

# 16 Montenegro: Economy Profile

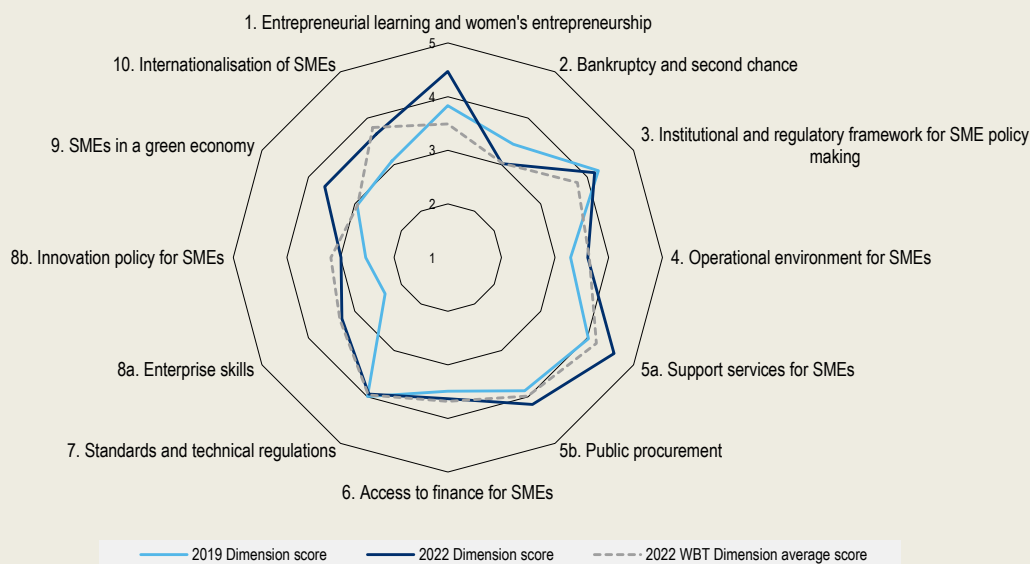
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This chapter covers the progress made by Montenegro in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Montenegro's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Montenegrin economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

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## Key findings

Figure 16.1. Small Business Act scores for Montenegro (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Montenegro has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 16.1). The economy continues to provide an environment conducive to business and is receptive to the needs of small and medium-sized enterprises (SMEs). Montenegro has achieved its highest average scores in the following areas: entrepreneurial learning and women entrepreneurship; institutional and regulatory framework for SME policy making; support services for SMEs; public procurement; and SMEs in a green economy, where it also outperforms the WBT average.

### Main achievements

- **Strong emphasis has been placed on developing both policy and practical implementation of entrepreneurial learning at the system level**, providing a clear progression in implementing entrepreneurial learning across all levels of lifelong learning in Montenegro. Steps have also been taken to establish system-level co-ordination in women's entrepreneurship and to improve evaluation. The new strategy is driving continued improvement of women's entrepreneurship, with a 4.6% increase in the share of women business owners from 2018 to 2020 and an increase of 10% in the share of women engaged in self-employment over the same period.
- **Implementation of the 2018 Strategy for the Development of Micro, Small and Medium-Sized Enterprises (2018-2022) advanced well despite the COVID-19 pandemic.** Co-ordination of implementation and monitoring and evaluation has also been reinforced. The latter has been achieved through the creation of a dedicated Working Group for SMEs within the reformed Council for Competitiveness chaired by the Ministry of Economic Development, which is responsible for monitoring the strategy's implementation.
- **Provision of business support services (BSSs) considerably advanced, augmenting the number and scope of support programmes for SMEs.** New BSSs, such as grants, export

financial support, information and communication technology (ICT) and resource efficiency trainings, are now available to SMEs. In addition, there was a considerable increase in the number of SMEs benefiting from these services since the previous assessment cycle.

- **Access to finance has been facilitated by a strong fiscal response of the Montenegrin authorities to soften the economic impact of the COVID-19 pandemic.** Access to credit has remained relatively stable amid a robust legal and regulatory framework, now fully aligned with Basel III requirements and ongoing consolidation of the banking sector. The state-owned Investment and Development Fund has continued to play a crucial role in facilitating lending, and plans are underway to establish a state Credit Guarantee Fund to help alleviate continued high-level risk perceptions by lenders, especially concerning smaller enterprises.
- **A stronger focus has been placed on implementing policies to improve enterprise skills,** which has reaped benefits through increases in the provision of training for start-ups to drive the digital economy and support growth. In response to the COVID-19 pandemic, there has been a rapid adaptation to online provision of training and increased investment in training to support SME digitalisation.
- **SMEs' greening efforts have been further supported.** Montenegro's strategic framework has increasingly included environmental policies targeting SMEs, the implementation of which has been done in a timely fashion for the most part. The government has also adopted a whole-of-government approach to creating synergies between greening initiatives through its newly established Green Economy Working Group. Financial instruments have been made available to SMEs through the new Eco Fund, governmental initiatives and international partners' support. Other tools have equally been introduced, such as awareness raising or assistance in implementing international environmental standards.
- **The strategic framework for export promotion and global value chains, with a special emphasis on cluster formation and development, has been strengthened.** SMEs now have access to more capacity building, a broad range of information, as well as amplified financial support, aiming to improve the supplier base in the economy. However, these measures currently proposed by the government, though apt, might prove insufficient in reaching this objective, as they lack tangible support for overcoming technical barriers to trade.

### The way forward

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system.** The revocation of the Law on Consensual Financial Restructuring of Debts to Financial Institutions left a gap in the insolvency framework dealing with preventive measures. This gap could be filled with an alternative law on out-of-court debt settlement or a hybrid preventive insolvency procedure based on a pre-packaged reorganisation plan agreed with creditors out of court and filed to court only for confirmation. Including a fully-fledged early warning system is also recommended as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding risky decisions.
- **Build the public administration's capacity to understand businesses' needs when designing digital services.** While digitalising existing public services is an effective way to save time for businesses and improve the efficiency of existing administrative procedures, the government may wish to adopt a proactive approach to redesigning services around the needs of businesses, making services more efficient, delivering more public value and engaging in a broader digital transformation of the public sector. The full implementation of the "once-only" principle will allow this re-engineering of services to deliver their full benefits.
- **Improve monitoring and evaluation of digital services for businesses, including company registration.** Low satisfaction rates of digital services for businesses, as well as limited

monitoring and evaluation mechanisms, show a need for more targeted data collection. The government should look to make improved, regular and obligatory monitoring of satisfaction a key objective of the overall development plans for the e-Uprava and e-Firma portals, where services are concentrated. When improving feedback channels, it would be important to ensure differentiated data collection for feedback by businesses. To go a step further, production-related data can be collected to understand the underlying reasons for businesses' satisfaction or dissatisfaction with a given service and identify areas for improvement.

- **Develop a comprehensive financial literacy strategy.** The newly created National Committee for Financial Education Development should develop a financial literacy strategy in a timely fashion. It should be based on the findings of the regional assessment and include benchmarks and regular monitoring and evaluation mechanisms. This strategy should address both measures for entrepreneurs and the broader public, including students, and should suggest a clear implementation mechanism and body responsible for its execution. Finally, an action plan should be elaborated to accompany the strategy.
- **Introduce measures to stimulate collaboration between research institutions and the private sector.** Further efforts to increase co-operation (and make it more visible) are needed to boost investments into research and development (R&D) and build the foundation for a knowledge economy. The operationalisation of the pilot technology transfer office, fully staffed and equipped, together with an action plan to expand the network and raise awareness about the opportunities of the services provided, would be an important milestone. Soft measures to incentivise researchers to engage with private businesses, such as opportunities for professional exchanges with the business community and evaluation of research and legislative incentives for commercialisation, should also be considered.

## Economic context and role of SMEs

### *Economic overview*

Montenegro is a service-based, upper-middle-income economy with a population of 621 306 as of 2021, making it the smallest of the Western Balkans and Turkey (WBT) economies. Its per capita gross domestic product (GDP) by purchasing power parity in stood at USD 18 259 in 2020 (in constant 2017 international dollars), having shrunk by roughly USD 3 300 since 2019, but remains the second-highest in the WBT region after Turkey (World Bank, 2022<sup>[1]</sup>). Montenegro is dominated by the services sector, employing approximately 74.1% of the population. In comparison, industry employs approximately 18.4% and agriculture only 7.5%, with the top sectors in terms of value added to GDP being retail trade (12.5%), agriculture (7.6%), the public sector (7.5%), real estate (6.4%) and construction (6.2%) (MONSTAT, 2021<sup>[2]</sup>). Montenegro depends on capital inflow to support its economy and particularly relies on its tourism industry, which contributes far more to GDP and employment in Montenegro than in the other WBT economies (32% of GDP compared to 14.9% Western Balkan average<sup>1</sup> and 9.5% EU average) (OECD, 2021<sup>[3]</sup>). In 2018, Montenegro held the second-highest share of travel and tourism contributions to total employment in the region at 7.68%, more than double the WBT average of 3.4%. However, the World Bank projects that the share of tourism to total employment will slightly decline to 7.1% in 2022 (World Bank, 2022<sup>[4]</sup>).

Montenegro's lack of an independent monetary policy after unilaterally adopting the Euro in 2002, coupled with its strong dependence on capital inflows, makes the economy highly vulnerable to external shocks and business cycle fluctuations. Both the 2008 financial crisis and the Eurozone crisis shed light on the economy's market volatility, with GDP contractions at dramatically higher rates than neighbouring economies at 5.8% and 2.4% in 2009 and 2012, respectively (World Bank, 2021<sup>[5]</sup>). In 2020, heavy reliance on both domestic and foreign tourism made the economy greatly susceptible to the effects of COVID-19 measures, such as border closures and mobility restrictions, causing an 83.2% drop in tourist arrivals (OECD, 2021<sup>[3]</sup>), ultimately leading to a 15.3% contraction in GDP for 2020, the steepest decline in Europe (Box 16.1). However, the economy rebounded with a striking 12.3% of GDP growth in 2021, fuelled by a strong recovery in foreign tourist overnight stays (nearly triple those in 2020), retail sales and manufacturing output (Table 16.1) (IMF, 2022<sup>[6]</sup>; European Commission, 2022<sup>[7]</sup>; EBRD, 2021<sup>[8]</sup>). Nevertheless, as Russian and Ukrainian citizens account for a large portion of tourism in Montenegro (28% of overnight stays in 2018 and remaining significantly high in 2021 at 21.3% in the wake of the pandemic), large losses in tourism are expected as a consequence of the war in Ukraine (MONSTAT, 2021<sup>[2]</sup>).

#### **Box 16.1. Montenegro's COVID-19 recovery programme**

In terms of economic impact, Montenegro, where tourism contributes far more to GDP and employment than in the other WBT economies (32% of GDP compared to 9.5% EU average), was hit especially hard by border closures and mobility restrictions caused by the pandemic, leading to an 83.2% drop in tourist arrivals. Driven by the acute losses in the tourism sector, Montenegro's decline in GDP for 2020 was severe at -15.3%, with unemployment rising to a high of 18.4%.

As part of its recovery, Montenegro provided five economic support packages to mitigate the impact of the COVID-19 pandemic, the first having been launched in March 2020 for the amount of EUR 100 million, with the last having been presented in April 2021 for the amount of EUR 166 million. The sum of the combined economic support packages totalled approximately EUR 1.85 billion for both short-term fiscal measures and long-term sustainable development goals envisioned until 2024. The government also provided specific economic support measures throughout the pandemic:

- **Subsidies:** In order to preserve existing jobs and provide assistance for businesses during COVID-19, Montenegro introduced support measures for employers, employees and the self-employed, including salary subsidies worth 50% to 100% of the gross salary of the employed until June 2021 and salary subsidies for new employment until December 2021. Montenegrin packages also targeted vulnerable populations with one-off financial assistance for pensioners on the lowest pension and beneficiaries of family material support.
- **Tax measures:** Montenegro implemented a relatively wide set of responses to COVID-19 with deferrals of tax payments and salary contributions and obligations for up to 90 days until June 2021, flexible tax-debt repayments including no interest for late payments of tax arrears, a 60-day deferral of payment for customs duty and value-added tax (VAT) for discontinued companies due to the pandemic, extended reduced VAT rate of 7% to catering and accommodation services and VAT exemptions for donations of medical goods to public entities.
- **Loans:** Montenegro introduced loan repayment moratoriums for individuals and businesses in all banks, microcredit institutions and the Investment and Development Fund (IDF) between March 2020 and August 2021, further expanding the scope of eligible businesses in April 2021. The Central Bank also allowed individuals whose earnings dropped more than 10% due to the pandemic to extend the repayment period of their loans by up to five years.
- **Credit lines:** A Credit Guarantee Fund was announced in 2021 and is expected to be established by the end of 2022 with an expected initial capital of EUR 10 million. The Fund's services will be aimed at entrepreneurs; micro, small and medium-sized enterprises (MSMEs); and agricultural producers, which are recognised as the group with the most difficulties accessing financing by credit institutions.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues, primarily with regard to the public health sector, employment, social protection and private-sector support, were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021<sup>[3]</sup>; 2021<sup>[9]</sup>); European Commission (2021<sup>[10]</sup>; 2021<sup>[11]</sup>).

**Table 16.1. Montenegro: Main macroeconomic indicators (2016-2021)**

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth <sup>1</sup>	% year-on-year	2.9	4.7	5.1	4.1	-15.3	12.4
National GDP <sup>2</sup>	EUR billion	3.88	4.298	4.882	4.917	4.23	..
GDP per capita growth <sup>2</sup>	% year-on-year	2.9	4.7	5.1	4.1	-15.2	..
Inflation <sup>1</sup>	% average	0.1	2.8	2.9	0.5	-0.8	2.5
Government balance <sup>1</sup>	% of GDP	-3.6	-5.3	-3.9	-2	-11.1	-1.9
Current account balance <sup>1</sup>	% of GDP	-16.2	-16.1	-17.0	-14.3	-26.1	-9.2
Exports of goods and services <sup>1</sup>	% of GDP	40.6	41.1	42.9	43.8	26.0	43.2
Imports of goods and services <sup>1</sup>	% of GDP	63.1	64.5	66.7	65.0	61.0	62.7
Net foreign direct investment (FDI) <sup>1</sup>	% of GDP	9.4	11.3	6.9	6.2	11.2	11.2
External debt <sup>2</sup>	% of gross national income (GNI)	141.0	146.0	144.1	148.8	200.6	..
International reserves of the National Bank <sup>1</sup>	EUR million	753	847	1050	1367	1739	1749
Gross international reserves <sup>1</sup>	Ratio of 12 months imports of goods and services moving average	3.6	3.7	4	5.1	8.2	6.8

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
Unemployment <sup>1</sup>	% of total active population	18	16.4	15.5	15.4	18.4	16.9

Sources: 1. European Commission (2022<sup>[7]</sup>); 2. World Bank (2022<sup>[12]</sup>).

Montenegro's limited room for discretionary fiscal spending and excessive reliance on the state to stimulate the economy have contributed to a widening of external and internal imbalances as well as indebtedness (World Bank, 2019<sup>[13]</sup>). Substantial imbalances existed before the pandemic, with current account deficits exceeding 14% of GDP for over a decade. However, the COVID-19 crisis exacerbated them significantly, with the balance plummeting to -26.1% in 2020 due to increased COVID-19-related public spending (European Commission, 2021<sup>[11]</sup>). Nevertheless, the economy saw strong rebounds in the wake of its economic recovery, with deficits decreasing to only -1.9% in 2021, which is stronger than pre-pandemic levels.

Although imports of goods and services decreased modestly by only 4 percentage points from 2019 to 2020, exports' contribution to GDP plummeted by 17.8 percentage points as the tourism sector accounted for roughly half of total exports, leading to a 65.1% increase in Montenegro's trade deficit of 35%. However, Montenegro's exports recovered to roughly pre-pandemic levels in 2021, lowering the deficit to only 19.5% (European Commission, 2021<sup>[14]</sup>). The economy's vulnerability to external shocks is compounded by its relatively undiversified export base, of which goods, mostly products susceptible to price fluctuations such as metals, machinery and equipment, accounted for 23% of total exports in 2020 (MONSTAT, 2021<sup>[2]</sup>). Moreover, Montenegro's total service exports are typically dominated by travel and tourism services, which are also highly susceptible to external shocks, as witnessed during the latest crisis, which led to an approximate 43.7% decrease in travel-related services exports from 65% in 2019 to 21.3% in 2020 (World Bank, 2022<sup>[15]</sup>).

However, large infrastructure projects aimed at enhancing trade routes that can help diversify its GDP base have increased in the last decade and are expected to continue, particularly in the transport and energy sectors. For example, Montenegro's train system is receiving a EUR 20 million loan from the European Investment Bank (EIB) to rehabilitate the line running from Bar to Vrbnica on Serbia's border, improving trade links with Serbia and Romania while also promoting tourism (EIB, 2021<sup>[16]</sup>).

Despite the positive effects, the heavy public spending on infrastructural improvements burdened the economy's debt, peaking in 2019 due in part to continued construction on the Bar-Boljare highway connecting Belgrade and the Adriatic port of Bar. Debt was initially expected to stabilise with a surplus of 5-6% of GDP in 2020 following the completion of the first phase of construction and a thriving tourism sector. However, the collapse in GDP and the unavoidable increase in COVID-19-related spending worsened the situation, ultimately steepening the economy's external debt ratio to the fourth highest in the world, with a 59.6% increase since 2016 in terms of percentage of GDP, reaching 200.6% in 2020 (EBRD, 2017<sup>[17]</sup>; World Bank, 2022<sup>[12]</sup>).

The financial sector in Montenegro was hit hard by the pandemic but sustained a strong recovery throughout 2021. Bank loans increased 5.8% and 6.9% year on year in January and February 2022, respectively. Credit growth at the household and corporate levels also increased by 2% year on year, while the non-performing loan ratio was sustained at 6.2% in 2021, primarily due to an increase in bank loans. Although representing only 17.8% of the total credit, non-resident credit surged by 71% in 2021, while non-resident deposits accounted for 27% of the 24.3% year-on-year increase in commercial bank deposits, which reached a record high of EUR 4 billion (85.7% of GDP) in October 2021 (European Commission, 2022<sup>[7]</sup>), (European Commission, 2022<sup>[18]</sup>). Consumer prices increased by 0.3% month on month in December 2021, while the annual increase was 4.6% compared to December 2020, influenced primarily by prices for agricultural products, solid fuels and passenger transport by air. On average, consumer prices were 2.4% higher in 2021 than in 2020 (MONSTAT, 2022<sup>[19]</sup>).



Montenegro's unemployment rate had been improving since 2016, driven by past GDP growth, having reached its greatest low in over a decade in 2019 at 15.4%. Still, COVID-19 exacerbated underlying structural problems of the Montenegrin labour market, like high informality, with some estimates putting informal employment as high as 23-33% or one in three jobs, and low employment of youth, women and low-skilled workers leading the unemployment rate to reach its highest level since 2013 in 2020 at 18.4% (World Bank, 2017<sup>[20]</sup>; MONSTAT, 2021<sup>[21]</sup>). However, unemployment rates have seen a new decline in 2021, standing at 16.9%. Montenegro's youth unemployment rates of those between 15 and 24 have increased from 16.2% in 2018 to 21.2% in 2020 and remain significantly higher than the EU average of 16.8% (MONSTAT, 2021<sup>[21]</sup>; Eurostat, 2021<sup>[21]</sup>).

Although the percentage of women in the workforce is close to that of men at 45.3%, GDP per capita for women reached only 86% of the national average GDP, compared to 114% for men, revealing continued gender inequalities in the labour force. Women's contributions to the economy in Montenegro are often unpaid, with estimates of unpaid work and domestic care exceeding that of men by 92% (UNDP, 2021<sup>[22]</sup>). Moreover, the share of long-term unemployed in Montenegro is very high (74.5% of all unemployed), and the long-term unemployment rate is over five times higher than in the European Union (13.4% vs 2.4%) (MONSTAT, 2021<sup>[21]</sup>; Eurostat, 2020<sup>[23]</sup>). Although an ageing population and high emigration rates also remain problematic for the region's workforce, Montenegro holds the lowest emigration rate in the Western Balkans at 9% and is one of the two Western Balkan Six economies to attract migrants from neighbouring economies (OECD, 2022<sup>[24]</sup>). Only 15.8% of its population is over 65, moderately less than the European Union's population over 65, which stands at 20.8% (World Bank, 2022<sup>[25]</sup>).

### ***Business environment trends***

Despite the difficult circumstances surrounding the COVID-19 pandemic, significant reforms continued to be implemented that improved the business environment in Montenegro. Important progress was made in reducing local tax and fee burdens for businesses and establishing a registry of fiscal and para-fiscal charges to facilitate business processes and increase transparency (European Commission, 2021<sup>[14]</sup>). Digital services have continued to increase since the last assessment, with a total of 317 services offered through the e-Uprava portal for legal entities in 2021. New systems were established for the electronic registration of single-member limited liability companies, electronic fiscal invoices, digital management and security printing of excise stamps, which contribute to combating informality. The economy also introduced its first electronic public procurement system in 2021, allowing for increased quality and transparency in the public procurement process and improving the overall regulatory environment, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score has decreased from 0.028 in 2016 (OECD, 2018<sup>[26]</sup>) to 0.024 in 2020, significantly lower than the OECD average of 0.63, indicating that the economy has lessened trade barriers and maintains only a handful of restrictions, notably in the maritime, TV and radio broadcasting, and legal sectors (OECD, 2020<sup>[27]</sup>).

Furthermore, although corruption remains a hurdle for businesses across the WBT region, Montenegro has made some progress in its anti-corruption efforts. Under its new management, the Anti-Corruption Agency (ACA) demonstrated a more proactive approach to improving its communication and outreach activities toward the general public, media and civil society and in addressing the caseload pending from previous years (European Commission, 2021<sup>[14]</sup>). Since the last assessment, ACA's headway has led Montenegro to rise from being perceived as the most corrupt of the WBT economies to the least corrupt in the region. Although its score of 46 (out of a possible 100) in Transparency International's Corruption Perception Index has not changed, it is now the highest in the region: as of 2021, it remains in 64<sup>th</sup> place out of a total of 180 ranked economies (Transparency International, 2022<sup>[28]</sup>). However, corruption remains prevalent in many areas, and ACA's priority-setting, selective approach and the quality of its decisions remain an issue of concern (European Commission, 2021<sup>[14]</sup>).



Although improving, Montenegro's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (ERP) (Box 16.2). The pandemic negatively impacted the business environment, as evidenced by a 23% decline in the number of registered new businesses in 2020 and temporary efficient policy responses, such as those implemented to control the number of bankruptcies during the pandemic. Montenegro's business environment is still adversely impacted by long-term structural deficiencies, such as informality, sub-optimal regulations (with inconsistent enforcement) and weak governance, all of which impede a hospitable business environment. Moreover, access to finance remains a substantial impediment for businesses, particularly for SMEs, as credit risks remain high, alternative financing options remain limited and traditional financing institutions continue to require heavy collateral and credit histories. Furthermore, although state influence on markets is diminishing in Montenegro, the economy still has a relatively large state-owned enterprise (SOE) sector compared to its neighbours, many of which are inefficiently run and rely on financing from the government and international banks, leading to greater financial losses for the government as well as market distortions and an uneven playing field for the private sector, particularly SMEs (OECD, 2021<sup>[3]</sup>). While the Agency for Protection of Competition has been progressive in halting state aid to sinking state-owned businesses, notably national airlines, and new mechanisms have been set up to supervise the implementation of reforms to improve SOE management, further investments in national holdings have been made while private investor interest in concessions has simultaneously contracted (European Commission, 2021<sup>[14]</sup>).

### Box 16.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual Economic Reform Programmes that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms

- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement countries, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021<sup>[11]</sup>).

## **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 Western Balkan economies. Accession negotiations began on 29 June 2012, and as of January 2022, Montenegro has opened 33 out of 35 negotiating chapters, of which 3 chapters (Chapter 25 on Science and Research, Chapter 26 on Education and Culture and Chapter 30 on External Relations) have been provisionally closed. No changes in the degrees assigned to Montenegro's preparation of the chapters have been noted since the 2020 enlargement report; however, at the Intergovernmental Conference held in June 2021, Montenegro officially accepted the revised enlargement methodology that emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process (European Commission, 2021<sup>[29]</sup>).

According to the European Union's 2021 enlargement report for Montenegro, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Since the last enlargement report, Montenegro has made some progress on aligning its Industrial Policy (2019-2023) on combating late payments with the EU *acquis* through amendments to the Law on Deadlines for Settlement of Monetary Obligations, which are expected during 2022. However, Montenegro still needs to reinforce efforts to ensure inter and intra-ministerial co-operation on a technical and political level, which can help avoid overlapping mandates and inconsistencies within national strategies and programmes, including the Industrial Policy of Montenegro (2019-2023), the Smart Specialisation Strategy of Montenegro (2019-2024) and the ERP (2021-2023) (European Commission, 2021<sup>[14]</sup>). In this regard, Montenegro should concentrate on:

- focusing on the continued implementation of the revised Industrial Policy (2019-2023), in co-operation with relevant stakeholders and in view of the COVID-19 special measures
- accelerating legal alignment with the *acquis*, notably by adopting amendments to the Law on Deadlines for Settlement of Monetary Obligations
- enhancing efforts to ensure continuous co-ordination of the revised Industrial Policy (2019-2023) with other national key strategies.

Further progress in the accession process and Montenegro's eventual joining of the European Union will strongly depend on the economy further aligning itself with the benchmarks concerning the rule of law set out in Chapters 23 and 24 on Judiciary and Fundamental Rights and Justice, Freedom and Security, respectively. The closing of chapters will be provisionally halted until both chapters are addressed. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Montenegro to meet the requirements related to several critical chapters of the *acquis* and ultimately further its negotiations for accession to the European Union.

### *EU financial support*

The European Union remains the largest provider of financial assistance to Montenegro, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support, such as COVID-19 assistance packages, as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), EIB loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 504.9 million provided to Montenegro by the European Union between 2007 and 2020 under the Instrument for Pre-accession Assistance I and II, the European Union is providing an additional EUR 22.2 million under IPA III for the period 2021-27 to upgrade environmental management systems, improve transport systems by promoting environmentally friendly transport modes, and provide technical assistance for the management, monitoring, evaluation, information and control of IPA-related activities (European Commission, 2021<sup>[30]</sup>). Of this funding, 6.3% (EUR 1.4 million) has been allocated to a joint EU, European Bank for Reconstruction and Development (EBRD), and Government of Montenegro project to help SMEs access know-how to develop their competitiveness and address their immediate business needs. The project will also fund the establishment of a Single Access Point (SAP) for SMEs in Montenegro and strengthen the capacity of the Ministry of Economic Development to better serve SMEs through policy development, enhancing SME support programmes, and launching a one-stop-shop web portal.

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transitions. In addition to infrastructural funding for Montenegro's rail and road routes with Serbia and Albania, the economic and investment plan also foresees a Trans-Balkan Electricity Transmission Corridor that will provide electricity transmission to Montenegro and updated waste management systems for the economy. Montenegrin SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020<sup>[31]</sup>).

The European Investment Fund has also played a key role in financing the business landscape in Montenegro. It has invested EUR 100 million to support Montenegrin companies since the start of the pandemic and invested an additional EUR 50 million at the end of 2021 to support the faster recovery of the local economy from COVID-19 and help accelerate the green transition and climate adaptation of SMEs (EIB, 2021<sup>[32]</sup>).

