the regulatory framework for Securities Token Offerings,⁵⁴ but has not specified the timeline.

Box 23.7. Lithuania's crowdfunding legislation

While Lithuania's crowdfunding market is smaller than other European fintech hubs, the economy is only one of 11 EU member states with dedicated national legislation for crowdfunding platforms and boasts a mature and comprehensive regulatory framework for crowdfunding. Although its crowdfunding is in its infancy, Lithuania currently has 15 registered crowdfunding platforms. There has been a positive increase in the total value of crowdfunding platform loan portfolios, from EUR 6.6 million in 2019 to EUR 9.13 million in the first half of 2020 (Bank of Lithuania, 2020).

Lithuania adopted its Law on Crowdfunding in 2016 with the aim of providing a hospitable, clear and transparent setting for cross-border crowdfunding platforms. The law adopted all aspects of the European Commission's Regulation for European Crowdfunding Service Providers, allowing for a seamless transition once the EU Directive comes into force (EC, 2018^[69]). It was established through a multiple stakeholder consultation process and provides protection and guarantees for investors through information disclosure obligations, governance rules, risk management and a coherent supervision mechanism. The law covers equity, real-estate, and debt-based crowdfunding models, while donation and rewards models continue to fall under the Civil Code of the Republic of Lithuania.

Transparency regulations for crowdfunding platforms help mitigate misinformation and legal risk to better protect investors. Therefore, platforms must be included on the Public List of Crowdfunding Platform Operators, subject to an efficient reliability assessment conducted by the Bank of Lithuania's supervisory authority within 30 days. Platform operators, board members and significant stakeholders

also undergo a criminal record check, while platforms must instate measures to avoid, identify and address any conflicts of interest that would prejudicially benefit the funder or project owner.

In addition to the EUR 40 000 minimum capital requirement, platform owners are required to put up 10% of starting capital themselves. In the case of offerings between EUR 100 000 and EUR 5 million, platform operators are obligated to publish a light prospectus, while offerings over EUR 5 million require a full prospectus detailing the project and project owner characteristics, proportion of own funds used, details of the offering, security measures, and existence of secondary markets.

In all cases, Lithuania's crowdfunding regulations require platforms to publish wide-ranging information on their websites for investors including data on the company, risks associated with investment, project selection criteria, conditions and procedures for repayment of funds, disclaimers on tax and insurance information, as well as monthly and yearly progress reports.

Meanwhile, Lithuania is continuously improving its innovative business environment to give financial institutions and crowdfunding platforms more investment opportunities. In 2016, the economy began allowing the use of remote identity verification via qualified electronic signatures and video streaming/transmission and is harmonising itself with the EU regulation on electronic identification. Lithuania has also recently amended its Law on the Legal Status of Aliens to include an e-residency programme, allowing foreigners to set up companies, open bank accounts and declare taxes through digital identification, furthering financing opportunities for its fintech platforms.

Source: (EC, 2017^[70]), *Final Report on Identifying market and regulatory obstacles to cross border development of crowdfunding in the EU*, https://ec.europa.eu/info/sites/info/files/171216-crowdfunding-report_en.pdf; (Bank of Lithuania, 2019^[71]), *Consumer Credit Market Review*, URL; (Bank of Lithuania, 2020^[72]), *List of Crowdfunding Platform Operators*, <https://www.lb.lt/lt/finansu-rinku-dalyviai?list=36>.

Sub-dimension 3.3: Mobilisation of long-term financing

Public-private partnerships (PPPs) are regulated by the law on public-private partnership adopted in December 2019. The implementing regulations accompanying the law were prepared in co-operation with OECD SIGMA (Support for Improvement in Governance and Management) and for the first time will regulate the implementation of PPP projects. Previously, PPPs were regulated by several pieces of legislation. The legal framework regulates several factors of major importance for PPP projects:

- It identifies areas in which PPPs can be developed, as well as implementation models that fall under PPP structures, such as build-operate-transfer and design-build-operate models.
- It clearly describes investors' rights, such as the right to reimburse the invested funds, conditions of return of the invested capital to a private partner and settlements in case of disputes.

Between 2015 and 2020, several projects were implemented through PPPs, including two student dormitories in Podgorica and Nikšić, several infrastructure projects in the field of energy and two wind farm projects in Možura and Krnovo. The wind farm in Krnovo is the first large-scale PPP project for the production of electricity in Montenegro.

When it comes to capital markets, the Montenegro Stock Exchange (MNSE) located in Podgorica is the only stock exchange operating in Montenegro.⁵⁵ In September 2020, MNSE's total turnover was EUR 6 million, 89% lower than in September 2019. Overall, market capitalisation of MNSE remains illiquid, with a turnover ratio of 1% in 2019 against 3% in 2017. No initial public offering (IPOs) occurred between 2010-19, while five secondary public offerings were issued over the same period, for a total value of EUR 23.8 million.

Some progress has been made in the regulatory framework to facilitate **access to capital markets** since the last assessment. The law on investment and the law on voluntary pension funds, both amended in 2018, govern **institutional investors**. The CMA is the supervision authority, and acts as an independent

regulatory body accountable to the Parliament of Montenegro. The legal framework is moderately comprehensive and covers situations under which institutional investors should exercise their voting rights, prevention of conflict of interest and transparency of fees.

The CMA has adopted extensive secondary legislation related to the law on capital markets and the law on investment funds, which provide for partial alignment with the EU *acquis* concerning markets in financial instruments, securities, investment funds, prospectuses and capital markets (EC, 2019^[73]). It also regulates insider trading and market manipulation. The law on capital markets details how listed companies should submit their financial reports to the CMA on a quarterly basis. All submitted reports are publicly available on the CMA website. Requirements for listing are also prescribed in article 50-93; however, as described above the stock market is static, with no IPOs.

In 2016, Montenegro applied to be part of the SEE Link project. This cross-border initiative aims to integrate regional equities markets without merger or corporate integration, using only technology that will enable participating stock exchanges to remain independent yet complementary and to allow investors an easier and more efficient approach to those markets through a local broker, for more information see Access to Finance (Dimension 3) regional chapter (SEE LINK, 2020^[74]). However, as the potential benefits were not clear, the Stock Exchange has decided to stop the process of joining the SEE Link.

The main client categories of Montenegro's **asset management** industry are insurance companies, investment funds and pension funds. The top five asset management firms' total assets under management represented EUR 28.5 million in 2019. **Bond markets** are the main asset allocations preferred by pension funds; however, they are not fully developed yet. Government-issued bonds represent 0.35% of GDP in 2019, while private sector issued bonds were considerably lower (0.16% of GDP). The functioning of bond market is regulated by the capital market law under the supervision of the CMA. Information on the maturity, liquidation preferences, coupon rates and tax status is clearly indicated on Montenegro's stock exchange website.⁵⁶ The government does not provide any subsidies to increase the attraction of bond markets; nor does it apply specific rules to facilitate the use of corporate bond markets by smaller issuers.

The way forward for access to finance

To enhance the banking industry and support businesses' access to finance, policy makers should:

- **Continue efforts to align Montenegro's banking regulations with international standards.** The economic shock caused by the COVID-19 pandemic means the need for resilience in the banking sector to absorb shocks has become even more vital. Regularly monitoring regulations and revising them in line with internationally agreed norms would further enhance Montenegro's banking sector capacity.
- **Extend and simplify the provision of loan guarantees** to enable commercial banks to expand lending to SMEs. Credit guarantee schemes should be designed to ease liquidity constraints in the post-COVID period. While the introduction of loan subsidies under the Investment Development Fund has been an important step, it does not lower or ease collateral requirements that are limiting access to liquidity for SMEs. Ways forward could be to introduce fair pricing of the guarantees and to impose caps on the level of collateralisation for guaranteed loans, with longer repayment periods for sectors in difficulties.
- **Enhance credit information.** Montenegro should consider expanding the coverage and granularity of the credit information system by incorporating information from retailers and utilities. This will enable smaller companies without a decent credit history to access finance. Economies lacking a private credit information system typically tend to have lower coverage than those with private credit bureaus or hybrid systems. Creating a private credit information system in Montenegro would expand the coverage of the adult population.

- **Continue efforts to diversify financing sources.** Adopting dedicated legal frameworks supporting innovative businesses, such as Lithuania's crowdfunding law (Box 23.7), would increase the number of potential financing sources, especially for smaller companies.
- **Increase investor interest by conducting awareness campaigns on the existence of capital markets and the advantages they offer.** Although the capital markets tend to be viewed as a financing tool only for the largest companies, in fact capital market structure can help small and medium-sized companies raise debt and equity capital. Awareness and access could be raised by establishing programmes or digital platforms with informative and interactive tools for SMEs to promote and ease the process of capital market participation (Box 23.8).

Box 23.8. Awareness-raising campaigns for capital market participation in OECD member states

Awareness-raising campaigns aim to share knowledge and information on the benefits of accessing capital markets for SMEs through informative platforms, public seminars, conferences, IPO summits, and workshops. Increasing awareness of the procedures and advantages of issuing financial products eases the process of issuing stocks or bonds for enterprises and increases the likelihood of SME participation in capital markets. Several OECD member states have already successfully launched initiatives to inform SMEs about the benefits of accessing the capital markets as a financing instrument for their growing businesses.

In 2012, under the National Plan for Financial Education, the Banco de Portugal, the Portuguese Securities Market Commission and the Insurance Institute of Portugal jointly launched the **Todos Contam Portal**, a platform aimed at promoting the financial education of the Portuguese population and new businesses. The portal specifically provides information on access to financing for SMEs through the capital market, highlighting the circumstances under which a new or growing company would benefit from capital market inclusion while informing SMEs of the risks associated with this type of financing.

The Bolsa Mexicana de Valores (BMV) has also launched a digital interactive tool to inform SMEs of the costs and benefits of going public by financing through the capital market, and guides businesses through the process of listing their company on the Mexican Stock Exchange. The platform provides information on available financing instruments and equips the user with registration forms, helps with implementing an effective corporate governance model and IFRS, guides businesses through working with brokerage and rating firms, and provides information on maximising sales, promotion of securities and securities maintenance.

Meanwhile, the Spanish National Strategy for Financial Education has established a dedicated website (**Finanzas para Todos**) providing educational tools to better equip entrepreneurs and SMEs with the financial literacy necessary to further their opportunities for growth. The initiative covers the advantages of using capital markets and stock exchanges as a source of financing from both investor and business perspectives. Additionally, the State Agency for SMEs (ENISA) in Spain regularly organises working seminars on the convenience of developing SME access to capital markets with multi-stakeholder participation, including members from academic, private and public sector institutions.

Source: (OECD, 2020^[75]), *Capital Market Review of Italy 2020: Creating Growth Opportunities for Italian Companies and Savers*, <https://www.oecd.org/corporate/ca/OECD-Capital-Market-Review-Italy.pdf>; (OECD, 2020^[76]), *OECD Capital Market Review of Portugal 2020: Mobilising Portuguese Capital Markets for Investment and Growth*, <https://portal.oecd.org/eshare/grs/pc/Deliverables/CO2021/Publication>; (Banco de Portugal, 2016^[77]), *National Plan for Financial Education*, <https://www.todoscontam.pt/pt-pt>.

- **Promote the use of infrastructure project bonds.** While PPPs are an efficient tool to finance infrastructure projects, promoting bonds can bring beneficial dynamics to capital markets and enable a more productive use of institutional funds for long-term investments. The government can promote the use of infrastructure project bonds through streamlining issuance and placement procedures, providing clear definitions of “infrastructure” project bonds as well as providing tax incentives (APEC/OECD, 2019^[78]). Moreover, although local currency bonds, in particular in developing economies, are often characterised by lower liquidity due to heightened currency risk, Montenegro’s euroisation could reverse this tendency.

Tax policy (Dimension 4)

Introduction

Table 23.7 compares Montenegro's scores on two tax policy sub-dimensions with the average for the WB6 economies. With regard to the first sub-dimension, which relates to the tax policy framework, Montenegro scores below the WB6 average because of its weak performance on the tax expenditure reporting indicator. However, on the second sub-dimension (tax administration), Montenegro scores close to the WB6 average.

Table 23.7. Montenegro's scores for tax policy

Dimension	Sub-dimensions	Score	WB6 average
Tax policy dimension	Sub-dimension 4.1: Tax policy framework	2.0	2.6
	Sub-dimension 4.2: Tax administration	3.4	3.3
	Sub-dimension 4.3: International tax co-operation	n.a.	n.a.
Montenegro's overall score		2.8	3.0

Note: For comparability with the previous assessment, the new sub-dimension (4.3) has not been scored but is discussed in the text below.

State of play and key developments

Sub-dimension 4.1: Tax policy framework

Tax revenues as a share of the economy are relatively high in Montenegro. In 2019, the tax-to-GDP ratio was 35.7%, which is above both the WB6 (28.3% in 2019) and OECD (33.8% in 2019) averages (OECD, 2020^[79]). The tax-to-GDP ratio in Montenegro has remained relatively stable in recent years, having slightly decreased from 36.2% in 2015. In line with other WB6 economies, Montenegro's tax mix relies heavily on taxes on goods and services and social security contributions (SSCs) (Table 23.8). In 2019, taxes on goods and services accounted for 55.8% of all tax revenues (second only to Kosovo in the WB6), which is somewhat higher than the WB6 average of 49.4% (in 2019) and substantially higher than the OECD average of 32.7% (in 2018). SSCs as a share of total tax revenues in Montenegro were 31.8% in 2019, which is in line with the regional average (32.0% in 2019) but above the OECD average (25.7% in 2018). Combined, SSCs and taxes on goods and services account for 87.6% of total tax revenues (OECD, 2020^[79]).

Montenegro's reliance on these two taxes far exceeds levels found in OECD countries (58.4% on average in 2018). Consequently, other taxes play a smaller role in Montenegro. For example, **personal income tax (PIT) and corporate income tax (CIT)** combined account for slightly less than one-sixth of all tax revenues (14.5%), compared to about one-third (33.5%) in OECD countries. The reliance on SSCs may make the economy relatively vulnerable to a decline in formal employment or a rise in informal employment. One option could be to rebalance the taxation of labour income away from SSCs and towards PIT, which would increase equity and, if designed properly, efficiency by shifting the tax burden from low incomes to higher incomes. OECD research shows that a relatively higher taxation of PIT would allow for reductions in high employee SSCs and would encourage workers to register in the formal economy. With regards to taxes on goods and service, OECD research has found that consumption taxes and particularly VAT may be less distortive on the decisions of households and firms, and thus on GDP per capita, than income taxes (Johansson et al., 2008^[80]).

Table 23.8. Montenegro's tax revenues as a percentage of GDP

	CIT	PIT	SSCs	Goods and services	Tax/GDP ratio
Montenegro	1.5%	2.6%	11.3%	19.9%	35.7%
WB6	1.8%	2.7%	9.3%	15.9%	30.6%
OECD	3.1%	8.1%	9.0%	10.9%	33.8%

Note: CIT= corporate income tax; PIT= personal income tax; SSCs= social security contributions.

Source: (OECD, 2020^[81]), *OECD.stat*, <https://stats.oecd.org/> (2019 for overall tax/GDP ratio, 2018 for specific tax/GDP ratio).

In terms of **SSCs and PIT rates**, Montenegro levies a 9% CIT rate (Table 23.8), which was the lowest rate of all WB6 economies in 2020 (where the average was 11.5%). The CIT rate is also substantially below the average rate in OECD countries (23.3% in 2020). The low CIT rate results, not surprisingly, in low CIT revenues. In 2019, CIT revenues as a share of GDP were 1.5% (Table 23.8), which is only slightly below the WB6 average (1.8% in 2019), but half the OECD average (3.1% in 2018). Montenegro is currently amending its Law on Corporate Taxation with the aim of strengthening existing anti-base erosion and profit shifting (BEPS) measures in terms of transfer pricing, and is in the process of implementing thin capitalisation rules. Dividend income is excluded from the CIT base, but when dividends are distributed to an individual shareholder, a 9% withholding tax is levied by the distributing company. Capital gains are included in the CIT base.

The PIT is a relatively small tax in Montenegro. It is levied at a flat 9% rate, the lowest PIT rate among WB6 economies. Despite this low rate, PIT revenues accounted for 2.6% of GDP in 2019, which is slightly above the regional average (2.2% for WB6 economies in 2019). However, PIT revenues remain significantly below OECD levels (8.1% of GDP in 2018). Unlike other WB6 economies, Montenegro does not have a basic tax allowance that exempts people with a low income from PIT. The absence of a basic tax allowance might explain Montenegro's above-average PIT revenues compared to WB6 economies despite its below average flat PIT rate. Montenegro carried out a **PIT reform** in 2019, which took effect in 2020. This reform abolished the so-called crisis rate.⁵⁷ With regard to the taxation of personal capital income, a 9% withholding tax is levied upon dividend distribution to resident shareholders. Resident individuals are liable for capital gains tax at a rate of 9%.

SSC revenues reached 11.3% of GDP in 2019, which is above the WB6 average (9.3% in 2019) and the OECD (9.0% in 2018). The sum of employee and employer SSC rates was 32.3% in 2020, which is above the OECD average rate (26.9% in 2020), and slightly above the average rate in WB6 (29.4% in 2020). Employees pay SSCs at a rate of 24%, while employers pay SSCs at a rate of 8.3%. These rates are similar to average rates in WB6 economies (19.9% and 9.5% respectively) but atypical by OECD standards. In the OECD, employer SSC rates are higher than employee SSC rates, possibly linked to the fact that PIT rates are higher in the OECD than in the WB6. Self-employed individuals are liable for SSCs at a rate of 34.3%, which is above the WB6 average (29.7% in 2020).

The high SSC rates in Montenegro create a high tax burden on labour income and reduce the incentives for workers to participate in the formal economy, especially low-income and low-skilled workers who earn a relatively low gross salary (OECD, 2018^[34]). The high employee SSC rate could be reduced, while the PIT could be made more progressive through the introduction of a progressive PIT rate schedule. This would help to shift the labour income tax burden from low-income workers to those with higher incomes. This in turn would strengthen the tax system's equity and would also be efficient, as it would strengthen the formal labour market and labour supply. Such a reform would require accompanying measures to prevent, for instance, tax-induced incentives for the self-employed to incorporate and turn high-taxed labour income into low-taxed capital income.

In terms of the **design and functioning of VAT and environmentally related taxes**, Montenegro relies heavily on tax revenues from consumption. In 2019, taxes on goods and services as a share of GDP were 19.9%, which is the highest share among the WB6 economies (14% average in 2019). This level of reliance on taxes on goods and services exceeds the 10.9% OECD average (in 2018). With regards to VAT, the

standard rate is levied at 21%, following an increase from 19% in 2016. This rate, the highest of the WB6 economies in 2020, is above the average rate for WB6 (19% in 2020) and OECD (19.3% in 2020). The VAT registration threshold is EUR 18 000, which is lower than other WB6 economies. Montenegro has a reduced 7% rate that applies to specific goods and services, including basic products for human consumption (bread, flour, milk etc.), medicine supplies, public transport services and print media. While VAT is levied on imports at between 0% to 7%, a 0% rate applies to exports, as well as products that are used for offshore oil exploration. Montenegro could consider whether it could broaden its VAT base. As for other consumption taxes, Montenegro levies excise duties on mineral oils, their derivatives and substitutes, as well as on coal. Overall there is significant scope to levy environmental taxes.

Concerning taxation of international business income, Montenegro operates a worldwide taxation system whereby resident companies pay taxes on domestic and foreign-sourced income, and non-resident companies are liable only for taxes on income originating from Montenegro. A worldwide taxation system is currently adopted in all of the WB6 economies. However, such systems are increasingly less common among OECD countries, particularly small open economies.

Table 23.9. Selected tax rates in Montenegro

	CIT	PIT	SSCs	VAT
Montenegro	9.0%	9.0%	32.3%	21.0%
WB6	11.5%	12.8%	28.6%	19.0%
OECD	23.3%	42.8%	26.9%	19.3%

Note: CIT= corporate income tax; PIT= personal income tax; SSCs= social security contributions.

Source: (OECD, 2020^[81]), *OECD.stat*, <https://stats.oecd.org/> (2020 for CIT and VAT, 2019 for PIT and SSCs).

In terms of **investment tax incentives**, Montenegro operates a mix of both cost and profit-based tax incentives. Companies investing in so-called underdeveloped areas can benefit from profit-based tax incentives (which generally reduce the tax rate for taxable income). These companies are exempt from CIT for an eight-year period, provided the total amount of tax paid without the incentive would not exceed the EUR 200 000 threshold. This exemption also extends to the investors' PIT liability. Companies operating in the transport, agriculture, shipbuilding, steel and fishery sectors cannot benefit from this tax incentive. Similarly, companies investing in underdeveloped areas that are employing new workers for employment contracts of at least five years are exempt from calculating and withholding PIT for a four-year period. Montenegro also operates a few targeted cost-based tax incentives (which generally lower the cost of investments made). For example, expenses directed at environmental protection may be recognised as tax deductible business expenditure, lowering the taxable base up to a maximum of 3.5% of total income. Research shows that cost-based incentives are preferable to profit-based incentives, which risk leading to high redundancy of expenditure since the investment may have proceeded anyway (UNCTAD, 2015^[82]). Given its low CIT rate, which already provides a significant investment incentive, Montenegro may wish to re-evaluate the merits of profit-based incentives.

Tax expenditure reporting in Montenegro could be strengthened. Currently, the annual tax expenditure report is prepared for internal government use only and is not made public. The measurement of tax expenditures is not disaggregated by item, reported in the budget or under a regular assessment. This prevents Montenegro from linking tax expenditures with other budgetary programmes. To support transparency and accountability, Montenegro should develop regular and systematic tax expenditure reporting. This will allow it to monitor the use and effectiveness of tax incentives along with the tax revenue forgone (OECD, 2010). Recently, other WB6 economies have been making good progress on tax expenditure reporting; Albania prepared a tax expenditure report in 2019, and North Macedonia and Kosovo are currently in the process of doing so.

Montenegro has an aggregated **forecasting model** based on macroeconomic data covering the main types of tax. The forecasting relies on relatively simple calculations, based on the previous year's revenues

adjusted for expected growth rates in certain economic indicators. Revenues are typically forecasted twice a year, with several new initiatives taken into account for the 2020-2021 models. A micro-simulation model has been developed for the PIT, in co-operation with the International Monetary Fund (IMF). It was used for the first time in 2019 for estimating effects of changes to the minimum wage.

Sub-dimension 4.2: Tax administration

Concerning **tax administration functions and organisation**, Montenegro has a unified tax administration responsible for collecting all types of tax, with the exception of VAT on imports, for which the Customs Administration is responsible. The Montenegro Tax Administration (MTA) carries out all the traditional functions except tax fraud investigation, which is conducted by a Special State Prosecutor's office and the police directorate. Its internal organisation mostly involves a functional approach, though a 2016 reform created a Large Taxpayers Office following recommendations by the IMF. The MTA is controlled by the State Audit Institution (SAI) on an annual basis. The SAI produces public recommendations, which in the past have led to significant reforms, such as making the MTA an independent body. MTA agents participate in regular internal and external training, such as the EU programme Fiscalis 2020. The MTA is also part of the Intra-European Organisation of Tax Administration, which also provides regular training.

Compliance assessment and risk management are carried out by the Department for Operations in the Field of Inspection Control, assisted by its eight regional offices. The Audit Plan is defined following a risk approach of tax audits. In 2017, a law created the Division for Risk Analysis. Montenegro is currently in co-operation with the IMF to develop a plan for managing compliance with tax regulations, which will be implemented in 2023.

In terms of **independence and transparency**, Montenegro took a step forward in January 2019 as the MTA became an independent body (it was previously integrated in the Ministry of Finance). The head of the MTA is now nominated for a five-year period and reports to the Minister of Finance. Such long-term appointments comply with the policy objective of independence. Its budget is however still integrated within the Ministry of Finance. In 2019, the MTA created an advisory board for large taxpayers, composed of members of the public and private sector. Strict requirements and subsequent sanctions are imposed by the 2016 Code of Ethics on MTA's employees. While Montenegro's overall initiatives for independence and transparency are satisfactory, several areas could be improved. The MTA still lacks a real operational budget, independent of annual budgeting process, as well as procedural safeguards to guarantee its newly found independence.

Access to electronic **tax filing** is widespread and open for every major type of tax. It is mandatory for income taxes and optional for others, though the use of e-filing is widespread (77% of VAT tax returns were electronically filed in 2019). However, e-filing is only open to taxpayers who purchase a digital certificate, at a cost of EUR 110. Tax-filing procedures are regularly audited by the SAI and current rules were defined after a large audit in June 2015. Other audits targeted at effectiveness and efficiency are jointly carried out by both the SAI and the Internal Audit of the Ministry of Finance.

In terms of **taxpayer services**, the MTA offers online access to information, electronic communications and in-person inquiries. The usual response time is approximatively 30 days for written requests. Consultations with various institutions as well as taxpayers' surveys are regularly conducted to monitor these services.

Sub-dimension 4.3: International tax co-operation

Montenegro has become increasingly involved in the **international tax environment**. It became a member of the BEPS Inclusive Framework in December 2019 and is in the process of implementing BEPS minimum standards. It has also made improvements in the field of exchange of information. The OECD Global Forum has started a peer review assessment of Montenegro's readiness to exchange information on request

(EOIR). Montenegro could begin the automatic exchange of information (AEOI) in 2023. The economy also signed the Convention on Mutual Administrative Assistance in Tax Matters in October 2019 and is in the process of updating its transfer pricing rules via a reform of the Law on Corporate Profit Tax (discussed above).

Montenegro is engaged in several initiatives for **digital taxation**. While it has not yet implemented the international VAT/GST guidelines, the place of taxation for cross-border digital services is where the service is supplied, rather than where the service provider is established. This approach to cross-border VAT on electronic services resembles the “destination principle”, the cornerstone of international VAT/GST guidelines. Furthermore, revenues accruing from digital platforms are included in the PIT base and taxed at a 9% rate. Montenegro has not participated in the discussion on Pillar 1 and 2 of the OECD/Tax Challenges Arising from Digitalisation project as part of the BEPS framework. The digital taxation discussions might have a great impact on how Montenegro would want to reform its CIT. Pillar 2 of the project proposes introducing a global minimum tax on corporate profits. Montenegro’s low CIT rate will very likely be below the minimum rate that will be set. If consensus can be found amongst Inclusive Framework members, Montenegro will face the choice of either raising its rate to the minimum rate or foregoing tax revenues to foreign tax jurisdictions. The GLOBE proposal, an OECD project to globally introduce income inclusion and undertaxed payment rules as well as tax treaty provisions, might also restrict Montenegro’s use of cost-based and profit-based tax incentives. The introduction of a minimum CIT might bring to an end the fierce tax competition and race to the bottom that the WB6 region is engaged in. It would allow Montenegro to rebalance its tax mix away from high taxes on labour income towards more taxes on capital income. Montenegro should follow the ongoing international tax discussions and prepare itself for swift action if an international consensus is reached.

Regional co-operation in tax matters is a key challenge for the WB6 economies; it would allow them to benefit from more effective tax enforcement and lower overall tax avoidance and evasion. Montenegro does collaborate with other WB6 economies, but it could be strengthened further. The economy joined the Centre of Excellence in Finance in 2015, an organisation which supports capacity development for finance officials in South East Europe. In 2016, six Western Balkan economies planned to sign a memorandum on the establishment of a regional organisation – the so-called B-6 – to strengthen co-operation on administrative tax matters. However, due to legal obstacles in some economies, this memorandum has not yet been signed. Montenegro has started exchanging information within the WB region following a multi-lateral administrative agreement that the MTA has signed with Bosnia and Herzegovina, Bulgaria, North Macedonia and Serbia.

The way forward for tax policy

To enhance the tax policy framework and achieve their objectives, policy makers may wish to:

- **Continue to support the economy in light of COVID-19.** Montenegro has implemented a comprehensive set of measures to mitigate the effects of COVID-19 on its economy and citizens. The economy may wish to continue its efforts, while focusing on measures that could spark an economic recovery.
- **Diversify the tax mix by strengthening the role of the CIT and PIT, recurrent taxes on immovable property and environmentally related taxes.** Montenegro’s tax revenues rely heavily on SSCs and taxes on goods and services. There is scope to diversify the tax mix in a way that stimulates growth and makes the tax system more progressive.
- **Avoid the use of profit-based tax incentives given the low CIT rate.** The tax revenue foregone as a result of tax incentives needs to be measured as part of the annual tax expenditure report. This information would be the starting point of a cost-benefit analysis of all tax incentives.
- **Continue to implement anti-BEPS measures to protect the domestic tax base and to avoid international tax avoidance and evasion.** The economy is currently amending its CIT law to

implement anti-BEPS measures in the area of transfer pricing and thin capitalisation rules; these reforms could be extended to other CIT areas.

- **Develop an action plan in case members of the OECD/G20 Inclusive Framework on BEPS reach a consensus on Pillar's 2 global minimum tax.** A global minimum tax will very likely be higher than the current statutory CIT rate and would imply that foreign jurisdictions would tax profits sourced in Montenegro. This will create an incentive for Montenegro and other WB economies to increase their CIT rates and to stop their current race to the bottom in tax competition.
- **Carry out a cost-benefit analysis on the merits of a worldwide taxation system for resident corporations.** For small open economies such as Montenegro, worldwide taxation may entail high administrative costs without raising significant revenues.
- **Replace part of the high employee SSCs with a progressive PIT rate schedule.** This reform would increase the labour market participation of low-income and low-skilled workers in the formal labour market and make tax more progressive. The reform would have to be accompanied by other measures to prevent tax-induced incentives for self-employed entrepreneurs to incorporate their business. This could include an increase in the taxes on personal capital income.
- **Explore the scope to broaden the VAT base by reducing the lists of goods and services taxed at the reduced VAT rate.** Reduced VAT rates are an ineffective way to support people on low incomes, as those with higher incomes benefit more from the reduced rate. Targeted cash support, reduced employee SSC rates and progressive PIT rates are a better tool to support low-income households and make the tax system more progressive.
- **Prepare an annual tax expenditure report as part of the annual budget cycle and make it publicly available.** It should include a list of all tax expenditures, revenue foregone on an item-by-item basis and the assessment methodology used.
- **Expand the use of micro-simulation models to analyse the impact of the tax system and simulate impacts of tax reforms. Improve the methods applied to forecast tax revenues.** Montenegro's new PIT micro-simulation model can be used to assess other reforms, including the introduction of a progressive PIT rate schedule.
- **Implement strong procedural safeguards to protect the newly established independence of the tax administration.** For example, the economy could create an independent management board for the tax administration.
- **Continue to engage in international tax dialogue.** While Montenegro has strengthened its active involvement in the area of exchange of financial account information for tax information, ample scope exists to deepen the dialogue on other international tax fronts.
- **Foster regional co-operation and co-ordination on common issues for WB6 economies.** This would enable Montenegro to benefit from more effective tax enforcement and lower overall tax avoidance and evasion. Enhanced tax policy dialogue on CIT incentives could help create a more attractive investment climate across the region.

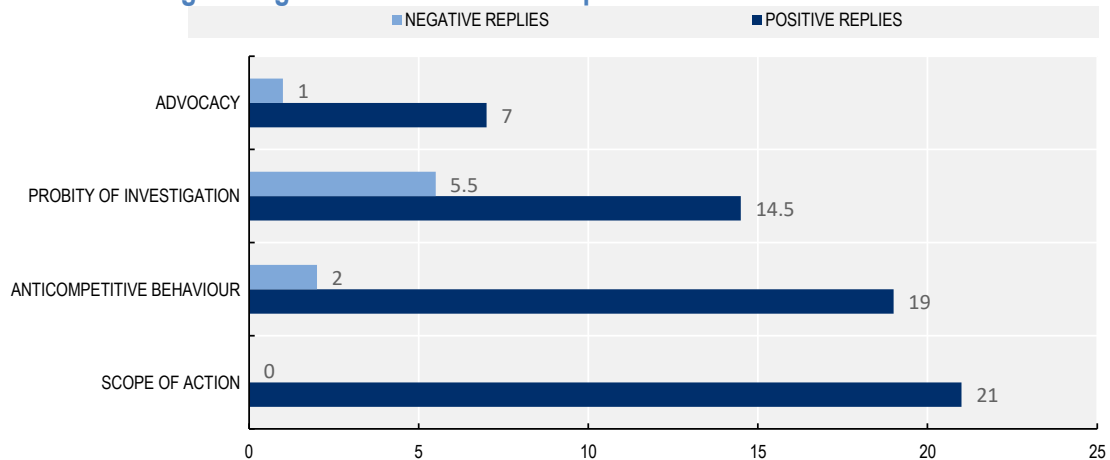
Competition policy (Dimension 5)

Introduction

Unlike the other dimensions, where indicators are allocated a score from one to five, the Competition policy dimension assesses four policy areas (scope of action, anti-competitive behaviour, probity of investigation and advocacy, plus a new area: implementation). Scoring is based on yes/no (coded as 1/0) answers to the 71 questions in the questionnaire administered by the OECD. Where a response to a question is yes (coded as 1), then we refer to this as an adopted criterion. Each of the four policy areas has a different number of possible criteria that can be stated as having been adopted. Each policy area is assessed through data collected from the questionnaire indicators and by measuring the number of criteria adopted. The new fifth policy area (implementation) is not scored, but is a quantitative analysis of how many competition decisions have been adopted by the competition authorities. The anti-competitive behaviour and implementation policy areas are discussed together below.

The dark blue bars in Figure 23.10 represent the number of positive answers (alignment with good practices), while the pale blue represent the negative replies.

Figure 23.10. Montenegro's legal and institutional competition framework



Source: Based on the OECD assessment.

State of play and key developments

Sub-dimension 5.1: Scope of action

The Law on Protection of Competition of Montenegro does not require substantial amendment, since it is largely aligned with the EU rules on restrictive agreements (Art. 101 Treaty on the Functioning of the European Union, TFEU) and on abuses of dominant position (Art. 102 TFEU). The law also provides for *ex ante* control of mergers above certain turnover thresholds, in line with the principles of the EU Merger Regulation.

The Agency for Protection of Competition (APC) is the body responsible for implementing the Law on the Protection of Competition in Montenegro. It is an operationally independent authority and its powers are broadly comparable to those of the European Commission in the area of competition. In 2018, state aid control was included within the remit of the APC.

Nevertheless, despite the addition of a sphere of competence, the financial and human resources of the APC have not been substantially increased and are still insufficient to ensure it can function optimally. In fact, competition enforcement and advocacy still need to be developed and expanded.

In terms of competencies, the APC has the power to adopt enforcement decisions against anti-competitive practices and to review mergers, as well as to advocate competition principles to national policy makers. In 2018, the Law on State Aid Control transferred the competence on state aid affairs from the Commission for the Control of State Aid to the APC.

Following the adoption of the Law on State Aid Control, the Council of the APC includes the President, the Member of the Council for Competition and the Member of the Council for State Aid. They are appointed by the Government of Montenegro following proposals by the Ministry of Economic Development (for the President and the Member for Competition) and by the Ministry of Finance (for the Member for State Aid). The APC is managed by a director, in turn assisted by a deputy director, also appointed by the Government of Montenegro. The duration of all these mandates is four years.

APC's staff numbers have been steadily increasing, from 13 employees in 2015 to 29 in 2019. Nevertheless, only nine employees focus on competition. This figure is low compared with other OECD and non-OECD countries, such as those listed in the OECD CompStats database.⁵⁸ For example, in 2019 the average total staff of the 15 competition authorities in small economies (with a population lower than 7.5 million) was 114, of whom 43 were working on competition.

The annual budget of the APC has grown from EUR 305 000 in 2015 to EUR 820 000 in 2020. However, the most significant increase (from EUR 435 000 to 733 000) occurred between 2017 and 2018, following the assignment to the APC of the new competence on state aid control.

The Montenegrin Law on the Protection of Competition ensures competitive neutrality, insofar as it also applies to state and local administration bodies that engage in an economic activity directly or indirectly and participate in the trade of goods or services.

The APC has appropriate powers to investigate and powers to sanction possible anti-trust infringements, i.e. restrictive horizontal and vertical agreements and exclusionary or exploitative practices by dominant firms. It can impose cease and desist orders, as well as behavioural and structural remedies, on firms that have committed anti-trust infringements. It can also adopt interim measures if the alleged competition breach poses a risk of irreparable damages. In addition, it can accept commitments offered by the parties to remove the competition concerns and close the investigation.

The APC can compel investigated firms and third parties to provide relevant information and can perform unannounced inspections on parties' premises. The assessment of alleged anti-competitive conduct follows thorough scrutiny of the evidence, which can include an economic analysis of the competitive effects of vertical agreements or possible exclusionary conduct.

In terms of power to sanction, the agency has no power to impose fines directly: the imposition of fines is the competence of the Misdemeanour Courts, which can conduct the relevant procedure and determine the amount of the fines. The amount can range from 1% to 10% of the aggregate annual turnover of the undertaking in the financial year preceding the year in which the misdemeanour was committed.

The Law on Competition also contemplates a leniency programme, in that it ensures total or partial immunity from sanctions to firms involved in unlawful agreements that report to the agency the existence of the agreement and submit evidence that allows the APC to adopt an infringement decision. In particular, with respect to these firms the APC cannot submit a request for the initiation of misdemeanour proceedings or must withdraw an already submitted request or propose a milder punishment to the court. Such provisions do not apply to firms that initiated or organised the cartel. The agency can propose to the party to the agreement that they conclude it on admission of guilt.

The Law on Protection of Competition provides for *ex ante* control of mergers, following the principles of the EU Merger Regulation. The APC can compel merging firms and third parties to provide relevant information and can perform unannounced inspections of parties' premises (one was carried out in 2017).

The assessment of notified mergers must follow a thorough scrutiny of the evidence, which includes an economic analysis of the restrictive effects and of possible efficiencies stemming from the concentration.

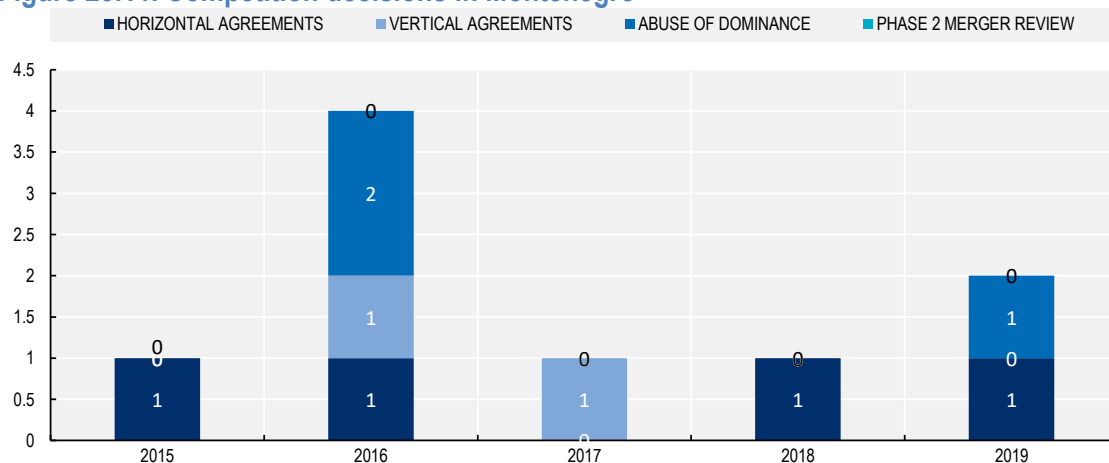
In case of significant restriction, distortion or prevention of competition in the relevant markets, the APC can prohibit the transaction. The merging parties can submit their observations and propose measures to prevent the alleged competition distortion. If the agency establishes that the proposed measures are adequate, it adopts the decision approving concentration and orders the implementation of the measures.

Regarding private enforcement, individuals, firms and consumers – either collectively or through consumer associations – can bring a legal action to seek damages from firms that have committed antitrust infringements.

Sub-dimensions 5.2 and 5.5: Anti-competitive behaviour and implementation

The anti-competitive behaviour and implementation policy areas together gauge the use of powers and resources in terms of decisions adopted and fines imposed for horizontal agreements, vertical agreements and exclusionary conduct. They also explore the actual activity of the competition authority on reviewing mergers. Despite an appreciable legal and institutional competition framework, the actual enforcement of competition rules is still limited (Figure 23.11).

Figure 23.11. Competition decisions in Montenegro



Source: Data provided by the authorities.

Between 2015 and 2019, the APC took only four cartel decisions (one every year except 2017), two decisions on agreements with a vertical element (in 2016 and 2017) and three decisions on abuse of dominance (two in 2016 and one in 2019). In 2019, the APC opened two vertical investigations concerning resale price maintenance (RPM) violations, a hard-core restriction in Montenegrin competition law. The agency has never received a leniency application.

Importantly, in 2019 the APC carried out unannounced inspections in the two anti-trust proceedings on RPM opened in that year. The agency had already performed one dawn raid in 2017, but in a merger case. The total amount of fines imposed in 2019 by the Misdemeanour Courts was particularly low (less than EUR 3 000). Between 2015 and 2019, the annual fines never reached EUR 100 000. Furthermore, the highest fines were not imposed in cartel cases, but for abuse of dominance.

Again, these data can be appreciated by comparing them to the 15 competition authorities in smaller jurisdictions that participated in the CompStats database. Focusing on cartel enforcement, it is telling that in those jurisdictions the average annual number of cartel cases between 2015 and 2019 was 3.2, while the average annual fines resulting from cartel investigations were EUR 2.7 million.

Cartels are the most clear-cut and undisputedly harmful competition infringements. They affect every economy. The limited number of current cases seems insufficient to deliver a strong message that firms that engage in collusion risk being severely punished. Furthermore, fines are very low. Unlike in most jurisdictions, they cannot be imposed by the APC but by a decision of the Misdemeanour Courts. Consistent with the changes introduced in other jurisdictions in the WB region, the APC could be empowered to impose fines directly. Indeed, fines act as a deterrent because the possibility of a fine enters into the decision-making process of managers and undertakings in their consideration of whether or not to violate the law. If the amount of fines sufficiently exceeds illicit gains, offences can be deterred even when the probability of incurring a fine is low. Concern about fines is also a key driver of leniency applications, thus fostering the effectiveness of the leniency programme – which has been unproductive in Montenegro so far – and further boosting detection.

In 2019, the APC rendered 65 merger decisions, which represents a sharp increase over 53 decisions in 2018 and 35 decisions in 2017. All 2019 merger decisions were unconditionally cleared in Phase I (i.e., without the need for an in-depth investigation). Many of the notified transactions concerned extraterritorial transactions, with little or no impact on the Montenegrin economy. This is due to the low merger filing thresholds applied in Montenegro, which often catch transactions with modest local nexus, i.e. hardly capable of distorting competition within the national territory of Montenegro.

For comparison, from 2015-19, the 15 competition authorities in smaller jurisdictions that participate in the cited OECD CompStats database carried out 4.2 in-depth merger investigations per year on average, out of 36 notifications.

Sub-dimension 5.3 Probity of investigation

The APC was established as a functionally independent entity in February 2013. Previously, competition law and policy fell within the remit of the Ministry of Economic Development. The agency must submit an annual report on its activity to the Montenegro Government and Parliament for approval.

In terms of procedural fairness, the decisions to open formal proceedings and the final decision finding competition infringements, as well as decisions regarding mergers, are published. However, only the decision part is made public, not the reasoning.

The APC's decisions can be appealed before the Administrative Court and the Supreme Court. Appeals regarding fines can be submitted to the Misdemeanour Court and Higher Misdemeanour Court.

During the course of the proceedings, the parties under investigation for an anti-trust infringement may consult with the APC with regard to significant legal, factual or procedural issues and have the right to be heard.

Prior to the adoption of a final anti-trust decision, the APC must inform the party of the relevant facts, evidence and other elements on which the decision is based, and enable the party to submit defences. Likewise, if the APC intends to prohibit a merger transaction it must inform the merging parties about the evidence and conclusions on which the decision would be based and enable them to submit their remarks and possible remedies.

The APC has issued explanatory notices on the procedure for submitting requests for confidentiality and for submitting information on alleged violations of competition law. These are available on the APC website. However, it has not issued guidelines for the assessment of horizontal and vertical agreements nor for abuses of dominance.

Sub-dimension 5.4: Advocacy

The APC can formulate opinions on national or local laws or regulations that affect, or might affect, competition. The agency has issued a limited number of opinions over the last five years. The main

interventions concerned the Law on Public Procurement (in 2011), the Law on Free Access to Information (in 2016) and the Draft Law on Audio-visual Services (in 2019). In the latter, the APC clarified to the Agency for Electronic Media and Postal Services the differences between the criteria provided in the draft law for defining markets and identifying operators with significant market power and those typically used in competition enforcement.

All opinions on draft laws and regulations have been delivered on the agency's initiative, with the exception of the request submitted by the Agency for Electronic Media and Postal Services. APC's recommendations on public procurement and on free access to information have led to pro-competitive changes.

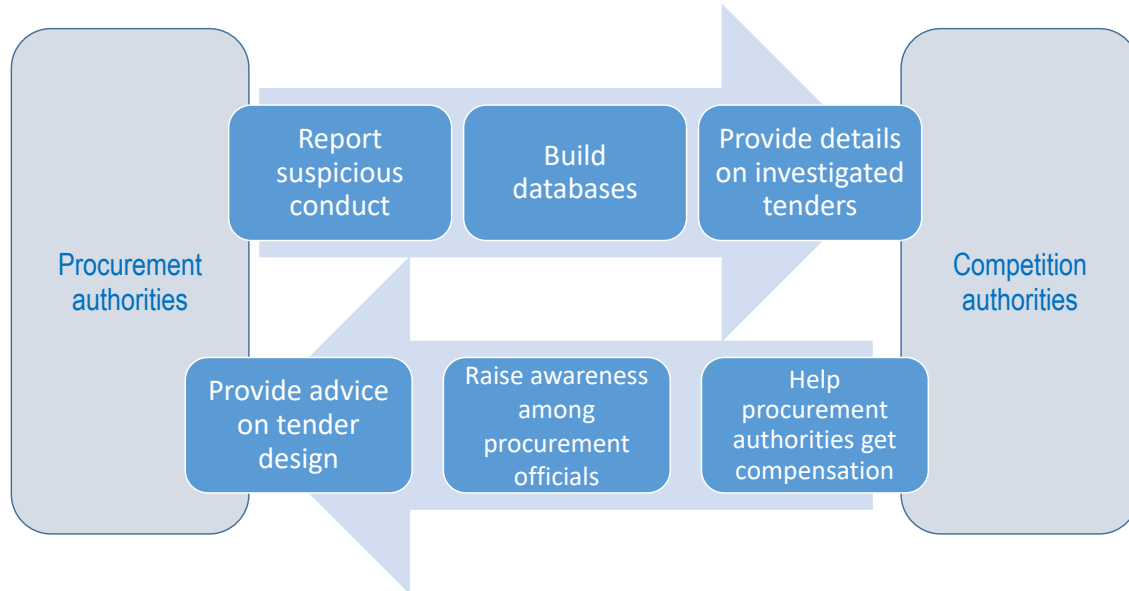
The APC has not conducted any market studies. These are a key tool to gain an in-depth understanding of restrictions to competition in crucial sectors.

Finally, over the last five years the APC has performed some activities aimed at developing a competition culture, including eight seminars for members of the Chamber of Commerce, four seminars for the judiciary and two seminars for the media and general public.

The way forward for competition policy

- **Expand APC's enforcement capacity and increase its enforcement efforts** with a view to increasing the number of decisions on cartels and abuses of dominant position, as well as the fines. The two recent on-site inspections seem to indicate the APC's determination to step up competition enforcement, but the APC needs to make full use of its powers and promote the use of its leniency policy to uncover cartels.
- **Provide the APC with adequate financial and human resources.** Despite an increase over the last few years, a more substantive growth in the budget is needed to extend the APC's activity on competition. More financial resources would enable the agency to recruit additional competition officials with appropriate skills and thus develop the APC's potential for competition enforcement and advocacy (see Box 23.9 for an example from Italy).
- **Give priority to boosting cartel enforcement and imposing high fines. To this end, the APC could be empowered to impose fines directly.** The APC should also expand its detection skills, for example by focusing on bid rigging (see next point on public procurement).
- **Pay specific attention to public procurement, particularly during the Covid-19 crisis.** The APC should explore ways to enhance cartel detection and prevent bid rigging through better tender design by procurement officials. Public procurement is a key sphere of action both for cartel enforcement and for competition advocacy. Bid rigging results in significant harm to public budget and taxpayers, dampening innovation and causing inefficiencies. Figure 23.12 shows how co-operation between competition and procurement authorities can help detect and avoid bid rigging. The APC signed a co-operation agreement with the Public Procurement Administration in 2015. The Recommendation of the OECD Council on Fighting Bid Rigging in Public Procurement (OECD, 2012^[83]) calls for governments to assess their public procurement laws and practices at all levels of government in order to promote more effective procurement and reduce the risk of bid rigging in public tenders. The Guidelines on Fighting Bid Rigging in Public Procurement (OECD, 2009^[84]), which form a part of the recommendation, are designed to reduce the risks of bid rigging through careful design of the procurement process and to detect bid-rigging conspiracies during the procurement process. The OECD can also provide assistance through a project aimed at assessing the main rules governing procurement of public works as well as procurement practices of major public buyers. It provides recommendations to design competitive procurement and fight bid rigging in accordance with international good practice. It can also offer training for both competition and public procurement officials, based on the Guidelines on Fighting Bid Rigging in Public Procurement.

Figure 23.12. Example of co-operation between competition and procurement authorities



Source: OECD elaboration.

- Raise the APC's voice regularly to oppose laws and regulations that restrict competition and promote competition culture.** Competition authorities can help governments to eliminate barriers to competition by identifying unnecessary restraints on market activities and developing alternative, less restrictive measures that still achieve government policy objectives. The OECD's Competition Assessment Toolkit is a practical methodology that supports competition authorities in this task. Where a detrimental impact is discovered, the toolkit helps to develop alternative ways to achieve the same objectives, with minimal harm to competition. In the past, OECD country projects have proved to be very helpful in boosting competition advocacy and competition assessment in several jurisdictions, including in Eastern Europe. On top of establishing a competition culture in national stakeholders, competition advocacy would strengthen the APC's standing and reputation when it acts against anti-competitive restrictions by private firms.
- Increase the APC's engagement in advocacy initiatives to promote competitive neutrality.** In particular, the COVID-19 crisis could further increase the relevance of SOEs, as a result of state interventions to support the economy and stimulate growth. The APC could contribute to a quick economic recovery by the country by ensuring competitive neutrality. The authority can advocate for industrial policies that focus on pro-competitive alternatives and ensure that state aid is provided in a transparent way and for a limited period.
- Perform market studies.** Market studies are used to assess how competition in a sector or industry is functioning, detect the source of any competition problems, and identify potential solutions. Competition problems that can be uncovered in market studies include regulatory barriers to competition and demand-side factors that impair market functioning. Because market studies are a versatile tool, and they allow the examination of a broader set of issues than competition enforcement, their use is growing. International organisations, notably the OECD and the International Competition Network (ICN), have developed a wide range of documents on market studies, including the OECD Market Studies Guide for Competition Authorities (OECD, 2018^[85]). The OECD Competition Division can also assist competition authorities, regulators, ministries and other policy makers with market study projects.
- Expand international co-operation and training.** With the increasing complexity of anti-trust issues and the frequent cross-border nature of competition infringements, international organisations like the OECD, the ICN and UNCTAD offer valuable opportunities for sharing

experience and policy discussions. The OECD-GVH Regional Centre for Competition in Budapest also provides an ideal forum for capacity building and sharing of good practices with colleagues from other jurisdictions, focusing on the specific challenges of Eastern European and Central Asian countries. The management and the staff of the APC are already actively involved in these co-operation initiatives and can benefit from engaging more actively.

Box 23.9. Financial independence for the Italian Competition Authority

Until 2012, the financing of the Italian Competition Authority (AGCM) was based on two main sources: annual funding from the state and fees paid by companies subject to merger notification requirements.

Legislative Decree no. 1/2012 modified the AGCM's funding system, which is now based on mandatory contributions imposed on companies incorporated in Italy whose turnover exceeds a threshold of EUR 50 million. The revenues from these contributions replace all previous forms of funding. The level of contribution, originally fixed at 0.06 per thousand, has been gradually lowered by the AGCM to 0.055 per thousand. The authority's financial statements have to be approved by 30 April of the following year, and are subject to auditing by the Court of Auditors.

This funding system can be regarded as an indirect recognition of the positive role played by AGCM in supporting a healthy and level competition field, which justifies the imposition of a small contribution on the largest businesses incorporated in Italy.

Importantly, the previous funding system entailed the risk of possible fluctuations in the amount of the annual budget, due to unpredictability in the number of notified mergers and levels of state funding. The new system shelters the AGCM from that risk, thus allowing for more stable and forward-looking recruitment planning.

Source: (OECD, 2016^[86]), Independence of competition authorities: from designs to practices, [https://one.oecd.org/document/DAF/COMP/GF\(2016\)5/en/pdf](https://one.oecd.org/document/DAF/COMP/GF(2016)5/en/pdf).

State-owned enterprises (Dimension 6)

Introduction

Montenegro's SOE landscape has the peculiarity of including a high proportion of private shareholders, in many cases resulting from stalled privatisation efforts. Since the beginning of the privatisation process, which started in 1999, more than 90% of the country's state-owned enterprises have been privatised. However, some of the country's most important enterprises still remain state-owned, including Montenegro Airlines, Montenegro Railways and several companies in the tourism and energy sectors. State ownership responsibilities for Montenegro's SOEs are exercised directly by the government, by a variety of line ministries and a number of state funds.

Montenegro's performance on the state-owned enterprises policy dimension has not changed since the 2018 Competitiveness Outlook (Figure 23.1). Nevertheless, certain improvements to the framework for business have been made recently, especially taking into account the adoption of the new Law on Business Organisations. This is one of the key measures for the closure of negotiations on Chapter 6 (Company Law) in the context of Montenegro's membership negotiations with the European Union. The new law can be expected to affect the legislative framework for SOEs, for instance by further professionalising boards and strengthening their operational autonomy. Eventually, it should positively affect the economy's score on this indicator.

Table 23.10 provides an overview of Montenegro's scores for the state-owned enterprises dimension. This dimension considers three broad sub-dimensions which are based on elements in the SOE Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines) (OECD, 2015^[87]). Montenegro achieves a relatively low score in the efficiency and governance sub-dimension, reflecting its lack of an ownership policy and insufficiently harmonised ownership practices. Montenegrin SOEs are subject to sound financial disclosure and auditing requirements, resulting in an average score for the transparency sub-dimension. Montenegro also achieves an average score for ensuring a level-playing field between state-owned and private companies, owing to the fact that SOEs mostly operate according to the general company law (the Law on Business Organisations).

Table 23.10. Montenegro's scores for state-owned enterprises

Dimension	Sub-dimensions	Score	WB6 average
State-owned enterprises dimension	Sub-dimension 6.1: Efficiency and performance through improved governance	2.3	2.2
	Sub-dimension 6.2: Transparency and accountability practices	3.0	3.0
	Sub-dimension 6.3: Ensuring a level playing field	3.0	2.8
	Sub-dimension 6.4: Reforming and privatising state-owned enterprises	n.a.	n.a.
Montenegro's overall score		2.7	2.6

Note: For comparability with the previous assessment, sub-dimension 6.4 (reforming and privatising state-owned enterprises) has not been scored but is discussed in the text below.

State of play and key developments

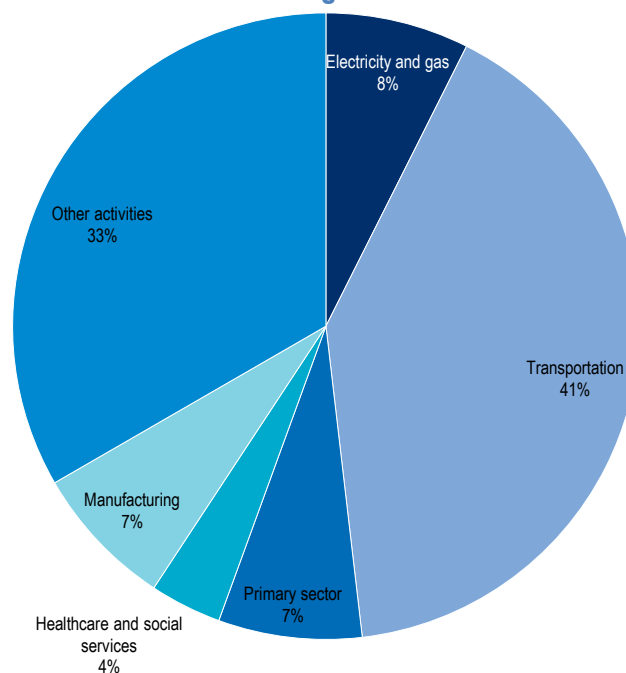
Sub-dimension 6.1: Efficiency and performance through improved governance

According to the Central Depository Agency, the Montenegro state is the majority or full owner of 32 companies (this number also includes companies undergoing bankruptcy procedures). The state also owns several SOEs that operate under the separate legal form of "public enterprise": those which provide "public" goods and are mainly established by the local municipalities. However, data on these enterprises were not available for this assessment.⁵⁹ In addition, the state holds minority shareholdings (over 10%) in

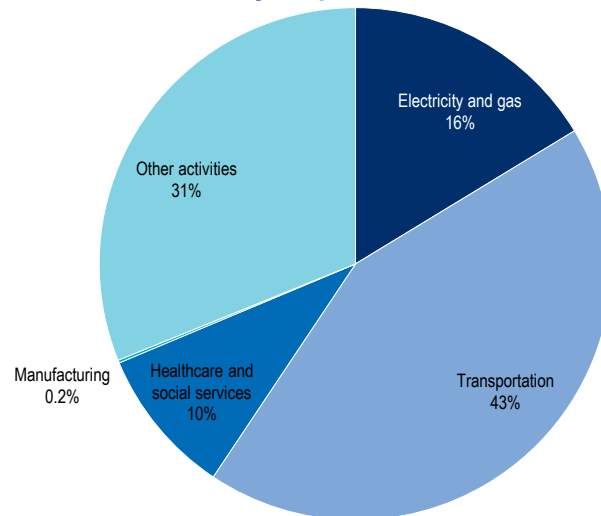
21 companies operating in a range of sectors, including sea transport, manufacturing, construction, accommodation (hotels) and retail. The large number of companies in which the state still maintains minority shares often reflects privatisation attempts that were not completed.

Montenegro's 32 SOEs are present in structurally important sectors such as electricity and gas, the postal services, railway and air transport (Figure 23.13). While these 32 state-owned companies do not include the aforementioned public-service SOEs that were excluded from reporting/data, most of these SOEs are reportedly owned by municipalities rather than the central government. Figure 23.13 shows how employment is allocated across sectoral SOEs. Montenegro's largest state-owned companies by employment are *Electroprivreda Crne Gore* (975 employees), *Pošta Crne Gore* (952), *Aerodromi Crne Gore* (894), *Željeznička Infrastruktura Crne Gore A.D.* (789), *Institut Za Fiz. Med. Reh. I Reum. Simo Mološević* (731) (Table 23.11). According to available data, state-owned companies in Montenegro employ almost 8 000 people, accounting for an estimated 3.3% of national employment.⁶⁰ This compares with an OECD average of approximately 2-3% and puts Montenegro in the lower tier of the ten largest OECD-area SOE sectors as measured by SOE's share of national employment, ranging from 2.9% in Sweden to 9.6% in Norway.⁶¹

Figure 23.13. Sectoral distribution of Montenegro's SOEs



Source: Calculations based on information provided by the authorities of Montenegro (for 27 SOEs).

Figure 23.14. Sectoral contribution of fully corporatised SOEs to SOE employment

Note: Employment figures were not provided for seven SOEs, including two operating in the primary sector. The total number of reported SOEs is based on data provided by the Central Depository Agency in the context of this assessment, whereas sectoral figures are based on reporting by the National Statistical Office, which arrived at a slightly different classification of companies as SOEs or minority-owned companies (27 SOEs and 24 state minority-owned companies, perhaps reflecting a different classification of enterprises undergoing bankruptcy proceedings). Source: Calculations based on information provided by the authorities of Montenegro.

Table 23.11. The five largest employers in Montenegro's SOE sector, 2019

Rank	Company name	Percentage of state ownership	Sector	Number of employees
1	Elektroprivreda Crne Gore A.D Nikšić (Eng. Montenegrin Electric Enterprise AD Niksic, EPCG)	88.7%	Production of electricity	975
2	Pošta Crne Gore (Eng. Montenegro Post)	100%	Postal activities	952
3	Aerodromi Crne Gore (Eng. Airports of Montenegro)	100%	Service activities in air transport	894
4	Željeznička Infrastruktura Crne Gore A.D. (Eng. Railway Infrastructure of Montenegro, ZICG)	76.6%	Passenger rail transport, interurban	789
5	Institut za fizikalnu medicinu, rehabilitaciju i reumatologiju Simo Milošević (Eng. Institute for Physical Medicine, Rehabilitation and Rheumatology "Dr Simo Milosevic" JSC Igalo)	56%	Hospital activities	731

Source: Based on data provided by the Montenegro authorities.

It is difficult to draw a general conclusion about the efficiency and performance of Montenegro's SOEs. The limited data on their performance points to inefficiencies and low overall returns to the state's investments in these companies. Five majority-owned companies are currently undergoing bankruptcy procedures. As mentioned earlier, the state also holds minority shares in 21 enterprises. A 2020 study by the European Bank on Reconstruction and Development (EBRD) found that SOEs in Montenegro had posted overall negative returns on equity from 2014 to 2016, including inefficiencies and/or uncompensated non-commercial objectives (EBRD, 2020^[88]). SOEs had particularly high employment costs relative to their revenues compared to other surveyed economies (40%, compared with 12% in Latvia). Also, according to stakeholders interviewed for this assessment, 9 out of 21 SOEs for which data are available on the Tax Administration portal operated with a loss in 2018, totalling over EUR 8 million.