The European Union has been crucial in financially supporting Montenegro in the wake of COVID-19. The economy received EUR 60 million of the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners, which aims to help them limit the economic fallout of the COVID-19 pandemic. Montenegro received the second MFA payment in June 2021 after fulfilling the programme's policy conditions in the areas of public finance management, financial stability, good governance and the fight against corruption, improvements in the business environment, and social protection (European Commission, 2020<sup>[33]</sup>). The economy has also received EUR 130 million of the European Union's Team Europe EUR 3.3 billion COVID-19 economic recovery support package to the region (European Commission, 2021<sup>[34]</sup>).

Montenegro was also the first candidate economy to join the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) in 2014, under which it benefits from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021<sup>[35]</sup>). The economy has participated in the European Union's Research and Innovation programmes since 2008 and is part of the Horizon 2020 programme, allowing it access to the project's EUR 95.5 billion budget to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges. Its participation in the SME portion of Horizon 2020 is high for the economy's size, with 323 applications, 122 participants and 64 signed grants for a total of EUR 4.62 million of EU funding distributed primarily to higher or secondary education institutions (30.9%), followed by public bodies (28.4%) and private, for-profit enterprises (23.4%) (European Commission, 2021<sup>[36]</sup>). In 2021, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union.

### ***SMEs in the domestic economy***

Although the Law on Accounting of Montenegro was updated in 2021, the classification of SMEs, as defined by Article 6 of the law, has remained unchanged since the last assessment (Government of Montenegro, 2021<sup>[37]</sup>). The categories conform to the EU standard definition of SMEs by employee size but diverge on the other criteria concerning annual income and assets (Table 16.2).

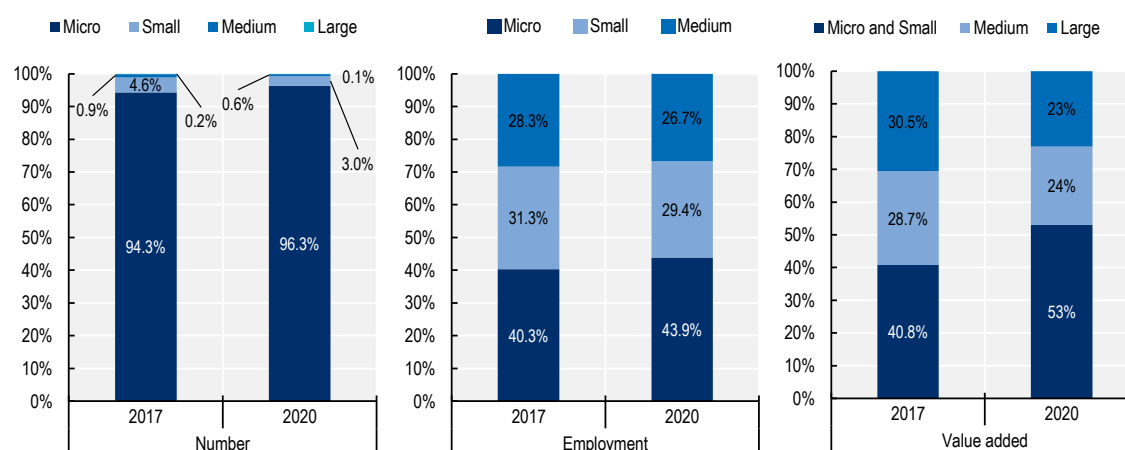
**Table 16.2. Definition of micro, small and medium-sized enterprises in Montenegro**

	<b>EU definition</b>	<b>Montenegro definition</b>
Micro	< 10 employees = EUR 2 million turnover or balance sheet	≤ 10 employees ≤ EUR 700 000 total annual income or ≤ EUR 350 000 total assets
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees ≤ EUR 8 million total annual income or ≤ EUR 4 million total assets
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees ≤ EUR 40 million total annual income or ≤ EUR 20 million total assets

Source: Government of Montenegro (2021<sup>[37]</sup>).

In 2020, Montenegro's 37 217 MSMEs accounted for 99.9% of all enterprises in the economy, increasing by almost 7 000 since 2017 and roughly 12 100 since 2013 (MONSTAT, 2021<sup>[38]</sup>). The breakdown of Montenegrin enterprises by size was 96.3% micro and small enterprises, 2.98% small enterprises, 0.6% medium enterprises and only 0.1% large enterprises in 2020 (MONSTAT, 2021<sup>[38]</sup>). The number of microenterprises increased by roughly 2 percentage points since 2017, absorbing the 1.5-percentage-point decrease in small enterprises and the 0.3-percentage-point decrease in medium enterprises. Large businesses also decreased during the same period, albeit slightly, at a 0.1-percentage-point reduction. The same trend was noted regarding employment in SMEs, with microenterprises noting a 3-percentage-point increase in employment, while small enterprises saw an approximate 2-percentage-point decrease and medium enterprises saw a 1.5-percentage-point decrease between 2017 and 2020 (Figure 16.2).

Figure 16.2. Business demography indicators in Montenegro (2017 and 2020)



Note: Data for the share of employment in large enterprises was not provided by the Government of Montenegro.

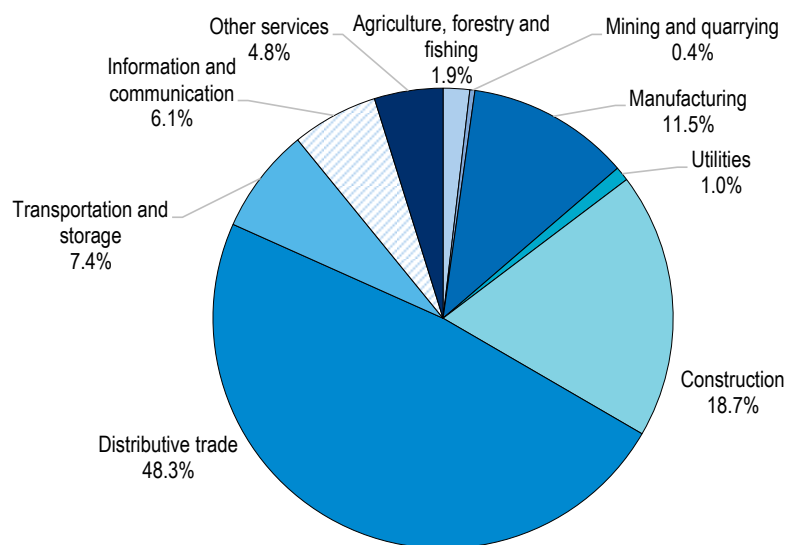
Source: Data received by the Government of Montenegro in this assessment cycle - Customs Administration of Montenegro, (MONSTAT, 2021<sup>[38]</sup>)

Although the economy's total gross value added in 2020 was approximately EUR 385 million less than in 2019 due to the effects of the COVID-19 pandemic on businesses, MSMEs in Montenegro accounted for 77% of the economy's gross value added in 2020, a 4-percentage-point increase from 2019 and a 7.5-percentage-point increase compared to 2017 (MONSTAT, 2021<sup>[2]</sup>). The role of women in Montenegro's business environment has continuously increased over the last decade: SMEs owned by women in Montenegro increased by 4.6% from 2018 to 2020, with a 10% increase in the share of women engaged in self-employment over the same period.

The makeup of SMEs by sector in Montenegro has seen slight changes in the sectoral distribution of SMEs in Montenegro since 2017 (Figure 16.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 48% but saw the greatest decrease in the number of enterprises since 2017 at a 2.6-percentage-point decline. The construction sector follows as the second-highest number of SMEs in Montenegro and witnessed the most notable increase in the number of enterprises since 2017, at a 2.2-percentage-point increase. Slight decreases were also noted in the manufacturing, utilities, mining and quarry sectors, while small increases were noted in information and communication; other services; and agriculture, forestry and fishing sectors.

Geographically, about 36% of enterprises were located in Podgorica in 2020, followed by 15.5% in the municipality of Budva and 9.2% in the port city of Bar (Table 16.3). The number of enterprises in Podgorica decreased by approximately 2 200 (1% of total businesses in the capital) from 2017 to 2020. On the other hand, the municipality of Budva saw a remarkable surge of about 2 200 businesses, a 3.7-percentage-point increase since 2017. Microenterprises accounted for most new companies in Budva, increasing by 65% alone. The number of microenterprises in the municipalities of Petnjica, Tivat and Gusinje also saw notable increases of 56%, 37.4% and 30%, respectively.

Figure 16.3. Sectoral distribution of SMEs in Montenegro (2020)



Source: Data received by the Government of Montenegro in this assessment cycle - Customs Administration of Montenegro.

Table 16.3. Number of registered companies in Montenegro by municipality and size (2020)

Municipality	Enterprise size, by number of persons employed				Total	Share of the total number of enterprises	
	0-9	10-49	50-249	250+		2017	2020
Andrijevica	68	0	0	-	71	0.24%	0.19%
Bar	3 350	79	9	-	3 440	9.48%	9.23%
Berane	564	12	6	-	582	1.71%	1.56%
Bijelo Polje	1 236	45	7	-	1 290	3.60%	3.46%
Budva	5 650	101	13	-	5 768	11.75%	15.48%
Cetinje	740	26	0	-	768	2.35%	2.06%
Danilovgrad	604	27	8	-	639	1.77%	1.72%
Gusinje	30	0	0	-	31	0.08%	0.08%
Herceg Novi	2 709	60	12	-	2 780	7.65%	7.46%
Kolašin	231	13	0	-	244	0.74%	0.65%
Kotor	1 365	47	8	-	1 420	4.15%	3.81%
Mojkovac	160	0	0	-	164	0.49%	0.44%
Nikšić	1 881	76	19	-	1 979	6.16%	5.31%
Petnjica	28	0	0	-	30	0.07%	0.08%
Plav	126	0	0	-	128	0.35%	0.34%
Pljevlja	588	22	0	-	615	1.95%	1.65%
Plužine	31	0	0	-	32	0.11%	0.09%
Podgorica	12 780	486	129	24	13 419	37.00%	36.02%
Rožaje	629	15	0	-	646	1.92%	1.73%
Šavnik	36	0	0	-	38	0.13%	0.10%
Tivat	1 709	42	0	-	1 754	4.30%	4.71%

Municipality	Enterprise size, by number of persons employed				Total	Share of the total number of enterprises	
	0-9	10-49	50-249	250+		2017	2020
Tuzi	76	0	0	-	83	0.12% <sup>1</sup>	0.22%
Ulcinj	1 159	29	0	-	1 193	3.44%	3.20%
Žabljak	135	6	0	-	141	0.45%	0.38%
Montenegro	35 885	1 103	229	38	37 255	100.00%	100.00%

Notes: Although municipal-specific data on large enterprises of more than 250 employees are unavailable for some regions, Montenegro has a total of 38 large enterprises, 24 of which are located in Podgorica.

1. 2019 data used in place of 2017 data for the municipality of Tuzi.

Source: MONSTAT (2021<sup>[39]</sup>).

## Assessment

### Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Economic Development, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Statistical Office of Montenegro (MONSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 1 October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Economic Development. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Montenegro was held on 26 November 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Montenegro. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Montenegro, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile of Montenegro were made available to the Government of Montenegro for their review and feedback in February 2022.

### Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 16.4). For further details on the SME Policy Index methodology and how the scores are calculated, as well as changes since the last assessment cycle, please refer to Annex A.



**Table 16.4. Description of score levels**

<b>Level 5</b>	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation.
<b>Level 4</b>	Level 3 plus evidence of a concrete record of effective policy implementation.
<b>Level 3</b>	A solid framework addressing the policy area concerned is in place and officially adopted.
<b>Level 2</b>	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
<b>Level 1</b>	No framework (e.g. law, institution) exists to address the policy topic concerned.

## Entrepreneurial learning and women's entrepreneurship (Dimension 1)

### Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21<sup>st</sup> century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Montenegro has placed a strong emphasis on developing both policy and practical implementation of entrepreneurial learning at the system level, providing a clear progression in the implementation of entrepreneurial learning across all levels of lifelong learning.

Montenegro's entrepreneurial learning and women's entrepreneurship score has increased to 4.47 (Table 16.5) from 3.83 in the last assessment. This high score results from Montenegro further strengthening the depth and quality of entrepreneurial learning, building on its role as one of the regional leaders in this area. In women's entrepreneurship, it has taken steps to establish system-level co-ordination and improve evaluation.

**Table 16.5. Montenegro's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	4.75	3.43
		Implementation	4.62	3.51
		Monitoring and evaluation	4.34	2.73
		Weighted average	4.61	3.33
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	5.00	3.97
		Implementation	4.11	3.83
		Monitoring and evaluation	3.50	3.11
		Weighted average	4.26	3.73
Montenegro's overall score for Dimension 1			4.47	3.49

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

There have been significant developments in both policy and practice across both sub-dimensions. In entrepreneurial learning, the new Strategy for Lifelong Entrepreneurial Learning (2020-2024) (Government of Montenegro, 2020<sup>[40]</sup>) plots the path forward to build on and increase the quality of existing good practices, with a renewed focus on co-working entrepreneurship with wider European key competences, modernisation of the higher education curriculum, developing more and stronger education-business partnerships at all levels and ensuring a clear career pathway into entrepreneurship.

For women's entrepreneurship, the new Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024) (Government of Montenegro, 2021<sup>[41]</sup>) is driving continuous improvement, with a

4.6% increase in the share of women business owners from 2018 to 2020 and an increase of 10% in the share of women engaged in self-employment over the same period<sup>2</sup> (Table 16.6).

**Table 16.6. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 1**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Expand teacher training on entrepreneurship key competences to cover all teachers at all levels of education</b>	Significant efforts have been made to expand teacher training and provide high-quality guidance on entrepreneurial learning, supporting training for teachers and school directors across primary, secondary and vocational education and training (VET) to introduce entrepreneurship key competences using EntreComp. All materials supporting key competence development in compulsory education and training are now accessible via a centralised website – <a href="http://www.ikces.me">www.ikces.me</a> . <sup>1</sup>	Strong
<b>Share good practices to create a positive image of entrepreneurship among young people</b>	The visibility of entrepreneurial learning has increased through multiple actions, such as the database of practices available at <a href="http://www.ikces.me">www.ikces.me</a> and a range of multi-stakeholder national events to promote lifelong entrepreneurial learning. The third National Strategy for Lifelong Entrepreneurial Learning (2020-2024) places a specific priority on further actions to promote visibility and exchange of good practices. <sup>2</sup>	Strong
<b>Ensure that public universities modernise their curriculum by integrating entrepreneurship competences</b>	New practices to develop entrepreneurship competences have been introduced, though more work remains to impact all areas of the curriculum. The higher education sector is involved in several projects focusing on entrepreneurial learning, such as REBUS (REady for BUSiness) involving the University of Montenegro, <sup>3</sup> which has supported integration into technical and information and communication technology-related courses, or the Student Business Hub <sup>4</sup> programme led by the careers centre of the University of Montenegro.	Moderate
<b>Institutionalise the National Partnership for Lifelong Entrepreneurial Learning</b>	The National Partnership is now formally recognised by the government as a working group of the National Competitiveness Council led by the Minister for Economic Development.	Strong
<b>Foster an ecosystem for women's entrepreneurship</b>	Multi-stakeholder policy partnership has been formalised through the Council for Competitiveness Working Group on the Economic Empowerment of Women. The structure provides evidence of broad-based institutional and stakeholder engagement, and it is explicitly supporting the implementation of the Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024).	Strong
<b>Strengthen the monitoring and evaluation of women's entrepreneurship support initiatives</b>	At the strategy level, there is an evaluation report on the implementation of the 2015-2020 Strategy, and this was used to develop the new 2021-2024 Strategy. While good practice can be seen in initiatives funded by international partners and future actions are identified in the new strategy, there remains insufficient programme-level evaluation and an overall lack of gender-disaggregated statistical data at the system level.	Limited

1. This website has been developed through the Integration of Key Competences into Education and Quality Assurance Systems in Montenegro project, implemented within the framework of the EU-Montenegro Joint Programme for Education, Employment and Social Policy, as part of Action 2 to improve the education system and Activities 2.1 to improve the quality of education through key competences and quality determination, with a particular focus on science, technology, engineering and mathematics disciplines. For more information, see <http://eesp.me/o-programu/> (accessed on 21 January 2022).

2. See Strategic Objective 3.2 of the National Strategy for Lifelong Entrepreneurial Learning (2020-2024).

3. For more information, see <https://www.ucg.ac.me/objava/blog/10/objava/50064-projekat-rebus-> (accessed on 20 January 2022).

4. For more information, see <https://www.ucg.ac.me/objava/blog/1025/objava/115513-dodijeljeni-sertifikati-polaznicima-programa-student-bussines-hub> (accessed on 20 January 2022).

### *Stronger national prioritisation of entrepreneurial learning in education and training has been observed*

The focus on entrepreneurial learning continues in Montenegro with the launch of the third National Strategy for Lifelong Entrepreneurial Learning (2020-2024). This new strategy builds on a comprehensive evaluation of the 2015-2019 strategy, which demonstrates the value of the continued approach to embedding entrepreneurship as a key competence at all levels of education and training, and quickly aligning to the EntreComp framework to guide and underpin national curriculum developments since it was launched in 2016.

The National Partnership is now formally recognised, which is a significant step forward. An informal multi-stakeholder National Partnership for Entrepreneurial Learning was first established in 2008, bringing together representatives from public, private and non-governmental organisation (NGO) sectors to support the successful and ongoing implementation of national strategies for entrepreneurial learning. Key national stakeholders have remained strongly committed to the National Partnership and practical implementation of the actions of the national strategies since the first strategy was launched in 2008, and the list of representatives in the new working group of the Competitiveness Council reflects this and includes both public sector, education, private sector, civil society and international partners agencies.<sup>3</sup> Since April 2021, this partnership is now officially recognised by the government as a working group of the Council for Competitiveness led by the Minister for Economic Development. This recognition is now leading to an expanded role for the National Partnership in developing the National Action Plan for Financial Literacy, explicitly linked to entrepreneurship and digital key competences.<sup>4</sup>

*Montenegro made good progress on the integration of key competences into education and training*

This assessment period has seen the launch and close of an EU-Montenegro Integration of Key Competences into the Education System of Montenegro project from 2019 to 2021, which has seen the development of a key competence framework, modularised programmes for secondary schools, teacher manuals and extensive supporting training programmes on the entrepreneurship competence for teachers and school directors across primary, secondary and VET. Evaluation of the 2015-2019 strategy shows that the entrepreneurship key competence has been introduced into the curriculum in 100% of primary, lower secondary and upper secondary schools and 50% of vocational secondary schools. This is supported by in-service training that has reached nearly 100% of all preschool, primary, lower secondary and upper secondary teachers. This impressive reach echoes the policy priority placed on entrepreneurial learning at the national level. The national strategy indicates support to sustain provision beyond the lifetime of the funded project, which ended in December 2021, and to address the lack of widespread provision of training on entrepreneurial learning within pre-service teacher training. Wider stakeholders are actively supporting this integration of entrepreneurship with a focus on closing skills gaps. The Chamber of Economy runs a range of actions,<sup>5</sup> including promoting and supporting the development of the dual education system. This encompasses both research and practical projects such as Erasmus+ funded student exchanges where students have opportunities to grow and practice their skills and knowledge in their field of studies at foreign companies.<sup>6</sup>

*Graduate tracking mechanisms are still lacking at the system level*

In Montenegro, the national labour force survey collates data on employment and unemployment rates by level of education, and tracking surveys have been piloted in both vocational and higher education (European Training Foundation, 2018<sup>[42]</sup>). However, there remains no co-ordinated approach at the level of the education and training system that collates data across all learners and graduates in the economy, either from the institution-level, national statistical data sources or via tracking surveys sent to students at regular intervals following graduation. This lack of a system-level approach creates a gap in skills intelligence linked to learning outcomes, employability of graduates, skills gaps and mismatches, and social inclusion, which could otherwise be used to regularly inform and shape the development and labour market alignment of the education and training system.

*Practical implementation of entrepreneurship key competence in public universities is improving, but more is needed*

Some progress has been made concerning the recommendations from the previous cycle (Table 16.6). Developing the entrepreneurship key competence in higher education continues to be emphasised through successive national strategies for both entrepreneurial learning and those more specifically addressing higher education (Government of Montenegro, 2021<sup>[43]</sup>). Pockets of excellence can be seen through

projects such as REBUS and e-VIVA, while the recent DigNest project aims to embed digital and entrepreneurial learning into the curriculum and involves both public and private universities alongside multiple stakeholders from the higher education ecosystem in Montenegro.<sup>7</sup> At the system level, there is now a requirement to include 25% practical education as a compulsory proportion of all study programmes in higher education; with this, there is an important opportunity to embed entrepreneurial learning outcomes into the practical curriculum content. The new strategy will monitor this to reach a target of 25% of non-economic courses at the public University of Montenegro that include the required 25% of practical education in study programmes and 55% of study programmes in the private University of Donja Gorica that include the compulsory proportion by 2024.

*Co-ordination of the policy and implementation frameworks supporting women's entrepreneurship has been strengthened*

An Expert Group on the Economic Empowerment of Women was established in April 2021<sup>8</sup> as one of the eight working groups under the National Council for Competitiveness. The main purpose of this group is to strengthen co-ordination of strategic documents related to the economic empowerment of women, particularly the new Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024) (Government of Montenegro, 2021<sup>[41]</sup>). It builds on the 2015-2020 strategy, using a comprehensive evaluation of the past strategy to inform future direction and priorities. This new strategy links across to other relevant policies, including the new National Strategy for Gender Equality (2021-2025) (Government of Montenegro, 2021<sup>[44]</sup>), which highlights the importance of increasing the number of women entrepreneurs while emphasising the need to address wider social and economic barriers to gender equality. While system-level evaluation is following a positive trajectory, there is work remaining to address the lack of gender-disaggregated data relevant to women's entrepreneurship to provide a fuller understanding of the progress and impact of initiatives. As a positive step, the working group has adopted IWA34,<sup>9</sup> a set of global definitions for women's entrepreneurship developed by the International Organisation for Standardisation. To support practical implementation, the Competitiveness Council working group has translated this into the local language and developed national guidelines<sup>10</sup> on how these common definitions can guide and support work at the national and local levels.

*Emphasis has been put on increasing access to women's entrepreneurship, particularly through digitalisation*

Increased digitalisation of the economy is highlighted as an enabler for women's entrepreneurship in Montenegro through a recent United Nations Development Programme (UNDP) report (2020<sup>[45]</sup>). The new Strategy for the Development of Women's Entrepreneurship of Montenegro (2021-2024) (Government of Montenegro, 2021<sup>[41]</sup>) builds on previous work on the digital, green and creative economy sectors alongside plans to improve the digital literacy of women in business. Enhanced incentives for women-led businesses have been included in government finance programmes for small investments; there has been an introduction of international standards and support for digitalisation; and an increase in the financial grant intervention rate from 50% to 80% for businesses that are at least 50% women-owned (Government of Montenegro, 2021<sup>[46]</sup>). A national digital portal is now under development to co-ordinate and share knowledge and opportunities on actions supporting women's economic empowerment and is expected to be on line by mid-2022, through a collaboration between the Ministry for Economic Development and the UNDP,<sup>11</sup> linked to the Expert Group on the Economic Empowerment of Women.

### **The way forward for Dimension 1**

- **Match pre-service teacher training provisions to the needs of the new framework for key competences** to consolidate and embed the work of the EU-Montenegro Integration of Key Competences into the Education System of Montenegro project. A focus on harmonising the new

developments within pre-service teacher training would ensure future-proofing of teacher competences. A good practice example from the United Kingdom is presented in Box 16.3.

### Box 16.3. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes and a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."<sup>1</sup>

Montenegro has been an early pioneer of the EntreComp framework and has placed a significant focus on the development of the entrepreneurship key competence across lifelong learning. Yet, no pre-service teacher training includes this as an explicit focus. This example illustrates how the design, delivery and assessment of pre-service and in-service teacher training courses can be matched to the needs of a new national curriculum framework.

1. For more information on the Curriculum for Wales, see <https://hwb.gov.wales/curriculum-for-wales> (accessed on 20 January 2022). Sources: Welsh Government (2017<sub>[47]</sub>); Penaluna, Penalune and Polenakovikj (2020<sub>[48]</sub>); Weicht and Jonsdottir (2021<sub>[49]</sub>); McCallum et al. (2018<sub>[50]</sub>).

- **Develop a system-level approach to graduate tracking from vocational and higher education**, identifying a designated lead institution to move this forward. This should take account of the EU roadmap towards European-level graduate tracking in support of the European Education Area by 2025, including the recommendation for a European Graduate Survey and linked administrative data (European Commission, Directorate-General for Education, Youth, Sport and Culture, 2021<sub>[51]</sub>). An example from Finland could provide a roadmap on how to develop this (Box 16.4).

### Box 16.4. Higher education graduate tracking measures in Finland

In Finland, responsibility for higher education graduate tracking lies with both the government and universities.

There is clear co-ordination of the tracking data, pulling information from both administrative and survey sources. The tracking is created from a combination of administrative data co-ordinated by Vipunen (Education Statistics Finland), while universities lead the implementation of graduate tracking surveys co-ordinated through the Aarresaari network of university career services. The information gathered is also used as the evidence base for policy decisions. Since 2021, the results of the graduate survey data are also used to inform public funding decisions, with graduate tracking determining 2% of performance-based funding for universities and 3% for universities of applied sciences.

Using graduate tracking to understand the employment and social outcomes of graduates from vocational and higher education can offer powerful evidence on the alignment of the education and training system to the needs of the labour market, in particular in smart specialisation priority sectors. In turn, it enables informed decisions to be made on updating learning programmes, improving career guidance, and reducing skills gaps.<sup>1</sup>

1. For more information on the European Commission Expert Group on Graduate Tracking, see <https://education.ec.europa.eu/education-levels/higher-education/quality-and-relevance> (accessed on 20 January 2022).

Source: European Commission (n.d.<sup>[52]</sup>)

- **Develop a system-level approach to monitoring women's entrepreneurship, including gender-disaggregated data** co-ordinated in partnership with the Statistical Office of Montenegro. This process should harmonise with relevant international standards, including UN gender indicators<sup>12</sup> and Eurostat. Measuring the rate, form, and growth of women's entrepreneurial activity is crucial to achieving a more complete understanding of how women entrepreneurs contribute to the economy and society and supporting evidence-based public policy (Meunier, Krylova and Ramalho, 2017<sup>[53]</sup>).
- **Launch a single portal for women's entrepreneurship in Montenegro to bring together information and resources at the national level.** This would increase access and visibility of the support for this career option available to women. The portal could be a part of a wider portal addressing entrepreneurship and enterprise skills (see a related recommendation in Dimension 8a on enterprise skills) or be a bespoke portal. It should bring together information and resources from across all types of relevant stakeholders and providers, which can also support a greater understanding of gaps or duplications of provisions. A portal in Germany could serve as a good example in this regard (Box 16.5).

### Box 16.5. Germany provides a national portal that gathers support for women entrepreneurs from a wide range of actors

In Germany, the Bundesweite gründerinnenagentur (BGA) is a federal agency that acts as a national one-stop-shop offering support and information on women's entrepreneurship, widely regarded as the primary voice and policy lead for women's entrepreneurship.

Established by three federal ministries,<sup>1</sup> BGA gathers offers from across the public, political, business and academic sectors for female-focused support services from all sectors and stages of business development, collating these into a centralised online portal available in six languages. This



comprehensive portal<sup>2</sup> gives users access to a database of trusted and evaluated advisory services, sources of financing, online training, an events calendar, regional networks and a wide range of regularly updated resources and guides on themes relevant to women entrepreneurs.

This example offers a practical demonstration of a comprehensive government-level approach to increasing access to and visibility of women's entrepreneurship by developing a multi-stakeholder portal that might collate support and services offered by government and non-government providers across Montenegro.

1. BGA is a joint project of the German Federal Ministry for Education and Research, the Federal Ministry for Family, Senior Citizens, Women and Youth and the Federal Ministry of Economy and Technology.

2. See <https://www.existenzgruenderinnen.de/> (accessed on 20 January 2022).

## Bankruptcy and second chance for SMEs (Dimension 2)

### Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Montenegro, as in other Western Balkan economies where SMEs represent a large share of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021<sup>[54]</sup>).

Montenegro regressed slightly in this dimension during the assessment period and is now scoring 3.02, which is at the regional average (Table 16.7). Although the amendments were made to improve the insolvency framework, the government revoked the Law on Consensual Financial Restructuring of Debts to Financial Institutions, leaving the legal framework for SMEs without the possibility of a formal out-of-court settlement.

**Table 16.7. Montenegro's scores for Dimension 2: Bankruptcy and second chance**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		2.50	2.74
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.37	3.47
		Performance, monitoring and evaluation	3.40	3.23
		<b>Weighted average</b>	<b>3.38</b>	<b>3.38</b>
	Sub-dimension 2.3: Promoting second chance		2.00	1.96
<b>Montenegro's overall score for Dimension 2</b>			<b>3.02</b>	<b>3.03</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Montenegro has backtracked somewhat since the 2019 assessment. A fully-fledged early warning system, which serves as a basis for fostering a financially healthy ecosystem for SMEs and might help potentially distressed SMEs during the post-COVID-19 context, is still missing (Table 16.8). In May 2019, the Law on Consensual Financial Restructuring of Debts to Financial Institutions was revoked. No new preventive policy measure was enacted, leaving a legislative gap in the prevention of the financial restructuring of SMEs.

The economy continued to work on insolvency prevention by introducing new support measures to SMEs (business advisory and mentoring services to improve SME financial management) during the COVID-19 pandemic. While there are no available data on the backlog cases, the number of bankruptcies totalled

785 cases in 2020, which is practically the same number as in 2019, reflecting, to some extent, the efficacy of the policy response to keep the private sector alive during the recession (Directorate-General for Neighbourhood and Enlargement Negotiations, 2021<sup>[55]</sup>). According to the assessment results, among the backlog cases for 2019 and 2020, around 81% were completed within six months, while 3% were completed in more than a year.

Shortened, simplified reorganisation proceedings for SMEs and debt discharge rules are still lacking in the legal framework on bankruptcy proceedings. Moreover, second-chance programmes for SMEs are nascent, limiting both the reintegration of honest entrepreneurs into the economy and the opportunity to change the current cultural stigma linked to entrepreneurial failure.

**Table 16.8. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 2**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Develop a fully-fledged early warning system</b>	An early warning system is still missing. However, Montenegro succeeded during the assessment period in reducing non-performing loans (NPLs) <sup>1</sup> thanks to the Law on Consensual Financial Restructuring of Debts, which improved the prevention of bankruptcies. Moreover, the government-provided advisory and mentoring services to SMEs regarding their long-term sustainable growth, even though these did not directly target the prevention of bankruptcies.	Limited
<b>Further simplify parts of the bankruptcy legislation</b>	No simplification measures, such as fast-track procedures or reorganisation processes, have been implemented nor planned during the assessment process.	No progress
<b>Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure</b>	No progress has been recorded in reducing the cultural stigma attached to entrepreneurial failure. The legal framework still does not distinguish fraudulent bankruptcies from honest ones. Moreover, no initiatives promoting a fresh start were conducted during the assessment period.	No progress

Note: 1. High NPL ratios represent a significant threat to financial stability, with important systemic consequences. As such, efforts are commonly undertaken to contain the growth of NPLs and help resolve them when they reach problematic levels. Insolvency and creditor/debtor rights regimes are one of the complementary tools in the policy maker's arsenal for these purposes. For more, see World Bank (2021<sup>[56]</sup>).

#### *Slight progress has been made regarding the insolvency legislative framework*

Montenegro's insolvency legal framework is based on the 2011 Insolvency Act, which implements the United Nations Commission on International Trade Law (UNCITRAL, n.d.<sup>[57]</sup>). It provides a solid legal framework for formal court bankruptcy liquidation and reorganisation procedures. In December 2021, to enhance efficiency and simplify bankruptcy proceedings, the Parliament of Montenegro adopted the amendments to the Insolvency Act (see Box 16.6). The amendments are rather technical and introduce a new regime for licensing and appointment of bankruptcy administrators and a redefinition of their activities. The amendments also offer the option to creditors and debtors to file an appeal against a judge's decision if new conditions are not met. A significant addition is the formation of a Register of Bankruptcy Estate under the authority of the Central Registry of Business Entities, which would contain information on the bankruptcy estate, as well as monitor and update changes to the registered information. However, some important aspects to streamline the processes are yet to be addressed, such as fast-track reorganisation/liquidation or the digitalisation of insolvency procedures to shorten proceedings and better monitor and evaluate the protection of debtors' and creditors' rights in insolvency proceedings.<sup>13</sup>

### Box 16.6. Amendments to Montenegro's insolvency regulations

The most recent changes to Montenegro's Insolvency Act, voted by Parliament on 29 December 2021, aim to further improve the law adopted in 2011, resolving implementation issues and introducing new regimes as follows:

- **Changes to the bankruptcy administration institute:** Amendments regarding rules on the appointment of bankruptcy administrators, their status throughout bankruptcy proceedings and relations with the Board of Creditors (BoC) are included. A bankruptcy administrator shall have to obtain a license after passing an exam and fulfil a set of conditions, including registration with the registry of licensed bankruptcy administrators. Bankruptcy creditors and debtors are entitled to file an appeal against a judge's decision to appoint a bankruptcy administrator.
- **Change in the structure of the BoC:** A judge may, upon the request of the majority of the BoC members, dismiss the obstructing member from her/his position.
- **Clarifications to the provisions that have been interpreted differently in the past:** Notably, Article 13 clarifies that presumption of bankruptcy occurs upon 45 days of the debtor's inability to settle its claim in the enforcement proceedings, regardless of the means of the enforcement. Furthermore, Article 168 clarifies the beginning day of the reorganisation plan, which was subject to different interpretations in practice.
- **Introduction of delivery of proceedings notifications to parties by email.**
- **Introduction of the obligation for secured creditors to file their claims in the preclusive period announced for the filing of unsecured claims.**
- **Registration of the bankruptcy estate as a legal entity at the business register.**
- **Introduction of a restriction payment clause in case of a reorganisation plan,** which requires all costs related to the court proceeding and the bankruptcy estate to be paid in 60 days upon the plan's confirmation and preceding its implementation.

Sources: JPM (2021<sup>[58]</sup>) and Parliament of Montenegro (n.d.<sup>[59]</sup>).

The current legal framework allows reorganisation within the insolvency procedure under the court's authority. Reorganisation is possible if it provides a more favourable settlement to creditors in relation to bankruptcy, especially if there are economically justified conditions for continuing the debtor's business. A reorganisation plan can be submitted simultaneously with a proposal for initiating bankruptcy proceedings or within 60 days from the date of the opening of bankruptcy proceedings. It can include debt rescheduling; change of maturity, interest rates or other loan terms, credit or other claim or security instrument; and debt write-off. However, the law determines the classes of settlement, while the creditors can only determine the level and conditions of claims in line with the plan.

Until 2019, under the Law on Consensual Financial Restructuring of Debts, the legal framework provided to the financial institution creditors and legal and natural person debtors the possibility of an out-of-court settlement agreement with its creditors through the process of mediation supervised by the Centre of Mediation. As part of a strategy known as the Podgorica Approach, the law aimed to reduce and recover non-performing loans (NPLs) (for more information on the causality, see the note under Table 16.8) (EBRD, 2022<sup>[60]</sup>). The economy succeeded in reducing the NPL ratio from 20.56% in 2013 to 5.11% in 2019 (the lowest since 2008); it currently (2020) stands at 5.89%, fulfilling the purposes of the law, as banks had no further interest in waiving their debt recovery (EBRD, 2022<sup>[60]</sup>; World Bank, 2022<sup>[61]</sup>). At the time of drafting, a replacement of the revoked law was yet to be adopted, leaving the legal framework for SMEs without the possibility of a formal out-of-court settlement.

In July 2020, the Law on Alternative Dispute Resolution was enacted under the EU Accession Framework, which provides alternative dispute resolution in civil law relations by mediation, early neutral assessment and other alternative dispute resolution methods. However, the law briefly refers to commercial disputes and does not include aspects such as the collective settlement of creditors' claims as an out-of-court settlement *per se*. Therefore, given the general purposes of the law, the effect on SMEs would be quite limited. Nevertheless, promoting a culture of mediation could be considered a constructive step toward out-of-court settlements between distressed firms.

### *Preventive measures are yet to be implemented*

No major progress has been recorded in preventive measures since the last assessment. An early warning system is still absent in Montenegro. However, during the reporting period and the COVID-19 pandemic, solvent SMEs were offered a range of advisory and mentoring services, both by the government and international partners (see Box 16.1 on Montenegro's COVID 19 recovery programme). These services aimed to increase SMEs' competitiveness and improve their financial management, indirectly contributing to preventing their insolvency.

### *Second-chance programmes for failed entrepreneurs are still lacking*

Similar to the previous assessment findings, Montenegro does not promote second-chance programmes that would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy. The Strategy for the Development of Micro, Small and Medium-Sized Enterprises (MSME Strategy) (2018-2022) highlights the importance of second-chance policies (Euprava, 2018<sup>[62]</sup>). However, no concrete measures have been included in the strategy's action plan, and no such measures have been planned. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it clearly define honest entrepreneurs.

## **The way forward for Dimension 2**

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system.** The revocation of the Law on Consensual Financial Restructuring of Debts to Financial Institutions left a gap in the insolvency framework dealing with preventive measures. Moving forward, this gap could be filled with an alternative law on out-of-court debt settlement, as in North Macedonia (Government of North Macedonia, 2014<sup>[63]</sup>) or with a hybrid preventive insolvency procedure based on a pre-packaged reorganisation plan agreed with creditors out of court and filed to court only for confirmation, as in Serbia<sup>14</sup> (Serbian Bankruptcy Supervision Agency, 2014<sup>[64]</sup>). The hybrid proceeding can have a court duration of a maximum of 90 days and does not have the deficiencies of similar<sup>15</sup> pre-insolvency proceedings, where if creditors do not vote for the plan of a currently solvent debtor (facing imminent insolvency), then by provision of the law, the court opens insolvency proceedings against the debtor.

In addition, the inclusion of a fully-fledged early warning system is also recommended as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding taking risky decisions. If no appropriate corrective actions are taken on time, this may initially lead to financial distress and later to insolvency. EU Directive 1023/2019 introduces debtors' access to information on early warning tools (European Commission, 2019<sup>[65]</sup>) (see Box 16.7). Montenegro could build on its already well-developed mentoring and advisory services to extend its programmes to SMEs at risk of financial distress.

### Box 16.7. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.  
This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
  - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
  - If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
  - If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
  - Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to only pay public debt to avoid early warning detection mechanisms.

Source: IMF (2021<sup>[66]</sup>).

- **Updating outdated bankruptcy proceedings.** Current moratoriums on repayment of debt due to COVID-19 interim measures should be used for modernising and upgrading existing legislation, e.g. introducing more digital solutions and facilitating the SMEs' reorganisations by solving current implementation issues. The effectiveness of the bankruptcy proceeding directly relates to court case duration, which could be reduced with digitalisation. If not solved on time, one debtor's

insolvency may trigger chained bankruptcies, which are typical for SMEs that usually do not have reserve funds to meet financial distress due to client non-payment. Updating bankruptcy and reorganisation proceedings in terms of shorter duration and better effectiveness, and higher claim recovery with better efficiency is crucial. This could be done by:

- **Digitalising liquidation proceedings by introducing e-auctions to sell assets from the bankruptcy estate.** By introducing e-auctions, the legislator solves the issue with determination of the fair market price for the sale of assets, which currently requires “subjective business evaluation”, its acceptance, appeal, a proposal of a method of sale, approval method by the Creditors’ Committee, appeal on the method of sale, distribution of proceeds and appeal of distribution and cost of the proceeding. The list of possible procedural deviations is lengthy, and the liquidation proceeding may go on for years. All these issues could be resolved by e-auction and automatic e-distribution. Creditors’ rights are protected as claims are recovered from the best market price reached in a competitive bidding procedure. The digitalisation of the process also reduces the proceedings’ costs related to management under the current liquidation procedure.
- **Improving the formal bankruptcy reorganisation proceedings.** This could be done by introducing legal provisions to solve obstruction to reorganisation plan voting by holdout and dissenting creditors. This is best solved by applying analysis of the creditors’ best interests, which requires that creditors in reorganisation receive a higher recovery of their claim than what they would have received in liquidation. The insolvency judge should consider that in such circumstances, creditors who have voted against the plan have no material interest in doing so and should confirm the plan as if they had voted for the plan (cram down). Further to this, the law provides for multiple proposals of reorganisation plans. It is recommended to introduce confirmation of all voted plans, which provides the highest claim recovery for the lowest payment rank of creditors. The sale of a legal entity could be introduced as a specific reorganisation plan, which may meet several targets, including better recovery of claims than the sale of the legal entity in liquidation.
- **Introducing simplified bankruptcy proceedings for SMEs.** Micro and SMEs have small scales of business and simpler operations. It is thus recommended to consider admissibility to short-track proceedings for SMEs with a maximum debt of a certain threshold at the time of filing for bankruptcy. Only SMEs as debtors should be able to file for bankruptcy reorganisations. Requirements for restructuring plans should also be simplified. Administrative proceedings should be affordable for SMEs, and procedures should be simplified, e.g. there is no need for a Creditors’ Committee. Restructuring plans should be confirmed by provision of the law if it provides for higher recovery in reorganisation than in liquidation proceedings and can avoid creditors’ voting. Considering simplified procedures for such companies may considerably reduce the court case duration and save multiple jobs and potential severance social payments to the state.
- **Promoting second chance to honest entrepreneurs.** The economy should promote second chance as an option for honest entrepreneurs so they can start anew and thus reduce the cultural stigma related to business failure. The legal framework should provide for the debt discharge of honest entrepreneurs. The policy should clearly distinguish fraudulent from honest entrepreneurs and be widely promoted through public-awareness campaigns promoting a fresh start upon bankruptcy.



## Institutional and regulatory framework for SME policy making (Dimension 3)

### Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. This is why, when designing policies that impact the private sector, policy makers should take into account the unique needs of SMEs, especially given their importance for the economy in terms of employment, value added and business demographics.

In Montenegro, SMEs represent a higher share of value added and employment (both over 70% in 2020) than the EU average, which is why it is particularly important to “think small first” when designing and implementing SME policies (European Commission, 2021<sup>[67]</sup>) (MONSTAT, 2021<sup>[38]</sup>). The COVID-19 pandemic heavily affected Montenegrin SMEs, particularly due to its impact on tourism. The pandemic also further exacerbated the other challenges that Montenegrin SMEs were exposed to, including in the informal economy.

Montenegro’s score for Dimension 3 has deteriorated slightly since the previous assessment (when it was 4.24), mainly due to minor delays in implementation caused by the COVID-19 pandemic and relatively less ambitious developments in improving the business environment compared to the previous cycle. Nevertheless, Montenegro remains one of the top performers in the WBT region and has improved its score in certain sub-dimensions, driven by improvements in policy co-ordination and public-private dialogue (Table 16.9).

**Table 16.9. Montenegro’s scores for Dimension 3: Institutional and regulatory framework for SME policy making**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.44	4.28
		Implementation	4.20	3.96
		Monitoring and evaluation	4.84	3.81
		<b>Weighted average</b>	<b>4.40</b>	<b>4.03</b>
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	3.88	3.84
		Implementation	4.28	3.47
		Monitoring and evaluation	3.24	2.95
		<b>Weighted average</b>	<b>3.95</b>	<b>3.48</b>
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.76	4.00
		Private sector involvement in PPCs	4.04	3.92
		Monitoring and evaluation	2.60	3.10
		<b>Weighted average</b>	<b>4.04</b>	<b>3.79</b>
	<b>Montenegro’s overall score for Dimension 3</b>		<b>4.16</b>	<b>3.79</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Since the last assessment in 2019, Montenegro has reinforced the co-ordination of the implementation of the SME policy framework and monitoring and evaluation through the creation of a dedicated Working Group for SMEs within the Council for Competitiveness (Table 16.10). The restructuring of the Council for Competitiveness has strengthened public-private dialogue. The use of regulatory impact assessments has

led to moderate improvements. There remains, however, room for improvement in monitoring and evaluation in this sub-dimension.

**Table 16.10. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 3**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Ensure that the MSME Strategy is implemented effectively given its wide-ranging and ambitious objectives and measures</b>	Despite delays caused by the COVID-19 pandemic, implementation of the strategy and its action plans advanced well during the assessment cycle (79% of planned activities were conducted in 2020). Since 2021, the implementation of the strategy is now overseen by the reorganised Council for Competitiveness. The Working Group within the Council, chaired by the Ministry of Economic Development, co-ordinates the work of various line ministries and public bodies charged with implementing the strategy's various activities. Monitoring is conducted regularly, and the strategy has been restructured to reflect the recommendations of the 2020 implementation report.	Strong
<b>Enforce effective application of regulatory impact assessments (RIA)</b>	The government of Montenegro has made efforts to promote the usefulness of RIA and improve administrative capacity for conducting effective and complete assessments (through training, seminars and other activities). However, despite a moderate improvement in the overall quality of RIA, visible through monitoring reports, challenges remain in several key areas. In addition, RIA continues to be perceived as a cumbersome obligation rather than a useful tool within the public administration.	Moderate

*Implementation of the SME policy framework has advanced well, and co-ordination of SME policies has been strengthened*

Montenegro continued the implementation of its main SME policy document: the Strategy for the Development of Micro, Small and Medium-Sized Enterprises (2018-2022). Monitoring reports show that despite slight delays, which can be attributed to the COVID-19 pandemic, the implementation of the MSME Strategy (2018-2022) continued at an overall effective pace throughout the assessment cycle. For instance, over 79% of the activities foreseen in the strategy and its action plan were implemented in 2020, compared to over 90% in 2019 (Ministry of Economic Development, 2021<sup>[68]</sup>).

The MSME Strategy (2018-2022) was restructured in 2021, following the recommendations of the 2020 monitoring report and the interim implementation report prepared according to the OECD development assistance methodology.<sup>16</sup> The 2020 monitoring report recommended restructuring the strategy's strategic goals. From the five initial goals, the strategy is now structured around three: 1) strengthening SME policies and improving the environment for the development of SMEs and entrepreneurship; 2) strengthening the competitiveness of MSMEs; and 3) promoting MSMEs and entrepreneurship, business linkages, and easier access to new markets (Ministry of Economic Development, 2021<sup>[68]</sup>).

Co-ordination of the implementation of the MSME Strategy (2018-2022) was strengthened through the creation of the Working Group for SMEs within the framework of the reformed Council for Competitiveness, chaired by the Ministry of Economic Development. The Working Group for SMEs is responsible for monitoring the implementation of the strategy and should benefit from the technical and analytical support of the Council for Competitiveness and its secretariat.

Montenegro's SME policy framework does not directly include goals related to combating the informal economy. While the MSME Strategy (2018-2022) has objectives related to improving the business environment,<sup>17</sup> therefore indirectly contributing to incentivising formal business operation, more specific goals targeting SMEs are absent. Informality, which mainly concerns informal wages and labour, is an important horizontal challenge for Montenegro, representing around 30% of GDP, and could pose specific challenges for SMEs, especially given the large share of employment they represent (European Commission, 2021<sup>[69]</sup>; OECD, 2021<sup>[3]</sup>).

MONSTAT collects basic demographic data related to SMEs. Other institutions, such as the Central Bank, collect data on access to finance. Some progress has been made since the last assessment regarding data collection on SMEs' participation in public procurement, which is expected to be expanded following the establishment of an e-procurement system. Data on SME greening, however, are lacking and could be further improved. Overall, inter-institutional co-ordination on data collection as well as the scope of the data collected on key indicators in the aforementioned areas could be further strengthened so as to improve the base for evidence-based SME policy making in Montenegro.

*Efforts to improve the business environment have continued, and some progress has been observed in increasing the quality of RIA*

Montenegro completed the implementation of its Regulatory Guillotine Action Plan in 2018, with overall implementation of 86% of the Action Plan's recommendations. The first strategic goal of the MSME Strategy (2018-2022) is to continue regulatory reforms to improve the business environment. This will be particularly important, as according to the latest Balkan Business Barometer survey, 80% of surveyed Montenegrin companies considered regulations to be an obstacle to doing business. Moreover, the share of surveyed businesses that consider that laws and regulations affecting their company are clearly written, are not contradictory and do not change too frequently has declined, from 51% in 2019 to 36% in 2020 (Regional Cooperation Council, 2021<sup>[70]</sup>).

The government launched an online portal (<https://javninameti.gov.me/>) in 2021 to identify and list all the fiscal and para-fiscal charges for businesses. The portal should help inform businesses of the different charges and fees they are subject to, and help the government reduce or eliminate various charges after evaluating their necessity.

The quality of RIA in Montenegro has somewhat improved since 2019, as shown by the monitoring reports published by the Ministry of Finance and Social Welfare. Namely, 68% of RIAs conducted in 2020 were noted as "done with quality", versus 61% in 2019 (Ministry of Finance and Social Welfare, 2021<sup>[71]</sup>). More specifically, progress was made in better defining problems and goals and assessing the fiscal impact of policies. Challenges remain, however, in that alternative options are not analysed when preparing RIA and RIA are not consistently shared with stakeholders during consultations (OECD, 2021<sup>[72]</sup>). Moreover, RIA is often conducted towards the end of the policy-making process, just before submitting draft legislation from a line ministry to the government for adoption, meaning that policy makers cannot properly make use of it throughout the process and are reluctant to make changes to draft legislation if the RIA shows the need to do so (Kačapor-Džihic, 2020<sup>[73]</sup>).

Although the RIA methodology contains a mandatory examination of a regulation's impact on SMEs, a full-fledged SME test<sup>18</sup> has not yet been implemented, despite being planned as part of the MSME Strategy (2018-2022). Montenegro's aggregate reporting on RIA, conducted by the Ministry of Finance, can be considered an example of good practice for other regional economies (Box 16.8).

#### **Box 16.8. Montenegro's reports on the quality application of RIA**

Conducting regular reporting of the RIA process with a focus on qualitative indicators is key to measuring progress in building institutions' capacities for conducting useful and evidence-based analysis.

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the evolution of its quality.

As in some other WBT economies, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand

out is that the RIAs conducted are then divided into categories, showing what share of RIAs conducted was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made compared to previous years in these different areas.

In the latest report, the ministry identified that 68% of RIA conducted in 2020 was noted as “done with quality” versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA on these areas.

Source: Montenegrin Ministry of Finance (2021<sup>[71]</sup>)

*The institutional framework for public-private dialogue has been strengthened, but monitoring and evaluation of public-private consultations could be improved*

In February 2021, Montenegro strengthened the role of its Council for Competitiveness, established in 2017, to make it the main platform for dialogue between the government, the business community and academia. Beyond fostering dialogue, the council is charged with analysing laws and procedures and making recommendations to the government for legislative changes. The goal is to improve the business environment and advise the government on the preparation of an annual programme of structural reforms for improving competitiveness, which is an integral component of Montenegro’s ERP (2021-2023). The council’s membership was expanded to include new members, such as the Women’s Business Association of Montenegro. The council was placed under the presidency of the Minister of Economic Development, with the Minister of Finance and Social Welfare acting as deputy president. The council is also supported by a full-time professional secretariat providing technical, administrative and analytical support.

Since its restructuring, the Council for Competitiveness has hosted many meetings, including plenary meetings on key issues such as informality, innovation and improving the business environment. It has also provided inputs on important policy documents and legislation, including the Programme for Advancing Competitiveness and the Law on Intellectual Property. Apart from its plenary meetings, the council also has eight thematic working groups that meet weekly, including the Working Group on SMEs charged with co-ordinating the implementation of the MSME Strategy (2018-2022). The Council was also active in engaging the business community during the design of economic response measures to the COVID-19 pandemic. Overall, the Council is positively perceived as an inclusive platform by stakeholders, including SMEs, for which the restructuring provided significantly greater room for participation.

Montenegro has a functioning online portal for public-private consultations (PPCs), where all ongoing and concluded consultations are listed, along with their results. While the results of individual consultations are reported on and made publicly available, monitoring and evaluation of the overall use of the PPC process throughout government institutions is lacking. This makes it difficult to evaluate the overall use of PPCs by various institutions, their adherence to quality standards and their stakeholder engagement. External evaluations, such as the Balkan Business Barometer survey, have identified an increasing number of businesses expressing dissatisfaction with consultation procedures (40% of those surveyed in 2021 compared to 32% in 2019) (Regional Cooperation Council, 2021<sup>[70]</sup>).

The share of legislation adopted under extraordinary procedures, therefore bypassing the requirement for conducting a PPC, rose significantly in Montenegro from 2019 to 2020, and in 2020 represented nearly a third of all draft legislation sponsored by the government (OECD, 2021<sup>[72]</sup>). This development, coupled with

the fact that parliament is not informed of the results of consultations when they are conducted and a draft is submitted, poses a challenge to including stakeholders' views and concerns in the legislative process.

### ***The way forward for Dimension 3***

- **Concentrate efforts to improve regulatory impact assessment quality in priority areas.** The reports published by the Ministry of Finance and Social Welfare are a strong monitoring and evaluation tool, as they allow the government to identify priority areas on which to focus their efforts for capacity building and improving the quality of RIA. The most recent report identified the following areas as representing particular challenges: defining options, analysing the impact of policies, improving consultations with relevant stakeholders, and monitoring and evaluation. These should be prioritised for capacity-building support. Regarding consultations with stakeholders, an important first step would be to systematically share RIA reports with the participants of PPCs.
- **Introduce regular reporting on government use of public-private consultations and its results.** While reports on the results of individual consultations exist and are made public, there is no monitoring and evaluation of the overall public-private consultation process nor of the level of stakeholder engagement. Introducing aggregate reporting on the government's use of PPCs across various institutions and ministries should help evaluate the overall quality of PPCs and identify areas for improvement, similar to what is done with the reports on RIA. Reporting should also include indicators measuring the level of stakeholder engagement, particularly of businesses and SMEs, for legislation that concerns them. Albania provides an example of good practice from the region in this regard (Box 16.9).

#### **Box 16.9. Albania's reporting on public-private consultations**

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

As of 2021, line ministers have begun publishing reports every six months summarising the PPCs that they have held. The reports are available on the online PPC portal (<https://konsultimipublik.gov.al>) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on the respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

Montenegro could take inspiration from this system, as it would allow the government to measure the consistency of ministries' use of PPCs, but also the quality of the overall PPC process across different ministries.