The main legal document that regulates business organisations in Montenegro is the Law on Business Organisations adopted in June 2020. The law is applicable to most enterprises – state and private companies – that operate in Montenegro, including SOEs incorporated as either joint-stock or limited-liability companies. The main public sector bodies responsible for exercising state ownership rights in the case of joint-stock and limited liability companies are the state (the government and various line ministries)

and several state funds (namely the Fund for Pension and Disability Insurance, the Employment Office of Montenegro, the Compensation Fund, the Investment Development Fund of Montenegro and the Health Fund). Additionally, the Ministry of Economic Development plays an advisory role on behalf of the government for certain decisions that explicitly require government consent in fully-owned SOEs.⁶² The fact that the ownership of many SOEs is exercised jointly by state funds introduces some elements of a centralised ownership model, wherein ownership rights are not exercised predominantly by regulatory authorities (e.g. line ministries).

Regarding the **clarification of ownership policy and rationales**, Montenegro has not developed an overarching ownership policy that states why the government owns companies and how it expects them to create value. The authorities do take steps to establish clear objectives for individual SOEs, for example within shareholder agreements or other contractual arrangements between the state and other shareholders. A range of line ministries are also responsible for monitoring individual companies, setting stimulative measures and defining support programmes. The role and power of these various government bodies are primarily related to defining goals and priorities at the sectoral level. Although individual SOEs may have performance targets, the government as a whole does not have an overview of performance objectives or how well the SOE portfolio is performing overall.

In most cases, ownership rationales can be determined through some policies and strategic decisions. They have been developed by the government based on priority sectors that possess high potential for growth with high value added and comparative advantages. As part of this assessment, the authorities cited the following as the key rationales for state ownership: 1) supporting national economic and strategic interest; and 2) supporting specific goods or services (after ensuring the market cannot supply them).

Montenegro has not established a central co-ordinating or oversight unit to **professionalise state ownership** practices and ensure a whole-of-government approach. In many cases, the exercise of ownership rights falls to the various relevant sectoral government institutions as well as the jurisdiction of the certain institutions. In principle, different line ministries, depending on the topic and their concrete field of act, are in charge of monitoring, setting stimulative measures and defining some support programmes.

Regarding **SOE board nomination procedures**, there is currently no common or transparent approach across Montenegrin SOEs. As most SOE board members are civil servants, SOE boards may not have an adequate mix of competencies, including private-sector expertise. The board nominations are not clearly framed by the Law on Business Organisations and not subject to well-defined criteria developed across government. In practice, board members are generally elected by the relevant line ministries or state funds and are in some cases vetted by the government. In June 2020, the government adopted the new Law on Business Organisations that improves clarity of the procedure for board nomination in companies. The amendments to the company law can be expected to improve SOE governance, notably by requiring independent directors on company boards, including some SOEs. Introducing independent directors on boards can help reduce conflicts of interest (because the independent members have no business relationship with management) and as a result help ensure that decisions are taken in the interest of the company and its shareholders. Special provisions in the Law on Prevention of Corruption ban government ministers and vice-ministers from serving on SOE boards (vice-ministers are banned when the ministry where he/she works is supervising the respective SOE). Public officials may not be a president or member of the management body or supervisory board, executive director, or member of management of public companies, public institutions, or other legal persons.⁶³ Nevertheless, there is still limited evidence that the whole nomination process relies on transparent and merit-based appointment criteria, leading to a high risk of political influence in appointing board positions. The risk is that corporate decisions could be politically motivated, rather than in the interest of corporate performance. There is some evidence that political affiliation has been known to play a role in job placement in Montenegrin SOEs (US Department of State, 2020^[89]). Likewise, according to stakeholders interviewed for this assessment, SOE boards of directors and governing bodies are mostly made up of politicians.

In addition to ensuring basic legal requirements concerning board members' fiduciary duties – i.e. to act in good faith in the interest of the companies that they serve – Montenegro has recently taken steps to **promote independent and professional boards** in companies, including SOEs. The main step taken is to require that the boards of companies include a minimum one-third proportion of independent directors. Recent amendments also make boards of directors liable for any damages they cause to the company(ies) they serve, other than implementing decisions made by the general meeting of shareholders. According to the Law on Business Organisations, the board of directors should be a collective body whose activities are directed by its chairman. The number of board members is established by the charter of each company, but the typical size of an SOE board is five members. The legal framework states that the board of directors should also have an odd number of members, and not less than three. The law establishes that board members must act in good faith for the benefit of the company as a whole, taking into account government strategic priorities. Recent amendments to the Law on Business Organisations adopted by Parliament introduce requirements for company boards to include independent directors. In practice, the absence of independent directors can limit the extent to which enterprise management decisions are subject to external professional scrutiny. The amendments establish that 1) at least one-third of all company boards must be independent directors, and the boards of public joint stock companies must comprise at least two-fifths independent directors; and 2) a person cannot be considered independent if he/she has a kinship relationship with another member of the company's managing body(ies) or a significant shareholder or received fees from the company or was a significant shareholder of the company or related companies in the preceding two years. These amendments can be expected to improve the independence of state-owned companies' boards.

In terms of gender balance on corporate boards, the authorities report that the government follows national and international standards as well as guidance regarding gender diversity on SOE boards.

Sub-dimension 6.2: Transparency and accountability practices

According to the Law on Accounting, **financial and non-financial reports** are obligatory for all SOEs. SOEs which are not listed on the stock exchange are obliged to prepare and submit financial reports to the Tax Office of Montenegro. The reports must include a brief description of the business activities and organisational structure of the legal entity, analysis of its financial position and performance, information on the members of the governing and supervisory bodies, information on environmental investments and planned future development, and data on R&D activities, among others. However, there is an overarching concern over SOEs' weak compliance with reporting requirements. According to monitoring by the Securities Commission, only an estimated half of state-owned joint-stock companies respect these disclosure requirements.⁶⁴ Weaknesses in SOE compliance with reporting requirements are quite common across the region, and the fact that half of SOEs do comply with applicable disclosure requirements can be considered an achievement.

Concerning disclosure by the state, information on the aggregate performance of SOEs is not compiled into a single report. The legislative framework also does not establish comprehensive requirements for the disclosure of companies' non-financial information, and, in practice, these disclosures are generally limited. In addition, monitoring of the Capital Market Authority (CMA) does not include elements on environmental and social performance. According to the Law on Accounting, SOEs should compile financial statements following internationally recognised standards such as the International Accountant Standards (IAS) or the International Reporting Standards (IFRS). In line with the existing legislative framework for business organisations, there are no differences in accounting requirements for SOEs and private companies. According to stakeholders interviewed for this assessment, when it comes to key reporting to the Tax Administration, SOEs report fairly regularly, and transparently. It may sometimes happen that, within the report itself, certain SOEs do not provide complete information (e.g. the average number of employees, the average net salary) which means that the net result is not clearly shown. However, the fact is that they report regularly, on an annual basis, to the Tax Administration.

Montenegro has established sound basic legislation to ensure quality **auditing practices** among SOEs, but a fully informed assessment of this would require a qualitative review of how this legislation is implemented in practice. According to the Law on Audit, SOEs are subject to the same external audit requirements of their financial statements as stock-exchange listed companies. The audit should be performed by an independent auditor elected by the general meeting of shareholders for a term specified in the SOE charter, but not exceeding one year. In general, most SOEs incorporated as joint-stock companies follow this practice. In addition, the State Audit Institution is responsible for conducting audit practices of legal entities owned by state or state bodies. Although there are no rules on the frequency of SOE audits by this institution, many SOEs have been subject to an audit since the State Audit Institution was established.

Minority shareholders' rights are of paramount importance in the context of SOE governance in Montenegro since the majority of SOEs include private shareholders. Some basic elements of a sound legal framework are in place to **protect minority shareholders'** rights. However, external assessments point out that there is room to improve these legal protections in Montenegro. Notably, the World Bank's Doing Business report underlines persistent shortcomings in minority shareholder rights and accords Montenegro an average score of only 3.0 out of 6.0 for the extent of shareholder rights (World Bank, 2019^[22]). The authorities expect to improve their score under the new Law on Business Organisations.

In essence, minority shareholders' rights are regulated by the Law on Business Organisations, which has been harmonised with EU Directives in this field. Generally, minority shareholders' rights are defined based on shares and for the same type of shares there are no differences in shareholders rights. Shareholders whose shares represent at least 5% of the share capital are entitled to convene a general shareholders' meeting, to add items to the agenda and to nominate board members. In practice, however, there have been "reported" instances of minority shareholders not being consulted. There is also some evidence suggesting that often minority shareholders are not aware of their rights.

The rights of shareholders have been regulated under the new law in more detailed terms, such as the right to hire experts, to ask questions relating to materials and proposals of decisions to be considered at the General Meeting, to expand the agenda, to nominate candidates for the members of the board of directors and supervisory board, and to nominate candidates for the company's auditor. Nevertheless, progress in this area will depend on effective implementation.

Sub-dimension 6.3: Ensuring a level playing field

The vast majority of SOEs in Montenegro are incorporated according to company law (the Law on Business Organisations). Thus, the foundational elements of SOEs' **legal and regulatory treatment** are broadly in line with those of private competitors. According to the Law on Business Organisations, there are no differences in the legal and regulatory framework for privately owned and state-owned enterprises that carry out economic activities. The authorities assert that SOEs are subject to the same regulatory treatment regardless of shares in ownership structure and commercial orientation. SOEs – incorporated as joint-stock or limited liability companies, including municipal SOEs – are not formally exempt from the application of general laws, tax codes and regulations (including any special legal privileges neither benefit from competition and environmental/zoning regulations). In addition, the legislative framework does not distinguish between SOEs and private companies in implementing insolvency and bankruptcy procedures. Companies in which bankruptcy procedures are initiated are restructured in accordance with the Law on Insolvency.⁶⁵ The government is currently preparing amendments to the Law on Insolvency that aim to improve the rationality and efficiency of bankruptcy procedures. The fact that most commercially oriented SOEs are subject to the same legislative framework as private companies provides a sound foundation for ensuring a level playing field.

Concerning **access to finance**, the government can provide state guarantees for SOEs and other regulated companies which are regulated mainly by government support programmes and the Law on

State Aid Control. Each decision concerning financial guarantees is discussed, defined, and made by the government on a case-by-case basis. Although this might give SOEs a more favourable position, the authorities note that the government can give guarantees to private companies based on the same criteria. According to external assessment, although Montenegro has EU-based state-aid regulations in the form of guarantees, there is some evidence of gaps in implementation (World Bank, 2019^[43]). For instance, the recent government decision to support the national carrier Montenegro Airlines from bankruptcy or closure has been widely criticised (BalkanInsight, 2019^[90]).⁶⁶ Even though Montenegro is subject to state-aid rules to ensure fair competition, this recent example of support to their national airline highlights complexities in implementing the rules.

As a consequence of COVID-19, many state-owned enterprises have accumulated additional losses. For instance, Montenegro Airlines has posted losses of several million euros since halting its operations in mid-March 2020. The government has adopted a series of business support measures in the context of the COVID-19 crisis, issuing three packages worth over EUR 1.5 billion (more than 30% of GDP) to maintain the liquidity of companies, save jobs and support vulnerable groups.

Sub-dimension 6.4: Reforming and privatising state-owned enterprises

A significant proportion of SOEs' capital began to be privatised from the 1990s onwards. In some cases this occurred through full privatisation of the firms, while in others it involved partial privatisation, where the state maintained majority or minority shares. Many of the remaining enterprises in which the state maintains majority or full ownership are of strategic importance to the Montenegrin economy and operate in such areas as energy, transport and tourism. Table 23.12 outlines the number of SOEs privatised between 2010 and 2014.

Privatisations in Montenegro are conducted in accordance with a clearly defined legislative framework, based on the Law on Privatisation of Economy, the Law on Ownership and Management Transformation, Law on Foreign Investments, and other by-laws and regulations. An annual privatisation plan is adopted by the government in accordance with the Law on Privatisation of Economy and contains basic data on companies that are subject to privatisation that year, as well as the means and methods of the privatisation.⁶⁷ In recent years, the privatisation plans have mainly envisaged the sale of the remaining state capital in some of the national enterprises. The process is managed, controlled and implemented by the Privatisation and Capital Projects Council. The authorities report that the main objectives of privatisation are to 1) increase companies' competitiveness and efficiency; 2) encourage foreign investment and entrepreneurship in all areas; and 3) increase employment and improve standards of living.

Table 23.13 presents privatisation revenues and the main types of procedure in Montenegro for the period 2010-2019. The most common methods of privatisation in these years were 1) sale of shares and property through a public tender; 2) sale of shares on the stock exchange; and 3) sale of shares and property through a public auction. Although most Montenegrin SOEs have been sold, the state has still majority of ownership in 32 companies. The fact that some state-owned companies were continuously demanding help from the state has urged the authorities to accelerate their privatisation (IMF, 2018^[91]). In 2019, for instance, negotiations to sell the health institute in Igalo were initiated but ultimately cancelled and restructuring of the hotel group *Budvanska Rivijera* has been completed. The calls for privatisation have also been published for another two companies from the 2019 privatisation plan. Six state-owned companies were scheduled for privatisation in 2020 through stock-exchange sales.

Table 23.12. Montenegrin SOEs privatised between 2010 and 2014

Year	Name of the company	Percentage of privatised shares	Sector
2010	Marina Bar AD Bar	54%	Port traffic
	Lovcen osiguranje AD – Podgorica	41%	Insurance
2011	0	0	
2012	Mijekara Zora Berane	99%	Milk production
2013	Kontejnarski terminal I generalni tereti Bar	62%	Maritime transport
2014	Gornji Ibar – sale of property	..	Wood industry
	Montenegro defence industry d.o.o Podgorica	100%	Defence industry
	Polix AD – Berane	51%	Chemical industry
	Hotel Park Bijela – sale of state property	..	Hotel

Source: Data provided by the Montenegro authorities.

Table 23.13. Privatisation revenues (EUR) in Montenegro (2010-2019)

Type of procedure	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Tender	8.2 million	0,00	250 thousand	8.1 million	0,00	3.5 million	0,00	0,00	0,00	0,00
Stock	0,00	0,00	0,00	1260 thousand	0,00	0,00	52 thousand	20 thousand	0,00	0,00
Auction	3.9 million	0,00	4 million	300 thousand	0.5 million	0,00	0,00	0,00	0,00	200 thousand
Total	12.1 million	0,00	4.2 million	8.4 million	0.5 million	3.5 million	52 thousand	20 thousand	0,00	200 thousand

Number of SOEs privatised (by tender)	
2010	2
2011	0
2012	1
2013	1
2014	4

Source: Data provided by the Montenegro authorities.

The way forward for state-owned enterprises

SOEs operate at the nexus of the public and private sector; as such, their operations are affected by both the quality of public governance and the prevailing corporate and boardroom culture. Choosing the appropriate sequencing of reforms is just as important as their content, and depends in large part on the national political climate and current reform priorities. The OECD Guidelines on Corporate Governance of State-Owned Enterprises provide signposting for reforms that the authorities can use to inform their policy efforts in this domain. Based on the state of play of SOE policy development in Montenegro, the following priority reform areas – which are in line with the OECD SOE Guidelines – could offer a basis for discussions with the authorities. Because the vast majority of Montenegro's SOEs have non-state shareholders, as the state implements its ownership responsibilities in line with the recommendations below, it will be important to ensure that non-state shareholders' interests are considered – and their rights respected – to maintain an attractive environment for private investors:

- **Develop a state ownership policy and review the effectiveness of current state ownership arrangements.** In Montenegro, ownership rights in SOEs are exercised by the government, state institutions (state funds) and (in some cases) line ministries, which is different from the somewhat common model of decentralisation under line ministries. The authorities should ensure that these state actors operate under a unified ownership policy. Since reviewing the effectiveness of the current ownership arrangements goes beyond the scope of this assessment, the authorities could for instance

undertake an in-depth review of the efficiency of current ownership arrangements with a view to improving them.

- **Improve the process for setting objectives and monitoring their fulfilment.** There is scope for strengthening the state's role in setting performance targets for SOEs and monitoring their achievement. The state should also produce an aggregate report presenting information on the performance of the state's portfolio.
- **Ensure that the SOE board nomination process is merit-based and transparent.** The state should ensure that SOE boards are equipped with qualified professionals and should minimise the risk of political board nominations. Recent updates to the company law requiring independent directors on (some) SOE boards can be expected to reduce conflicts of interest and further professionalise SOE boards. Nonetheless, company law provisions on board nominating procedures cannot be considered to constitute a robust SOE board nomination framework on their own. The authorities should establish SOE-specific board nomination procedures to ensure that SOE boards of directors are equipped with a sufficient diversity of expertise, as well as independence from both political influence and corporate management, to oversee corporate decision making in the interest of the SOEs and their shareholders.
- **Ensure that SOEs create value for all shareholders, including the state and minority non-state owners.** The role of minority shareholders in SOE decision making should be enhanced. Since the authorities have chosen to prioritise private investments in their SOE sector, they need to ensure that private capital holders' interests are taken into account. In addition, in the companies in which the state is itself a minority shareholder, the authorities should review the need to continue holding minority shares in them. Box 23.10 describes how Poland has worked towards a positive and value-creating relationship between the state and private investors.

Box 23.10. Broadening the ownership of SOEs in Poland

Privatisation through the stock exchange has been one of the key elements in the Polish economy's transition from command to free-market economy. Share offerings of SOEs have been used as a means to develop Poland's capital markets, to strengthen Warsaw's role as a regional financial centre, to maximise revenues from privatisation through the capital markets, and to attract financial resources for the companies themselves.

In general, the Polish Government considers that listing has been a key factor in contributing to improvements in overall company performance and governance standards. This is due to a number of factors, including more effective and better qualified management teams, which are able to introduce operational efficiencies after listing (e.g. cost reductions); increased disclosure and reporting requirements following listing; and the presence of larger more active institutional investors, which helps to bring about increased diligence and focus on company performance.

In companies where the state remains the majority shareholder, the state has the power and duty (through its seats on the supervisory board) to:

- appoint, dismiss and suspend board members
- recommend a remuneration policy for the management board
- access company financial statements
- approve annual financial plans and long-term strategic goals
- monitor and control decisions which are material to the company
- approve investment/divestment decision above certain limits
- select company auditors and monitor the audit process
- assure continuous monitoring of performance and ability of the company to meet its financial and long-term strategic goals.

The Treasury considers equal shareholder rights to be of paramount importance, which is enshrined in the Commercial Companies Code and supported by codes of best practice. The code specifically states that each share carries one vote. However certain exceptions apply, such as: share with preferential voting rights, but not more than two votes per share; limitation in the exercise of voting rights by shareholders representing more than one-fifth of the total number of votes; and personal rights for individual shareholders, such as the right to appoint or remove members of the management and/or supervisory board. Shareholders representing at least one-tenth of the company's share capital may request an extraordinary general meeting to be convened, and can also place matters of particular interest on the agenda of annual general meetings. Depending on the company, some rights may be granted to shareholders representing a smaller minority of the company's share capital. Representatives of the Treasury on the supervisory boards of companies in which the state is a minority shareholder have a number of rights including: informing the appropriate supervisory units of any violation of the laws committed by company management or of any activities which may be harmful to the Treasury's interests; applying statutory provisions appropriately to secure the Treasury's best interests; and initiating reporting and disclosure obligations by the company's board members.

Source: extracted from (OECD, 2016^[92]), *Broadening the Ownership of State-Owned Enterprises. A comparison of Governance Practices*, <https://www.oecd.org/fr/publications/broadening-the-ownership-of-state-owned-enterprises-9789264244603-en.htm>.

Education policy (Dimension 7)

Introduction

Overall, Montenegro has one of the best performing education systems in the Western Balkans. Participation in primary education is now on a par with EU and OECD levels, and student learning outcomes – as measured by the Programme for International Student Assessment (PISA) – have seen important progress. Notably, Montenegro's mean score for student performance in mathematics increased by around 12 points between the 2015 and 2018 PISA cycles; compared to an average of 2 points in OECD countries (OECD, 2020^[18]). In the last two years, the government has started implementing significant policy reforms, such as curriculum guidelines to ensure continuity in children's transition from early childhood education to primary education, and free tuition for students at public higher education institutions. These efforts have led to increases in Montenegro's education scores since the CO 2018 (for those indicators which allow for comparisons (Figure 23.1). Montenegro is also slightly above the WB6 overall average for this dimension (Table 23.14). However, a large share of students are still not mastering basic competencies.

Table 23.14. Montenegro's scores for education policy

Dimension	Sub-dimension	Score	WB6 average
Education policy dimension	Sub-dimension 7.1: Early childhood and school education	3.2	3.0
	Sub-dimension 7.2: Teachers	3.3	2.7
	Sub-dimension 7.3: Vocational education and training	3.5	3.1
	Sub-dimension 7.4: Tertiary education	2.8	2.8
	Cross-cutting dimension: System governance	3.5	3.3
Montenegro's overall score		3.2	3.0

State of play and key developments

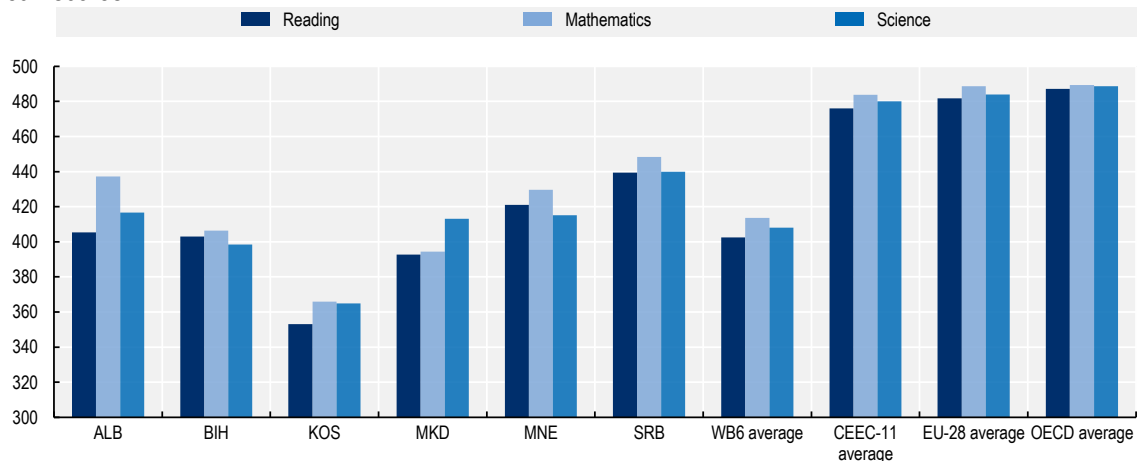
Sub-dimension 7.1: Early childhood and school education

Montenegro's score in this sub-dimension is slightly above the WB6 average. Since the last CO assessment, Montenegro has made strong progress in improving access and raising the quality of early childhood education. It has also taken steps to support implementation of its new curricula for the pre-university school system. As of 2019, net enrolment in Montenegro was universal for primary education (99.9%), but slightly lower for lower secondary (92.3%) (UIS, 2020^[93]). Net enrolment in upper secondary (89%) has gradually increased and is on track to meet OECD (92.5%) and EU (93%) averages in the coming years. Moreover, Montenegro has some of the lowest early school-leaving rates in the region, on a par with European and OECD countries such as Ireland, Poland and Switzerland (Eurostat, 2019^[94]).

In terms of learning outcomes, Montenegro's average scores in PISA have increased over time and are above the Western Balkan average. However, average performance across subjects remains below the EU and OECD averages (Figure 23.15). While Montenegro has a smaller share of low-performing students than most economies in the region, the share of students who lack baseline levels of proficiency in reading (44.4%) and mathematics (46.2%) is still much higher than the OECD average (around 23% and 22% respectively) (OECD, 2020^[18]). This has implications for Montenegro's long-term economic development, as students without basic skills are less likely to attain well-paid and rewarding jobs.

Figure 23.15. Performance in reading, mathematics and science in Western Balkan six education systems, 2018

PISA mean scores



Note: CEEC - Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

Source: (OECD, 2020^[18]), *PISA 2018 Database*, Tables I.B1.4, I.B1.5 and I.B1.6, www.oecd.org/pisa/data/ PISA database.

StatLink  <https://doi.org/10.1787/888934255950>

There are also signs of educational inequities in the education system. Students from Roma and Egyptian Balkan communities and students with disabilities are more likely to face barriers in accessing high-quality early childhood education (ECE) and school education (UNICEF, 2013^[95]). Moreover, data from the 2018 PISA reading assessment reveal a performance gap of 66 points between students who receive instruction in Montenegrin and those who are taught in Albanian (OECD, 2020^[18]). While it is positive that Montenegro has strategies to support inclusive education and offers mother-tongue instruction in areas where there is a significant presence of minority language groups, there is a need to analyse disaggregated data on the education system to better understand and address disparities.

Montenegro's performance in **early childhood education** is slightly above the regional average. The Strategy of Early and Preschool Education in Montenegro 2016-2020 (UNICEF Montenegro, Ministry of Education of Montenegro, 2016^[96]) establishes clear goals, notably to increase ECE coverage and improve the quality of services. Facilitated by the construction of new facilities, Montenegro's gross enrolment ratio in pre-primary education increased from around 31% in 2010 to 74% in 2019 (UIS, 2020^[93]). This rate is now above the 2018 WB6 average (71%) but lower than the OECD and EU averages (around 94%) (UIS, 2020^[93]). While participation in pre-primary education is not compulsory in Montenegro, there are several measures to reduce barriers to access, including free provision for socio-economically disadvantaged children and those with disabilities. The Ministry of Education and international partners have also organised outreach efforts to encourage families and communities to enrol their children in ECE. In terms of quality, Montenegro has clear educational requirements for ECE staff and there are curriculum guidelines to ensure continuity in children's transition from ECE to primary education. However, the latter do not include clear development and learning goals that children should achieve by each age group. Finally, donor-led initiatives continue to play an important role in implementing policy initiatives and monitoring and supporting the ECE sector in Montenegro.

While Montenegro performs relatively well compared to most Western Balkan economies in PISA, the **instructional system**⁶⁸ scores below the regional average for this indicator. This is primarily because the economy lacks an overarching strategy that establishes a coherent vision for the school system (see the Cross-cutting dimension: System governance). Instead, Montenegro has multiple strategies which cover different time periods, topics and levels of education. For example, there are separate strategies for general and vocational education at the secondary level, both of which cover 2015-20, in addition to strategies on inclusive education (2019-25) and supporting talented students (2020-22). Despite Montenegro's rather

fragmented approach to the strategic development of the pre-university education sector, administrative laws establish clear regulations for curricula, assessments and evaluations.

A major curricular reform was introduced in 2017. Its main goal is to shorten the primary school curriculum by 10% to create more space for the development of cognitive skills and reaffirm the educational role of the school. This reform is being supported by the Bureau for Education Services,⁶⁹ which is developing a manual that will set out learning outcomes for students and how their achievement should be measured by subject and grade. While the manual's finalisation has been delayed because of COVID-19, its implementation will serve as an important reference for Montenegro's Examination Centre, which is responsible for Montenegro's two national examinations. Currently, Montenegro's exams respectively certify the completion of primary education (in grade 9) and upper-secondary education (in grade 12). The Examination Centre is also responsible for managing Montenegro's participation in international assessments, like PISA, which provide valuable information to monitor and compare the quality of instruction.

Similar to many European education systems, Montenegro has a set of school quality standards that cover teaching and learning, in addition to more compliance-based requirements. These standards are accompanied by a rulebook on the content, form and manner of external and internal evaluations of schools to ensure the quality of their educational work. According to the General Law on Education and the rulebook on the content, form and manner of determining the quality of educational work in institutions, schools in Montenegro must conduct annual self-evaluations in specific areas, as well as comprehensive biannual self-evaluations. The Department for Determining the Quality of Educational Work of Schools, a body independent of the Ministry of Education, is responsible for conducting external school evaluations.

The **early school leaving** rate in Montenegro has generally declined over the last decade. It had fallen to 5% in 2019, well below the EU target of less than 10% of early school leavers by 2020 (Eurostat, 2019^[94]). While there is no specific strategy for early school leaving, several policies and initiatives tackle the issue, often by targeting students at risk of leaving school early. For example, the Ministry of Education employed 21 Roma mediators in 2019-20 to help increase enrolment and reduce the dropout rates for students from Roma and Egyptian communities (EC, 2020^[35]). Montenegro also benefits from IPA⁷⁰ funding to help marginalised students who are at risk of dropping out or leaving to prevent them leaving or return them to the system. Career guidance and a dual education programme in Montenegro further help connect students with an educational pathway that fits their interests and abilities. Other key policies, such as the multidisciplinary Protocol on the Procedure and Prevention of Early School Leaving and refined indicators in the Ministry of Education's information system have also contributed to Montenegro's low early school leaving rate by collecting a range of data and drawing on a variety of competent institutions and actors to monitor and tackle the issue. To further improve in this sub-dimension, Montenegro should evaluate and adjust its strategies and policies relevant to early school leaving.

Sub-dimension 7.2: Teachers

Montenegro's score on the teacher sub-dimension is above the WB average, largely because the Teacher Education Strategy in Montenegro (2017-2024) offers a set of policy actions to improve initial teacher education and their professional development and management. Montenegro also has clear regulations and rulebooks that shape teacher policy. For example, all school teachers are required to have at least a higher education degree. National data received for this assessment reveal that as of 2019, most teachers (77.5%) had achieved at least a Bachelor's degree or equivalent. While the average gross salaries of teachers in Montenegro are lower than other European countries, they are similar to or slightly lower than the mean earnings of workers in Montenegro with similar levels of education. For example, the actual salaries of lower secondary teachers in 2014-15 were around 75% of the mean earnings of workers with a short-cycle tertiary education or a Bachelor's degree. This situation is similar to European countries like Hungary, the Czech Republic and Greece (EC/EACEA/Eurydice, 2019^[97]).

Montenegro accredits **initial teacher education (ITE)** programmes based on professional teacher standards. This means that ITE providers must demonstrate how their programmes help candidates develop the specific competencies needed to teach by offering relevant courses and dedicating 25% of learning time to a teaching practicum. The latter consists of a one-year teaching internship under supervision of a trained mentor. After completing the internship, candidates must pass a professional examination before they can start working in schools as a licensed teacher. While these are positive practices found in many European countries, Montenegro does not have minimum entry requirements for candidates in ITE because higher education institutions have full autonomy to determine these criteria. To raise the profession's competitiveness and attract the most motivated and qualified candidates into ITE, Montenegro reports having made improvements to teachers' working conditions and increasing salaries. However, there are no targeted efforts to recruit teachers with specific profiles and there are no alternative pathways into the profession, which leads to imbalances in the teaching workforce.

There is a clear regulatory framework around the **professional development and management** of teachers in Montenegro. Funding for professional development comes from the Ministry of Education, schools, international projects and teachers' personal budgets. In some cases, funds are transferred directly to schools, especially in the case of international projects. Teachers must renew their teaching licences every five years and there is a progressive career structure linked to financial incentives that helps encourage continuous professional development. Montenegro has four categories of teachers (mentor, advisor, senior advisory and teacher researcher) that align with years of work experience, professional development requirements and an appraisal process based on teacher professional standards (Republic of Montenegro, 2009^[98]). These types of performance-based career structures can help motivate teachers to improve their practice. However, Montenegro's professional teacher standards are not differentiated by category of teacher, meaning that the expectations for teachers do not evolve or become specialised to reflect experience or the subjects or grade levels taught.

Sub-dimension 7.3: Vocational education and training

Montenegro's score in the sub-dimension on vocational education and training (VET) is slightly above the WB average (Table 23.14). Professionally oriented education can start at lower-secondary level, when students attend a single school with peers following a general curriculum; or in upper secondary, when students are allocated into either a general (gymnasium) or a 3-4 year vocational or professional school (Eurostat, 2020^[99]). As of 2018, some 33% of secondary students in Montenegro were enrolled in VET programmes, above the WB (29%), EU (27%) and OECD (23.5%) averages (UIS, 2020^[93]). Similar to other economies, data from PISA 2018 find that students in Montenegro's vocational programmes are more likely to be low performers⁷¹ than their peers in general education. However, the share of low-performing VET students in Montenegro (55%) is one of the lowest in the Western Balkans, second to Serbia (47%) (OECD, 2020^[18]). Nevertheless, some evidence suggests that VET students continue to lack the skills required by the labour market (EC, 2020^[35]).

A range of public bodies are responsible for the **governance of VET** in Montenegro, which is guided by the new Strategy for the Development of Vocational Education (2020-2024). Key institutions include the Ministry of Education; the Centre for Vocational Education;⁷² the Examinations Centre, which among other responsibilities manages vocational examinations to ensure that VET qualifications are rigorous, transferable and understood by the public; and the Bureau for Education Services.⁷³ Policy coherence is ensured by good co-operation amongst these institutions. For example, there is a co-ordination body responsible for monitoring and implementing the strategy, allowing various actors to participate in decision-making processes. Industries and social partners also engage in the sector's development by helping shape occupational standards for educational programmes and hosting and assessing students in dual education programmes. Montenegro has clear processes for accrediting VET programmes and providers must undergo an external evaluation at least once every four years, in addition to biannual self-evaluations. Reports on the findings from these evaluations are publicly available.

The Strategy for the Development of VET in Montenegro recognises the importance of **work-based learning** to improve the relevance of VET programmes for individuals, the labour market and society. Notably, Montenegro is the first economy in the Western Balkans to roll out a dual VET system nationally (ILO, 2020^[100]). The relationships between the scope and duration of theoretical and practical classes are clearly defined⁷⁴ and the government plans to further improve the quality of dual education by developing a certification system for companies that wish to train students, improving training for teachers and in-company tutors, improving monitoring and evaluation instruments, and strengthening final examination processes. Montenegro collects a range of information on VET, often in partnership with Employment Services, to help inform the design of policies and programmes. However, there is no information on the earnings of VET graduates nor the location and type of work-based learning (WBL) opportunities, completion rates from WBL programmes or the duration of these programmes. Nevertheless, there are broad public awareness campaigns and presentations to social partners and companies to help match learners with WBL places. While Montenegro does not currently offer financial incentives for employers to provide WBL places, there are plans to create a Fund for Dual Education which will pay employers to host students during part of their study programme (see also Box 23.13 later in this report).

Sub-dimension 7.4: Tertiary education

Montenegro's score in the tertiary education sub-dimension is on a par with the Western Balkan average. School life expectancy (from primary education through tertiary education) has increased in recent decades and was similar to the WB average (nearly 15 years) in 2018, but still lower than the average in the EU (16.6 years) and OECD (17 years) (UIS, 2020^[93]). The share of the labour force (aged 15+) who have attained some form of tertiary education (ISCED 5-8) increased slightly between 2018 and 2019 to 29%, the highest share among the WB economies (ETF, 2020^[101]). However, gross enrolments in tertiary education have decreased by 4 percentage points since 2017 (UIS, 2020^[93]) and the share of youth who are not in employment, education or training (NEET) increased slightly between 2018 and 2019 (from 16.2% to 17.3%) (ETF, 2020^[101]). A new higher education strategy in Montenegro (2020-2025) is currently being developed in consultation with the public; however, its finalisation may be delayed by the COVID-19 pandemic. The sector is regulated by legal frameworks, notably the 2014 Law on Higher Education, but there have also been several national reforms in the last two years. In particular, Montenegro has aligned its study model for higher education with the European Higher Education Area (a 3+2+3 year model), and since 2017 undergraduate studies at public higher education institutions are tuition free.⁷⁵

Montenegro has established transparent processes for selection into higher education⁷⁶ and there are affirmative action policies for people with disabilities who wish to pursue higher education studies. The Ministry of Education awards students with loans and scholarships based on their results of academic competitions, which helps pay for living and other associated costs. However, these are the only financial support mechanisms available to students since undergraduate tuition is now free. While tuition-free policies are intended to facilitate more **equitable access to higher education** it is likely they will benefit advantaged students who were already on track to attend higher education programmes, rather than create more equal opportunities to support marginalised students who may face greater barriers in accessing and completing higher education. This concern is exacerbated by the limited amount of data available to monitor equity in tertiary education in Montenegro. While the Statistical Office of Montenegro (MONSTAT) reports collecting gender data on enrolment rates, there have been no studies on associations between individual factors, such as socio-economic or minority background, and participation in higher education. Without more disaggregated data and analysis, Montenegro may struggle to identify and tackle equity issues in the tertiary sector.

An important goal of Montenegro's previous Higher Education Development Strategy (2016-2020) was to harmonise education with the needs of the labour market by modernising study programmes, introducing new learning methods (e.g. ICT), promoting entrepreneurial learning and teaching English. There are several initiatives to support the internationalisation of higher education in Montenegro both at the central

government level, such as participation in the EU Erasmus Plus programme, and by individual higher education institutions (HEIs).⁷⁷ Data on the **labour market relevance and outcomes** of higher education are mainly under the responsibility of Montenegro's Employment Service Bureau, which collects labour market information using employer surveys, quantitative forecasting models and sectoral studies. Individual HEIs also collect their own data on student outcomes across study programmes, but it seems they are not aggregated centrally. An important development in Montenegro since 2017 is the establishment of the Agency for Control and Quality Assurance of Higher Education. It started working at full capacity in 2018 to conduct research on the higher education system and to co-operate with international institutions in the field of quality assurance in higher education (AKOVO, 2020^[102]). This change has helped align Montenegro's quality assurance mechanisms with those of the EU.

Cross-cutting dimension: System governance

Montenegro's score for this cross-cutting dimension is similar to the WB average, as some **system governance** features align with the policies and practices found in European and OECD education systems. For example, Montenegro's National Qualifications Framework was aligned with European Qualifications in 2014 and covers eight levels of qualifications. The Ministry of Education, Science, Culture and Sports also manages the Montenegrin Education Information System (MEIS), which stores a range of information about the education system and helps monitor performance through a set of key indicators. These include student learning outcomes, which are generated through the economy's regular participation in international assessments since Montenegro does not have a national assessment system.

Despite these positive features of system governance, a notable difference between Montenegro and other WB6 economies, EU member states and OECD countries is the lack of a comprehensive national education strategy that sets out a clear vision and goals for the entire sector. Instead, Montenegro has several individual strategies that cover different levels of education and topics, such as the Strategy for General Secondary Education (2015-20) and the new Strategy on Support for Talented Students (2020-22). Taken alone, these strategies have clear and measurable targets, allocate responsibilities and provide timelines for implementation. However, it is unclear how the various strategies relate to one another and many are set to expire in 2020, without a clear indication on whether they will be extended or revised. A positive feature of Montenegro's strategic governance system is that there are evaluations of individual education strategies and on thematic topics, such as VET. Monitoring activities are carried out by co-ordination bodies who usually meet quarterly to analyse the implementation of planned activities. However, many of these evaluation efforts are supported by donor agencies and Montenegro does not produce its own reports on the performance of the education system as a whole.

Similar to governments around the world, Montenegro was faced with a rapid shift from classroom to remote learning in 2020 to help slow the spread of COVID-19. Working with donor agencies, the Ministry of Education introduced a variety of distance learning opportunities for the different education levels. These included a portal, "Školskiportal", for teacher-student communication with classes divided by years and subjects; a dedicated YouTube channel for recorded classes; and another portal, "UčiDoma", centralising recordings and schedules of classes.

To support the inclusion of children from marginalised social or ethnic groups, the ministry, in co-operation with the HELP organisation and Telekom Crne Gore provided a small number (100) of smartphones with free three-month subscriptions to students in need. While in-class teaching is now possible once again, policy measures are in place to provide paid leave for parents of children under the age of eleven and children with special educational needs if the country should move towards online learning again.

In the tertiary sector, the University of Montenegro, as well as private educational institutions, have created an online teaching plan and encouraged the use of online platforms such as Moodle for learning management and Zoom for online classes. Furthermore, the Ministry's Bureau of Education issued

recommendations on how to best organise distance learning, covering fields such as teaching planning and organisation, teacher-student communication, student assessment and inclusive education.

The way forward for education policy

In today's increasingly global and fast-changing world, achieving inclusive and quality education can help Montenegro increase its competitiveness and create opportunities for more individuals to develop the competencies needed for sustainable development and social cohesion. Montenegrin officials will need to reflect on the economy's political, social and fiscal environment to determine how best to achieve their education goals. The following considerations can provide insights for discussions on the way forward for enhancing education:

- **Develop a new and comprehensive education strategy with a clear set of priorities and a strong monitoring framework.** Rather than continuing to develop ad hoc strategies on various education priorities, such as inclusive education or support for talented students, Montenegro should develop a comprehensive education strategy that provides a vision and clear set of priorities for directing the education sector towards supporting more students to achieve good and excellent outcomes. This education strategy should align with Montenegro's overall development strategy as it will cover a critical period of potential accession to the EU. It will be important to focus on priorities that are clear and measurable to help mobilise stakeholders across the system and serve as a key reference for other strategic education documents that focus on specific levels or thematic areas. These priorities should be translated into financially viable implementation plans that can be measured through a monitoring framework.
- **Strengthen evaluation and assessment policies across the system.** Montenegro already has an Education Management Information System, but there are several areas where additional disaggregated data would help support education policy reforms and inform decision making. For example, data on educational participation, attainment and learning outcomes according to linguistic, socio-economic and immigrant background could help monitor and advance Montenegro's inclusive education goals. It is also important to analyse and review education data and policy initiatives. In particular, Montenegro should consider producing a regular analytical report on system-wide progress that pulls together individual work programmes and various education strategies into a prominent state of education report. The Czech Republic and Portugal provide similar reports for their education systems (Box 23.11).
- **Finalise the development of the national assessment and set targets for improving student learning outcomes.** Many Western Balkan education systems have – or are developing – national standardised assessment systems to help monitor the implementation of curricula and focus actors across the system on improving student learning outcomes. Developing a national assessment instrument would allow Montenegro to collect valuable information to monitor national education goals.

Box 23.11. Annual analytical reports on the education system in the Czech Republic and Portugal

In the Czech Republic, the Ministry of Education, Youth and Sports produces an annual report on its evaluation of the country's education system (the Status Report on the Development of the Education System in the Czech Republic). This report relies on a set of indicators designed to assess progress towards the country's long-term policy objectives. The document summarises the main organisational and legislative changes that have occurred during the year and presents statistical indicators describing the situation and development in pre-primary, basic, secondary and tertiary education. The report also contains information on educational staff in the system, the funding of schools and the labour market situation of school leavers. These data constitute a basis for the development of education policies. Furthermore, the report typically includes an area of specific focus. For example, the 2017 annual report includes a section on the country's results in the 2016 Progress in International Reading Literacy Study (PIRLS). Individual regions within the Czech Republic also produce their own reports to assess progress towards long-term policy objectives.

In Portugal, the National Education Council, an independent advisory body to the Ministry of Education, has published the annual State of Education report since 2010, which provides an analysis of key data on the education system. The first issue, the State of Education 2010 – School Paths, offered a detailed investigation of student pathways in the education system. The latest issue, The State of Education 2017, published in 2018, contains a section dedicated to the state of education in Portugal's countryside and the role of education in promoting territorial cohesion. The report also offers policy advice on how to improve the quality of pre-primary, basic, secondary and tertiary education. It also evaluates policy initiatives, such as changes to school evaluation, human and financial resources and policies to increase educational equity.

Source: (Santiago et al., 2012^[103]), *OECD Reviews of Evaluation and Assessment in Education*, <https://doi.org/10.1787/9789264117020-en>; (Santiago et al., 2012^[104]), *OECD Reviews of Evaluation and Assessment in Education: Czech Republic 2012*, <https://doi.org/10.1787/9789264116788-1-en>; (CNE, 2018^[105]), *Estado da Educação 2017*, <http://www.cnedu.pt>.

Employment policy (Dimension 8)

Introduction

Since the last Competitiveness Outlook assessment, Montenegro has made efforts to align its labour legislation with the EU *acquis*. New legislation has aimed at increasing flexibility on the one hand, and better working conditions on the other. Improvements have been made to the capacities of labour inspectors and inspectorates. However, no progress has been made to analyse the volume and structure of informal employment or to analyse the impact of tax wedges and the low level of the social protection benefits on informal employment. Inter-institutional co-operation to reduce informal employment has been improved. With the support of the International Labour Organization (ILO), there are concrete plans to strengthen the role of social partners and collective bargaining. Important improvements have been made in skills mismatch analysis, co-operation between actors, setting up a dual education scheme and increasing the quality and image of VET, and building an adult education system. Although some improvements have been made in the territorial coverage of PES offices and tools for PES counsellors (profiling, setting up of individual action plans), no sizeable improvements have been made to the number of PES counsellors or budgets. Targeting of the most vulnerable unemployed and inactive groups is still weak, although relevant programmes have been set in place (however, with low budgets).

Figure 23.1 in the key findings shows the improvement of Montenegro's performance, as its overall score increased from 2.1 in 2018 to 3.0 in 2021. All four sub-dimension scores are higher than the WB6 average (Table 23.15), and its overall score is second only to North Macedonia.

Table 23.15. Montenegro's scores for employment policy

Dimension	Sub-dimension	Score	WB6 average
Employment policy dimension	Sub-dimension 8.1: Labour market governance	3.0	2.6
	Sub-dimension 8.2: Skills	3.0	2.2
	Sub-dimension 8.3: Job quality	2.5	2.4
	Sub-dimension 8.4: Activation policies	3.3	2.9
Montenegro's overall score		3.0	2.6

State of play and key developments

Table 23.16. Key labour market indicators for Montenegro (2015 and 2019)

	Montenegro		WB6 average	EU average
	2015	2019	2019	2019
Activity rate (15-64)	62.6%	66.2%	61.0%	74.1%
Employment rate (15-64)	51.4%	56.0%	51.5%	69.3%
Unemployment rate (15-64)	17.8%	15.4%	16.3%	6.4%

Note: WB6 average rates are based on author's own calculations using simple averages.

Source: (Eurostat, n.d.^[106]), Labour Force Survey database, <https://ec.europa.eu/eurostat/web/main/data/database>.

As shown in Table 23.16, the activity rate of the population aged 15-64 increased by 3.6 percentage points from 2015 to 2019 reaching 66.2%, the fourth highest in the region. However, it was still 7.9 percentage points below the EU average, as well as below the 11 new EU member states (73.7%). Over the same period the number of employed increased constantly (+11%). Between 2015 and 2019 the employment rate of people aged 15-64 rose to 56.0% (Eurostat, 2020^[107]), the third highest rate in the region after Serbia and Albania, though still largely below the EU average (Eurostat, 2021^[108]). There was a very strong increase in the employment rate of older workers, from 32.3% to 44.6%, and of youth (14-24 years old), from 17.7% to 25.7%.⁷⁸ The latter was well above the WB6 average, but markedly below the EU average. Employment growth in 2018 and 2019 was linked to the favourable economic climate (Government of

Montenegro, 2020^[109]) and driven mainly by decreasing inactivity and to a lesser extent falling unemployment (one-quarter of employment growth reflects falling unemployment between 2015 and Q2 2019, according to Labour Force Survey data). The unemployment rate (amongst the 15-64 age group) fell by more than 2 percentage points from 2015 to 15.4% in 2019, and the youth unemployment rate nearly halved (25.2% in 2019, according to Labour Force Survey data). The decrease in the unemployment rate was less steep than the WB6 average, however. In 2019, the unemployment rate was below the region's average (16.3%), but largely above the EU average (6.4%). Unemployment has risen again in 2020 as a consequence of the COVID-19 pandemic. In Q2 2020, the employment rate was 5.7 percentage points lower than in the same quarter the previous year, a lower decrease than in North Macedonia, but higher than in Serbia and the EU⁷⁹ (-1.6 percentage points) (Eurostat, 2021^[108]) where short-term work schemes have been in place (Duell, 2020^[110]).

As a result of the COVID-19 pandemic, on 30 September 2020 the number of registered unemployed was 28.8% higher (+9 700) than in September 2019. Unemployment rose for all qualification levels, with a relatively stronger increase among the highly educated and medium-educated groups. Young people were more strongly affected by unemployment than older workers. Between January and September 2020, the number of registered job vacancies fell by 32.2% and the number of work permits issued fell by 40.3%.⁸⁰ The Employment Agency of Montenegro has continued to implement active employment policy programmes for the unemployed. These include direct job creation and public works; training measures in co-operation with employers; and the programme “stop the grey economy” that provides training and employment for young highly educated unemployed people for a period of seven months. Newly registered unemployed recent graduates are offered workshop activities through the Zoom platform. The delivery of these kinds of digital services to the unemployed is a novelty in Montenegro. To cope with social distancing rules, digitalisation and provision of remote services for the unemployed has also strongly expanded in EU countries (Duell, 2020^[110]).

Sub-dimension 8.1: Labour market governance

The pillars of the **regulatory framework** setting minimum employment standards consist of a new Labour Law adopted in December 2019, which entered into force in January 2020; the General Collective Agreement of 2014 with latest amendments made in 2019; and the Law on Occupational Health and Safety of 2014, with latest amendments made in 2018. The latest changes in the legislation were made to align with EU standards⁸¹ by improving labour market flexibility and labour standards for workers in certain areas. The new labour law is harmonised with 14 EU directives. The work on alignment with the *acquis* will be continued.⁸² Improvements made include the areas of (Karanovic and Partners, 2020^[111]):

- transparent working conditions
- part-time work and temporary agency work (strengthening the protection and rights of temporary agency workers and lengthening the use of temporary agency workers to 36 instead of 24 months, excluding internship)
- work-life balance, i.e. working from home
- aligning overtime hours with EU standards (average working time should not exceed 48 hours per week, within a period of 4 months)
- take-up of annual leave
- improved protection of pregnant workers and workers on parental leave.

In the case of collective layoff procedures, the new law prescribes mandatory consultations with the employees' labour union (or their representatives) and to notify the Employment Bureau of the consultations; previously only employees and their representatives were notified (Karanovic and Partners, 2020^[111]). An employer cannot employ another person in a position deemed redundant for a period of six months.

Certain non-standard forms of employment are covered by the social protection framework, such as temporary employed and self-employed workers. There is no regulation in place clarifying labour standards and employment protection for gig workers.

Some of the key priorities of **labour inspections** are to combat informal work and supervise the implementation of regulations on occupational health and safety, temporary agency work, and labour standards in general.⁸³ The bulk of inspections are carried out during the summer tourist season, which is characterised by a high incidence of undeclared work (70% compared to the rest of the year). Enhanced supervision is also carried out in the construction and transportation sectors. A rotating system of labour inspectors across cities has been implemented to increase the effectiveness of their work. Undeclared work cases are processed through preventive and repressive measures, controlling for registration of business and of payments, and disciplining employers for breaching labour regulations. Infractions of the law are monitored and sanctioned. Inspections are carried out through regular visits or following notification by the people employed or formerly employed, various associations and citizens. Some forms of undeclared work are particularly difficult to detect, e.g. envelope wages (where only one part of the wages is declared). In cases of breaches, inspectors first issue the employer with a “warning” and give them a deadline for correcting the breach.

There is a co-ordination mechanism in place bringing together other units with inspection facilities, such as the tax authority, police administration (border police and sector for foreigners), and local municipality institutions (communal inspection and police). The labour inspectorates share relevant data with these institutions/units, while also implementing joint inspections. Labour inspectorates are part of intergovernmental work groups for drafting laws and bylaws such as the Labour Law, the Law on Occupational Safety and Health and its bylaws. Labour inspection outcomes are monitored through indicators in the information system of the labour inspectorates, established in 2016 (Administration for Inspection Affairs, 2019^[112]).

While implementing preventive measures is highly relevant, it would also be useful to conduct an assessment of the institutional capacities of labour inspectorates to fulfill their tasks. Labour inspectorates’ human and technical resources are inadequate and more frequent inspections are necessary. In 2020, there were 42 labour inspectors, up from 33 in 2017. There are around 5 800 workers for each inspector, which is a better ratio than in Albania, North Macedonia, Serbia and Kosovo.⁸⁴ Capacity is however lower than in a country like Germany, where the same inspector-worker ratio would apply solely to the detection of informal employment, with additional staff in charge of occupational health and safety. Most inspectors in Montenegro are lawyers (32), who carry out employment and labour law inspections. The remainder are graduate engineers of various technical and technological professions, who carry out health and safety inspections. They receive training in legal issues and attend seminars on topics like informal employment, health and safety at work, gender equality, discrimination, employment of persons with disabilities, human trafficking and corruption. Inspectorates in the field of occupational health and safety are also constantly involved in organising and delivering various training and awareness-raising events, which are attended by representatives of employers and workers in the companies.

During 2019 the Labour Inspectorate performed a total of 11 430 inspections (8 128 in the field of labour relations and employment and 3 302 in the field of occupational health and safety), in which it identified a total of 6 548 irregularities (Ministry of Public Administration of Montenegro, 2020^[113]).

There is a basic labour market information system in place. The statistical office MONSTAT and the Employment Agency of Montenegro (EAM) are the primary sources for a wide array of indicators. MONSTAT provides data on temporary employment (fixed-contract) and part-time work. There are some ad hoc data on informal employment, but they date back to 2014. A question on informal employment has been introduced in the Labour Force Survey instead. It would be advisable to analyse these data and assess their quality. Progress has also been made with publication of the first results of the household survey aligned with European Union Statistics on Income and Living Conditions (EU-SILC); however more

indicators on social protection and inclusion would be needed (EC, 2019^[23]). Key monitoring reports include the Report on Implementation of the Action Plan for Employment and Human Resources Development 2019 (Government of Montenegro, 2020^[114]), Report on the Work of the Employment Agency of Montenegro (Employment Agency of Montenegro, n.d.^[115]) and the Report on the Work of the Ministry of Labour and Social Welfare for 2019 (Ministry of Labour and Social Welfare of Montenegro, 2020^[116]). There are no studies assessing the effects of current labour regulations on social protection coverage, health and participation in employment or on the recruitment behaviour of companies. Nevertheless, project-based evaluations are carried out in certain areas. While improvements have been made, efforts need to be continued to make systematic evidence-based policy making. This would include conducting thorough evaluations of measures and programmes, as well as assessing the institutional capacities of key actors, in particular labour inspectorates (the last assessment, done by the ILO, dates back to 2006).

According to the UNICEF Multiple Indicator Cluster Surveys (MICS) in 2018, 12% of children aged 5-17 were involved in child labour and 5% of children aged 5-17 worked in dangerous conditions (UNICEF, 2018^[117]). In comparison, the results of the 2018 survey of North Macedonia show that 5% of children aged 5-17 years were involved in child labour and 3% worked in dangerous conditions. Although institutional mechanisms for the enforcement of laws and regulations on child labour are in place, there is room for improvement in the operations of the agencies responsible for child labour law enforcement (ILO, 2019^[118]). Montenegro could take action by improving the capacities of the labour inspectorates in detecting child labour and by constantly tracking and publishing information about children involved in the worst forms of child labour.

The National Strategy for Employment and Human Resources Development 2016-2020, and its annual action plans, set the **employment policy framework**. The strategy includes four priority goals: increasing employment and reducing the rate of unemployment; achieving the efficient functioning of the labour market; adjusting qualifications and competencies to labour market needs; and promoting social inclusion and reducing poverty. A new strategy for 2021-24 aims to improve monitoring and evaluation of results and to align with the European pillar of social rights; however, it has not been adopted yet (Government of Montenegro, 2020^[109]). Other relevant documents include the Economic Reform Programme for Montenegro 2020-2022, which aims to increase the labour market participation by vulnerable groups and to create and adopt the new Employment Strategy 2021-2024. Other policy documents, such as the Montenegro Development Directions 2018-2021 and multi-year sectoral programmes,⁸⁵ focus on employment, covering measures to increase the labour market inclusion of specific disadvantaged groups, such as people with disabilities, as well as active labour market programmes. Activities to improve the labour market integration of vulnerable groups are carried out by projects financed by international donors/organisations. The challenge is to make these approaches sustainable by introducing them into mainstream policy.

The policy framework also includes the Strategy for Promotion of Occupational Safety and Health in Montenegro 2016-2020 and related action plans. These target improving working conditions and preventing work-related injuries and professional diseases. Objectives also include adapting the regulatory framework to EU and ILO regulations, raising awareness, promoting a prevention culture and improving collection of data in a database.⁸⁶ All these objectives are highly relevant.

Social dialogue and tripartism play a role in defining some concrete labour standards, such as wages and the wage grid, and social partners⁸⁷ are involved in consultation processes on issues concerning employment conditions. There is a legislative framework for social dialogue in place (Labour Law, Law of Social Council, Law on Peaceful Labour Disputes Resolution, Law on the Representativeness of Trade Unions). There is uncertainty about trade union density:⁸⁸ assessments vary between 26% and 41% (ILO, 2019^[16]). Employers organised in employers' organisations employ 51% of the employed workforce (ILO, 2019^[16]). While union density is relatively high compared to other economies in the region, unions lack resources to adequately complete their tasks, according to the ILO assessment. Trade unions in multinational companies have most power to conduct collective bargaining and ensure that the labour

legislation is implemented, as they get support from the sister unions of other economies.⁸⁹ Collective agreements can be concluded by social partners as general agreements, at branch level and with the employer. In 2018 there were 21 collective agreements for certain sectors or professions, 8 of them targeting the public sector (ILO, 2019^[16]).

The General Collective Agreement was concluded in 2014, and extended in 2018 and 2019. It defines the minimum coefficients for each level of education, based on which the salaries are calculated. The minimum wage is defined by the law. The branch agreements define additional requirements within the branch, which may be higher but not lower than those defined by the general collective agreement.⁹⁰ The General Collective Agreement applies to all employees and employers if no branch-level collective agreement has been concluded. There is no estimate of how many employees are covered by the collective agreements. It would be important to get an overview of collective bargaining coverage and to understand the respective role of the General Collective Agreement and branch-level collective agreements. In many EU Member States branch-level agreements are an important instrument for defining the specific minimum labour standards in this sector. The Social Council (see details below) plays a crucial role in fixing labour standards through the General Agreement, thus involving tripartism. Worker representation committees represent the interests of workers at the workplace level; however, there is no assessment of how many companies have an active committee in place. According to the new Labour Law, collective agreements must be registered with the Ministry of Labour and published. There is a conflict resolution system in place (lasting several months).

The Social Council, in which social partners participate, meets usually six times a year (except in 2020 due to the COVID-19 pandemic). It has local branches and must be systematically consulted on labour-related legislation and strategic policies. It covers a wide range of issues such as social security, health care and pensions, wages, prices and taxes, industrial relations, collective bargaining and labour relations. It was involved in the COVID-19 impact assessment of employees and enterprises conducted jointly by the ILO/EBRD and was consulted for the programme for providing support to the economy and employees in order to mitigate the negative effects the pandemic. Nevertheless, overall involvement of the Social Council in preparing key policy documents is often limited (EC, 2019^[23]). One of the challenges it faces is the lack of participation by key ministries, while others are the lack of administrative, financial, technical, and professional support and insufficient funding (ILO, 2019^[16]). Through the ILO Decent Country Work Programme 2019-2021,⁹¹ the government and social partners have committed to giving the Social Council greater relevance as a dialogue platform, stronger organisation of employers and workers and new labour legislation aligning with international and EU standards.

Sub-dimension 8.2: Skills

Montenegro has a framework for **skills mismatch analysis** in place. The EAM prepares an annual analysis of the labour market situation which includes supply and demand for all qualification levels and all municipalities (Box 23.12). The Chamber of Commerce and the Montenegrin Employers Federation conduct various analyses and provide the education sector with recommendations for future qualifications needs. In addition, various ministries prepare strategies for their specific sectors, such as the Strategy for Development of Tourism, the Strategy for Development of Construction, the Strategy for Regional Development, etc. Some municipalities prepare strategic documents for sectors of activity which are priorities for them. Based on these data, Sector Commissions prepare sector profiles, and identify the need for new qualifications. They include representatives of relevant ministries, employers' unions, chambers of commerce, trade unions, and education and tertiary institutions.

Box 23.12. Skills mismatch analysis

The employment agency EAM conducts detailed annual supply and demand analysis, covering all levels, sectors and municipalities. Based on this analysis, the EAM provides recommendations to the education sector for determining the enrolment policy for secondary and tertiary education institutions. Relevant data include vacancies by qualification, the length of time seeking employment, people without work experience by sector, the number of pupils and students finalising secondary and tertiary education, the number of registered unemployed with no qualifications, the duration of unemployment, etc. In 2018, an advanced skills mismatch analysis was made using Labour Force Survey data, with support by the European Training Foundation (ETF). Labour market data prepared by EAM is available on its website and is updated regularly (as well as MONSTAT data).

Apart from EAM labour market analysis, sector commissions and certain units of the Ministry of Education also conduct analysis. The Ministry of Education established the Department for Qualifications in order to conduct systematic analyses of the labour market situation, skills gaps and qualifications required. In the forthcoming period, a tracing system of graduates from secondary schools will be needed, using the results to adapt the education system with the goal of improving the employability of the graduates. The Chamber of Commerce and the Montenegrin employers' federation periodically conduct research on education and labour market needs, business barriers and conduct open questions regarding hiring and seasonal employment. This kind of research is also used by the education sector.

Source: Information provided by the government for the Competitiveness Outlook assessment.

In principle, all relevant actors – social partners, relevant ministries, chambers, education institutions, Sector Commissions – are involved in the decision-making process for developing specific qualifications and their content. Sector Commissions are formed by the Council for Qualifications and are tasked with analysing developments in the labour market, and make proposals for revising/adopting new qualifications to overcome skills gaps. These commissions propose to the Council for Qualifications the adoption of occupational standards and qualifications, while the council itself adopts and classifies qualifications within the Qualifications Framework (EC, n.d.^[119]). Occupational and qualification standards are adopted at the national level.

Despite a well-developed framework for skills needs and skills mismatch analysis, and good horizontal and vertical co-ordination, skills mismatches remain an issue. Nevertheless, improvements have been made in reducing the NEET rate (share of young people aged 15-24 not in employment, education or training) from 19.1% in 2015 to 16.2% in Q2 2019 (World Bank and WIIW, 2020^[120]). In 2018, the NEET rate in Montenegro was lower than the WB6 average but substantially above the NEET rate in the EU-28 and the 11 new EU Member States (10.1% in both cases, in 2019). Vertical skills mismatches,⁹² with 70% of young people enrolling in higher education, may add to the high (youth) unemployment rate. Nevertheless, the unemployment rate among highly educated people (9.6%) was lower than for medium (14.9%) and less-educated people (24.6%) in Q2 2019. While the unemployment rate has decreased since 2015 for the highly educated and in particular medium-educated people, it has remained constant for the less educated (World Bank and WIIW, 2020^[120]). A skills mismatch analysis indicated that in 2017, 10.9% of employed people (aged 15-64) with a tertiary degree were overqualified for their job as they were working in semi-skilled occupations. However, this has declined since 2015. This mismatch affected more men than women. The percentage of people who have completed upper secondary education working in elementary occupations was 8.2% in 2017, up from 2015, and affected more women than men (ETF, 2019^[21]).