Sources: Reports available on Albania's online portal for PPCs: <https://konsultimipublik.gov.al>; Council of Ministers of Albania (2021<sup>[74]</sup>).

## Operational environment for SMEs (Dimension 4)

### Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which they have to navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' abilities to operate, take advantage of market opportunities efficiently and grow.

For an economy like Montenegro, which was heavily impacted by the COVID-19 pandemic, increasing the availability of digital services for SMEs – including business registration and licensing – as well as improving the efficiency of administrative procedures – including tax compliance procedures – will be key to improving the operational environment by saving time and resources.

Montenegro's score has improved in this dimension since 2019 (when it was 3.29) due to progress in all sub-dimensions. Its performance in company registration has particularly increased (3.65 in 2022 compared to 2.93 in 2019) thanks to the simplification and digitalisation of procedures. Limited progress has been achieved in streamlining the business licensing system (Table 16.11).

**Table 16.11. Montenegro's scores for Dimension 4: Operational environment for SMEs**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	4.80	4.28
		Implementation	3.27	3.33
		Monitoring and evaluation	1.73	2.48
		Weighted average	3.34	3.40
	Sub-dimension 4.2: Company registration	Planning and design	4.70	4.42
		Performance	3.73	3.93
		Monitoring and evaluation	2.55	4.06
		Weighted average	3.65	4.18
	Sub-dimension 4.3: Business licensing	License procedures	4.00	3.88
		Monitoring and streamlining of license system	3.50	3.73
		Weighted average	3.75	3.80
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores	
		Monitoring and evaluation of SME-specific tax measures		
Montenegro's overall score for Dimension 4			3.61	3.64

Note: WBT: Western Balkans and Turkey.



## State of play and key developments

Despite delays in the rollout of digitally enabled services for businesses, Montenegro has achieved important progress in key areas such as data interoperability between government registers as well as the availability of data sets on the government's open data portal. A new, comprehensive framework for digital government has been adopted and aims to significantly advance the digital availability of government services and horizontally guide the digital transformation of the economy. Given the new framework's ambitious goals, it will be important for the government to increase co-ordination and improve monitoring and evaluation mechanisms to allow for its effective implementation. Notable progress has been achieved in simplifying company registration processes by replacing lengthy procedures and introducing fully operational electronic registration, although it still needs to be made available for all types of companies. Guidelines for business licensing are clear and centralised on an online portal. However, the licensing streamlining process has been progressing at a slow pace, in particular concerning the electronic application of licences (Table 16.12). Unincorporated SMEs subject to the standard tax regime face a high tax burden, but self-employed entrepreneurs can benefit from a lump-sum tax regime that reduces tax compliance costs. Progress has been achieved in reducing tax compliance costs for SMEs by simplifying bookkeeping rules and implementing initiatives to improve tax literacy (Table 16.12). However, there is still scope to reduce and facilitate tax administration procedures for SMEs.

**Table 16.12. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 4**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Continue efforts to implement digital authentication or e-signatures in order to get services fully on line</b>	There are currently five licensed providers of qualified electronic certificates for e-signatures in Montenegro, and qualified electronic certificates are widely used by businesses. The government has partially realised plans to create a national digital identity system and has begun rolling out national ID cards with electronic chips usable for e-signature that will promote and facilitate the use of e-signatures, namely by eliminating the cost barrier, although its use is limited to citizens.	Moderate
<b>Establish monitoring mechanisms for the business registration process</b>	Along with the introduction of electronic company registration, the Law on Electronic Government established the Council for e-Government in November 2020, which has the mandate to monitor electronic procedures, including company registration, propose measures to improve processes, consider professional issues and co-ordinate activities in this field. However, no monitoring reports are available so far.	Moderate
<b>Finish streamlining the licensing procedures</b>	Only limited progress can be reported with regard to the plan to simplify and review licensing procedures that started in 2017. The plan also aimed at enabling electronic services for each licence separately; however, it is currently only possible to electronically apply for 20 licences (out of the 302 available) on line. Moreover, the lack of an electronic payment system within the provision of digital services remains a major shortcoming, which affects the length and quality of services provided and the development of electronic services for licences.	Limited
<b>Reduce compliance requirements for SMEs</b>	Unincorporated SMEs can opt to pay a lump-sum amount of personal income tax, which reduces tax compliance costs. However, the functioning of the regime should be evaluated regularly from a tax policy perspective. Electronic tax payment is possible, and tax information is made available via an online portal (changes in legal regulations, reminders of deadlines for submitting tax returns, etc.). Montenegro introduced measures to increase tax literacy among SMEs.	Moderate

*The rollout of digital services for businesses has slowed down in recent years, disallowing businesses to complete many key services fully on line*

The implementation of Montenegro's Information Society Development Strategy (2016-2020) has experienced delays since the last assessment. In the 2019-20 monitoring cycle, 34% of the measures related to developing digital government<sup>19</sup> were partially implemented or not implemented at all. The main



reasons for the general delays across the strategy's different goals were chiefly attributed to insufficient institutional co-ordination, lack of resources, as well as the COVID-19 pandemic and subsequent redirection of resources and cancellation of some planned activities. Moreover, even though the pandemic pushed some administrations to digitalise their processes when interacting with users temporarily, and out of necessity, once the situation allowed, they reverted to old practices, requesting documents in paper form (Ministry of Public Administration, Digital Society and Media, 2021<sup>[75]</sup>).

Montenegro has an online portal for digital government services. The e-Uprava portal is managed by the Ministry of State Administration, Digital Society and Media (MJUDDM), but the digitalisation of existing services depends on line ministries and other relevant institutions. Many key services, such as filing and paying taxes and social security contributions, or services related to the cadastre, are not digitalised to the extent that they could be (OECD, 2021<sup>[72]</sup>). The aforementioned delays in implementation impacted the development of an e-payment system that currently does not allow for the payment of administrative fees (State Audit Institution, 2021<sup>[76]</sup>). Therefore, the level of sophistication<sup>20</sup> of digital services for businesses does not go beyond Level 3 (users can download forms, send emails to officials and interact on line, whereas for Level 4, they can also pay for services and perform other transactions on line, fully eliminating the need for physical presence to complete a service). The e-Uprava portal has a total of 317 services for legal entities; 49 are at Level 3, and the remaining 268 are at Levels 1 and 2. A unified system for the payment of administrative fees is currently being developed by the MJUDDM (Ministry of Public Administration, Digital Society and Media, 2021<sup>[77]</sup>), and the legal prerequisites have been adopted (European Commission, 2021<sup>[69]</sup>). Its development and implementation would allow Level 3 services to advance to Level 4 (State Audit Institution, 2021<sup>[76]</sup>).

The implementation and availability of digital services for businesses that depend on local administrations vary between the capital, Podgorica, and other local self-government units, an issue identified by the government that engaged in harmonising implementation at the local level (with support from international development co-operation partners, such as the UNDP). However, this will depend on the investment and maintenance capacities of local self-administrations, especially in terms of human resources (Kačapor-Džihic, 2020<sup>[73]</sup>).

Businesses' satisfaction with digital government services has fallen sharply since 2019 (from 63% to 27%) and is now below the regional average of 39%,<sup>21</sup> leaving significant room for improvement (Regional Cooperation Council, 2021<sup>[70]</sup>). This may partially be explained by the slow implementation progress in the previous period (OECD, 2021<sup>[72]</sup>), as well as by higher expectations driven by the increased need for digital services in the context of the COVID-19 pandemic. Businesses have also expressed concerns about the e-Uprava portal's lack of user-friendliness (European Commission, 2021<sup>[69]</sup>). Satisfaction rates might improve as the public administration enables more functionalities and the rollout of digital services continues. This perception might also reflect the fact that services are designed around the transposition of existing services into a digital format rather than designing services around the end needs of businesses. Increasing the availability of digital services presents a unique opportunity to redesign services to make them more efficient and better address the needs of the businesses using them.

*Despite these delays, Montenegro has achieved important goals in the use of digital services and has made progress in interoperability and open data*

Despite the delays in the implementation of the policy framework, important goals have been achieved. Namely, the number of services for legal entities available on the e-Uprava portal has increased more than fourfold, from 73 in 2016 to 342 in 2020,<sup>22</sup> and the number of total requests on the portal has risen by 8%, from 8 807 to 9 555 in the same period. Moreover, the strategy surpassed its target of 30% of legal entities using digital services, reaching 45% in 2020, with businesses being, in general, much better informed about the availability of digital services than citizens (Ministry of Public Administration, Digital Society and Media, 2021<sup>[75]</sup>; 2019<sup>[78]</sup>).

In 2020, Montenegro adopted the Law on Electronic Government (Official Gazette of the Republic of Montenegro No. 72/19) to further regulate citizens' and businesses' interaction with the public administration through digital means, as well as to strengthen the legal framework for the implementation of the once-only principle.<sup>23</sup> Implementation of the once-only principle has progressed thanks to advances in data interoperability and the integration of key national registries such as the central population register, the central business entities register, the tax administration register and others into the government's single system for electronic data exchange. The Law on Electronic Government also introduced a Council for Electronic Government, chaired by the Minister of State Administration, Digital Society and Media, whose mission is to improve the co-ordination of activities related to the digitalisation of government services and advise the government on policies related to the digital transformation of public services. The council held its inaugural meeting and became operational in September 2021 (OECD, 2021<sup>[72]</sup>). While it was established too recently to judge its effectiveness, its creation represents an intention to improve the coherence of digital government in Montenegro, a fundamental step for adequate steering and legitimacy of digital transformation efforts.<sup>24</sup>

The number of data sets on the government's open data portal (<https://data.gov.me>) has increased more than fourfold, from 39 in the previous assessment to 132 by the end of 2020 (Ministry of Public Administration, Digital Society and Media, 2021<sup>[75]</sup>), and the number of institutions publishing data on the portal doubled, from 8 to 16, over the same period (Government of Montenegro, 2022<sup>[79]</sup>). The government aims to greatly increase the number of institutions publishing data on the portal, as well as to promote the reuse of open data by businesses as a means of stimulating innovation. A Rulebook exists to ensure that datasets provided through the open data portal by public institutions are machine readable and provided in open format to allow for their reuse.<sup>25</sup> Data on SMEs' reuse of open government data are currently not collected. As part of the Open Data for European Open Innovation (ODEON) project, financed by the European Union through the Interreg Mediterranean Programme, the Chamber of Economy of Montenegro has been active in promoting the importance of institutions publishing data in an open format, as well as promoting the reuse of open data by businesses. In 2020, the Chamber published a study on the status of open data in Montenegro and pointed out that despite many encouraging developments, several key challenges remain, such as data collection and monitoring of the use of open data, publishing of open data by local administrations and the consistency of publishing data in an open format by institutions (Chamber of Economy of Montenegro, 2020<sup>[80]</sup>).

*The government has adopted an ambitious new policy framework to drive forward digitalisation reforms that aims to improve co-ordination and monitoring and evaluation*

Having taken into account lessons learnt from the Information Society Development Strategy (2016-2020), as well as recent global developments and trends in digitalisation, the government adopted the new Digital Transformation Strategy of Montenegro (2022-2026) in December 2021. The strategy takes a comprehensive approach to digital transformation and includes objectives such as further developing digital government services through the e-Uprava portal, advancing interoperability and data openness, and further supporting the digital transformation of Montenegrin businesses. The strategy aims to improve co-ordination by creating a national co-ordination body, modelled after digital coalitions that exist in other countries and involving the private sector and academia.

Moreover, the strategy aims to advance the implementation of interoperability through the government service bus, managed by the MJUDDM, by increasing the number of integrated registers from the current 12 to 250 by 2026. A notable challenge identified in the strategy is the reluctance of administrations to switch to using interoperable systems for data exchange, preferring to exchange data through traditional means.<sup>26</sup> The development of service-level agreements between service providers and the institution responsible for the data exchange system is identified as a key step to better defining the responsibilities of both parties and facilitating inter-administration data exchange (Ministry of Public Administration, Digital Society and Media, 2021<sup>[77]</sup>).

*Monitoring and evaluation of digital services is a cross-cutting challenge in Montenegro*

Various line ministries are not obliged to report on the development of digital government services to the MJUDDM, translating into a lack of ownership concerning policies seeking to develop digital services, as well as a lack of shared standards for service delivery (OECD, 2021<sup>[72]</sup>; Ministry of Public Administration, Digital Society and Media, 2021<sup>[77]</sup>). The Digital Transformation Strategy of Montenegro (2022-2026) aims to address these challenges by giving the MJUDDM a leading role in monitoring and evaluation and by making reporting of the strategy's implementation mandatory for line ministries.

Regarding the monitoring of digital service performance, currently, the rating of digital services is limited to a functionality in the e-Uprava portal, where users can rate their experience as satisfactory or unsatisfactory, a mechanism with limited overall usefulness (OECD, 2021<sup>[72]</sup>). The government is looking to better measure satisfaction with digital services for both citizens and businesses by conducting an updated survey with support from the European Union and the UNDP. While this is a welcome initiative, it does not constitute a systematic and targeted feedback system, which has yet to be developed.

*The company registration process has been considerably simplified since the last assessment*

Notable improvements have been made to the company registration process in Montenegro. In March 2019, the Competitiveness Council of Montenegro formed a working group mandated to analyse the company registration process to ease the number of procedures and enforce electronic registration, in line with the MSME Strategy (2018-2022). Several measures have since been adopted. First, a centralised registry of all fiscal and para-fiscal charges at the central and local levels was developed, increasing transparency for businesses. Second, the 16 different forms required to register a company, available in one-stop-shops in 8 regional tax administration units, were replaced with a single registration application. Third, the secondary legislation on electronic payment of administrative fees was adopted, ensuring the legislative prerequisites to introduce full electronic registration of companies, in line with the European Commission's 2020 recommendations (European Commission, 2021<sup>[69]</sup>). In this regard, the process of starting a business has been re-engineered and optimised, and fully digitalised since December 2020 for the registration of a limited liability company with a minimal capital of EUR 1 (<https://efirma.tax.gov.me>)<sup>27</sup> (OECD, 2021<sup>[72]</sup>). Users have all of the currently available digital certificates that are valid in Montenegro at their disposal, including digitally signed documents, which were not available in the previous cycle. However, the process of enabling electronic registration for all types of companies (other than limited liability companies), which was planned for mid-2021, has not been completed.

The ongoing streamlining process of company registration should ease the procedures and days required to start a business. According to the e-Firma website, the Central Register of Business Entities will have 3 days to take a decision on each application, which will then be officially delivered by mail to the applicant within 8 days (compared to 8 procedures and 12 days required to start a business in 2019) (World Bank, 2020<sup>[81]</sup>). Moreover, as part of the Business Registry Empowerment project funded by the European Union in the period 2014-20,<sup>28</sup> the Chamber of Economy has developed a registry integrating data from the Central Register of Business Entities and the Tax Office Authority to facilitate information access for businesses. The project has also created a transnational tool to connect business registries from Albania, Italy and Montenegro in order to increase SMEs' collaboration and competitiveness.

In line with the previous cycle's recommendation, the Council for Electronic Government also has the mandate to monitor and propose measures to improve company registration, but no reports are available on its activities thus far. The council should enable better co-ordination and compliance between company registration and other digital services.

*While guidelines for obtaining business licences are clear, digitalised and centralised, only limited progress has been reported in streamlining procedures*

The register of licences is available on the e-Uprava portal, and entrepreneurs have access to detailed information on the requirements, procedures and fees needed to obtain licences and permits ([www.euprava.me/elicence1](http://www.euprava.me/elicence1)).<sup>29</sup> While the number of licences available on the portal has increased by 10% since the last assessment (275 in 2019 compared to 302 in 2021), the offered services are largely informational, and their availability and accessibility could be significantly improved. The business opinion survey shows that 41% of respondents considered it to be a big to very big obstacle in 2021 (OECD, 2021<sup>[72]</sup>; Regional Cooperation Council, 2021<sup>[70]</sup>). No co-ordination body at the national level oversees the licensing process; every authority is responsible for delivering licences under their mandate.

Only limited progress has been achieved in implementing the roadmap introduced by the government in 2017 to simplify and review the licensing process. While the roadmap specifically aims to enable electronic application for all licences, implementation has been slow: it is currently only possible to electronically apply for 20 licences, out of the 302 for which information is available on line. This slow implementation can be attributed to the lack of an electronic payment system for electronic services, which affects the efficient development of electronic services for licences. Montenegrin businesses' opinion shows that there is significant room for improvement in this regard, as 33% claim that the lack of digitalised process for the application and approval of licences is a big or very big obstacle (compared to only 5% in 2019), representing the largest share of respondents in the Western Balkans (Regional Cooperation Council, 2021<sup>[70]</sup>).

Delays in obtaining licences can be costly to entrepreneurs, adding uncertainty and additional costs to much-needed business transactions. According to the latest data available, 5 days are necessary to obtain an import licence, 6 days for an operating licence and 91 days for a construction permit; the first two are lower than the WBT averages (11, 24 and 72 days, respectively) (World Bank, 2019<sup>[82]</sup>). Nevertheless, the number of procedures, requirements, paperwork and cost for obtaining business licences are increasingly considered a big or very big obstacle by businesses in Montenegro (44% in 2021 compared to 39% in 2020 and 21% in 2019) (Regional Cooperation Council, 2021<sup>[70]</sup>). In addition, the excessive discretionary power of government officials and inconsistent application of regulations are increasing barriers for businesses in Montenegro, and more than one-third of them frequently need to rely on personal or private connections to solve problems. This is twice as much as in 2019<sup>30</sup> (Regional Cooperation Council, 2021<sup>[70]</sup>).

*Montenegro has introduced a comprehensive set of tax measures to mitigate the impact of the COVID-19 crisis and support the economic recovery*

The measures that were introduced were available to all businesses, including SMEs. Personal income tax (PIT) payments and social security contributions (SSCs) could be deferred, and interest was not charged on the deferred tax liabilities. VAT payments were also deferred, but only for businesses whose activity was suspended as a result of the COVID-19 restrictions. To support the economic recovery, expenditures related to health, education, science, religion, culture, sports and humanitarian activities have been recognised as expenses for PIT purposes up to a maximum of 3% of turnover (Government of Montenegro, 2021<sup>[83]</sup>). Unincorporated businesses that hire employees who have been unemployed for more than three months can benefit from an employer SSC exemption and a reduction in PIT liabilities. Finally, the government provided funds for financial assistance to businesses that introduced an electronic cash register.

*Despite PIT incentives, unincorporated SMEs subject to the standard tax regime face a high tax burden*

Self-employed entrepreneurs subject to the standard PIT regime, and in particular those with lower profits, face a high tax burden. PIT incentives are, however, available to unincorporated SMEs and businesses located in underdeveloped areas. The standard PIT rate was 9% in 2021, and a 13% city surtax is levied on top of that (two cities levy a city surtax of 15%) (IBFD, 2021<sup>[84]</sup>). The standard PIT base is turnover net of costs. However, a presumptive PIT base that is equal to 30% of turnover applies for self-employed workers who earn income from independent activities that are not their principal activity and who do not document expenses. Self-employed entrepreneurs are subject to a 34.3% SSC rate levied on their revenue, and the SSC base is capped annually at EUR 53 858. Thus, labour taxes paid by self-employed workers are levied at a flat rate. Overall, the tax burden on self-employed entrepreneurs is high, particularly for those with incomes below the SSC ceiling, and may therefore create disincentives to work in the formal sector.

Businesses that start an economic activity in a less developed region benefit from an eight-year exemption from PIT, but the maximum PIT exemption cannot exceed EUR 200 000. In addition, businesses that invest in an underdeveloped area and employ new workers for at least five years are exempt from PIT for up to four years.

Gig workers are subject to the standard PIT and the city surtax but pay lower SSCs. In contrast to regular self-employed entrepreneurs that pay SSCs at a rate of 34.3%, the rate for gig workers is 24%, which is the same as the employee SSC rate (IBFD, 2021<sup>[84]</sup>).

*Corporate income tax incentives available to incorporated SMEs were abolished*

Until December 2021, a reduced corporate income tax (CIT) rate of 6% applied to businesses that paid their CIT on time, encouraging tax compliance. The standard CIT rate was 9% in 2021, and losses may be carried forward for up to five years (Ministry of Finance and Social Welfare, 2021<sup>[85]</sup>). However, the law was amended at the end of 2021, abolishing these reliefs, and new progressive CIT rates were introduced: 9% for the taxable profits up to EUR 100 000, from EUR 100 000 to EUR 1 500 000 – EUR 9 000 plus 12% for the amount over EUR 100 000 and for taxable profits over EUR 1 500 000 – EUR 177 000 plus 15% for the amount exceeding EUR 1 500 000.

*Self-employed entrepreneurs can benefit from a lump-sum tax regime that reduces tax compliance costs*

The lump-sum amount paid by businesses is determined by complex rules, which may result in tax uncertainty. In addition, the simplified tax regime could create hurdles to growth. Businesses with an annual turnover of less than EUR 30 000 and that carry out specific business activities can request to pay PIT on an annual lump-sum basis. In 2020, 2 466 businesses benefited from this lump-sum tax regime (down from 3 054 and 2 902 in 2018 and 2019, respectively). The lump-sum amount depends on the type of business activity, the level of turnover and the level of expected taxable income that the business would have under the regular PIT regime.

*Relatively high SSCs and low tax rates levied on personal capital income create a tax-induced incentive for SMEs to incorporate*

The effective tax rate on distributed profits is low as a result of a low CIT rate and a low dividend withholding tax rate of 9% (IBFD, 2021<sup>[86]</sup>). Owner-managers of closely held corporations do not have to be remunerated in the form of a salary; instead, they can earn their income in the form of lower-taxed capital income. This tax-induced incorporation incentive comes at a significant tax revenue cost and implies that owner-managers will not be entitled to social benefits as they have not necessarily paid high SSCs. In

addition, corporations face higher non-tax costs than unincorporated businesses; thus, the tax-induced incorporation incentive could increase (non-tax) compliance costs for SMEs.

*The VAT system does not currently foresee tax simplification procedures*

The recently introduced electronic cash registers are a great opportunity to decrease VAT compliance costs for SMEs. Businesses have to register for VAT if their annual turnover is more than EUR 30 000 (it previously was EUR 18 000). Voluntary registration for VAT is possible for businesses with turnover below the EUR 30 000 threshold, provided they remain VAT liable for at least three years. In 2021, the standard VAT rate was 21% and the reduced VAT rate 7% (IBFD, 2021<sup>[86]</sup>). The recent introduction of electronic cash registers allows businesses to create, send, receive and sign invoices using an online service. This saves them time and reduces tax compliance costs; it also allows the tax administration to strengthen tax compliance and increase enforcement. The introduction of the electronic cash registers should be accompanied by training opportunities for SMEs.

*Montenegro has made progress in reducing tax compliance costs for SMEs*

SMEs benefit from simplified bookkeeping rules and are required to pay taxes on a monthly basis. Incorporated SMEs are required to submit simplified versions of a balance sheet, an income statement and a statistical annex. Moreover, under the lump-sum tax regime, unincorporated businesses are allowed to keep turnover books in electronic form only if they have been authorised by the tax administration to do so. PIT liabilities, including the lump-sum tax, are paid on a monthly basis. Corporations are also required to make tax pre-payments on a monthly basis.

Tax e-filing is mandatory for PIT, CIT and VAT purposes. However, tax e-filing may be a costly procedure for SMEs. All taxpayers have to purchase a digital certificate of EUR 110 to file their tax return on line, which can discourage tax compliance. While taxes can be paid electronically through any commercial bank, it is not compulsory to do so.

Several initiatives have been implemented to improve tax literacy, reducing compliance costs for SMEs. Information, such as changes in legal regulations and reminders of deadlines for submitting tax returns, is regularly published on an online portal. In addition, Montenegro has organised a “tax caravan” project in all major cities that provides guidance on taxpayers’ rights and obligations. These initiatives allow taxpayers to improve their knowledge about the functioning of the tax system and to increase tax literacy, thus reducing tax compliance costs.

### ***The way forward for Dimension 4***

- **Build the capacity of the public administration to understand the end needs of users when designing digital services.** While digitalising existing public services is an effective means of saving time for businesses and improving the efficiency of existing administrative procedures, going forward, it could be beneficial for the government to adopt a proactive approach of redesigning services around the final needs of businesses to make them more efficient and to deliver more public value. Box 16.10 provides more information on how to adopt a user-driven approach to service design and delivery. The full implementation of the once-only principle will allow this re-engineering of services to bring its full benefits.



### Box 16.10. Keys to successful user-oriented service delivery

Successfully designing public services that are tailored to and are responsive to users' needs is a process that depends on several key factors, according to the OECD's Conceptual Framework for Analysing the Design and Delivery of Services:

- Firstly, **governments must consider contextual factors**, such as the political and administrative culture of a country, the technological context (availability of and widespread use of tools such as internet and ICT or electronic signatures in businesses), socio-economic and cultural factors. Embracing a digital by default approach risks excluding users who may be unable to complete services on line and need in-person support. Therefore, governments should understand how existing service delivery channels (websites, call centres, networks of service provision) can work together to provide inclusive access to services for all. Information shared through different channels (on line, in person, telephone) should be integrated to allow users to complete services end-to-end even if they change channels in the middle of the process.
- Secondly, **public sector service design should be guided by a philosophy that is based on inclusiveness of stakeholders, agile design and iteration**. In the case of digital services for businesses, this means that businesses, including SMEs, should be consulted proactively when designing services or adapting them to digital models. User feedback can also be collected ex post through monitoring and evaluation. An agile design philosophy allows governments to iterate on services and integrate user feedback throughout the service design and delivery process, as opposed to collecting feedback as a separate process.
- Lastly, **governments should enable the delivery of services based on a user-centric approach by taking a government as a platform approach**, giving civil servants the resources and tools necessary to drive this transformation. Concretely, this refers to establishing common standards for service delivery, empowering administrations with the ability and resources to explore, test and propose new services, developing reusable technical components (such as payments or identity), and establishing appropriate guidelines for public procurement to ensure the reflection of these principles when outsourcing.

Source: OECD (2020<sup>[87]</sup>).

- **Improve monitoring and evaluation of digital services for businesses, including company registration.** Low satisfaction rates of digital services for businesses, as well as limited monitoring and evaluation mechanisms, show a need for more targeted data collection. While the government does have plans to conduct an in-depth survey on satisfaction with digital services (similar to the one conducted in 2019), it should also look to make improved, regular and obligatory monitoring of satisfaction a key objective of the overall development plans for the e-Uprava and e-Firma portals, where services are concentrated. When improving feedback channels, it would be important to ensure differentiated data collection for feedback by businesses, and more specifically, to differentiate feedback by enterprise size class to see if SMEs experience specific challenges. To go a step further, production-related data (such as usage patterns, number of transactions, etc.) can be collected to understand the underlying reasons for businesses' satisfaction or dissatisfaction with a given service and identify areas for improvement. Norway's example (Box 16.11) could be useful to illustrate how monitoring and evaluation mechanisms could be integrated through the e-Uprava portal. The newly established Council for Electronic Government should keep these key considerations in mind and use its role of strengthening co-ordination and



monitoring implementation of digitalisation reforms to improve the available feedback channels. To ensure the quality and consistency of data, the Statistical Office of Montenegro could also collect data on the usage of digital services as official data.

### Box 16.11. Norway's Altinn portal

Altinn ([altinn.no](https://altinn.no)) is Norway's digital one-stop shop for businesses and citizens. Launched in 2003, the portal has undergone several iterations and has developed into a one-stop-shop for digital services, providing over 1 000 digital services and forms, as well as a platform for government design and iteration of public services. The Brønnøysund Register Centre, as the institution responsible for managing Norway's digitalised registers, is in charge of managing and developing the platform, in co-ordination with line ministries and in consultation with end-users.

Altinn is connected to Norway's National Population Register and Register of Legal Entities, allowing it to monitor the use of the platform, as well as individual services, by both businesses and citizens dynamically. This allows the Norwegian government to identify potential gaps in service use as well as where additional outreach efforts might be necessary (among which business categories, in which geographic area, for example).

Altinn's success has led to it being used by 100% of businesses for filing tax returns and annual accounts and some 99% of businesses for declaring and paying VAT.

Altinn is an example of how the interoperability of government data can strengthen monitoring and evaluation. The platform has automatic access to key information about its users, as such information is collected automatically.

While this requires a high level of interoperability and data security, something which the WBT economies are working towards, it provides an example of how a platform for digital services can monitor the use of the services directly. Some WBT economies already collect data on the use of services through their portals automatically, and would benefit from expanding the range of indicators collected (in the case of businesses: size class, sector of activity, etc.) without necessarily making this data collection automatic (users could enter the information themselves initially).

Source: OECD (2020<sup>[88]</sup>).

- **Finish streamlining the process of electronic licensing and consider creating a central co-ordination body responsible for overseeing the licensing process.** While Montenegro has a functioning register of licences and is in the process of enabling electronic applications for all licences, competences in granting licences are still fragmented between different institutions. Montenegro could create a central co-ordinating body under the authority of digital government authorities that would be in charge of interoperability and data-sharing with the different institutions responsible for granting licences. Going further, to increase transparency, the body could be responsible for granting licences (those that do not require the competent authority's approval) and overseeing the overall licensing process. Moreover, electronic distribution and nomination of licence officers could also be introduced to distribute the workload equally among licensing officers to deal with requests faster. Introducing services based on ICT for SMEs could enhance their trust in government and reduce conflicts of interest. Montenegro could follow Albania's electronic licensing process (Box 16.12), which has proven to be effective as the majority of businesses claim

that in the process of obtaining licenses, the lack of a fully digitalised licensing is a minor obstacle or no obstacle at all (Regional Cooperation Council, 2021<sup>[70]</sup>).

### Box 16.12. Albania's business licensing process

#### The licensing process is centralised and fully operational on line

In Albania, the National Business Centre (NBC), which operates as a one-stop-shop for company registration, is in charge of receiving applications for licences, permits and administrative authorisations, and submitting them to the relevant authorities as needed. The NBC is in charge of interoperability and exchange of data between public institutions. The process follows the “silence is consent” principle: if the NBC fails to answer a request within a prescribed time frame as detailed in law, consent to the request is automatically given. Since 2020, services for obtaining licences and permits are only accessible on line and are offered free of charge (<https://qkb.gov.al/home>).

#### Categories of licences

There are three categories of permits and licences for businesses. The first uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled. In the second category, the decision is based on self-declaration and documentary proof provided by the applicant. The third category of licences, in addition to the requirements of the second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method. The NBC is the authority responsible for granting licences from Categories 1 and 2, and relevant ministries along with the NBC are responsible for granting licences falling under Category 3.

#### Electronic distribution and nomination of licensing officers

For all permit and licence requests (in person before 2020 and on line), the electronic system checks the documents and assigns applications randomly to an officer. Businesses can trace their application's status on NBC's website with their case number.

Overall, a digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps to monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Source: AIDA (n.d.<sup>[89]</sup>).

- **Rebalance the tax burdens of unincorporated and incorporated SMEs to limit the tax-induced incentives for SMEs to incorporate.** Montenegro could, for instance, lower SSCs, increase the progressivity of the PIT and increase the tax rates levied on capital income at the personal shareholder level.
- **Evaluate the tax burdens faced by different types of SMEs from a tax policy perspective, for instance, by using business tax returns.** In light of the new international tax framework that discourages CIT holidays, Montenegro should monitor the effective tax burden SMEs face and evaluate whether the CIT exemption could be replaced by expenditure-based tax incentives instead.
- **Assess the possible reforms to improve the design of the lump-sum tax regime.** The tax administration could simplify the rules that determine the lump-sum amount of tax that needs to be

paid to increase tax certainty for SMEs. Further analysis of this lump-sum tax regime could assess whether businesses are bunching below the EUR 30 000 threshold rather than growing into the regular PIT regime.

- **Assess whether there is scope to reduce and facilitate tax administration procedures for SMEs, for instance, through business surveys.** Montenegro could evaluate whether the monthly tax payment obligation leads to high compliance costs and whether tax pre-payments could be made less frequent instead for SMEs. Montenegro could also assess whether there is scope to further ease tax compliance for SMEs and whether the EUR 110 certificate could be paid by the tax administration instead.

## Support services for SMEs (Dimension 5a)

### Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, sub-optimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

For an economy like Montenegro, where SMEs struggle with competitiveness, BSSs accessibility is vital to boost their productivity and stimulate further growth. A policy mix of financial and non-financial support proves most effective in the case of Montenegro, where access to finance and technical assistance has been negatively affected by the COVID-19 pandemic.

Montenegro has performed particularly well under this dimension, scoring a total of 4.58, above the average in the region (Table 16.13). Since 2016, Montenegro has seen continuous improvement under Dimension 5a. In 2016, it received a 2.95 score, while in 2019, a score of 4.03. The economy substantially improved its strategic framework for BSSs provision and made notable advancements in implementing *SME Policy Index 2019* recommendations. The scores reflect considerable progress for the economy, now positioned as one of the leaders in the region in the area of BSSs for SMEs.

**Table 16.13. Montenegro's scores for Dimension 5a: Support services for SMEs**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	4.71	4.17
		Implementation	4.57	4.24
		Monitoring and evaluation	3.89	3.88
		Weighted average	4.48	4.15
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	5.00	4.63
		Implementation	4.70	4.21
		Monitoring and evaluation	4.20	3.84
		Weighted average	4.69	4.26
Montenegro's overall score for Dimension 5a			4.58	4.20

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Montenegro boosted its provision of BSSs since the last assessment cycle. The government reinforced the strategic framework for BSSs provision and designed and implemented new BSSs programmes in co-operation with local business organisations and associations<sup>31</sup> and international partners.<sup>32</sup> To ensure high quality among private BSSs, Montenegro introduced an accreditation requirement for private-sector consultants. However, there is still a need for a stronger feedback collection system regarding private BSSs.

Montenegro advanced on the last assessment cycle's recommendations (Table 16.14). It introduced a comprehensive analysis of supply and demand for BSSs and a review of the current landscape of support services available to SMEs in the economy. Furthermore, the government made significant improvements

in the accessibility of information, especially through the newly established SAP serving as a one-stop-shop for SME support.

**Table 16.14. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 5a**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Conduct regular training needs analyses at the national level and an independent evaluation of business support services</b>	Montenegro made progress with monitoring and evaluation of its BSSs supply. In 2019 and 2020, the government, together with the Chamber of Economy, conducted a comprehensive analysis of the supply and demand of BSSs among SMEs. The results were systematically transposed into future policy design. However, many BSSs programmes are systematically monitored mainly by external partners. Independent reviews of government-provided BSSs are not performed regularly.	Moderate
<b>Provide easier access to information on business support services to stimulate SME uptake</b>	Facilitating access to information about the BSSs supply has improved since the last assessment cycle. In 2021, the Ministry of Economic Development started the implementation of a Single Access Point containing centralised information relevant for MSMEs. The portal will include existing policies and programmes of support, regulatory framework changes and government activities in the area of SME support. The website is under construction with plans for launch in the second quarter of 2022. The project is supported through a direct EBRD grant.	Strong
<b>Introduce a quality assurance mechanism for the private-sector consultants and trainers</b>	Montenegro has made significant progress in introducing quality assurance mechanisms, namely the accreditation requirement introduced as a pre-requisite for co-financing. SMEs interested in private BSSs have to commit to hiring an accredited consultant to ensure a high level of services.	Strong

*Montenegro advanced in building a comprehensive strategic framework for BSSs, emphasising the accessibility of information and private BSSs quality assurance*

The government reinforced the strategic framework for BSSs provision and designed and implemented new BSSs programmes in co-operation with local institutions and external partners. In addition to the MSME Strategy (2018-2022), the Strategy for Lifelong Entrepreneurial Learning (2020-2024) and the Industrial Policy of Montenegro (2019-2023) regulate the BSSs provision in Montenegro. While the public provision of BSSs is thoroughly emphasised in Montenegro's strategic documents, private BSSs are not explicitly distinguished. Despite this, Montenegro has advanced in improving the capacity of incubators, business centres, and accelerators.<sup>33</sup> The government collaborates with private business centres and academia to provide SMEs with physical infrastructure and a conducive business environment, which has resulted in the construction of a technology park. If well developed, technology parks should facilitate access for SMEs, especially start-ups, to mentoring services, office space, networking opportunities and financing.

Since the last assessment cycle, Montenegro has also advanced a quality assurance mechanism for privately provided BSSs. In the Strategy for Lifelong Entrepreneurial Learning (2020-2024), Montenegro emphasises the use of accredited consultants while providing BSSs (Ministry of Economic Development, 2020<sup>[90]</sup>). This refers to the preparation of technical documentation, certification, development and implementation for digitalising operations and processes and consultancy services for innovation-related activities. The co-financing initiatives are subject to comprehensive quality control mechanisms, such as International Organisation for Standardisation (ISO) norms, occupational health and safety management systems and environmental standards. Nevertheless, privately provided BSSs are not subject to the same degree of scrutiny as those provided by the government. The beneficiaries are not required to submit their feedback on the services provided by accredited consultants. The lack of a formal feedback collection mechanism may result in lower quality and efficiency of private BSSs.

Progress was also made in developing a single information point for SMEs that should facilitate access to information about the BSSs supply. In 2021, the Ministry of Economic Development started the implementation of an SAP<sup>34</sup> project that aims to establish a one-stop-shop with centralised information on SME-related policies and support programmes, relevant regulatory framework changes and any government activities that pertain to the SME landscape in Montenegro. SAP is financed through an EBRD grant and should be fully operational in the second quarter of 2022 (EBRD, 2020<sup>[91]</sup>). At the time of assessment, the government has already identified the relevant content to include on the website, assessed SMEs' needs related to a one-stop-shop portal and is currently working on finalising the website's functionality. The project is set to increase the awareness and uptake of available BSSs, as well as streamline the information flow between the government and the private sector. The initiative constitutes an ample vehicle for SME outreach and a consolidated source of information for potential entrepreneurs. A single access portal streamlines the process of establishing and running a business, contributing to higher productivity within the economy.

*Montenegro has considerably advanced in its provision of BSSs, augmenting the number and scope of support programmes for SMEs*

The government of Montenegro has offered new BSSs available to SMEs, such as grants, export financial support, ICT and resource efficiency trainings. It, therefore, considerably increased the number and range of BSSs provided over the reporting period. According to data provided, in 2019 and 2020, the government administered 8 400 BSSs to SMEs.<sup>35</sup> The increment is also partially due to bolstered inter-agency co-operation between business associations,<sup>36</sup> the Chamber of Economy, the Employment Agency of Montenegro, the IDF, the Montenegrin Employers Federation and private providers. As a result, Montenegrin SMEs now have access to consulting services, training for start-ups, sector-specific BSSs, entrepreneurship training, conferences and seminars and grants for self-employment. Furthermore, in accordance with the strategic framework of the Industrial Policy of Montenegro (2019-2023),<sup>37</sup> the government also started providing services pertaining to the support of physical infrastructure for SMEs (Ministry of Economic Development, 2019<sup>[92]</sup>).

At the time of assessment, the Employment Agency of Montenegro is implementing a EUR 3.5 million project that provides grants for unemployed individuals to start an enterprise. The project enjoyed a relatively high uptake, with a total number of beneficiaries rising from 93 in 2019 to 215 in 2020 and 159 in 2021. However, despite the scheme's popularity,<sup>38</sup> there is little proof of the programme's long-term impact (the evaluation is conducted within the period of four months after granting the funds) or effectiveness (as the agency measures the number of grants and value of support, rather than long-term success of the self-employment projects undertaken by the beneficiaries). Supplementing financial support initiatives (see Dimension 6 on Access to finance), the IDF organises information sessions on starting a business (e.g. how to prepare a business plan, design an investment strategy, and register a business) and developing entrepreneurship skills and innovation strategies (IDF, 2020<sup>[93]</sup>). Motivational trainings have been put in place with the aim to empower youth and women entrepreneurs in particular (IDF, 2020<sup>[93]</sup>).

Montenegro also participates in capacity-building projects financed by integrational development co-operation partners. The European Union initiated the BoostMeUp<sup>39</sup> programme to help SMEs with product and idea development. The EBRD launched a new project that aims to increase BSSs provision in the economy, called "Supporting Entrepreneurship through Advisory Services and Information Services for SMEs,"<sup>40</sup> which aims to mentor SMEs in how to access technology and knowledge to build their capacity and improve their competitiveness. The EUR 1.75 million project is co-funded by the European Union and the Government of Montenegro through the IPA.

The COVID-19 pandemic had negative effects on the provision of BSSs, especially ones involving direct contact with SMEs – such as workshops and mentoring sessions. The less digitally advanced SMEs

missed out on training opportunities and support activities that were moved on line. The government acknowledged this impact in the Programme for Improving Competitiveness 2021; however, no additional measures were added to account for the damage done by the pandemic, apart from the support package ensuring SME liquidity and employment rolled out for the economy.

*The government intensified its efforts to match the supply of available BSSs to the demand by conducting extensive analysis and gauging their training needs*

In line with the *SME Policy Index 2019* recommendations, Montenegro emphasised analysing SMEs' needs and demand for BSSs to match the government's offer of support.

In 2020, the Chamber of Economy conducted a study on a prevailing mismatch between inadequate ICT skills among the population and the ICT skill set needed in the labour market. The study results showed a clear misalignment of the ICT education provided with the demand from the labour market – 97.3% of surveyed employers expressed difficulties finding employees with the required technology skills. According to the study, inadequate ICT skills or lack thereof are caused by insufficient training and gaps in the education system. Taking into account the results of the analysis, the government introduced new BSSs focusing on ICT capacity building to fill these gaps (Chamber of Economy of Montenegro, 2020<sup>[94]</sup>).

In addition, the Ministry of Economic Development conducted surveys on previous trainings and activities completed as well as current and future BSSs needs of SMEs. In 2020, a representative sample of 95 SMEs answered comprehensive questionnaires on the state of government's BSSs provision and their demand for particular training and services. Though the sample was relatively small, it included enterprises across sectors providing useful insights into their needs. Similarly, surveys are extensively used in Montenegro's monitoring and evaluation procedures. After each programme is completed, the beneficiaries must submit a satisfaction survey evaluating the services received. While it can give the government broader insight into potential improvements from the point of view of the beneficiary, satisfaction surveys lack a deeper, results-based analysis of the SMEs' performance after taking up the support scheme. The monitoring and evaluation processes are conducted systematically, and the results are published annually, adding to the government's transparency efforts.

### ***The way forward for Dimension 5a***

- **Intensify the efforts to monitor government-provided business support services by inviting an independent institution to conduct a review.** Though some BSSs programmes are thoroughly monitored, this process is usually left within the purview of international partners. Given that the BSSs are provided periodically, there is a need for systematised monitoring performed on a regular basis. The monitoring of BSSs could be improved by extending the evaluation period after the support has ceased, especially in the case of start-ups. Given the high death rate of microenterprises and SMEs in the first year of operations, monitoring their activity for shorter periods of time does not provide a full picture of a company's progress. By monitoring the long-term success rate of supported enterprises, the government can have a broader view of the effectiveness of the grants and technical assistance provided and adapt the level of support accordingly.
- **Extend the level of quality assurance and develop a system to collect feedback from beneficiaries of private BSSs to ensure accredited consultants cater to SMEs in their provision of support services.** Satisfaction surveys would give the government insight into the quality of private support services available to SMEs and provide an opportunity to better match the accredited consultants to specific SME needs (Box 16.13).



### Box 16.13. The feedback collection mechanism of the Polish Agency for Enterprise Development

The Polish Agency for Enterprise Development (PARP) is a public organisation that serves as an umbrella agency for BSSs providers. The services are co-financed by the government and administered by a variety of private-sector providers, including business centres, incubators, NGOs and consulting firms. PARP is responsible for their accreditation and ensures the high quality of services provided. The agency places a strong emphasis on monitoring both the demand for BSSs and the results of the support granted.

PARP's activities are thoroughly monitored ex post, through reports after programme completion and satisfaction surveys sent out to SME beneficiaries. The assessment of the support provided through private-sector consultants is particularly significant to the agency's operations and the levels of co-financing provided. Reports and surveys are publicly available, allowing for a greater degree of public scrutiny. The results allow PARP to improve the quality of provided services and limit the possibilities for inefficient allocation of funds.

At the time of assessment, SMEs in Montenegro did not have a channel to communicate the outcomes or effectiveness of private BSSs they had received. Therefore, the government does not have insight into the quality of the private BSSs supported by the government, risking inefficiencies in budget allocation. Providing SMEs with an opportunity to express their satisfaction with the services of private consultants through surveys would enhance the government's evaluation scope. PARP's example serves as a good practice to observe how co-financing levels granted for private provision of BSSs can be altered based on the effectiveness of the services rendered.

Source: PARP (n.d.<sup>[95]</sup>).

## Public procurement (Dimension 5b)

### Introduction

Easy access to public procurement markets for SMEs and increased participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionately affected by complex procedures and often discouraged by the effort needed to take part in these procedures, while the outcome is uncertain.

The COVID-19 pandemic affected the public procurement market in Montenegro. The total value of contracts awarded in 2020 fell from EUR 608 million in 2019 to EUR 545 million (Directorate for Public Procurement Policy, 2021<sup>[96]</sup>). According to Montenegrin authorities, this decrease is one of the consequences of the pandemic (Directorate for Public Procurement Policy, 2021<sup>[96]</sup>). The government adopted some urgent measures, such as an interdiction to initiate new public procurement procedures, with the exception of procurement necessary for the functioning of the health system as well as procurement justified by national security interests or other emergencies.

Montenegro's score of 4.16 for Dimension 5b is the third-highest among all the assessed economies (Table 16.15) and is only slightly lower than the top two. This is an increase compared to 2019 (3.87). The increase is due to a recent improvement of public procurement legislation, the adoption of strategic documents, in particular defining actions concerning SME access and the establishment of a new e-procurement system.

**Table 16.15. Montenegro's scores for Dimension 5b: Public procurement**

Dimension	Thematic block	Montenegro	WBT average
Dimension 5b: Public procurement	Planning and design	4.13	4.16
	Implementation	4.80	4.15
	Monitoring and evaluation	2.60	3.27
Montenegro's overall score for Dimension 5b		<b>4.16</b>	<b>3.98</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Since the previous assessment, Montenegro has reinforced the legislative framework for public procurement. The new Public Procurement Law (PPL), the new Law on Public-Private Partnership as well as secondary legislation based on the two laws were all adopted at the end of 2019. In line with recommendations from the previous assessment (Table 16.6), the regulatory framework has been largely aligned with the *acquis*. The government also adopted the new Strategy for the Development of the Public Procurement System (2021-2025) (Directorate for Public Procurement Policy, 2021<sup>[97]</sup>) and established a new e-procurement system, obligatory for all contracting authorities and economic operators.

**Table 16.16. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international good practice	There has been important progress as regards provisions and practice in the field of public procurement: <ul style="list-style-type: none"> <li>– The new PPL, based on 2014 EU Procurement Directives, as well as a number of implementing regulations, were adopted. The new e-procurement system was established, providing a fully electronic process of procurement.</li> </ul>	Strong
Further reduce the administrative burden of participating in public procurements	The new PPL provides various instruments supporting the participation of SMEs in public procurement procedures by: <ul style="list-style-type: none"> <li>a) introducing a standard form of self-declaration which is used as a preliminary proof of fulfilment of provisions on exclusion and criteria for qualification (selection)</li> <li>b) requiring, in principle, documentary evidence only from the bidder whose tender is considered to be the best</li> <li>c) permitting economic operators in subsequent procedures to use the same form, if the information remains relevant</li> <li>d) allowing contracting authorities to only request documents from economic operators that are not available in any state database or that are not already in the possession of the contracting authorities.</li> </ul>	Strong
Increase the use of non-price criteria for awarding contracts to enable public buyers to receive the best value for money	The new PPL allows application of the lowest price criterion in strictly defined circumstances; the requirement to use additional price criteria should, however, be followed by educational activities and the promotion of non-price criteria through best practice examples.	Moderate
Monitor the way that simplified public procurement procedures are applied, particularly their transparency and competitiveness, below the threshold at which the Public Procurement Law (PPL) applies	The Directorate for Public Procurement Policy (DPPP) monitors the award of low-value contracts, those below the thresholds of application of the PPL, including contracts up to EUR 5 000: such a procurement must be published in the e-procurement system, and relevant information about the total value of the procurement is included in the DPPP's annual (and semi-annual) reports.	Strong

*The public procurement market represents a significant part of the economy*

The public procurement market amounted to 13.1% of GDP in 2020, reaching a total value of EUR 545 million (European Commission, 2021<sup>[69]</sup>). The average number of tenderers was 2.27 in 2020, higher than in 2019 (2.01) but significantly lower than in 2018 (3.14) (OECD, 2021<sup>[72]</sup>). The share of contracts awarded to foreign companies in Montenegro in 2019 amounted to 4.83% (10% of public procurement in terms of value).<sup>41</sup> In 2020, the value of contracts concluded with foreign contractors represented 14.16% of all public procurement contracts (only 0.55% of all contracts were concluded with foreign companies).<sup>42</sup>

*The regulatory framework has been significantly modified to satisfy EU requirements*

The new PPL adopted at the end of 2019 and applicable since 9 July 2020 is largely aligned with the *acquis* on public procurement. A few minor discrepancies remain, and a number of exemptions exceed what is permitted under the 2014 EU Procurement Directives.<sup>43</sup> The new PPL covers procurement in the public and utilities sectors above the thresholds of EUR 20 000 for supply and service contracts and EUR 40 000 for work contracts. Contracts valued under these thresholds are defined as a “simple” procurement and are exempted from the PPL and subject to simplified rules.

*More emphasis is placed on supporting SMEs in accessing the public procurement market*

The new Strategy for the Development of the Public Procurement System (2021-2025) aims, among others, to encourage the implementation of criteria related to green and sustainable procurement and increase the participation of SMEs in public procurement procedures.<sup>44</sup>

The new PPL supports the participation of SMEs in public procurement procedures in several ways. First, a subject of public procurement may be divided into lots according to the type, characteristics, purpose, place or time of implementation, taking into account the possibility of SMEs bidding. If contracting authorities have not divided the procurement into smaller lots, they should explain the main reasons why. Second, a standard self-declaration form containing most of the relevant information is used as preliminary proof of economic operators' fulfilment of the provisions on exclusion and criteria for qualification (selection).<sup>45</sup> Economic operators may use the same form in subsequent procedures if the information remains relevant and up-to-date. Contracting authorities should not request documents that are available in national databases or that they already have in their possession. Third, tenders or requests for participation may be submitted by groups of economic operators (consortia); some formal requirements concerning such groups are, however, required under the PPL.<sup>46</sup> Fourth, selection of the best tender must be based on the most economically advantageous tender criterion, and the price as the only criterion may be applied exceptionally.<sup>47</sup>

The PPL also contains a number of provisions related to sustainable procurement (as provided for in the EU Public Procurement Directives)<sup>48</sup> in terms of the description of the object of the procurement, qualification and award criteria, as well as contract performance conditions. For example, contracting authorities may require that goods or services conform to special environmental or social characteristics.<sup>49</sup> They may also require that in a given procurement procedure, participation only be open to economic operators whose primary purpose is the social and professional integration of persons with disabilities or disadvantaged persons.<sup>50</sup> Economic operators may be excluded due to a breach of binding environmental, social or labour legislation.<sup>51</sup> Social or environmental requirements can also be included among the contract award criteria,<sup>52</sup> and compliance with the relevant obligations is assessed to verify that a tender is not abnormally low.<sup>53</sup> Finally, provisions regulate the use of specific, simplified procedures for awarding contracts for social and other special services.<sup>54</sup>

*The institutional set-up ensures the support of contracting authorities and economic operators*

The Directorate for Public Procurement Policy (DPPP) (n.d.<sup>[98]</sup>), within the Ministry of Finance and Social Welfare, is the central body responsible for public procurement in Montenegro. The DPPP is responsible for drafting procurement legislation, ensuring its compliance with the *acquis*, monitoring contracting authorities' activities, and co-operating with international and other organisations. It offers legal advice and training to contracting authorities and economic operators, as well as support for the use of the e-procurement system. The new e-procurement system, the National System of Electronic Public Procurement (Directorate for Public Procurement Policy, n.d.<sup>[99]</sup>), is obligatory for all contracting authorities and bidders. It has increased the overall transparency and competitiveness of public procurement in Montenegro, as contracts awarded under the simplified public procurement regime<sup>55</sup> must also be published. The National System of Electronic Public Procurement includes functionalities from the publication of procurement plans and tender documents up to the submission of tenders and their opening.

*Legal provisions enable economic operators to seek justice with an independent review body*

Provisions on review procedures comply with the requirements of the *acquis*. The PPL provides a clear definition of decisions which may be challenged<sup>56</sup> as well as strict rules on deadlines. The Commission for

Protection of Rights in Public Procurement Procedures (CCPP, n.d.<sup>[100]</sup>) is an independent review institution composed of a president and six members, all appointed by the government. They serve a five-year term, with the possibility of reappointment. Review procedures have a maximum of three stages. Complaints are first reviewed by the contracting authority and then by the PPC. Complaints have to be accompanied by a fee equal to 1% of the estimated value of the procurement (but no more than EUR 20 000).<sup>57</sup> Complaints result in the automatic suspension of the entire procurement procedure until the CCPP has taken its decision. The CCPP's rulings should be adopted within a statutory time limit of 30 days from receipt of the complete documentation.<sup>58</sup> Finally, both the contracting authority and the economic operators may appeal against the CCPP's decision to the administrative court. In this case, provisions on suspension do not apply, and a contracting authority may sign a contract before the court adopts its ruling. Such a solution is compliant with the *acquis*.

### ***The way forward for Dimension 5b***

- **Facilitate meaningful application of quality criteria to enable the selection of the most economically advantageous tender**, as follow-up on the provisions restricting the freedom of contracting authorities in the application of the price-only criterion. There is a risk that, without sufficient support, contracting authorities will comply with those requirements by simply adding to the price another, equally simple application criterion, to formally comply with the PPL (Box 16.14). The DPPP should produce and share with contracting authorities operational tools such as commentaries, models and good practice examples explaining the criteria and how they could be applied to procure good value for money.

#### **Box 16.14. Support to contracting authorities for applying non-price criteria**

The EU Public Procurement Directive requires that contracts be awarded to the most economically advantageous tender from the point of view of the contracting authority. The most economically advantageous tender can be chosen based on price or cost alone, or on the basis of the price-quality ratio when non-price criteria are also taken into account. According to EU rules, preference between these two options is left to the discretion of the contracting authority. EU countries may, however, decide that contracting authorities may not use solely price (cost) or restrict it to certain categories of contracting authorities or certain types of contracts. Indeed, some countries use this option by introducing, for example, the maximum weight the price factor can have among the evaluation criteria. Other countries recommend a plurality of criteria to assess other elements of the offer than just the price.