Three-year VET programmes may not be very attractive to young people. Employers believe that there is a mismatch between the skills and knowledge that students acquire in the education system and the skills

and knowledge demanded by the labour market. There are also vertical skills mismatches and skills gaps in the application of new technologies. A desire to tackle these has led to the launch of a new dual VET education scheme (Box 23.13; and see also Education policy, Dimension 7). In addition, the Ministry of Education provides annual scholarships for professions lacking workers with the right skills as a way to encourage enrolment in three-year VET programmes. The Chamber of Commerce also provides a certain number of scholarships. The importance of successful VET programmes is highlighted further by the higher demand for medium-level skills, as shown by recent market labour developments. Employment of medium-educated people grew more strongly than for both the less and more highly educated between 2015 and 2019 (World Bank and WIIW, 2020^[120]).

Box 23.13. Dual education in Montenegro

The school year 2017/18 saw the launch of a new concept of practical education in the workplace (dual education). Dual education programmes last for three years. They are based on occupational standards and qualifications standards prepared by the Centre for Vocational Education, with active involvement of employers and their associations. The content of standards is approved by Sector Commissions and adopted by the Council for Qualifications. The business community was involved in preparing the regulations and also supported this arrangement. In accordance with the provisions of the Law on Vocational Education, the pay for students in the first and second grades acquiring practical education with employers are provided from the budget, while pay for third grade students is the employers' responsibility. First grade students spend one day, second grade students two days and third grade students three days with employers (Government of Montenegro, 2020^[109]). The capacity of employers for providing practical training is being explored for deciding which training can be implemented in a dual manner.

In its first year, 277 students went through practical education programmes with 101 employers. In the school year 2019/20, the number of students rose to 800, involving 270 employers (Eurydice, 2021^[121]). Initial results show that around 60% of students who finished third grade through dual education in June 2019 were employed by the same employer (ILO, 2020^[100]). These results are promising, although the share is lower than in economies with long established dual VET systems such as Germany, where the corresponding share was 71% (Federal Ministry of Economic Affairs and Energy of Germany, n.d.^[122]).

Source: Information provided by the government as well as (Government of Montenegro, 2020^[109]), *Montenegro Economic Reform Programme 2020-2022*, <https://www.gov.me/ResourceManager/FileDownload.aspx?rid=396260&rType=2>; (Eurydice, 2021^[121]), *Montenegro: Organization of secondary vocational education*, https://eacea.ec.europa.eu/national-policies/eurydice/content/organisation-vocational-upper-secondary-education-32_me; (ILO, 2020^[100]), *Making Dual VET work: Lessons learnt from Montenegro*, https://www.ilo.org/budapest/whats-new/WCMS_740890/lang-en/index.htm; (Federal Ministry of Economic Affairs and Energy of Germany, n.d.^[122]), *Dual training as a successful model*, <https://www.bmwi.de/Redaktion/DE/Dossier/ausbildung-und-beruf.html>.

The Strategy for the Development of Vocational Education in Montenegro (2020-2024), along with its action plans for 2020/21, outline measures for overcoming workforce skills shortages and to improve the efficiency and the effectiveness of the VET system and lifelong learning. The planned measures aim to create flexible modularised and credit-based educational programmes, based on learning outcomes with vocational and key competences; adapt educational programmes to aid people with special education needs and talented students; promote work-based learning; and upskill VET teachers. The strategy also covers career guidance and counselling in schools. Montenegro is on the right track and should continue its efforts to develop vocational guidance, improve the quality of VET education and close skills gaps according to current and future demand for skills and employers' needs and promote good-quality work-based learning.

While VET and tertiary education should provide the workforce with a solid skills basis, adult learning is essential for upskilling low-skilled adults as well as adapting the skills of workers of all educational levels

to technological change and economic restructuring (OECD, 2019^[123]) (OECD, 2019^[124]). Montenegro's legislative framework for **adult education**⁹³ is guided by the Adult Education Strategy 2015-2025, its key policy framework. A budget is foreseen for specific activities, although there is still no specific Ministry of Education budget line for adult learning. Montenegro has made progress in raising awareness about adult education, including organising the Adult Education and Learning Day Conference, and publishing relevant material, such as guides and flyers and a guide to the system of non-formal education. One challenge is to better connect all the players involved: the policy makers, ministries of other departments, local governments, social partners, employers, media representatives and NGOs.⁹⁴

Human resource management within the public sector foresees a budget for continuous training. In addition, the Chamber and the Employer's Federation have small budgets earmarked for adult learning for their members. However, there is no strategy or measures to set financial incentives for participating in continuous training. According to Labour Force Survey data, in 2017 only 2.8% of adults (aged 25-64) participated in learning; the percentage was higher for males (3.3%) than for females (2.7%) (Kaluderović and Golubović, 2019^[125]).

A system for validating and certifying skills, including skills acquired through non-formal learning, is in place and new regulations on the verification of knowledge, skills and competencies were adopted in 2019. A remaining challenge consists of providing adequate continuous training to teachers (professional skills, adult learning pedagogy, and providing vocational rehabilitation). The Adult Education Plan 2019-2022, another key strategic document for adult education in Montenegro, lists the improvement of employees' competencies as one of its priority areas.

Sub-dimension 8.3: Job quality

In terms of **quality of earnings**, minimum wages are fixed through tripartite dialogue in Montenegro. The level of the minimum wage is determined annually by the Government of Montenegro on the proposal of the Social Council of Montenegro, based on indicators such as the general level of wages in the economy, the costs of living and changes to them, economic development and the level of productivity. By law, the minimum wage must not be lower than 30% of the average wage in the preceding semester, which seems to be a moderate level. In 2018, the minimum wage amounted to 40% of the average gross wage, which was low compared to other economies in the region (Kaluderović and Golubović, 2019^[125]). In 2019 the net minimum wage amounted to EUR 222 in Montenegro, 43% of the average net wage, which was EUR 515 according to MONSTAT. Recent increases in the minimum wage have reduced the gender wage gap.⁹⁵

According to MONSAT, the poverty rate in Montenegro was 21.9% in 2018. The in-work poverty rate in 2017 was lower than the EU average (5.9% and 6.4% respectively) and this also holds true for the in-work poverty rate of the self-employed (19.8% compared to 22.7% in the EU). However, in-work poverty for the self-employed increased between 2013 and 2017 (Kaluderović and Golubović, 2019^[125]). In-work poverty was higher for those working in the public sector than in the private sector. Personal earnings are taxed at a rate of 9%, while gross earnings that exceed EUR 720 a month are taxed at 11%. Thus, although the taxation rate is lower than in many EU countries, there is no reduced tax rate or tax exemption for low earners (those on minimum wages). Overall there is lack of regular monitoring and analysis of the structure of wages and wage distribution, as well as of the coverage and impact of the minimum wage. For more details on tax rates, refer to Tax policy (Dimension 4).

Women's activity and employment rates improved between 2015 and 2019 (from 56.9% to 59.1% and from 46.9% to 49.7% respectively). Nevertheless, women's activity rates are still 14.5 percentage points below men's in Montenegro, a larger gap than the EU average (10.7 percentage points for EU-28) (Eurostat, 2020^[99]). In 2019, women's unemployment rates were only 0.9 percentage points higher than men's. Research commissioned by the Ministry of Labour and Social Policy in 2017 reveals the strong prevalence of gender stereotypes, a patriarchal way of thinking and a lack of openness to diversity in

Montenegro.⁹⁶ The 2018 report *Women and Men in Montenegro* also points to occupational segregation (MONSTAT, 2018^[126]). Additional research is planned by the government on citizens' perceptions in order to assess discriminatory patterns and stereotypes and the influence of the media, as well as the level of citizens' awareness of the legislative and institutional framework for preventing discrimination.

In 2017, the Ministry for Human and Minority Rights launched the Action Plan for Achieving Gender Equality 2017-2021 and related implementation plans. Policy measures of a range of ministries focus on developing female entrepreneurship.⁹⁷ Women are the focus of active labour market programmes (ALMPs) run by the EAM, and they represent more than half the participants. The EAM has implemented measures to activate women who were entitled to a lifelong benefit deriving from the Law on Social and Child Protection, and who thus left the labour market prematurely (there was a strong incentive to do so in the previous scheme). Another new measure was the Pilot Programme "Empower me and I will succeed", launched in 2018. This programme aimed to support and activate hard-to-employ people. The project was primarily focused on women who benefited from pensions for mothers with three or more children and family material support. The programme reached 925 hard-to-employ people, 96% of whom were women (Ministry of Human and Minority Rights of Montenegro, 2019^[127]).⁹⁸ As the placement rate was very low, the programme was discontinued. The reasons for the low placement rates should be evaluated and integration strategies improved.

Improvements need to be made to include gender sensitiveness in career counselling in order to reduce gender segregation. At present, there is no strategy to expand the career choices of young women or to encourage enrolment in non-traditional vocational programmes and university studies, nor are there any specific guidelines for women returning to the labour market after childcare breaks, or programmes to empower young women to climb the career ladder. Lack of childcare is hindering women's employment prospects. The employment rate for women with children younger than six was 46.5% in 2019, below the average for all women (49.7% in 2019) (Eurostat, 2021^[128]). The employment rate of women with young children is significantly below the EU average (66.8% in 2019) (Eurostat, n.d.^[129]). And while the EU average increased by 2 percentage points between 2015 and 2019, no progress was made in Montenegro.

Sub-dimension 8.4: Activation policies

In 2019, the Law on Employment Mediation and Rights during Unemployment was adopted and a number of new rules introduced or amended. This should help to improve the services provided by the **public employment service (PES)** in Montenegro, which is essentially the EAM (Government of Montenegro, 2020^[109]). The EAM budget is financed from both assigned and budget funds.⁹⁹ In order to implement the new regulations, capacities will be expanded and two new regional units created in the municipalities in the north of Montenegro. In 2019, the caseload of counsellors (number of registered unemployed per counsellor) was around 556,¹⁰⁰ which is higher than the caseloads in EU countries with well-developed PESs. In France and Germany for example, the caseload for hard-to-place jobseekers is around 70 jobseekers per employment counsellor. Caseloads may vary in these countries between 100 and 350, depending on how many jobseekers need individual guidance and how autonomous they are in using self-help guidance tools (OECD, 2020^[130]) (Manoudi et al., 2014^[131]) (Pôle emploi France, n.d.^[132]). As is done in EU Member States with well-developed PESs, Montenegro also segments jobseekers into different groups.

According to Labour Force Survey data, the share of long-term unemployed in Montenegro was 79.3% in Q2 2019, an increase since 2015. It was well above the WB6 (66.6%) and EU averages (32.2%¹⁰¹) in Q2 2019 (World Bank and WIIW, 2020^[120]) (Eurostat, 2020^[133]). This is an extremely large share of unemployed people who would need intense guidance and counselling to overcome employment barriers, including motivational ones.

While the number of counsellors has remained constant, the number of registered unemployed has decreased (although less sharply than the number of LFS unemployed) (MONSTAT, 2020^[134]). The vast

majority (85%) of unemployed (according to Labour Force Survey Data) were registered at the EAM. The decreasing number of registered unemployed is in contrast with the decreasing number of registered vacancies. In 2019, 32 344 job vacancies were published through 16 934 vacancy applications, an increase since 2018, but a decline since 2015, pointing to the need for continued efforts in vacancy collection and the provision of employer services.¹⁰² A comparison of the profiles of collected vacancies and the registered unemployed would help to render employer services, vacancy collection, and placement and activation measures more effective. EAM provides statistical reports monthly, semi-annually and annually. Where such evaluations exist, results have helped to improve ALMPs.

New rulebooks have improved the implementation of EAM's activation policies. These include rules on active job search, profiling, counselling and establishing an individual employment plan. One novelty is the introduction of statistical profiling. Implementation of this model is expected soon, assisted by ILO experts. Rules for mediation services address not only the provision of information and publication of vacancies but also the pre-selection of jobseekers for referral to employers, as well as employment mediation abroad and provision of information on employment conditions abroad. Since 2011, EAM has been implementing career orientation in primary and secondary schools in co-operation with the Ministry of Education and the University of Montenegro. Note that for vocational rehabilitation several rulebooks were established in 2011, 2014 and 2017.

The new Labour Law¹⁰³ and the Law on Mediation in Employment and Rights during Unemployment, has introduced the obligation for employers to report vacancies to the EAM, and the EAM publishes vacancies only at the request of the employer (Karanovic and Partners, 2020^[111]). Experience from other countries indicates that obligations to report vacancies are often not implemented effectively. Instead, EU countries have in general developed the quality of services provided to employers, have taken a proactive stance to approach employers and are collecting vacancies through other means, e.g. in partnership with private employment agencies and web scraping.

The Law on Employment Mediation and Rights during Unemployment regulates unemployment benefits for employees and other groups (e.g. entrepreneurs¹⁰⁴) with at least nine months of employment over the past 18 months, under the condition that they became unemployed without their fault or their consent. The same goes for self-employed who have the corresponding insurance history and whose activity ceased without their fault. There are no specific rules for gig/platform workers. Unemployment benefits should amount to 120% of the calculated value of the coefficient, which is determined by the General Collective Agreement, and was fixed at EUR 90 at the time of writing. This compensation level is low and may not be effective as it offers no incentive for taking up formal employment as it is not linked to earnings. Unemployment benefit recipients need to register within 30 days at EAM, which is longer than OECD good practice. For example, in Germany jobseekers need to register as soon as they receive their dismissal notification and three months before a temporary work contract runs out (Federal Employment Agency of Germany, n.d.^[135]). In Switzerland, people need to register on the first day of unemployment. Early intervention in the unemployment period is generally perceived as important. As part of a **mutual obligation** approach, recipients of unemployment benefit, like any other jobseeker, have to actively search for work otherwise they are sanctioned. The number of unemployment benefit recipients was 12 372 in 2019, a strong increase from 2015 (7 352). Coverage is nevertheless still low, since only 27.9% of the unemployed get unemployment benefits.¹⁰⁵

There is an agreement in place between EAM and the Social Centres for activating social assistance recipients. File transfer is mainly done electronically, but data are extrapolated from different databases. File sharing is monitored through reports (from EAM, Social Centres and the Ministry of Labour), although improvements still need to be made. Social assistance recipients participate in ALMPs, however less often than the other unemployed. During the first nine months of 2019, only 58 working-age beneficiaries receiving family financial support were employed; 129 were included in an active employment policy programme, and 9 were in professional rehabilitation measures (Government of Montenegro, 2020^[109]). It

would be advisable to analyse the barriers to employment faced by family financial support recipients, as well as by the long-term unemployed not receiving any benefits.

EAM implements **active labour market programmes (ALMPs)** such as programmes to support self-employment, public works programmes, adult education and training programmes, entrepreneurship training and vocational rehabilitation. Expenditures on ALMPs fell from 0.1% to 0.05% of GDP between 2015 and 2017, but increased to 0.7% in 2018.¹⁰⁶ They then fell by one-third in 2019. The share of funds for financing adult education and training programmes, training for independent work, training for work with the employer and the "Stop the Grey Economy" programme represented 71.1% of all funds spent on ALMPs.

In terms of ALMPs' target groups, during the first 11 months of 2019, 55.4% of participants were women, 37.7% were young people, 35.7% were long-term unemployed (less than their share among all unemployed) and 53.7% were from the northern regions (Government of Montenegro, 2020^[109]). The number of participants was rather low, amounting to 2 037 unemployed people in 2019, out of 37 000 registered unemployed and more than 100 000 unemployed according to LFS data. More than half participated in vocational rehabilitation measures.

People with disabilities are another target group for ALMPs. There are quotas for employing people with disabilities. When companies do not comply with the quota, they have to pay a special contribution to the vocational rehabilitation fund, administered by EAM. However, according to the audit report of the fund of 2014, the use of these financial resources could be significantly higher (Kaluderović and Golubović, 2019^[125]). Activities planned in 2020 to increase labour market participation, particularly by sensitive groups of unemployed persons, focus on education and skilling programmes for adults, employment incentives, direct opening of jobs and incentives for entrepreneurship (Government of Montenegro, 2020^[109]).

Another target group for public work programmes are vulnerable groups such as the Roma and Egyptian populations. Although there is a Strategy for Social Inclusion of Roma and Egyptians (2016-2020) in place, it does not explicitly include an employment dimension. Eight projects to increase training and employment of the Roma and Egyptian population in bottleneck occupations have started. It would be advisable to scrutinise the implementation and outcomes of these projects to learn more about employment barriers, scale up activities to promote employment and skills, address discriminatory behaviour by employers and identify potential employers.

The Grant Programme for Self-Employment project, targeted at young people, women and the long-term unemployed, is mainly EU-financed. The sustainability of the programme may be an issue. It would be advisable to include entrepreneurship counselling to render the measure more effective.

EAM has implemented a special programme for young highly educated unemployed people called Stop the Grey Economy. Training is provided in technical support and assistance to officials of bodies and administrations in their fight against informal business. The programme for training university graduates was introduced in 2012, substituting an earlier measure which provided wage subsidies for young graduates. All faculty graduates without prior work experience can apply for the programme and get employment in their specific field of study for a period of nine months. During this period they receive 50% of the average net wage. Graduates are expected to gain knowledge and skills during the programme that will help them find employment after completing the programme.¹⁰⁷ The number of participants amounts to 3 000 to 4 000 young university graduates annually.

The Employment Agency of Montenegro is one of the agencies implementing the project Further Development of Local Employment Initiatives in Montenegro is funded by EU-IPA. Its overall goal is to encourage the development of employment initiatives at the local level, and will last for 18 months (August 2019 to February 2021). An analysis of local labour markets in Montenegro was prepared as part of the project and local employment strategies are currently being prepared.

Cross-cutting policy areas: Informality

The contribution of the informal economy to total GDP is estimated at around 28% to 33%, while over 20% of work is informal (EC, 2019^[23]). Weaknesses in the institutional and regulatory environment, corruption and high tolerance of tax non-compliance are the key issues contributing to the large informal economy in Montenegro. The latest survey on informal employment dates back to 2014.¹⁰⁸ At that time, unregistered self-employed people made up almost 70% of the total number of undeclared employed people, 42.4% belonging to the age group of 46-64. The highest percentage of informally employed were in agriculture, forestry and fisheries; household services; and the construction industry. It would be useful to conduct a new survey in order to take stock of recent trends.

The term “informal employment” is not defined in any legislation. Nevertheless, there are policies in place. The Action Plan for Combating the Grey Economy in the Labour Market, adopted by the Government of Montenegro in 2017, contains preventive, restrictive and stimulative measures. Preventive measures deal with issues such as business barriers caused by tax evasion, disloyal and unequal competition. Restrictive measures cover various repressive measures designed to detect and penalise informal employment, with planned goals, deadlines and competent authorities, including Labour Inspectorates, the Administration for Inspection Affairs and the Tax Authority. Stimulative measures aim to lower the fiscal deficit and include measures for transitioning from an informal to a formal economy. However, as stated above, Labour Inspectorates do not have enough capacity to implement their work effectively.

In 2013, the Ministry of Finance conducted an analysis of the effects of progressive taxation on individuals' income, profit of legal entities and real estate.¹⁰⁹ A study on the link between the tax wedge for low wage earners and its impact on informality and reforming the tax system should be carried out, using results of previous relevant studies. There is also no research on the link between the low level of social protection (e.g. level and coverage of unemployment benefits, level of pensions) and the incentive to be formally employed.

The Parliament of Montenegro recently adopted the law on Fiscalisation in the Trade of Goods and Services; it entered into force in January 2020. Montenegro is the first economy in the region to introduce fiscalisation in non-cash transactions, i.e. business-to-consumer (B2C) and business-to-business (B2B) transactions. The Tax Administration of Montenegro will have an insight into each fiscal invoice issued that is paid in cash or by cashless transfer, in real time, via a permanent Internet connection through which the taxpayer is connected to the Tax Administration (Government of Montenegro, 2020^[109]). Eventually, these developments may lead to the reduction of the informal economy, including undeclared work. Thus, it would be useful to assess implementation and impact of the new law on informal employment (in particular regarding unregistered businesses and self-employed).

Cross-cutting policy areas: Brain drain

While migration into Montenegro is registered, there are no official data available on the number of people leaving Montenegro temporarily or permanently to work abroad, nor is there a thorough analysis of brain drain. The number of emigrants amounts to 20% of the resident population and this share has not declined since 2010; many of them are young and well educated (ILO, 2019^[16]). Data collection on the patterns of recent emigration trends would be essential to understand whether there is a risk of brain drain and to formulate policies to tackle it.

Skills governance, i.e. planning the number of places for enrolment in VET and education, is not determined by demand abroad. However, the compatibility of qualifications acquired in Montenegro is being closely monitored in order to facilitate recognition or professional development for those who wish to continue their education or search for employment elsewhere. Currently, Montenegro is part of the dialogue on mutual recognition of vocational qualifications across the Western Balkans. Montenegro has adopted the Law on Recognition of Professional Qualifications for Regulated Professions. This law refers

to mutual recognition of professional qualifications with the EU, European Economic Area and Switzerland. It will enter into force if Montenegro joins the EU.

The Government of Montenegro has adopted the Strategy for Integrated Migration Management in Montenegro for the period 2017-2020. However, the strategy does not include any measure to contain brain drain or favour brain circulation.

The way forward for employment policy

- **Continue to improve working conditions, aligning with EU *acquis* and ILO standards.** Labour inspectors should play a preventive role in addition to controlling implementation of the law. Continue to strengthen social dialogue both at government level as well as at branch level, as foreseen in the Decent Work programme. Good working conditions in formal employment also help to increase its attractiveness vis à vis informal employment and increase labour productivity.
- **Continue to increase the capacities of Labour Inspectorates in terms of number of staff, training and equipment.** Greater capacity will allow them to make on-the-spot visits and to monitor and follow-up infringements of employment legislation and occupational health and safety regulations. Establish guidelines on how to prevent diseases and accidents at work.
- **Implement the activities planned to upskill adult learning and introduce incentives for employers and workers to participate in continuous training.** Adult learning should be perceived as a medium to long-term challenge. This should also include upskilling the low-skilled. Guidance on lifelong learning should be developed, as is done in Portugal through the Qualifica Centres (OECD, 2019^[124]). Introduce financial incentives for employers to offer these schemes, such as subsidies in Finland (Box 23.14), Belgium, Portugal and Germany; as well as incentives for employees and jobseekers (tax credits, individual learning accounts, e.g. in France) or training leave (e.g. in France and Austria) (OECD, 2019^[136]). Link recognition and validation of skills from prior learning to upskilling activities. This increases the quality and the acceptance of the recognition and validation of skills, as suggested by experience in Portugal (Düll et al., 2018^[137]).
- **Use the skills anticipation system for guiding young people, adult workers and the unemployed in retraining and upskilling activities.** Use the information on skills in demand and tracer studies to adapt the curricula of VET and university programmes as well as of adult education programmes. Train the trainers in the area of adult education and vocational rehabilitation in skills in demand as well as in adult learning pedagogy.
- **Make a thorough analysis of wage development and the wage structure as well as of non-wage labour costs.** Assess the impact of minimum wages on reduction of poverty and informal employment.
- **Update the assessment of the scope, structure and reasons for informality.** Continue planned activities to combat informality. Explore how taxes could be adapted to aid the transition from informal employment to formal employment. The OECD Jobs Strategy recommends reducing non-wage labour costs, especially for low-wage earners (OECD, 2018^[138]). Explore the options for supporting the transition to formal employment and formalising enterprises through subsidising social security contributions, as recommended by the OECD and ILO (OECD/ILO, 2019^[139]).
- **Reduce labour market barriers for women.** Reduce gender stereotypes beginning from early childhood education right through education and working life, in order to increase female employment. Promote access to childcare and out of school care for school children, and part-time and flexible working to ease the reconciliation of family and working life.¹¹⁰ Make vocational guidance in primary and secondary schools more gender sensitive and widen occupational choices for both men and women. Continue to develop and improve access for women to credit, financial support and entrepreneurship learning. Continue efforts to strengthen the labour market activation

of women receiving welfare benefits and analyse the employment barriers for family financial support recipients.

- **Increase efforts to bring vulnerable groups, e.g. Roma and Egyptian communities, into education, training and work.** Combatting discrimination needs to be addressed in a wider way. It would be advisable to analyse the reasons for the low performance of the “Empower me” programme and to investigate how approaches to integrate vulnerable groups could be improved, e.g. by better integrating the various social and employment services and ALMPs. More emphasis should also be placed on implementing vocational rehabilitation and placing people with disabilities.
- **Assess the volume of seasonal, temporary and permanent emigration to the EU and other regions, and develop strategies to mitigate the negative effects of migration and to consolidate the benefits.** It would also be useful to analyse the employment effect of remittances, the activities of the temporary migrants returning to Montenegro and labour shortages in specific professions and sectors caused by emigration. To reap the benefits of migration, encourage investments of remittances in Montenegro. It is also recommended to take advantage of migrant experiences and help workers who have gained experience abroad to find good living and working conditions when returning.

Box 23.14. Financial incentives and support to companies for continuous training in Finland

Finland offers a financial incentive that goes hand-in-hand with building the capacity of companies to identify their training needs and deliver training. The Joint Purchase Training (*Yhteishankintakoulutus*) supports employers who want to retrain existing staff or set-up training programmes for newly recruited staff. Offered by the PES, it supports employers to define their training needs, select the appropriate candidates for training and find an education provider to deliver the tailored training. The PES also part-finances the training (ranging from 30-80% of the expenses for the training). Types of training that can be developed include: 1) tailored training for employers who want to retrain their staff due to technological or other changes in the sector (minimum training duration of 10 days); 2) recruitment training for employers who cannot find employees with the skills needed and want to hire, then train new staff (training duration of 3-9 months); and 3) change training for employers who have staff who have become redundant to help them transition to other job opportunities (training duration of 10 days to 2 years).

Source: (OECD, 2019^[124]), *Getting Skills Right: Engaging low-skilled adults in learning*, www.oecd.org/employment/emp/adult-learning-systems-2019.pdf.

Science, technology and innovation (Dimension 9)

Introduction

Montenegro has continued to introduce reforms to develop a business environment conducive to innovation, research and development. It has improved its overall score in STI from 1.84 in 2018 to 2.4 in 2021 (Figure 23.1). Progress has been made in a number of areas since the previous assessment and Montenegro continues to perform better than most Western Balkan economies (Table 23.17), with only Serbia achieving a higher score and North Macedonia scoring at par. However, overall performance in this dimension remains below the economy's potential.

Table 23.17. Montenegro's scores for science, technology and innovation

Dimension	Sub-dimension	Score	WB6 average
Science, technology and innovation dimension	Sub-dimension 9.1: STI system	2.9	2.4
	Sub-dimension 9.2: Public research system	2.3	2.0
	Sub-dimension 9.3: Business-academia collaboration	2.0	1.6
Montenegro's overall score		2.4	2.1

State of play and key developments

Sub-dimension 9.1: STI system

Montenegro has significantly advanced its **STI policy framework** since the last assessment. In late 2017, the government adopted the Strategy for Scientific Research Activities (2017-2021), which complements the recently expired Strategy on Innovation (2016-2020). Montenegro developed a set of guidelines for smart specialisation in 2018, and is the first WB6 economy to adopt a smart specialisation strategy (covering 2019-2024). Action plans are in place to support implementation of the strategic framework, and budget allocations have increased in recent years. However, full implementation is behind schedule due to a lack of resources within the administration and limited long-term funding security.

The new strategic framework envisages a strengthened **institutional framework** for STI policy. In 2019, the Council for Innovation and Smart Specialisation was set up to oversee the design and implementation of STI policies. Through its permanent Secretariat, funded partially by the Government of Montenegro as well as the UNDP, it acts as a co-ordination body across ministries and gives support to the Ministry of Science, the body formally in charge of STI policy making. The council became operational in early 2020, and is mandated to advise on the governance of the STI framework and oversee all funding for STI-related policy measures. Montenegro is also in the process of setting up a dedicated Innovation Fund, expected to be established by the middle of 2021. The Council for Innovation and Smart Specialisation has been leading this process, and discussions are ongoing with the World Bank to provide its expertise in setting up the fund. If designed well, the Innovation Fund, together with the Council of Innovation and Smart Specialisation, are expected to significantly accelerate implementation of the STI strategic framework in the coming years.

The **regulatory framework** has been expanded and aligned with EU standards. In July 2020, the Government of Montenegro adopted the new Law on Incentive Measures for Research and Innovation Development and a revised Law on Innovation Activity. The revised framework will regulate the STI system and incentives for innovation activity, and aims at creating an innovation-conducive environment incentivising innovation and R&D, including through the Innovation Fund. A legal framework for intellectual property (IP) is in place and largely aligned with the EU *acquis*, though it does not include specific provisions to encourage commercialisation of IP or collaboration between researchers and the private sector. Montenegro's track record of enforcing IP legislation remains poor, though the capacity of the IP

office has increased in recent years and efforts have been made to intensify co-operate with the research community.

International collaboration, especially within the European Research Area, is recognised as key for developing Montenegro's STI framework. Support is made available through an annual Call for Co-financing of Research and Innovation Activities, which aims to facilitate access to international STI programmes and networks, in particular Horizon 2020.¹¹¹ Despite increasing efforts, however, Montenegro's success in the Horizon 2020 framework remains below potential. By the end of 2019, the economy had only participated in 30 Horizon 2020-funded projects, most of which received only small-scale funding (EC, 2020^[140]). However, as project submissions have become better aligned with EU priorities in recent years, an increase in successful proposals is becoming evident. Montenegro has also maintained active engagement with international bodies and networks, such as Eureka¹¹², European Cooperation in Science and Technology (COST)¹¹³ and the European Organization for Nuclear Research (CERN), and it is a shareholder in the Western Balkans Enterprise Development and Innovation Facility (WB EDIF), whose Enterprise Innovation Fund has invested in two Montenegrin start-ups to date. Another mechanism to promote international collaboration is the active inclusion of the Montenegrin diaspora in scientific research activities through visiting fellowships, evaluation of project applications and including them in research programmes.

Alignment with EU STI policy standards remains a priority. Montenegro is committed to the priorities of the European Research Area and actively participates in the European Strategy Forum on Research Infrastructures (ESFRI). In 2019, it revised its roadmap for research infrastructure to identify impediments to advancing research and development. It also became a member of the European Societal Survey of the European Research Infrastructure Consortium (ESS-ERIC) in 2018. Within the framework of Montenegro's participation in the EURAXESS initiative¹¹⁴, the University of Montenegro has adopted a human resources strategy for researchers (HRS4R) aimed at harmonising human resources policy with the principles determined by the Charter and Code for Researchers, for which it was awarded the HR Excellence in Research Award by the European Commission. National open science and open access initiatives are well underway and aligned with EU standards. Finally, Montenegro is expected to participate in the European Innovation Scoreboard in 2020 for the very first time, which is likely to enable more analysis and monitoring of the STI system in the future.

Sub-dimension 9.2: Public research system

Montenegro has completed a large-scale World Bank-funded programme during the assessment period. The Higher Education and Research for Innovation and Competitiveness (HERIC), implemented between 2013 and 2019, aimed to strengthen the quality and relevance of higher education and research in Montenegro by reforming the higher education finance and quality assurance systems and by strengthening research capacity. Within this framework, and underpinned by Montenegro's new STI framework, some efforts have been made to expand the **institutional structure of the public research system**. Most notably, in May 2018, the Centre of Excellence for Research and Innovation was established at the University of Montenegro as a successor to the pilot Centre of Excellence in Bioinformatics – BIO-ICT, which was established in 2014 under the HERIC project. In addition, two centres of excellence projects are currently underway, focusing on food safety and biomedical science respectively. The total value of the projects is EUR 2.5 million, of which the state will co-finance EUR 1.8 million over three years.

The higher education institutions (HEI) sector is governed by the Law on Higher Education, but the role of the Ministry of Science as the gatekeeper of the STI policy framework in the governance of the HEI and Research and Development Institutes (RDI) sectors remains unclear. While all HEIs conduct a mandatory annual self-evaluation, independent performance assessments remain ad hoc and primarily project-linked. In March 2019, a Law on Academic Integrity was adopted aiming to promoting academic integrity and tackle plagiarism.

State budget allocations for **public research funding** and innovation have more than doubled in recent years, although from low levels. Public scientific research remains predominantly dependent on institutional funding, which is largely geared towards education and not subject to regular performance reviews. However, in line with the revised legal framework, a new performance-based financial contracting model was adopted for the University of Montenegro in 2018 aimed at improving the quality of public funding. As a result, more competitive project-based funding schemes have been introduced, and as the new Council on Research and Innovation and the Innovation Fund launch operations, more funding is expected to be made available on a competitive basis, and following international best practice evaluation methodologies.

The number of active researchers in Montenegro remains low, at around 460 in 2018. With 734 researchers per million inhabitants, Montenegro performs below some of the regional peers, such as North Macedonia and Serbia, and remains far behind the EU average of around 4 000 researchers (UIS, 2021^[141]). The development of **human resources for research and innovation** has become a priority aspect of Montenegro's STI framework. Since the previous assessment, Montenegro has launched a dedicated programme to strengthen human resources and human research capability in Montenegrin research institutes. This was implemented between 2018 and 2020 and aimed to create more attractive employment prospects within academia. The programme envisaged a more favourable environment for research and overall promotion of scientific research as a profession, and included a variety of measures such as scholarships for doctoral students, and support for international mobility, training and participation in international networks. Other measures included training on proposal writing, project management and applying for international research tenders. In addition, the Law on Incentive Measures for Research and Innovation envisages tax incentives for scientific research and innovation projects that employ qualified researchers.

Sub-dimension 9.3: Business-academia collaboration

Overall investment in research and development, of almost 0.37% of GDP in 2018, remains low compared to the EU average of 1.69%, while only a fraction of this investment is funded by the private sector. While the **collaboration promotion framework** is well embedded in the STI framework, only a few targeted policy measures have been implemented to date. Some awareness-raising activities are being implemented to promote the benefits and opportunities of academia-business co-operation, and the increased focus on building an institutional support structure is a welcome step in the right direction.

Montenegro has made some progress in introducing small-scale **financial incentives** to stimulate research institutes and the private sector, though these remain largely focused on fostering innovation in the private sector more broadly. Based on the positive experience of a pilot co-operation grant scheme under HERIC in 2013/14, a new Innovation Programme for Grants and Innovative Projects was launched in 2018 for a period of two years, providing competitive co-operation grants to companies to develop innovative market-oriented products, services and technologies and supporting the transfer of innovative ideas from scientific research institutions to the market. In 2018, over EUR 730 000 were awarded to ten successful projects, three of which were proposed by RDIs. In 2019, eight more innovative projects were awarded, with co-financing by the Ministry of Science amounting to EUR 615 000, and a successor programme is being considered. In addition, grants for scientific research projects are available for RDIs to co-finance investments and foster research excellence. However, a pilot voucher scheme, designed with OECD support, was discontinued in 2015 and there are no fiscal incentives for academia-business collaboration. Equally, **non-financial incentives** are also limited. Doctoral research scholarships specifically encourage a mandatory mobility placement of Montenegro PhD candidates in foreign academic institutions or in business entities in Montenegro and abroad. In reality, however, only a few scholars take up the opportunity to spend their mobility period in business entities. Montenegro also does not actively participate in the Marie Skłodowska-Curie actions, and evaluations of researcher performance continue to be primarily based on traditional criteria, thereby providing little incentive to engage with the private sector.

Similarly, the IP framework does not include specific provisions to support such collaboration, as IP rights are usually defined in employment contracts. The Ministry of Economic Development, however, offers small-scale technical assistance in the form of advising on patenting, and plans are underway to develop a booklet for innovation protection to act as a guidance for innovators and researchers.

Some progress has been made in strengthening **institutional support for business-academia collaboration**. Identified as a priority in the Smart Specialisation Strategy, the expansion of a network of Centres of Excellence is currently underway, as discussed above. This will contribute to fostering co-operation between academia and the private sector in the medium-term. In addition, an office for technology transfer has been established within the Centre of Excellence for Research and Innovation at the University of Montenegro. Furthermore, significant efforts have been made to build the country's first Science and Technology Park, which envisages a networked structure with a central base in Podgorica and three decentralised impulse centres in Nikšić, Bar and Pljevlja. Following the launch of the Innovation and Entrepreneurship Centre Tehnopolis in Nikšić, construction of the central unit of the Science and Technology Park of Montenegro in Podgorica is well underway, and is expected to be fully completed in 2021. Montenegro has also been the key driver of the creation of the South East European International Institute for Sustainable Technologies (SEEIIST), which is expected to deepen regional scientific research co-operation (Box 23.15).

Box 23.15. Building a regional research infrastructure: The South East European International Institute for Sustainable Technologies

For the small and open economics of the Western Balkans, the availability of state-of-the-art, regional research infrastructure plays a fundamental role in developing STI.

In 2017, the South East European International Institute for Sustainable Technologies (SEEIIST), was initiated by the Government of Montenegro and supported by the governments of the Republic of Albania, Bosnia and Herzegovina, Republic of Bulgaria, Kosovo, North Macedonia, Montenegro, Republic of Serbia and Republic of Slovenia. The institute focuses on the development of pioneer high technologies used for tumour therapy and biomedical research. With funding from the European Commission and extensive capacity building provided by renowned international research institutes, including CERN, the institute is expected to become a key player within the European research spectrum on medical science and an access point for international researchers.

The institute will offer numerous opportunities for technology transfer to the region and is expected to give a boost to local industry. Moreover, the establishment of the institute could trigger spin-offs and complementary technologies, and spur on digital transformation.

Source: (SEEIIST, 2020^[142]), *The South East European International Institute for Sustainable Technologies (SEEIIST)*, <https://seeiist.eu/>; (Ministry of Science of Montenegro, 2019^[143]), *Revised Roadmap for Research Infrastructure of Montenegro (2019-2020)*, [https://www.esfri.eu/sites/default/files/RI%20Roadmap%20Montenegro%20revised%20\(2019-2020\)%20ENG.pdf](https://www.esfri.eu/sites/default/files/RI%20Roadmap%20Montenegro%20revised%20(2019-2020)%20ENG.pdf).

The way forward for science, technology and innovation

Montenegro has made good progress in advancing its STI policy framework. Efforts made in recent years have strengthened the institutional framework, and initial steps have been taken to introduce financial support schemes and build an STI-supportive infrastructure. Going forward, the focus should be on fully implementing and expanding these measures. Specifically, Montenegro should prioritise the following:

- **Ensure swift operationalisation of the new Innovation Fund.** The focus should be placed both on building the fund's internal capacity as well as ensuring sufficient funding availability.

- **Invest in the scientific research system.** More comprehensive measures should be put in place to build human resource capacity in priority STI areas and increase the attractiveness of research as a profession. An evaluation of the HERIC Programme may identify key obstacles to overcome. Montenegro should explore ways to more actively participate in the Marie Skłodowska-Curie actions.
- **Continue increasing Montenegro's participation in international research programmes such as Horizon 2020.** Concrete measures should be put in place to encourage private sector businesses to invest in research and development and intensify co-operation with RDIs. Financial programmes should be designed with the clear objective of stimulating academia-business co-operation, which should be reflected in the eligibility criteria and evaluation methodology.
- **Continue building a national and regional research infrastructure.** Timely completion of the STP in Podgorica and affiliated impulse centres, coupled with sustained funding, will improve integration between academia and the private sector. Efforts should also be made to operationalise the pilot technology transfer office at the Centre of Excellence at the University of Montenegro.

Digital society (Dimension 10)

Introduction

Montenegro has recognised the potential of entrepreneurship and innovation for driving smart growth, especially in the ICT sector. This is reflected in the economy's Smart Specialisation Strategy, which considers ICT as a cross-cutting enabler and Digital Montenegro as its flagship initiative. As shown in the Table 23.18, the economy achieved the second highest overall score in digital society among the Western Balkan six. However, the Montenegrin ICT industry is not yet strong enough to support digital transformation across all sectors, and support to the digital transformation of MSMEs has not been enough to allow it to accelerate. Although 99.5% of the enterprises in Montenegro have access to the Internet and 84.5% of them have a website, e-commerce is lagging behind the EU average. The economy is making steady progress on broadband development, reflected in above average score in access sub-dimension - it has aligned its respective framework with the EU *acquis* and has secured financing to support private sector investments in rural network infrastructure development. Montenegro is also moving forward to reach its vision for the digital transformation of its public administration, turning it into a digital service for citizens and businesses. Even so, the public sector is not fully aligned with international practices on privacy protections and free access to information in the digital age, and the economy scores slightly above average in the trust sub-dimension. Raising public awareness and building human capacities in the public sector on these issues needs to receive higher priority to help change mindsets and instil a culture of trust, transparency and data openness.

Table 23.18. Montenegro's scores for digital society

Dimension	Sub-dimension	Score	WB6 average
Digital society dimension	Sub-dimension 10.1: Access	3.2	2.9
	Sub-dimension 10.2: Use	3.0	2.4
	Sub-dimension 10.3: Jobs	2.5	2.3
	Sub-dimension 10.4: Society	2.0	2.1
	Sub-dimension 10.5: Trust	2.3	2.2
Montenegro's overall score		2.7	2.4

State of play and key developments

Sub-dimension 10.1: Access

Montenegro has continued to improve its **broadband infrastructure** and although positive progress has been made towards the strategic targets of the Strategy for the Information Society 2020, some of them remain unattainable, particularly those for increasing broadband penetration in sub-urban and rural areas (e.g. the target for broadband penetration to reach 100% of population by 2020). In 2019, next generation access (NGA) coverage was 80.3% (the target for 2020 was 100%), fixed broadband penetration was 90.3% (the 2020 target was 100%), the share of fast broadband connections was 75.1% (the 2020 target was 70%), but ultrafast broadband penetration was 14.2% (the 2020 target was 50%) (EKIP, 2019^[144]). The Ministry of Economic Development¹¹⁵ has just started implementing two major projects on broadband infrastructure development:

1. The Regional Broadband Infrastructure Development in Montenegro¹¹⁶ project is financed under the Western Balkan Investment Framework (WBIF). Its ultimate objective is to support the construction of adequate infrastructure (mostly in rural areas) for fast and secure Internet to all households (increase from 70% to 95%), businesses, educational and health institutions in order to support the digital transformation of society and the economy. A National Broadband Development Plan (NBDP) will be developed, based on which a secured loan of EUR 15.9 million

from the European Bank for Reconstruction and Development (EBRD) will finance broadband development plans for underserved areas.

2. The Western Balkan Digital Highway Initiative, supported by the World Bank.¹¹⁷ Montenegro is co-operating with the other WB economies on this project, which aims to investigate regional interconnectivity improvements through infrastructure sharing of the optical fibre ground-wire installed over the years by local energy utilities. Comprehensive broadband infrastructure mapping¹¹⁸ has been conducted in the past three years by the Agency for Electronic Communications and Postal Services (EKIP). The draft law on the use of physical infrastructure for the setting up of high-speed electronic communication networks, which transposes the EU's Broadband Cost Reduction Directive (2014/61/EU), is expected to be proposed for adoption in the second quarter of 2021. The law completes an adequate ICT policy investment framework for broadband infrastructure investments that enables strategic public spending to resolve bottlenecks to private operations without creating excessive crowding-out effects. This framework will support the implementation of the two major broadband infrastructure projects under implementation.

Montenegro's **ICT policy regulatory framework** is fully aligned with the EU 2009 Regulatory Framework and international connectivity agendas, such as the agenda for the Western Balkans, promoting quality infrastructure investment in the electronic communications sector. Montenegro also signed the Regional Roaming Agreement with WB economies in April 2019. The framework is based on the Law on Electronic Communications. This was amended in 2017 to eliminate issues that compromised the independence of the Regulatory Agency: 1) the provision to transfer budget surpluses of the regulatory body to the state budget; and 2) the provision that permitted the National Assembly to dismiss the Regulatory Agency's President and Council members if the agency's annual financial report is not accepted. As a result of these amendments, the agency now enjoys full operational and financial independence and its budget is provided from fees paid to the agency by network operators. The agency is well staffed and has the resources to perform its responsibilities, including market monitoring, publishing data on the development of the market, and maintaining a database of relevant indicators. In 2020 it also adopted a new plan for the use of the radio frequency spectrum (amending the 2017 plan), in order to implement the decisions of the World Radio Communication conference (WRC-19). Improvements to the regulatory framework are continuously being made.¹¹⁹ The agency implements legal obligations and procedures for conducting public hearings, providing meaningful opportunities (including online) for the public to contribute to the process of preparing draft regulatory proposals in the ICT field. Regulatory impact assessments (RIA) are also conducted in the early stages of the policy-making process, and the analysis is published on the website of the relevant ministry and the e-government portal at the beginning of the public consultation period.

Since 2018, Montenegro has made significant steps in developing its **data accessibility** framework and aligning it with international practices. Data accessibility based on the principles of transparency and openness are covered by a number of policy documents, including the Information Society Development 2020, the Public Administration Reform Strategy 2016-2020, and the Open Government Partnership (OGP) Action Plan. The most important development in 2019 was the adoption of the National Interoperability Framework, which is in line with the European Interoperability Framework (EIF 2.0), and will serve as a solid basis for data exchange among public sector bodies. Amendments to the Law on Free Access to Information were made in 2017, following OGP recommendations, creating the conditions for re-use of information, and obliging each institution (data owner) to maintain and publish the information for reuse in a manner that makes it searchable, in an open and machine-readable format, on the Open Data portal.¹²⁰ The portal publishes open data sets for commercial and non-commercial purposes via a shared metadata catalogue, and serves as a foundation for setting standards in public data management and data re-use for added value creation. The portal included 106 data sets from 18 state institutions by mid-2020. A new draft of the Law on Free Access to Information was prepared in 2019, but was still pending adoption in 2020. The engagement of the private sector in open data re-use initiatives is still at an early stage of development and no public-private partnership data-sharing platforms (data PPPs) with certification

systems have been created yet. On the upside, the Ministry of Public Administration and the Chamber of Commerce of Montenegro organised an Open Data Hackathon¹²¹ during the Infofest 2019 Conference to stimulate data innovation initiatives.

Sub-dimension 10.2: Use

Montenegro has demonstrated a long-term commitment to transforming its public administration to a new public service, however progress on e-government development over the last two years (2018-2020) has been slower than in other United Nations (UN) countries. As a result, Montenegro's ranking fell from 59 (2018) to 75 out of 193 countries in the UN 2020 e-Government Survey (United Nations, 2020^[145]; United Nations, 2018^[146]). The **digital government** policy framework is made up of the Information Society 2020 Strategy and the Public Administration Reform Strategy (PARS) and its action plan for 2018-2020, which is also aligned with the economy's Open Government Partnership commitments. The PARS promotes e-government development and the creation of efficient electronic services for citizens and businesses in Montenegro. It also seeks to ensure interoperability of registers and user availability of data from registers. The legal framework is primarily based on the new Law on e-Government (electronic Public Administration), which was adopted in 2020¹²² to replace the law from 2014. The new law establishes the Council for e-Government for the improved cross-cutting co-ordination of digital government development across the public sector. It aims to ensure an increasing number of user-oriented and business-oriented e-services are developed around the fundamental "only once" principle (i.e. a citizen submits certain data only once, and this data is then propagated for provision of any relevant public service). The legal framework is also complete, with a number of acts adopted in 2019 to eliminate obstacles to the development and use of e-government services.¹²³ The Law on Electronic Identification and Electronic Signature was also amended in 2019 to harmonise the framework with the new law on identity cards, to align with the eIDAS Regulation (EU 910/2014). Montenegro is also preparing a new Strategy for Digital Transformation in Montenegro 2021-2025, which is pending adoption in 2021. The new strategy aims to promote the digital economy and digital transformation in Montenegro.

The Ministry of Public Administration, Digital Society and Media has introduced the Unified Information System for Electronic Data Exchange (JISERP) to exchange data among public administration bodies and other entities. JISERP allows data from a number of e-registers and information systems to be accessed, including the Central Population Register (CRS), the Education Register, the IS Social Card and Central TAX and Insured Persons Register (CROO) and the information system of the Health Insurance Fund. The e-government portal, the eUprava portal,¹²⁴ is the point of access for all electronic public services (e-services) offered by state administration bodies, local self-government bodies and local government bodies. It was launched in April 2011 and initially provided 12 services, all in the Montenegrin language. By 2020, the portal was offering 598 electronic services under the competence of 52 institutions (EC, 2020^[66]). The portal also includes an e-Participation module for public hearings, contributions to legislative proposals, participation in working groups and e-consultations. It also provides access to several e-health services.¹²⁵ Notably, according to eUprava survey statistics, there is a positive trend in public service satisfaction, as 52% of eUprava users were completely or mostly satisfied with services in 2019, an improvement on 30% in 2018. Additionally, 82.7% of survey participants believe that the procedure for requesting a particular document has been simplified (Ministry of Public Administration, 2020^[147]).

The policy framework for **private sector ICT adoption** is based on the Strategy for the Development of MSMEs, with an action plan for 2018-2022. It aims to improve SMEs' competitiveness through the use of ICT, digital business transformation and promotion of e-commerce. The multi-annual action plan implementing the Industrial Policy 2020 also covers aspects of ICT adoption by companies. These policies include support measures for the purchase of ICT equipment and software, for hiring consulting services to modernise and digitalise business processes and for innovating business processes and products. They also promote modernisation and greater effectiveness of e-services for businesses. Along the same lines, the Programme for Improving the Competitiveness of the Economy, designed and approved on an annual

basis, also supports private sector ICT adoption. As part of this programme, a special programme line for business digitalisation was designed for 2020.¹²⁶ Unfortunately, due to the COVID-19 pandemic, its launch was delayed and the first call for applicants was announced in August 2020. The total annual budget for the implementation of the Digitalisation Support Programme Line is EUR 200 000 and each company can be reimbursed for 50% of eligible costs (excl. VAT) for a maximum amount of EUR 3 500.¹²⁷ The expected impact of this programme is limited, since this funding can support no more than 60 companies. Results from similar programmes in previous periods also indicate very low rates of SME participation (e.g. only 10 companies applied in 2018 for a similar digitalisation programme according to the ministry's annual report¹²⁸), which has been attributed to the heavy administrative burden on SMEs when applying and implementing these projects. Government-funded capacity-building activities to support ICT adoption have not been prioritised.

On a positive note, the legal framework for e-business and e-commerce has been recently updated, providing an enabling environment for doing business online. According to a 2020 survey on ICT usage by enterprises conducted by MONSTAT, 99.5% of the surveyed enterprises have access to the Internet, 84.5% of these enterprises have a business website, 45.5% of them use connection speeds of 30Mbps or lower while another 29.7% use speeds of between 30 Mbps and 100 Mbps (MONSTAT, 2020^[148]). According to Eurostat, 12% of small businesses made e-commerce sales during 2019, compared to an EU average of 17%.¹²⁹

Sub-dimension 10.3: Jobs

The **digital skills for students** policy framework is based on a new digital competence framework that came into force in September 2020. The policy framework also includes a national curriculum that incorporates digital skills into compulsory subjects in primary and secondary education,¹³⁰ and a Higher Education Strategy for 2020-2024 that promotes the adoption of e-learning platforms and learning management systems. The higher education strategy was pending adoption in late 2020. Progression of digital skills and competences between primary, secondary and higher education curricula is coherent and quality assurance (QA) processes are in place, but indicators on digital skills are not included in QA reports.

Digital skills for students are assessed through regular student assessment procedures. Competent bodies claim that several international good practices in school curricula and teaching methods have been reviewed or even transferred, particularly from the UK and Finland. Every school in Montenegro has access to the Internet, although with varying speeds and availability in the classrooms, especially in suburban and rural areas. Efforts are made to bring Internet connectivity and equipment to every classroom at higher speeds and greater quality. Network infrastructure and speed will be improved through the Regional Broadband Infrastructure Development project launched by the Ministry of Economic Development during 2020. Software and digital tools for collaboration are also gradually being adopted in classrooms and into the teaching and learning process. The COVID-19 pandemic has expedited this process.

By the end of 2020, the targeted computer-student ratio was 1:10, which is the highest in the region. Montenegro has created a regional good practice through the appointment of an ICT co-ordinator in every school. The initiative for designating an ICT co-ordinator in schools started in 2006; since then every school in Montenegro has adopted the practice. This co-ordinator is responsible for the school's overall ICT management (including system maintenance, reporting failures, monitoring antivirus protection, etc.) and for encouraging and assisting staff with the application of ICT in teaching, training them to use ICT, and supporting them with the use of electronic didactic materials. However, data on digital skills for students, as well as on teachers' digital literacy, continue to be scarce. UNICEF Montenegro has supported the Ministry of Education in surveying aspects of children's and teachers' Internet use, online safety and digital literacy, introducing the Global Kids Online research toolkit¹³¹ and supporting the development of digital literacy education in schools.

During 2018, the University of Montenegro started a process of digitalisation. New servers were installed in the Information System Centre and the academic network, EDUROAM, was introduced in all organisational units with network speeds up to 1Gbps. The development of an e-index and e-services is on the way, as well as the establishment of a new e-learning system that enables online teaching and collaboration with students at all higher education institutions. The Ministry of Education, Science, Culture and Sports is also actively participating in international co-operation projects, such as the IPA-funded project on Improving Key Competencies in the Education System of Montenegro. Although the Institute for Education and the National Examination Centre conduct external evaluations of the teaching process and the progress of developing digital skills, and co-ordinate follow-up activities (including teacher training, modernisation of equipment and methods, preparation of digital textbooks, etc.), evaluation reports are not publicly available. In general, monitoring of students' digital skills is weak and data are not regularly published by the relevant institutions.

The framework for **digital skills for adults** is based on the Strategy for the Development of Vocational Education in Montenegro and Action Plan for 2020-2021, and the Adult Education Plan (2019-2022), which aim to prepare a skilled workforce through the application of the European e-skills framework. These policies make clear reference to the development of digital competencies through lifelong learning and formal and non-formal education systems, and envisage co-operation with the labour market to identify training needs and design curricula. Approximately EUR 8 million have been allocated to implement the actions for the new Strategy for Vocational Education,¹³² spread over three years up until 2022. However, reports on the funds allocated and implementation progress so far are not publicly available.

Digital skills for adults are developed through programmes promoted by the Centre for Vocational Education in various educational forms. The centre is also responsible for quality assessments of these programmes. Despite the industry being consulted during curricula design, the number of people trained and the quality of the training do not always meet market needs for skilled ICT professionals. Donor or private sector funded programmes offer non-formal adult learning opportunities, including several teacher training courses in digital skills, which have had a positive impact. For example, the Ministry of Education, Science, Culture and Sports co-operated with the British Council on the 21st Century Schools project, which trains primary school teachers¹³³ in critical thinking, problem solving and coding with micro:bit devices. The project has trained 537 primary school teachers from 95 primary schools since 2019, and is set to train a total of 800 teachers by the time it ends in 2022. In addition, 252 teacher training courses on the basics of programming and databases were also held during 2018 and 2019 in co-operation with the Oracle Academy.

According to the regulations, professional qualifications acquired through non-formal education systems can be recognised under the national professional qualifications framework, aligned with the EU Qualifications Framework since 2014. The Employment Agency also offers opportunities for IT skill development to unemployed people and other underprivileged groups; however, data on the impact of these programmes are not publicly available. The National Education Council consults the Employment Service, the Chamber of Commerce and the Union of Employers prior to adopting a digital skills programme. External evaluations took place during 2018/19 of each education provider and the reports were published on the Centre for Vocational Education's website.¹³⁴ However, no reports have been published since at least 2017 on internal evaluations or on the implementation of the new strategy.

Montenegro partly covers **ICT sector promotion** in policy documents that foster digitalisation and innovation through ICTs. The Strategy for the Development of the Information Society (IS) by 2020 and the Smart Specialisation Strategy (S3) 2019-2024, which is an overarching national strategy, are the main policy documents to support the development of the ICT sector. The IS strategy together with the announced Strategy for Digital Transformation 2021-2025 highlight broadband infrastructure development as one of their main objectives, which directly supports the growth of the communications sub-sector. On the other hand, the Smart Specialisation Strategy, adopted by the Ministry of Education, Science, Culture

and Sports, highlights ICT as a cross-cutting priority and includes the flagship initiative Digital Montenegro, aimed at promoting the digitalisation of businesses and ICT-related innovation in existing or emerging technologies. By promoting these, the S3 indirectly affects the ICT sector by boosting growth in all sectors of the economy through the use of ICT; however, it doesn't support ICT industry growth directly. The IT sub-sector companies (e.g. software development and information systems) may exploit the opportunities created across industries by the S3 to develop innovative products based on emerging technologies for the domestic and the international market. The Digital Montenegro initiative plans for IT awareness raising to enable dynamic and proactive access to new and innovative technologies; once again, however, the focus of these activities is cross-cutting rather than ICT sector targeted. The Ministry of Science is already supporting some activities to raise awareness of ICT technologies and innovation, notably among the youth, such as the annual IT fair Knowledge Factory within the Open Science Days Festival. It also introduced a new instrument in 2019 that co-finance (EUR 15 000 a year) activities intended to encourage a culture of innovation, such as hackathons, intense training camps, or similar. However, the impact of these initiatives on ICT sector promotion is limited, since they are focused on fostering ICT as an enabling technology, rather than on promoting the growth of the sector itself.

No internal assessments or external evaluations have been conducted on the impact on the ICT sector of the implementation of the IS 2020 Strategy or other policies, such as the Strategy for the Development of MSMEs. The ICT Association at the Chamber of Commerce points to the fact that the ICT sector does not have a national umbrella institution, since three ministries implement relevant policies (Economic Development, Public Administration and Education), all of which consider a well-developed ICT sector important for achieving their goals. However, the IT sub-sector of the industry cannot be considered as well developed. There is a lack of trained professionals, which is attributed to education system shortcomings. The ICT Association emphasises the need for a dedicated ICT sector promotion policy or programme that fosters measures to strengthen the ICT industry through internationalisation, promotion of exports, improved access to capital and favourable tax and staff social security regimes to enable investments.

Sub-dimension 10.4: Society

The Strategy for Information Society Development 2020 and the new Law on e-Government, enacted in 2020, cover the basic principles of a **digital inclusion framework**. They promote the use of digital technologies among marginalised groups and equality across society regardless of age, geographic location, gender, education level, ethnicity or ability. The new Rulebook on e-Accessibility standards, adopted in late 2020, is aligned with international standards for websites, e-documents, e-services and procurement of ICT products and services. This rulebook complements the new Law on e-Government, and updates the existing framework through obligatory guidelines for all public sector websites in Montenegro. Guidelines had already been adopted for e-accessibility on public sector websites (since 2014) and for the creation of e-documents (since 2017), as prescribed by the Strategy for the Information Society 2020, but monitoring and enforcement was weak (OGP, 2018^[149]). Some training for public officials and portal administrators has been organised, as well as a few awareness-raising and capacity-building activities for marginalised groups. The Ministry of Public Administration along with Montenegrin network operators and associations have organised free training for various population groups, equipment donations for schools in rural areas, training and certification testing for the Roma population, campaigns for people with disabilities, and ICT training workshops. However, low prioritisation and resource allocation for digital inclusion measures are aggravated by the lack of a central body tasked to oversee and coordinate digital inclusion activities by the various line ministries. Data on digital inclusion indicators are not regularly collected, which hinders informed policy and programme design.

Sub-dimension 10.5: Trust

The Law on Personal Data Protection (PDP) provides a basic framework for digital **privacy protections**. However, the current PDP framework is not fully aligned with the EU's General Data Protection Regulation (GDPR) (EU) 2016/679 and is outdated, with the law on PDP having been enacted in 2008 and last amended in April 2017. The Ministry of Interior formed a working group in 2020 to prepare a new PDP Law, but preparations are still at an early stage and there is no announced schedule for the adoption of the new law. Montenegro has not yet signed or ratified the Council of Europe 2018 Protocol amending the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data. The Agency for Personal Data Protection and Free Access to Information is the competent, independent enforcement authority. It undertakes inspections of PDP compliance and although it organises training for public sector officials and public awareness-raising workshops, capacity-building activities on PDP are weak. The agency has insufficient resources to implement its tasks. It is also evident that a culture of data privacy and access to public information is yet to be instilled in the public sector and across all levels of the government. Without such a culture, implementing the framework is difficult. Public institutions often deny access to public information requests by not answering or by declaring requested documents to be classified (EC, 2019^[73]). The COVID-19 crisis has further exposed the challenges of limited awareness of PDP rights and obligations, with authorities struggling to find the right balance between protecting the health of the nation while respecting the confidentiality of personal health data and citizens' right to a private life¹³⁵ (EC, 2020^[66]). Personal data disclosure measures taken by public institutions to address the COVID-19 pandemic in 2020 have raised questions on disproportionality by civil society organisations (AZLP, 2020^[150]). On a positive note, in 2018 the agency completed a successful EU-funded twinning project Strengthening the Capacity of the Agency for Personal Data Protection and Free Access to Information with its partner agency in Croatia. It used training to improve staff capacity in the application of the law on free access to information. The aim of the project was to reduce the number of cases of administrative silence by first instance bodies and the number of agency decisions annulled by the administrative courts (AZLP, 2018^[151]).

The framework for **consumer protection in e-commerce** is defined by the National Consumer Protection Programme 2019-2021 and its annual action plans, as well as the Law on Consumer Protection, amended in December 2019 to transpose the EU Directive on consumer rights (2011/83/EU). The new law improves consumer protection in e-commerce and introduces many new protection mechanisms for distance contracts. The Ministry of Economic Development is working on subsequent secondary legislation to regulate consumer protection in e-commerce. During 2020 two regulations were adopted, both regarding unilateral termination of consumer contracts concluded online. A law on alternative dispute resolution was also adopted in 2019 and subsequent by-laws are under preparation. The Commission for the Implementation of the National Consumer Protection Program is an inter-sectoral body, established by the Ministry of Economic Development to co-ordinate and report on the implementation of the programme. The law enforcement authority for consumer protection in e-commerce, the Directorate for Inspection Affairs,¹³⁶ is in charge of inspections of information society services and also collects data on consumer complaints, surveys and other trend data that allow for comprehensive monitoring of consumer protection. However, in its 2019 annual report, the directorate doesn't mention any activities related to consumer protection in e-commerce, suggesting that the implementation of the e-commerce consumer protection framework and its monitoring are still weak. Although consumer education and information are part of the mission of the Consumer Protection Programme, activities to raise public awareness around e-commerce are also insufficient. Ministries and other agencies, as well as the NGO CEZAP (Centre for Consumer Protection), have the role of informing or educating consumers, but again e-commerce activities have not been prioritised. Indicators on e-commerce and consumer protection in e-commerce are not regularly collected and published.

The Cyber Security Strategy of Montenegro 2018-2021 draws on international instruments to promote **digital security risk management** and cybercrime mitigation and encourages in-service risk management

training and awareness raising across the population through education programmes. Since 2018, there is clear evidence of active policy implementation. The Information Security Council was established in 2019 to co-ordinate implementation of the strategy in accordance with the EU Directive on security of network and information systems (NIS Directive EU 2016/1148) (EC, 2020^[66]). The Critical Information Infrastructure for Montenegro has been defined in eight critical sectors. Also, the operational capacity of the national computer incident response team CIRT.ME has been strengthened with six additional staff members, and other public and private computer security incident response teams (CSIRTs) are gradually being created. Despite the staff increases for the CIRT.ME, additional technical and financial resources are still needed both for the CIRT.ME and the police department in charge of the fight against cybercrime, which, with only two employees, is seriously understaffed. The Law on Information Security and the Law on Classified Information are in place, but further harmonisation is needed and additional regulations are pending to complete the legal framework on information security and to align further with the NIS Directive.

The way forward for digital society

Despite some important steps taken to improve the digital society policy framework, the government of Montenegro should pay more attention to the following aspects:

- **Invest in activities that promote the re-use of open data and stimulate the creation of public-private partnerships on data innovation.** Activities to promote the re-use of open data include organising open data hackathons, like the one organised in 2019; supporting business start-ups that create new value from open data sets; and open data partnering events that bring together public institutions (data owners) and private sector companies to stimulate the creation of open data PPPs focused on data innovation. Raising public awareness on data openness can be achieved by co-operating with civil society organisations and allocating sufficient resources to build the capacities of public officials.
- **Develop support programmes for SMEs to boost the adoption of e-business and e-commerce.** Review and evaluate the impact of previous programmes on digitalisation of SMEs and collaborate closely with industry stakeholders to identify shortcomings in the design of support measures. Adapt the approach and types of financial support to the needs of the market and allocate sufficient resources for co-financing tools for training SME staff in ICT. A set of indicators for private sector ICT adoption, including e-commerce, should be developed and regularly monitored.
- **Develop a common digital competence framework for ICT professionals to meet the needs of the labour market.** Despite the proliferation of ICT-related subjects and IT training programmes, their poor quality and lack of relevance to industry needs is widening the gap between the skills available and those sought by ICT sector companies. Increased co-operation between ICT training providers and the industry should be systematised following EU and international good practice. State institutions should strengthen the monitoring of digital skills indicators and regularly assess the relevance of acquired IT skills to market needs.
- **Adopt an ICT sector promotion policy or programme to strengthen the domestic industry so that it can act as an enabler of economic growth.** Although ICT is identified as a horizontal tool for growth across industries in the Smart Specialisation Strategy, the domestic IT industry has not received the necessary support to grow, increase exports or attract investments. Specific measures are needed to support the ICT sector in financing growth, internationalising products and services and retaining talent.
- **Establish or appoint a state body to oversee and co-ordinate digital inclusion activities and institutions implementing digital society policies.** Enable this body to co-ordinate activities at the highest level of the government, across ministries, agencies and institutions, to prioritise digital inclusion measures and ensure the sufficient allocation of resources to activities. This body would

need to facilitate collaboration with the private sector and donors to avoid duplicated effort and wasted resources, and to promote ICT capacity building for underprivileged groups. It could also be tasked with monitoring the implementation of e-accessibility regulations and regularly collecting data on a complete set of indicators for digital inclusion to enable data-driven policy making.

- **Accelerate the adoption of a new Law on Personal Data Protection to transpose the GDPR into national legislation.** Strengthen the Agency for Personal Data Protection and Free Access to Information with financial and human resources so it can perform its tasks effectively, particularly in view of the implementation of the new law. Intensify in-service training across the public sector to ensure that public officials understand and respect the principles of data privacy and the right to free access to public information.

Transport policy (Dimension 11)

Introduction

Since the last CO assessment, the main improvements made by Montenegro concern transport project selection, and implementation and procurement. The slowest progress has been in asset management. Montenegro's performance on the transport dimension is slightly above the WB6 regional average (Table 23.19), but further efforts are still needed to reach the EU's level of performance.

Table 23.19. Montenegro's scores for transport

Dimension	Sub-dimension	Score	WB6 average
Transport policy dimension	Sub-dimension 11.1: Planning	1.9	2.3
	Sub-dimension 11.2: Governance and regulation	3.3	2.6
	Sub-dimension 11.3: Sustainability	1.5	1.3
Montenegro's overall score		2.1	2.0

State of play and key developments

Sub-dimension 11.1: Planning

Improvements in Montenegro's **transport vision** since the last CO assessment include its new Transport Development Strategy (TDSM) for 2019-2035. It covers all transport modes; contains clear and measurable objectives, budgets per measures, roles and responsibilities for implementation; and is supported by a detailed action plan for 2019/20 (the 2021/22 action plan is being developed). Another improvement is the new Strategy for the Development of the Maritime Economy 2020-2030 and its 2020/21 action plan (adopted in August 2020). This comprehensive TDSM represents a solid basis for contributing to Montenegro's economic development, as well as to an open and competitive regional transport market. The TDSM's implementation plan is divided into two periods, 2019-2027 and 2028-2035, while action plans are adopted for two-year periods. Both of these strategies were developed through a consultation process involving a wide range of stakeholders, including the non-government organisation (NGO) sector. A transport model was used to develop the strategy, but it is not clear why the ranking of the measures was not assessed through this transport model – instead they were taken from the single project pipeline (SPP).¹³⁷

The impact of the TDSM on tourism has not been assessed, showing a lack of coherence in policy making. However, there is a separate Tourism Development Strategy to 2020, which sets transport infrastructure and accessibility improvement throughout Montenegro as one strategic goal. Achieving this would not only benefit tourism, but also other branches of the economy. Once the upgraded transport and tourism policies and relevant infrastructure are fully integrated and jointly implemented, the attractiveness of Montenegro and the region will be improved and the relevant markets will become more competitive.

Monitoring of the TDSM will be done through the co-ordination body of the Ministry of Transport and Maritime Affairs (MTMA), as prescribed in the TDSM. The ultimate goal of the government should be to update the vision/strategy systematically based on the monitoring reports and impact assessments. National transport legislation is amended based on the regular monitoring results of the EU accession process; the last monitoring report was issued in the first quarter of 2020.¹³⁸ Up until 2019, transport-related strategic documents were always aligned with the European Commission Staff Working Documents (CSWDs)¹³⁹ on EU Enlargement Policy; as the new CSWD was issued in October 2020 it is expected that the TDSM will be aligned further if needed.

Investment in road and maritime infrastructure has fallen since the last CO assessment, but has increased for rail infrastructure. The same trend applies to spending on road and rail maintenance, while data for maintenance in maritime transport are not available.

Montenegro has co-operated with other WB6 economies to exchange experiences, as recommended in the last CO, especially through the Transport Community Permanent Secretariat (TCPS) cross-border co-operation programmes.¹⁴⁰ Projects include transport facilitation at the border crossing points (BCPs) with Albania, Bosnia and Herzegovina, and Serbia; co-operation for developing the Bar-Boljare motorway and railway line along Route 4; and co-operation with Albania and Croatia on realising the Adriatic-Ionian highway. Such regional co-operation and exchange of good practices needs to be enhanced on a regular basis and intensified, as the proper development of a single and competitive transport market can only be achieved through regular regional discussions on transport vision and planning. Montenegro participates actively in the EU Strategy for the Development of the Danube Region (EUSDR), aiming to help create a more competitive region through improved mobility and intermodality, as well as the use of more sustainable energy and better environmental protection. Montenegro also participates in the EU strategy for the Adriatic and Ionian Region (EUSAIR), which promotes economic and social prosperity and growth in the region by improving its attractiveness, competitiveness and connectivity.

The government has enough human and financial capacity to execute its tasks linked to the TDSM and related policy. The level of policy implementation to date is not known. Some legislation has been adopted since the last CO assessment linked to previous and current national transport strategies (presented below for each transport mode) but the level of harmonisation with the Transport Community Treaty (TCT), which aims to create a transport community between the EU and WB6 economies, is not clear.

Montenegro has made significant progress since the last assessment in developing legislation to improve **transport project selection** and project implementation. The Decision on the Preparation of the Capital Budget and Specification of Evaluation Criteria for the Selection of Capital Projects is a new prioritisation tool.¹⁴¹ The process takes account of intermodality; accessibility; impact on the environment, society and economy; and cross-border and regional impact, etc. It is used only for projects to be financed through the WBIF; projects funded through national budgets and small-scale projects are not considered. Cost-benefit analysis (CBA) is only used for capital projects proposed for financing from the capital budget (projects over EUR 5 million) and projects listed in the SPP. Therefore, the return on investment is not known for projects financed through the national budget. There are no national guidelines for CBA so international practices and guidelines are used. Environmental impact assessment is conducted according to national legislation,¹⁴² while social impact assessment is conducted using International Financial Institution (IFI) procedures. The government has enough human and financial capacity to execute the transport project selection process. However, *ex post* monitoring of the methodology and prioritisation processes is needed and should be applied annually in order to adjust the prioritisation framework.

Since the last CO assessment, new legislation has been adopted for **implementation and procurement processes** (the Concession Law, Public Procurement Law, PPP Law, and the Law on the Prevention of Corruption).¹⁴³ The PPP and concession laws allow transport infrastructure to be developed using alternative models to the traditional public procurement approach. While a procurement process is applied to all transport projects funded by the state budget, if the project is funded by IFI funds, an alternative procurement process is allowed, following IFI procedures. There are no transport PPP projects implemented in Montenegro yet (though the prequalification process started in 2019 for the concession for the Montenegrin airports). The Law on PPPs and Law on Concessions have been adopted recently, and the Investment Agency will have an oversight role in the procurement and monitoring of PPPs. For procuring goods or services of a very low value,¹⁴⁴ each institution defines the framework by adopting the Rulebook for conducting small value procurement, which is based on the Public Procurement Law.

Ex post evaluation of procurement and implementation processes does not exist and it is therefore not known if the implementation and procurement processes have achieved their objectives and, if not, why.

While the roles and responsibilities of the government bodies are defined, human and financial capacity are not adequate for the tasks assigned, especially for PPP projects, according to information provided by the government. Co-operation with the other WB6 economies has been established in the implementation and procurement sector, and best practices are shared and applied where possible. Examples include the development of a one-stop shop¹⁴⁵ (OSS) at the railway BCP with Serbia, and a one-stop shop at the railway and road BCPs with Albania, which minimise the crossing time and make transport corridors more competitive.

An **asset management system**¹⁴⁶ for transport modes has yet to be developed, and there is not yet a national inventory system of all state-owned (public) assets. As a good starting point for the road and railway sectors, the Technical Assistance to Connectivity in the Western Balkans (CONNECTA) study on Preparation of Maintenance Plans 2018-2022 for Road/Rail TEN-T indicative extensions to WB6 (2018) could be used (CONNECTA, 2018^[152]).

The state road network (1 853 kms) has been digitalised and road data collected through the Road Safety Assessment Project.¹⁴⁷ As per the newly adopted Law on Roads (2020), a medium-term state programme for roads has been adopted. It prescribes the development of maintenance plans which need to be implemented and developed to justify the maintenance budgets by directing funds to those areas where the return on investment will be greatest. This system should be considered as an integral component of planning, identification, prioritisation, implementation and monitoring processes for all transport modes.

Investment in road infrastructure is considerably higher in this assessment period than for other transport modes (Table 23.20) due to the ongoing construction of the Bar-Boljare motorway (part of the road and rail Route 4 – an important regional link, connecting the WB6 region to one of the biggest ports in the region). The planned investment in all transport infrastructure for the period 2020-22 is 25-30% lower annually than in 2019. Investment in rail infrastructure needs to be multiplied to achieve a similar level of investment as in the EU rail infrastructure market. The government's current plan for the period 2020-22 is to invest 50-100% more every year than in 2019. Investment in maritime port infrastructure is above the EU but below the OECD averages. Maintenance of road and rail infrastructure is slightly below the EU and OECD average (Table 23.20), but the government plans to invest 20-32% more annually over 2020-22 in the road sector and 45% annually in the rail sector.

Table 23.20. Trends in transport infrastructure investments and maintenance, Montenegro (2017-19)

	Investment costs					Maintenance costs				
	Change over 2017-19 (%)	2019 (mil EUR)	Share of GDP (2019) (%)	Share of GDP OECD average (2018)	Share of GDP EU average (2018)	Change over 2017-19 (%)	2019 (mil EUR)	Share of GDP (2019) (%)	Share of GDP OECD average (2018)	Share of GDP EU average (2018)
Road infrastructure	-6.5	202	3.7	0.46	0.38	-3.6	8.29	0.15	0.18	0.15
Rail infrastructure	+1.5	6.9	0.12	0.17	0.31	+1.5	6.9	0.12	0.16	0.16
Maritime infrastructure	-68	1.8	0.03	0.05	0.02	-	-	-	0.05	0.01

Note: OECD and EU average represents the average value for the countries with available data.

Source: (ITF, 2019^[153]), *Transport infrastructure investment and maintenance spending*, https://stats.oecd.org/Index.aspx?DataSetCode=ITF_INV_MTN_DATA; (IMF, 2019^[154]), *IMF Country Profile - Montenegro*, data, <https://www.imf.org/en/Countries/MNE>; (World Bank, 2018^[155]), GDP (current US\$), <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2018&start=2018>.

Sub-dimension 11.2: Governance and regulation

Since the last CO assessment, reforms have continued in the field of **aviation regulation**. The Law on Air Transport of Montenegro provides the legal basis for the adoption of by-laws that fully transpose the EU *acquis* and the TCT. The Single European Sky (SES) I and II packages had been fully transposed by 2013, while the Civil Aviation Authority (CAA) of Montenegro, with the consent of the MTMA, is fully committed to the further implementation of the Implementing Regulations and Community Specification, bringing Montenegro significantly closer to the EU *acquis*.

Safety Culture,¹⁴⁸ a programme covering important standards for safety risk assessment and safety assurance, has been adopted. The National Aviation Safety Plan for 2019-2023 was adopted in 2019. The National Supervision Authority's (NSA) tasks are performed by the Air Navigation Safety Division of the CAA. The CAA of Montenegro has developed training programmes for its staff and an Annual Training Plan is developed and approved each year covering fields related to safety, cost-efficiency and environmental issues.

Montenegro does not have its own Air Traffic Management (ATM) Plan; instead it relies on the European ATM Master Plan developed by the EU. A national ATM plan needs to be developed to provide a roadmap for the development and deployment of the strategic and operational concepts for optimising airspace management, enhancing safety and reducing emissions. The air traffic management plan in use was developed and monitored regularly through the Local Single Sky Implementation (LSSIP) monitoring¹⁴⁹ (EUROCONTROL, 2019^[156]).

The Airport Charges Directive has not been transposed or implemented yet. This is an important piece of EU legislation stating that the charges have to be set and monitored based on the non-discrimination and transparency principles defined by the EU, including quality standards related to the service level agreement of the services provided at the airports. The market is monitored by the CAA (in 2015 and 2019 so far), which needs to provide the economic framework for air transport in granting and overseeing the operating licences of air carriers, market access, airport registration and leasing, public service obligations, traffic distribution between airports, and pricing.

Montenegro is not a member of any Functional Airspace Block (FAB), but has the very same form of FAB through Serbia and Montenegro Air Traffic Services (SMATSA), which aims to avoid national fragmentation and its impacts on safety, capacity, and above all, costs.

Air traffic in Montenegro is growing. The total number of passengers transported at all airports increased in the period 2017-19 by approximately 21.5%, amounting to 2.65 million passengers in 2019. This is a significant increase compared to the world average, which was 11.7% (IATA, 2020^[157]) over the same period. The new airport passenger terminal in Tivat (which is the only coastal airport) was completed in 2018 to deal with the strong passenger growth and capacity constraints, and to provide welfare benefits for passengers at the terminal, better safety and security procedures, a higher quality of service and better working conditions for employees. Given the significant growth of this transport mode and its projected importance for the economy, it is important that Montenegro continues regulatory reforms to bring the governance of the aviation sector closer to European standards and international best practice.

Some positive efforts are visible in the **railway regulation** sector in Montenegro since the last CO assessment, but significantly more efforts are needed to align legislation with the EU *acquis* and the TCT and thus achieve a fully open rail market and safer and interoperable railway infrastructure. Structural reforms have been adopted and vertical separation has been implemented based on the 2005 Law on Railways. While the network monopoly is unbundled, the market is only officially liberalised for national companies. However, it should be fully open to and non-discriminatory for foreign firms too. There is only one national private undertaking for goods transport.

Established in 2019, the Railways Directorate is an independent administrative state authority, acting as a regulatory body and the National Safety Authority (NSA). It regularly monitors the implementation of

activities, with the latest report issued in 2019. The new Law on Railways will induce a full reorganisation of the Railways Directorate to become an independent administrative state authority performing the tasks of an oversight body. Railway Directorate operations are funded by the MTMA. Oversight activities are also conducted by the Directorate for Railway Transport in the MTMA. Network statements for infrastructure and services facilities are regularly issued, ensuring transparency and non-discriminatory access to rail infrastructure, and to services in service facilities.

Montenegro has advanced bilateral co-operation in the railway sector, signing border crossing operation agreements with Albania and Serbia to improve trade facilitation, shorten driving times and simplify border procedures. An agreement was signed in 2012 with Albania for a one-stop shop at BCP Tuzi. This OSS is now functioning well, while another agreement has been signed in 2018 with Serbia for installing an OSS at Bijelo Polje – this is still being implemented.

A National Register of Railway Vehicles has been established and will be transformed as per Commission Implementing Decision 2018/1614 by 2024 into a centralised European Vehicle Register. Staff are in the final phase of training in data processing. The EU Interoperability Directive 2016/797, important for developing and facilitating international railway transport, will be prepared for implementation during 2021. The following Technical Specifications for Interoperability (TSI) have been published on subsystem energy, on safety in railway tunnels, on subsystem control and signalling, and on infrastructure.

The mode share¹⁵⁰ of intercity rail passenger transport fell in the period 2017-19 by 4.3% to 11.4% (2019) of total transported passengers, while in the same period freight's mode share dropped by 14.5% to become 56.1% of the total transported freight. This freight mode share is good compared to the EU average in 2018, where road share accounted for 75.3%, rail share for 18.3% and inland waterways for 6% (Eurostat, 2020^[158]).

Table 23.21. Trends in transport of passengers and goods in Montenegro

Rail network utilisation	Change over 2017-19 (%)	2019 (million)	Share of the EU average (2017) (%)
Passengers (passengers*km/km of track)	+11.06	0.20	9.25
Freight (tonnes*km/km of track)	-22.84	0.40	20.65

Source: (Eurostat, 2020^[159]), *Eurostat transport statistics database*, <https://ec.europa.eu/eurostat/web/transport/data/database>; (MONSTAT, 2020^[160]), *MONSTAT database*, <https://www.monstat.org/cg/page.php?id=36&pageid=36>.

Even though the share of rail freight is high, there is still potential to increase this share once the rehabilitation of railway Route 4 (Bar-Belgrade section) is completed. This is expected to increase both speed and reliability, easing access from the WB6 and Eastern Europe to the Mediterranean. There is still much to be done to achieve the EU average level of rail network utilisation (e.g. full opening of the market, incentives for shifting freight from road to rail, development of rail freight corridors, development of multimodal facilities but this will lead to much greater cost-effectiveness of transport infrastructure assets.

The current predominance of investment in road transport, shown in Table 23.20, indicates that more investment is needed in the railway sector to increase the quality of the network. This will lead to an increase in demand by passengers and shippers. If Montenegro succeeds in keeping its high rail freight share and increasing its rail passenger share this will indicate sustainable growth in demand. Such a growing and open market would lead to more efficient operation and could also help to lower prices for the users of the systems.

Very good progress has been made on **road market regulation** and in dealing with the impact of COVID-19. Since the last CO assessment, the Law on Road Transport (2019) and the Law on Working Hours and Pauses during Working Hours of Mobile Workers and Devices for Registration in Road Transport (2019) have both been adopted to harmonise legislation with the TCT. Therefore, local legislation is now fully

aligned with some key EU regulations. The legislation has been amended based on regular monitoring prepared on a quarterly basis as part of the EU accession process. The last monitoring report was issued in the first quarter of 2020.¹⁵¹ The Law on Road Transport sets the deadline of December 2020 for all companies, managers and drivers to harmonise their businesses with this law. The government has prepared rulebooks related to the forms of permits, licences, etc. required. However, secondary legislation still needs to be harmonised for social provisions, tachographs, and enforcement of social legislation. This will require harmonising the following draft rulebooks: the Rulebooks on Tachograph Workshops, and the Rulebook on technical and performance requirements for tachographs, tachographs, and memory cards.

Montenegro participates in the European Conference of Ministers of Transport's (OECD-ITF, 2014^[161]) multilateral quota system, which enables hauliers to undertake an unlimited number of multilateral freight operations in the 43 European member countries participating in the system.

Road network performance is measured occasionally and only for some indicators.¹⁵² There is still scope to significantly improve the measurement of other indicators to monitor the road sector market. Doing so would help to allocate funds to areas that could generate the greatest benefits.

The mode share of road transport (88.6%) is significantly higher than for rail transport (11.4%), and higher than the EU average, whose road share accounted for 75.3%, rail share for 18.3% and inland waterways for 6% in 2018 (Eurostat, 2020^[158]). Even though road network use is far below the EU average (Table 23.22), the road freight share is still high, with negative impacts on air pollution and climate change. Therefore, EU strategies for shifting freight from road to intermodal transport should be followed, accompanied by incentives. This could have a positive influence on air pollution and climate change, as well as on reliability, given the increasingly congested roads in the region and across Europe.

Table 23.22. Trends in road transport in Montenegro

Road network utilisation	Change over 2017-2019 (%)	2019 (million)	Share of the EU average (2017) (%)
Passengers (passengers*km/km of road)	+0.02	0.013	1.26
Freight (tonnes*km/km of road)	-21.75%	0.009	2.27

Source: (Eurostat, 2020^[159]), *Eurostat transport statistics database*, <https://ec.europa.eu/eurostat/web/transport/data/database>; (MONSTAT, 2020^[160]), *MONSTAT database*, <https://www.monstat.org/cg/page.php?id=36&pageid=36>.

The COVID-19 outbreak is affecting the entire transport and mobility market the world over; the WB6 economies have not escaped its impacts. In the second quarter of 2020 Montenegro introduced measures at border and customs control to ease the provision of essential goods and medical equipment, aiming to keep low the number of infected individuals. Montenegro also introduced the Green Lane measure on major corridors for the transport of emergency goods, which requires that freight vehicles and drivers should be treated in a non-discriminatory manner and procedures should be minimised and streamlined. The time involved in passing through these green lane border crossings (including any checks and screenings) should not exceed 15 minutes (see also the Trade dimension). The implementation of these measures could have a direct impact on how the region's border crossings could be treated in the future. In addition to this, the regional measures underway to minimise crossing times could also have positive impacts, such as the OSS at the road BCP Preševo/Tabanovce between Serbia and North Macedonia; automation of customs procedures; and traffic management measures which transfer physical queues into virtual queues through an electronic queuing management system (e-QMS), inspired by the one installed in the Baltic countries (TCPS, 2020^[162]) (TCPS, 2020^[163]) (Government of Serbia, 2019^[164]) (GoSwift, Estonian Border, 2020^[165]).

In 2015, the Study on Inland Waterways in Montenegro was published to develop the non-existent **inland waterway (IWW)** transport legislation. Based on this study, the new Law on IWW is planned to be adopted by the end of 2021, transposing relevant EU legislation.¹⁵³

Unlike for inland waterways, many EU Directives and Regulations have been transposed in the **maritime transport** market. Even so, many areas still need to be harmonised with the EU *acquis* and the TCT. These include maritime policy, market access, international relations and agreements, accident investigation, international safety management code, etc.

In April 2019 the Government of Montenegro adopted the Rulebook on Internal Organisation and Systematisation of the MTMA, establishing the Directorate for Maritime Transport and Inland Navigation comprising the Directorate for the Application of Standards to Protect the Sea from Pollution and Inland Waterways. There are still no specific incentives prescribed for shifting freight from road to maritime transport, which is flexible in terms of the size of the shipment, offers the foremost competitive freight cost especially over long distances, is the least environmentally damaging form of commercial transport, and is suitable for hazardous goods. Indicators to measure the performance of maritime transport have not been established yet. The total turnover of goods in ports decreased by 2% in the period 2017-19.

Indicators to monitor and assess the performance of all transport modes are either non-existent or not properly established (some missing indicators include average user costs, travel time satisfaction levels/reliability, value of assets, market research and customer feedback, quality of user information, audit programmes, etc.). Regular data surveys are not planned soundly – they need a clear purpose, a decision on the level of data needed, and an allocated budget. They are also not conducted regularly, and are conducted only for specific projects rather than as part of regular transport infrastructure assessment and planning. Therefore, Montenegro lacks the basis for a quality assessment of the transport network's performance.

Sub-dimension 11.3: Sustainability

Further efforts are required to improve **road safety** in Montenegro. The Strategy for Improving Road Safety 2010-2019 (SIRS) was approved in 2009 after public consultations with all relevant government institutions (MTMA, Ministry of Interior, Police Administration, Ministry of Health, and Ministry of Education), municipal government units, NGOs, Insurance Supervision Agency, and the public. The SIRS was further upgraded through the Road Traffic Safety Improvement Program (RTSIP) for the period 2020-2022, and its action plan 2020-2022. The SIRS envisages that the Coordinating Body for Road Traffic Safety (CBRTS), whose task is to co-ordinate the activities of competent bodies and organisations in the field of road traffic safety, should monitor SIRS implementation. The government adopts the CBRTS annual reports, including those monitoring implementation of the previous year's action plan, and also adopts the action plan for the coming year. The most recent annual report only presents activities for 2019, therefore it is not easy to conclude the level of SIRS implementation. However, the 2019 report shows that 28% of operation goals have been fully realised, 36% are partially realised and 36% have not been realised. The RTSIP aligns the safety framework with the EU *acquis*,¹⁵⁴ as well as with the White Paper for Safe Roads in 2050.¹⁵⁵ It contains measures and actions, and assigns the bodies responsible for implementation, timelines, and budgets. Both staff and financial capacity are sufficient for implementing the strategy.

The Regional Road Safety Action Plan¹⁵⁶ was endorsed by the Council of Ministers of the TCPS in October 2020. Montenegro needs to align its national plans mentioned above with the goals set in this plan. The goal of the EU Policy Orientation on Road Safety 2011-2020 is to reduce road fatalities by 50% between 2010 and 2020 (the Decade of Action for Road Safety is 2011-2020, as proclaimed by the UN General Assembly in March 2010). SIRS is aligned with this document. This goal has already been achieved by Montenegro, as shown in Table 23.23. However, these good achievements need to be continued to secure the newly defined goal in the European "Vision Zero"¹⁵⁷ strategy to 2050, which also sets an intermediate goal for a 50% decrease in road fatalities in the decade 2021-2030. The basis for this good achievement lies with the RTSIP, whose goal is to reduce the number of road fatalities by 10% from 2018 figures and the number of persons with serious bodily injuries by 5% by the end of 2022. It is also necessary to

strengthen public-awareness and education activities, as well as promote innovative funding ideas in the road safety sector (Box 23.16).

Box 23.16. Innovations in road safety: Road safety social impact bonds

The United Nations Development Program (UNDP) in Montenegro, in co-operation with the key national players in road safety, came up with the idea for road safety social impact bonds in 2018 as an innovative and alternative performance-based public financial instrument which shifts the policy framework from inputs and outputs to outcomes and value for money. This idea involves encouraging the private sector to invest in road safety improvements together with the public sector, with the aim of strengthening sustainability. The public partner commits to paying the outcome payments to the investor if and only if the predefined and measurable social goals are met. This idea has great potential to help other economies in the region (and beyond) to replicate and scale-up the model.

Source: (UNDP Montenegro, 2020^[166]), *Project Summary, Rethinking road safety in Montenegro*, <https://www.me.undp.org/content/montenegro/en/home/projects/RoadSafety.html>.

The main sources of information on road accidents in Montenegro are the Traffic Police (for data collected in the field) and the Ministry of Health (for information on injured persons). The actual road accident data system is updated quarterly, and the data are available on the MONSAT website.¹⁵⁸

While these figures are positive (with Montenegro showing one of the two greatest achievements in the region in terms of reducing fatalities over the period 2010-2020), they are not completely stable, bearing in mind their fluctuations throughout the entire previous decade. Much greater efforts are needed, not only in harmonising the legislation with the TCT, but also in the areas of education, awareness campaigns, enforcement, etc.

Table 23.23. Road safety trends in Montenegro

Road safety trends	2010-2020 (% change)	2020
Number of fatalities (Montenegro)	-49.5	-
Number of fatalities (EU-27)	-23	-
Number of fatalities per million inhabitants (Montenegro)	-	77.2
Number of fatalities per million inhabitants (EU-27)	-	51

Source: (EC, 2020^[167]), 2019 Road Safety Statistics: What is behind the figures?, https://ec.europa.eu/commission/presscorner/detail/en/ganda_20_1004. (MONSTAT, 2020^[168]), MONSTAT database, <https://www.monstat.org/cg/page.php?id=36&pageid=36>.

There is no **environmental sustainability strategy**, though some environmental sustainability parameters related to the transport sector are partly covered in the National Strategy for Sustainable Development until 2030 and National Climate Change Strategy. The National Strategy for Sustainable Development (NSSD) has two main objectives: 1) enhancing the prosperity of citizens; and 2) promoting sustainable development. These strategies set a range of objectives and measures¹⁵⁹ for environmental sustainability in the transport sector. All these objectives and measures need to be linked with the national transport framework, and clear and measurable indicators need to be defined with timelines, budgets, and responsible bodies for implementation.

Combined transport¹⁶⁰ is the most cost-efficient transport mode, reducing environmental pollution, and increasing co-operation between the freight forwarding network companies. Achieving well-functioning logistical chains and establishing an international corridor approach and intermodal solutions could promote a high level of competitiveness in Montenegro's transport market. The legal and regulatory

framework for combined transport has been defined in Montenegro but not implemented, even though the TDSM does set some priority actions. Co-modality is proposed through the TDSM, including use of road freight transport for supporting intermodal terminals where it is impossible to achieve intermodality by other modes of transport; an increase of intermodal transport volume; an increase of intermodal transport agreements; development of intermodal stations in Podgorica and Bijelo Polje, etc. Although there is no separate strategy for logistics and co-modal solutions, the Law on Combined Transport (2014) introduced several incentives for users of combined transport (e.g. exemptions from road user tax and from permit fees to transport goods. It also required the locations for intermodal terminals and transshipment locations to be defined.

The World Bank's Logistics Performance Index (LPI) ranks Montenegro 77 out of 160 ranked countries, with an LPI score of 2.75. This is slightly below the world average (2.85) but far below the EU average (3.52). The best score achieved by Montenegro is for the timeliness indicator¹⁶¹ (ranked at 63) while the worst is for tracking and tracing¹⁶² (ranked at 105).

Improving data collection, which is currently very weak, needs to be one of the key actions for assessing performance on all sustainability areas. A strategy for data collection needs to be established as the basis for assessing the transport sector, as it could also directly influence the prioritisation processes within transport policy in general.

The way forward for transport policy

Montenegro has taken some important steps towards developing a competitive transport sector, but special attention should be paid to the following challenges:

- **Develop and tailor the national cost-benefit analysis guidelines specifically to Montenegro.** It is very important for each economy to develop its own cost-benefits analysis guidelines with accompanying national technical instructions. The guidance needs to be updated often, at least every two years. A good example is the United Kingdom's Transport Analysis Guidance (UK, 2019^[168]), which provides information on the role of transport modelling and transport project appraisal tailored to the UK market. To ensure consistency amongst the discount rates used for similar projects in the same economy, it is necessary to develop an economy-specific benchmark for all technical and economic parameters, including the financial and economic discount rate in the national guidance documents, and then to apply it consistently in project appraisal at the national level. Empirical research needs to be conducted at the national level to generate input data for calculating externalities.
- **Ensure transport facilitation remains a key priority.** More one-stop shops are needed to simplify border crossing procedures and to shorten crossing times, as well other measures in the newly endorsed regional Action Plan for Transport Facilitation (TCPS, 2020^[163]). These include improving and upgrading existing ICT infrastructure, constructing or modernising infrastructure and building capacity to improve performance efficiency, etc. Implementing these measures will be a key trigger for integrating the Montenegrin transport market into the regional transport market, increasing the competitiveness and connectivity of the WB region, and further deepening integration with the broader European transport market. This will improve the transport of important goods that depend on quick, cost-effective and timely delivery, and will also boost investment in transport infrastructure.
- **Develop a combined transport strategy to promote sustainable transport.** This is of high importance given Montenegro's geographical location and the untapped potential of its existing seaports. With Rail and Road Route 4 currently being constructed/modernised, the timely development of a combined transport framework in Montenegro could generate substantial benefits for the economy and leave more time and resources for shipping companies to do new business. Therefore, incentives are needed for shifting freight to combined transport modes.

Additionally, lowering the cost of access to regional and international markets will boost the competitiveness of local companies.

- **Develop sound asset management practices that are in line with the national inventory system.** Sound asset management practices include regular monitoring of the condition of infrastructure, assessing the value of assets versus costs of unmaintained assets, adopting asset management strategies, being consistent in identifying the mix and timing of asset operation and construction strategies, etc. These enable economies to collect data and to manage and analyse conditions across all transport modes so as to optimise transport sector maintenance strategies and justify maintenance budgets, directing limited funds to those areas with the greatest return on investment. Performance-based maintenance contracts are already implemented in some WB6 economies such as Albania, Bosnia and Herzegovina, and Serbia,¹⁶³ though not extensively, and they could be used in Montenegro too. They are an essential component of the road asset management system and if well-developed ensure good road conditions at relatively low cost. The quality of transport infrastructure affects an economy's investment attractiveness, marking out the economy's territory as good for foreign direct investment.
- **Develop an Integrated Environmental and Transport Action plan** and a framework for environmental sustainability for the sector. This plan needs to integrate existing indicators and to include new ones in the framework for environmental sustainability. A good model to follow is the Transport and Environment Reporting Mechanism¹⁶⁴ developed by the European Environmental Agency, which prescribes indicators for tracking transport and environmental performance in the EU. Existing measures and indicators should be applied in the relevant strategies, including the new transport strategy.

Energy policy (Dimension 12)

Introduction

Overall, Montenegro has made substantial progress on this dimension since the last CO, with its overall score rising from 2.2 to 3.0 (Table 23.24). The most significant progress is in the energy markets sub-dimension, driven by finalising the unbundling of the sector's transmission and distribution system operators and implementing third-party access, as well as deregulation, liberalising energy markets and deploying a power exchange. However, there is still room for improvement, especially in completing the transposition of the EU's Third Energy Package (Box 23.17) and in the security of supply sub-dimension (mainly renewable energy and energy efficiency).

Table 23.24. Montenegro's scores for energy policy

Dimension	Sub-dimension	Score	WB6 average
Energy policy dimension	Sub-dimension 12.1: Governance and regulation	3.2	3.1
	Sub-dimension 12.2: Security of energy supply	2.6	2.9
	Sub-dimension 12.3: Energy markets	3.2	3.0
Montenegro's overall score		3.0	3.0

Box 23.17. The EU's Third Energy Package

In 2007, the European Commission proposed a new legislative package, the Third Energy Package, in an effort to further enhance and harmonise the EU's Energy Union and internal energy market. This package entered into force in September 2009 and consisted of several important directives and regulations.¹

The Third Energy Package largely rests on four pillars: 1) transparency; 2) non-discrimination; 3) a strong, independent national regulator; and 4) sustainability. Together, these pillars represent EU best practice and aim to establish a fair and level-playing field for competitive energy markets that seek to optimise scarce resources. For example, the first two pillars drive the need for unbundling the transmission and distribution system, combined with guaranteed, non-discriminatory and open access to those networks to all users backed by transparent rules and prices. Without such unbundling requirements and third-party access, it is very possible that the system operators, which are natural monopolies, could prohibit market entry and lead to sub-economic market outcomes.

In addition to these pillars, the Third Energy Package also seeks to enhance international co-operation within the EU by establishing an international regulatory agency (the Agency for the Cooperation of Energy Regulators – ACER) and promoting regional integration. Regulation (EC) No 714/2009 contains clauses that open and allow for further regulation to be drafted to enhance harmonisation in the form of network codes.

In 2019, the EU introduced the Clean Energy Package which supplements and in part replaces the Third Energy Package. That is, while the Clean Energy Package retains the key legislative aspects of the Third Energy Package, it expands measures for sustainability and green energy growth, as well as consumer rights and protections. Despite this, the Third Energy Package remains a good starting point for all WB economies as many of its key pillars have so far not been introduced or implemented in their entirety in the region. Aligning with it is also a requirement for the WB economies as members of the Energy Community, whose *acquis* reflects most of the Third Energy Package. Moreover, with many WB6 economies aspiring to become EU members, the transposition and implementation of the Third Energy Package and subsequent Clean Energy Package are accession requirements. To conclude,

the Third Energy Package provides for the implementation of international best practice on competitive markets, and is also a firm requirement for the Western Balkan economies.

1: Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC; Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC; Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003; Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005; Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.

State of play and key developments

Sub-dimension 12.1: Governance and regulation

Montenegro's **energy policy, legal and institutional framework**¹⁶⁵ encompasses an extensive array of documents (Energy Policy of Montenegro until 2030, Energy Development Strategy of Montenegro until 2030 and action plan for its implementation 2016-2020, National Renewable Energy Action Plan to 2020, and the first to fourth National Energy Efficiency Action Plans), legislation, and associated regulations. Together they provide comprehensive policy guidance for the sector. Essentially, the policy framework highlights three main priorities: 1) security in the energy supply; 2) development of a competitive energy market; and 3) sustainable energy development. These main priorities are supplemented by 20 key strategic commitments (Ministry of Economy, 2011_[169]).

However, there are some limitations. For one, the government reports that only 25% of the projects stipulated in the strategies are or have been implemented to schedule. Secondly, only 75% of the Third Energy Package has reportedly been transposed into the national policy framework, with a key gap being network codes (Energy Community Secretariat, 2020_[170]).¹⁶⁶

Montenegro is also well advanced in following and implementing international best practice when it comes to **the regulator** sub-dimension. The Energy Community asserts that Montenegro's regulator, the Energy and Water Regulatory Authority of Montenegro (REGAGEN), is highly competent in executing its functions and roles and that it is one of the top two WB regulators (Energy Community Secretariat, 2020_[170]). Resolving two outstanding issues would further the regulator's position as a strong, independent regulator: 1) ensuring it conforms with the EU Third Energy Package regulator roles, responsibilities and rights; and 2) enshrining and defining the independence of the regulator, as set out in Chapter IX of EU Directive 2009/72/EC, into Montenegro's primary energy legislation.

There are also two areas in which the regulator's functioning could be improved:

- Avoiding politicisation or political influence. According to the Energy Law, the government has the final decision in shortlisting their preferred candidate for the regulatory board to parliament.¹⁶⁷ This implies that there could be political influence on the regulator - although this is not in violation of EU Third Energy Package compliance and has not been raised as a major obstacle to regulator independence by the Energy Community (Energy Community Secretariat, 2020_[170]). Moreover, recent changes to the Energy Law removed the requirement for government consent for the statute of the regulator, which is a step towards reducing the risk of political influence and reaffirms the independence of the regulator.
- The sanctioning powers of the regulator. Article 48 of the Energy Law requires the regulator to raise issues of non-compliance with the relevant national bodies rather than taking decisions and imposing sanctions themselves. It would strengthen the regulator's role as market enforcer if it had direct sanctioning power. However, it needs to be stressed that the current approach is not in opposition of what is permitted under the Third Energy Package. Meanwhile, the changes to the Energy Law mentioned above also fixed the former problem of fines being perceived as too low

and insufficiently dissuasive, by aligning the imposition of penalties with Articles 37 and 41 of EU Directives 2009/72/EC and 2009/73/EC.¹⁶⁸

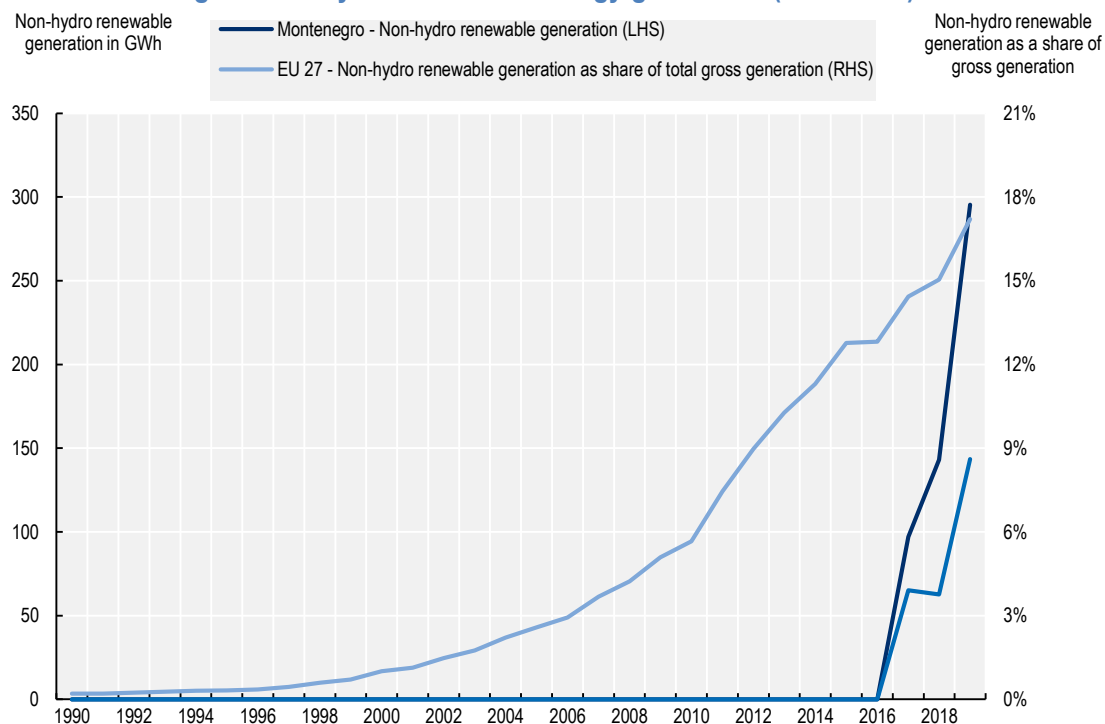
Progress on **managing energy infrastructure** has been a bit more muted than on energy policy and the regulator. While the sector is guided by the extensive strategy and the recently adopted Ten Year Network Development Plan, the new Infrastructure Law is yet to be adopted. Adopting it would make Montenegro compliant with the EU Third Energy Package. It also seems that Montenegro lacks a comprehensive approach to infrastructure incentives and an asset management system.

Sub-dimension 12.2: Security of energy supply

When considering **natural gas supply** security, the main issue for Montenegro is the lack of a natural gas market. Although a significant share of the EU Third Energy Package has been transposed, significant gaps remain. For example, key secondary acts still to be adopted include supplier switching rules, various tariff and associated methodologies, connection rules, grid codes, balancing rules, metering rules, market rules, vulnerable customer rules, gas quality rules, and various strategic plans (including network development plans by either the distribution or transmission system operators). The failure to adopt most of these acts is due to the absence of a natural gas market; once the market has been established these should follow naturally. Moreover, without a natural gas market no judgement can be made on implementation.

Montenegro is looking to establish a natural gas market as part of its involvement in the Ionian Adriatic Pipeline (IAP). This natural gas supply would be the first step towards establishing a natural gas market as lack of supply is a key barrier.

The National Energy Development Strategy provides a clear policy and guidance for the **electricity supply framework**. Nevertheless, Montenegro continues to rely mainly on a single fuel – coal – which is used in two coal-fired thermal power plants: Pljevlja I and II. Montenegro plans to supply most of its expected demand growth by expanding the Pljevlja coal-fired thermal power plant complex. However, based on information provided by the government, it appears as if these plans, the expansion and continued reliance on coal fired generation, might no longer materialise or be pursued.

Figure 23.16. Montenegro's non-hydro renewable energy generation (1990-2019)

Note: GWh: gigawatt-hours

Source: (Eurostat, 2021^[171]), *Gross and net production of electricity and derived heat by type of plant and operator [nrg_ind_peh]* – Database accessed 26th June 2020, <https://ec.europa.eu/eurostat/web/energy/data/database>.

StatLink  <https://doi.org/10.1787/888934255969>

The Energy Policy of Montenegro until 2030 does foresee some increase in **renewable energy**.¹⁶⁹ Montenegro currently generates around 2.1 terawatt-hours (TWh) or 55% of its power via hydro generation - a well-established source in Montenegro (Eurostat, 2021^[171]). To take full advantage of renewable energy, a diversified renewable generation mix should be achieved. Montenegro is at the beginning of its renewable energy journey, with its non-hydro renewable generation only beginning in 2017. In 2018 only 143 GWh or 4% came from non-hydro renewable sources, namely wind energy, which rose to 295 GWh or 9% in 2019 (Figure 23.16). This is equivalent to the EU's non-hydro renewable share in 2007 – today its share is around 16% (Eurostat, 2021^[171]).

However, hurdles need to be overcome in order to attract investors. First and foremost, the legislative framework needs to be finalised. The recent adoption of amendments to the Law on Energy nearly completes the transposition of the European Union Directive 2009/28/EC which “establishes an overall policy for the production and promotion of energy from renewable sources in the EU”. The focus should now switch to implementation, including the adoption of secondary acts. Associated with this issue is also the competitive auctioning of renewable energy projects. While Montenegro has completed the first two state land locational auctions, the formal rules and regulations that create the standard approach for such auctions have not been adopted yet, which creates uncertainty around the timing and nature of future auctions.

Montenegro continues to use feed-in-tariffs, setting the price at the beginning of each year. While the tariff was increased recently, thus boosting the attractiveness of renewable energy projects, Montenegro should consider shifting to an alternative support system, such as feed-in-premiums. Feed-in-tariffs have fallen out of favour in most countries as they disconnect renewable generators from the realities of the market (Box 23.18). In addition, the priority integration and dispatching of renewable energy, while enshrined in law, is not adequately implemented in practice. Lack of resources means that connection to the grid can

take a while, and tends to be done by the renewable energy project developers and then sold to the transmission system operator (TSO) via a long-term contract. To provide optimal support and encouragement for renewable investment, Montenegro should expedite connections and TSOs should pay for and implement the connection to the grid. This in turn would lower the project capital expenditure hurdle and asset risks for investors.

Renewable energy generators are exempt from balancing responsibility (see Sub-dimension 12.3, energy markets), which is not in line with international good practice as it socialises the cost associated with renewable energy imbalances and minimises investors' responsibility to forecast their generation accurately.

Montenegro also needs to implement a framework for self-consumption of distributed renewable energy with regard to grid connection, and to promote its deployment in line with the energy efficiency and energy laws. The promotion of small-scale renewable energy producers for self-consumption ("prosumers") could increase consumer power and reboot consumer interest in energy efficiency.¹⁷⁰ The result would be an increase in renewable energy share, energy diversification and supply security.

Finally, on a positive note, Montenegro has transposed the relevant legislation to allow it to share its excess renewable energy with its neighbours, helping them to meet their national targets. This increases the value of renewable energy projects in Montenegro, even without a fully operational Guarantee of Origin system.¹⁷¹ However, although Guarantee of Origin legislation is in place, the implementation of the scheme could be improved. The role of issuing the Guarantees of Origin has been shifted away from the regulator to the electricity market operator, which is currently working on deploying it but has not yet completed the electronic system for issuing, transferring or cancelling the Guarantee of Origin. It is worth mentioning that Montenegro has applied to become a full member of the Association of Issuing Bodies - a body that establishes a common approach to issuing and facilitates the transfer and cancellation of Guarantees of Origin in Europe.

Energy efficiency in Montenegro is guided by the advanced transposition of the relevant EU Third Energy Package. Even so, further transposition is needed to fully implement the Third Energy Package, in particular on energy performance of buildings and energy labelling. While most of the energy performance of building legislation is in place¹⁷² and has been implemented - including mandatory energy performance audits and certification of buildings - gaps remain. These include near zero-energy building definitions as well as targets and strategies to achieve them, a comprehensive building inventory, and the software and analysis for calculating the cost-optimality of the current energy performance requirement. Moreover, there is no long-term vision for deploying energy efficiency in buildings - particularly outside the public building sector.

Another key energy efficiency issue relates to the energy service companies (ESCO) market.¹⁷³ This is a market in which energy service companies carry "out energy performance improvement at the contractor's site, while guaranteeing energy savings and/or the provision of the same level of energy service at a lower cost. The remuneration of ESCOs is directly tied to the energy savings achieved. The ESCOs can finance, or assist in arranging financing for the project, but this is not a prerequisite" (Boza-Kiss, Bertoldi and Panev, 2015, p. 445^[172]). Although a first framework has been established in Montenegro, including standard contracts, the widespread use of ESCO markets is lacking.

Transparency is another factor weighing on Montenegro's energy efficiency performance. Montenegro has missed annual reporting deadlines to the Energy Community on its progress to implement the National Energy Efficiency Action Plan, in violation of treaty requirements. It missed the submission deadline for the third and fourth annual implementation reports. Although government sources suggest that the reports were eventually submitted, the Energy Community website does not list them as submitted.¹⁷⁴

Finally, there are some concerns that the human resources dedicated by public entities to energy efficiency are not adequate. This is best demonstrated by the recent move by the Ministry of Economic Development to merge the Energy Efficiency Directorate into the Energy Directorate.

Sub-dimension 12.3: Energy markets

Both the **electricity wholesale and retail market** are deregulated and are not subject to price regulation - apart from vulnerable customers and natural monopolies – and consumers are free to choose and switch suppliers. Currently, there are 39 participants in the wholesale market, and 6 in the retail market.

However, there are some limitations. First, while the power exchange has been established, it is not currently operational and thus Montenegro does not have an operational day-ahead market. The benefit of the day-ahead market lies in the automatic matching - based on algorithms - of supply and demand in a competitive manner to reach a price-based equilibrium. In its absence, the optimal distribution of economic rent remains out of reach in Montenegro. Second, while the retail market is deregulated and subject to free price formation and consumer switching, competition and market liquidity are so limited that consumers are in fact tied to a single supplier. This was highlighted by the government, which suggested that some consumer groups (households and small consumers) are dependent on a single supplier and/or are under a *de facto* forced price regulation regime. Despite this limitation to the quality of the market in Montenegro, the government does not appear to have plans to tackle the situation in the near term.

The balancing market is operating, with stakeholders being imbalance-responsible in a non-discriminatory manner.¹⁷⁵ However, there is a lack of competition as balancing reserves are offered by only two stakeholders: the incumbent generator, Elektroprivreda Crne Gore (EPCG), and an industrial consumer. Given the lack of reserves, the national balancing reserve capacity still falls under price regulation. However, the balancing price itself is not regulated and supplemented by the cross-border market-based exchange of balancing energy which supports the competitive price formation by increasing the liquidity. Nonetheless, Montenegro should design and implement policy to increase domestic balancing capacity and in turn deregulate balancing reserve capacity price.

One area where Montenegro has made significant progress is in **unbundling and third-party access**. The unbundling concept, which complies with the EU's Third Energy Package, is enshrined within Article 135-139 of the Energy Law. To that end the Transmission System Operator, Crnogorski elektroprenosni sistem (CGES), and the Distribution System Operator, Crnogorski elektrodistributivni sistem (CEDIS), have been certified as unbundled since April 2018 and June 2016 respectively.

In the case of the TSO, certification depended on the introduction of legislation or regulations for a compliance officer. The required legislative changes were made recently as part of the adoption of amendments to the Energy Law in July 2020. To this end, the Energy Community rates Montenegro's implementation of unbundling as 100% complete (Energy Community Secretariat, 2020^[170]).

Articles 133 and 134 of Montenegro's Energy Law enshrine the concept of non-discriminatory third-party access to the transmission and distribution system, in line with the EU Third Energy Package - specifically EU Directive 2009/72/EC. Evidence that non-discriminatory third-party access is the operational norm in Montenegro can be seen in its publication of transparent tariffs, including for connections to the system. Other evidence includes the transposition of the Connection Network Codes and adoption of the Decree on requirements for connection of electricity generators to the transmission and distribution networks.

Moreover, access to the interconnector capacity with Albania and Bosnia and Herzegovina is assigned using the Coordinated Auction Office in South East Europe through competitive auctions for yearly, monthly, and daily products. In addition, the capacity of the interconnector with Serbia is based on specific rules that allocate capacity using split auctions for yearly, monthly, daily and intraday products.

As **regional integration** is a fundamental element of the national strategy, it is guided by a coherent central policy. Montenegro participates in various international bodies and working groups that aim to promote

regional integration and market coupling, including membership of the European Network of Transmission System Operators for Electricity (ENTSO-E), the Mediterranean Transmission System Operators (MEDTSO-E), the market coupling working group with Albania, Italy and Serbia (the AIMS project) and the Know-how Exchange Programme project (KEP). This is further supplemented by Montenegro's participation in various other projects aiming to promote regional integration and market coupling, including the Crossbow¹⁷⁶ and Trinity¹⁷⁷ projects within the context of EU Horizon 2020.¹⁷⁸

However, despite these positive steps, there remains significant room for improvement. The Capacity Allocation and Congestion Management Network Code is currently being drafted and so has not yet been adopted. This code harmonises the method and rules for allocating cross border capacity and facilitating their use in a safe and competitive manner (i.e. promoting regional integration through the standardised and optimised use of interconnectors).¹⁷⁹ Additionally, market coupling is far from complete, despite Montenegro being part of various projects to that end. The lack of an operational day-ahead market is a key obstacle to progress. Finally, from the perspective of balancing reserves, Montenegro is still activating reserves on a manual bilateral basis with Serbia and Bosnia and Herzegovina. In other words, there is no regional balancing co-operation, including imbalance netting.

Cross-cutting policy area: Energy incentives - direct and indirect subsidies in the energy sector

Without a doubt there are direct and indirect subsidies present in Montenegro's energy sector. Although the information available within the public sphere is limited, there are strong indications that Montenegro provided subsidies to the coal sector and to thermal power plants amounting to around EUR 2.9 million between 2015 and 2017 (Miljević, Mumović and Kopač, 2019^[173]), (Mumović, 2019^[174]). These are limited when compared to other Western Balkan economies, however.

The way forward for energy policy

While Montenegro has made tremendous progress, some key challenges still need to be tackled:

- **Complete the transposition of the Third Energy Package.** This is essential as it will assure that Montenegro has a full and comprehensive legislative and policy framework for the sector. The Third Energy Package, despite being replaced by the Clean Energy Package in the EU, still reflects in many ways international good practice in establishing and stimulating a competitive energy market.
- **Finalise the operational deployment of the power exchange.** The main benefit of a competitive market comes from the efficient matching of supply and demand. This is the goal of the power exchange, which can facilitate competitive price development and achieve best value for money. The key next steps will be for the power exchange to undertake a dry run that eventually leads to the first trades.
- **Promote competition in the market so as to harness competitive forces and provide the best value to the economy.** This will come from increased interconnection and market coupling as trade flows will add liquidity and thus competition to the market.
- **Design and implement a decarbonisation strategy and phase out coal.** To widen acceptance of the coal phase out, the strategy should identify support for regions/municipalities that currently rely on the coal windfall to help them reorient their economies to new activities. International best practice shows that long-run sustainability and climate resilience in the power sector rely on decarbonisation. Moreover, with the EU contemplating introducing a carbon power border tax,¹⁸⁰ decarbonisation is merely a question of where the windfalls of carbon pricing will land. Thus decarbonisation could be the key to supporting the long-term competitiveness of Montenegro's exports to the EU.

- **Take steps to encourage the development and growth of renewables.** Diversification is necessary to harness the wider benefits of renewable energy while increasing supply security and decreasing risks associated with single sources of electricity. With Montenegro at the beginning of renewable deployment it needs to take steps to promote investment. These include finalising the legislative framework, establishing a project pipeline based on competitive assignment mechanisms and employing the latest best practice for subsidisation - including Guarantees of Origin (Box 23.18). Moreover, Montenegro needs to improve capacity to connect renewable projects to the transmission and distribution system so as to lower the investment hurdle for project developers.
- **Focus on energy efficiency, including developing a long-term vision and financial support mechanisms – especially outside the public building sector.** Energy efficiency is a central tool for managing demand. On the one hand it is used to make demand more cost effective in the use of energy, while on the other it contributes to the long-run sustainability of the energy market by easing demand for energy growth.

Box 23.18. A new approach to subsidising renewable energy

Feed-in tariffs were the dominant form of financial support for renewables within the EU at the beginning of the 21st century. In this system, power plant operators receive a fixed payment for each unit of electricity generated independent of the electricity market price (Banja et al., 2017, p. 15^[175]).

Feed-in tariff schemes offer several advantages, but mainly they insulate new market entrants from market price risks, which lowers their capital costs and enables private investment. The simplicity of feed-in tariffs makes them suitable for markets with a large number of non-commercial participants such as households or local community-based initiatives (CEER, 2018, p. 12^[176]).

However, feed-in tariff schemes exclude producers from actively participating in the market, which hinders efforts to develop large, flexible and liquid electricity markets as the share of renewable energy grows. This limits growth to certain technologies and sizes of installations, and creates difficulties in setting and adjusting appropriate tariff levels (EC, 2013, pp. 12-13^[177]). The latter has been a problem especially as costs of renewable generators have fallen rapidly in recent years.

The European Commission suggests switching from feed-in tariff to feed-in premium schemes (EC, 2013^[177]). In these, plant operators sell the electricity generated directly on the electricity market and earn an additional payment on top of the electricity market price. This is received as a fixed payment or one adapted to changing market prices, thereby limiting price risks for plant operators, as well as the risks of providing windfall profits (Banja et al. 2018). Feed-in premium schemes are beneficial because they force renewable energy producers to find a seller on the market. They also ensure that renewable energy operators are exposed to market signals. A well-designed premium scheme can limit costs and drive innovation by using a competitive process to allocate support. Such schemes also include automatic and predictable adjustments to cost calculations, which give investors the information and confidence necessary to invest (EC, 2013, p. 8^[177]).

The European Commission suggests using a feed-in premium scheme in combination with the following good practice recommendations (EC, 2013^[177]):

- Do not pay premiums for production in hours where the system price is negative or above the level of remuneration deemed necessary.
- Assign renewable project and associated premiums using competitive allocation mechanisms such as auctions.

- Make planned volume-based premium reductions for new installations dependent on when they are approved, connected or commissioned.
- Conduct regular, planned and inclusive reviews of premiums for new installations.

However, the Council of European Energy Regulators reports that in 2016/17, 17 of the 27 European Union member countries still used some form of feed-in tariff, although mainly for small projects, while around 16 used feed-in premiums, including to complement feed-in tariffs (EUR-Lex, 2014^[178]).

For further and more detailed exploration of renewable energy subsidies and best practice please see the sources below. Meanwhile, for more information on the different renewable support schemes employed across Europe please see <http://www.res-legal.eu/home/> and for an overview of auctions and outcomes (including databases on auctions) see <http://aures2project.eu/>.

Source: (Banja et al., 2017^[175]), *Renewables in the EU*, <https://e3p.jrc.ec.europa.eu/sites/default/files/documents/publications/kjna29100enn.pdf>; (CEER, 2018^[176]), *Status Review of Renewable Support Schemes in Europe for 2016 and 2017*, <https://www.ceer.eu/documents/104400/-/-/80ff3127-8328-52c3-4d01-0acbdb2d3bed>; (EC, 2013^[177]; EC, 2013^[177]), *European Commission guidance for the design of renewable support schemes*, https://ec.europa.eu/energy/sites/ener/files/com_2013_public_intervention_swd04_en.pdf; (EUR-Lex, 2014^[178]), *Guidelines on State Aid for Environmental Protection and Energy 2014-2020*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>.

Environment policy (Dimension 13)

Introduction

Montenegro has improved its performance in the environment policy dimension. The economy's score has increased from 1.8 in the 2018 Competitiveness Outlook to 2.4 in the 2021 assessment, with notable progress in enhancing the biodiversity and air quality policy frameworks. Montenegro is the best-performing economy in the Western Balkan region for environmental policy (Table 23.25).

Table 23.25. Montenegro's scores for environment policy

Dimension	Sub-dimension	Score	WB6 average
Environment policy dimension	Sub-dimension 13.1: Resource productivity	2.3	2.0
	Sub-dimension 13.2: Natural asset base	2.0	2.1
	Sub-dimension 13.3: Environmental quality of life	2.8	2.3
Montenegro's overall score		2.4	2.1

State of play and key developments

Sub-dimension 13.1: Resource productivity

As a Non-Annex-I signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement, and a party to the Kyoto Protocol,¹⁸¹ Montenegro has joined international climate change efforts and is committed to reducing greenhouse gas (GHG) emissions and limiting global warming to a maximum of 2°C by the end of this century. However, despite some efforts, carbon productivity has not improved since the last assessment. The economic output per unit of carbon dioxide (CO₂) emitted is still low (Environment Protection Agency, 2020^[28]). More than two-thirds of Montenegro's total CO₂ emissions come from electricity generation and heat production (61.4% in 2018, highlighting its fossil-fuel based energy production), followed by transport, which accounts for a little over 20% (Ministry of Sustainable Development and Tourism, 2020^[29]).