Application of the price-quality criterion enables contracting authorities to obtain customised, innovative goods or services that perform better in terms of quality, with broader economic, social and environmental impacts.<sup>4</sup> Although more expensive when simply comparing the purchase price, procurement based on price-quality criteria may be more cost-effective in the longer term, when the full life-cycle cost is considered. The use of the best price-quality criteria instead of the lowest price is often recommended as a tool to help SMEs gain an equal footing to public contracts. It is assumed that while SMEs may be at a disadvantage in delivering off-the-shelf mass products, they may be able to offer higher-quality products or services or better adjust to the needs of the contracting authorities. However, application of non-price criteria is not simple. Contracting authorities often have difficulty formulating proper and meaningful quality criteria, including those involving strategic public procurement (green, socially responsible and innovative) and establishing a relevant link with the subject matter of the procurement. Central procurement institutions should help contracting authorities apply price-quality criteria by training them and providing examples of good practices or models.

In the **Slovak Republic**, the Public Procurement Office (PPO) is aware that non-price criteria are rarely used by contracting authorities due to a lack of knowledge for correctly applying them and for setting this type of award criteria. The Slovak PPO, therefore, established a Responsible Public Procurement project, financed by the European Economic Area and Norway Funds. The project's main goal is to increase awareness of price-quality criteria through methodologies and training to help contracting authorities set conditions correctly and thus increase value for money.

In **Poland**, the Public Procurement Office's website contains a section dedicated to disseminating good practices in the field of public procurement. Contracting authorities that are more experienced in applying quality criteria may share their experience with other procurement practitioners by participating in a contest organised by the PPO on the best examples of quality criteria. Winning submissions, chosen by the PPO, are published on the PPO's website with practical comments.

Before entry into force of the new Public Procurement Law, the dominant criterion for the selection of the best tender was the lowest price. The transition from almost exclusive application of the lowest price criterion to one where it can only be applied in very limited circumstances should, however, be followed by educational activities and the promotion of non-price criteria through best practice examples. Otherwise, this may lead to the automatic and formal application of non-price criteria where contracting authorities will just add one or two other criteria to the price to comply with the new requirements.

1. Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18, Article 67.

2. Ibid., Article 67(2).

3. Croatia, Lithuania and Poland.

4. See European Commission (2019, p. 64<sup>[101]</sup>).

Sources: OEAP (2019<sup>[102]</sup>); de Bas et al. (2019<sup>[103]</sup>); European Commission (2021<sup>[104]</sup>); Slovak Public Procurement Office (n.d.<sup>[105]</sup>); Polish Public Procurement Office (n.d.<sup>[106]</sup>).

## Access to finance for SMEs (Dimension 6)

### Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain efficiency and productivity. However, availability and affordability of credit typically strongly correlate with firm size, meaning that the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement the private-sector provision of financing without crowding it out.

Across the world, including in Montenegro, the COVID-19 pandemic suddenly increased pressure on firm finances, especially for smaller firms without large financial buffers. It brought access to credit to a sudden halt, requiring a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this unprecedented background, Montenegro has made progress in facilitating SMEs' access to financing, improving its score from 3.49 in 2019 to 3.63 in 2022 (Table 16.17), owing in particular to strengthened banking regulation and the promotion of financial literacy. In a regional comparison, Montenegro continues to rank in the middle, well ahead of Albania, Bosnia and Herzegovina, and Kosovo<sup>59</sup>, but somewhat lagging behind North Macedonia, Serbia and Turkey.

**Table 16.17. Montenegro's scores for Dimension 6: Access to finance for SMEs**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	5.00	4.27
		Registers	4.90	4.63
		Credit information bureaux	4.00	4.37
		Banking regulations	3.60	4.09
		Stock market	4.00	3.23
		Weighted average	4.40	4.20
	Sub-dimension 6.2: Bank financing	Bank lending practices and conditions	2.60	3.23
		Credit guarantee schemes	1.40	2.61
		Weighted average	2.12	2.98
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.00	3.37
		Leasing	3.20	3.24
		Factoring	3.00	2.71
		Weighted average	3.38	3.09
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.00	2.73
		Design and implementation of government activities	1.70	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	1.65	2.40
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	3.20	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	2.75	2.50
Montenegro's overall score for Dimension 6			3.63	3.68

Note: WBT: Western Balkans and Turkey.



## State of play and key developments

Since the previous assessment, access to finance has been facilitated by the Montenegrin authorities' strong fiscal response to mitigate the economic impact of the COVID-19 pandemic (Table 16.18). Access to credit has remained relatively stable amid a robust legal and regulatory framework, which is now fully aligned with Basel III requirements, and the consolidation of the banking sector is ongoing. The state-owned IDF continues to play a crucial role in providing subsidised access to finance, and plans are underway to establish a state Credit Guarantee Fund to help alleviate continued high-level risk perceptions by lenders, especially with regard to smaller enterprises, triggered by a lack of reliable sources to assess their creditworthiness. Microfinance has somewhat increased in recent years, but take-up of leasing and factoring, despite legal reforms, remains subdued. Equally, little progress has been made to stimulate venture capital or other equity-based financial instruments, though the establishment of a business angel network is a positive signal. Lastly, Montenegro participated in a regional financial literacy assessment, conducted in line with the OECD methodology, and subsequently established a National Committee for Financial Education Development, whose aim is to develop a national programme for financial education.

**Table 16.18. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 6**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Strengthen banking sector stability</b>	The sector has undergone some consolidation since the last assessment as a result of strengthened supervision by the Central Bank of Montenegro and legislative reform to conform to Basel III standards. However, amid continuous competition and concerns over an increase in impaired loans, coupled with subsidised access to finance offered by the Investment and Development Fund, sound and sustainable banking practices could become increasingly undermined.	Moderate
<b>Enhance credit information</b>	Coverage of the cadastre has increased, and the cadastre has been digitalised; however, no progress has been made in incorporating additional financial data into the sources of the public Credit Registry, which would enrich the suite and quality of information available to creditors to assess the companies' creditworthiness. There are still no plans to establish a private credit bureau.	Limited
<b>Introduce alternative equity-based finance</b>	No progress has been made to introduce a dedicated legal or regulatory framework to support venture capital operations, and there has not been any progress either on plans for legislative reform to enable collective investment schemes. Preliminary work has commenced to introduce legislation for crowdfunding by 2024.	Limited

*Lending is supported by a strong legal and regulatory framework, though reliable credit information remains a challenge*

The financial sector in Montenegro benefits from a robust legal and regulatory framework in line with international best practices. The new Law on Resolution of Credit Institutions and Law on Credit Institutions, which – following some delay due to the COVID-19 crisis – both entered into force in early 2022, have brought regulations broadly in line with Basel III requirements, while some exceptions for exposure for SME lending have been maintained.

In 2019, Montenegro digitalised its cadastre, and its coverage has increased, from 75% in 2019 to 93% of Montenegro's territory at the end of 2021, with plans in place to include the remaining areas. The public Credit Registry is estimated to cover close to 100% of all borrowers, or 70% of all adults (Central Bank of Montenegro, 2021<sup>[107]</sup>). Despite plans to incorporate information from non-financial institutions and utility providers, at the time of writing, no such steps have been taken. According to the Credit Registry, the exchange of data with non-financial institutions is allowed but not obligatory. A continuous challenge remains the reliability of data due to limited audited financial statements and continuous challenges to verify linkages among counterparties. In combination, this limits the registry's ability to help enterprises to

build a robust credit history and facilitate reliable risk assessment. There are still no plans to establish a private credit bureau.

Some progress has been made to align capital market requirements to the *acquis*, and a new multilateral trading platform for developing companies, MTP GROW,<sup>60</sup> has been established. However, little information is available on the trading requirements of this market, and amidst overall inactivity of the Montenegrin Stock Exchange, there is no evidence that capital market finance is used by smaller companies. Montenegro has yet to join the regional SEE Link,<sup>61</sup> which may boost trading activity and raise awareness about this form of finance among enterprises.

*The banking sector remains stable amid strengthened supervision and temporary crisis mitigation measures, but lending remains expensive*

Conventional bank lending continues to dominate the financial sector, with 11 banks operating in Montenegro's small economy, down from 15 during the previous assessment. It remains largely foreign-owned, though the share of foreign banks has somewhat increased in recent years, partially owned to the merger between the foreign-owned Podgorička Banka with, at that time, the largest domestic CBK, while two small local banks have also ceased to operate. The increased local ownership of the banking sector may lead to more access to long-term lending, benefiting the domestic market. However, continued consolidation efforts will be required to maintain the stability of the industry.

Overall, the sector has remained relatively stable and has weathered the economic shock of the COVID-19 pandemic well. Owing to increased supervision and sound solvency and liquidity ratios during the pre-pandemic period, coupled with temporary crisis support measures, credit continued to grow and strongly rebounded in 2021 following some initial deceleration in 2020, at 6.6% year on year (European Commission, 2021<sup>[69]</sup>). The level of NPLs has remained relatively stable, at around 6.17% at the end of 2021 (Central Bank of Montenegro, 2021a<sup>[108]</sup>), and Montenegro has conducted an independent review of the asset quality to monitor the asset quality of the financial industry throughout 2020 and 2021, as per recommendation by the European Union and the International Monetary Fund (IMF). However, the level of impaired loans is expected to rise as temporary measures phase out.

The cost of finance remains expensive, in particular for smaller enterprises, as credit risks remain high, evidenced by the significant number of enterprises with frozen bank accounts. Coupled with the limitation of the Credit Registry, this constitutes a significant obstacle to access to finance for SMEs. To mitigate some of these pressures, the state-owned IDF offers several credit lines, including with the support of EU funds, to provide loans at subsidised interest rates and co-financing grants. It also administers some credit facilities provided by the government of Montenegro as part of its COVID-19 response. In 2020 alone, the IDF channelled over EUR 280 million into the Montenegrin economy, exceeding initially planned placement by over 40%. The IDF also implements a credit guarantee scheme to improve access to finance for micro and small enterprises, signed with the European Investment Fund under the COSME Loan Guarantee Facility programme in 2019 for an amount of EUR 75 million. To date, 60 loans have been approved, guaranteed in the amount of EUR 5.8 million, suggesting somewhat limited uptake. While the IDF remains an important policy tool to ease access to finance, some of its key features (its mandate; target beneficiaries – currently not exclusively SMEs; and additionality) could be improved and streamlined to ensure that resources are maximised and allocated to those the most in need.

In parallel, the Montenegrin authorities are planning to establish a national Credit Guarantee Fund. Work has commenced, with support from the EBRD, in establishing the overarching framework and roadmap for creating the Credit Guarantee Fund. The draft law is prepared and is expected to be adopted at the government session in spring 2022.

### *Access to alternative sources of finance remains below potential*

Alternative sources of finance remain limited, and non-bank finance accounted for a mere 2.5% of financial sector assets at the end of 2020 (Central Bank of Montenegro, 2021a<sub>[108]</sub>). The new Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-credit and Credit-guarantee Operations, developed with the support from the EBRD and introduced in 2018, has significantly strengthened the regulatory framework, providing legal certainty for factoring and purchase of receivables, which did not exist previously. It also puts this type of financial activity under the supervision of the Central Bank for the first time. However, thus far, the reform has not yielded any impact, suggesting limited awareness of these types of financial instruments. Microfinance is the most commonly used source of alternative finance, and assets increased from EUR 60 million in 2017 to over EUR 80 million in 2020. Leasing continues to be used predominately for vehicles, accounting for 0.8% of total financial assets in 2020. Factoring, in contrast, has decreased substantially, to less than EUR 1 million in assets in 2020, partially due to the existence of one factoring company which failed to obtain a license following the introduction of the new law (Central Bank of Montenegro, 2021<sub>[107]</sub>). Despite this short-term decrease in factoring activity, the new law provides more certainty for factoring providers and, if coupled with awareness raising, may support uptake in the medium term.

Similarly, equity-based finance remains nascent. There is no dedicated framework for venture capital activities in place, and venture capital remains undefined. Plans to introduce legislative reform to enable collective investment schemes have not progressed since the previous assessment. Two Montenegrin start-ups at the seed stage have received investments under the Western Balkans Enterprise Development and Innovation Facility's Enterprise Innovation Fund, but otherwise, early-stage investors are not operating in the economy (WB EDIF, 2021<sub>[109]</sub>). Efforts have been made to strengthen the innovation and start-up ecosystem (see Dimension 8b on innovation policy for SMEs), and in 2018 the Montenegrin Business Angel Network was established. However, its outreach and funding capacity remains limited. Crowdfunding is equally unregulated, but preliminary work has started to introduce dedicated legislation by 2024, which would further facilitate start-up financing. Finally, there are plans to introduce a legal framework to regulate securities token offerings, but no timeline has been set. This, if designed and implemented in line with international best practices, may further support access to finance for SMEs.

### *A new financial literacy strategy forms the foundation for further work*

Some progress has been made to increase financial literacy. In 2019, Montenegro participated in a regional assessment of financial literacy levels in selected South East European economies in line with OECD methodology.<sup>62</sup> Accordingly, financial literacy remains relatively low, positioning Montenegro second to last in the overall ranking (OECD, 2020<sub>[88]</sub>). As a result, in 2020, Montenegro's Financial Stability Council established a new National Committee for Financial Education Development, tasked with developing a strategic and comprehensive national financial education development programme. Even though no concrete timeline has been set, this is an important step to streamline and co-ordinate existing initiatives to provide financial education training and include entrepreneurship in the national curriculum, which currently remains *ad hoc* and inconsistent.

### **The way forward for Dimension 6**

- **Promote sustainable banking practices.** As Montenegro emerges from the economic shock of the COVID-19 pandemic, crisis support measures should be gradually phased out and replaced with more sustainable measures, targeting those segments of the private sector requiring the most support. This should include a review of the IDF's mandate and decision-making process, which should focus on additionality and crowding in of the private financial industry, thereby leading by example and promoting sound banking practices. Coupled with an independent credit guarantee scheme, designed and implemented in collaboration with private-sector stakeholders and international experts, this would help to alleviate the high level of perceived risks of smaller

borrowers. That would further support financial institutions to revisit their lending practices, leading to the introduction of more sustainable, inclusive and long-term access to finance.

- **Raise awareness about alternative sources of finance.** In co-operation with the financial service providers, implement an awareness-raising campaign and training opportunities to raise interest in and understanding of non-bank financial instruments, such as factoring. This would be an important step to ensure that the new legislation, which has greatly strengthened legal certainties for the supply of non-bank financial tools, will bear fruit and achieve its desired impact. Dissemination of information on alternative sources of funding should also be included in the new financial education strategy.
- **Pursue legislation to facilitate financing for start-ups.** Dedicated legislation to regulate crowdfunding would be an important element in Montenegro's strategy to create a thriving ecosystem for start-ups, facilitating early-stage financing for this type of company. In the medium term, Montenegro should consider a broader review of the early-stage and innovation financing spectrum and consider steps to attract international investors via dedicated venture capital legislation.
- **Develop a comprehensive financial literacy strategy.** The newly created National Committee for Financial Education Development should quickly develop a financial literacy strategy based on the findings of the regional assessment and including benchmarks and regular monitoring and evaluation mechanisms. The strategy should address both measures for entrepreneurs and the broader public, including pupils, set out an action plan and suggest a clear implementation mechanism and body responsible for its execution.

## Standards and technical regulations (Dimension 7)

### Introduction

Access to the EU Single Market is conditional upon compliance with EU regulations and directives, which, as part of the New Legislative Approach that was introduced in 2008, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier, particularly for SMEs. To lower these barriers, it is important for the WBT economies to have a national quality infrastructure system that is accessible and supportive to SMEs. At the same time, a high level of alignment of its regulations with the *acquis* is a pre-condition for recognition of its procedures and institutions by the relevant EU bodies and associations.

For a small open economy like Montenegro, creating an enabling policy environment that facilitates imports and exports is key for economic development. As the European Union is Montenegro's largest trading partner, accounting for 38% of Montenegrin exports (European Commission, 2021<sup>[110]</sup>), having legislation and quality infrastructure systems in place and aligned with European standards is of utmost importance (European Commission, 2021<sup>[110]</sup>).

With an average score of 3.94, Montenegro remains above the WBT average in this dimension (Table 16.19). The economy roughly maintained its overall score compared to 2019 (3.99), which can be considered a moderate improvement as the current assessment was slightly more comprehensive and included additional scoring aspects. While Montenegro continued its alignment with the *acquis*, there remains room for improvement, particularly in raising awareness about standards and increasing the participation of SMEs in developing them.

**Table 16.19. Montenegro's scores for Dimension 7: Standards and technical regulation**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	–	3.33	3.90
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	3.91	4.38
		Standards	4.07	3.77
		Accreditation	4.22	3.89
		Conformity assessment	3.86	4.22
		Metrology	4.85	4.13
		Market surveillance	4.47	3.96
		<b>Weighted average</b>	<b>4.23</b>	<b>4.06</b>
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	2.87	3.88
		SME participation in developing standards	2.50	3.21
		Financial support to SMEs	4.20	3.57
		<b>Weighted average</b>	<b>3.19</b>	<b>3.55</b>
Montenegro's overall score for Dimension 7			<b>3.94</b>	<b>3.96</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

While Montenegro's progress on this dimension has been limited, its quality infrastructure proved resilient during the pandemic and key services such as accreditation, standardisation and conformity assessment

remained operational, as many meetings and assessments were conducted remotely through digital means. Montenegro continued to implement its work plan in the different quality infrastructure areas according to the action and work plans, but major milestones such as attaining full membership of its standardisation body at the European Committee for Standardization/European Committee for Electrotechnical Standardization (CEN/CENELEC) and achieving multilateral signatory status with the European Co-operation for Accreditation (EA) remain to be completed.

Progress on the three recommendations made in the last assessment varies (Table 16.20). A single information source with key information about technical regulations, standards and conformity assessment processes for SMEs that intend to export to the EU Single Market has not yet been established. On a positive note, the Institute for Standardisation of Montenegro (ISME) increased the proportion of adopted European standards (CEN/CENELEC) from 71% to 86% (CEN/CENELEC, 2021<sup>[111]</sup>). This represents a 21% increase, which is the largest increase among all WBT economies. However, Montenegro started from a comparatively low adoption level, and opportunities for progress are more limited for economies with higher levels of adoption. Finally, after having applied for multilateral agreement signatory status with the EA in 2020, the Accreditation Body of Montenegro (ATCG) underwent the EA's pre-assessment for full membership in November 2021. It is expected that the full assessment and decision-making by the EA will be concluded during the year 2022.

**Table 16.20. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 7**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Establish a single source for information tailored to SMEs on standards, regulatory requirements and conformity assessment procedures for SMEs interested in exporting to the EU Single Market</b>	There is still no single source of information for SMEs interested in exporting to the EU Single Market.	No progress
<b>Increase the adoption rate of European standards</b>	Adoption of European standards significantly increased, from 73% to 83%, during the assessment period.	Strong
<b>Step up efforts to sign the EA Multilateral Agreement</b>	In November 2020, the Accreditation Body of Montenegro formally applied for the European Accreditation Multilateral Agreement for the following accreditation schemes: testing and calibration, medical examinations, inspection, certification of management systems, and certification of products. Remote pre-assessment was carried out by the European Co-operation for Accreditation in November 2021.	Moderate

*Some progress has been made regarding the quality infrastructure framework, but the related information has not yet been centralised*

The latest National Programme of Accession to the European Union (2021-2023), the main guiding document with regard to harmonisation with the *acquis*, was published in June 2021 and includes the planned adoption of four new laws in the area of quality infrastructure. In addition to horizontal legislation, the document also includes adoption timelines for numerous sectoral legislations, both under the new and the old approach. Co-ordination between the different quality infrastructure institutions is the responsibility of the Ministry of Economic Development's Department for Competition, Internal Trade and Quality Infrastructure.

The information landscape on technical regulations, standards, and conformity assessment continues to be fragmented across several websites, as there is no single portal or contact point in place (see Table 16.20), which would benefit SMEs, especially those that tend to export, by centralising all the key

information. However, following the recommendation from the previous assessment, preparatory work has started on establishing such a portal.

Regional co-operation with quality infrastructure bodies in the region is of particular importance to Montenegro, one of the smallest economies in the Western Balkans. Such co-operation is carried out through the Working Group on Technical Measures<sup>63</sup> of the member economies of the Central European Free Trade Agreement, which meets once a year. In addition, the ATCG has signed bilateral co-operation agreements with other accreditation institutes from the WBT region. This has resulted in joint training and the exchange of technical assessors and experts, which is particularly valuable for a small economy like Montenegro, which has difficulty finding sufficient experts within its borders.

*Harmonisation with the acquis continues to advance, and the conformity assessment sector is growing strongly*

Montenegro's horizontal legislation in the area of quality infrastructure is mostly aligned with the *acquis*. One main exception is in the area of market surveillance, where a new law is under development to harmonise national legislation with the new EU Regulation 2019-1020. Regarding the non-harmonised area, Montenegro continued to implement its action plan for compliance with Articles 34-36 of the Treaty for the European Union during the reporting period (European Commission, 2021<sup>[69]</sup>).

The National Institute for Standardisation (ISME) continues to be an affiliate member of CEN/CENELEC, but the ISME formally applied for CEN/CENELEC full membership at the end of 2021. During the year 2022, ISME will be assessed by peer assessors authorised by CEN/CENELEC, and, if assessed positively, ISME may become a full member by the end of 2022. As a full member, Montenegro will be able to contribute directly to European standardisation as a voting member of the General Assembly. The standardisation legislation is aligned with the *acquis*, and the proportion of adopted European standards is now above 80% (CEN/CENELEC, 2021<sup>[111]</sup>), which is one of the membership criteria. ISME also has adopted a standardisation strategy that emphasises education on standards. Its staff also provides courses on quality infrastructure at a local university. The main challenge continues to be the lack of financial and human resources, as the ISME is operating with only 65% of the projected staff capacity (19 out of 29) and is lacking technical staff as well as funds for training its existing workforce (European Commission, 2021<sup>[69]</sup>).

In the area of accreditation, the ATCG has been a full member of the EA since 2011, and the application process for a multilateral recognition agreement is currently ongoing (see Table 16.20). The ATCG has an annual work plan and accredited five additional conformity assessment bodies in 2021. It was able to remain largely operative during the COVID-19 pandemic, as remote audits were introduced to deal with the restrictions imposed by the government.

The number of accredited conformity assessment bodies has increased by 33% compared to the previous assessment cycle, from 33 to 44, which is slightly above the average growth in the region.<sup>64</sup> While all accredited conformity assessment bodies are listed on the ATCG's website, additional guidance information about the conformity assessment process could be provided. As many enterprises, particularly SMEs, are not yet familiar with conformity assessment, a guide describing all the necessary steps, from the start of the application to obtaining the certification, would help firms decide whether to apply for and for which standard to seek certification. See Box 16.15 for an example.

The Bureau of Metrology (BoM) is a full member of all major metrology associations (WELMEC, the International Bureau of Weights and Measures, and the European Association of National Metrology Institutes and EURAMET). Furthermore, BoM is also an associate member of the General Conference on Weights and Measures (CGPM), an observer at the Hallmarking Convention, as well a signatory of the CIPM MRA and Meter Convention. The Ratification of the full membership of Montenegro at the International Organisation of Legal Metrology (OIML) is in its final phase. BoM also further improved its internal process, as its management systems are ISO 9001-certified since March 2021, and its testing and



calibration operations are certified in accordance with the ISO/IEC 17025 standard. Furthermore, Montenegro's legal measuring units, as well as the legislation on conformity assessments of legal measuring instruments, were amended to align with the *acquis* (European Commission, 2021<sup>[69]</sup>). The main challenge for the BoM is the lack of sufficient technical staff and its premises, which continue to be inadequate.

In the area of market surveillance, the current legislation is harmonised with the previous EU Regulation 2008/768 but not yet with the newest provisions from EU Regulation 2019-1020. A proposal for the harmonisation of national legislation has been prepared but not yet adopted. Due to the COVID-19 pandemic, which requested a shift in focus of the surveillance authorities, the number of product inspections decreased from 6 701 in 2019 to 1 658 in 2020. In 2021, inspections slightly increased again to 1 888. The Directorate of Inspection Affairs publishes its annual work plans as well as information about unsafe products on its website.

#### **Box 16.15. Providing concise and clear information about product regulations and conformity assessment procedures: The European Union's Blue Guide**

To create a better understanding of its product rules and their application, the European Union created the so-called Blue Guide. This guidebook, while being very comprehensive, is structured along actors and the different quality infrastructure pillars (e.g. conformity assessment, market surveillance), which allows the reader to quickly find the required information. The chapter on conformity assessment describes the certification process in a very user-friendly way through a flow chart that depicts the different steps required, from the technical documentation to market placement of the product.

The rather complex process of conformity assessment is explained and depicted concisely and clearly graphically, which is particularly useful for SMEs which, compared to large firms, may not have specialised staff familiar with quality infrastructure processes.

Montenegro and other WBT economies often lack such informative materials, and firms are thus often left to dredge through the legislative text or other complex, technical material. This may represent an information barrier for SMEs. Having process flowcharts and guides like the one described above available in the local language is one way to overcome such barriers for SMEs that want to get their products or processes assessed and certified.

Source: European Commission (2016<sup>[112]</sup>).

*A financial support programme for standardisation is in place, but web-based information about standards remains restricted to the basics*

The provision of information and awareness raising about standards has slightly improved since the last assessment. The ISME has recently published an excerpt of its standards catalogues, which provides a summary of key standards documents in the local language. Furthermore, the ISME lists the basic benefits of standardisation on its website and provides regular training. However, practical guides about the different steps for implementing standards or case studies about successful cases of certified companies are not available. Such a guide would allow firms to easily identify what type of documentation is required and how difficult and lengthy a certification process would be in their specific case. This would help them decide whether they are ready to seek certification or whether additional preparatory steps are required first. ISME has recently developed an SME Action Plan defining the activities to be carried out in the forthcoming period with the aim of further increasing awareness about standards for SMEs. In this context, ISME also plans to develop an SME guide, as mentioned above.

There are no specific incentives in place to increase the participation of SMEs in the creation of standards, but the establishment of a specific technical committee for SMEs is foreseen. While digital committee meetings have lowered the barriers to participation during the pandemic, costs for participation may rise again when physical meetings resume. Hence, further efforts are needed to assure that SMEs' participation in standards development is further intensified in the future.

Regarding the financial support for the implementation standards, the Ministry of Economic Development continues to run its competitiveness programme, which reimburses up to 70% of eligible costs for micro and small enterprises, and up to 60% for medium-sized enterprises, with the maximum amount of EUR 5 000 and EUR 4 000 respectively (). Both the number of SMEs benefiting from this programme as well as the invested amount have continuously increased, from 35 firms in 2018 to 127 in 2021. Furthermore, an internal evaluation of this programme is currently being planned by the Ministry of Economic Development. It is positive to note that financial support for this programme, despite the pandemic, almost tripled in 2020 compared to 2019.

### **Box 16.16. Montenegro's two-sided support programme for the introduction of international standards**

The implementation of international standards continues to be a challenge for many SMEs in the WBT region. Two widely stated problems are:

- the lack of conformity assessment bodies (CABs) in the region or economy for the specific sector or technology, which is particularly a problem in smaller economies
- high implementation costs to get certified.