Climate change mitigation and adaptation policies in Montenegro have advanced slightly since the last assessment. The new Law on Protection against Adverse Impacts of Climate Change was adopted in 2019, in accordance with which the government adopted the Decree on activities or operations that emit greenhouse gases. This requires industries emitting GHGs to obtain a permit. Activities to align the legislation with the EU *acquis* have been undertaken and the Third Biennial Update Report (2020) to the UNFCCC introduces the main monitoring, reporting and verification mechanisms, including a GHG inventory (Ministry of Sustainable Development and Tourism, 2020^[29]). The Law on Protection against Adverse Impacts of Climate Change and the Law on Environment oblige Montenegro to develop a Low-Carbon Development Strategy and an action plan. Developing this strategy is a priority for the coming period, but delays have occurred due to changes in government. Currently, there are three main strategies that address climate change in Montenegro:¹⁸²

1. The National Climate Change Strategy to 2030, which is the main strategic document and has an advanced implementation track.
2. The National Energy and Climate Plan (NECP), which aims at aligning the main energy policy objectives and climate change mitigation actions.
3. The National Strategy and Action Plan for Transposition, Implementation and Enforcement of the EU *acquis* in the Field of Environment and Climate Change 2016-2020, which refers to harmonisation with the EU *acquis* in this area. A final report on its implementation was produced at the end of 2020.

Although a strategic framework for tackling climate change is in place, Montenegro needs to intensify its work to ensure consistency with the EU 2030 climate and energy policy framework and make sure that its strategies are integrated into all relevant sectoral policies and strategies (EC, 2020^[66]).

When it comes to climate change adaptation, the Directorate for Emergency Situations of the Ministry of the Interior has started to prepare a disaster risk assessment, which will cover major climate change-related risks. Some flood-risk management measures have been implemented since the last assessment through the regional project, Adaptation to Climate Change through Transboundary Flood Risk Management in the Western Balkans (2016-2020). The project focuses on integrated water resource management and adaptation strategies in the Drin River Basin, which covers Albania, Kosovo, North Macedonia and Montenegro. Its main objective is to mitigate the impacts of climate change by focusing on flooding and drought risk management, as well as strengthening regional co-operation for managing water resources. The project has strengthened cross-border co-operation for flood warnings and established a cross-border warning system through the exchange of hydro-meteorological real-time data. Flood risk management plans have also been drawn up for the participating municipalities on Montenegro's side of the Drin River Basin, and their implementation capacity built through regular training. Furthermore, precipitation and stream-gauging networks have been extended to measure real-time data for transboundary flood forecasting, through upgrading or renovating a total of 10 stations. This now enables floods to be predicted and the population in the relevant areas receive early warnings. Local stakeholders have however reported that risk prevention analysis is insufficient and that projected measures focus on areas that have already been affected by floods and do not predict potentially new areas.¹⁸³

Very little has been done to develop a **circular economy framework** in Montenegro since the last assessment. The main measures that relate to a circular economy are contained in the National Strategy for Sustainable Development until 2030 (NSSD, adopted in July 2016), with its first implementation report being finalised at the time of drafting. However, the timeframe of these measures is quite broad as they are spread up until 2030; no concrete activities have been undertaken so far. Recycling rates are very low (around 5% of municipal waste in 2018 compared to the EU-28 average of 47%) which means that 95% of municipal waste is landfilled (Eurostat, 2020^[179]). There are centres for primary recycling in two Montenegrin municipalities, where certain types of waste are selected and prepared for export and further processing – and smaller lines in Kotor (including the first composting plant). Moreover, preparations are underway to construct new recycling yards and sorting plants.¹⁸⁴ There are no waste incineration plants in Montenegro.

With a municipal waste generation rate of 531.7 kg per capita, Montenegro's waste generation rate is higher than the EU average of 492 kg per capita (in 2018), and has seen a constant increase since 2014 (Eurostat, 2020^[180]; Ministry of Sustainable Development and Tourism of Montenegro, 2019^[181]). Despite this trend, no measures have been undertaken to decrease the amount of waste created. Since 2017, there have been no major changes in the legislative **framework for municipal waste management**. The new Law on Waste was being prepared at the time of drafting. There are two main strategy documents: the National Waste Management Plan 2015-2020 (the new plan is still being drafted and is expected to be adopted in 2022) and the National Waste Management Plan until 2030. However, their implementation is limited, with the exception of the rehabilitation of the four large unregulated landfills that was completed in 2017. The changing priorities and decreasing government revenues as a result of the COVID-19 pandemic are expected to slow implementation down still further. Although monitoring mechanisms were envisaged in the form of annual reports on the implementation of the National Waste Management Plan, they are mostly missing.

Waste collection and treatment infrastructure is financed mainly through the state budget, while waste collection and treatment services are funded from the local municipalities' budgets.¹⁸⁵ There have been no changes to waste tariffs since 2017. Waste separation at source has been introduced since the last assessment in certain municipalities: in 2020, the municipalities of Podgorica, Herceg Novi, Bijelo Polje, Pljevlja and Bar provided containers for selective waste collection. Although the awareness-raising project

Separate Waste Collection is my Decision continued to be implemented in co-operation with local self-governments throughout the assessment period,¹⁸⁶ primary selection of waste has been reported to be low despite infrastructure installed for this purpose. The situation might improve when the new law on waste is in place. No measures to combat unregulated burning or illegal dumping of waste have been undertaken, despite the fact that this practice continues to pose problems in Montenegro. Local stakeholders have been working on mapping the illegal dumps across the economy since 2015,¹⁸⁷ and sanctions for unregulated burning and illegal dumping of waste are envisaged by the law, but implementation has been weak due to the lack of capacity among the local municipalities responsible.

Sub-dimension 13.2: Natural asset base

According to the Water Competition Index,¹⁸⁸ 30 425 m³/year of water¹⁸⁹ are available to each citizen of Montenegro, which makes Montenegro one of the wealthiest economies in Europe for water (EEA, 2015_[182]). Despite the apparent abundance of water, around 35% of Montenegro's territory suffers from a chronic lack of water, while around 10% of the territory has a problem with seasonal surplus water. As a consequence of climatic conditions, the uncontrolled use of water, huge losses in the water supply system and inadequate infrastructure, water consumption per capita is double that of Western Europe (EEA, 2015_[182]). Furthermore, during the tourist season, there is insufficient provision of drinking water in the coastal region. The following sectors place a high demand on water in Montenegro: agriculture, industry (primarily food, as well as SMEs), transport and road construction works (Ministry of Sustainable Development and Tourism of Montenegro, 2019). In 2018, households accounted for the main freshwater withdrawals (60%) in Montenegro, followed by industry (39%), with only 1% of abstractions coming from agriculture (World Bank, 2020_[183]). In addition to the pressures on water, another major issue for freshwater is pollution, stemming from insufficiently treated industrial and municipal wastewater (see section below on Environmental quality of life).

The legislative and policy framework for **freshwater management** is in place and there have been no major changes since the last assessment.¹⁹⁰ Implementation has been rather limited, except for the new EU-IPA project on Support to the implementation and monitoring of water management in Montenegro, signed in December 2019, to improve overall water management in Montenegro. Monitoring and evaluation mechanisms are also lacking. According to the Government of Montenegro, prevention of pollution at source, emissions control and water quality standards are part of the legislation, as well as the prevention of and protection against flood risks.¹⁹¹ Investments in hydropower currently do not always comply with national and international nature protection and water management obligations, such as the EU Water Framework Directive (2000/60/EC). In this regard, Montenegro should ensure public participation and consultation, and guarantee high-quality environmental impact assessment (EIA) reports that include cumulative impacts on nature and biodiversity (EC, 2020_[35]).

As noted in the previous assessment, there are no data or projections on water demand from agriculture, industry (including energy) or households, despite regular requests from local NGOs. Decisions are therefore not guided by evidence on competing uses now and in the future. Water risk management data exist – mainly meteorological data (including rainfall) and historical data on water disasters – but not all are publicly available or communicated to citizens to increase awareness of water-related risks.

Montenegro hosts rich biological diversity. Forests make up 61.5% of its total land area – the greatest share in the Western Balkans region (where the average is 42%) (World Bank, 2020_[183]). However, human pressures represent major risks when it comes to protecting biodiversity and maintaining forestry resources – including illegal tree logging, tourism, urbanisation and road construction, mini hydro power plants, pollution, illegal waste dumps, as well as forest fires, climate change and invasive alien species (Ministry of Sustainable Development and Tourism of Montenegro, 2019_[181]). Therefore, strong **biodiversity and forestry frameworks** are key to overcoming these challenges and conserving ecosystems. Montenegro is party to the Convention on Biological Diversity, which comprises 20 Aichi Biodiversity Targets.¹⁹²

Although certain activities have been implemented to meet these targets in Montenegro, progress is insufficient. For example, terrestrial protected areas increased from 6.5% in 2018 to 13.5% in 2020 (whereas the Aichi Target 11 aims for 17% coverage by 2020). Montenegro is actually regressing on some targets (e.g. Achieving sustainable tourism and Reducing pressures on biodiversity from transport, energy and infrastructure) (Ministry of Sustainable Development and Tourism, 2018^[184]). Further progress is also needed to designate marine protected areas¹⁹³ and to establish a comprehensive system of strict species protection to be applied, among others, for seismic surveys, hydropower and touristic developments.

Biodiversity is monitored annually, through direct co-operation between institutions responsible for various thematic areas as prescribed by the Law on Nature Protection. There is a system to collect information on biodiversity (including conservation status of threatened species and habitats), but according to the government, the extent of the monitoring programme is not sufficient for an overall assessment of the conservation status of threatened species and habitats. The Nature and Environmental Protection Agency is in charge of these areas, but lacks the human and financial resources (mostly government-funded) for carrying out its main responsibilities.

A national forest inventory system exists in Montenegro and the Forest Management Programme was adopted in 2019, which defines annual forest management measures by volume, type and time of execution in order to ensure the sustainable management of forest resources. Fire prevention is an integral part of forest management plans. A co-ordination team for the suppression of illegal activities in forestry was formed in April 2019 to detect illegal forest activities, including deforestation. The Forestry Inspection, together with the Police Directorate and the Forest Directorate, carry out controls and inspections. Clear sanctions for illegal tree logging are in place and there are regular reports on the effectiveness of these measures.

Land-use management in Montenegro is under-developed. There is a legislative framework,¹⁹⁴ but it remains largely unchanged since the last assessment. Little progress has been achieved on policy. The National Plan for Desertification (2015-2018), the main policy document related to land-use management, has now expired and has not been updated. A National Drought Management plan is however being drafted that will cover national desertification (planned to be completed by October 2021). No new strategic documents have been produced since the last assessment, except for the new Spatial Plan of Montenegro (2020-2040) adopted in 2020, which will indirectly regulate land use. There is growing pressure on land and soil resources in Montenegro, especially in the context of a pronounced decrease in agricultural land, from 38% in 2012 to 18.6% in 2019 (comparatively lower agricultural land share than its regional peers) (MONSTAT, 2020^[185]). According to the government, monitoring of potential soil contamination is hampered by the lack of an adequate legal framework. Although agricultural land is regulated by law, the legal framework does not prescribe the maximum concentrations of hazardous and harmful substances allowed on other types of land (industrial land, playgrounds, parks or residential areas).

Sub-dimension 13.3: Environmental quality of life

Air quality in Montenegro remains a concern, with the population exposed to air pollution levels of PM_{2.5} that are twice the recommended limits set by the World Health Organization¹⁹⁵ (World Bank, 2017^[25]). The main polluters in Montenegro are public electricity, heat production and residential stationary combustion. Other key sources of pollution are agricultural processing and transport (IAMAT, 2020^[27]). Levels of air pollution in the winter increase due to heating by solid fuels. The pollution levels in Pljevlja, where the thermal power plant is situated, regularly exceed the annual mean PM₁₀ concentration limits (EC, 2020^[35]). Air pollution is recognised as a very serious environmental health risk and as such is managed through Montenegro's well-developed legislative and policy **air quality framework**. The legislative framework is almost fully aligned with the EU *acquis*,¹⁹⁶ while the policy framework, most notably the objectives of the National Strategy for Air Quality Management (2017-2020), are aligned with related policy areas including climate change, energy, agriculture and forestry.¹⁹⁷ In March 2020, Montenegro re-established reporting

on air pollution emissions and provided missing data for the period 2011-2018, which will help measure the effect of air quality measures on emissions levels given that the baseline values are now available.

Some of the key events since the last assessment relate to the extension of the air pollution emission monitoring network in 2019, from 7 to 10 automatic stations, and a slight decrease in annual mean population exposure to PM_{2.5} air pollution. Immediate action is ensured if the recommended pollution limits are exceeded, particularly for pollutants such as sulphur oxides (SO_x) and nitrogen oxides (NO_x), in which case an emergency plan is prepared and prompt action taken. For example, in January 2019, following a high air pollution event, the government formed an ad hoc commission which came up with a set of urgent measures in two days. These included informing the population of pollution levels and providing advice, and cleaning streets to remove dust deposited on road surfaces. Montenegro provides data on air quality to the public almost in real time (hourly averaged) on the National Environmental Protection Agency (NEPA) website using a colour scheme to show air pollution levels. This is identical to the European air quality index. However, monitoring systems are not present in all municipalities. Since the last Competitiveness Outlook assessment NEPA has also started delivering short bulletins on air quality in the national media, as part of the weather forecast.

A high-quality **water supply and sanitation system** is also important for public health. Montenegro is a freshwater-rich territory (see the freshwater management section above), but has rising pollution problems, mostly as a consequence of untreated industrial and municipal wastewater. A significant cause of surface and underground water pollution is the inadequate condition of sewage infrastructure, including the inadequate collection and treatment of wastewater. Montenegro's legislative framework for wastewater management is almost fully aligned (95%) with the EU *acquis*. A new Municipal Wastewater Management Plan (2020-2035) was being prepared at the time of writing. The Ministry of Sustainable Development and Tourism, the Ministry of Agriculture and Rural Development, Directorate for Water, the Montenegrin Enterprise for Regional Water Supply and local enterprises established by municipalities are the key bodies responsible for wastewater management in Montenegro. However, the administration is of the view that financial and human resources are not sufficient to undertake their assigned responsibilities and there are no regular activities aimed at building their capacities. The lack of mechanisms for horizontal or vertical co-ordination impedes their effective implementation of the measures envisaged.¹⁹⁸

In 2019, 58.4% of the population was connected to urban wastewater collecting systems in Montenegro – the highest share in the Western Balkans, but still lower than the EU average of 79.9% (Ministry of Sustainable Development and Tourism, 2020^[186]) (Eurostat, 2020^[187]). Some of the key measures in the draft Municipal Wastewater Management Plan (2020-2035) relate to investments in the water supply and sanitation system, such as the new sewage network and several major outfalls in the coastal region. There are currently ten wastewater treatment plants in operation or trial operation, half of which provide a secondary level of treatment.¹⁹⁹ Additional investments in wastewater treatment plants are also planned, but there is no evidence that new challenges, such as the need to treat contaminants of emerging concern,²⁰⁰ are taken into consideration when upgrading the facilities, nor is there a plan to do so. Water supply and sanitation infrastructure projects are still largely dependent on donor funding and there is no particular methodology for calculating the service fees required. Current water service fees remain too low to cover or even complement the infrastructural investments required, as well as the water supply and services (the latter being complemented by subsidies from the municipalities). Various NGOs are also involved in implementing water sanitation projects; however, stakeholders noted that harmonisation was lacking among different actors. Although no measures have been taken to address water losses from the system since the last assessment, they have been recognised as a problem and there is a plan to reduce them in the strategic document Projection of Water Supply of Montenegro until 2040 (Ministry of Sustainable Development and Tourism, 2017^[188]).

The **industrial waste management** situation has moderately improved since the last assessment. The legislative framework is now partially aligned with the EU *acquis*, including on environmental liability and industrial risks and accidents (Seveso III Directive 2012/18/EU). The preparation of a new Law on Waste

Management is in progress, which will regulate the management of industrial waste. Regarding key strategic documents, the National Waste Management Plan 2015-2020 has expired (although there is a plan to adopt a new one promptly) and the National Waste Management Strategy is valid until 2030, but its implementation record is weak. In terms of chemicals, the National Chemical Management Strategy (2019-2022) has introduced classification, packaging and labelling rules for chemicals. An inventory of chemical products is kept internally by the Nature and Environmental Protection Agency. While it is not connected to other information systems, NEPA is working on establishing an integrated electronic chemical and biocidal product register, which should use the software application IUCLID (International Uniform Chemical Information Database). The Pollutant Release and Transfer Register (PRTR) protocol was ratified in 2017 – however, the register has not been set up yet. Data on hazardous waste are scarce and, as no domestic hazardous waste disposal facilities exist, waste must be exported for treatment.

Some positive developments have been recorded for soil protection and provisions for identifying and managing contaminated sites, although the policy and legislative basis for soil protection is still non-existent. In 2014, the Government of Montenegro obtained a EUR 50 million loan from the World Bank for the Industrial Waste Management and Clean-up Project (IWMCP) to remediate four industrial waste disposal sites, and to manage the disposal of industrial hazardous waste, with NEPA being responsible for project implementation. The completion of the project was projected for July 2020, but has been delayed due to the COVID-19 pandemic. Moreover, the Global Environment Facility project, Environmentally sound management of PCBs,²⁰¹ intends to provide the necessary technical and financial assistance to ensure that all remaining PCBs are identified and disposed of (more than 900 tonnes of PCB contaminated equipment, waste and soil are estimated in Montenegro). The project will also ensure enough future capacity for the sound management of PCBs.

The way forward for environment policy

Despite some important steps to improve the overall environment, especially in the areas of biodiversity, forestry and air pollution, the Government of Montenegro should pay more attention to the following aspects:

- **Ensure that measures for municipal waste management are accompanied by appropriate educational activities, and step up actions to raise awareness of waste prevention, waste separation, waste reduction and recycling.** Waste separation at source is envisaged in certain municipalities of Montenegro, with key infrastructure for this purpose installed. However, according to the government, implementation has been rather weak, as citizens do not separate waste. This behaviour stems from a lack of awareness of the importance of waste separation due to the limited educational activities on the topic. It is therefore important to tackle these issues through targeted campaigns and awareness-raising activities. Good practice from OECD countries might serve as inspiration (Box 23.19).

Box 23.19. Public information and awareness raising for municipal waste management in the OECD

Public awareness and support are key factors in changing behaviour and thus for the success of waste policies. Educating young people can be a key approach. Several OECD countries have established environmental education initiatives. For example, Colombia's Communication and Environmental Agenda (2010-14) fostered educational projects on the environment across all levels of schools. Israel has a Green Education Project and also provides grants for "green schools", that promote resource efficiency and the separate collection of waste streams. Korea's Environmental Education Master Plan has created a network of environmental education centres.

Poland's "Don't Litter Your Conscience" campaign run by the national Ministry of Environment uses the character of a priest to tell parishioners to separate recyclable waste and not burn household waste in their gardens or dump it illegally. Another campaign encouraged the reuse of toys to encourage resource efficiency. Campaigns and activities to address illegal dumping are carried out in Hungary, where the Ministry for Agriculture supports the "TsSzeddi!" ("Pick up!") Campaign to raise awareness about sound waste management practices.

Civil society organisations can also play an important role in promoting public awareness. "Let's do it! My Estonia" is an independently organised annual day of community activities, including litter clean-up. In Slovenia, about 200 000 volunteers worked together in 2010 for "Let's clean Slovenia in one day", a similar independently organised day to clean up litter and illegal waste sites, accompanied by environmental education activities.

Some OECD countries work through local government. In Israel, for example, the Ministry of Environmental Protection funds municipal activities for environmental education and awareness raising, and the country's 2010 Recycling Action Plan acknowledges the need for further action to raise public awareness and change behaviour towards separate collection.

Working with business, including producer responsibility organisations (PROs), can play an important role in fostering public awareness of recycling. In Korea, voluntary agreements with business include activities to raise public awareness on topics such as waste reduction and recycling; the country's PROs spend between 1% and 5% of their profits on information and awareness campaigns. In Poland, PROs are required to allocate 5% of their profits each year to public awareness.

Source: (OECD, 2019^[189]), *Waste Management and the Circular Economy in Selected OECD Countries: Evidence from Environmental Performance Reviews*, <https://doi.org/10.1787/9789264309395-en>.

- **Direct more investment into improving wastewater systems and treating more wastewater.** Although Montenegro has taken some action to renovate and update its water supply and sanitation system, the activities are limited in scope and decisions on where to invest have not always been supported with concrete data. It is therefore important to conduct a clear mapping of the situation and identify key investment priorities. The government should try to finance these projects as much as possible from the domestic budget and higher water tariffs (at rates that take into account the needs of poor and vulnerable groups in the population). Where support from donor funds is provided, the government should make sure these finances flow regularly to ensure the sustainable maintenance of the water supply and sanitation system.
- **Introduce a comprehensive policy framework for identifying, characterising and remediating contaminated sites.** The policy and legislative basis for soil protection is still lacking and the process remains ad hoc. Given the importance of this element for Montenegro's environment, the next step will be to set a clear policy framework for cleaning up contaminated land as well as concrete guidelines to facilitate the process of identifying land that needs

decontaminating. A good practice example on how Israel approached this is presented in Box 23.20.

Box 23.20. Cleaning up contaminated sites in Israel

Contaminated land has been discovered in hundreds of industrial, commercial and agricultural areas in Israel. These areas include several sites where hazardous waste was buried before the hazardous waste management site at Ramat Hovav was established. Such sites affect soil and water, with groundwater contamination found at 30% of sites.

Steps have been taken to develop a comprehensive framework for the identification, characterisation and remediation of contaminated sites. In 2000, the MoEP formulated a policy for cleaning up contaminated land and prepared several guidelines to facilitate the process. These documents included preliminary clean-up targets for 100 pollutants to serve as a basis for land remediation and guidelines on planning and implementing soil site characterisation, as well as guidelines for remediating contaminated soil at petrol stations. In 2009, the MoEP identified the 20 most severely polluted sites and began remediation measures. For example, EUR 42 million was allocated for remediating the hazardous waste treatment site at Ramat Hovav, which included a closed landfill, sedimentation and evaporation ponds, and temporary storage areas.

Since addressing past pollution will probably take decades, immediate actions focused on immediate risks, such as at Ramat Hovav, and monitoring other sites for potential contamination. Swift adoption of the Law on the Prevention of Land Contamination and the Remediation of Contaminated Land helped to create a comprehensive framework for rehabilitation efforts. This framework included instruments to carry out soil surveys on land suspected to be polluted (within the framework of building permits and real estate transactions, and state-owned land leasing agreements), with contamination and clean-up status recorded in the land registry. A database of contaminated and potentially contaminated sites (which includes state-owned land, such as army bases, defence industry sites, government-owned companies, as well as privately owned contaminated areas) helps the law to be implemented successfully. A risk-based methodology for soil and groundwater, approved in 2011, has enabled better risk assessment procedures.

Source: (OECD, 2011^[190]), *Environmental Performance Reviews, Israel*, https://www.oecd-ilibrary.org/environment/oecd-environmental-performance-reviews-israel-2011_9789264117563-en;jsessionid=oCtpEfRgJ0rQSOhCxMWLZCil.ip-10-240-5-190; (Siegel, 2015^[191]), *Let There Be Water*.

Agriculture policy (Dimension 14)

Introduction

Montenegro has significantly improved its performance in the agriculture dimension. The economy's score has increased from 2.4 in 2018 to 3.4 in the 2021 Competitiveness Outlook assessment, with notable progress in enhancing its agriculture support system policies (Table 23.26).

Table 23.26. Montenegro's scores for agriculture policy

Dimension	Sub-dimension	Score	WB6 average
Agriculture policy dimension	Sub-dimension 14.1: Agro-food system capacity	3.3	2.8
	Sub-dimension 14.2: Agro-food system regulation	3.5	2.9
	Sub-dimension 14.3: Agriculture support system	3.5	2.7
	Sub-dimension 14.4: Agricultural innovation system	3.0	2.6
Montenegro's overall score		3.4	2.7

State of play and key developments

The contribution of agriculture, forestry and fishing to GDP decreased from 6.7% in 2018 to 6.4% in 2019 (MONSTAT, 2020^[192]). In 2018, agricultural products made up 18.8% of Montenegro's total exports and 21.5% of its imports (WTO, 2020^[193]). While agriculture is a significant sector for Montenegro, its importance varies depending on the region and the climate, which shifts from Mediterranean to sub-continental over a very short distance due to the influence of the Adriatic Sea and local relief. Montenegro's landscape is characterised by substantial hilly and mountainous areas, with only a few level areas suitable for agriculture. Montenegro's entire territory is 13 812 km², of which 18.6% (257 469 ha) was used for agriculture in 2019, an increase of 0.3% compared to the previous year. Perennial meadows and pastures make up the largest share, at 94.3% (242 717 ha), while arable land represents only 2.8% (7 205 ha), permanent crops 2.1% (5 538 ha) and kitchen gardens 0.8% (2 010 ha) (MONSTAT, 2020^[194]). The rural population in Montenegro is 33.2% of the entire population, and according to the Employment Agency, the agriculture sector employs 7.1% of the economy's workforce (Table 23.27), around 17 400 workers, all of whom receive social benefits.²⁰²

Table 23.27. Employment by sector and sex, Montenegro (2019)

	1000			%		
	Total	Men	Women	Total	Men	Women
Total	243.8	136.3	107.5	100.0	100.0	100.0
Agriculture¹	17.4	(10.3)	(7.1)	7.1	(7.6)	(6.6)
Industry	47.3	38.8	8.5	19.4	28.5	7.9
Services	179.1	87.2	91.9	73.4	63.9	85.5

1: Agriculture includes forestry and fishing.

Source: (MONSTAT, 2019^[195]), Labour Force Survey - Releases 2019, <https://www.monstat.org/eng/page.php?id=1543&pageid=22>.

Fruit and vegetables are the most significant agricultural production sub-sector in Montenegro, while commercial crop production (cereals, maize, sugar beet, oilseeds) remains small scale. Regarding farm crops, potatoes accounted for the largest amount of arable land in 2019, covering 1 624 ha and accounting for 28.1% of crop production. This was an increase of 0.13% of arable land and 1.76% (26 557 tonnes) of production compared to 2018. Regarding fruit, citrus and olive production, plums made up the largest share at 43.5% in 2019, down 18.6% from 2018. Other fruit – including apples, pears, peaches and mandarins – accounted for over 54% of production in 2019, while olives accounted for 2.5%, up 10.1% from 2018. Meanwhile, grape production has been declining annually. In 2019 total production was 21 865 tonnes, 15.2% less than in 2018, and 27.5% less than in 2016.

Livestock breeding is the most significant agriculture sub-sector in Montenegro, both in terms of production quantity and value. The breeding of cattle and sheep, which make up the majority of the livestock sector (Table 23.28), uses land not suitable for arable production, such as the permanent grassland which accounts for a large portion of the total agriculture land in Montenegro.

Table 23.28. Livestock and poultry numbers in Montenegro (2016-19)

	2016	2017	2018	2019	Indices 2019/2018
Cattle	89 269	86 649	83 264	81 432	97.8
Sheep	191 992	189 008	187 021	182 127	97.4
Goats	31 458	29 595	29 040	28 754	99.0
Pigs	55 841	25 043	23 651	23 089	97.6
Poultry	835 705	788 309	666 339	635 882	95.4
Horses	3 947	4 071	4 005	4 008	100.1

Source: (MONSTAT, 2019^[196]), *Livestock production - data*, <https://monstat.org/eng/page.php?id=1583&pageid=61>.

As of 2019, the Montenegrin fishing fleet consisted of 244 vessels, most of them old and with a very limited range due to safety concerns and operational limitations.

The agriculture sector has faced significant challenges due to the COVID-19 pandemic, including limitations on the movement of people, market closures, decreased demand, and difficulties in logistics. As the sector is closely linked to tourism in Montenegro, it particularly underperformed during the summer of 2020. The agriculture, forestry and fishery sector saw the number of employees decrease by 21.3% in the first nine months of 2020 compared to the same period in 2019 (MONSTAT, 2020^[197]). This is a much larger fall than for the economy as a whole (11.3%). According to Erste Group, the second leading bank in Montenegro (SEE News, 2020^[198]), unemployment will rise to 17% by the end of 2020, from 14.9% in 2019. The average gross wage decrease was 1.4%, but in the agriculture sector wages have fallen by 7.6%.

In April 2020, the Montenegro Government decided that, in addition to the full implementation of all measures envisaged in the year's substantial agricultural budget, it would add additional support for agriculture through a special programme worth over EUR 17 million. This includes the following measures:

- Market interventions to maintain market stability, price stability and producers' incomes. This involves the purchase and storage of surplus agricultural products, assistance in marketing or buy-out by the state institutions. The planned funds for this measure amount to EUR 3 million.
- Support for the purchase of domestic products. State budget consumers (state and public institutions) will give priority to procuring domestic products, as the use of shorter supply chains involving faster transportation becomes mandatory.
- Ensuring domestic producers receive support payments for products within 15 days. In order to shorten payment deadlines, the government will mandate the Investment Development Fund (IRF) to provide credit support to retail chains, with an obligation to pay domestic producers within a period not exceeding 15 days.
- Favourable loans for the supply of working capital to registered agricultural producers, processors, and fishermen. These loans will be approved up to a maximum amount of EUR 20 000, with an interest rate of 1.5%, a repayment period of up to two years and a grace period of up to one year. The government will pay the interest during the grace period, for which about EUR 150 000 are provided. The planned funds for this measure amount to EUR 10 million.
- Support for social contributions to employees in the agriculture sector. This support will cover 529 registered farmers for a period of six months. The financial resources for this measure amount to EUR 100 000.

- One-off support of EUR 64 for 3 200 people retiring from farming. EUR 225 000 are committed to this measure.
- One-off assistance for 184 fishermen with a valid license, for which EUR 200 000 are allocated.
- Advance payment of 80% of premiums on livestock and per hectare of arable land, based on data from the previous year. On this basis, producers will be paid a total of around EUR 3.5 million in the first half of May 2020.

In September 2020, MONSAT noted a decrease in agriculture sales of 5.1% cumulative since March 2020. The total export of goods for the period January-September 2020 decreased by 15.3%. The impacts on the livestock sector were variable. Live animal exports increased by almost 18%, while dairy product exports decreased by 22%.

Although the Government of Montenegro has reduced the negative impacts of COVID-19 on the agriculture sector, the consequences for the organisation of value chains, decreased market penetration and reduced income need to be addressed further in order to rebuild the broken links in the sector. Market support measures, cheap financial products to support agricultural households' cash flow and reinforcing one-off contracted payments are needed to ensure stability for farmers and the rural population.

Sub-dimension 14.1: Agro-food system capacity

While rural infrastructure policy in Montenegro has made progress in increasing rural development expenditures and water-supply projects, Internet connectivity in rural areas remains weak and local agriculture budgets are underfunded. The responsibility for rural infrastructure policy is shared by the Ministry of Agriculture and Rural Development (MARD), Ministry of Transport and Maritime Affairs, the Transport Directorate, Government Regional Development Office, Ministry of Economic Development, and the municipalities.

The **rural infrastructure policy framework** is based on the Strategy for the Development of Agriculture and Rural Areas 2015-2020, which aims to enhance living standards and quality of life in rural areas, provide conditions for the growth of agriculture, and diversify economic activities on both agricultural holdings and in rural areas in general. Based on this strategy, the Programme for Development of Agriculture and Rural Areas in Montenegro has been established under IPARD II 2014-2020 (as described in Sub-dimension 14.3: Agricultural support system). Amongst its goals are revitalising and developing rural areas and building infrastructure on the basis of co-financing of projects by the applicant and the state, including local roads, water management and facilities of common importance.²⁰³

Investment in rural infrastructure development for 2014-2020 is supported by both the Agro-Budget and IPARD funds. The Agro-Budget for 2020 is EUR 60.7 million (compared to EUR 52.4 million in 2019), EUR 2.5 million of which has been allocated for developing village and rural infrastructure (EUR 0.7 million from the national budget and EUR 1.8 million from donations and credits), a 14.1% increase in expenditure over 2019 (MARD, 2020^[199]).

As agriculture is defined as an area for strategic development in the majority of municipalities in the north and central regions, all local self-governments have agriculture units. Municipal budgets for agricultural development are predominantly intended for infrastructure, and to a lesser extent for other support measures. However, while all municipalities have agriculture units, few have their own funds for agriculture, impeding effective implementation of rural infrastructure policy.

Fixed broadband services, in particular the optical fibre sector, have shown strong growth, albeit mainly in large towns. In the first nine months of 2019, the number of fibre connections increased by 24% across the entire economy, totalling 34% of all fixed broadband connections. However, Internet connection in rural areas remains slow with low coverage. Additionally, development of telecommunication networks largely relies on the private sector as no government initiatives have been implemented.

Montenegro participates in constructing rural water supply systems through annual water management projects. In 2019, with a budget of EUR 970 000, the projects included constructing 31 water supply networks to create better living and working conditions in rural areas, as well as the further development of agriculture. Priority was given to rural water supply networks which were financed in the previous period, as well as new requests for water supply submitted by municipalities.

Montenegro has the highest level of water sediment in Europe, and due to an adverse water balance (which means that the inputs of water are lower than the outputs), almost 35% of Montenegro's territory suffers from water shortages (see also Sub-dimension 13.2: Natural asset base). However, the high amount of annual rainfall means that Montenegro, with the exception of distinct karst areas, is rich in natural springs, offering ample opportunities for irrigation.

Irrigation infrastructure falls under the auspices of the Ministry of Agriculture and Rural Development and the Directorate for Water Management within MARD. The Directorate for Water Management carries out the tasks of the ministry related to policies in the field of water management, proposing system solutions for the supply and use of water and implementing regulations on water and watercourses. While the **irrigation policy framework** is primarily based on the 2007 Law on Water, MARD adopted the National Strategy for Water Management in 2017, on the basis of which it is currently drafting a plan for irrigation development.

Irrigation infrastructure in Montenegro is underused, so there are significant water losses from irrigation systems. According to the National Strategy for Water Management, the irrigation system consists of both operating and abandoned systems, together occupying a total area of 18 310 hectares. The Agriculture and Rural Development Strategy 2015-2020 points out that some 51 000 hectares of land are suitable for irrigation, but only 15-17% of it is currently irrigated. As a consequence, 19% of water was lost from the irrigation system in 2018. The total number of irrigated agricultural holdings is 12 518, with an average area irrigated per agricultural holding of 0.42 ha (MARD, 2015^[200]). The irrigation systems in Montenegro cover the areas of Ulcinjsko Polje (100 ha), Mrčevo Polje (220 ha), Sutorina (120 ha) and Bjelopavlička ravnica (840 ha), as well as working open drainage systems in Crmničko Polje, Tivatsko Polje, Lješko poljski lug and parts of Bjelopavlička ravnica.

According to the Strategy for the Development of Agriculture and Rural Areas 2015-2020, the major part of Montenegro's development potential is located in its least developed rural areas. The strategy identifies as a priority improving the standard and quality of higher education to meet the needs and requirements of the market. It also prioritises developing and strengthening entrepreneurial skills in young people to meet minimum national standards. Montenegro's **agricultural education system** is under the authority of the Ministry of Education and Science and covers specialised secondary education in agriculture as well as tertiary education. Agricultural education is partially funded from the Agro-Budget, which includes a measure for improving producers' knowledge. This measure includes support for educating permanent employees on farms, organising study visits for farmers, organising a Winter School for farmers, as well as support for participation in regional and international fairs and exhibitions. Montenegro has established the Strategy for Development of Higher Education in Montenegro (2016-2020), and the Strategy for the Development of Vocational Education in Montenegro (2020-2024) with an action plan (2020-2022), all of which cover agricultural education (MARD, 2015^[200]).

There are five high schools (secondary education, 15-18 years) for agriculture, food processing and veterinary, mostly mixed schools that provide education for agriculture technicians in all domains.²⁰⁴ Only one of the schools is vocational.²⁰⁵ While there is an on-going reform of high school education to develop new curricula that respond to emerging labour market needs and increase students' interest, the number of students enrolled in these schools is declining (Table 23.29).

Table 23.29. Agriculture enrolments in first year of high school (2016-20)

School year	2016	2017	2018	2019
Total number enrolled	7 650	7 655	7 213	6 759
Agriculture, forestry, fishery and veterinary enrolments (number)	122	151	103	75
Share of total	1.59%	1.97%	1.43%	1.11%

Source: Strategy for the Development of Vocational Education in Montenegro (2020-2024) with the Action Plan (2020-2022).

Tertiary agriculture education is available at the Biotechnical Faculty of the University of Montenegro in Podgorica and at the Faculty of Food Technology, Food Safety and Ecology at the private University of Donja Gorica. Since 2005/06, the Biotechnical Faculty has included both a plant production and livestock production/cattle breeding division. The Biotechnology Faculty has departments and laboratories situated in Podgorica, Bar and Bijelo Polje, as well as experimental plots for students' professional practice.

The Faculty for Food Technology, Food Safety and Ecology (FFTFSE) has been in operation since 2012 as a department at the University of Donja Gorica. FFTFSE offers courses in technological engineering, sanitary engineering, environmental engineering and hotels, restaurants and catering (HoReCa) system engineering at an undergraduate level. FFTFSE has also established good links with industry by organising professional practice sessions and exercises for students in the field, at private laboratories, and through work on joint projects. FFTFSE has formed partnerships with various companies in the agriculture and food-processing sector as well as with national and international universities, faculties and research institutions.

Sub-dimension 14.2: Agro-food system regulation

Natural resources regulations in Montenegro have been improved and partially harmonised with the EU regulations; however, land consolidation remains limited and the water management system is weak. Regulations for natural resources fall under the auspices of the Ministry of Agriculture and Rural Development and are set out in the Law on Agricultural Land, the Environmental Law and the Law on Water.²⁰⁶ The legislation defines the inter-sectoral co-operation between the various departments responsible for land, water and environment. However, there is no formal mechanism for co-ordination or information sharing. The Environmental Law defines the sustainable use of natural resources and sets the basis for agri-environmental measures.

Montenegro's Law on Agricultural Land regulates the use of agricultural land in the context of environmental and natural balance. An update of the law began in 2018 and is still on-going. Its main purpose is to include the necessary EU provisions for natural resources management, especially establishing and implementing a Land Parcel Identification System (LPIS). At present, Montenegro has implemented an LPIS partially in one specific region, supported by the EU IPA project Strengthening the Montenegrin Agriculture with establishing of Land Parcel Identification System (LPIS). The full implementation of the LPIS will enable digitalised maps of all agriculture parcels in the economy to be produced, creating a complete overview of data on type, area and volume of production. In addition, it will provide information for an integrated rural development approach and serve as a basis for the land consolidation process.

Agricultural land is very fragmented in Montenegro. This weakness is being addressed through the Law on Agricultural Land. Pursuant to this law, agricultural land consolidation is considered of general interest and land plots will therefore be grouped into larger and more regular parcels that can be used more rationally. This consolidation process remains very slow, however.

The Strategy of Water Management of Montenegro, last updated in 2017, defines the model for strategic water management planning, noting that water management should be based on the principle of preserving water as a resource. The concept of water as a natural public good means that it can only be used only in

a way that does not endanger its substance and does not exclude its natural role. The current water management system still faces a number of challenges due to a lack of investment in the maintenance of the existing network, limited wastewater treatment and lack of implementation of management plans for natural resources, including river basins (see also Sub-dimension 13.2: Natural asset base).

Several **regulations on agriculture products** have been updated in 2019 to further harmonise them with EU regulations. The legislation on seeds and planting materials is based on the Law on Plant Protection Products and the Law on Plant Nutrition Products, as well as accompanying by-laws. A range of rules has been established to systematise good agricultural practices, integrated pest management, sustainable use of natural resources, and the whole process for the registration, use and control of seeds and planting materials, as well as fertilisers and plant safety materials.

The regulations are continuously being improved through by-laws and rulebooks based on EU Directives. Over the last two years, the regulations on plant protection products have improved by adopting the 2019 Rulebook conditions for the treatment of stocks²⁰⁷ and the updated Rulebook on maximum residue levels of plant protection products²⁰⁸ the same year. In 2020, the Rulebook on conditions regarding professional personnel²⁰⁹ has strengthened the regulatory framework.

The Laboratory for Seeds operates under the Biotechnical Faculty at the University of Montenegro. It is authorised by the Administration for Food Safety, Veterinary and Phytosanitary Affairs in accordance with the Law on Agricultural Plant Seed Material to undertake examinations of seed material quality, technical and professional affairs (for example, the university's Centre for Crop, Vegetable and Forage Growing, authorised by the Phytosanitary Administration, performs certifications of agricultural plants seed material). The procedures of the laboratory in this area are fully harmonised and accredited by the EU.

The review, amendments and establishment of new legislation in this field are structured through a participatory process, involving all stakeholders. The legal provisions relating to the preparation of a new regulation oblige the state institutions to organise a public stakeholder dialogue before entering into the process of parliamentary adoption. Every year, the MARD adopts the Programme of Phytosanitary Measures, whose main overall objective is to maintain the health status of plants on the territory of Montenegro. It does so by preventing the introduction of organisms harmful to plants, as well as their timely detection, control of occurrence and control of spread, and eradication. The programme also defines measurement inputs, aims, a body for implementation, and financial resources based on annual budgets. Programme input and output monitoring activities are conducted regularly according to the action plan approved at the beginning of the year.

Sub-dimension 14.3: Agricultural support system

Montenegro's **agricultural policy framework** is comprehensive and well monitored by several directorates within the Ministry of Agriculture and Rural Development (MARD). Agricultural policy is under the auspices of the MARD, which prepares and proposes programme measures to the government, along with a series of other documents, acts and regulations necessary for the harmonised functioning of agriculture in Montenegro. Agrarian policies are based on the Law on Agriculture and Rural Development which regulates the development of agriculture and rural areas, agricultural support eligibility criteria for measures, usage, and the organisation of producers. EUR 20.8 million of the Agro-Budget for 2020 has been allocated to agricultural, rural and fishery development, a 13.76% increase over 2019 (MARD, 2020^[199]).

In 2015, the MARD adopted the Strategy for the Development of Agriculture and Rural Areas in Montenegro 2015-2020. It was developed to define the future reform process in the sector, respond to changes in the environment caused by both external and internal factors, and prepare the groundwork for meeting any forthcoming challenges on Montenegro's path to EU accession and the application of the Common Agricultural Policy (CAP). The strategy is financed by the Agro-Budget, as well as rural development measures and direct support for some product groups.

In addition, the Fisheries Strategy of Montenegro for 2015-2020, and its action plan for transposition, implementation and enforcement of the EU *acquis*, was adopted by the Government of Montenegro in 2015. The strategy provides a general strategic framework, and identifies the key steps that Montenegro intends to take to prepare for fulfilling all of its commitments arising from the EU Common Fisheries Policy (CFP) (Institute of Marine Biology, 2019^[201]).

The harmonisation of Montenegro's rural development policy with the EU is based on the Programme for the Development of Agriculture and Rural Areas in Montenegro under IPARD II 2014-2020, adopted in 2015. Amongst the most important components of the programme are the provision of investment support for primary agriculture (Sub-dimension 14.1: Agro-food system capacity) and the processing industry, and support for diversification in rural areas. MARD's Directorate for Rural Development, along with the Legal Affairs Department, develop and prepare the IPARD II programme for Montenegro. The Directorate for Rural Development is also responsible for monitoring the progress and impact of all rural development programmes, including IPARD, and preparing monitoring and evaluation reports. It is also responsible for reporting on IPARD implementation through annual and final implementation reports.

IPARD funds and payments are regulated and monitored by the Directorate for Payments under the regulations of the new Rulebook on the internal organisation and systematisation of the Ministry of Agriculture and Rural Development, adopted in 2019. This rulebook has seen the number of systematised jobs in the Directorate for Payments increase in accordance with the requirements and recommendations of the EC, and a new organisational unit (Direction for Regional Co-ordination) has been established to co-ordinate the regional offices of the future Agency for Payments. Additionally, MARD's Internal Audit Division is fully operational and autonomous for auditing programme implementation.

All stakeholders are active in the process of drawing up strategic documents (NGOs, producer associations as well as individual farmers). MARD publishes public calls for all stakeholders to be given the opportunity to contribute their feedback and suggestions. As part of the EU integration process and alignment with the EU *acquis*, the ministry annually prepares and presents reports to the government and the European Commission.

Domestic producer support instruments fall under the auspices of MARD and are based on the Strategy for Agriculture and Rural Development 2015-2020, which is supported by the Agro-Budget. The Agro-Budget defines the criteria, procedures, type of measures, sources of financing and implementation dynamics on an annual basis and covers national funding, donations (including IPARD) and credit lines. The Agro-Budget for 2020 is almost EUR 9 million higher than in 2019 (EUR 52.3 million). The budget structure in 2019 was made up of 42.7% from the national budget, 43.8% from EU funds and 13.5% from credit lines.

The producer support measures in the Agro-Budget cover 1) market pricing policy measures;²¹⁰ 2) rural development measures;²¹¹ 3) agriculture services support measures;²¹² 4) food safety and phytosanitary measures; and 5) fishery and aquaculture support. Agriculture service measures offer support for education, extension services, quality control, food safety standardisation, promotion, fairs and exhibitions, as well as support for the institutional framework to enhance national capacities for managing EU funds.

The total support for the first four measures focusing on agriculture is around 95% of the total Agro-Budget. The remaining 5% are for support and maintenance of fishery, aquaculture and other operational programmes aimed at enhancing the capacity of institutions in the area of food safety, phytosanitary operations and veterinary. While the use of the Agro-Budget is high, there is a difference in the criteria for the allocation of direct support measures (national budget) and the rural development measures (EU funding).

On the Common Market Organization (CMO), Montenegro launched a pilot school programme for fruit, vegetables and dairy products for the school year 2019/20. New steps to comply with the CMO have been implemented for the wine and olive oil sectors and for producer organisations. The programme inputs and

outputs have been monitored as part of the action plan and are reported to the government once a year. However, producers still lack adequate information to improve their market penetration, especially on diversified market linkages.

Montenegro's **agricultural trade policy** includes several bilateral and multilateral free trade agreements (FTAs). Foreign trade is regulated by the Law on Foreign Trade, the Treaty on Accession to the World Trade Organization (WTO), the Implementing Regulation Law on Foreign Trade, and the Law on Customs Tariff. Montenegro is a member of the Central European Free Trade Agreement (CEFTA), (Stabilisation and Association Agreement (SAA), and European Free Trade Agreement (EFTA), and also has free trade agreements with the Russian Federation, Republic of Turkey and Ukraine.

The economy remains committed to further aligning its trade regime with WTO and EU regulations. Montenegro has been a full member of the WTO since 2012. It follows the WTO mechanisms for the liberalisation of international trade in all product categories, and harmonises its legal and institutional structure with all the basic principles and rules of international trade. In accordance with the WTO Accession Schedules, Montenegro has a ten-year transition period to reduce import tariff duties to a level agreed upon by the WTO, which expires in 2022.

Regarding trade with the EU and the Republic of Turkey, Montenegro has agreed on a number of products for preferential tariff quotas. The allocation and administration of these quotas are done by the Customs Administration, on a first come first served system.

In order to create a framework for the full implementation of the EU *acquis*, Montenegro will have to conduct activities agreed upon by the EU that will ensure the full implementation of EU international trade by the time of accession. Co-operation with the Customs Administration and the prospective Payment Agency is essential to this process.

While in general Montenegro does not have import and export permits, or export refunds on agricultural goods, certain agriculture products do require import²¹³ and export permits.²¹⁴ Import permits are also required when importing products under preferential treatment²¹⁵ and for importing products within tariff quotas. The Common Customs Tariff, except where the specified trade agreements have otherwise been concluded, sets the import duties. Export permits are also mandatory for exports under customs quotas. Furthermore, the provision of guarantees for the import of agricultural products does not occur in Montenegro.

The **agricultural tax regime** in Montenegro involves an exempted rate for producers. While the standard VAT rate across the economy is 21%, fodder, fertilisers, plant protection products, seeds, planting material and breeding stock have a preferential VAT rate of only 7%. Farmers (who are not VAT payers) are entitled to a lump sum fee of 5% on the selling price of their products, for which a tax credit is given to the taxpayer who purchased the agricultural products.

Sanitary and phytosanitary measures in Montenegro are fairly well harmonised with the EU and there is continued effort to further adapt laws on food, veterinary, and phytosanitary measures to EU directives. Most of the regulations were updated in 2019. The sanitary and phytosanitary system in Montenegro is managed by the Directorate for Food Safety, Veterinary and Phytosanitary Affairs with three separate divisions managing the three sectors. The Food and Safety Sector is responsible for food safety of nutrients, feed and by-products of animal and non-animal origin, as well as general food safety requirements. The Veterinary Sector covers animal health, veterinary epizootiology and veterinary activity, identification and registration of animals in the veterinary information system, veterinary medicines, as well as the international transport of animals. The Sector for Phytosanitary Affairs covers plant health, plant protection products and the phytosanitary information system, as well as seeds, planting material, GMOs, and the protection of plant varieties and plant genetic resources in agriculture.

As regards food protection, Montenegro's policy for aligning with and enforcing the EU *acquis* has been enhanced. A general action plan and a specific action plan on classical swine fever have been implemented

since the last cycle of assessment. A food and feed protection policy was adopted and implemented in 2019. Since 2016, the national programme for the Enhancement of the production of raw milk and a corresponding programme on the Processing of non-compliant raw milk have been underway. Their implementation is shared between the Directorate for Food Safety, Veterinary and Phytosanitary Affairs (as part of Ministry of Agriculture and Rural Development), Department of Advisory Affairs in the Field of Animal Husbandry, and the Dairy Laboratory. Reports are prepared twice a year. Alignments with EU *acquis* are being monitored at the national level. One indicator to measure progress is the percentage of milk produced that meets EU quality standards in the total volume of milk produced. This increased from 55.5% in 2018 to 63.8% in 2019.

The introduction of a national programme for the modernisation of food processing establishments has also proceeded, involving some restructuring of businesses. Around 70% of entities (63 manufacturers), producing food of animal origin were compliant with EU regulations, and 11 of them were licensed to export to the EU. The modernisation of food processing establishments has resulted in a total of 244 items that completely meet EU food safety standards, which indicates massive progress compared to the 14 that existed when the strategy was introduced in 2019.

The strategy for the treatment of animal by-products not intended for human use was established in 2019 and is in the process of being implemented. Regulatory capability and facilities need to be strengthened.

Veterinary policy was improved in 2019 by implementing the programme for compulsory measures for animal health protection. The national programme to Improve Facilities Dealing with Products or By-Products of Animal Origin has been pursued further. Capacity building for veterinary services will be continued through EU support programmes. Relevant programmes for the monitoring and control of diseases for 2020 have been prepared and are currently being implemented.

The phytosanitary strategy and several phytosanitary laws were updated in 2019. The development of the National Strategy for the Sustainable Use of Plant Health Goods has proceeded in accordance with the 2016-2021 Action Plan. A scheme for the control of genetically modified food and feed was introduced for genetically modified crops in 2019. Additionally, Montenegro plans to finalise full alignment with the EU's revised Plant Health Law (2016) and Official Controls Regulation (2017) by 2023.

Sub-dimension 14.4: Agricultural innovation system

Agricultural research is undertaken on a competitive basis through general requests for research projects by the Ministry of Science and at the international level through Horizon 2020. While the Strategy for the Development of Agriculture and Rural Areas 2015-2020 emphasises the need for innovation in research and development, there are no clear action plans or other policies for agriculture research.

Nevertheless, agricultural research in Montenegro has increased at the national level, with 16 of the last 104 projects financed through the national budget being in the area of agriculture, while 2 of the 8 projects funded by the Collaborative Grants Programme came from agriculture. In addition to the national budget, research is also financed by various other organisations.²¹⁶

As part of the Fisheries Strategy of Montenegro, a joint assessment of shared stocks of economically important species in the Adriatic Sea was launched in order to exploit resources sustainably. Research activities are focused on the preservation of stocks, certain areas with high biodiversity, and traditional types of fisheries.

Montenegro is the first non-EU economy to have adopted a Smart Specialisation Strategy (S3). The main goal of the S3 is to modernise and increase the competitiveness of the Montenegrin economy by concentrating available research, natural and economic resources on a limited number of priority areas. The strategy hopes to see Montenegro recognised for, among others, agricultural innovation and sustainability, preservation of tradition in rural areas, and developing a food value chain for authentic Montenegrin products (S3, 2019^[2021]). The implementation of the S3 is of great strategic importance for

Montenegro as it can encourage public and private investment in research, boost technological development and innovation, and attract researchers and innovators.

Agricultural extension services in Montenegro function well and are wide ranging. However, monitoring and evaluation of these services remain weak. Within the MARD, the Department for Extension Services in Livestock Production and Department for Extension Services in Plant Production are responsible for agriculture advisory services.

The Department for Extension Services in Livestock Production comprises 6 regional centres and 20 employees who cover all municipalities. This department is responsible for selecting and improving farm animals, providing expert advice and instructions to farmers, and the on-site control of compliance with the requirements prescribed by the Agro-Budget regarding livestock for direct payment beneficiaries.

The Department for Extension Services in Plant Production covers the entire territory of Montenegro and is divided into 7 regional centres that employ 22 plant production engineers. This department aims to improve plant production through increasing yields, as well as to improve the quality of products by providing expert advice, recommendations and instructions to farmers, as well as education, training and roundtable events. The service also performs on-site controls of compliance with direct payments and rural development measures.

The Biotechnical Institute also provides extension and laboratory services to the farming sector through its two sister services, Livestock Selection Service (LSS, established in 2000) and Plant Production Extension Service (PPES, established in 2003). Both are entirely financed from the agricultural budget of MARD, while the Biotechnical Faculty is financed by the Ministry of Education. Financing is based on an annual plan of activities and related costs, and reports approved by the MARD. However, a common challenge for both LSS and PPES is setting up performance indicators and clear mechanisms to monitor their achievements.

The way forward for agriculture policy

- **Improve rural infrastructure.** Improving rural infrastructure needs to be a priority for the development of the whole sector as local infrastructure is an essential element in any effort to realise the growth potential and promote the sustainability of rural areas.
- **Revitalise existing systems and gradually install irrigation systems in new areas.** This would allow for more intensive growth of other agricultural activities in Montenegro, such as processing capacity, greater participation of the local population and economic development. Priority should be given to sites and areas where there are quality resources and partially constructed infrastructure elements necessary for the application and development of irrigation. Investing in revitalisation and system building should concentrate on projects that generate fast returns on the funds invested, which will lead to the encouragement, interest and spread of irrigation across larger areas.
- **Continue to implement the measures under the IPARD II** and finalise the preconditions for future measures. In addition, preparations need to be made before requesting budget implementation tasks for the technical assistance measure.
- **Bring direct support measures into line with EU *acquis*** by fully decoupling them from production and linking payments to cross-compliance. As regards the Integrated Administration and Control System (IACS), further implementation of the Land Parcel Recognition System (LPIS) needs to be carried out across the entire territory.

Tourism policy (Dimension 15)

Introduction

Since 2018, Montenegro has made progress on all the tourism sub-dimensions, improving its overall score from 2.0 in the last assessment to 3.1 in 2021 (Table 23.30). Sound progress has been made on the tourism governance structure through the introduction of a monitoring system. Progress has also been achieved in the capacity and quality of accommodation by facilitating investment in high-quality accommodation and adopting a consistent accommodation quality standard framework. The VET framework has been improved by upgrading qualification standards, and the value derived from natural and cultural heritage has been enhanced through culture and nature-related strategies and programmes. Progress has also been made by easing visa requirements and implementing special policy measures to reduce border crossing times in peak seasons. The main remaining challenges are to strengthen the workforce supply framework, raise awareness of sustainability and digitalisation, and further strengthen dialogue with private stakeholders, education institutions, local communities and NGOs by involving them more actively in the decision-making process.

Table 23.30. Montenegro's scores for tourism policy

Dimension	Sub-dimension	Score	WB average
Tourism policy dimension	Sub-dimension 15.1: Tourism governance and co-operation	3.8	2.3
	Sub-dimension 15.2: Destination accessibility and tourism infrastructure	3.5	2.2
	Sub-dimension 15.3: Availability of a qualified workforce	2.3	1.8
	Sub-dimension 15.4: Sustainable and competitive tourism	3.0	1.6
	Sub-dimension 15.5: Tourism branding and marketing	2.8	1.6
Montenegro's overall score		3.1	2.0

State of play and key developments

Tourism is one of the most important sectors in Montenegro. In 2019, its (direct and indirect) contribution to GDP was 32.1%, its (direct and indirect) contribution to employment was 32.8% (66 900 jobs), and the share of tourism in exports was 54% (World Travel and Tourism Council, 2020^[24]). International tourist arrivals have grown steadily, reaching 2.5 million in 2019. Tourism arrivals have seen an average annual rate of growth of 9% over the last 10 years. This steady growth in tourism is the result of improvements to promotion and marketing in international markets, air transport accessibility, the quality and capacity of accommodation and the development of new tourist facilities and offers. These improvements have boosted Montenegro's competitiveness in the global market, also evident in the economy's improved standing in the 2019 Travel & Tourism Competitiveness Index – from 72nd place in 2017 to 67th place in 2019 – the best score of the WB6 economies (WEF, 2019^[203]).

Despite these positive results, Montenegro is still facing some challenges which hinder even more successful tourism development. The COVID-19 pandemic is the most pressing challenge at the time of writing.

The COVID-19 outbreak triggered a number of restrictions that have had a severe impact on the tourism industry. Montenegro suffered a very deep recession in 2020, which led to a more than 15% decline in GDP. In 2020, tourism plummeted due to COVID19: foreign tourist overnight stays and receipts collapsed by 90%. Consequently, retail trade fell by almost 17%, while industrial production was at 2019 levels (World Bank, 2020^[204]). In 2020, there were 79.2% fewer arrivals and 79.9% fewer tourist nights than in the previous year (MONSTAT, 2020^[197]). Additionally, private stakeholders felt unheard throughout the process of drafting COVID-19 support measures, which should be a priority for the future of tourism development in the economy. In order to support and mitigate the impact of the crisis on the tourism industry, measures adopted by the government included three-month deferrals of taxes and contributions

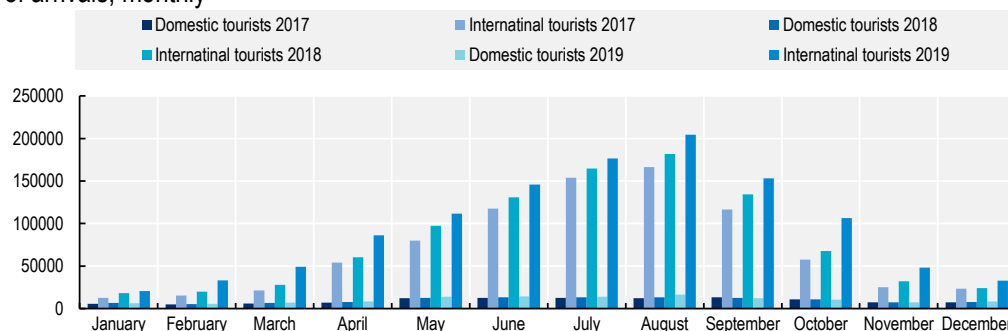
(EUR 45 million), loan repayment deferrals (EUR 160 million), the creation of the Investment Development Fund of Montenegro (IDF) and an IDF credit line of EUR 150 million, and wage subsidies of EUR 19 million to support the tourism sector. The government also reduced VAT from 21% to 7% for the hospitality industry. In a second package of economic measures, the government included grants for salaries for April and May 2020 for entrepreneurs and SMEs in the sector whose work was not prohibited (WB6 CIF, 2020^[205]).

To spur the recovery of tourism after the COVID-19 pandemic, the World Tourism and Travel Council (WTTC) has awarded Montenegro the international Safe Travels label. Safe Travels is a specially designed label which allows travellers to identify destinations and companies around the world that have adopted global standards of health and hygiene, as an important prerequisite for safe travel. In the circumstances, this is a very important step for gaining the trust of tourists, and for the recovery and sustainable development of tourism. All interested participants in the tourism sector, such as hotels, restaurants, tour operators, transport providers, airports, airlines and others, can apply to use the label, with the obligatory condition that they meet and implement the conditions defined by health protocols. To assess compliance with the recommendations, measures and protocols of the Institute of Public Health and the regulations of the Ministry of Health of Montenegro, the Commission for Assignment and Control of Safe Travels has been formed. It consists of representatives of the National Tourism Organisation (NTO) Montenegro, the Institute of Public Health, the Ministry of Economic Development, the Directorate for Inspection Affairs, the Chamber of Commerce and the Civil Aviation Agency. Currently in Montenegro there are 61 users of the Safe Travels label, mostly those providing accommodation, especially hotels, but there are also restaurants, transfer service providers, operators of yachting tourism and tour operators.

The COVID-19 pandemic will change the recent fast growth trend of tourism in Montenegro. Montenegro should continue its efforts to move away from promoting mass tourism in coastal areas to developing new, high-quality and personalised tourist experiences around natural and cultural sites. This could be driven by a new marketing strategy and action plan focusing on domestic tourists, who have been relatively neglected so far, but could contribute much to the dispersal of arrivals over the year. This will help tackle a key structural challenge, which is the high seasonality and concentration of tourism in coastal areas. Most tourist arrivals (71% in 2019) occur in the summer season between May and October (Figure 23.17), making Montenegro a so-called sun-sea-sand (3S) destination. This puts great pressure on the sector's employees, who are predominately employed as seasonal workers, and on the accessibility of the destination due to traffic jams. In addition, this type of mass tourism has negative impacts on the environment, cultural heritage and social life of local communities.

Figure 23.17. International and domestic tourist arrivals in Montenegro (2017-19)

Number of arrivals, monthly



Source: (MONSTAT, 2020^[206]), *Database for tourism*, <http://bazapodataka.monstat.org/PXWebEng/pxweb/en/Tourism/?rxid=a295fc46-ba4f-4fe9-946b-36008f14d0c8>.

StatLink  <https://doi.org/10.1787/888934255988>

In order to address this challenge, Montenegro has already set clear strategic goals in the Tourism Development Strategy to 2020: 1) mitigating summer seasonality in the coastal region by reducing the number of visitors; and 2) developing tourism products outside of the main season as well as in rural areas, while setting up sustainability as a core principle of future tourism development. Concrete programmes and strategies have been adopted recently to reach these goals (Table 23.31), which position Montenegro as a unique high-quality and year-round tourist destination. This represents a sound basis on which to reposition Montenegrin tourism and exploit the potential of its rich cultural and natural heritage for developing authentic, innovative culture and nature-related tourist products and experiences in a sustainable way and for the benefit of local communities and people.

Table 23.31. Montenegro's tourism-related strategic documents

Name of the strategy
Montenegro Tourism Development Strategy to 2020 (adopted in 2008 and updated in 2013)
Rural Tourism Development Program of Montenegro and Action Plan 2019-2021
Cultural Tourism Development Program of Montenegro with Action Plan 2019-2021
Health Tourism Development Program of Montenegro with Action Plan 2021-2023
National Strategy for Sustainable Development by 2030 (NSSD)
Smart Specialisation Strategy of Montenegro 2019-2024
Montenegro Development Directions 2018-2021
Montenegro Economic Reform Program 2020-2022
Strategy of Regional Development of Montenegro 2014-2020

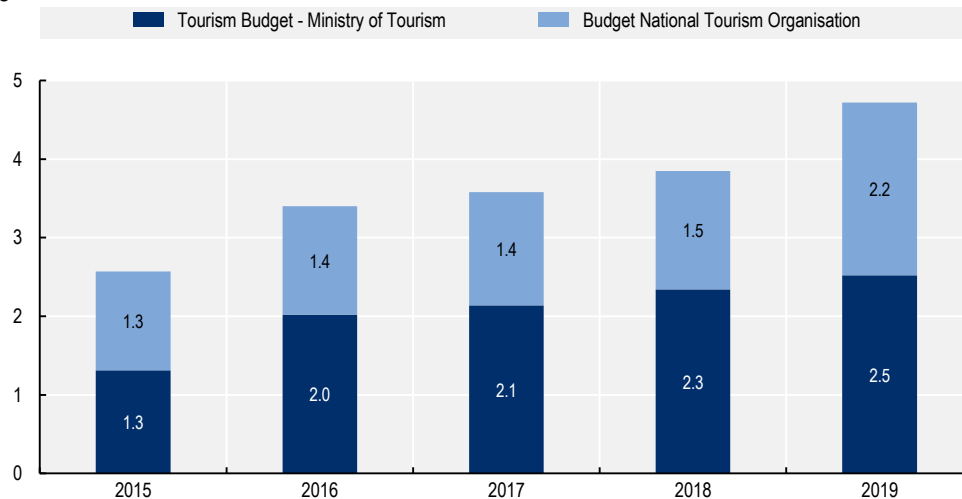
Source: (Ministry of Sustainable Development and Tourism, 2008^[207]), *Montenegro Tourism Development Strategy to 2020*, <http://www.mrt.gov.me/ResourceManager/FileDownload.aspx?rid=89273&rType=2&file=01%20Montenegro%20Tourism%20Development%20Strategy%20To%202020.pdf>.

Sub-dimension 15.1: Governance and co-operation

The Montenegro Tourism Development Strategy to 2020 (Ministry of Sustainable Development and Tourism, 2008^[207]) was designed in 2008 and updated following the Tourism Agenda Reforms in 2013. It commits Montenegro to developing an efficient governance structure involving effective inter-ministerial co-ordination to ensure all relevant ministries are involved in tourism planning and development. Governance of the national tourism policy is overseen by the Ministry for Sustainable Development and Tourism (MSDT), which is responsible for the development, management, co-ordination and implementation of the tourism strategy. The National Tourism Organisation of Montenegro is responsible for promoting and marketing tourism in international markets. The tourism strategy clearly defines policy measures and actions to be implemented by other ministries,²¹⁷ as well as the budget allocation and timeframe. To implement this cross-government approach, reflecting the cross-cutting nature of the tourism sector, specific tourism-related strategies/programmes have been prepared, and tourism has also been included in other national strategies in the last two years (Table 23.31). This, and the growth of the budget dedicated to tourism over the last five years (Figure 23.18), show the government's commitment to tourism development.

Figure 23.18. Budget dedicated to tourism in Montenegro (2014-19)

Million euros



Source: Information based on responses to Tourism Questionnaires completed by the Ministry of Sustainable Development and Tourism.

Since 2017, Montenegro has greatly improved its **tourism governance and institutional set up** by introducing a monitoring system to assess its performance and process efficiency against policy measures and priority actions. The first monitoring report was prepared in 2019, but it lacks measurable indicators. Accordingly, a set of measurable indicators should be prepared for the next report, and an independent evaluation should be conducted.

In terms of **partnerships with stakeholders**, Montenegro has established a public-private dialogue and co-operation framework at the national level, which also includes **vertical co-operation** at the local level. In 2017, the government established the Tourism Council,²¹⁸ chaired by the Prime Minister. Its main tasks are monitoring the implementation of the tourism strategy and other strategies, programmes and action plans related to tourism (e.g. the National Human Resources Strategy). In 2019, the Tourism Council established a co-ordination body, chaired by the Minister of Sustainable Development and Tourism. Its main role is to monitor the development of the peak tourist season and take steps to overcome challenges in terms of reservations, border crossing, promotional activities, etc.

In addition to representatives of relevant ministries, the members of the Tourism Council include stakeholders from the private sector (i.e. Chamber of Commerce and their associations), local communities and NGOs. Accordingly, private tourism stakeholders, municipalities and NGOs are actively involved in the preparation, implementation, and monitoring of the tourism strategy. They also play an active role when the government prepares new legislation and regulatory policy. Although the private sector stakeholders are satisfied with the co-operation and communication with public institutions, some would like to see more active involvement of educational institutions and the local population in the tourism decision-making process. Including some relevant indicators in the monitoring and evaluation system for assessing public-private dialogue and co-operation would help to drive evidence-based improvements in the process.

Montenegro's tourism governance structure at the local level is well established. Most local communities have established Local Tourism Organisations (LTO) for managing tourism development. To date, 24 LTOs²¹⁹ have been created to develop tourism in their municipalities. Local tourism strategies are prepared in co-operation with private stakeholders and NGOs, and are in line with the national tourism strategy. Being members of the Tourism Council, LTOs are also actively involved in the development and implementation of the national tourism strategy, and also participate in the allocation of funding. They are involved in the working groups set up for designing and implementing tourism projects by the MSDT and NTO. The efficiency of the tourism governance structure at the local/destination level cannot be fully assessed, however, as the monitoring system does not include appropriate indicators for this area.

According to public sector representatives, governance at the local level could be improved by strengthening dialogue and co-operation with private stakeholders and NGOs, building the capacity of public officials and aligning budgetary allocation with local tourism priorities.

Montenegro has developed a **comprehensive data collection system** for baseline statistics on tourism. MONSTAT collects tourism-related data in accordance with Eurostat standards. Statistics on tourism have a permanent depository at MONSTAT and the MSDT (in the Central Tourism Register, which has been improved since 2017 following the adoption of the Rulebook on the content and manner of keeping the Central Tourism Register). The collection and publication schedule for tourism data has been established in accordance with national legislation.²²⁰ Data collected by MONSTAT are published annually and available both online and as hard copy. The on-line statistical portal is user friendly and includes an interactive tool for working with basic tourism statistics (i.e. accommodation capacities,²²¹ arrivals and overnight stays, foreign vessels on cruises and nautical tourism).²²² The MSDT directorate for monitoring tourist flows and tourist turnover is responsible for upgrading the government's framework for tourism data collection. Montenegro has established active involvement by and co-ordination between key players in the tourism industry who can provide reliable and accessible data to support policy making. However, there is no formal government co-ordination body (e.g. working group or commission) that would ensure the active involvement of all responsible institutions or co-ordinate data collection and sharing. Tourism satellite accounts and e-tourism electronic guest registration are planned to be implemented in 2021, which will further improve the tourism data information framework in the economy.

Sub-dimension 15.2: Destination accessibility and tourism infrastructure

Since 2017, Montenegro has improved destination accessibility and its **connectivity framework** by expanding the eligible categories of travellers who do not need a visa. First adopted in 2009, the Regulation on Visa Regime has since been periodically modified to adapt to the needs of the tourism and business sectors and in line with EU regulations. The last amendment was made in 2020. In 2011, the government started adopting decisions on temporary visa abolishment for citizens of certain countries during the tourist season. In 2019, the Government of Montenegro introduced visa exemptions for short stays for third-country nationals who hold valid visas or residence permits from the countries of the Schengen Zone, Commonwealth of Australia, the Republic of Bulgaria, the Republic of Croatia, Japan, Canada, New Zealand, the Republic of Ireland, Romania, the United States of America and the United Kingdom of Great Britain and Northern Ireland, as well as for people with Asia Pacific Economic Cooperation Business Travel Cards (APEC). Additionally, the government has adopted special regimes for border crossings for tourists in the high season. Article 34 of the Law on Border Control²²³ defines the temporary omission of certain actions, and simplified and accelerated procedures for organised arrivals (primarily tourist buses) at road border crossings.

Montenegro has made progress in improving the **capacity and quality of accommodation** by introducing measures to facilitate investment in high-quality accommodation, and by adopting a consistent accommodation quality standard framework. Incentives for investment in high-quality accommodation are available through three programmes (Box 23.21) and their use is monitored. However, it is not clear if an evaluation to assess the efficiency of these measures and their impact on the development of high-quality accommodation facilities has been implemented or is at least planned.

Box 23.21. Investment incentives for high-quality accommodation in Montenegro

There are three programmes run by the government:

1. The Programme of Incentive Measures in the Field of Tourism 2019/20, which includes:
 - Incentives for developing innovative tourist products. Budget: EUR 140 000.
 - Incentives for improving the offer and quality of services in rural households. Budget: EUR 50 000.
2. The Programme for Improving the Competitiveness of the Economy, which offers an incentive of between EUR 3 000 and EUR 10 000 for each person employed linked to investments of EUR 100 000 to EUR 250 000 (depending on the region) for constructing new capacities within development sectors, including tourism. The total budget of this programme is EUR 1 050 000.
3. Investment Programme of Special Importance for the Economic Interest of Montenegro, adopted by the Government of Montenegro in November 2018. This offers incentives for larger foreign direct investment in the country, including investment in constructing new four or five-star hotels or larger tourist complexes. Investment incentives range from EUR 5 million for projects in the north of the country, to EUR 15 million at the coast.

The Ministry of Sustainable Development and Tourism announced in 2018 a public invitation to express interest in qualifying projects on the list of development projects in the field of tourism. The list was updated by the Montenegro Investment Agency in April 2020, and to date consists of six development projects in tourism sector.

Source: Information based on responses to Tourism Questionnaires completed by national authorities.

Montenegro has been developing a consistent **accommodation quality standard framework** based on the EU standards for categorisation and this has been made mandatory for all types of accommodation.²²⁴ Depending on the issuer of the permit, the categorisation is either implemented by the Commission of the MSDT or the Commissions of Municipalities. According to the Law on Tourism and Hospitality, accredited experts are engaged in the categorisation process and self-assessment is possible up to the three-star category or in the case of re-categorisation. The Rulebook of types, minimum technical conditions and categorisation of hospitality objects was updated in 2018 in line with international standards. Categorised accommodation is inspected regularly. Montenegro currently has 24 inspectors who make sure the quality standards are in place; the process is repeated every three years. However, according to public officials, efficiency is hindered by the lack of human and financial resources. The Law on Tourism and Hospitality also defines other quality standards for accommodation facilities, and other types of services (e.g. bed and bike standards, wild-beauty standards) as a part of the Rulebook of types, minimum technical conditions and categorisation of hospitality objects.

Another key element for tourism is the **availability of high-quality tourist information**. The Montenegrin tourist information system provides reliable information on tourist destinations, accommodation, attractions and tourist services. These are professionally compiled on the main tourism website²²⁵ and available in five languages. The website is managed by the MSDT and the NTO Montenegro and implemented by a range of institutions such as the Chamber of Commerce, LTOs and private companies. The tourist information system in each destination is the responsibility of the LTOs. The quality of the tourism information system is monitored through regular visitor surveys. However, an independent evaluation of tourist information system would be recommended to identify potential weaknesses which are not detected in the surveys.

Sub-dimension 15.3: Availability of a qualified workforce

In Montenegro the **skills supply framework** is defined in the Strategy for Human Resources Development in the Tourism Sector (HRDS), adopted by the Ministry of Tourism and Environment in 2007. The HRDS provides an assessment of skills gaps and training needs, and defines a list of policy measures for human resources development and governance structure. The Tourism Development Strategy to 2020 has as one of its priority goals the creation of qualified professional staff and promising new occupations/jobs. However, the strategy does not set out policy measures – these are contained in the HRDS. The qualification framework for tourism, hospitality and trade comprises 42 qualification standards developed between December 2012 and May 2020. Since 2017, 34 occupational standards have been revised and updated to meet the changing needs of the labour market.

The Employment Agency of Montenegro, in co-operation with Montenegro Tourism Association, conducts regular consultations on policy measures to improve the attractiveness of jobs in the tourism sector. Private sector stakeholders assess recent changes through their involvement in the Accreditation Commission, which helps to match curricula with labour market needs. A significant share of seasonal tourism jobs in Montenegro are filled by foreign workers: in 2019, 27 634 work and employment permits were issued to foreign nationals (the vast majority from Bosnia and Herzegovina and Serbia), 15 582 of whom were within the quota and 12 052 outside it. The key challenge is to encourage more Montenegrin young people into formal tourism education and to develop the required quantity and quality of skilled workers to deliver and maintain the high-quality service standards needed for future tourism development in the economy.

Since 2017, Montenegro has made sound improvements to the **VET framework for tourism**. Implementation is well advanced with clear budget allocations, sufficient funding and well-established co-operation among the relevant institutions and private stakeholders. Curricula are updated according to the needs of the tourism industry, and prepared in co-operation with the private sector. All vocational education programmes contain a compulsory practical element. The Centre for Vocational Education has sufficient funds for developing occupational standards, including the tourism sector. A VET quality assurance and accreditation framework has been established and the institutions responsible for quality insurance have sufficient financial resources and qualified staff. There is room for improvement to the system for monitoring the implementation of educational programmes, which is planned for 2021.

As part of the VET education framework, the Montenegro Government has developed a two-year **higher education framework for tourism**, based on consultations with key public and private sector decision makers. Quality assurance is provided by the Agency for Control and Quality Assurance of higher education. Although the higher education framework is regularly evaluated, according to tourism education experts it is inadequate, and there has been no training for staff over the last two years.

Sub-dimension 15.4: Sustainable and competitive tourism

Montenegro is currently developing a comprehensive **natural and cultural enhancement framework** for tourism. The Ministry of Culture develops annual activities in line with the Tourism Action Plan through the Programme for Development of Culture 2016-2020. This has allowed numerous strategic cultural heritage projects to be implemented. The budget allocated for the Program for Development of Culture is EUR 68 000 and comes from the Ministry of Culture. UNESCO provides funds for involving experts. Moreover, a budget of EUR 9.2 million has been allocated to the Programme of Protection and Preservation of Cultural Goods for 2012-2020. More recently, Montenegro has been developing a comprehensive natural and cultural heritage enhancement framework under the Cultural Heritage Development Strategy for 2020-2025 and the National Strategy of Preservation and Sustainable Use of Cultural Heritage, both entrusted by UNESCO. Inter-sectoral co-operation, as well as the development of strategic documents, laws and regulations, are taken into account in the development of both strategies. The Ministry of Culture has developed four long-term management plans for cultural heritage.²²⁶ There is

an annual budget for the protection of cultural heritage through the Programme for the Protection and Preservation of Cultural Heritage, which falls under the Law on Protection of Cultural Properties.

The Administration for the Protection of Cultural Properties regularly monitors the status and conducts revalorisation of the value of cultural properties. Other mechanisms prescribed by the law, such as studies of cultural heritage protection, management plans and heritage impact assessments, have been adopted. Montenegro also developed an action plan for the period 2016-20 in accordance with the National Biodiversity Strategy. It aims to integrate and develop biodiversity protection measures into the tourism sector. Montenegro is a member of several regional development projects to promote cultural and natural heritage in tourism, including DUE MARI (Box 23.22), and the Regional Cooperation Council (RCC) Triple P Tourism project, aimed at developing joint cultural and adventure tourism products.²²⁷

Box 23.22. DUE MARI: Next generation tourism development

The Ministry of Sustainable Development and Tourism has been developing the inter-regional project DUE MARI – Next Generation Tourism Development – under the Interreg Instrument for Pre-Accession Assistance (IPA) Cross Border Cooperation involving Italy, Albania and Montenegro. The aim of the project is to create an interactive site that will promote the tourist offers of Montenegro, Albania and the Italian regions of Puglia and Molise on a common platform. Between 300 and 500 sites of special cultural, historical and other importance for Montenegro will be marked on the platform, which will be displayed through 360° virtual reality. The design and mapping of new cultural tourism routes and marking is done on the spot. Also a new website for the NTO of Montenegro will be developed and will host the platform. The project includes purchasing equipment (e.g. servers and computers) as well as communication and marketing activities to disseminate information on the results of the project.

Source: (Interreg-IPA CBC, 2019^[208]), *DUE MARI*, <https://duemari.italy-albania-montenegro.eu/>.

Montenegro has made progress in **promoting sustainable tourism development** recently. The Tourism Development Strategy to 2020 includes measures for enhancing natural and cultural heritage through tourism. The National Strategy for Sustainable Development (NSSD) defines the principles of sustainable tourism and places tourism as one of the driving forces of the economy. One concrete policy measure in the Tourism Development Strategy is to implement the NSSD actions related to the protection of nature, setting up protected areas, and preparing management plans for them. There is no evidence that the NSSD has been implemented, although its first implementation report was being finalised at the time of drafting.

Montenegro has implemented other actions to improve the sustainability of tourism. A noteworthy development is the innovative Towards Carbon-Neutral Tourism in Montenegro project, financed by the Global Environment Facility (GEF), which started in September 2014 and ended in May 2020.²²⁸ The project was dedicated to promoting carbon-neutral tourism by fostering sustainability and innovation in businesses. The approach engages partners from industry, government and the broader community, and identifies and prioritises innovation opportunities by explaining the links between tourism and climate change from a mitigation perspective. With a budget of USD 3 million, the project helps to reduce greenhouse gas emissions from the Montenegrin tourism sector and thus lowers its environmental impact. The project has supported 30 hotels and tourist apartments in Montenegro to gain EU eco-certificates (eco label), a well-recognised international certificate of sustainability.

However, private stakeholders note that more attention should be paid to sustainable development in tourism, which they feel is still only a priority on paper. They note a lack of awareness of the topic among public and private stakeholders. They suggest the need for awareness-raising campaigns and capacity building of private stakeholders, and especially investors in tourism, to empower them to develop their investments and business models according to sustainability standards.

Policy measures promoting **investment and innovation in tourism** are explicitly reflected in national policies for the promotion of trade and investment, such as in the Montenegro Investment and Business Opportunities, which was issued by the Ministry of Foreign Affairs for the fourth time in 2019.²²⁹ The promotion of innovation in tourism is included in the Smart Specialisation Strategy of Montenegro (Table 23.31), adopted in 2019 (Ministry of Science of Montenegro, 2019^[39]). Moreover, the National Tourism Development Strategy 2020 provides some guidance on promoting investment in tourism infrastructure. In addition, there is a raft of fiscal measures available aimed at reducing costs for hotels and restaurants.²³⁰ The capital budget for the Improvement of Tourism Infrastructure Programme has seen progressive increases in investment in tourist infrastructure since 2015. In 2018, the available budget was EUR 13.3 million, a six-fold increase since 2015. The Programme of Incentive Measures in the Field of Tourism for 2019/20 includes measures for developing innovative tourist products that enrich the tourist offer, with a budget of EUR 140 000. In total 21 projects have been supported, including E-bikes Durmitor (Durmitor Adventure), tree house and Hobbit house (Alpine Club Sinjajevina), and a children's playground in Ski Center Kolašin (Ski Centers Montenegro), each of which received more than EUR 11 000 worth of funding (Ministry of Sustainable Development and Tourism, 2020^[209]).

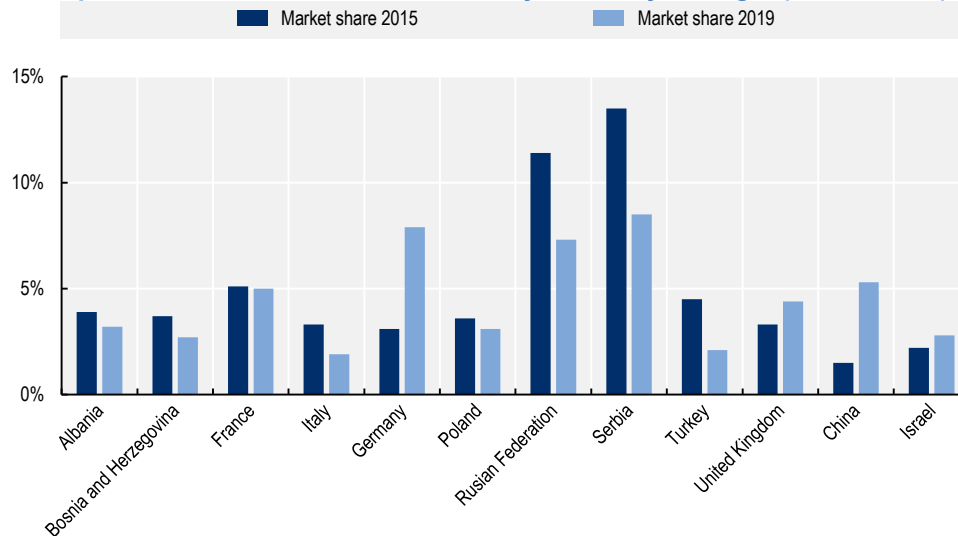
Despite the clear indications that the promotion of investment and innovation in tourism is a priority, the efficiency of the measures could not be assessed as there is no evidence they have been monitored or evaluated. In addition, private sector stakeholders draw attention to long and non-transparent procedures for obtaining building permits, the lack of knowledge among investors of tourism infrastructure, and inadequate spatial planning, which allows investments that are not in line with sustainable development principles. These issues should be addressed in order to ensure successful and sustainable tourism in the economy.

Sub-dimension 15.5: Tourism branding and marketing

Montenegro established its **tourism brand** identity – Montenegro: Wild Beauty – in the New Book of Standards issued in 2015. The Ministry of Sustainable Development and Tourism and the NTO informally manage the promotion of Montenegro as a tourist destination, involving both private and public sectors. The NTO is in charge of planning and implementing information and promotional activities, both within the economy and abroad. It co-ordinates and unites the reporting and promotional activities of all tourism domains and co-operates with tourism organisations across the economy and abroad. The annual budget allocated to the NTO has been raised from EUR 1.09 million in 2014 to EUR 2.20 million in 2019. The number of staff in the 18 local tourist organisations has increased from 173 in 2017 to 193 in 2019. The Marketing Strategy identifies target markets and provides a framework for promotion. However, a formal **marketing** co-ordination body has not yet been established.

Montenegro's ranking on the Effectiveness of marketing and branding indicator in the WTTC Tourism & Travel Competitiveness Index has improved: from 53th place in 2017 to 34th place in 2019 (WEF, 2019^[203]). This is a result of regional marketing activities in overseas markets and shared presentations of tourist offers with neighbouring economies at the main international tourist events, such as Internationale Tourismus-Börse in Berlin (ITB). This joint approach contributes to the more efficient use of the budget available for promotion and increases the visibility of Montenegro as a tourist destination in the Western Balkans. Between 2015 and 2018, the Wild Soul of Europe campaign was conducted in the Chinese market together with the Tourist Organisation of Serbia. In 2019, the Western Balkan Crossroads of Civilization campaign was targeted at the Singapore market. This was conducted in co-operation with the Tourist Organisation of Serbia and the Agency for Tourism of the Republic of North Macedonia. All Western Balkan economies participated in the Regional Cooperation Council campaign targeted at the Chinese market and ITB. The positive effects of these marketing campaigns can be seen in the recent increase in the share of Chinese (from 1.5% of the market share in 2015 to 5.3% in 2019), and German visitors (from 3.1% in 2015 to 7.9% in 2019) (Figure 23.19).

Figure 23.19. Top market shares of tourist arrivals by economy of origin (2015 & 2019)



Source: (MONSTAT, 2020^[206]), *Database for tourism*, <http://bazapodata.monstat.org/PXWebEng/pxweb/en/Tourism/?rxid=a295fc46-ba4f-4fe9-946b-36008f14d0c8>.

StatLink  <https://doi.org/10.1787/888934256007>

The **digital tourism marketing framework** is in the early phases of development. A first draft of the Digital Marketing Programme for the period from 2021 to 2023 is being prepared. However, public and private stakeholders are not involved in the process yet. In order to establish a robust and effective digital marketing framework, strong involvement from all relevant stakeholders is encouraged.

The way forward for tourism policy

To ensure Montenegro's successful tourism development continues, policy makers should:

- **Empower local communities and tourist destinations to manage tourism development** by providing sufficient budgets and implementing sound capacity-building programmes for local tourism organisations. This is the basis for the faster and more efficient development of competitive tourism products in a sustainable way.
- **Further strengthen the dialogue and co-operation with private sector stakeholders, educational institutions and NGOs** at national and local levels. Organising events such as tourism forums for an exchange of views on tourism development could lead to the more active involvement of a broader spectrum of stakeholders in tourism development and implementation processes and a wider understanding of shared goals and objectives. This would provide the necessary conditions for more co-ordinated action for achieving common strategic goals.
- **Update the human resource development strategy for tourism** to overcome the key challenges regarding workforce availability and quality. This is key for providing a high-quality tourist product and offer, which is the core vision of Montenegrin tourism. The strategy should include measures for increasing the attractiveness of tourism studies and professions, especially among the young; developing flexible educational programmes at all levels in close co-operation with private stakeholders; and running training programmes for the foreign workers who will inevitably represent a significant part of the labour force into the future. Finland offers a best-practice example that can serve as inspiration (Box 23.23). The strategy should also define measures for the mandatory inclusion of sustainability and digitalisation subjects in the curricula at all levels of education and training.

- **Do more to promote sustainable development and business operation by making it mandatory to consider sustainability criteria** in all investments in tourist infrastructure. This should be supported by public incentives, and awareness raising and training for tourism sector stakeholders on how to develop their businesses sustainably. Following best practice in other economies is recommended (e.g. the Green Scheme in Slovenia's tourism sector, - more information in the regional chapter).
- **Further improve tourism data collection and sharing** by introducing Tourism Satellite Accounts to give policy makers reliable information when designing policy measures.

Box 23.23. Improving the tourism labour supply in Finland

An examination of Finnish employment statistics reveals that although there are people with tourism and hospitality training looking for work, there are multiple vacancies in the sector. However, often the jobseekers do not have the skills and expertise required for the vacant tourism jobs. Other factors behind this labour supply gap may include the low wages; the irregular, seasonal and physically demanding nature of tourism jobs; a fall in the pipeline of students studying tourism and hospitality; and wider problems associated with lack of transport or reasonably priced housing options near the workplace.

In response, the Finnish Government launched the *Matkailudiili* programme in January 2018 to improve the employment and recruitment prospects of the tourism workforce. Over the two-year project measures were taken to boost the image of the tourism sector for work, strengthen co-operation between relevant stakeholders, and introduce a range of pilot projects. In 2018/19, over 30 pilot projects were launched to improve access to tourism employment as well as co-operation between public services and private recruitment agencies. These include training programmes for jobseekers, marketing campaigns aimed at potential employees (e.g. immigrants living in Finland), initiatives to employ workers from other sectors (e.g. forestry) during the high season, and digital platforms and training to alert people to vacancies. The result is greatly increased co-operation between relevant stakeholders, greater knowledge of tourism training and employment opportunities, increased national and international interest in the tourism jobs available, and improved understanding among the national employment services of sector circumstances, business needs and employee requirements. The results and best practices of the programme can be widely adopted in other sectors suffering from labour shortages.

Source: (OECD, 2020^[210]), *OECD Tourism Trends and Policies 2020 - Finland*, <https://www.oecd-ilibrary.org/sites/cb702fad-en/index.html?itemId=/content/component/cb702fad-en>.

Anti-corruption policy (Dimension 16)

Introduction

Table 23.32 shows Montenegro's scores for the anti-corruption policy dimension and compares them to the Western Balkans (WB) average. Montenegro has the highest scores for all indicators (along with certain other WB6 economies for some indicators). Montenegro has a generally well-advanced legal framework for the prevention of corruption and for ensuring judicial independence. Compared to the 2018 Competitiveness Outlook, Montenegro has strengthened its practice of corruption risk assessments as well as the capacity of its anti-corruption law enforcement bodies. A good track record of verifications, investigations and sanctions has been established, but some indicators remain weaker than expected.

Table 23.32. Montenegro's scores for anti-corruption policy

Dimension	Sub-dimension	Scores	WB average
Anti-corruption policy dimension	Sub-dimension 16.1: Anti-corruption policy framework	3.5	2.1
	Sub-dimension 16.2: Prevention of corruption	4.0	3.3
	Sub-dimension 16.3: Independence of the judiciary	n.a.	n.a.
	Sub-dimension 16.4: Business integrity and corporate liability	n.a.	n.a.
	Sub-dimension 16.5: Investigation and prosecution	3.5	2.8
Montenegro's overall score		3.6	2.5

Note: For comparability with the previous assessment, the two new sub-dimensions (16.3 and 16.4) have not been scored but are discussed in the text below.

State of play and key developments

Sub-dimension 16.1: Anti-corruption policy framework

Montenegro has tied the strategic planning of its anti-corruption policy to its process of accession to the EU. In terms of **policy documents, co-ordination and implementation**, the Action Plan for Chapter 23 "Judiciary and Fundamental Rights" (AC23) of accession negotiations and the Operating Document (OD) for the prevention of corruption in areas exposed to special risk have served as equivalents of an anti-corruption strategy and action plan. The OD was intended as a follow-up to the Strategy for the Fight against Corruption and Organized Crime 2010-2014, and it included unimplemented measures from the strategy's action plans. The OD also contained information on prospective sources of funding, and, for some activities, the amounts of funds needed. However, the government does not publish the total amounts of its annual budget spent on anti-corruption activities.

In 2016, a working group prepared the draft of the OD, which was submitted for public debate. The debate lasted 40 days and ended on 18 April 2016. The official report of the consultations shows which proposals of civil society representatives were incorporated and reasons why some proposals were rejected. This is a good practice example of accountability (Ministry of Justice, 2016). At the other hand, according to the contribution to this assessment by the NGOs Institute Alternative and the Centre for Civil Liberties, the majority of proposals by civil society were ignored. The Competitiveness Outlook assessment cannot independently verify the validity of stakeholders' claims, and only takes note that there was some controversy surrounding the consultation process.

Multi-stakeholder co-ordination bodies have been set up. On the political level, the Rule of Law Council facilitates co-ordination and monitoring of the implementation of the obligations under the accession negotiation Chapters 23 and 24 "justice, freedom and security", as well as makes recommendations to the relevant institutions for urgent action in order to implement these obligations. Since February 2021, the

Council comprises the Prime Minister, the Minister of Justice, Human and Minority Rights, the Minister of the Interior and eight heads of public institutions from executive and judicial branches.

In December 2020, the government formed the National Council for Combating Corruption. The Deputy Prime Minister heads the Council, which is responsible for, *inter alia*, compiling an overview of the current course of investigations conducted against high-level corruption, monitoring, synchronising the activities of state bodies in the fight against high-level corruption, preparing opinions on how investigations of high-level corruption cases could be improved, and proposing concrete measures. The National Council consists of five members, including two representatives from the NGO sector, one of whom has been appointed as the Deputy President of the Council. At the operational level, the working group for Chapter 23 (established in July 2018, expanded in October 2018) ensures monitoring of and support for the accession negotiations. The working group has 47 members (39 representatives of government bodies and 8 civil society representatives). The NGO representatives are engaged through a public call. The minutes of the working group meetings are published on the website of the European Integration Office (ME4EU, n.d.^[211]).

Members of the working group who are designated as co-ordinators in the field of corruption prevention have been monitoring OD implementation by working with contact people from competent implementing authorities. The EU Integration Office maintains the Portal for EU integration as an internal reporting IT tool for implementing institutions. According to Montenegro, the portal collects data on the implementation of measures from the AC23 and the OD. The government used to publish semi-annual reports on their implementation, with the last report covering July-December 2018 (Government of Montenegro, 2019). Since then, according to the government, reporting has switched to: 1) answers to a European Commission questionnaire submitted in August 2019; 2) a report on the implementation of the most important measures from the action plans for Chapters 23 and 24 submitted to the EC in February 2020; and 3) the continuous exchange of information with the EU. Reporting to the EC therefore appears to have partially replaced public accountability for the implementation of the anti-corruption policy, which is not appropriate given the government's duty to serve its citizens.

All public authorities must carry out **corruption risk assessments** by virtue of the legal obligation to develop, adopt and implement integrity plans – internal anti-corruption documents containing legal and practical measures to prevent and eliminate opportunities for corrupt and unethical behaviour. An integrity plan should be based on a self-assessment of the institution of its exposure to risks of corruption, illegal lobbying, and conflicts of interest, as well as its susceptibility to unethical or unprofessional conduct.

By the end of 2019, 689 public bodies (approximately 98%) had adopted integrity plans. The authorities must submit these integrity plans and annual reports on their implementation to the APC, as well as assess the efficiency and effectiveness of the plans every second year. In 2018 and 2019, 632 authorities updated their integrity plans based on this assessment (ASK, 2020^[212]).

The APC supports the development of integrity plans by providing methodology, consultations, training, recommendations, etc. In 2018, the APC developed an extensive questionnaire for the assessment of efficiency and effectiveness of the integrity plans. It has also launched an online application for the plans (ASK, 2019). The application comprises three modules: 1) a register of corruption risks for all public bodies, which allows for various kinds of analysis and monitoring of risk trends in selected bodies or sectors, or in the public sector as a whole; 2) a reporting tool on the implementation of measures envisaged in integrity plans; and 3) a questionnaire for assessing effectiveness and efficiency.

The APC publishes annual reports on the adoption and implementation of integrity plans, which show that the majority of measures envisaged in integrity plans have been implemented (as of the end of 2019, 74.9% of measures had been implemented) (ASK, 2020^[212]). The general quality of these integrity plans is a matter of somewhat divided opinions. According to information provided by representatives of the APC during consultations in October 2020, the quality of integrity plans has been improving, although around 30% of public bodies do not develop or implement them in a meaningful manner. The NGO Institute

Alternative argues that, judging by the annual reports published by the APC, authorities generally approach the development and implementation of integrity plans in a “bureaucratic” fashion, only complying with formal and technical requirements. Moreover, state administration bodies allegedly often fail to post the integrity plans and implementation reports on their website (Muk, Muk and Sošić, 2020^[213]).

Montenegro has the legal basis and methodology for **corruption proofing of legislation**. According to the Law on Prevention of Corruption, the APC should give opinions on draft laws and other regulations and general acts to align them with international standards in the field of anti-corruption. The APC should also take the initiative to amend the regulatory acts in order to eliminate risks of corruption or to bring them in line with international standards. The APC has issued 17 opinions, which contain recommendations for improving regulations, and according to the APC the recommendations have been incorporated into five laws. However, activity in this area has been slowing down. The APC published 11 opinions in 2017, 2 opinions in both 2018 and 2019, and only one opinion in 2020 (a second opinion for 2020 was published in January 2021).

Sub-dimension 16.2: Prevention of corruption

The central **corruption prevention body** in Montenegro is the Agency for the Prevention of Corruption, established in 2016. The law provides elaborate safeguards and mechanisms for the autonomy and accountability of the APC. The APC reports to the Parliament of Montenegro, and its managing bodies are the Council and the Director. The Council consists of five members (two of whom currently represent NGOs). The members are appointed by parliament, on the proposal of parliament’s competent committee. Council candidates are selected through a public vacancy announcement. A selection commission interviews the candidates and shortlists five. The last APC Council members were elected in August 2019. The Council also selects the Director through a public call and also decides on the dismissal of the Director. The design of these procedures aims to ensure publicity and transparency, while minimising the possibility for undue influence. The Council proposes the APC’s draft budget to parliament via the competent committee. By law, funds approved for the APC may not amount to less than 0.2% of the current state budget. Meanwhile the actual capacity of the APC remains suboptimal. The Rulebook for the APC envisages 60 employees, while at the end of 2020, 55 employees were in fact working full time. The APC regularly prepares quarterly and annual activity reports which are published on its website.²³¹

Despite this robust legal framework, trust in the actual independence and effectiveness of the APC is not universal. A 2019 report by the European Commission noted that “challenges to the independence, credibility and priority-setting of the Anti-Corruption Agency are yet to be convincingly addressed” (EC, 2019^[73]). The former Director of the APC performed unsatisfactorily, according to several non-government stakeholders, and resigned in 2019 before the end of his term (Freedom House, 2020^[214]). The Council appointed a new Director in July 2020. This fresh leadership provides a renewed opportunity to mitigate concerns about the lack of effectiveness and independence of the APC.

The Law on Prevention of Corruption (LPC), adopted in 2014, governs the management of **conflicts of interest** and asset disclosure. The circle of public officials covered is comprehensive, especially in view of the fact that other regulatory acts²³² also contain provisions regarding conflicts of interest. The LPC does not envisage institutions and/or officials responsible for individual counselling, but overall the APC is the competent institution in the areas of prevention of conflicts of interest and restrictions in the exercise of public functions. The APC’s section for the prevention of conflict of interest has three specialised officers.

The APC has a steady track record of issuing opinions (158 in 2019) as well as decisions and other administrative acts (72 in 2019, of which 30 concerned conflicts of interest and 42 concerned restrictions in the exercise of public functions). Altogether 42 of the decisions found violations to have occurred. According to the procedure, the Director of the APC adopts a decision on whether a public official has violated the provisions of the LPC and the decision is published on the website of the APC. The APC informs the official’s employer and asks them to initiate the procedure of dismissal, suspension, or

imposition of disciplinary measures. In 2019, the authorities took action in 29 out of 44 cases where the APC had found that public officials violated provisions of the LPC. Moreover, violations are sanctioned as misdemeanours. In 2019, the courts imposed sanctions in 30 out of conflict-of-interest violation cases submitted by the APC. The total amount of fines imposed was EUR 8 150 (ASK, 2020^[215]). According to the APC, in most cases the fines are below the minimum prescribed by the LPC. It appears that the procedure whereby the APC decides on the existence of a violation while the legal consequences are decided by other bodies results in a general under-enforcement of the law. On the other hand, in August 2020, a court invalidated the APC's own decision, which had found no conflict of interest in a prominent case involving the former Prime Minister of Montenegro (EC, 2020^[66]). The case was returned to the APC for repeated review.

All public officials are required to **disclose assets and income**, as are certain categories of civil servants, pursuant to special regulations. Exceptions are the staff of political officials (such as advisors). The data to be declared are generally comprehensive, though there are a few gaps. These include the lack of an explicit requirement to report beneficial ownership; major transactions (expenses) unless reported in the event of an increase in assets of more than EUR 5 000; and virtual assets, e.g., cryptocurrencies. The technical system for declaration is well developed with an online platform for submission, publication by default with certain exempted data, searchable and electronically readable forms available for the public, and possibilities for internal users to manage the declarations. However, advanced electronic analysis, for example, searches for risk indicators or so-called red flags, is not possible. One of the main gaps in the declaration system is the requirement to obtain permission from a declarant in order for the APC to gain access to bank data.

The APC's section for verifying the income and assets of public officials has six employees, four of whom carry out verifications. In 2019, 285 misdemeanour proceedings for violations of asset and interest disclosure rules were completed, with sanctions applied in 263 of the cases. The total amount of fines was EUR 48 460. A 2019 report by the European Commission is critical of the practice regarding inexplicable wealth. It refers to 30 cases of inexplicable wealth opened in 2018, of which 28 were subsequently closed without finding irregularities (EC, 2019^[73]). The data for 2019 reveal a similar situation (no violations found out of 31 verifications).

The Law on Prevention of Corruption contains provisions for the **protection of whistle-blowers**. The LPC guarantees protection to individuals who report a corruption-related wrongdoing that they believed to be true at the time of reporting. The APC must protect whistle-blowers who have reasonable grounds to believe that there are threats to the public interest that indicate the existence of corruption and who report this suspicion in good faith. The LPC extends this protection to both public and private sector employees.

However, the law deviates in several ways from EU Directive 2019/1937 on the protection of persons who report breaches of Union law. Under Montenegrin law, only threats that indicate the existence of corruption can be the subject of whistleblowing. Whistle-blowers may submit reports to the APC without first submitting them to the entity concerned, but there is no possibility of public disclosure to the media or public associations. The types of prohibited retaliation listed in the LPC are fewer and narrower than those found in the Directive (even though the LPC list is non-exhaustive, and thus in principle other types of retaliation could be considered too). The provisions are rather vague on the available protection measures and, in particular, compensation for damage. The LPC also does not envisage provisional protection, and it can only be provided in court proceedings. In the past, there have been controversies in Montenegro over decisions to refuse to grant someone the status of whistle-blower. One prominent case concerns a hotel employee fired in 2016 after revealing that a public entity paid the bill for a political party. However, since then the number of whistleblowing reports received by the APC has increased: from 56 in 2016 to 110 in 2019 (ASK, 2020^[215]).

The APC considers that the external reporting channel to the APC is most effective, while internal whistleblowing is uncommon. According to government data, the effectiveness of whistleblowing in the

context of criminal proceedings is modest. In 2019, the APC forwarded five reports to prosecutors' offices. In two of these cases the reports were rejected, while in three cases the proceedings are ongoing. In 2018, eight out of nine reports were rejected. In 2017, seven out of nine reports were rejected. Few individuals reporting threats to the public interest request protection (eight requests in 2016, two requests in 2017, one request in 2018, three requests in 2019) (EC, 2019^[73]; EC, 2020^[66]).

The section of the APC dealing with whistle-blower reports and protection has three employees. According to the APC, whistle-blower reports are also used for policy development. For example, in 2016, a large number of whistle-blower reports received by the APC related to employment procedures. Based on these reports, the APC drafted an opinion on the Labour Law and the Law on Employment and Exercise of Unemployment Insurance Rights concerning public sector employment.²³³

The APC regularly carries out **public awareness and education** campaigns. In 2019, it created fliers (on topics such as prohibitions and restrictions on receiving gifts, etc. in the exercise of public office, submission of asset declarations by public officials, reporting threats to the public interest; brochures on the APC and on the results of the IPA Twinning project; a manual for integrity managers; a billboard and citylight "Report Corruption"; TV announcements "Corruption is not in a game" and "For a Corruption-Free Society"; and a bulletin on anti-corruption. The APC has engaged in numerous training and education activities for public officials, school pupils, university students, and other target groups. It allocates annual funds for awareness raising and public education (EUR 58 000 in 2017, EUR 63 300 in 2018, EUR 58 900 in 2019, and EUR 38 000 in 2020) and has signed co-operation agreements with NGOs to engage in joint training and awareness-raising activities. The effectiveness of these activities is measured with the help of the annual poll on Public Attitudes on Corruption and Awareness of the Work of APC. The poll measures the percentage of citizens who would report corruption to the APC, who claim to know what the APC does, who believe that the APC has contributed to the overall fight against corruption in Montenegro and who think that the APC's campaigns encourage citizens to fight corruption, etc. (ASK and Defacto Consultancy, 2019^[216]). According to the APC, the survey findings have been used for targeting communication activities, such as to certain geographic areas. Despite these efforts, there is still a lack of information on permanent anti-corruption education programmes, for example, in schools.

Sub-dimension 16.3: Independence of the judiciary

The legal framework generally ensures the **independence of the judiciary**. Judicial duty is permanent. The institutional setup of the Judicial Council satisfies the minimum requirements for its mandate to secure the autonomy and independence of courts and judges, save for the *ex-officio* membership of the Minister of Justice (EC, 2020^[66]). The Judicial Council consists of a president and nine members (including the President of the Supreme Court and four judges to be elected and released from duty by the Conference of Judges). Thus, judges elected by their peers constitute only a minority of members; this should be changed in future reforms. The competent working body of parliament should issue a public call for appointing four members of the Judicial Council from among eminent lawyers. However, since 2020 parliament has been unable to appoint these members due to a political stalemate. In addition to the exclusion of the Minister of Justice, the Group of States against Corruption (GRECO) has also recommended establishing objective and measurable criteria for identifying professional qualities and impartiality amongst non-judicial members (GRECO, 2019^[217]). Decisions of the Judicial Council, except for those issued in disciplinary proceedings against a judge, are published anonymously on the website of the Courts of Montenegro.²³⁴

A judge and a president of the court are to be elected and dismissed from duty by the Judicial Council. Vacant positions for judges should be filled in accordance with the Plan of Vacant Positions for Judges adopted by the Judicial Council. Vacant positions for judges in basic courts should be filled through an internal announcement for voluntary transfer. If the positions are not filled through this procedure, they should be filled following a public announcement. The law prescribes the promotion of judges based on

their position and achievements on a ranking list. The assessment tools for appointment involve work appraisal and an interview with the candidate. Vacant positions for judges in the High Court, the High Misdemeanour Court, the Appeals Court, and the Supreme Court are announced publicly. The procedures for public announcement, submission of applications and processing of the applications, as well as the rights of applicants, are governed by law.

An information system allocates cases to judges randomly. According to the government, all final decisions are regularly published anonymously on courts' website.

The legal framework for judges' disciplinary responsibility corresponds to the requirements for judicial independence. Court presidents may initiate disciplinary proceedings. A judge against whom disciplinary proceedings have been instituted has the right to participate in the proceedings and is entitled to a defence counsel. The disciplinary prosecutor and the judge whose liability is established may file an appeal against the decision to the Supreme Court. However, the non-publication of decisions of the Judicial Council in disciplinary proceedings against judges limits the public accountability of the process. The track record of disciplinary responsibility is limited, with sanctions applied in only three cases in 2015, and in one case each in 2017 and 2019. The Commission for the Code of Ethics for Judges prepares opinions regarding conformity of judges' conduct with the Code of Ethics. Two violations were established in 2019. The proceedings of the disciplinary and ethics bodies are reportedly inconsistent, and the system generally requires strengthening (EC, 2020^[66]).

While the legal guarantees for judicial independence are generally adequate, independent sources refer to perceived vulnerability to political interference, as well as hazards to judicial independence. These include state-sponsored apartments or loans on favourable terms for some members of the judiciary, as well as failures to carry out justice according to the law (EC, 2020^[66]; Građanska alijansa, 2019^[218]). On the other hand, some judges have had temporary salary reductions due to the COVID-19 pandemic. The reappointment of several court presidents in breach of the statutory limitation of two terms is another source of concern (Prelević et al., 2019^[219]).

Sub-dimension 16.4: Business integrity and corporate liability

The framework for promoting **business integrity** is limited. The Law on Business Organisations does not set out that it is the responsibility of the board of directors in a joint stock company to supervise corruption risk management. The Law on Prevention of Money Laundering and Terrorist Financing (adopted in 2018) stipulates that the Tax Administration – Central Registry of Commercial Entities (CRCE) should maintain a beneficial owners register. However, in 2019 the law was amended, and in late 2020 the CRCE still had not established the register. The Ministry of Interior adopted a new rulebook on keeping the register on 24 December 2020. According to information provided by Montenegro, practical preparations (work on software support, development of regulations, determination of publicly available data and fees) are in progress. The law provides for sanctions in the form of fines ranging from EUR 3 000 to 20 000 for the failure to provide data on beneficial owners and changes thereof, but in the absence of the register, there are no grounds for applying the sanctions in practice. Under the anti-money laundering legislation, reporting entities, including designated non-financial businesses and professions (DNFBPs), should identify beneficial ownership. The Chamber of Economy, in accordance with the Law on the Chamber of Economy of Montenegro, carries out activities to stimulate and improve the business environment and legislative framework and to inform its members of the need to suppress corruption in the private sector. The chamber adopted the Business Ethics Code in 2011 and established the Court of Honour to rule on violations of good business conduct rules.

The Law on Criminal Liability of Legal Entities stipulates that **legal entities are liable for criminal offences** (those referred to in the special section of the Criminal Code of Montenegro and for other criminal offences provided for under a separate law) if conditions prescribed by the law have been fulfilled. A legal entity is liable for a criminal offence if a responsible person commits the criminal offence while acting within

his/her authorities on behalf of the legal entity, with the intention to obtain gain for the legal entity, or when the activity of the responsible person was contrary to the business policy or orders of the legal entity. The legal entity will be held liable for a criminal offence even if the responsible person who committed the offence has not been convicted, but the physical person who committed the offence must be identified. Fines are determined depending on the amount of damage caused or material gain obtained. In addition to a fine and a suspended sentence, other sanctions (security measures) are also prescribed. An entity may be exempt from punishment if it has undertaken all the effective, necessary, and reasonable measures to prevent and reveal the commitment of the criminal offence. A report by the Public Prosecution Council shows that in 2019, 33 legal entities were prosecuted for offences under Chapter 34 “Criminal offences against service obligations” of the Criminal Law. Courts convicted 17 legal entities (all categories of crime) (Tužilački savjet, 2020^[220]).

Sub-dimension 16.5: Investigation and prosecution

There is no detailed public information about the course of **investigation and prosecution of high-level corruption**, although the authorities reportedly inform the public at press conferences and publish relevant data on the website of the Special State Prosecutor's Office (SSPO).²³⁵ Moreover, information about cases of high-level corruption is provided in periodic reports submitted to parliament (Tužilački savjet, 2020^[220]). According to the government, since the formation of the SSPO in 2015, in all cases of high-level corruption where defendants have been found guilty, effective prison sentences have been handed down.

According to the SSPO, between 3 July 2015 and 1 September 2020, it raised 43 indictments against 137 individuals and 11 legal entities for high-level corruption offences. Thus, the intensity of investigation and prosecutorial activity is relatively high. The evidence is somewhat controversial regarding the track record of convictions for high-level corruption, however. According to data provided by Montenegro, the number of cases involving final convictions for high-level corruption was three in 2015, three in 2016 and one in 2018. A European Commission report mentions four final and enforceable judgements for high-level corruption each in 2018 and 2019, and one further judgement in mid-June 2020. Financial investigations are yet to be launched systematically in parallel with corruption cases investigations (EC, 2020^[35]). The most prominent person convicted for corruption (the former President of the State Union of Serbia and Montenegro, and the former President of the Parliament of Montenegro) avoided serving the sentence handed down in 2016 by leaving Montenegro (EC, 2019^[73]).

The Special State Prosecutor's Office forms the core of the **specialised anti-corruption prosecutorial and judicial bodies**. The SSPO's remit includes tackling high-level corruption, the abuse of position in business undertakings and the abuse of authority in the economy if the proceeds of crime exceed EUR 40 000, money laundering, etc. The SSPO brings its actions before the Special Division of the High Court in Podgorica.

The Law on the SSPO contains several guarantees for its independence, transparency and accountability. The Chief Special Prosecutor and special prosecutors are selected from applicants who respond to a public advertisement and are then elected by the Prosecutorial Council. The law describes the selection process, including criteria, in detail. The tenure of the Chief Special Prosecutor is five years while a special prosecutor can be elected to serve life tenure if he/she has worked for at least four years as a state prosecutor or as a judge. However, the autonomy of the SSPO is limited in that the Supreme State Prosecutor may directly exercise all powers and undertake all actions for which the head of the SSPO is authorised. The Chief Special Prosecutor should submit a six-month activity report on the SSPO to the Supreme Public Prosecutor, as well as separate reports on request.

There has been some strengthening of the capacity of the SSPO. Since 2018, the number of prosecutors allocated to the SSPO has increased from 10 to 13. The SSPO employs six economic experts. However poor office conditions are a concern reportedly (EC, 2019^[73]; EC, 2020^[66]). According to the government,

in 2019 special prosecutors participated in numerous training courses on a variety of topics, although few were specifically on corruption.

Specialised anti-corruption investigative bodies are located within the Police Directorate. The section for the Fight against Organized Crime and Corruption contains a Special Police Division (SPD),²³⁶ which in turn contains the Group for the Investigation of Criminal Cases of High Corruption and Money Laundering (GICCHCML), headed by the Chief Police Inspector and comprising 14 specialised investigators.

The SPD is an integral organisational unit of the Police Directorate and as such does not have special formal independence guarantees different to those of other police units. The head of the division is appointed by the director of the administrative authority responsible for police affairs, subject to the consent of the Chief Special Prosecutor. The SPD acts on the orders and instructions of a special prosecutor. The Chief Special Prosecutor may form a special investigative team in particularly complex cases in which, besides a special prosecutor, police officers from the SPD, investigators and civil servants from other competent authorities may be included.

Montenegro has taken steps to gradually strengthen the capacity of its corruption investigation. In 2018, the special police unit was allocated 10 additional staff, bringing the total number of filled positions to 29. Today it has 32 staff. However, the staff numbers are reportedly still insufficient relative to the workload (EC, 2019^[73]; EC, 2020^[66]). The Law on Interior Affairs determines investigators' salaries, but the Government of Montenegro has supplemented the basic salary of anti-corruption investigators by 45%.

The way forward for anti-corruption policy

To strengthen the anti-corruption policy framework and implementation, policy makers should:

- **Develop and adopt a renewed national anti-corruption plan or strategy** based on an overall corruption risk and gap assessment, which reflects the current state of affairs. Montenegro approved the OD in 2016, but this document cannot fully serve the purpose of setting up-to-date goals, responsibilities, deadlines and funding needs relevant in 2021. The United Nations Convention against Corruption requires that states develop and implement or maintain effective, co-ordinated anti-corruption policies that promote the participation of society and reflect the principles of the rule of law, proper management of public affairs and public property, integrity, transparency and accountability (Article 5, Paragraph 1) (United Nations, 2004^[221]). Comprehensive strategies and action plans, which define objectives and goals, allocate responsibilities, set deadlines, determine necessary funds, are widely recognised as the optimal way to frame anti-corruption policies. In preparing this strategy, the government should follow public consultation best practice and envisage regular public reporting on its implementation.
- **Widen the scope of corruption proofing of legislation** to cover most of the laws and regulatory acts that may embody corruption risks. For this task, the capacity of the APC may need to be strengthened. Corruption proofing of legislation is a key step for limiting corruption risks that arise from deficiencies in the legal framework. Such work requires substantial analytical capacity. Due to the large number of regulations to be potentially assessed, full implementation of this recommendation will take several years. The APC should strive to return at least to the intensity of the proofing activity of 2017, when it published 11 opinions.
- **Strengthen the verification of asset and interest reports** by encouraging (e.g. in codes of ethics) public officials to give permission for the APC to access the necessary bank information and by exploring the options for developing an advanced electronic risk monitoring system for detecting violations of the law. Explore further possibilities for strengthening the effectiveness of inexplicable wealth detection. The Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials recommends that banking secrecy should not be an obstacle to using banking data for verification purposes. Moreover, verification should not be limited to

comparing data but should aim at detecting undeclared cash-flows and any possible illicit origin (EIN, 2014^[222]). It is possible for a corrupt public official to complete a declaration with data that correspond to public registers and other sources checked by an oversight body while still incurring expenses that vastly exceed his/her legal income. Access to data on at least the turnover and balances of the relevant bank accounts can significantly assist in assessing the economic plausibility of the declared information.

- **Continue the dissemination of information for potential whistle-blowers.** In order to promote whistleblowing activity, encourage whistle-blowers to report quickly any suspicion of corruption threats to the public interest, and maximise the usefulness of whistle-blower reports for follow up by relevant authorities. The relevant EU directive envisages mandatory and optional measures of support for whistle-blowers such as comprehensive and independent information and advice, which is easily accessible to the public and free of charge, on procedures and remedies available, on protection against retaliation, and on the rights of the person concerned; effective assistance from competent authorities before any relevant authority involved in their protection against retaliation; legal aid, counselling or other legal assistance; financial assistance and support measures, including psychological support, for reporting persons in the framework of legal proceedings. Montenegro has taken actions in these areas, but the efforts need to continue. Montenegro should also strive to fully implement the EU directive regarding opportunities for public reporting.
- **Explore ways to strengthen the record of the disciplinary liability of judges,** for example, by encouraging citizens who have grounded belief that a judge has acted illegally or unethically to inform in good faith the Judicial Council. Expand the scope of published information on disciplinary proceedings. International standards allow for the publication of disciplinary decisions with or without naming the judge (ENCJ, 2015^[223]). Box 23.24 provides an example from Latvia. Where public trust in the independence and integrity of the judiciary is limited, greater transparency appears the preferable option.
- **Ensure registration of and oversight over the disclosure of beneficiary owners** of legal entities. The EU Anti Money Laundering Directive requires that the information held in the central register of beneficial ownership is adequate, accurate and current. It is required that states put in place mechanisms to this effect, e.g. ensuring that obliged entities and competent authorities report any discrepancies they find between the beneficial ownership information available in the central registers and the beneficial ownership information available to them. However, note that full assessment of compliance by Montenegro with requirements of the EU directives in this area is beyond the scope of this analysis.
- **Consider further strengthening the independence of anti-corruption investigative and prosecuting bodies.** Standards under the United Nations Convention against Corruption state that a body or bodies or persons specialised in combating corruption through law enforcement should be granted the necessary independence, in accordance with the fundamental principles of the legal system of the State Party, to be able to carry out their functions effectively and without any undue influence (Article 36) (United Nations, 2004^[221]). This assessment did not evaluate in-depth the work practice of the SPD, and hence does not argue whether or not any undue influence on its activities has taken place. However, Montenegro should consider potentially introducing additional means for safeguarding the independence of the SPD, such as more public and competitive selection of management and strengthened guarantees of dedicated budget funding. Montenegro should also reconsider whether the authority of the Supreme State Prosecutor to directly exercise all powers and undertake all actions for which the head of the SSPO is authorised is compatible with due independence of the SSPO.

Box 23.24. Publication of judicial disciplinary decisions in Latvia

According to the Judicial Disciplinary Liability Law, a decision taken in a disciplinary case must be published online, except for a decision to forward the file to the Prosecutor General's Office for deciding on the launch of criminal proceedings. In the published decision, personal data must be concealed, but the name of the person held liable is disclosed.

The published decision must be deleted from the website one year after the day it came into effect. If a disciplinary sanction is set aside before this time limit, the published decision must be deleted from the website after the decision to set aside the sanction is taken.

If a decision in a disciplinary case proposes the removal of a judge but the Parliament votes against the removal and the disciplinary case is returned to the Judicial Disciplinary Board for repeated examination, the initial published decision must be deleted from the website.

Source: Judicial Disciplinary Liability Law, Article 11.⁶, Paragraphs 6¹ and 6², <https://likumi.lv/ta/en/en/id/57677-judicial-disciplinary-liability-law>.

References

- 50hertz (2020), *Balancing energy*, 50hertz website, [307]
<https://www.50hertz.com/en/Market/Balancingenergy> (accessed on December 2020).
- ACER (2020), *Capacity allocation and congestion management*, Agency for the Cooperation of [308]
 Energy Regulators website, <https://acer.europa.eu/en/Electricity/MARKET-CODES/CAPACITY-ALLOCATION-AND-CONGESTION-MANAGEMENT> (accessed on December 2020).
- ACER (2020), *Electricity balancing*, Agency for the Cooperation of Energy Regulators website, [309]
<https://acer.europa.eu/en/Electricity/MARKET-CODES/ELECTRICITY-BALANCING> (accessed on December 2020).
- Administration for Inspection Affairs (2019), *Measurement report*, Administration for Inspection [112]
 Affairs, Montenegro, <http://www.uip.gov.me/biblioteka>.
- AKOVO (2020), *Agency for Control and Quality Assurance of Higher Education [Agencija za [102]
 kontrolu i obezbjeđenje kvaliteta visokog obrazovanja]*, <http://akokvo.me/> (accessed on December 2020).
- APEC/OECD (2019), *Financing Infrastructure in APEC Economies: APEC/OECD Report on [78]
 Selected Effective Approaches*, OECD and Asia-Pacific Economic Cooperation, Paris, <https://www.oecd.org/pensions/private-pensions/Financing-infrastructure-in-APEC-economies-selected-effective-approaches-2019.pdf>.
- ASK (2020), *Annual Performance Report of 2019 (Izveštaj o radu Agencije za sprječavanje [215]
 korupcije u 2019. godini, Agencija za sprječavanje korupcije)*, Agency for Prevention of Corruption, Podgorica, http://antikorupcija.me/media/documents/Izvjestaj_ASK_2019.pdf.
- ASK (2020), *Report on the Adoption and Implementation of Integrity Plans in 2019 (Izveštaj o [212]
 donošenju i sprovođenju planova integriteta u 2019. godini, Agencija za sprječavanje korupcije)*, Agency for Prevention of Corruption, Podgorica, http://www.antikorupcija.me/media/documents/Izvjestaj_o_donosenju_i_sprovođenju_planova_integriteta_u_2019_godini.pdf.
- ASK and Defacto Consultancy (2019), *Public Attitudes Toward Corruption and Familiarity with [216]
 the Work of the Agency for Prevention of Corruption (Stavovi javnosti o korupciji i upoznatost sa radom Agencije za sprječavanje korupcij)*, Agency for Prevention of Corruption and Defacto Consultancy, Podgorica, <https://www.antikorupcija.me/me/novosti/1912061105-rezultati-istrasivanje-stavovi-javnosti-korupciji-upoznatost-radom-agencije-za-sprjecavanje-korupcije/>.
- Association of Issuing Bodies (2020), *AIB - Guaranteeing the origion of European energy*, [334]
<https://www.aib-net.org/>.
- AZLP (2020), *Media Release 28 July 2020*, Agency for Personal Data Protection and Free [150]
 Access to Information, Montenegro, <http://www.azlp.me/me/agencija/20063>.
- AZLP (2018), *Report on the State of Personal Data Protection and the State of Access to [151]
 Information for 2018*, Agency for Personal Data Protection and Free Access to Information, http://www.azlp.me/docs/zajednicka/izvjestaj_o_stanju/IZVJESTAJ%202018.doc.