Montenegro's programme line for the introduction of international standards, introduced in 2018, is a very positive example, as it addresses both of these challenges. The programme line is part of a larger competitiveness programme of the Ministry of Economic Development that encompasses a total of 17 support lines. Two of the programme's components address both the supply of conformity assessment services as well as its demand:

1. The first component provides financial support to CABs by reimbursing up to 70% of the accreditation costs incurred. The support is limited to costs related to accreditation services for a series of international and European standards (ISO/IEC 17020, ISO/IEC 17025, ISO/IEC 17029, ISO/IEC 17021 -1, ISO/IEC 17024, ISO/IEC 17043, CEN/TS 15675, EN ISO 15189) and is only provided if the CAB successfully earned the accreditation certificate from the national accreditation body, the ATCG.
2. The second component provides financial support to SMEs by reimbursing up to 70% of the certification and recertification costs of management system standards (i.e. ISO 9001, ISO 14001 and OHSAS 18001). The funds can be used for hiring consultants to help the company prepare the technical documentation required for the certification as well as for staff training.

Funding is capped at EUR 5 000 per firm on both components. To promote female entrepreneurship, in particular, this programme reimburses up to 80% of the costs for female-led firms (compared to 70% for other firms). While being comparatively small, with total funding of EUR 765 000 between 2018 and 2020, a total of 217 SMEs benefited from the programme during that period. In 2021, the programme lines yielded EUR 250 000.

Overall, this programme can be regarded as a best practice because it simultaneously applies to the supply and the demand of conformity assessment services, thereby addressing the two main bottlenecks of small economies, namely insufficient local CABs and funding constraints for SMEs.

Source: Ministry of Economic Development (2018<sup>[113]</sup>).

### ***The way forward for Dimension 7***

- **Finalise the creation of a centralised information portal for exporters, which provides key information on standards, regulations and the conformity assessment process.** Following this recommendation from the previous report, the Ministry of Economic Development has started to prepare such a website, but the process is not yet complete. The website, once established, should incorporate all the horizontal quality infrastructure laws, technical regulations of at least the priority sectors, as well as information about accredited conformity assessment. Currently, this information is scattered across different institutions' and ministries' websites. A central information and contact point that provides this information in a user-friendly manner would be beneficial for companies that intend to access the EU Single Market.
- **Focus and uphold efforts to become a full CEN/CENELEC member and European Co-operation for Accreditation-Multilateral Agreement (EA-MLA) signatory.** While the full membership application to the CEN/CENELEC and the MLA process with the European Co-operation for Accreditation have been initiated, additional efforts and adaptations will likely be required to fully meet the requirements of both institutions. Swift implementation of these requirements and the completion of the application processes should therefore be a priority in the coming years. Recognition of Montenegro's standardisation and accreditation by these European institutions would be a significant step in further improving Montenegrin firms' access to EU and global markets.
- **Increase financial and human resources for quality infrastructure institutions.** While there have been positive developments in harmonising national legislation with the *acquis*, this also increasingly shifts the focus towards the policy. In line with recommendations from the previous EU enlargement report (European Commission, 2021<sup>[69]</sup>), the allocation of additional staff and financial resources for the different quality infrastructure institutions would be desirable, as this was identified as a constraining factor in all quality infrastructure pillars during the assessment.

## Enterprise skills (Dimension 8a)

### Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher-paid employment. However, they need additional support to do so, as they may lack the resources and capacity to invest in training for managers and employees. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where the opportunity for sustainability in SMEs may be limited by a lack of awareness and skills or potential costs of actions for greening.<sup>65</sup> Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

Montenegro scores 3.28 for its support of enterprise skills (Table 16.21), which shows an improvement since the last assessment period. This higher score illustrates the stronger focus on implementation, which has reaped benefits through increased training for start-ups to drive the digital economy and support growth. In response to the COVID-19 pandemic, there has been a rapid adaptation to online provision of training and increased investment in training to support SME digitalisation.

**Table 16.21. Montenegro's scores for Dimension 8a: Enterprise skills**

Dimension	Thematic block	Montenegro	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.17	2.86
	Implementation	4.00	3.85
	Monitoring and evaluation	1.67	2.67
Montenegro's overall score for Dimension 8a		<b>3.28</b>	<b>3.32</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Montenegro has made notable advances in the area of smart specialisation and has included a focus on SME skills linked to the priority areas for smart specialisation within its Smart Specialisation Strategy of Montenegro (2019-2024) (Government of Montenegro, 2019<sup>[114]</sup>). Government-financed programmes supporting SMEs have been expanded, with an increased focus on digitalisation and green economy alongside adaptations towards online delivery modes to address the challenges brought by the COVID-19 pandemic (Table 16.22).

**Table 16.22. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 8a**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure systematic evaluation of the effectiveness and impact of existing training programmes	There is evidence of evaluation of some initiatives, but evaluation is not yet a specific requirement for all government-funded training programmes. As a result, there is no comprehensive, system-level evaluation covering all programmes.	Limited

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Consider the need for tailored training for start-ups</b>	Government start-up programmes led by the Employment Agency of Montenegro have been maintained alongside ongoing mentoring support for SMEs seeking to innovate and/or scale their business. Support for early phase start-ups relevant to smart specialisation sectors was introduced in 2021 via the Innovation Programme (2021-2024).	Moderate
<b>Increase the training offer to enhance SMEs' competitiveness</b>	A diverse range of training is now available to support growth and internationalisation, particularly related to themes supporting the green and digital economy.	Moderate
<b>Better co-ordinate training needs analyses</b>	A pilot national training needs analysis has been conducted by the Ministry of Economic Development across a sample of the SME population, intended as a preparation stage to design standardised training for different target groups.	Moderate

*Better skills intelligence is being gathered, but improvements are needed to develop a national skills intelligence framework*

Montenegro does not yet have a national skills intelligence framework. Progress has been made with the design of a training needs analysis methodology, which was tested through a pilot with a sample of SMEs in 2020, led by the Ministry of Economic Development and members of the National Partnership for Entrepreneurial Learning. This mapped current and future skills training needs, and the resulting analysis provided recommendations on SME training priorities as part of the actions from the Strategy for Lifelong Entrepreneurial Learning (2020-2024) (Government of Montenegro, 2020<sup>[40]</sup>). However, there is no clear roadmap towards the co-ordinated development of a national skills intelligence framework to provide the analysis needed for evidence-based policy making across relevant policy areas. Commitments are fragmented across different policy areas, including the Strategy for Lifelong Entrepreneurial Learning (2020-2024),<sup>66</sup> the Smart Specialisation Strategy Operational Plan (2021-2024) and the new Innovation Fund.<sup>67</sup>

*There should be a consistent approach across enterprise skills policies*

While strategies closely linked to the Smart Specialisation Strategy of Montenegro (2019-2024) (S3), such as the Innovation Programme (2021-2024) and the ERP (2021-2023), provide in-depth detail on how their work supports the S3 priority sectors, wider policies also relevant to smart specialisation are not fully aligned to the skills needs of S3 implementation. The Industrial Policy of Montenegro (2020-2023) does not include detailed links with S3 priority sectors; the 2021 Programme for Competitiveness of the Economy identifies the need for alignment with S3 but does not indicate how it will seek to achieve this. Similarly, the Strategy for Entrepreneurial Lifelong Learning (2020-2024) highlights the importance of enterprise skills development but does not link this to S3 sectors. This demonstrates an ongoing need to ensure dialogue and co-ordination across government ministries and with stakeholders to ensure a joined-up approach to policy making and S3 implementation (Bolognini, 2021<sup>[115]</sup>), which, while evident during the Entrepreneurial Discovery Process, should be increased to support practical implementation.

*There is a need to open up access to information and support for SMEs*

There has been an expansion in the provision of financial and non-financial support for the development of SMEs and enterprise skills in the economy. Through the available training, there is more focus on resource efficiency, digitalisation of businesses and employees' digital skills, with the circular economy as an emerging theme that the government is addressing but is not yet fully addressed in the provision of SME training.<sup>68</sup> Financing through the annual government programme to support economic competitiveness<sup>69</sup> has been increased, providing wider access to sources of finance for start-ups and existing businesses. Similarly, funding for mentoring services for SMEs has been continued, which provides advice and support on themes such as digitalisation, innovation and investment readiness to

existing businesses. Alongside these, there is a commitment to finance and support for innovative start-ups through the Innovation Fund, which will come on line in 2023,<sup>70</sup> and ongoing support by the Ministry of Economic Development in partnership with NGOs and private-sector actors.<sup>71</sup> As yet, there is no support provided for social entrepreneurship in Montenegro.

Moving forward, opening up access to support will be important. There is currently no single online portal bringing together information on government support, resources or wider events and opportunities available to support the start-up and growth of enterprises and their employees. Information is available through different portals, but these are fragmented, and there is no one-stop-shop approach.<sup>72</sup>

### *Strong progress has been made towards smart specialisation*

There have been significant developments in the design and implementation of the S3 in Montenegro. The Entrepreneurial Discovery Process (EDP) was concluded in 2018, and the first Smart Specialisation Strategy of Montenegro (2019-2024) was launched in mid-2019 confirming four strategic sector priorities for the economy.<sup>73</sup> It is the first national Smart Specialisation Strategy launched in the region and was positively assessed by the European Commission in December 2019.<sup>74</sup> Implementation is supported by the Council for Innovation and Smart Specialisation, set up in August 2019<sup>75</sup> as a high-level body to maintain and deepen synergies across relevant ministries and to engage actors.<sup>76</sup> The new S3 Operational Plan (2021-2024) and Action Plan (2021-2022) were adopted in December 2021 (Government of Montenegro, 2021<sup>[116]</sup>), alongside a call for new members of the Council for Innovation and Smart Specialisation. Following the first phase of S3 implementation, the Council has been reformed<sup>77</sup> with an expanded mandate covering increased funding for the S3 action plan for 2021-2022 and implementation of the Innovation Fund,<sup>78</sup> established as a new legal entity in September 2021. The Secretariat for the Council will be strengthened with support from the UNDP. The Joint Research Centre (JRC) is providing an ongoing advisory role to the Ministry of Economic Development, which now leads S3 implementation and chairs the Council.<sup>79</sup>

Within the strategy, there is a specific action line related to professional skills development with a target towards improved levels of qualifications in S3 priority domains, while the need for new education programmes supporting workforce development, including re-skilling and upskilling, is highlighted across the S3 Action Plan and in a specific Objective 2.1 (Government of Montenegro, 2021<sup>[116]</sup>). This focus on skills reflects the broad-based engagement from stakeholders, including companies and clusters active within the priority sectors, during the strategy development process. The high level of stakeholder involvement was facilitated through sectoral focus groups established during the EDP process, which were seen as crucial to overcoming scepticism across the business community, a potential barrier to the successful implementation of smart specialisation (Bolognini, 2021<sup>[115]</sup>).

### ***The way forward for Dimension 8a***

- **Create a single portal for enterprise skills to open up access to information and support for start-up and skills development**, bringing together sources of finance, advice, training and resources from government and non-government actors. This could be a portal that includes a section for women's entrepreneurship (as identified in a recommendation for Dimension 1 on Entrepreneurial learning and women entrepreneurship).
- **Ensure consistent focus on SME skills within the Smart Specialisation Strategy of Montenegro (2019-2024), its operational plans and related policies** through sustained inter-ministerial dialogue and increased engagement of stakeholders, particularly representatives from SMEs active in the S3 priority sectors and the related value chains.
- **Designate a body to lead the co-ordination and development of an action plan for SME skills intelligence**. The lack of system-level skills intelligence remains a gap in Montenegro, and a co-ordinated approach is needed to understand current and future skills needs. This would support



better alignment of lifelong learning and SME training provision based on labour market needs. Defined indicators for SME skills intelligence can guide future monitoring and evaluation related to SME skills at all levels. This work should be linked to the priority domains identified in the S3 and should be supported by consistent gender-disaggregated data gathered from government-financed SME support and training actions. An example of strengthening skills intelligence can be seen in Kosovo, illustrated in Box 16.17.

#### Box 16.17. Statistical barometers used to strengthen the skills agenda in Kosovo

In Kosovo, a set of statistical barometers has been developed to strengthen the skills agenda and establish a national approach to skills intelligence. The three barometers so far established are: 1) the Labour Market Barometer, which collates information and analysis from 12 institutional data sources;<sup>1</sup> 2) the VET Barometer, which collates 200+ variables from 20 VET schools; and 3) the Skills Barometer, launched in December 2021, which will collect 3–5-year forecasts of skills needs from businesses in Kosovo to inform government and other institutions.

The challenge in Kosovo has been to ensure sustainability for the work initiated through funding from international partners. The Labour Market Barometer is a portal collecting information, resources and data on current and future skills needs for the labour market and creates strong collaboration between diverse partner institutions relevant to the skills agenda. The system is now managed by the Employment Agency, after a two-stage development phase supported by the UNDP and Aligning Education and Training with Labour Market Needs (ALLED<sup>2</sup>), a project of the Austrian Development Agency. ALLED<sup>2</sup> developed the Skills Barometer in co-operation with the Kosovo Chamber of Commerce (KCC), and commitment is now finalised between KCC, the Ministry of Education and the National Council for VET to conduct the barometer every three years. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant national agencies.

This example shows a pathway to shaping a national skills intelligence framework at the system level based on the need to support evidence-based policy making using robust information on skills mismatch and future skills needs. The actions stemmed from initiatives funded by international partners toward sustainable action led by a partnership of public and private-sector institutions. It builds a consistent approach and strengthens co-operation between different institutions, which is already a strong feature of the landscape in Montenegro.

1. See <https://sitp.rks-gov.net/> for a list of the national institutional databases used to create the Labour Market Barometer. Sources: Government of Kosovo (n.d.<sub>[117]</sub>); (ALLED2, n.d.<sub>[118]</sub>; 2021<sub>[119]</sub>).



## Innovation policy for SMEs (Dimension 8b)

### Introduction

Supporting innovation and building a knowledge economy are increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

Montenegro's mainly small but open economy can further leverage inter-regional and international co-operation in progressing their innovation agendas, creating regional innovation systems and encouraging cross-border co-operation to boost R&D.

Against this background, Montenegro has made progress in promoting innovation among SMEs, improving its score from 2.53 in 2019 to 2.99 in 2022 (Table 16.23). The most progress has been made in enhancing the innovation policy framework and implementation capacity. As a result, Montenegro has somewhat closed the gap with the leading economies in this dimension, namely Turkey and Serbia.

**Table 16.23. Montenegro's scores for Dimension 8b: Innovation policy for SMEs**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	4.04	3.81
		Implementation of innovation policy	3.00	3.31
		Co-ordination of innovation policy	3.52	3.30
		Weighted average	3.42	3.46
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.24	3.27
		Technology extension services for established SMEs	1.04	2.14
		Weighted average	2.36	2.82
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.56	3.81
		Indirect financial support	2.32	2.26
		Weighted average	3.06	3.19
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.52	2.85
		Institutional infrastructure for business-academia co-operation	2.92	2.99
		Intellectual property rights	2.52	3.05
		Weighted average	2.68	2.95
Montenegro's overall score for Dimension 8b			2.99	3.18

### State of play and key developments

Montenegro is a modest innovator, as classified by the European Innovation Scoreboard,<sup>80</sup> which included Montenegro for the first time in 2020. Montenegro performs relatively well in providing an environment conducive to innovation, but limited investments in R&D, standing at 0.5% of GDP in 2018 (latest data available), significantly hinder the development of a knowledge economy (European Commission, 2021<sup>[69]</sup>). Montenegro has further strengthened its legal and regulatory framework for innovation, including for smart specialisation, and policy co-ordination has improved. Implementation capacity has also increased through the establishment of a dedicated Innovation Fund in 2021. However, at the time of writing, it is still in the process of becoming fully operational. Efforts have been made to strengthen the institutional support infrastructure, and the construction of the central unit of Montenegro's first Science

and Technology Park in Podgorica has commenced. Financial incentives have been introduced to stimulate business-academia collaboration, and the establishment of a technology transfer unit has been initiated. Overall co-operation between academia and the industry remains, however, subdued.

Table 16.24 provides an overview of measures Montenegro has taken in response to the recommendations for this dimension made in the previous assessment.

**Table 16.24. Montenegro's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Improve the co-ordination of innovation policies</b>	Following the adoption of the new Smart Specialisation Strategy of Montenegro (2019-2024) in 2018, the Council for Innovation and Smart Specialisation was established in 2020, tasked to oversee the design and implementation of innovation policy, advise the government, and co-ordinate across ministries. The council has also overseen the process of establishing the Innovation Fund, which, once fully operational, is expected to further consolidate innovation policy measures.	Strong
<b>Improve the design of instruments and decision-making processes</b>	Through the establishment of the Council for Innovation and Smart Specialisation, a single body has been created to oversee the funding for innovation-related policy measures, which is expected to improve the complementarity and co-ordination of policy measures. In addition, the Innovation Fund will benefit from international expertise and capacity building, thereby introducing best practices in programme design, selection and implementation.	Moderate
<b>Scale up financial support for innovative SMEs</b>	The Collaborative Programme for Innovation, piloted in 2018, has continued to be implemented, and a Competitiveness Voucher scheme was piloted in 2020. The Programme for Innovation 2021-2024 introduces several programme lines to support development of the innovations, covering the whole cycle of the innovation development – from the idea to the readiness of the innovation to be placed on the market. Once the Innovation Fund becomes fully operative, additional financial support schemes for innovation are expected to be introduced and scaled up. Some tax incentives to support research and development have also been introduced.	Moderate
<b>Further advance business-academia collaboration</b>	Construction of the Science and Technology Park (STP) in Podgorica commenced in 2020, but completion has been delayed. The development of a strategic plan for the development of the STP will be revised with the support of the UNDP expert in 2022, while a roadmap for the establishment of a technology transfer office has been developed.	Limited

*Innovation is supported by a robust legal and regulatory framework, and momentum has been built to strengthen implementation capacity*

Good progress has been made to further strengthen the legal and regulatory framework for innovation policy since the previous assessment. The Strategy on Scientific Research Activity (2017-2021), adopted in 2017, has been complemented by the Smart Specialisation Strategy of Montenegro (2019-2024), which was adopted in 2018 and developed with the support of the European Commission's JRC. Montenegro is thus the first economy in the Western Balkans to develop such a strategy. For 2022, there are plans to start developing the successor to the Innovation Strategy, which expired in 2020. An evaluation of the implementation of the strategy, conducted in 2021, suggests the need to introduce clearer and more tangible objectives to ensure long-term sustainability and impact. To support the co-ordination of the strategic framework, in 2019, a dedicated Council for Innovation and Smart Specialisation was formed to oversee and inform policy implementation. Under the reformed legal framework for innovation, the new Council for Innovation and Smart Specialisation was established in 2021, which is a part of the officially adopted implementation framework for innovation and S3 (December 2021), harmonised with the DG JRC recommendations in the field.

Several steps have also been taken to enhance implementation capacity. In July 2020, the government adopted the new Law on Incentive Measures for Research and Innovation Development as well as the revised Law on Innovation Activity, thereby aiming to create an innovation-conducive environment supporting innovation and R&D. The improved legislative framework will form the legal basis for a number of financial and non-financial support mechanisms to foster innovation and R&D, including through an Innovation Fund, which was subsequently established in 2021 under the guidance of the Council for Innovation and Smart Specialisation. The Innovation Fund is planned to become Montenegro's main vehicle for innovation policy implementation and administer financial support schemes to stimulate innovation activity and technology development. The fund is yet to be fully operationalised and is receiving capacity-building support via the World Bank with funds from the EU funds, the UNDP and Norway, with the government also contributing.

*An emerging institutional support structure provides support to start-ups and innovative companies*

There are a number of incubators operating across Montenegro, including in Bar and Berane, while a new business centre was established in Cetinje in 2020. However, these mainly offer incubation office space with a limited focus on innovation. Montenegro's business angel network also offers some support to high-potential start-ups, as does the newly created DigitalDen initiative, launched in Podgorica in 2021, which provides incubation services for IT start-ups. The entrepreneurship centre Tehnopolis in Nikšić, one of three planned impulse centres that will eventually form part of Montenegro's envisaged four-institution-network-structured Science and Technology Park,<sup>81</sup> also continues to offer incubation services to early-stage companies. In 2020, it ran a pre-acceleration programme, BoostMeUp, under the auspice of the Ministry of Education, Science, Culture and Sports, providing training and mentoring to 19 innovative start-ups. The central hub, however, the flagship Technology and Science Park in Podgorica, remains under construction, with no timelines in place to establish the remaining two impulse centres in Bar and Pljevlja. There are no accelerators present in Montenegro, and technology extension services for more mature enterprises that seek innovations are non-existent.

*Financial support for innovation remains fragmented but is expected to increase once the Innovation Fund is operational*

Montenegro has made some progress in introducing small-scale financial incentives to stimulate innovation and investments in R&D. Based on the experience of a pilot co-operation grant scheme under Higher Education and Research for Innovation and Competitiveness in 2013/14, an Innovation Programme for Grants and Innovative Projects was launched in 2018, 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 R&D institutes. Between 2019 and 2021, with co-financing from the Ministry of Science, a further EUR 1 million was awarded. In addition, an Operational Programme for the implementation of the Smart Specialisation Strategy for 2020-2021 has been adopted, and more comprehensive finance schemes are expected to be launched once the Innovation Fund has become fully operational, with plans for a pre-acceleration programme and ICT cluster programme already in place.

Some progress has also been made in introducing indirect financial support. The Law on Incentive Measures for Research and Innovation envisages some tax incentives for promoting digitalisation, scientific research and projects employing qualified researchers, and at the time of writing, secondary legislation was underway to define the eligibility.

*Further efforts are needed to stimulate collaboration between businesses and academia and to boost investments in R&D*

Investments in R&D have increased in recent years but remain marginal at 0.5% of GDP, with only a fraction financed by the private sector (European Commission, 2021<sup>[69]</sup>). A Collaborative Programme for Innovation was announced in 2019, which envisaged awarding grants of up to EUR 100 000 to consortia comprised of R&D institutes and private companies, similar to a competitive co-operation grant scheme. However, there is no evidence of its implementation. In addition, with support from the European Union and France, a Competitiveness Voucher scheme was launched in 2020 to introduce SMEs to digitalisation and innovation and to initiate an innovation process in companies by promoting the use of external skills and openness to new technologies, offering co-financing of up to 80%, or EUR 8 000. Some 25 applications were received, of which 17 were awarded a voucher. The link to academia and R&D, however, is not evident.

The Smart Specialisation Strategy of Montenegro (2019-2024) envisages the establishment of a network of technology transfer offices. A roadmap for the establishment of the National Centre of Technology Transfer has been completed, and a pilot technology transfer office was established in April 2020 within the Centre of Excellence for Research and Innovation at the University of Montenegro, but it has not yet been fully operationalised. A full feasibility study is planned for 2022. In 2021, the second phase of the “Norway for You” project was launched, aimed at enhancing systematic support for innovations and SME development. The project specifically envisages the establishment of a technology transfer office, commencing with a pre-feasibility study to define its scope, services and organisational structure.

Lastly, Montenegro’s legislation for intellectual property is in line with the *acquis*, but overall its track record remains poor, though enforcement capacity has increased in recent years. The intellectual property framework does not include specific provisions to incentivise collaboration between researchers and the private sector, or commercialisation.

### ***The way forward for Dimension 8b***

- **Swiftly operationalise the newly established Innovation Fund.** Timely operationalisation of the Innovation Fund, including capacity building and allocation of sufficient budget – while alternative funding sources are being sought – will be critical to further build momentum and successfully implement Montenegro’s ambitious innovation policy framework. Strong performance of the Fund in its first full year of operation, including the launch of substantial and scalable financial products, will demonstrate the government’s commitment to building an innovation support ecosystem and send a strong signal to the market.
- **Progress with the construction of the four-pillar network of the Science and Technology Park, with a strong focus on business-academia collaboration.** Completing the construction of the central hub in Podgorica will be an important milestone, but this should be coupled with a strategic plan to ensure that the services offered by the STP go beyond incubation services for start-ups to truly foster innovation and exchange between businesses and academia. It should be sufficiently funded. For this purpose, collaboration with stakeholders will be critical to designing the scope of services made available in the STP. Timelines should also be set to establish the remaining two impulse centres.
- **Introduce measures to stimulate collaboration between research institutions and the private sector.** Further efforts to increase and promote co-operation are needed to boost investments in R&D and build the foundations of a knowledge economy. The operationalisation of the pilot technology transfer office, fully staffed and equipped, together with an action plan to expand the network and raise awareness about the opportunities of the services provided, would be an important milestone. Soft measures to incentivise researchers to engage with private businesses,

such as opportunities for professional exchanges with the business community and evaluation of research and legislative incentives for commercialisation, should also be considered.

## SMEs in a green economy (Dimension 9)

### Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021<sup>[120]</sup>)), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021<sup>[121]</sup>).

For a small, tourism-dependent economy like Montenegro, boosting economic growth that would not come at an environmental cost is particularly pertinent, especially in the post-COVID-19 context. The pandemic has put additional pressure on Montenegrin SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Montenegro has made substantial progress on this dimension since the last assessment – jumping from a score of 2.95 in 2019 to 3.65 in 2022 (Table 16.25). It is the second-best performer in the region after Turkey but still needs to scale up its incentives and instruments for SME greening in order to fully implement the related SBA principle (enabling SMEs to turn environmental challenges into opportunities).

**Table 16.25. Montenegro's scores for Dimension 9: SMEs in a green economy**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	4.32	3.87
		Implementation	3.40	2.81
		Monitoring and evaluation	3.86	2.47
		<b>Weighted average</b>	<b>3.77</b>	<b>3.06</b>
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	3.44	3.06
		Implementation	3.67	3.02
		Monitoring and evaluation	3.40	2.12
		<b>Weighted average</b>	<b>3.55</b>	<b>2.85</b>
Montenegro's overall score for Dimension 9			<b>3.65</b>	<b>2.94</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Montenegro's strategic framework has increasingly included environmental policies targeting SMEs. The government has been implementing green policies from the MSME Strategy (2018-2022) at a good pace, whereas some delays occurred regarding the realisation of measures planned under the Smart Specialisation Strategy of Montenegro (2019-2024). In line with previous recommendations (Table 16.26), Montenegro has adopted a whole-of-government approach to creating synergies between greening

initiatives through its newly established Green Economy Working Group. Financial instruments have been made available to SMEs through the new Eco Fund, governmental initiatives and international partners' support. The government has introduced other tools, such as awareness raising or international environmental standards programmes to support SMEs in their greening efforts. In contrast, regulatory instruments and green public procurement measures remain largely non-existent.