- BalkanInsight (2019), *Montenegro Govt to Prop Up Indebted National Airline*, BalkanInsight website, <https://balkaninsight.com/2019/12/10/montenegro-govt-to-prop-up-indebted-national-airline/>. [90]
- Banco de Portugal (2016), *National Plan for Financial Education 2016-2020*, Portugal, <https://www.todoscontam.pt/pt-pt> (accessed on January 2020). [77]
- Banja, M. et al. (2017), “Renewables in the EU: The support framework towards a single energy market”, *JRC Science for Policy Report*, No. 110415, Publication of Office of the European Union, Luxembourg, <http://dx.doi.org/doi:10.2760/521847>. [175]
- Bank of Lithuania (2020), *List of Crowdfunding Platform Operators*, Bank of Lithuania website, <https://www.lb.lt/lt/finansu-rinku-dalyviai?list=36>. [72]
- Bank of Lithuania (2019), *Consumer Credit Market Review*, Bank of Lithuania, <https://www.lb.lt/lt/leidiniai/vartojimo-kredito-rinkos-apzvalga-2019-m>. [71]
- Begovic, B. and D. Popovic (2016), *Competition Authorities in South Eastern Europe, Building Institutions in Emerging Markets*, Springer Open, <https://www.springer.com/gp/book/9783319766430>. [310]
- Benz, S. and A. Jaax (2020), “The costs of regulatory barriers to trade in services: New estimates of ad valorem tariff equivalents”, *OECD Trade Policy Papers*, No. 238, OECD Publishing, Paris, <https://dx.doi.org/10.1787/bae97f98-en>. [47]
- Boza-Kiss, B., P. Bertoldi and S. Panev (2015), “The European ESCO market: recent trends, market sizes, barriers and drivers and the remaining market potential”, *Summer Study Proceedings*, European Council for an Energy Efficient Economy, https://www.eceee.org/library/conference_proceedings/eceee_Summer_Studies/2015/2-energy-efficiency-policies-8211-how-do-we-get-it-right/the-european-esco-market-recent-trends-market-sizes-barriers-and-drivers-and-the-remaining-market-potential/. [172]
- Bundesnetzagentur (2020), *This is how the electricity market works*, Bundesnetzagentur website, <https://www.smard.de/page/en/wiki-article/5884/5840> (accessed on December 2020). [311]
- CEER (2018), *Status Review of Renewable Support Schemes in Europe for 2016 and 2017: Public Report*, Council of European Energy Regulators, <https://www.ceer.eu/documents/104400/-/-/80ff3127-8328-52c3-4d01-0acbdb2d3bed>. [176]
- CNE (2018), *Estado da Educação 2017*, Conselho Nacional Educação, <https://www.cnedu.pt/pt/noticias/cne/1364-estado-da-educacao-2017> (accessed on 18 November 2019). [105]
- CONNECTA (2018), *Preparation of Maintenance Plans 2018-2022 for Road/Rail TEN-T Indicative Extensions to WB6*, Technical Assistance to Connectivity in the Western Balkans, https://connecta-info.eu/wp-content/uploads/2019/11/CONN-TRA-CRM-REG-02.1_MP_Final-Report-Railways.pdf. [152]
- Convention on Biological Diversity (2020), *Aichi Biodiversity Targets*, Convention on Biological Diversity website, <https://www.cbd.int/sp/targets/> (accessed on July 2020). [312]
- Crossbow (n.d.), *Clean Energy Across Europe*, Crossbow Project website, <http://crossbowproject.eu/>. [313]

- Dokleštic Repić & Gajin (2020), *Gajin Competition Newsletter, Competition Law in Montenegro: 2019*, 23 January 2020, <https://www.gajin.rs/2020/01/competition-law-in-montenegro-2019/>. [240]
- Duell, N. (2020), *PES Measures and Activities Responding to Covid-19: Survey-Based Study*, European Network of Public Employment Services, Icon Institute, European Commission, <https://ec.europa.eu/social/main.jsp?catId=1163&langId=en>. [110]
- Düll, N. et al. (2018), “Faces of Joblessness in Portugal: A People-centred perspective on employment barriers and policies”, *OECD Social, Employment and Migration Working Papers*, No. 210, OECD Publishing, Paris, <http://dx.doi.org/10.1787/b0fa55e7-en>. [137]
- EBAN (2019), *EBAN Statistics Compendium: European Early Stage Market Statistics: 2019*, EBAN, <https://www.eban.org/wp-content/uploads/2020/12/EBAN-Statistics-Compendium-2019.pdf>. [68]
- EBRD (2020), *Economic Performance of State-Owned Enterprises in Emerging Economies. A Cross-Country Study*, European Bank for Reconstruction and Development, <https://www.ebrd.com/what-we-do/economic-research-and-data/cse-economists/economic-performance-soes-in-emerging-economies.html>. [88]
- EBRD (2020), *Transition Report 2020-21: The State Strikes Back*, European Bank for Reconstruction and Development, <https://www.ebrd.com/news/publications/transition-report/transition-report-202021.html>. [316]
- EBRD (2019), *Transition Report 2019-20. Better Governance, Better Economies*, European Bank for Reconstruction and Development, <https://www.ebrd.com/transition-report>. [315]
- EBRD (2017), *Corporate Governance in Transition Economies: Montenegro Country Report*, European Bank for Reconstruction and Development, <https://www.ebrd.com/documents/legal-reform/montenegro.pdf>. [314]
- EC (2021), *Electricity network codes and guidelines*, European Commission website, https://ec.europa.eu/energy/topics/markets-and-consumers/wholesale-energy-market/electricity-network-codes_en (accessed on January 2021). [330]
- EC (2021), *EU Candidate Countries and Potential Candidates' Economic Quarterly 1st Quarter 2021*, https://ec.europa.eu/info/publications/eu-candidate-countries-potential-candidates-economic-quarterly-cceq-1st-quarter-2021_en. [11]
- EC (2021), “EU candidate countries’ & potential candidates’ economic quarterly (CCEQ): 1st quarterly 2021”, *Technical Paper*, No. 028, European Commission, Brussels, https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en. [30]
- EC (2020), *2019 road safety statistics: what is behind the figures?*, European Commission, Brussels, https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_1004. [167]
- EC (2020), *Commission Staff Working Document: Montenegro 2020 Report, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_report_2020.pdf. [66]
- EC (2020), “EU candidate countries’ & potential candidates’ economic quarterly: 4th quarter 2020”, *Technical Paper*, No. 046, https://ec.europa.eu/info/sites/info/files/economy-finance/tp046_en.pdf. [3]

- EC (2020), *Guidance for the Economic Reform Programmes 2021-2023 of the Western Balkans and Turkey*, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/erp_2021-2023_guidance_note.pdf. [32]
- EC (2020), "Montenegro 2020 Report", *Commission Staff Working Document*, No. SWD(2020) 353 final, European Commission, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_report_2020.pdf. [35]
- EC (2020), *Montenegro Horizon 2020 Country Profile*, European Commission website, <https://webgate.ec.europa.eu/dashboard/extensions/CountryProfile/CountryProfile.html?Country=Montenegro>. [140]
- EC (2020), *What is Horizon 2020?*, European Commission website, <https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020>. [329]
- EC (2019), "Economic Reform Programme of Montenegro (2019-2021), Commission assessment", *Commission Staff Working Document*, No. SWD(2019) 163 final, European Commission, Brussels, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_2019-2021_erp.pdf. [23]
- EC (2019), "EU Road Safety Policy Framework 2021-2030: Next steps towards "Vision Zero"", *Commission Staff Working Document*, No. SWD(2019) 283 final, European Commission, Brussels, <https://ec.europa.eu/transport/sites/transport/files/legislation/swd20190283-roadsafety-vision-zero.pdf>. [326]
- EC (2019), *Facilitating regional cross-border electricity transmission through innovation*, European Commission website, <https://cordis.europa.eu/project/id/864274>. [327]
- EC (2019), *Montenegro 2019 report*, European Commission, Brussels, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-montenegro-report.pdf>. [73]
- EC (2019), *Solutions for increased regional cross-border cooperation in the transmission grid*, European Commission website, https://cordis.europa.eu/programme/id/H2020_LC-SC3-ES-2-2019. [328]
- EC (2018), *Economic Reform Programmes: Western Balkans and Turkey*, European Commission, Brussels, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>. [33]
- EC (2018), "Impact assessment of the proposal for a regulation on European Crowdfunding Service Providers (ECSP) For Business", *Commission Staff Working Document*, No. SWD(2018) 56 final, European Commission, Brussels, <https://op.europa.eu/fr/publication-detail/-/publication/2eb8abc0-22cb-11e8-ac73-01aa75ed71a1>. [69]
- EC (2017), *CROSSBOW: Cross border management of variable renewable energies and storage units enabling a transnational wholesale market*, European Commission website, <https://ec.europa.eu/inea/en/horizon-2020/projects/h2020-energy/grids-storage/crossbow>. [325]
- EC (2017), *Identifying Market and Regulatory Obstacles to Cross-Border Development of Crowdfunding in the EU: Final Report*, European Commission, Brussels, https://ec.europa.eu/info/sites/info/files/171216-crowdfunding-report_en.pdf. [70]

- EC (2015), *Better Regulation Guidelines*, European Commission, Brussels, [65]
https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en.
- EC (2015), *Better Regulation: Guidelines and Toolbox*, European Commission website, [324]
https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en.
- EC (2013), "European Commission guidance for the design of renewable support schemes", [177]
Commission Staff Working Document, No. SWD(2013) 439 final, European Commission, Brussels,
https://ec.europa.eu/energy/sites/ener/files/com_2013_public_intervention_swd04_en.pdf.
- EC (n.d.), *Eurydice website*, European Commission, Brussels, [119]
<https://eacea.ec.europa.eu/national-policies/eurydice/>.
- EC/EACEA/Eurydice (2019), *Teachers' and School Heads' Salaries and Allowances in Europe: 2017/18*, Eurydice Facts and Figures, Publications Office of the European Union, Luxembourg, [97]
https://eacea.ec.europa.eu/national-policies/eurydice/sites/eurydice/files/teacher_and_school_head_salaries_and_allowances_2017_18.pdf.
- EEA (2020), *Air pollutant concentrations at station level (statistics)*, European Environment Agency website, [318]
<http://www.eea.europa.eu/data-and-maps/data/air-pollutant-concentrations-at-station> (accessed on August 2020).
- EEA (2019), *Annual mean PM2.5 concentrations observed at background stations, 2017*, [317]
European Environment Agency, <https://www.eea.europa.eu/data-and-maps/figures/annual-mean-pm2-5-concentration-9>.
- EEA (2015), *Freshwater - Why care? (Montenegro)*, European Environment Agency, [182]
<https://www.eea.europa.eu/soer/2010/countries/me/waste-why-care>.
- EIN (2014), *Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials*, Ethics and Integrity Network, Regional School of Public Administration, Montenegro, [222]
<https://www.respaweb.eu/download/doc/02+Policy+Recommendations+on+Income+and+Asset+Declarations.pdf/5d3ea91ed1b5ebcaeeaf5bbb97463ec1.pdf>.
- EKIP (2019), *Annual Report 2019*, Agency for Electronic Communications and Postal Services, [144]
<https://www.ekip.me/izvjestaji/ibpristup.php>.
- Employment Agency of Montenegro (2019), *Work Report for 2018*, Employment Agency of Montenegro, [319]
<https://www.zzzcg.me/wp-content/uploads/2019/02/Izvjestaj-o-radu-ZZZCG-za-2018.pdf>.
- Employment Agency of Montenegro (n.d.), *Report on the Work of the Employment Agency of Montenegro*, Employment Agency of Montenegro, [115]
<http://www.zzzcg.me/planovianalize-izvjestaji/>.
- ENCJ (2015), *Minimum Judicial Standards V: Disciplinary Proceedings and Liability of Judges: ENCJ Report 2014-2015*, European Network of Councils for the Judiciary, Brussels, [223]
https://www.encj.eu/images/stories/pdf/GA/Hague/encj_report_minimum_standards_v_adopted_ga_june_2015.pdf.

- Energy Community Secretariat (2020), *Annual Implementation Report 2020*, Energy Community Secretariat, Vienna, <https://www.energy-community.org/implementation/IR2020.html>. [170]
- Energy Community Secretariat (2019), *Annual Implementation Report: November 2019*, Energy Community Secretariat, Vienna, https://www.energy-community.org/dam/jcr:a915b89b-bf31-4d8b-9e63-4c47dfcd1479/EnC_IR2019.pdf. [320]
- ENTSOE (2021), *What are Network Codes*, ENSTOE website, https://www.entsoe.eu/network_codes/ (accessed on January 2021). [322]
- ENTSOE (2020), *Capacity Allocation & Congestion Management*, ENTSOE website, https://www.entsoe.eu/network_codes/cacm/ (accessed on December 2020). [321]
- Environment Protection Agency (2020), *Information on the State of the Environment 2019*, Environment Protection Agency, Podgorica, <https://epa.org.me/wp-content/uploads/2020/10/Informacija%20o%20stanju%20zivotne%20sredine%20za%202019.%20godinu.pdf>. [28]
- ERCB (2020), *Prosumers in the Energy Community - Legal and regulatory framework for support and treatment of small-scale generators - Special focus on solar photovoltaic (PV) systems connected to distribution network*, ERCB, https://energy-community.org/dam/jcr:abacd12d-283c-492a-8aa4-6da5797d044a/ERCB_prosumers_regulatory_framework_032020.pdf. [336]
- Estonia Border (n.d.), *Go Swift: Queue Management Service*, Estonian Border website, <https://www.estonianborder.eu/yphis/index.action>. [323]
- ETF (2020), *Key Indicators on Education, Skills and Employment 2020*, European Training Foundation, <https://www.etf.europa.eu/en/publications-and-resources/publications/key-indicators-education-skills-and-employment-2020> (accessed on December 2020). [101]
- ETF (2019), *Skills Mismatch Measurement in Montenegro*, European Training Foundation, <https://www.etf.europa.eu/en/publications-and-resources/publications/skills-mismatch-measurement-montenegro>. [21]
- EUR-Lex (2014), *Communication from the Commission: Guidelines on State Aid for Environmental Protection and Energy 2014-2020*, EUR-LEX, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>. [178]
- EUROCONTROL (2019), *The Local Single Sky Implementation Monitoring*, EUROCONTROL website, <https://www.eurocontrol.int/service/local-single-sky-implementation-monitoring>. [156]
- European Parliament (2016), *Briefing - Electricity 'Prosumers' - PE 593.518*, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2016/593518/EPRS_BRI\(2016\)593518_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2016/593518/EPRS_BRI(2016)593518_EN.pdf). [337]
- Eurostat (2021), *Employment rate of adults by sex, age groups, educational attainment level, number of children and age of youngest child (%)*, <https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do> (accessed on 9 April 2021). [128]
- Eurostat (2021), *Employment rates by sex, age and citizenship (%)*, https://ec.europa.eu/eurostat/databrowser/view/lfsq_organ/default/table?lang=en. [108]

- Eurostat (2021), *Gross and net production of electricity and derived heat by type of plant and operator [nrg_ind_peh]* – Database from 26th of June 2020, <https://ec.europa.eu/eurostat/web/energy/data/database>. [171]
- Eurostat (2021), *Statistics explained*, Eurostat website, <https://ec.europa.eu/eurostat/statistics-explained>. [331]
- Eurostat (2021), *Young people neither in employment nor in education and training by sex and NUTS 2 regions (NEET rates)*, https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=edat_lfse_22&lang=en. [292]
- Eurostat (2020), *Employment and activity by sex and age - annual data*, https://ec.europa.eu/eurostat/databrowser/view/LFSI_EMP_A_custom_439616/default/table?lang=en. [107]
- Eurostat (2020), *Employment and activity by sex and age - annual data*, [LFSI_EMP_A_custom_442254], https://ec.europa.eu/eurostat/web/products-datasets/-/LFSI_EMP_A. [99]
- Eurostat (2020), *Eurostat transport statistics database*, <https://ec.europa.eu/eurostat/web/transport/data/database>. [159]
- Eurostat (2020), *Freight Transport Statistics - Modal Split*, https://ec.europa.eu/eurostat/statistics-explained/index.php/Freight_transport_statistics_-_modal_split. [158]
- Eurostat (2020), *Gross and net production of electricity and derived heat by type of plant and operator [nrg_ind_peh]*, Eurostat website, https://ec.europa.eu/eurostat/data/database?node_code=nrg_ind_peh (accessed on November 2020). [332]
- Eurostat (2020), *Long-term unemployment (12 months or more) as a percentage of the total unemployment, by sex, age and citizenship (%)*, https://ec.europa.eu/eurostat/databrowser/view/lfsa_upgan/default/table?lang=en. [133]
- Eurostat (2020), *Municipal waste generation per capita, 2018*, https://ec.europa.eu/eurostat/statistics-explained/index.php/Municipal_waste_statistics (accessed on July 2020). [180]
- Eurostat (2020), *Population connected to urban wastewater collecting and treatment systems, by treatment level*, Eurostat website, <https://data.europa.eu/euodp/en/data/dataset/QTZUm328RNJA1fyNIFLw>. [187]
- Eurostat (2020), *Treatment of waste by waste category (env_wastrt)*, Eurostat website, https://ec.europa.eu/eurostat/databrowser/view/env_wastrt/default/table?lang=en (accessed on July 2020). [179]
- Eurostat (2019), *Early leavers from education and training*, Eurostat website, https://ec.europa.eu/eurostat/statistics-explained/index.php/Early_leavers_from_education_and_training. [94]
- Eurostat (n.d.), *European Union Labour Force Survey*, Eurostat website, <https://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey>. [129]

- Eurostat (n.d.), *Labour Force Survey data base*, <http://Labour Force Survey data base, https://ec.europa.eu/eurostat/web/main/data/database>. [106]
- Eurydice (2021), *Montenegro: Organization of secondary vocational education*, European Commission, https://eacea.ec.europa.eu/national-policies/eurydice/content/organisation-vocational-upper-secondary-education-32_me. [121]
- Federal Employment Agency of Germany (n.d.), *Register as unemployed and apply for unemployment benefit*, <https://www.arbeitsagentur.de/arbeitslosengeld/erste-schritte-arbeitslosigkeit>. [135]
- Federal Ministry of Economic Affairs and Energy of Germany (n.d.), *Dual training as a successful model*, <https://www.bmwi.de/Redaktion/DE/Dossier/ausbildung-und-beruf.html>. [122]
- Ferencz (2019), “The OECD Digital Services Trade Restrictiveness Index”, *OECD Trade Policy Papers*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/16ed2d78-en>. [57]
- Ferrandi, R. and M. Giangaspero (2020), “Competitive neutrality in Eastern Europe and Central Asia: A key tool to foster economic recovery”, in *Competition Policy in Eastern Europe and Central Asia*, OECD-GVH RCC. [238]
- Ferrandi, R. and G. Szilágyi (2020), “Competition Policy Responses to the Crisis in Eastern Europe and Central Asia - Key findings from the Virtual Seminar of the OECD-GVH Regional Centre for Competition”, in *Competition Policy in Times of Crisis, Special Supplement to Competition Policy in Eastern Europe and Central Asia*, OECD-GVH RCC, <http://www.oecd.org/daf/competition/supplement-oecd-gvh-newsletter15-july2020-en.pdf>. [239]
- Florence School of Regulation (2021), *EU electricity network codes*, <https://fsr.eui.eu/eu-electricity-network-codes/> (accessed on January 2021). [268]
- Freedom House (2020), *Nations in Transit 2020, Montenegro*, <https://freedomhouse.org/country/montenegro/nations-transit/2020>. [214]
- Geloso Grosso, M. et al. (2015), “Services Trade Restrictiveness Index (STRI): Scoring and Weighting Methodology”, *OECD Trade Policy Papers*, No. 177, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5js7n8wbtk9r-en>. [48]
- GoSwift, Estonian Border (2020), *Estonian Border - queue management system*, <https://www.estonianborder.eu/yphis/borderQueueInfo.action>. [165]
- Government of Montenegro (2020), *Montenegro Economic Reform Programme 2020-2022*, Government of Montenegro, <https://www.gov.me/ResourceManager/FileDownload.aspx?rId=396260&rType=2>. [109]
- Government of Montenegro (2020), *Session of the Government of Montenegro*, http://www.gov.me/sjednica_vlade_2016/171. [114]
- Government of Montenegro (2019), *Action Plan for Chapter 23 – Judiciary and Fundamental Rights. Semi-Annual Report – July – December 2018*, <https://www.eu.me/en/23/23-documents>. [282]
- Government of Montenegro (2019), *Montenegro Economic Reform Programme 2020-2022*, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_erp_2019-2021.pdf. [237]

- Government of Montenegro (2019), *National Strategy for Air Quality Management (2017-2020) – Implementation Report for 2018*, http://www.gsv.gov.me/ResourceManager/FileDownload.aspx?rid=367925&rType=2&file=39127_27_06_2019.pdf. [270]
- Government of Montenegro (2018), *Sixth National Report to the United Nations Convention on Biological Diversity*, <https://www.cbd.int/doc/nr/nr-06/me-nr-06-en.pdf>. [271]
- Government of Montenegro (2015), *Action Plan for transposition, implementation and enforcement of the EU acquis*. [279]
- Government of Montenegro (n.d.), *Fisheries Strategy of Montenegro for 2015-2020*. [278]
- Government of Montenegro (n.d.), *National Development Strategy 2015-2020*. [277]
- Government of Montenegro (n.d.), *Programme for development of agriculture and rural areas in Montenegro under IPARD II 2014-2020*. [280]
- Government of Serbia (2019), *Integrated Presevo-Tabanovce border crossing starts operating*, <https://www.srbija.gov.rs/vest/en/144300/integrated-presevo-tabanovce-border-crossing-starts-operating.php>. [164]
- Građanska alijansa (2019), *Civic Alliance, Reports, Judges' attitudes towards the judicial system, Citizens' attitudes regarding trust in the judicial system (Izveštaji, Stavovi sudija o pravosudnom sistemu, Stavovi građana o povjerenju u pravosudni system)*, <https://gamn.org/wp-content/uploads/2020/01/GA-Istra%C5%BEivanje-o-povjerenju-sudija-i-gra%C4%91ana-u-pravosu%C4%91e-2019-1.pdf>. [218]
- GRECO (2019), *Fourth Evaluation Round, Second Compliance Report Montenegro*, <https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/16809a5bdd>. [217]
- Green Facts (2020), *Air pollution particulate matter*, <https://www.greenfacts.org/en/particulate-matter-pm/level-2/01-presentation.htm> (accessed on July 2020). [272]
- IAMAT (2020), *Montenegro General Health Risks: Air Pollution*, <https://www.iamat.org/country/montenegro/risk/air-pollution>. [27]
- IATA (2020), *International Air Transport Association - Press Release No.5: Slower but Steady Growth in 2019*, <https://www.iata.org/en/pressroom/pr/2020-02-06-01/> (accessed on 16/04/21). [157]
- ICN (2017), *Setting of fines for cartels in ICN jurisdiction*, <https://www.internationalcompetitionnetwork.org/portfolio/setting-fines/>. [241]
- ICN (2015), "Chapter 10: Relationship between Competition Agencies and Public Procurement Bodies", in *Anti-Cartel Enforcement Manual*, <https://www.internationalcompetitionnetwork.org/portfolio/public-procurement-relationships/>. [242]
- IEA (2018), *Energy Service Companies (ESCOs)*, IEA, Paris, <https://www.iea.org/reports/energy-service-companies-escos-2>. [261]
- ILO (2020), *Making Dual VET work: Lessons learnt from Montenegro*, https://www.ilo.org/budapest/whats-new/WCMS_740890/lang--en/index.htm. [100]

- ILO (2019), *Decent Work Programme 2019-2021 Montenegro*, [16]
https://www.ilo.org/budapest/what-we-do/decent-work-country-programmes/WCMS_676210/lang--en/index.htm#:~:text=The%20new%20DWCP%20for%20Montenegro,of%20economic%20and%20social%20policies.
- ILO (2019), *MAP16 Project activities in Montenegro*, International Labour Organisation, [118]
<https://www.ilo.org/ipecc/projects/global/map16/montenegro/lang--en/index.htm>.
- ILO (2014), *Skills mismatch in Europe, Statistics Brief*, International Labour Organisation, [288]
https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_315623.pdf.
- ILO (2008), *Trade union density and collective bargaining coverage: International Statistical Inquiry 2008-09*, https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---dialogue/documents/genericdocument/wcms_165194.pdf. [291]
- IMF (2020), *International Financial Statistics (IFS)*, [304]
<https://data.imf.org/regular.aspx?key=61545855>.
- IMF (2020), *Republic of Serbia : Fourth Review under the Policy Coordination Instrument-Press Release and Staff Report*, [14]
<https://www.imf.org/en/Publications/CR/Issues/2020/08/28/Republic-of-Serbia-Fourth-Review-under-the-Policy-Coordination-Instrument-Press-Release-and-49716>.
- IMF (2020), *World Economic Outlook (October)*, [41]
<https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>.
- IMF (2019), *IMF Country Profile - Montenegro, data*, <https://www.imf.org/en/Countries/MNE>. [154]
- IMF (2019), *Reassessing the Role of State-Owned Enterprises in Central, Eastern and Southeastern Europe*, IMF. [255]
- IMF (2018), *Montenegro, 2018 Article IV Consultation – Press Release and Staff Report*, [91]
<https://www.imf.org/en/Publications/CR/Issues/2018/05/21/Montenegro-2018-Article-IV-Consultation-Press-Release-and-Staff-Report-45886>.
- IMF (n.d.), *International Financial Statistics (IFS)*, International Monetary Fund, [341]
<https://data.imf.org/regular.aspx?key=61545855>.
- IMF (n.d.), *International Financial Statistics (IFS)*, [15]
<https://data.imf.org/regular.aspx?key=61545855>.
- Institute of Marine Biology (2019), *The state of marine fisheries in Montenegro in the last 15*, [201]
http://www.studiamarina.ac.me/pdf/32/No2/Joksimovic_et_al_State_of_marine_fisheries_in_MNE_last_15_yrs.pdf.
- Interreg-IPA CBC (2019), *DUE MARI*, <https://duemari.italy-albania-montenegro.eu/>. [208]
- ITF (2019), *Transport infrastructure investment and maintenance spending*, [153]
https://stats.oecd.org/Index.aspx?DataSetCode=ITF_INV-MTN_DATA (accessed on 16 April 2021).

- Johansson, Å. et al. (2008), *Tax and economic growth*, http://www.oecd.org/eco/working_papers [80]
(accessed on 14 September 2020).
- Kaluđerović, J. and V. Golubović (2019), *In-work poverty in Montenegro*, ESPN, European Commission. [125]
- Karanovic and Partners (2020), *Significant Novelties and Legal Solutions of the new Labor Law in Montenegro*, <https://www.lexology.com/library/detail.aspx?g=1b4f838b-74da-450b-b859-769959438b32>. [111]
- López González, J. and J. Ferencz (2018), “Digital Trade and Market Openness”, in *OECD Trade Policy Papers*, No. 217, OECD Publishing, Paris, <https://doi.org/10.1787/1bd89c9a-en>. [225]
- López González, J. and M. Jouanjean (2017), “Digital Trade: Developing a Framework for Analysis”, in *OECD Trade Policy Papers*, No. 205, OECD Publishing, Paris, <http://dx.doi.org/10.1787/524c8c83-en>. [224]
- Manoudi, A. et al. (2014), *Small Scale Study on PES Business Models*, European Commission, DG Employment, Social Affairs and Inclusion, <http://ec.europa.eu/social/BlobServlet?docId=1>. [131]
- MARD (2020), *2020 Agro budget*, [199]
<https://mpr.gov.me/organizacija/agrobudzet/220480/Agrobudz.html>.
- MARD (2015), *Strategy For the Development of Agriculture and Rural Areas 2015-2020*, [200]
<https://mpr.gov.me/en/library/strategije>.
- McKinsey&Company (2017), *Basel “IV”: What’s next for banks? Implications of intermediate results of new regulatory rules for European banks*, [236]
<https://www.mckinsey.com/~media/mckinsey/business%20functions/risk/our%20insights/basel%20iv%20whats%20next%20for>.
- ME4EU (n.d.), *Chapter 23: Justice and Fundamental Rights [23 pravosuđe i temeljna prava]*, [211]
ME4EU, <https://www.eu.me/poglavlje-23-pravosudje-i-temeljna-prava/>.
- Meeus, L. and T. Schittekatte (2018), *The EU electricity network codes*, [269]
https://www.researchgate.net/publication/323656674_The_EU_electricity_network_codes.
- Miljević, D., M. Mumović and J. Kopač (2019), *Analysis of Direct and Selected Indirect Subsidies to Coal Electricity Production in the Energy Community Contracting Parties*, Energy Community Publication. [173]
- Ministarstvo pravde (2016), *Ministry of Justice, Report from the public hearing on the draft Operating Document for the prevention of corruption in areas exposed to special risk (Izveštaj sa javne rasprave povodom nacrtu Operativnog dokumenta za sprječavanje korupcije u oblastima)*, http://www.mpa.gov.me/rubrike/Javna_rasprava/160868/Izveštaj-sa-javne-rasprave-povodom-Nacrtu-operativnog-dokumenta-za-sprecavanje-korupcije-o-oblastima-od-posebnog-rizika.html. [283]
- Ministry of Agriculture, Forestry and Water Management (2006), *Montenegro’s agriculture and European Union, Agriculture and Rural Development Strategy*, [281]
http://seerural.org/1documents/Documents/Development_Strategies/Montenegro-National_Strategy_ARD.pdf.

- Ministry of Economy (2011), *Energy Policy of Montenegro until 2030*, [169]
<https://mek.gov.me/biblioteka/strategije?alphabet=lat>.
- Ministry of Human and Minority Rights of Montenegro (2019), *Report Of Montenegro On The Implementation Of The Beijing Declaration And Platform For Action (Bpfa) And 2030 Agenda For Sustainable Development (2030 Agenda)*, [127]
<https://kei.gov.me/ResourceManager/FileDownload.aspx?rid=364043&rType=2&file=Report%20of%20MNE%20on%20Implementation%20of%20the%20Beijing%20Declaration,%20BPfA%20and%202030%20Agenda.pdf>.
- Ministry of Labour and Social Welfare of Montenegro (2020), *MLSW Report on Work and Situation in Administrative Areas for 2019*, [116]
<https://mrs.gov.me/informacije/planrada/224121/Izvestaj-o-rad-u-i-stanju-u-upravnim-oblastima.html>.
- Ministry of Public Administration (2020), *Mid-term evaluation of the Public Administration Reform Strategy 2016-2020 in Montenegro*, [147]
<https://mju.gov.me/biblioteka/izvestaji>.
- Ministry of Public Administration of Montenegro (2020), *Report on the work and situation in administrative areas of the Ministry of Public Administration for 2019*, [113]
<https://mju.gov.me/ResourceManager/FileDownload.aspx?rid=402657&rType=2&file=IZVJE%20C5%A0TAJ%20o%20radu%20i%20stanju%20u%20upravnim%20oblastima%20za%202019.%20godinu%20Ministarstva%20javne%20uprave.pdf>.
- Ministry of Science of Montenegro (2019), *Revised Roadmap for Research Infrastructure of Montenegro (2019-2020)*, [143]
[https://www.esfri.eu/sites/default/files/RI%20Roadmap%20Montenegro%20revised%20\(2019-2020\)%20ENG.pdf](https://www.esfri.eu/sites/default/files/RI%20Roadmap%20Montenegro%20revised%20(2019-2020)%20ENG.pdf).
- Ministry of Science of Montenegro (2019), *Smart Specialization Strategy of Montenegro (2019-2024)*, [39]
<https://www.s3.me/sites/default/files/2020-04/Smart%20Specialisation%20Strategy%20.pdf>.
- Ministry of Sustainable Development and Tourism (2020), . [209]
- Ministry of Sustainable Development and Tourism (2020), *Montenegro National Communication on Climate Change*, [29]
https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/8596012_Montenegro-NC3-1-TNC%20-%20MNE.pdf.
- Ministry of Sustainable Development and Tourism (2020), *Municipal Wastewater Management Plan of Montenegro (2020-2035)*, [186]
<https://mrt.gov.me/en/ministry/211407/Municipal-Wastewater-Management-Plan-of-Montenegro-2020-2035.html>.
- Ministry of Sustainable Development and Tourism (2018), *The Sixth National Report of Montenegro to the United Nations Convention on Biological Diversity*, [184]
<https://www.cbd.int/doc/nr/nr-06/me-nr-06-en.pdf>.
- Ministry of Sustainable Development and Tourism (2017), *Projection of water supply of Montenegro until 2040*, [188]
<http://www.gov.me/ResourceManager/FileDownload.aspx?rId=269123&rType=2>.

- Ministry of Sustainable Development and Tourism (2008), *Montenegro Tourism Development Strategy to 2020*,
<http://www.mrt.gov.me/ResourceManager/FileDownload.aspx?rid=89273&rType=2&file=01%20Montenegro%20Tourism%20Development%20Strategy%20To%202020.pdf>. [207]
- Ministry of Sustainable Development and Tourism of Montenegro (2019), *Information on the State of Environment for 2018*, <https://epa.org.me/wp-content/uploads/2019/08/Informacija-o-stanju-zivotne-sredine-2018-skracena-.pdf>. [181]
- Miroudot, S. and K. Pertel (2015), "Water in the GATS: Methodology and Results", in *OECD Trade Policy Papers*, No. 185, OECD Publishing, Paris, <https://doi.org/10.1787/5jrs6k35nnf1-en>. [226]
- MONSTAT (2020), *Agriculture and fishing*, Statistical Office of Montenegro,
<http://www.monstat.org/eng/page.php?id=59&pageid=59>. [185]
- MONSTAT (2020), *Crop production - Releases*,
<https://www.monstat.org/eng/page.php?id=1357&pageid=62>. [194]
- MONSTAT (2020), *Database for Tourism*,
<http://bazapodataka.monstat.org/PXWebEng/pxweb/en/Tourism/?rxid=a295fc46-ba4f-4fe9-946b-36008f14d0c8>. [206]
- MONSTAT (2020), *Gross domestic product of Montenegro in 2019*,
http://www.monstat.org/uploads/files/Nacionalni%20racuni/BPD/Annual%20GDP%202019_eng.pdf. [192]
- MONSTAT (2020), *ICT usage in enterprises in Montenegro in 2020*, Statistical Office of Montenegro, Release No: 178 , 29 October 2020,
<http://monstat.org/uploads/files/ICT/ICT%20USAGE%20IN%20ENTERPRISES%20IN%202020.pdf>. [148]
- MONSTAT (2020), *MONSTAT database*,
<https://www.monstat.org/cg/page.php?id=36&pageid=36>. [160]
- MONSTAT (2020), *Monthly Statistical Review*, Statistical Office of Montenegro - MONSTAT,
<https://www.monstat.org/uploads/files/Bilten/2020/10/BILTEN%20BR.%2010.pdf>. [197]
- MONSTAT (2020), *Monthly Statistical Review*,
<https://www.monstat.org/userfiles/file/publikacije/2020/1/3.pdf>. [134]
- MONSTAT (2019), *Annual data*, <https://www.monstat.org/eng/page.php?id=171&pageid=171>. [4]
- MONSTAT (2019), *ICT usage in enterprises in Montenegro in 2019*, Statistical Office of Montenegro, Release No: 189, Podgorica, 31 October 2019,
<https://www.monstat.org/userfiles/file/ICT/2019/ICT%20USAGE%20IN%20ENTERPRISES%20IN%202019.pdf>. [59]
- MONSTAT (2019), *Labour Force Survey - Releases 2019*, Statistical Office of Montenegro,
<https://www.monstat.org/eng/page.php?id=1543&pageid=22>. [195]
- MONSTAT (2019), *Livestock production - data*, Statistical Office of Montenegro,
<https://monstat.org/eng/page.php?id=1583&pageid=61>. [196]

- MONSTAT (2018), *Women and men in Montenegro 2018*, [126]
<http://monstat.org/userfiles/file/publikacije/Zene%20i%20muskarci%20u%20Crnoj%20Gori%202019%20preview%20FINAL.pdf>.
- Montenegro Ministry of Public Administration, Digital Society and Media (2020), *Report on the application of the Decree on the implementation of the implementation of public debate in the preparation of laws and strategies in 2019*, <https://mju.gov.me/biblioteka/izvjestaji>. [45]
- Muk, S., M. Muk and M. Sošić (2020), *2019 Public Administration Reform Monitoring Report, Institute Alternative*, http://media.institut-alternativa.org/2020/04/par_monitoring-izvje%C5%A1taj_eng_ma.pdf. [213]
- Mumović, M. (2019), *Prospects for coal in the power sector of the Energy Community, Energy Community 11th Oil Forum*. [174]
- NEPA (2020), *Monitoring of the Air Quality, Nature and Environment Protection Agency of Montenegro*, <https://www.epa.org.me/vazduh/> (accessed on July 2020). [273]
- Nordås, H. (2016), “Services Trade Restrictiveness Index (STRI): The Trade Effect of Regulatory Differences”, in *OECD Trade Policy Papers*, No. 189, OECD Publishing, Paris, <https://doi.org/10.1787/5jlz9z022plp-en>. [227]
- Nordås, H. and et al. (2014), “Services Trade Restrictiveness Index (STRI): Telecommunication Services”, in *OECD Trade Policy Papers*, No. 172, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jxt4nk5j7xp-en>. [228]
- OECD (2021), *OECD Services Trade Restrictiveness Index: Policy Trends up to 2021*, <https://issuu.com/oecd.publishing/docs/oecd-stri-policy-trends-2021?fr=sMGVIMjI5ODk2NDE>. [40]
- OECD (2020), *Capital Market Review of Italy 2020 Creating Growth Opportunities for Italian Companies and Savers*, <https://www.oecd.org/corporate/ca/OECD-Capital-Market-Review-Italy.pdf>. [75]
- OECD (2020), *Competitiveness in South East Europe: A Policy Outlook 2021, Energy Policy Dimension: Qualitative indicators government questionnaire*. [263]
- OECD (2020), *COVID-19 Competition and emergency procurement*, <http://www.oecd.org/daf/competition/COVID-19-competition-and-emergency-procurement.pdf>. [243]
- OECD (2020), *COVID-19 Crisis in Montenegro*, <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Montenegro.pdf>. [297]
- OECD (2020), *Covid-19 Crisis Response in South East European Economies*. [58]
- OECD (2020), *Environmental health and strengthening resilience to pandemics*, OECD Policy Responses to Coronavirus (COVID-19), OECD Publishing, <http://www.oecd.org/coronavirus/policy-responses/environmental-health-and-strengthening-resilience-to-pandemics-73784e04/>. [293]
- OECD (2020), *FDI Regulatory Restrictiveness Index (database)*, <http://www.oecd.org/investment/fdiindex.htm>. [37]
- OECD (2020), *Government at a Glance: Western Balkans*, OECD Publishing, Paris. [234]

- OECD (2020), *Government at a Glance: Western Balkans, Country Fact Sheet: North Macedonia*, <http://www.oecd.org/gov/government-at-a-glance-north-macedonia.pdf>. [246]
- OECD (2020), *OECD Capital Market Review of Portugal 2020 Mobilising Portuguese Capital Markets for Investment and Growth*, <https://portal.oecd.org/eshare/grs/pc/Deliverables/CO2021/Publication>. [76]
- OECD (2020), *OECD Competition Trends 2020*, <http://www.oecd.org/competition/oecd-competition-trends.htm>. [31]
- OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 2*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/39a88ab1-en>. [42]
- OECD (2020), *OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis*, <https://doi.org/10.1787/1686c758-en>. [130]
- OECD (2020), *OECD Policy Responses to Coronavirus (COVID-19) : Leveraging digital trade to fight the consequences of COVID-19*, <https://doi.org/10.1787/f712f404-en>. [56]
- OECD (2020), *OECD Services Trade Restrictiveness Index (STRI) - STRI Rail Freight Transport Services 2020*, <https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-sector-note-rail-freight-transport.pdf>. [51]
- OECD (2020), *OECD Services Trade Restrictiveness Index (STRI) - STRI Sector Brief : Air transport services 2020*. [50]
- OECD (2020), *OECD Services Trade Restrictiveness Index (STRI) - STRI Sector Brief : Legal Services 2020*, <https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-sector-note-legal.pdf>. [54]
- OECD (2020), *OECD Services Trade Restrictiveness Index (STRI) - STRI Sectoral Brief: Postal and Courier Services 2020*, <https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-sector-note-courier.pdf>. [53]
- OECD (2020), *OECD Statistical Database*, <https://stats.oecd.org/>. [81]
- OECD (2020), *OECD Tourism Trends and Policies 2020 - Finland*, <https://www.oecd-ilibrary.org/sites/cb702fad-en/index.html?itemId=/content/component/cb702fad-en>. [210]
- OECD (2020), *OECD Work on Water 2019-20*, <https://www.oecd.org/environment/resources/Brochure-Work-on-Water.pdf>. [287]
- OECD (2020), *PISA 2018 Database*, <https://www.oecd.org/pisa/data/>. [18]
- OECD (2020), *Revenue Statistics 2020: Tax revenue trends in the OECD*, OECD Publishing, <https://www.oecd.org/tax/tax-policy/revenue-statistics-highlights-brochure.pdf>. [79]
- OECD (2020), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>. [49]
- OECD (2020), *Wastewater treatment*, https://stats.oecd.org/Index.aspx?DataSetCode=WATER_TREAT. [286]
- OECD (2019), *Agricultural Policy Monitoring and Evaluation 2019*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/39bfe6f3-en>. [284]

- OECD (2019), *Getting Skills Right: Creating responsive adult learning systems*, [123]
<http://www.oecd.org/employment/emp/adult-learning-systems-2019.pdf>.
- OECD (2019), *Getting Skills Right: Engaging low-skilled adults in learning*, [124]
<http://www.oecd.org/employment/emp/adult-learning-systems-2019.pdf>.
- OECD (2019), *Latin American and Caribbean Competition Forum – Fining Methodologies for Competition Law Infringements, Background Note*, [251]
[https://one.oecd.org/document/DAF/COMP/LACF\(2019\)5/en/pdf](https://one.oecd.org/document/DAF/COMP/LACF(2019)5/en/pdf).
- OECD (2019), *OECD Skills Strategy 2019: Skills to Shape a Better Future*, OECD Publishing, [136]
 Paris, <https://doi.org/10.1787/9789264313835-en>.
- OECD (2019), *Recommendation concerning effective Action against Hard Core Cartels*, [249]
<http://OECD/LEGAL/0452>.
- OECD (2019), *Recommendation on Competition Assessment*, <http://OECD/LEGAL/0455>. [245]
- OECD (2019), *SME Policy Index: Western Balkans and Turkey 2019*, OECD Publishing, Paris, [44]
<https://doi.org/10.1787/24136883>.
- OECD (2019), *The standard of review by courts in competition cases - Background Note, June 2019*, [250]
[https://one.oecd.org/document/DAF/COMP/WP3\(2019\)1/en/pdf](https://one.oecd.org/document/DAF/COMP/WP3(2019)1/en/pdf).
- OECD (2019), *Waste Management and the Circular Economy in Selected OECD Countries: Evidence from Environmental Performance Reviews, OECD Environmental Performance Reviews*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264309395-en>. [189]
- OECD (2018), *Competitiveness in South East Europe: A Policy Outlook 2018*, Competitiveness [34]
 and Private Sector Development, OECD Publishing, Paris,
<http://dx.doi.org/10.1787/9789264298576-en>.
- OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD [138]
 Publishing, Paris, <https://doi.org/10.1787/9789264308817-en>.
- OECD (2018), *Market Studies Guide for Competition Authorities*, [85]
<http://www.oecd.org/daf/competition/OECD-Market-Studies-Guide-for-Competition-Authorities-2018.pdf>.
- OECD (2018), *Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices*, OECD Publishing, Paris, <https://www.oecd.org/corporate/ca/Ownership-and-Governance-of-State-Owned-Enterprises-A-Compendium-of-National-Practices.pdf>. [256]
- OECD (2017), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy*, [63]
 OECD Publishing, Paris, <http://www.oecd.org/governance/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm>.
- OECD (2017), *Services Trade Policies and the Global Economy*, OECD, [52]
<https://doi.org/10.1787/9789264275232-en>.
- OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD [257]
 Publishing, Paris.
- OECD (2017), *Tracking Special Economic Zones in the Western Balkans*, [38]
https://www.oecd.org/south-east-europe/SEZ_WB_2017.pdf.

- OECD (2016), *Broadening the Ownership of State-Owned Enterprises. A comparison of Governance Practices*, <https://www.oecd.org/fr/publications/broadening-the-ownership-of-state-owned-enterprises-9789264244603-en.htm>. [92]
- OECD (2016), *Independence of competition authorities: from designs to practices*, [https://one.oecd.org/document/DAF/COMP/GF\(2016\)5/en/pdf](https://one.oecd.org/document/DAF/COMP/GF(2016)5/en/pdf). [86]
- OECD (2016), *Pilot database on stakeholder engagement practices in regulatory policy. Second set of practice examples*. [GOV/RPC/RD(2016)5]. [64]
- OECD (2016), "Privacy protection", in *Broadband Policies for Latin America and the Caribbean: A Digital Economy Toolkit*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264251823-18-en>. [289]
- OECD (2016), *Recommendation on Fighting Bid Rigging in Public Procurement*, <http://OECD/LEGAL/0396>. [247]
- OECD (2016), *Walking the tightrope. Background brief on parents' work-life balance across the stages of childhood*, <http://www.oecd.org/social/family/Background-brief-parents-work-life-balance-stages-childhood.pdf>. [290]
- OECD (2015), *Analysis Policies to Improve Agricultural Productivity Growth, Sustainably*, <http://www.oecd.org/agriculture/topics/agricultural-productivity-and-innovation/documents/analysing-policies-to-improve-agricultural-productivity-growth-sustainably.pdf>. [276]
- OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015 Edition*, <https://www.oecd.org/corporate/guidelines-corporate-governance-SOEs.htm>. [87]
- OECD (2015), *Policy Framework for Investment*, OECD Publishing, Paris. [233]
- OECD (2014), *Recommendation Concerning International Co-operation on Competition Investigations and Proceedings*, <http://OECD/LEGAL/0408>. [248]
- OECD (2013), "Electronic and Mobile Commerce", *OECD Digital Economy Papers*, No. 228, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5k437p2gxw6g-en>. [55]
- OECD (2013), *Guidelines on the Protection of Privacy and Transborder Flows of Personal Data*, <https://www.oecd.org/digital/ieconomy/privacy-guidelines.htm>. [60]
- OECD (2013), *OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data*, <https://www.oecd.org/digital/ieconomy/privacy-guidelines.htm>. [306]
- OECD (2013), *Recommendation on Merger Review*, <http://OECD/LEGAL/0333>. [253]
- OECD (2012), *Recommendation of the Council on Regulatory Policy and Governance*, OECD Publishing, Paris. [244]
- OECD (2012), *Recommendation on Fighting Bid Rigging in Public Procurement*, <http://OECD/LEGAL/0396>. [83]
- OECD (2011), *Environmental Performance Reviews, Israel*, OECD Publishing, Paris, https://www.oecd-ilibrary.org/environment/oecd-environmental-performance-reviews-israel-2011_9789264117563-en;jsessionid=oCtpEfRgJ0rQSOhCxMWLZCII.ip-10-240-5-190. [190]

- OECD (2009), *Guidelines for Fighting Bid Rigging in Public Procurement*, [84]
<https://www.oecd.org/daf/competition/guidelinesforfightingbidrigginginpublicprocurement.htm>.
- OECD (2005), *Guiding Principles for Regulatory Quality and Performance*, OECD Publishing, [232]
 Paris.
- OECD (2002), *Guidelines towards Environmentally Sustainable Transport*, https://read.oecd-ilibrary.org/environment/oecd-guidelines-towards-environmentally-sustainable-transport_9789264199293-en#page1. [259]
- OECD (2001), *Asset Management for the Roads Sector*, <https://www.itf-oecd.org/asset-management-roads-sector>. [258]
- OECD (n.d.), *Guidelines for Fighting bid rigging in public procurement*, [252]
<https://www.oecd.org/daf/competition/cartels/42851044.pdf>.
- OECD/FAO (2019), *OECD-FAO Agricultural Outlook 2019-2028*, OECD Publishing, Paris/Food [285]
 and Agriculture Organization of the United Nations, Rome,
https://dx.doi.org/10.1787/agr_outlook-2019-en.
- OECD/ILO (2019), *Tackling Vulnerability in the Informal Economy, Development Centre [139]
 Studies*, OECD Publishing, Paris, <https://doi.org/10.1787/939b7bcd-en>.
- OECD-ITF (2014), *ECMT Multilateral Quota - User Guide*, OECD- International Transport [161]
 Forum, <https://www.itf-oecd.org/sites/default/files/docs/13mqguide.pdf>.
- OGP (2018), *National Action Plan for implementing the Open Government Partnership in [149]
 Montenegro 2018-2020*, https://www.opengovpartnership.org/wp-content/uploads/2018/11/Montenegro_Action-Plan_2018-2020_EN.pdf.
- Panev, S. et al. (2018), *Report for Development of the ESCO Market in the EU Enlargement and [264]
 Neighbouring Countries - Review of Albania, Bosnia and Herzegovina, Kosovo, Moldova,
 Montenegro, Serbia, the former Yugoslav Republic of Macedonia, Turkey, Ukraine, Belarus
 and Russia*, Publications Office of the European Union, Luxembourg,
<https://publications.jrc.ec.europa.eu/repository/bitstream/JRC104394/kjna28405enn.pdf>.
- Pinson, P. (2020), *Chapter 4 Balancing Markets*, [267]
<http://pierrepinson.com/31761/Literature/reninmarkets-chap4.pdf> (accessed on December
 2020).
- Pôle emploi France (n.d.), *Statistiques et Analyses*, [http://www.pole-emploi.org/regions/hauts-de- \[132\]
 france/statistiques-analyses/demandeurs-demploi/prestations-accompagnement.html](http://www.pole-emploi.org/regions/hauts-de-france/statistiques-analyses/demandeurs-demploi/prestations-accompagnement.html).
- Prelević, T. et al. (2019), *11 NGOs sent a letter to the President of the Judicial Council*, Institute [219]
 Alternative, [https://institut-alternativa.org/en/11-ngos-sent-a-letter-to-the-president-of-the-
 judicial-council/](https://institut-alternativa.org/en/11-ngos-sent-a-letter-to-the-president-of-the-judicial-council/).
- PROSEU (2020), *Prosumers for the Energy Union: mainstreaming active participation of citizens [338]
 in the energy transition - Policies for Prosumer Business Models in the EU*,
[https://proseu.eu/sites/default/files/Resources/PROSEU_Task%204.2_Policy%20for%20Pros-
 umer%20Business%20models%20in%20the%20EU.pdf](https://proseu.eu/sites/default/files/Resources/PROSEU_Task%204.2_Policy%20for%20Prosumer%20Business%20models%20in%20the%20EU.pdf).
- PWC (2017), *Basel IV: The next generation of RWA*, [235]
<https://www.pwc.com/gx/en/services/advisory/basel-iv.html>.

- Republic of Montenegro (2009), "Rulebook on the types of titles, conditions, manner and procedure of proposing and awarding titles to teachers [O Vrstama Zvanja, Uslovima, Načinu I Postupku Predlaganja I Dodjeljivanja Zvanja Nastavnicima]", *Official Gazette of Montenegro*. [98]
- Rosca, O. (2017), *Montenegro modernises financial legislation*, European Bank for Reconstruction and Development website, <https://www.ebrd.com/news/2017/montenegro-modernises-financial-legislation.html>. [67]
- Rouzet, D. and F. Spinelli (2016), "Services Trade Restrictiveness, Mark-Ups and Competition", *OECD Trade Policy Papers*, No. 194, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5jln7d1m3931-en>. [46]
- S3 (2019), *Smart Specialization Strategy S3*, <https://www.s3.me/en>. [202]
- Sachs, J. (2021), *Sustainable Development Report 2021: The Decade of Action for the Sustainable Development Goals*, Cambridge University Press, <https://s3.amazonaws.com/sustainabledevelopment.report/2021/2021-sustainable-development-report.pdf> (accessed on 15 June 2021). [17]
- Sachs, J. (2020), *Sustainable Development Report: Montenegro*, Cambridge University Press, <https://dashboards.sdgindex.org/static/countries/profiles/Montenegro.pdf>. [339]
- Santiago, P. et al. (2012), *OECD Reviews of Evaluation and Assessment in Education: Portugal 2012*, OECD Publishing, Paris, https://www.oecd-ilibrary.org/education/oecd-reviews-of-evaluation-and-assessment-in-education-portugal-2011_9789264117020-en. [103]
- Santiago, P. et al. (2012), *OECD Reviews of Evaluation and Assessment in Education: Czech Republic 2012*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264116788-1-en>. [104]
- SEE LINK (2020), *See-link Connecting markets*, <http://www.see-link.net/>. [74]
- SEE News (2020), *Erste expects Montenegro's economy to decline 15% in 2020 - table*, <https://seenews.com/news/erste-expects-montenegros-economy-to-decline-15-in-2020-table-720285>. [198]
- SEEIIST (2020), *The South East European International Institute for Sustainable Technologies (SEEIIST)*, <https://seeiist.eu/>. [142]
- Siegel, M. (2015), *Let There Be Water*, Thomas Dunne Books, St. Martin's Press, New York. [191]
- Staiger, R. (2018), "On the Implications of Digital Technologies for the Multilateral Trading System", in *World Trade Report 2018*, World Trade Organization, Geneva, Switzerland, https://www.wto.org/english/res_e/publications_e/world_trade_report18_e.pdf. [229]
- Sustainable Development Report (2020), *Sustainable Development Report - Montenegro Country Profile*, Sustainable Development Report, <https://dashboards.sdgindex.org/profiles/MNE>. [305]
- TCPS (2020), *Transport Facilitation Action Plan*, Transport Community Permanent Secretariat, <https://www.transport-community.org/wp-content/uploads/2020/11/Transport-Facilitation-Action-Plan.pdf>. [163]

- TCPS, C. (2020), *Joint proposal prepared by the Permanent Secretariat of the Transport and the CEFTA Secretariat to facilitate the transport and trade of essential goods within the Western Balkans*, https://www.transport-community.org/wp-content/uploads/2020/04/Joint-TCT-CEFTA-proposal-green-corridors_07042020.pdf. [162]
- The Government of United Kingdom (2019), *Transport Analysis Guidance, TAG unit A1-1 Transport analysis guidance (TAG) on the principles of cost-benefit analysis and how they should be applied in the context of transport appraisals*, <https://www.gov.uk/guidance/transport-analysis-guidance-tag>. [260]
- Transport Community (2020), *Transport Facilitation Action Plan*, <https://www.transport-community.org/wp-content/uploads/2020/11/Transport-Facilitation-Action-Plan>. [299]
- Transport Community / CEFTA (2020), *Green Corridors, Joint proposal prepared by the Permanent Secretariat of the Transport Community and the CEFTA Secretariat to facilitate the transport and trade of essential goods within the Western Balkans.*, Transport Community, Belgrade / CEFTA, Brussels, https://www.transport-community.org/wp-content/uploads/2020/04/Joint-TCT-CEFTA-proposal-green-corridors_07042020.pdf. [298]
- Trinity (n.d.), *Trinity project website*, <http://trinityh2020.eu/>. [262]
- Tužilački savjet (2020), *Public Prosecution Council, Report on the work of the Public Prosecution Council and the State Prosecutor's Office for 2019 (Izveštaj o radu Tužilačkog savjeta i Državnog tužilaštva za 2019.godinu)*, https://tuzilastvo.me/static/drtz/doc/IZVJESTAJ_O_RADU_TUZILACKOG_SAVJETA_I_DRZAVNOG_TUZILASTVA_ZA_2019_GODINU.pdf. [220]
- UIS (2021), *Science, technology and innovation: 9.5.2 Researchers (in full-time equivalent) per million inhabitants*, UNESCO Institute of Statistics, <http://data.uis.unesco.org/index.aspx?queryid=3685>. [141]
- UIS (2020), *Education statistics*, <http://data.uis.unesco.org/index.aspx?queryid=163>. [93]
- UK (2019), *Transport Analysis Guidance*, The Government of United Kingdom, <https://www.gov.uk/guidance/transport-analysis-guidance-tag>. [168]
- UK Government (2016), *Consultation Principles 2016*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/492132/20160111_Consultation_principles_final.pdf. [62]
- UK Government (2008), *Code of Practice on Consultation, Her Majesty's Government*, <http://www.bis.gov.uk/files/file47158.pdf>. [61]
- Uljarević, M., M. Lazić and G. Krstić (2014), *Informal Employment and the Grey Economy in Montenegro Survey*, IPSOS. [302]
- Umweltbundesamt (2021), *Guarantees of origin for renewable energy sources*, <https://www.umweltbundesamt.de/en/topics/climate-energy/renewable-energies/guarantees-of-origin-for-renewable-energy-sources#register-of-guarantees-of-origin-hknr>. [335]
- Umweltbundesamt (2020), *Guarantees of origin for renewable energy sources*, <https://www.umweltbundesamt.de/en/topics/climate-energy/renewable-energies/guarantees-of-origin-for-renewable-energy-sources#register-of-guarantees-of-origin-hknr>. [266]

- UNCTAD (2020), *International Production Beyond the Pandemic*. [294]
- UNCTAD (2015), *Reforming investment report*. [82]
- UNDP Montenegro (2020), *Project Summary, Rethinking road safety in Montenegro*, <https://www.me.undp.org/content/montenegro/en/home/projects/RoadSafety.html>. [166]
- UNDP Montenegro (2016), *National Human Development Report - "Informal work: from challenges to solutions"*, https://www.me.undp.org/content/montenegro/en/home/library/human_development/NHDR2016.html. [254]
- UNDP Montenegro (2014), *Rethinking road safety in Montenegro*, UNDP in Montenegro, <https://www.me.undp.org/content/montenegro/en/home/projects/RoadSafety.html>. [300]
- UNESCO (2021), *Science, technology and innovation: 9.5.2 Researchers (in full-time equivalent) per million inhabitants*, UNESCO Institute of Statistics, <http://data.uis.unesco.org/index.aspx?queryid=3685>. [295]
- UNFCCC (2020), *Montenegro*, <https://cop23.unfccc.int/node/61119> (accessed on September 2020). [274]
- UNICEF (2018), *Child labour Montenegro 2018*, <https://www.unicef.org/montenegro/en/media/8431/file>. [117]
- UNICEF (2013), *Study on the Obstacles to Education in Montenegro: Focus on Roma and Egyptian children*, <https://www.unicef.org/montenegro/media/2976/file/MNE-media-MNEpublication44.pdf> (accessed on December 2020). [95]
- UNICEF Montenegro, Ministry of Education of Montenegro (2016), *Strategy for early and preschool education in Montenegro (2016-2020)*, <https://www.unicef.org/montenegro/en/reports/strategy-early-and-preschool-education-montenegro-2016-2020>. [96]
- United Nations (2020), *E-Government Survey 2020, Digital Government in the Decade of Action for Sustainable Development*, <https://doi.org/10.18356/237d52b2-en>. [145]
- United Nations (2018), *E-Government Survey 2018, Gearing E-Government to Support Transformation Towards Sustainable and Resilient Societies*, <https://doi.org/10.18356/d54b9179-en>. [146]
- United Nations (2004), *United Nations Convention against Corruption*, United Nations, New York,, http://www.unodc.org/documents/brussels/UN_Convention_Against_Corruption.pdf. [221]
- US Department of State (2020), *Investment Climate Statements: Montenegro*, <https://www.state.gov/reports/2020-investment-climate-statements/montenegro/>. [89]
- Van der Veen, R. and R. Hakvort (2016), *The electricity balancing market: Exploring the design challenge*, *Utilities Policy Volume 43, Part B, Pages 186-194*. [265]
- WB (n.d.), *World Bank Data - infrastructure investment as a share of GDP, Montenegro*, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2018&start=2018>. [303]

- WB6 CIF (2020), *Measures to be taken to overcome impact of COVID-19 on travelling and tourism industry in the WB6 region*, <https://www.wb6cif.eu/2020/11/10/measures-to-be-taken-to-overcome-impact-of-covid-19-on-travelling-and-tourism-industry-in-the-wb6-region/>. [205]
- WEF (2019), *The Travel & Tourism Competitiveness Report 2019 - Montenegro*, http://www3.weforum.org/docs/WEF_TTCR_2019.pdf. [203]
- Weller, D. and B. Woodcock (2013), "Internet Traffic Exchange: Market Developments and Policy Challenges", in *OECD Digital Economy Papers*, No. 207, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5k918gpt130q-en>. [230]
- WHO (2018), *Ambiant (outdoor) air pollution*, [https://www.who.int/news-room/fact-sheets/detail/ambient-\(outdoor\)-air-quality-and-health](https://www.who.int/news-room/fact-sheets/detail/ambient-(outdoor)-air-quality-and-health). [26]
- Wolfe, R. (2019), "Learning about Digital Trade: Privacy and E-Commerce in CETA and TPP", in *World Trade Review*, 18(S1), S63-S84., <http://dx.doi.org/10.1017/S1474745618000435>. [231]
- World Bank (2021), *World Bank Western Balkans Regular Economic Report*, <https://openknowledge.worldbank.org/bitstream/handle/10986/35509/Subdued-Recovery.pdf?sequence=1&isAllowed=y>. [333]
- World Bank (2021), *World Development Indicators*, <https://databank.worldbank.org/source/world-development-indicators> (accessed on 26 March 2021). [12]
- World Bank (2020), *Air Pollution: Locked Down by COVID-19 but Not Arrested*, https://www.worldbank.org/en/news/immersive-story/2020/07/01/air-pollution-locked-down-by-covid-19-but-not-arrested?cid=ECR_E_NewsletterWeekly_EN_EXT&deliveryName=DM70312. [275]
- World Bank (2020), *Doing Business 2020*, World Bank Group. [36]
- World Bank (2020), *Environmental Indicators (database)*, <https://data.worldbank.org/indicator/EN.ATM.PM25.MC.M3?view=chart> (accessed on July 2020). [183]
- World Bank (2020), *Montenegro- Overview*, <https://pubdocs.worldbank.org/en/100501492011108906/mpo-mne.pdf>. [204]
- World Bank (2020), *Western Balkans Regular Economic Report No.17 (Spring): The Economic and Social Impact of COVID-19*, <http://documents1.worldbank.org/curated/en/301261588088338100/pdf/The-Economic-and-Social-Impact-of-COVID-19-Setting-the-Stage.pdf>. [13]
- World Bank (2020), *World Development Indicators*, World Bank, Washington DC, <https://databank.worldbank.org/source/world-development-indicators> (accessed on 3 March 2021). [340]
- World Bank (2020), *World Development Indicators*, <https://datacatalog.worldbank.org/dataset/world-development-indicators>. [1]
- World Bank (2019), *Doing Business 2020: Comparing Business Regulation in 190 Economies - Economy Profile of Montenegro*, World Bank Group, <http://documents.worldbank.org/curated/en/887991575019659681/Doing-Business-2020-Comparing-Business->. [22]

- World Bank (2019), *GDP growth (annual %) - Montenegro*, [2]
<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ME>.
- World Bank (2019), *Labor force participation rate, female (% of female population ages 15-64) (modeled ILO estimate) - Montenegro*, [7]
<https://data.worldbank.org/indicator/SL.TLF.ACTI.FE.ZS?locations=ME>.
- World Bank (2019), *Labor force participation rate, total (% of total population ages 15-64) (modeled ILO estimate) - Montenegro*, [6]
<https://data.worldbank.org/indicator/SL.TLF.ACTI.ZS?locations=ME>.
- World Bank (2019), *Services, value added per worker (constant 2010 US\$)*, World Bank Data, [10]
<https://data.worldbank.org/indicator/NV.SRV.EMPL.KD>.
- World Bank (2019), *Travel services (% of service exports, BoP) - Montenegro*, [5]
<https://data.worldbank.org/indicator/BX.GSR.TRVL.ZS?locations=ME>.
- World Bank (2019), *Western Balkans Regular Economic Report No.18 An uncertain recovery*, [43]
<https://openknowledge.worldbank.org/bitstream/handle/10986/34644/153774.pdf>.
- World Bank (2019), *Western Balkans Regular Economic Report, 2019: Rising Uncertainties*, [301]
<https://openknowledge.worldbank.org/handle/10986/32532>.
- World Bank (2019), *World Bank Enterprise Survey – Montenegro 2019 Country Profile*, World Bank Group, [20]
<https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country-profiles/Montenegro-2019.pdf>.
- World Bank (2018), *GDP (current US\$)*, [155]
<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2018&start=2018>.
- World Bank (2018), *Montenegro Growth and Jobs: report I*, [19]
<http://documents1.worldbank.org/curated/en/787451545030793133/pdf/Montenegro-Growth-and-Jobs.pdf>.
- World Bank (2017), *PM2.5 air pollution, mean annual exposure*, [25]
<https://data.worldbank.org/indicator/EN.ATM.PM25.MC.M3?view=chart>.
- World Bank (2016), *Montenegro, Achieving sustainable and inclusive growth amidst high volatility, Systemic country Diagnostic*, World Bank Group, [9]
<http://documents1.worldbank.org/curated/en/642701468179098025/pdf/105019-SCD-P151813-OUO-9-SecM2016-0165.pdf>.
- World Bank (n.d.), *Unemployment, youth total (% of total labor force ages 15-24) (modeled ILO estimate)*, [8]
<https://data.worldbank.org/indicator/SL.UEM.1524.ZS>.
- World Bank and WIIW (2020), *Western Balkans Labor Market Trends 2020*, World Bank and The Vienna Institute for International Economic Studies, [120]
<https://wiiw.ac.at/western-balkans-labor-market-trends-2020-dlp-5300.pdf>.
- World Travel and Tourism Council (2020), *Economic Impact Reports*, [24]
<https://wttc.org/Research/Economic-Impact>.

WTO (2020), *Montenegro, World Trade Organization – Trade Profiles*, [193]
https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/ME_e.pdf.

WTO, GATS (1995), *Article I:2*. [296]

Notes

¹ Montenegro unilaterally adopted the euro in 2002 as its de facto domestic currency; therefore, it has no direct control over its monetary policy.

² World Bank WDI data.

³ <https://www.enterprisesurveys.org/en/data/exploreeconomies/2019/montenegro#finance>

⁴ <https://www.doingbusiness.org/content/dam/doingBusiness/country/m/montenegro/MNE.pdf>

⁵ https://www.wto.org/english/res_e/statistics_e/daily_update_e/trade_profiles/ME_e.pdf

⁶ <http://documents1.worldbank.org/curated/en/642701468179098025/pdf/105019-SCD-P151813-OUO-9-SecM2016-0165.pdf>

⁷ Fine particulate matter (PM_{2.5}) is the air pollutant that poses the greatest risk to health globally, affecting more people than any other pollutant. This becomes of even greater concern in the context of the COVID-19 pandemic knowing that exposure to ambient and indoor air pollution increases the risk of cardiovascular, respiratory and developmental diseases, as well as premature death, thus making individuals even more vulnerable to COVID-19 (OECD, 2020^[293]).

⁸ COVID notes and IMF policy tracker

<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

⁹ <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=ME>

¹⁰ https://info.undp.org/docs/pdc/Documents/MNE/00049339_Integrity%20Assessment%20of%20the%20Health%20Care%20System%20in%20Montenegro.pdf

¹¹ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1811

¹² https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1811

¹³ Staff from the Statistical Office of Montenegro who co-ordinate the statistical data collection.

¹⁴ A person from the Ministry of Economic Development who co-ordinates the whole assessment in Montenegro.

¹⁵ Key sectoral laws include the Law on Free Zones, the Law on Tourism and Hospitality, the Law on Protection of Competition and the Bankruptcy Law.

¹⁶ <https://mek.gov.me/en/library>

¹⁷ Decree on Selecting NGO Representative to Working Bodies of the State Administration Authorities and Public Consultations while Drafting Laws and Strategies.

¹⁸ <https://www.oecd.org/investment/fdiindex.htm>

¹⁹ Montenegro has signed 31 international investment agreements (IIAs): 25 bilateral investment treaties (BITs) and 6 treaties with investment provisions (TIPs). Of these, 29 are in force (23 BITs and 6 TIPs).

²⁰ <https://www.gov.me/ResourceManager/FileDownload.aspx?rId=380326&rType=2>

²¹ The law was adopted in 2019 by the government but is yet to be enacted by the parliament.

²² <http://www.ziscg.me/>

²³ A rulebook on the Registration Procedure, Detailed Content and Manner of Keeping the Central Registry of Economic Entities ("Official Gazette of Montenegro", No. 98/20) as well as Rulebook on Determining the Criteria and Amount of the Fee for Registration of Economic Entities with the Central Registry of Economic Entities.

²⁴ Law on State Administration, Zakon o državnoj upravi, Official Gazette of Montenegro, 2088 and Decree on the organization and functioning of public administration (OG MNE, No. 5 from 23. January 2012, 25/12, 44/12, 61/12, 20/13, 17/14, 6/15, 80/15, 35/16, 41/16, 61/16, 73/16, 87/18; 2/19; 38/19; 18/20).

<http://www.sluzbenilist.me/pregled-dokumenta-2/?id={FCCBC395-BD0B-4AA9-B941-98E0A6F5CCDF}>

²⁵ Annual GDP data by expenditure categories are available on <http://monstat.org/eng/page.php?id=19&pageid=19>

²⁶ The main ministries and bodies involved in the dialogue on trade policy, apart from the Ministry of Economy, are the Ministry of Agriculture and Rural Development, Ministry of Finance (specifically the Directorate for Tax and Customs System) and Statistical Office – MONSTAT.

²⁷ The Working Group for TRP, led by the Ministries of Economy and Foreign Affairs, is composed of 44 authorities and is charged with making recommendations and drafts relevant to the implementation of WTO *acquis*. It is also responsible for ensuring transparency on trade-related measures and fostering dialogue between the public and private sectors on these issues.

²⁸ The NTFC was created in 2015 as a permanent multi-agency platform consisting of representatives of all relevant state bodies and the private sector. Its task is to ensure co-ordination and co-operation between the above actors in order to fully and effectively implement the WTO Trade Facilitation Agreement (TFA). The committee operates on the principle of co-chairing between the Ministry of Economy and the Ministry of Finance. It is composed of representatives from across the relevant public administrations (headed by the Ministries of Economy and Finance). It notably also involves representatives from the Customs Administration, Ministries of Agriculture, Transport and Maritime Affairs and private sector associations such as the Chamber of Economy and Employers Association.

²⁹ Trade Facilitation Strategy 2018 – 2022, https://mek.gov.me/en/wto/library/strategic_documents

³⁰ Law on State Administration, Zakon o državnoj upravi, Official Gazette of Montenegro, 2018 and Decree on the organization and functioning of public administration (OG MNE, No. 5 from 23. January 2012, 25/12, 44/12, 61/12, 20/13, 17/14, 6/15, 80/15, 35/16, 41/16, 61/16, 73/16, 87/18; 2/19; 38/19; 18/20) <http://www.sluzbenilist.me/pregled-dokumenta-2/?id={FCCBC395-BD0B-4AA9-B941-98E0A6F5CCDF}>

³¹ The relevant ministry is obliged to provide an explanation of why it is not necessary to conduct a public hearing procedure if it so decides.

³² Decree of the Government of Montenegro, Uredba o Vladi Crne Gore, Official Gazette of Montenegro, (OG MNE 80/08; 14/17 and 28/18), <http://www.sluzbenilist.me/pregled-dokumenta-2/?id={5AB36DAD-E663-4FFE-99FA-CC48A55A7940}>

³³ The portal can be accessed at <https://www.euprava.me>. The public consultations begin on the day of the announcement of the public invitation on the ministry's website and e-Government portal and lasts from 20 to 40 days, depending on the importance and complexity of the law or strategy under public debate.

³⁴ This report is usually published within 15 days of the public consultation process.

³⁵ OECD member states and partner economies (Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa, and Thailand).

³⁶ The full set of OECD STRI indices and comparison tools as well as policy simulators for OECD member states and partners states that have undertaken the OECD STRI are available on the dedicated OECD website <https://www.oecd.org/trade/topics/services-trade>.

³⁷ The complete list of measures sector by sector is available on the OECD STRI website <http://www.oecd.org/trade/topics/services-trade>.

³⁸ Immigration law, Zakon o strancima, Official Gazette of Montenegro (OG MNE No. 12/2018 and 3/2019), 23 February 2018, last updated 15 January 2019.

³⁹ Rulebook on the Registration Procedure, Detailed Content and Manner of Keeping the Central Registry of Economic Entities ("Official Gazette of Montenegro", No. 98/20) governs in more details the registration procedure, single registration application of economic entities, content and the manner of keeping the Central Registry of Economic Entities (CRPS).

⁴⁰ Rulebook on Determining the Criteria and Amount of the Fee for Registration of Economic Entities with the Central Registry of Economic Entities ("Official Gazette of Montenegro", No. 98/20).

⁴¹ With the development of electronic registration, the Decree on detailed conditions and manner of payment of administrative fees electronically offers the option of paying all fees electronically. Activities to establish the National System for Payments of Administrative Fees (NS-NAT) are in the final phase. It will be up and running once the agreement is verified with the Central Bank and the contract with the Ministry of Interior signed.

⁴² In order to facilitate comparison with OECD member states that have undergone the Services Trade Restrictiveness Index exercise, the paragraphs below have been drafted in accordance with the methodology of the STRI project publications. The OECD Member's Country Notes, as well as the Sector Notes, are available on the STRI web page: <https://www.oecd.org/trade/topics/services-trade/>

⁴³ Article 8.4, Council Regulation (EEC) No 95/93 of 18 January 1993 on common rules for the allocation of slots at Community airports, OJ L 14, 22.1.1993, p. 1-6 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.1993.014.01.0001.01.ENG&toc=OJ%3AL%3A1993%3A014%3ATOOC

⁴⁴ Law on Postal Services, Official Gazette of Montenegro, (OG MNE no. 57/11, 55/2016 and 55/18).

⁴⁵ Basel III is a set of measures developed by the Basel Committee on Banking Supervision in response to the 2008/09 crisis. It has been agreed internationally and aims for a more resilient banking system. It underpins the regulatory and supervisory framework and strengthens banks' risk management.

⁴⁶ The Central Bank of Montenegro prepared and adopted a set of secondary legislation enabling the implementation of the Law (adopted in November and December 2020) in line with the EU regulatory framework, and recent amendments to EU regulations were implemented in the secondary legislation. However, considering the challenges brought by the COVID-19 pandemic, the Association of Montenegrin Banks submitted an initiative to delay the entry into force of the Law on Credit Institutions in July 2020. Banks have expressed concerns over the implementation of the new framework, as it requires a large number of harmonisation activities that they might not be able to undertake in the current context. Accordingly, in August and September 2020 the Central Bank of Montenegro prepared a set of amendments to the law to postpone its application for an additional year (until January 2022). These were adopted by the Parliament of Montenegro on 20 January 2021 (effective from 26 January 2021). Consequently, the Law on Credit Institutions will enter into force on the 1st January 2022.

⁴⁷ Law on Electronic Communications, Official Gazette of Montenegro, (OG MNE nos. 40/13, 2/17 and 49/19).

⁴⁸ Resulting in a projected market volume of USD 94m by 2025:
<https://www.statista.com/outlook/243/270/ecommerce/montenegro>

⁴⁹ Directive 2000/31/EC.

⁵⁰ Basel II is an international business standard developed prior to the 2008/09 crisis by the Basel Committee on Banking Supervision. It requires financial institutions to maintain enough cash reserves to cover risks incurred by operations.

⁵¹ Based on the European banking authority's report to the European Commission on the perimeter of credit institutions established in the Member States. URL:
<https://www.eba.europa.eu/sites/default/documents/files/documents/10180/534414/6bbabcef-ac51-48b8-a4fb-45dfd483e486/2014%2011%2027%20-%20EBA%20Report%20-%20Credit%20institutions.pdf?retry=1>

⁵² Financial factoring was previously covered under the Law on Banks adopted in 2011.

⁵³ The law on obligations, the law on enterprises, the law on property relations, the law on collateral security claims, the law on prevention of illegal businesses, and tax laws.

⁵⁴ Securities Token Offerings combine the technology of blockchain with the requirements of regulated securities markets to support liquidity of assets. They are essentially the digital representations of ownership of assets (e.g. gold, real estate) or economic rights (e.g. a share of profits or revenue).

⁵⁵ In 2010, the New Securities Stock Exchange (NEX) and the Montenegro Stock Exchange merged. NEX Stock Exchange ceased to exist as a legal entity as of December 2011.

⁵⁶ <http://www.montenegroberza.com/code/navigate.asp?id=991>

⁵⁷ Before 2020, a special temporary measure, the “crisis rate” applied to salaries exceeding the average monthly salary in the previous year (EUR 766 per month for 2019). The part of the salary exceeding this amount was subject to an 11% withholding tax.

⁵⁸ The OECD Database on General Competition Statistics (OECD CompStats) contains general statistics on competition agencies, including data on enforcement and advocacy initiatives. In 2020, it included data from competition agencies in 56 jurisdictions, including 37 OECD countries (36 OECD countries and the European Union), i.e. Argentina, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Peru, United States (Americas): Australia, Brazil, Chinese Taipei, India, Indonesia, Japan, Korea, New Zealand (Asia-Pacific); Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Romania, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom (Europe); Egypt, Israel, Kazakhstan, Russian Federation, South Africa, Turkey, Ukraine (Other), (OECD, 2020^[31]).

⁵⁹ Limitations in data availability make it difficult to arrive at a complete picture of the SOE landscape: 1) reporting for this assessment has excluded public-service SOEs with the legal form of “public enterprise”; 2) the Central Depository Agency and the National Statistical Office report slightly different numbers of SOEs and state minority-owned companies (perhaps pointing to definitional differences); 3) SOEs’ share of national employment is understood in the available data; and 4) valuation and financial performance data are not centrally collected/available.

⁶⁰ Calculations based on data provided by the authorities and labour force data on number of employed from the first quarter of 2020.

⁶¹ The comparison with OECD-area SOE sectors is only an imperfect approximation, owing, among other things, to the fact that data for the OECD area is based on SOEs’ share of total non agricultural employment, whereas the data used in the current assessment is based on their share of total employment.

⁶² The three companies with 100% state ownership are Crnogorska Plovidba (Maritime and Coastal Freight Transport), Pošta Crne Gore (Montenegro Post) and Aerodromi Crne Gore (Podgorica Airport).

⁶³ Exceptionally, a public official, other than the President of Montenegro, MP, councillor, member of the Government of Montenegro, Judges of the Constitutional Court of Montenegro, Judge, the head of Public Prosecution office, Public prosecutor, Special Prosecutor for Suppression of Organized Crime, Corruption, Terrorism and War Crimes and Deputy Special Prosecutor, may be a president or member of the management body or supervisory board of a public company, public institution or other legal person in a public enterprise, public institution or other legal person owned by the state or a municipality.

⁶⁴ Information provided by stakeholders in the context of the assessment.

⁶⁵ According to data from the Central Depository Agency, the companies currently undergoing bankruptcy proceedings are as follows: Rudnici Boksita U Stečaju A.D. Nikšić (32% of the ownership), Fabrika Elektroda Piva U Stečaju A.D. Plužine (42%), Elektroindustrija « Obod » U Stečaju A.D. Cetinje (52%), N.I.G. « Pobjeda U Stečaju » A.D. Podgorica (86%), Kombinat Aluminijuma U Stečaju A.D. Podgorica (29%), Opšte Građevinsko Gorica U Stečaju A.D. Podgorica (31%), Radoje Dakić U Stečaju A.D. (51%), Jadransko Brodogradilište U Stečaju A.D. Bijela (62%), Dekor U Stečaju A.D. Rožaje (23%), Preduzeće za Izgradnju Podgorice A.D. Podgorica U Stečaju (29%), Mašinopromet Rezervni Djelovi U Stečaju (60%).

⁶⁶ <https://balkaninsight.com/2019/12/10/montenegro-govt-to-prop-up-indebted-national-airline/>

⁶⁷ The privatisation plan is prepared on the basis of proposals from the competent state administration bodies, line ministries, state funds, and the tender commissions of the Privatisation and Capital Projects Council. The privatisation plan must contain: 1) the objectives of privatisation; 2) the approach and detailed conditions and deadlines for its execution; 3) privatisation methods; and 4) a list of companies including the number and ownership structure of shares to be privatised in each company and details of the social aspect of privatisation. Annual privatisation plans are published in the media. They can be updated on a proposal by the competent ministries, on the initiative of the potential investor, or on the proposal of the owner of part of the share capital, in the case of companies that are covered by the decision on the privatisation plan for that year.

⁶⁸ For the purpose of this profile, the instruction system refers to teaching and learning processes that take place in school education. It generally consists of curricula, standards for schools and student learning, assessment and evaluation frameworks and other elements that support instruction.

⁶⁹ The Bureau for Education Services is a subsidiary institution of the Ministry of Education with responsibilities for monitoring, improving and evaluating pre-university education.

⁷⁰ Instrument for Pre-Accession Assistance (IPA) are funds provided by the European Union to help candidate economies align their policies and strategies with EU standards.

⁷¹ The PISA 2018 reading assessment in Montenegro revealed that general/modular programmes had an average of 22% low performers while vocational programmes had 55% (OECD, 2020^[234]).

⁷² The Centre for VET sets occupational standards, qualifications and offers professional development for VET teachers.

⁷³ The Bureau for Education Services is responsible for setting general education curricula within VET programmes.

⁷⁴ All three-year and four-year programmes in vocational schools have a prescribed minimum portion of classes that is implemented by the employer. The total portion of practical classes ranges from 15% in four-year programmes to approximately 50% in three-year programmes.

⁷⁵ Montenegro plans to make Masters studies tuition free in 2020-21.

⁷⁶ Selection into higher education requires successful completion of upper-secondary education and a minimum score on the State Matura examination. Specific requirements are set by individual higher education institutions and certain study areas may require an additional entrance examination.

⁷⁷ For example, the University of Montenegro has its own Strategy for Internationalisation.

⁷⁸ The timeframe refers to 2015-2019, Q2, (World Bank and WIIW, 2020^[120]).

⁷⁹ Not including the UK.

⁸⁰ Administrative data provided by Montenegro.

⁸¹ In December 2019, Parliament enacted a new Labour Law, meant to bring national law in line with the EU directives 2006/54/EC on equal opportunities in employment and 92/85/EEC on pregnant workers, although further progress still needs to be made on alignment with the latter directive.

⁸² The new Labour Law is designed to bring national law in line with the EU directives 2006/54/EC on equal opportunities in employment and 92/85/EEC on pregnant workers, although further progress still needs to be made regarding alignment with the latter directive (EC, 2020^[35]).

⁸³ The tasks of labour inspectorates are ruled by the Law on Labour Inspection (Official Gazette no. 79/08 & 40/11), the Labour Law, the Law on Occupational Health and Safety and the General Collective Agreement, as well as the Law on Foreigners (Official Gazette, no. 12/18, 03/19).

⁸⁴ The number of available jobs for labour inspectors is 53 (37 in labour relations, including the chief inspector, and 16 in occupational health and safety). A total of 42 inspectors are actually employed, 32 in labour relations, including the chief inspector and 10 in occupational health and safety (Ministry of Public Administration of Montenegro, 2020^[113]).

⁸⁵ These include the Employment and Social Reform Programme 2015-2020, Strategy for Regional Development 2014-2020, the Youth Strategy 2017-2021, the sectoral operational programme for Montenegro on Employment, Education and Social policies 2015-201, Women's Entrepreneurship Development Strategy 2015-2020, Lifelong Career Guidance Strategy 2016-2020, Strategy for Integration of Persons with Disabilities 2016-2020; and the strategy for Combating the Grey Economy.

⁸⁶ These measures are defined in the action plan for Combating the Grey Economy and include: 1) establishing an institutional mechanism for measuring and estimating the grey economy and calculating the tax gap; 2) establishing an appropriate institutional model for measuring the grey economy and its share in GDP; 3) eliminating administrative burdens in a way that reduces both operating costs and the time required to fulfill obligations to the state; 4) improving the regulatory framework in the field of fiscal policy, labour legislation and social policy. The goal of fiscal policy measures is to reduce the benefits, on the one hand, and increase the costs and risks of joining the grey economy, on the other. Therefore, the most important measures in the field of fiscal policy would be to reduce the cost of applying taxes and reduce tolerance of the grey economy. Reducing the costs of tax application could be achieved by reducing the number and simplification of tax procedures, and introducing the obligation to file tax returns and communicate with tax authorities electronically.

⁸⁷ The social partners are the Montenegrin Employers Federation and the Confederation of Trade Unions of Montenegro.

⁸⁸ The ratio of wage and salary earners that are trade union members to the total number of wage and salary earners in the economy (ILO, 2008^[291]).

⁸⁹ According to an interview by the local independent consultant with stakeholders.

⁹⁰ Information provided by external expert.

⁹¹ See for details ILO (2019), Decent Work Programme 2019-2021 Montenegro.

⁹² When the level of education or qualification is less or more than required (ILO, 2014^[288]).

⁹³ Comprising the Law on Adult Education, Adult Education Strategy 2015-2025, Adult Education Plan 2019-2022, and the Law on National Professional Qualifications.

⁹⁴ Information provided by the government.

⁹⁵ Information provided by the government.

⁹⁶ Information provided by the government.

⁹⁷ The Ministry of Labour and Social Welfare and the Ministry of Education run the Strategy for Development of Women's Entrepreneurship 2015-2020 (under the Ministry of the Economy), the Strategy for Lifelong Entrepreneurial Learning 2020-2024 (promoting female entrepreneurship) and the Strategy for Development of Micro, Small and Medium Enterprises in Montenegro 2018-2022, which aims at promoting female, youth and social entrepreneurship. The objective of the Action Plan for Achieving Gender Equality 2017-2021 consists of increasing women's employment.

⁹⁸ The programme reached the most vulnerable group of unemployed people, as reflected in the structure of the participants: 96% were female, almost two-fifths (38%) were older than 50, more than one-fifth (22%) were long-term unemployed and almost one-half were from the northern region, which has a much higher unemployment rate as compared than other areas of Montenegro. In total, 8.3% of total funds for ALMPs were spent on this programme, see (Employment Agency of Montenegro, 2019^[319]).

⁹⁹ The budget is sourced from employers and employees' contributions to unemployment insurance (0.5% of wages), special contributions for the employment of persons with disabilities, income from the repayment of loans for self-employment, income from sold shares in privatised companies, assets and other income.

¹⁰⁰ Information provided by EAM.

¹⁰¹ There was no difference between EU-28 and EU-11 average.

¹⁰² In 2018 there were 29 366 vacancies published, and in 2015 35 574 vacancies through 18 367 vacancy applications (administrative data received from the government of Montenegro)

¹⁰³ Official Gazette of Montenegro no. 74/2019 on December 30. Labour Law, Article 24; Law on Mediation in Employment and Rights during Unemployment, Article 26.

¹⁰⁴ However, the number of unemployment benefit recipients who were self-employed in relation to the total number of cash benefit recipients is negligible.

¹⁰⁵ Information provided by the government.

¹⁰⁶ Information provided by EAM.

¹⁰⁷ The programme is carried out in accordance with the Law on Professional Training of People with Acquired Higher Education (Official Gazette, No. 38/12).

¹⁰⁸ See Uljarević, M., Lazić, M., & Krstić, G. (2014). Informal Employment and the Grey Economy in Montenegro Survey. IPSOS. (Uljarević, Lazić and Krstić, 2014^[302])

¹⁰⁹ Information provided by the government.

¹¹⁰ There is a clear link between access to quality and accessible childcare and female employment, (OECD, 2016^[290]).

¹¹¹ Horizon 2020 is the biggest European Union's framework programme for research and innovation. It provides funding for multi-national collaboration projects as well as for individual researchers, and supports SMEs with a special funding instrument. (<https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020>; <https://www.euneighbours.eu/en/east/stay-informed/projects/horizon-2020>).

¹¹² Eureka is the largest intergovernmental network for cooperation in R&D and innovation in the world. It is present in over 45 economies, where it provides access to public funding, promotes collaboration and innovation or offers advice, through various programmes (such as EUREKA Clusters, Globalstars, InvestHorizon) (<https://www.eurekanetwork.org/>).

¹¹³ European Cooperation in Science and Technology (COST) is an EU-funded, intergovernmental framework, currently gathering 38 Members and 1 Cooperating Member. It is a funding organisation for the creation of research networks (COST Actions), which offer an open space for collaboration among scientists across economies. COST funding is intended for collaboration activities and complements national research funds (<https://www.cost.eu/who-we-are/about-cost/>).

¹¹⁴ EURAXESS - Researchers in Motion is a pan-European initiative delivering information and support services to professional researchers, backed by the EU, member states and associated countries. It supports researcher mobility and career development and enhances scientific collaboration (<https://euraxess.ec.europa.eu/>).

¹¹⁵ In November 2016, the government adopted the Decree on Amendments to the Decree on the Organization and Manner of Work of the State Administration, which seized operation of the Ministry of Information Society and Telecommunications. Since the adoption of the Regulation, the Directorate for Electronic Communications, Postal Services and Radio Spectrum has been under the responsibility of the Ministry of Economy, and the Directorate for the Development of Electronic Government (the field of electronic administration and electronic commerce) is in the Ministry of Public Administration. In December 2020, the government adopted the new Decree on the Organization and Manner of Work of the State Administration, according to which the responsibilities of the previous Ministry of Economy fell under the authority of the Ministry of Economic Development.

¹¹⁶ The project is co-funded by the EU. It involves an initial grant of EUR 520 000, followed by potential investment loans from the Western Balkans Investment Framework (WBIF), and the European Investment Bank (EIB) (<https://wbif.eu/project/PRJ-MNE-DII-001>).

¹¹⁷ For details see <https://www.worldbank.org/en/country/kosovo/brief/balkans-digital-highway-initiative>

¹¹⁸ The EKIP has prepared broadband mapping through a geographically referenced database of installed electronic communications infrastructure based on data provided by the operators, including telecommunications ducts, poles and buildings, as well as elements like cables, equipment etc. The EKIP is in the process of upgrading this database for mapping broadband access (<http://ekinfrastuktura.ekip.me/ekip/login.jsp>).

¹¹⁹ The most recent regulations adopted include the ordinance on the type, manner of submitting and publishing data on electronic communications infrastructure and related equipment that may be of interest for joint use (2018); the rulebook on determining the data transfer speed for functional Internet access via the Universal Service (2018); the rulebook on types of benefits and special measures for access to public electronic communication services for persons with disabilities (2017); the rulebook on providing access to persons with disabilities number 112 and emergency numbers (2017); the rulebook on the quality of public electronic communication services (2018); the rulebook on conditions and manner of prevention and suppression of abuses and fraud in the provision of electronic mail services (2018), etc.

¹²⁰ The government Open Data Portal is available at www.data.gov.me.

¹²¹ The open data hackathon "Make it accessible and useful" was organised on the 5th October 2019 by the project Odeon, co-funded by the European Regional Development Fund (ERDF) under the INTERREG Mediterranean Program 2014-2020. The competition was integrated into the Infofest 2019 Conference programme. The topic of the competition was the creation of applications that create added value from available data sets for the public administration, the business community and citizens. Six teams contributed their ideas during the hackathon (<https://odeon.interreg-med.eu/pt/news-events/news/detail/actualites/hackathon-open-data-idea-presentations-in-budva-montenegro/>)

¹²² The Law on Electronic Government was adopted on 3 January 2020, and was applied six months later (3 July 2020).

¹²³ Legislation adopted in 2019 includes: the Law on Administrative Fees introducing electronic collection of administrative fees; the Law on Public-Private Partnership, regulating the possibilities of public-private partnership during the implementation of projects in the field of ICT; the Law on Fiscalisation, regulating the electronic exchange of data on collected services and goods between taxpayers and the Tax Administration in real time; and the Law on Public Procurement, prescribing the implementation of electronic public procurement.

¹²⁴ The e-Government portal is available at: <http://www.euprava.me/>

¹²⁵ In June 2018 the government adopted the Strategy for the Development of the Integrated Health Information System and e-Health for the period 2018-2023, and an action plan for the period 2018-2021. The Framework for Interoperability of the Health System was also adopted and represents the basic act and guidelines for establishing a complete system of interoperability of all existing and future information systems within the entire health system in Montenegro. Several other new services have been developed including e-scheduling, e-recipes, e-results, e-pharmacies, e-insurance, e-ordering and e-exercising rights.

¹²⁶ In 2019 the Ministry of Economic Development gathered a variety of programmes under its responsibility into the single Programme for Improving the Competitiveness of the Economy. It consisted of 10 programme lines in 2019, offering financial and non-financial support to potential and existing entrepreneurs, micro, small, medium and large enterprises, as well as clusters. Financial support is available to help firms to hire consulting services to incorporate ICT solutions into their business practices and purchase necessary hardware or software. Certain programme lines, e.g. for innovation enhancement and for implementing international standards, were especially attractive for ICT companies. In 2020, a new, improved programme was prepared, comprising 13 programme lines that meet the needs and requests of the SME sector, with a separate programme line for business digitalisation (http://www.mek.gov.me/program_z_a_unapredjenje/).

¹²⁷ The programme finances up to 80% of justified costs (excl. VAT), and up to EUR 5 000 (excl. VAT) for companies in which women and/or people under the age of 35 make up at least 50% of the ownership structure.

¹²⁸ <http://www.mek.gov.me/ministarstvo>

¹²⁹ Data sourced from Eurostat:

https://ec.europa.eu/eurostat/databrowser/view/isoc_ec_eseln2/default/table?lang=en

¹³⁰ Informatics and technics is a compulsory subject taught from the fifth to the eighth grade in primary schools, while informatics is taught in the first and second grade in secondary schools. Elective subjects on digital skills are also available in primary and secondary schools, including algorithms and programming, computer and web presentations, and business informatics. In secondary vocational schools, there are various elective subjects in the field of digital literacy. Students also use a range of software packages: AUTO CAD, ARHICAD, FIDELIO, etc. and study subjects and modules such as: introduction to programming, databases, introduction to web programming, web application development, mobile application development, web and mobile communication services, advanced front-end programming, software project management and others using digital technologies (<https://zss.gov.me/naslovna/programi/gimnazija>).

¹³¹ Global Kids Online was developed as a collaborative initiative between the UNICEF Office of Research-Innocenti, the London School of Economics and Political Science (LSE), and the EU Kids Online network. The project aims to connect evidence with the ongoing international dialogue regarding policy and practical solutions for children's well-being and rights in the digital age. The Global Kids Online network is active in Montenegro, where the GKO Montenegro project was carried out in 2015/16 and involved a survey and qualitative research with children aged 9-17, their parents and schools' representatives.

¹³² Including a EUR 6 million loan from the European Investment Bank.

¹³³ The British Council, under the project "21st Century Schools" has trained 537 primary school teachers from 95 primary schools and is set to train a total of 800 teachers by the end of the project in 2022.

¹³⁴ The reports contain information about the institution, the conditions for programme implementation, the teaching staff implementing the programmes and the teaching methods. A questionnaire for participants obtains information on their opinion of the programme (length, content, applicability of acquired knowledge, etc.), the competence of the teaching staff and the conditions under which the programme was implemented (<http://www.cso.gov.me/>).

¹³⁵ A list of all people subject to self-isolation was published upon the decision of the National Coordination Body and positive opinion of the Agency for Personal Data Protection. In July 2020, the Constitutional Court declared the decision to be in violation of the Constitutional right to privacy and annulled it. The list was subsequently used by a private individual to create a mobile application allowing users to locate those in self-isolation. In April 2020, a list of more than 60 persons infected with the virus, containing their names, birth data and ID numbers, was leaked. In May 2020, an indictment was lodged in this case against one defendant.

¹³⁶ See www.uip.gov.me.

¹³⁷ A single project pipeline (SPP) is a list of projects developed using a strategic tool for project planning to avoid an ad hoc approach to planning preparation and implementation of investment projects. The SPP helps to ensure strong project prioritisation, enable systematic and timely planning of resources, provide a reliable basis for defining proper sequencing of the priority axis and actions per sector, and help link investment planning and programme budgeting for more information, please see: <https://mia.gov.me/en/home/nik>). The first SPP was developed by the Technical Secretariat in 2015, before being adopted by the National Investment Committee and the Government of Montenegro. It was later updated several times, with the last update taking place in 2019.

¹³⁸ For more information, please see: <http://www.eu.me/mn/pregovori-o-pristupanju/dokumenti-pregovori/category/227-izvjestaji-o-realizaciji-obaveza-iz-programa-pristupanja-crne-gore-eu>

¹³⁹ European Commission Staff Working Documents outline in detail the steps taken so far and initiatives involving WB6 economies in a variety of fields, such as: moving closer towards the EU and enhancing regional co-operation, people-to-people contacts, familiarising people with the EU, civil society development and dialogue, good governance, parliamentary co-operation, trade integration, investment and economic and social development, community financial support and donor co-ordination.

¹⁴⁰ For more information, please see: https://ec.europa.eu/regional_policy/en/funding/ipa/cross-border/

¹⁴¹ The following elements should be developed during the project selection using the Project Identification Form: coherence with the valid EU policies and strategies; contribution to valid national development objectives; coherence with national Transport Sector Strategic framework; improving intermodality; providing connection to TEN-T corridors; contribution to improvement of the safety and security conditions; improving the characteristics, capacity of the infrastructure (new, upgraded or rehabilitated); impact on the annual traffic demand growth (traffic of freight and passengers); improving accessibility (no. of persons affected); impact on the environment (possible mitigation measures, climate change limitation actions); contribution to overall economic growth (effects on economic environment of the economy and economies in the area); integration with other projects; existence of alternative transport solutions in the same connection; improving transit/transport facilities, mobility, access to new markets, jobs, education; definition of the project - adequate solution, contribution for solving the transport needs; capacity of the proponent related to the project; does the project enhance connectivity; does the project have cross-border impact or impact on other economies in the region; can the project in any other way be earmarked as a regional project; does the project generate revenues from end users; description of the implementation and monitoring capacity of the beneficiary (e.g. technicians who can assess and monitor projects, inspect the works, monitor contracts).

¹⁴² Environmental Law (2016), Law on environmental impact assessment Law on strategic environmental assessment, for more information, please see: <https://epa.org.me/regulativa/>

¹⁴³ Concession Law (Official Gazette of Montenegro No. 93/2019, <https://me.propisi.net/zakon-o-koncesijama/>), PPP Law (Official Gazette of Montenegro No. 93/2019, <http://www.ujn.gov.me/zakon-o-javno-privatnom-partnerstvu-sluzbeni-list-crne-gore-br-073-19-od-27-12-2019/>), Law on the Prevention of Corruption (Official Gazette of Montenegro No. 93/2019 42/2017) https://www.paragraf.me/propisi-crnegore/zakon_o_sprjecavanju_korupcije.html), Public Procurement Law (Official Gazette of Montenegro No. 74/2019, <https://www.paragraf.me/propisi-crnegore/zakon-o-javnim-nabavkama.html>).

¹⁴⁴ The Rulebook on implementation of small value procurement (2017) issued by Ministry of Transport and Maritime Affairs shall regulate the initiation, implementation and finalisation of the procedure of procurement of goods and services with estimated value under EUR 15 000, i.e. the procurement of works with estimated value under EUR 30 000 (hereinafter: small value procurement) in the Central Bank of Montenegro, if the Central Bank does not implement this procurement in line with the public procurement procedure referred to in Article 20 of the Public Procurement Law.

¹⁴⁵ A one-stop-shop is a business or office where multiple services are offered; i.e., customers can get all they need in just "one stop." The term originated in the United States in the late 1920s or early 1930s to describe a business model offering customers the convenience of having multiple needs met in one location, instead of having to "drive all over town" to attain related services at different stores. One-stop shop is a way of facilitating trade.

¹⁴⁶ An appropriate definition of "asset management" for the roads sector is the one proposed by the OECD in 2001: "A systematic process of maintaining, upgrading and operating assets, combining engineering principles with sound business practice and economic rationale, and providing tools to facilitate a more organized and flexible approach to making the decisions necessary to achieve the public's expectations" (OECD, 2001^[258]).

¹⁴⁷ Please see: https://uzs.gov.me/vodici/Road_Safety_Assessment_o_Montenegro

¹⁴⁸ Safety Culture is a civil aviation safety programme. The State Safety Programme (SSP) is an integrated set of regulations and activities aiming to improve safety (e.g. safety risk management, safety assurance).

¹⁴⁹ Please see: <https://www.eurocontrol.int/service/local-single-sky-implementation-monitoring>. The Local Single Sky Implementation (LSSIP) documents are the annual expression of commitment by civil and military domestic organisations (regulators and supervisory authorities), service providers and airport operators, to the implementation of the European ATM Master Plan.

¹⁵⁰ Transport of passengers by specific transport mode over total transported passengers.

¹⁵¹ Please see: <http://www.eu.me/mn/pregovori-o-pristupanju/dokumenti-pregovori/category/227-izvjestaji-o-realizaciji-obaveza-iz-programa-pristupanja-crne-gore-eu>

¹⁵² Some of the indicators currently used to measure the performance of the road network are as follows: traffic flows, International Roughness Index, coefficient for HGVs (daily traffic divided by axis/axle weight). One of the projects for assessing the road network (1853 km of the highway and state roads network) is the Road Safety Assessment Program, <https://msp.gov.me/en/news/227711/Road-Safety-Assessment-project.html>

¹⁵³ Directive (EU) 2017/2397 of the European Parliament and of the Council of 12 December 2017 on the recognition of professional qualifications in inland; Directive (EU) 2016/1629 laying down technical requirements for inland waterway vessels; Regulation (EU) 2016/1628 on requirements relating to gaseous and particulate pollutant emission limits and type-approval for internal combustion engines for non-road mobile machinery.

¹⁵⁴ Specifically, with the EU Strategic Plan on Road Safety (2018), https://eur-lex.europa.eu/resource.html?uri=cellar%3A0e8b694e-59b5-11e8-ab41-01aa75ed71a1.0003.02/DOC_2&format=PDF; Road Safety Priorities for the EU 2020-2030 (2019), [2019-07-New-EP-briefing-1.pdf \(etsc.eu\)](https://www.who.int/roadsafety/events/unrsc_12_appendix_11.pdf)

¹⁵⁵ For more information, please see: https://www.who.int/roadsafety/events/unrsc_12_appendix_11.pdf

¹⁵⁶ For more information, please see: <https://www.transport-community.org/wp-content/uploads/2020/10/Action-Plan-for-Road-Safety.pdf>

¹⁵⁷ For more information, please see: European Commission, EU Road Safety Policy Framework 2021-2030 - Next steps towards "Vision Zero" - <https://ec.europa.eu/transport/sites/transport/files/legislation/swd20190283-roadsafety-vision-zero.pdf>

¹⁵⁸ For more information, please see: <https://www.monstat.org/eng/index.php>

¹⁵⁹ These include: 1) An increase in share of renewable energy sources and promote the rational use of energy. This could be achieved through the promotion and introduction of electrical, hybrid and natural gas-fuelled cars, higher share of biofuels, alternative forms of mobility (cycling), public city and intercity transport, eco-rides, diverting cargo trucks to railway transport, improving the organisation and efficiency of road transport in cities and applying integrated concepts ("smart" cities). 2) By 2030 GHG emissions levels should be reduced by 30% compared to 1990 baseline. 3) Develop and promote practice and solutions for sustainable consumption and production that support the efficient use of natural resources and minimise environmental loads. 4) By 2030 in transport implement new technologies (low emission vehicles, low fuel consumption, alternative fuels), promoting forms of transport with less impact on the environment; define and implement incentives including tax exemptions; recycle vehicles at the end of their lifetime. 5) Increase rail freight traffic from 20% to 50%, and increase the share of electric rail freight traffic from the current 33% to 70%; decrease truck transportation from the current 55% share in overall cargo transportation to 40% by 2030. 6) Promote a 5% reduction in fuel used by trucks; introduce hybrid electric vehicles; increasing the share of passengers who use public buses from 5% in the baseline year to 36% by 2030; increase by 30% the efficiency of vehicles using diesel and petrol (hybrid vehicles) and 20% increase in the efficiency of LNG vehicles and buses by 2030.

¹⁶⁰ Combined transport refers to the transport of goods between Member States where the lorry, trailer, semi-trailer (with or without tractor unit, swap body or container of 20 feet or more) uses the road on the initial or final leg of the journey and rail or inland waterway or maritime services on the other leg, where this section exceeds 100 km as the crow flies.

¹⁶¹ Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

¹⁶² Ability to track and trace consignments.

¹⁶³ For more information, please see: Preparation of Maintenance Plans 2019-2023 for Road/Rail TEN-T indicative extensions to WB6, <https://www.transport-community.org/library/reports/>

¹⁶⁴ For more information, please see: European Environmental Agency (200-2020), Transport and Environment Reporting Mechanism, https://www.eea.europa.eu/publications/Term_summaries

¹⁶⁵ Please note that there has been a recent change in the line ministry as regards energy and energy efficiency, with the portfolio being shifted away from the Ministry of Economy to the newly formed Ministry of Capital Investments. While it is too soon to make a conclusive judgement on whether this will have a positive or negative impact, what is sure is that it will be essential for the energy sector that the transfer is done in a smooth, speedy, sustainable, and transparent manner.

¹⁶⁶ Network codes were established under Article 6 of European Union regulation 714/2009 and are secondary acts, in many cases of a technical nature, to overcome the legislative gaps and barriers in pursuing a non-discriminatory, open internal EU energy market through uniform regulation. In essence they overcome barriers and friction to competition. In some sense, these represent lessons learned over time that aim to perfect the legislative framework for the EU's internal energy market and reflect the EU's standard based on best practice. Gaps in implementation imply that gaps in ensuring a competitive market. Thus not all international good practice is in place in Montenegro. For more details see, for example, (ENTSOE, 2021^[322]), (EC, 2021^[330]), Florence School of Regulation (2021^[268]), and Meeus and Schittekatte (2018^[269]).

¹⁶⁷ More precisely, Article 32 Paragraph 2 of the Energy Law stipulates that the government has the final decision on shortlisting their preferred candidate for the regulatory board to parliament and not to the independent selection committee, while Article 40 Paragraph 2 of the Energy Law requires government approval for the internal structure of the regulator. Both paragraphs imply that there could be political influence on the regulator.

¹⁶⁸ The amendments allow for the imposition of sanctions of up to 10% of a company's annual turnover, thus providing a sufficiently dissuasive sanction. This is international good practice and an important instrument of EU regulation.

¹⁶⁹ The policy's third main priority is sustainable energy development, including the "increased use of renewable energy sources" (Ministry of Economy, 2011^[169]).

¹⁷⁰ The precise approach to support prosumers differs depending on a wide range of economic specific circumstances. For example, if most dwellings are multihousehold owned, then any promotion of prosumers needs to include regulation to facilitate agreement on installation, ownership, and operation of renewable energy infrastructure in the multi-household dwellings. Additionally, financial support might need to be tailored to improving existing metering system. That is, net metering would be a good approach for supporting deployment of prosumers, however, this would mean, potentially, upgrading metering infrastructure. For more information on prosumers, the current legislative framework and how to support them please see (ERCB, 2020^[336]), (European Parliament, 2016^[337]), and (PROSEU, 2020^[338]).

¹⁷¹ A Guarantee of Origin (GO) is a tracking instrument defined in Article 15 of the European Directive 2009/28/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC. GO are certificates used to identify and certify that specific consumed electricity was sourced from renewable energy. A certificate is issued per MWh generated from renewable energy to the generator and then transferred to and cancelled by a consumer or supplier who would like to certify that their consumed energy comes from renewable energy. For more information on GO and their use and implementation, see (Association of Issuing Bodies, 2020^[334]) or (Umweltbundesamt, 2021^[335]).

¹⁷² For a comprehensive list of secondary legislation relating to energy efficiency and their status, please see <https://www.energy-community.org/implementation/Montenegro/secondary.html>.

¹⁷³ For a detailed overview of the ESCO market in the Western Balkans please see Panev et al. (2018^[264]). For a global overview please see IEA (2018^[261]).

¹⁷⁴ For the relevant Energy Community website please go to: <https://www.energy-community.org/implementation/Montenegro/reporting.html>.

¹⁷⁵ Balancing markets are an integral part of any energy market. Most markets are settled in advance of physical delivery, as in an organised market forecasted supply is matched with forecasted demand (i.e. the market is cleared). However, to maintain the actual system stability at the moment of delivery, it is essential that the same amount of actual energy is fed into the system as is taken out. To this end, the balancing market is used in as close to real time as possible to correct for any mismatch between what is actually generated and fed into the system and what is taken out of the system for consumption. It is essential that all generators, including renewable energy generators, are “imbalance responsible” as this means that they are liable for any mismatch between their forecasted and generated/delivered electricity. If they were not imbalance responsible, other entities or the consumer would need to cover the cost arising from the imbalance caused by the generator, which would also disincentive the generator to be precise with their forecast. For more detailed explanations of balancing market and design options please see van der Veen and Hakvoort (2016^[265]), (Pinson, 2020^[267]), Bundesnetzagentur (2020^[311]), and 50hertz (2020^[307]) and ACER (2020^[309]) for an overview of the relevant EU legislation for electricity balancing.

¹⁷⁶ For further information see European Commission (EC, 2017^[325]) or the Crossbow project website (Crossbow, n.d.^[313]).

¹⁷⁷ For further information see European Commission (2019^[327]) and European Commission (2019^[328]) or the Trinity project website <http://trinityh2020.eu/>.

¹⁷⁸ EU Horizon 2020 is the EU's flagship Research and Innovative Program that provides financial support of around EUR 80 billion from 2014 to 2020 for research and implementation in key areas including energy. For more details please see (EC, 2020^[329]).

¹⁷⁹ For further information please ACER (2020^[308]) and ENTSOE (2020^[321]).

¹⁸⁰ For more information, please see https://ec.europa.eu/taxation_customs/news/commission-launches-public-consultations-energy-taxation-and-carbon-border-adjustment-mechanism_en.

¹⁸¹ The Paris Agreement was signed in 2016 and ratified in 2017, and Montenegro ratified the Kyoto Protocol in 2007 (UNFCCC, 2020). Montenegro has also adopted the Law on Ratification of the Kigali Amendment to the Montreal Protocol and the Law on Ratification of the Doha Amendment to the Kyoto Protocol.

¹⁸² Other strategies that take into account climate change in Montenegro are the Nationally Determined Contribution to the reduction of GHG emissions - NDC, the National Strategy for Sustainable Development (NSSD) until 2030, Smart Specialization Strategy (S3) (2019–2023), and the Disaster Risk Reduction Strategy with a Dynamic Action Plan for the implementation of the strategy for the period 2018-2023.

¹⁸³ The project focuses on floods around rivers and lakes and not on other potentially affected areas. There have been some instances where soil erosion caused by deforestation has resulted in floods in the northern part of Montenegro, for which the inhabitants and public services were not properly prepared.

¹⁸⁴ Work has begun to construct a recycling yard with a sorting plant in the municipality of Berane. Preparation is also underway to create a recycling yard with a sorting and transfer station in Pljevlja and a recycling yard in Kolašin.

¹⁸⁵ The Decree on Detailed Elements and Methodology for Determining the Prices of Communal Services (Official Gazette of Montenegro, No. 55/20), adopted on the basis of the Law on Communal Services prescribes the manner for determining the prices of communal services, including waste management services. The Decree on Detailed Elements and Methodology for Determining the Prices of Utility Services prescribes four models for calculating the waste management fee: a model based on the area of the facility used by the service user; a model based on the number of household members; a model based on the mass of municipal waste taken over by the service user; and a model based on the volume of municipal waste taken over by the service user.

¹⁸⁶ Funds have been allocated from the budget of the ministry in charge of waste management for this project, which aims to strengthen environmental awareness of the need for separate waste collection and the use of waste as a resource, with recommendations for the effective establishment of a system of separate collection of municipal waste, reuse and recycling.

¹⁸⁷ The team “Zero Waste Montenegro” has been mapping illegal landfills through different projects. More information on: <https://www.zerowastemontenegro.me/>.

¹⁸⁸ The Water Competition Index measures the amount of water available in an economy as a function of population (quantity of water divided by number of persons with access to a unit volume of water) (EEA, 2015^[182]).

¹⁸⁹ Among the EU countries, Finland recorded the highest freshwater resources (with a long-term average of 19 950 m³ per inhabitant) followed by Sweden (19 410 m³). Freshwater abstraction by public water supply ranged across the EU from a high of 179 m³ of water per inhabitant in Greece (2016 data) down to a low of 31 m³ per inhabitant in Malta (2017 data, EUROSTAT).

¹⁹⁰ Freshwater management is regulated by the Law on Waters (Official Gazette of the Republic of Montenegro no. 27/07, and Official Gazette of Montenegro no. 32/11, 48/15 and 52/16) and by the Water Management Strategy 2016-2035. In addition, the Law on Municipal Wastewater Management was adopted in 2017.

¹⁹¹ Law on Provision of Healthy Water for Human Use (Official Gazette of Montenegro, No. 80/17), Decision on the Designation of Sensitive Areas (Official Gazette of Montenegro, No.46/17) and General Plan for Protections against harmful effects of water, for waters of significance to Montenegro, for the period 2017-2022 (Official Gazette of Montenegro No. 17/17).

¹⁹² The Aichi Biodiversity Targets cover the 2011-2020 period. This plan provided an overarching framework on biodiversity, not only for the biodiversity-related conventions, but for the entire United Nations system and all other partners engaged in biodiversity management and policy development. Parties agreed to translate this overarching international framework into revised and updated national biodiversity strategies and action plans within two years, which are intended to define the current status of biodiversity, the threats leading to its degradation and the strategies and priority actions to ensure its conservation and sustainable use within the framework of the socio-economic development of the country. There are 20 Aichi biodiversity targets grouped around 5 strategic goals: A: Address the underlying causes of biodiversity loss by mainstreaming biodiversity across government and society; B: Reduce the direct pressures on biodiversity and promote sustainable use; C: Improve the status of biodiversity by safeguarding ecosystems, species and genetic diversity; D: Enhance the benefits to all from biodiversity and ecosystem services; and E: Enhance implementation through participatory planning, knowledge management and capacity building (Convention on Biological Diversity, 2020).

¹⁹³ In relation to Aichi Target 11, no marine protected areas are established yet in Montenegro, although the target was set at 10% by 2020. Research is currently being conducted into three potential marine protected areas: Platamuni, Katič and Stari Ulcinj.

¹⁹⁴ The Law on Agricultural Land (OG of the RMNE, No.015/92, 059/92, 027/94, “OG of MNE”, no. 073/10, 032/11) regulate agricultural land.

¹⁹⁵ The most recent data (2017) indicate the economy’s annual mean concentration of particulate matter (PM_{2.5}) to be 21 µg/m³, exceeding the recommended maximum of 10 µg/m³. This is below the WB6 average of 25.77 µg/m³ (in 2016) (EEA, 2019^[317]).

¹⁹⁶ Except for Directive 2016/2284 on the reduction of national emissions of certain atmospheric pollutants, which was being transposed at the time of writing.

¹⁹⁷ According to the latest implementation report (July 2019 for the year 2018), most measures had been implemented (more than 50% of those planned). According to the implementation report for 2017, all the measures related to the national air quality management strategy for 2017 had been undertaken.

¹⁹⁸ These include replacing asbestos pipes in all municipalities and reducing losses from the water system.

¹⁹⁹ Primary treatment of (urban) wastewater uses a physical and/or chemical process involving settlement of suspended solids, or other processes in which the biochemical oxygen demand (BOD₅) of the incoming wastewater is reduced by at least 20% before discharge, and total suspended solids reduced by at least 50%. Secondary treatment generally involves biological treatment (use of bacteria to digest the remaining pollutants) with a secondary settlement or other process, resulting in a BOD removal of at least 70% and a chemical oxygen demand (COD) removal of at least 75%. Tertiary (advanced) treatment is a treatment (additional to secondary treatment) of nitrogen and/or phosphorus and/or any other pollutant affecting the quality or specific use of water (microbiological pollution, colour etc.) (OECD, 2020^[286]).

²⁰⁰ A vast array of contaminants that have only recently appeared in water are of concern because they have been detected at concentrations significantly higher than expected and/or their risk to human and environmental health may not be fully understood. Examples include pharmaceuticals, microplastics, industrial and household chemicals, personal care products, pesticides, and their transformation products (OECD, 2020^[287]).

²⁰¹ The project is implemented by the Ministry of Ecology, Spatial Planning and Urbanism, UNDP, CEDIS, UNIPROM KAP and other holders of equipment containing PCBs.

²⁰² However, according to the Agriculture Census 2010, of Montenegro’s 620 029 inhabitants, 98 341 were engaged in agricultural activities on family agricultural holdings, indicating that people actually engaged in agriculture account for almost 30% of the total number employed (SDARAM, 2015). These workers are either registered as unemployed or are partly employed in other sectors.

²⁰³ Support is provided for: 1) constructing local roads (serving single or groups of agriculture holdings, as well as for access to summer mountain pastures); 2) constructing water supply facilities in rural areas; 3) constructing and reconstructing existing public facilities in local communities (schools, health centres, veterinary stations, livestock and green markets, etc.); 4) solving local environmental protection issues, and renovating mountain “katuns” (huts); and 5) purchasing solar panels.

²⁰⁴ Field crops, fruit production, vineyard production, vegetable production, livestock production, veterinary, milk production, tobacco production, meat production, bakery technicians, etc.

²⁰⁵ One high school in Bar is vocational, while the schools in Podgorica, Berane, Andrijevica and Savnik are mixed.

²⁰⁶ The Water Law defines the legal status and approach to integrated water management, including water and coastal land and water facilities, conditions and manner of carrying out aquatic activities and other issues of importance for water management and water resources. This includes territorial water management; use of water (for water supply, irrigation, bottling, fish farming, production electricity, navigation, sports and recreation, etc.); protection of waters against pollution, while defining areas of special protection of waters, vulnerable areas and plans for protection against pollution, monitoring; watercourse regulation and protection against harmful effects of waters (defining areas in danger of floods, protection against erosion and floods, etc.).

²⁰⁷ Rulebooks on conditions for the treatment of stocks of plant protection products in case of the abolition of the Decision on the registration of plant protection and Rulebook on the content of the list of active substances permitted for use in plant protection products, 2019.

²⁰⁸ Rulebook on maximum residue level of plant protection products on or in plants, plant products, food or feed, 2019.

²⁰⁹ Rulebook on conditions regarding professional personnel, equipment and devices to be fulfilled by legal entities for the performance of professional tasks for the verification of the technical correctness of the device for the use of plant protection products, 2020.

²¹⁰ Market pricing policy measures cover direct payments for: 1) annual crops (vegetables, cereals, tobacco (per ha); 2) livestock production (per head); 3) milk buy-out per litre; and 4) planting material production (per piece). In addition, there are the support measures for the production of wine and honey, as well as for risk management measures. These include support to farmers to insure their crops and livestock against the long-term negative consequences of damage caused by weather conditions and other unexpected events.

²¹¹ Rural development measures cover support for investments in modernising production technology, including standardisation, mechanisation and equipment; irrigation, support for young farmers, co-operatives, buy-out centres and strengthening the buy-out network for the milk industry. In addition, rural development measures also cover agri-environment measures, organic farming, as well as farm diversification activities and rural infrastructure.

²¹² This part of the budget is dedicated to social transfers to the rural elderly population – a kind of social welfare (retirement) package.

²¹³ This applies to: cereals, rice, sugar, olive oil and table olives, flax and hemp, bananas, wine, live wood, beef and veal, pork, lamb and goat meat, chicken, milk and dairy products, eggs and ethyl alcohol of agricultural origin.

²¹⁴ Cereals, rice, sugar, olive oil and table olives, fresh and processed water and vegetables, wine, beef and veal, pork, lamb and goat meat, chicken, milk and dairy products.

²¹⁵ The special provisions apply specifically to imports of a mixture of cereals, rice or cereals and rice.

²¹⁶ Including the Food and Agriculture Organization (FAO) of the United Nations, AdriaMed, Higher Education Research and Development Project (HERD, funded by Norway), Mediterranean Halieutic Resources Evaluation and Advice Project (MAREA, EU-financed), and Instrument for Pre Accession Assistance (IPA, EU-financed).

²¹⁷ Such as Ministry of Finance, Ministry for Economic Development, MTE, SME Development Agency (SMEDA), Ministry of Tourism and Environment (MTE), Ministry of Agriculture, Forestry and Water Management, municipalities, MTE, Ministry of Health, Labour and Social Welfare, Ministry of Education and Science (with universities), etc.

²¹⁸ Decision on the appointment of the Tourism Council. Published in the Official Gazette No. 89/2017 of 27 December 2017)

https://www.gov.me/naslovna/Savjetodavna_tijela/Savjet_za_turizam/202536/Obrazovan-Savjet-za-turizam.html

²¹⁹ <https://www.montenegro.travel/en/objects/tourism-organizations>

²²⁰ Law on Statistics, the Law on Tourism and Hospitality, the Law on Tourism Organisations.

²²¹ Private accommodation such as rented accommodation in houses, rooms and apartments are not included in the statistics.

²²² MONSTAT Dashboard for Tourism: <http://monstat.org/eng/pxweb.php>

²²³ Official Gazette of Montenegro" No. 72/09, 39/13 and 17/19.

²²⁴ Hotels, motels, boarding houses, touristic settlements, wild beauty resorts, rooms, touristic apartments, guesthouses, camps, rural households.

²²⁵ <https://www.montenegro.travel/en>

²²⁶ For the natural and cultural-historical area of Kotor; for the historical core of Cetinje; for medieval tombstones and Necropolis Grčko groblje and Bare Žugića, Novakovići in Municipality Žabljak, and Grčko Groblje, Šćepan Polje in Municipality Plužine; and for the Besac Fortification.

²²⁷ Project website: <https://www.rcc.int/tourism>

²²⁸ Project website: <http://www.lowcarbonmne.me/>

²²⁹ Montenegro Investment and Business Opportunities. Fourth Edition. Ministry of Foreign Affairs. Podgorica July 2019.

²³⁰ Including reduced local community fees, lower import VAT for delivery of products and services for the construction of 5-star hotels, and a lower VAT (7%) on food and beverage in hotels with at least 4 stars in the northern region and at least 5 stars in the central and southern region.

²³¹ Website of the APC: <https://www.antikorupcija.me>

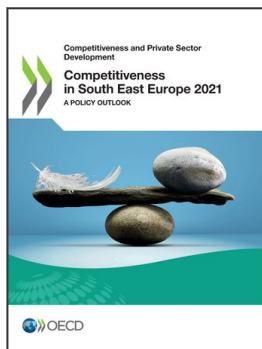
²³² The Law on Civil Servants and State Employees, the Code of Ethics of a Judge, the Code of Ethics of Public Prosecutors, the Code of Ethics of a Representative.

²³³ Regarding the obligation to advertise, mandatory details of the advertisement, time limit for a decision on the selected candidate, and the legal basis for the adoption of a by-law that will set out the conditions and procedures for employment.

²³⁴ Website of the Courts of Montenegro (<https://sudovi.me/sdvi>); the section for the Judicial Council (<https://sudovi.me/sdsv>)

²³⁵ Website of the Special State Prosecutor's Office: <https://sudovi.me/spdt>

²³⁶ Website of the Police Administration:
http://www.mup.gov.me/upravapolicije/naslovna/Nadleznost_i_organizacija



From:

Competitiveness in South East Europe 2021 A Policy Outlook

Access the complete publication at:

<https://doi.org/10.1787/dcbc2ea9-en>

Please cite this chapter as:

OECD (2021), "Montenegro profile", in *Competitiveness in South East Europe 2021: A Policy Outlook*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/0ae7168b-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.