**Table 16.26. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 9**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Adopt a whole-of-government approach to create synergies and avoid overlaps between greening initiatives</b>	Montenegro is the only economy in the WBT region that has formed a Green Economy Working Group (GE WG) to promote green economic development and enhance greening activities. The Ministry of Economic Development is in charge of co-ordinating the GE WG and reports to the Secretariat for Competitiveness. Members of the working group include representatives of relevant ministries, as well as international institutions and partners, business associations and NGOs. However, more efforts are still needed to co-ordinate the wide range of activities, programmes and financial instruments to ensure they do not overlap.	Strong
<b>Support the transition to a circular economy by facilitating partnerships between businesses</b>	The Chamber of Economy of Montenegro, the Government of Montenegro and UNDP Montenegro have designed the Roadmap Towards the Circular Economy in Montenegro as part of a joint project, which ended in 2022. The roadmap should serve as a basis for the development of the Strategy for Circular Transition and its Action Plan, planned for the end of 2022. Several activities involving relevant stakeholders (including SMEs) have been organised as part of the roadmap development process (Box 16.18).	Moderate
<b>Provide catalytic financial support to help SMEs adopt environmentally friendly practices</b>	The government established an Eco Fund in 2020, which provides financial support to SMEs making investments to improve their environmental performance, although its budget and project scope remained limited at the time of drafting. A credit facility agreement was signed and aims to strengthen the Investment and Development Fund to support green investments. Other programmes also offer financial incentives. Nevertheless, co-ordination between all funds and programmes is necessary for proper implementation, monitoring and evaluation.	Strong

*Greening policies targeting SMEs are increasingly mainstreamed into strategic documents, and implementation has progressed, albeit slowly*

In addition to the MSME Strategy (2018-2022) and the National Strategy for Sustainable Development (NSSD) (2016-2030), Montenegro adopted the Smart Specialisation Strategy of Montenegro (2019-2024), which recognises the importance of green growth. The strategy envisages building a legal framework that encourages green investment and paves the way for future green investment programmes, in particular in the areas of sustainable agriculture and food value chain; energy and sustainable environment; sustainable and health tourism; and ICT as a horizontal dimension (see also Dimension 8a on Enterprise skills).

Moreover, two key laws – the Law on Innovation Activity and the Law on Incentives for the Development of Research and Innovation – adopted in 2020, which regulate the innovation policy framework and include directives on green investments and eco-innovation, are expected to provide a stronger impulse and accelerate eco-innovation in Montenegro. The aforementioned strategies and laws align well with the EU Green Deal priorities and the European Union's recommendations regarding Chapter 27 of EU membership negotiations, which deals with the environment and climate change (opened in 2018).

While implementation of measures planned under the aforementioned strategies is underway, funded both by the government and international funds, several activities have been delayed due to COVID-19. The MSME Strategy (2018-2022) has been implemented at a satisfactory pace; energy-efficiency projects have been supported, such as improving energy efficiency in public buildings (Government of Montenegro, 2021<sup>[122]</sup>) or the industry sector (Chamber of Economy of Montenegro, 2019<sup>[123]</sup>) and promoting good practices of socially responsible business through annual competitions (Government of Montenegro,



2021<sup>[124]</sup>). However, some activities have not been implemented, such as the promotion of eco-certification and green public procurement measures. Little progress has been achieved in realising the greening measures planned under the S3 Action Plan, namely increasing the innovative use of renewable energy sources and increasing innovative activities in waste recycling and valorisation. While an analysis report on scaling up energy-efficiency measures for SMEs in the manufacturing sector was prepared, no projects have been financed, and no renewable energy programmes were undertaken. Nevertheless, the government, the Chamber of Economy and the UNDP have designed a Roadmap Towards the Circular Economy in Montenegro based on the circular economy objectives of the NSSD (2016-2030) and the Smart Specialisation Strategy of Montenegro (2019-2024), which was published in April 2022 (Box 16.18).

### Box 16.18. SMEs and the circular economy in Montenegro

SMEs are important for achieving nationwide objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Montenegro, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

The circular economy framework is being developed in Montenegro through the Roadmap Towards the Circular Economy in Montenegro, launched in April 2022, which is expected to serve as a guiding document for the development of the Strategy for Circular Transition and its Action Plan, planned for the end of 2022. It is modelled on similar documents developed in EU countries, as well as more recently in Serbia, and is harmonised with EU recommendations to fully align it with the European Union's guidelines on the circular economy (the Green Deal and the new Circular Economy Action Plan). As part of this project, online workshops have been organised on creating guidelines, mapping ongoing barriers and potential areas for improvement for the circular economy, and regrouping representatives of institutions from the central and local levels, international partners, NGOs and the private sector.

Financial incentives have been introduced to support SMEs in their circular transition, although their uptake by SMEs has remained limited. As part of the Programme for Improving the Competitiveness of the Economy for 2021, the Ministry of Economic Development has developed a programme line for stimulating the circular economy by co-financing the costs for wastewater treatment for SMEs and entrepreneurs. In particular, support has co-financed the costs of the following activities:

- Component I: Wastewater treatment in the agro-food industry, intended for entrepreneurs and microenterprises.
- Component II: Industrial wastewater treatment, intended for SMEs and hotels. The programme will finance 70% of eligible costs, with a maximum of EUR 10 000. The Ministry of Economic Development approves reimbursement of up to 70% of eligible costs (excluding VAT) for entrepreneurs, micro and small enterprises, and up to 60% of eligible costs (excluding VAT) for medium-sized enterprises, with the maximum amount set at EUR 10 000 (excluding VAT).

The scope of the Programme's support has been extended with the revised programme for 2022 and includes:

- Component III: Appropriate waste management through waste reduction and recycling.

Sources: Government of Serbia (2020<sup>[125]</sup>); Chamber of Economy of Montenegro (2020<sup>[126]</sup>); Government of Montenegro (2021<sup>[46]</sup>); OECD (2021<sup>[121]</sup>).

The first stage of the Hydrochlorofluorocarbons (HCFCs) Phase-out Management Plan (HPMP), which aims to reduce ozone-depleting substances in the servicing sector by 35%, was completed in 2020,

meeting the requirements of the Montreal Protocol.<sup>82</sup> In this regard, around 40 service companies were equipped with the supplies necessary to maintain refrigeration and air conditioning products. The total phase-out of Montenegro's HCFCs in the servicing sector is planned for 2025.

Strategies that target SME greening are monitored and evaluated, albeit not equally regularly. Implementation reports are available annually for the MSME Strategy (2018-2022) and every two years for the S3. The first implementation report for the NSSD (2016-2030) was under preparation at the time of drafting. Evaluation of the implementation of policies is undertaken and considered when revising action plans, as was the case with delays in implementing the MSME Strategy (2018-2022) policies that occurred with the outbreak of COVID-19. However, the collection of specific SME greening data is lacking in Montenegro, which hampers proper evaluation of the measures introduced.

*A whole-of-government approach has been adopted to co-ordinate the work on SME greening policies*

In Montenegro, the Ministry of Ecology, Spatial Planning and Urbanism, the Ministry of Economic Development and the Environment Protection Agency are in charge of environmental policies targeting SMEs. Successful co-ordination has been established through the Green Economy Working Group (GE WG), formed in April 2021. Its role is to promote green development through awareness-raising activities and co-operation with business associations; co-ordinate greening programmes and their funds between relevant stakeholders; and develop relevant policy documents. GE WG members include representatives of relevant institutions, international organisations and international development co-operation partners, business associations and NGOs. The GE WG is required to report to the government on its work programme and past activities every three months. The GE WG co-ordinated its first projects in 2021, in collaboration with the Eco Fund, which provided grants for solar panels to households and private companies.<sup>83</sup> The redesigning of the National Council for Sustainable Development at the end of 2021 is also expected to further contribute to the co-ordination of sustainable policies between relevant institutions, including green policies targeting SMEs. Moreover, a specific working group has been formed within the Central Bank to co-ordinate existing green projects and contribute to the greening of the financial system in accordance with the Bank's competencies, available instruments and resources.

*The private sector has been increasingly involved in the development of greening measures*

Business associations are increasingly involved in developing and implementing SME greening policies and their supporting instruments in Montenegro. In particular, the Chamber of Economy has been active in supporting the implementation of green policies through regular co-operation with the government, international institutions, business associations and the private sector. Since the last assessment, the Chamber of Economy has been instrumental in providing information and guidance to SMEs on adopting environmental practices. The Chamber of Economy has a committee on energy efficiency that organises regular roundtables on opportunities and instruments available to SMEs and provides reports and recommendations to all its members. For instance, events were organised on establishing eco-design requirements for space and water heating devices (Chamber of Economy of Montenegro, 2019<sup>[127]</sup>), the energy potential of biomass (Chamber of Economy of Montenegro, 2019<sup>[128]</sup>) and investments in renewables (Chamber of Economy of Montenegro, 2020<sup>[129]</sup>). The Chamber of Economy, in partnership with the UNDP, organises a "Green Days" conference annually, which aims to inspire businesses and governments to invest and build a greener economy (Green Days Montenegro, 2022<sup>[130]</sup>), and the Economic Conference Montenegro, which also tackle green economy topics.

*A range of financial initiatives has been made available to support SMEs in their greening efforts*

Great progress has been achieved since the last assessment in multiplying financial incentives available to SMEs to improve their environmental performance. Green aspects have not been included in post-COVID-19 economic recovery programmes, however.

In March 2020, Montenegro established an Eco Fund that provides financial support (tax incentives and grants) for the preparation, development and implementation of projects in the fields of preservation, sustainable use, protection and improvement of the environment; energy efficiency; and use of renewable sources. The Fund was established through a broad consultation process aimed at defining its priorities and scope of funding, which included SMEs both directly and indirectly via business association representatives. The Fund is financed by loans and donations, private funds and assistance from international development co-operation partners, as well as eco-fees, which are paid according to the polluter-pays principle.<sup>84</sup> However, the Fund's budget and the scope of its projects remained limited at the time of drafting. Its budget in 2021 was EUR 1.6 million, and as of 2022, it had provided financial support for the purchase of hybrid and electric cars to 26 recipients for a total amount of EUR 100 000 and for the installation of photovoltaics to 5 beneficiaries for an amount of EUR 88 000 (Eco Fund, 2020<sup>[131]</sup>).

Moreover, a EUR 50 million credit line and a EUR 400 000 technical assistance grant were signed in April 2021 by the French Development Agency (AFD) and the IDF to support investments in green projects. It aims to strengthen IDF in structuring a dedicated financing offer in line with the NSSD (2016-2030). The credit line is targeted at SMEs and municipalities, including in the most vulnerable regions of Montenegro. In 2021, the IDF also received a EUR 50 million loan from the EIB to support energy-efficiency practices among SMEs. Both programmes aim to contribute to the emergence of projects supporting a sustainable post-COVID-19 economic recovery (EIB, 2021<sup>[32]</sup>).

As part of the Programme for Improving the Competitiveness of the Economy for 2021, the Ministry of Economic Development has developed a programme line for stimulating the circular economy by co-financing the costs for wastewater treatment for SMEs and entrepreneurs (Government of Montenegro, 2021<sup>[46]</sup>) (see Box 16.18). The programme for 2022 also intends to support activities on waste management through waste prevention and recycling.

While financial incentives available to SMEs for their greening efforts have been introduced, evidence of SMEs benefiting from them remains sporadic and is available on a case-by-case basis for each programme implemented. It is unclear if the newly established GE WG will be in charge of reporting on all financial instruments to ensure that initiatives are not duplicated.

*While some non-financial instruments are offered to SMEs to facilitate their green transition, regulatory instruments remain non-existent in Montenegro*

In addition to financial incentives, the Government of Montenegro, in partnership with other organisations (such as the UNDP and the Foundation for the Development of Northern Montenegro [FORS Montenegro]),<sup>85</sup> has been providing SMEs with various information-based instruments to raise their awareness and secure their engagement on green initiatives. The Eco Fund has also been active in raising awareness on its activities and supported, along with the Chamber of Economy and other partners, the first hackathons dedicated to climate change (Climathon),<sup>86</sup> which took place in Podgorica in 2020 and 2021.

Moreover, the Ministry of Economic Development is implementing a programme introducing international environmental standards (such as ISO 14001) to address SMEs' environmental impact,<sup>87</sup> 30% of which had adopted ISO 14001 standards by 2020. However, regulatory instruments (such as performance standards, privileges in the permitting process or inspection frequencies), which could encourage

environmental management certification and reduce the administrative burden on SMEs, remain non-existent in Montenegro.

Lastly, although the MSME Strategy (2018-2022) envisages the introduction of environmental impact criteria in public procurement, this option has been insufficiently used in practice. Promisingly, since 2021, the Chamber of Economy has been implementing the EUR 400 000 project “Graspinno Plus”, dedicated to increasing awareness and capacities for public administrations and enterprises to facilitate green public procurement. The Roadmap Towards the Circular Economy, designed in 2022, also recognises green public procurement as an important incentive to encourage greener practices among businesses.

### ***The way forward for Dimension 9***

- **Conduct regular monitoring and evaluation of different SME greening support programmes – particularly financial – to better adapt them to SMEs’ actual needs and harmonise the programmes offered by different institutions.** The recently formed Green Economy Working Group could have the mandate to co-ordinate and monitor the different financial instruments to avoid overlaps, including between the National Council on Sustainable Development and the Central Bank Working Group. The GE WG could also be entrusted with improving and co-ordinating SME-specific greening data collection in co-operation with the Statistical Office of Montenegro, including the beneficiaries of financial support measures. This would help fill the gaps in greening support provision, better target the support provided and assess the impact of the financial support programmes through a thorough evaluation.
- **Consider introducing regulatory instruments into the SME greening policy mix.** First, Montenegro could envisage the introduction of performance standards as part of the Strategy for Circular Transition, planned to be developed at the end of 2022. For instance, the Fit for 55 proposals<sup>88</sup> by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for building and transportation sectors, among others, which are of relevance to SMEs in Montenegro (European Commission, 2021<sup>[132]</sup>). Second, the government could introduce special regimes for low-environmental risk installations, the vast majority of which relate to SMEs, particularly those that have adopted environmental management systems. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some countries use “general binding rules”, which ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such requirement (such as in the United Kingdom) (OECD, 2021<sup>[121]</sup>). The frequency and scope of inspections, monitoring and reporting, could also be reduced for those SMEs with a more successful environmental record.
- **Facilitate the transition to a circular economy through green public procurement.** Montenegro should build on the fact that the MSME Strategy (2018-2022) envisages the introduction of environmental impact criteria in public procurement to encourage potential SME suppliers to offer environmentally friendly goods and services. Introducing green public procurement measures would boost the demand for resource-efficient, durable, recyclable, repairable products and promote new business models that offer functionalities and services instead of selling products. While drafting the Strategy for Circular Transition, Montenegro could integrate green public procurement as a tool for the implementation of circular economy initiatives, as Denmark did in 2018 (Box 16.19).

### Box 16.19. The Danish model of green public procurement

As part of Denmark's 2018 circular economy strategy, several initiatives were developed to promote green purchasing:

- **The Forum on Sustainable Procurement:** A national knowledge-sharing network where procurers from public and private organisations can keep updated on best practices, methods and tools for green procurement through a website, newsletters and various events.
- **The Partnership for Green Public Procurement:** A collaboration between frontrunner municipalities, regions and other public organisations committed to making extra efforts in partnership with other organisations to reduce their environmental impact from their procurement actions and drive the market in a greener direction.

These two initiatives appointed a joint secretariat for procurement in order to ensure co-ordination. Soon after, an additional task force on green procurement was developed to focus on the circular economy and has expanded to target – in addition to public institutions – private enterprises, including SMEs. Moreover, the Ministry of Environment established an annual event on green purchasing called the Green Procurement Week.

One of the main initiatives developed by the task force on green procurement was the creation of an online portal called “The Responsible Procurer”, where procurers can find green criteria ready to copy and paste into tender documents for a number of product areas and total-cost-of-ownership tools for selected product areas.

The Danish government is set to prepare a number of new total cost and lifecycle tools and incorporate costs or revenues from waste management and resale into existing and new tools.

Sources: Ministry of Environment of Denmark (2022<sup>[133]</sup>) and OECD (2020<sup>[134]</sup>).

## Internationalisation of SMEs (Dimension 10)

### Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

For a small open economy such as Montenegro, sustainable development must be led by internationalisation, developing competitive export-led manufacturing and services sectors to foster robust growth and productivity performance. Montenegro's current integration into world trade has largely focused on relatively labour-intensive products that incorporate little domestic value added. The COVID-19 pandemic has put additional pressure on SMEs, particularly in the areas of limited resources, availability of technical assistance and maintaining liquidity. Therefore, a broad range of well-co-ordinated policies is required to boost SMEs' internationalisation and productivity while easing labour reallocation during the ongoing recovery.

Montenegro scored a total of 3.66, achieving progress since 2019 (when it scored 3.08) and placing it as one of the leaders in the region (Table 16.27). The economy has improved in the area of programme implementation across sub-dimensions since the last assessment cycle. The government undertook concrete steps to improve the economic conditions for SMEs aiming for international expansion, which is reflected in this cycle's score.

**Table 16.27. Montenegro's scores for Dimension 10: Internationalisation of SMEs**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.65	4.61
		Implementation	3.88	4.24
		Monitoring and evaluation	3.22	3.65
		Weighted average	3.98	4.23
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.28	3.88
		Implementation	3.26	3.57
		Monitoring and evaluation	3.33	2.70
		Weighted average	3.58	3.49
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.22	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	2.33	3.29
		Weighted average	2.93	3.32
Montenegro's overall score for Dimension 10			3.66	3.80

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Montenegro advanced in creating a strategic framework for export promotion and GVCs, emphasising cluster formation and development. While the monitoring of strategic documents has advanced, the

majority of targets are not quantified, hindering further efforts to evaluate support programmes and their impact.

Montenegro has made progress in providing capacity-building support for SMEs and amplified financial support, aiming to improve the supplier base in the economy. A positive development in the area of trade facilitation is the conclusion of the Support to Facilitation of Trade between Central European Free Trade Agreement (CEFTA) Parties, which resulted in mutual recognition of authorised economic operators programmes among CEFTA members. This will simplify customs and clearance procedures, which in turn, can augment trade volumes within CEFTA.

Despite the economy's overall advancement, there has been limited progress in reducing the reliance on international partners in both export promotion and GVC integration programmes. Furthermore, despite a number of measures introduced to promote e-commerce, limited progress has been achieved (Table 16.28).

**Table 16.28. Montenegro's implementation of the SME Policy Index 2019 recommendations for Dimension 10**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Increase efforts to support export promotion</b>	Montenegro introduced co-financing schemes for SMEs to develop their export capacity by participating in international fairs and events. The government provides co-financing for promotional material and educational and informational support.	Strong
<b>Support global value chain integration for SMEs in priority sectors</b>	Though Montenegro continues to amplify its cluster creation and development programme in priority sectors, limited progress has been made in encouraging linkages between multinational enterprises (MNEs) and SMEs. SMEs would benefit from technology transfers, improved supplier quality and process development due to co-operating with MNEs; therefore, to achieve the MSME Strategy (2018-2022) targets, the government should place a stronger emphasis on promoting MNE-SME linkages.	Limited
<b>Develop programmes that promote e-commerce among SMEs according to the MSME Development Strategy Action Plan</b>	Although the government outlined digitalisation and e-commerce targets in the MSME Strategy (2018-2022), the legal framework governing e-commerce is non-existent. Though Montenegro introduced co-financing and voucher schemes for SMEs to hire external consultants to oversee the digitalisation process, uptake remains low.	Limited

*Montenegro strengthened the strategic framework for export promotion; however, a clearer value proposition for SMEs is needed*

Export promotion in Montenegro is outlined in several strategic documents: the Industrial Policy of Montenegro (2020-2023), the NSSD (2016-2030) and the MSME Strategy (2018-2022). The economy does not have a dedicated export promotion agency: all export promotion activities are co-ordinated by the Directorate of Competitiveness Enhancement within the Ministry of Economic Development. Thus, the ministry itself is responsible for the implementation of the activities that specialised agencies would usually conduct. Potential risks of this centralised approach, where one entity is responsible for policy design, implementation and evaluation, include a lack of specialisation within the ministry and challenges reaching out to under-represented segments of the business population (e.g. SMEs, start-ups, young firms) due to the distance between the central government and local entrepreneurial communities. This, in turn, can negatively affect the uptake of support programmes.

Montenegro has increasingly recognised the need to improve its competitiveness. Government efforts to define framework conditions and provide SME-specific incentives have intensified. Since the previous assessment cycle, the strategic framework was further strengthened when the government adopted the new Programme for Improving Competitiveness, first in 2019, and the following year, an integrative part of



Montenegro's MSME Strategy (2018-2022), contributing to the achievement of strategic goals and development measures outlined in the Industrial Policy of Montenegro (2020-2023).

While the Programme is a good step in ensuring comprehensive support to enhance the export capacity of Montenegrin SMEs, this support remained largely underused<sup>89</sup> (the notable exception is assistance with product certification and standards compliance provided to 127 businesses in 2020). Moreover, the programme lines related to internationalisation<sup>90</sup> were recently removed, and 2021 funds have been redirected due to the COVID-19 pandemic. The focus was to prioritise maintaining SME liquidity and employment and ensure their survival rather than building their capacities for exports.

At the time of the assessment, the Ministry of Economic Development started implementing a new Programme for Improving Competitiveness (2022), with an allocated budget of EUR 5.2 million. The goals of the new programme include boosting investment, focusing on the digitalisation of enterprises and their adherence to international standards, while also stimulating the transition to a greener economy. The programme seeks to develop entrepreneurship within the economy and increase its export potential through tailored mentoring services.

Although SMEs have access to a broad range of informational support, they have limited awareness of the programmes available to them. The lack of a centralised support portal beyond the Ministry of Economic Development website causes fragmentation of information and reduces the uptake of services and co-financing initiatives.

Almost half of Montenegrin non-exporting companies quote lack of capacity as the main deterrent to internationalisation (Balkan Barometer, 2021<sup>[135]</sup>). This is in line with what is observed in global surveys, in which SMEs perceive difficulties related to accessing foreign markets and integrating into export distribution channels as the main obstacles to international expansion. Other impediments include scarcity of information on foreign market access rules and high costs of meeting product standards and certification requirements (WTO, 2016<sup>[136]</sup>). Thus, the measures currently proposed by the government, though apt, might prove insufficient, as they lack tangible support for overcoming technical barriers to trade. Given the low value add of the Montenegrin export base, which consists mostly of aluminium, bauxite and car transmissions, reorientation of production, retraining and assistance in shifting to higher value-added exports would allow SMEs to position themselves in international markets, all while leveraging their competitive advantage.

*Monitoring and evaluation of export promotion programmes was enhanced, although measurable targets warrant further efforts*

The government made progress in monitoring the implementation of the strategic documents and programme lines pertaining to export promotion. To monitor the implementation of a given programme line, the Ministry of Economic Development requires all co-financing beneficiaries to submit all documentation relating to the use of funds and the effects of implementing co-financed activities. The government also assesses the effectiveness of each strategy's initiatives using a set of clearly defined indicators (e.g. evolution of assortment, volumes and values of beneficiary's exports, productivity, increase in profitability, foreign market participation, number of employees, etc.).

Moreover, key stakeholders are increasingly being included in the policy design process. A good example is the Programme for Improving Competitiveness (2021), which was prepared in consultation with SMEs and took into account the evaluation of the effectiveness of support programmes in previous years.

Nevertheless, further efforts are needed to increase the transparency of the outcomes of the export programmes and strengthen the evaluation of the effectiveness and viability of provided services. The targets set by the government are not always quantified, thus hindering further monitoring efforts.

*The government focused its efforts on cluster formation and development, although challenges within the supplier base remain*

Cluster formation and development is a significant component of Montenegrin regional development and constitutes an integral part of the government's development policies, including the MSME Strategy (2018-2022), the Programme for Improving Competitiveness and the Industrial Policy of Montenegro (2020-2023). Montenegro's strategic framework governing the integration of SMEs into GVCs is directly tied to the Industrial Policy of Montenegro (2020-2023), which focuses on improving market access for SMEs by simplifying trade procedures, reducing technical barriers to trade, industrial clustering and strengthening export performance. While the strategy contains quantifiable goals pertaining to providing market information to SMEs and supporting their participation in international fairs, it misses an important component of GVC integration, which is strengthening the supplier capacities of local SMEs and promoting linkages between them and Montenegro-based MNEs.

In addition, the MSME Strategy (2018-2022) is also one of the governing pillars of SME integration into GVCs. The main measure pertains to cluster establishment and development, improving the capacity of existing clusters and the creation of vertical clusters,<sup>91</sup> especially in the sectors of agriculture and tourism. The former has the potential for increasing the value added of the export base, under the condition of it prioritising agricultural industrialisation and higher value-added products rather than commodities. A cluster approach can enable smaller-scale agricultural producers to engage in high-value agriculture through informational spillovers and consolidation of operations relating to certification, marketing and research (Asian Development Bank Institute, 2021<sup>[137]</sup>).

As Montenegro heavily relies on tourism, prioritising tourism clusters is a natural progression. However, they tend to focus more on regional development rather than GVC integration. In order to successfully integrate into GVCs through tourism clusters, Montenegrin SMEs would need to upgrade their capacity to better align with the supplier needs of MNEs (Fundeanu, 2015<sup>[138]</sup>; Asia-Pacific Economic Cooperation, 2019<sup>[139]</sup>).

The government amplified financial support for clusters during the assessment period and introduced the Programme for Cluster Development.<sup>92</sup> Since the last assessment cycle, there has been an increase in the number of clusters formed,<sup>93</sup> pointing to adequate support measures. There are currently 36 active clusters in Montenegro, mainly in agriculture and food processing, wood processing, tourism and the IT sector. While the programme is a source of ample financial incentives, non-financial support is lacking. SMEs with the intention of clustering do not have access to capacity-building programmes, skills-specific training, innovation centres or other forms of non-financial guidance.

Montenegro could build on the successful implementation of the cluster development programme co-funded by the European Union and the United Nations Industrial Development Organisation.<sup>94</sup> The project targeted SMEs in more disadvantaged regions in Montenegro and aimed to assist them in cluster formation. The clusters had an average of 15 producers registered<sup>95</sup> and were formed in sectors with a higher potential to move up the global value chain.

Building on linkages created by clusters and improving the suppliers' base to create linkages between SMEs and MNEs could have a positive spillover effect on regional development. In proportion to its size, Montenegro remains one of the region's largest recipients of foreign direct investment (FDI). Tourism, energy, construction, telecommunications and real estate are the sectors attracting the most FDI in the economy. The economy ranks high in the FDI Regulatory Restrictiveness Index and is less restrictive than an average OECD economy (OECD, 2021<sup>[3]</sup>). In 2020, the government established the Montenegro Investment Agency (MIA), which aims to further facilitate FDI through informational services about business registration processes and investment policies in the economy. More high-quality and informed investment leaves room for opportunity for SMEs operating in investment-prone market segments to connect to the supplier base of larger MNEs. Nevertheless, a limited export offer remains a challenge,

which leaves Montenegro more vulnerable to external price fluctuations of commodities exported. The government made limited efforts to diversify the export offer and upgrade SME capacities through Programmes of Improving Competitiveness 2019-2021; however, more tangible programmes aiming to upgrade the supplier base and move to higher-value activities are needed.

*The majority of initiatives for integrating SMEs into GVCs are funded by international partners, which further increases Montenegro's reliance on external support*

The majority of programmes for SME integration into GVCs are co-founded and co-ordinated by international organisations, the Enterprise Europe Network (EEN) and international partners. Little progress has been made in decreasing that reliance, and further efforts are needed to develop national programmes for development and internationalisation.

Since the last assessment cycle, Montenegro has strengthened its co-operation with the EEN and other inter-regional organisations to diversify a relatively narrow export base. The government implemented the Danube Transnational Programme<sup>96</sup> (DTB), which prioritises innovative and sustainable growth in the Danube region and promotes regional cohesion. DTB is well aligned with the Europe 2020 Strategy<sup>97</sup> and identifies the need for training and retraining of human capital in order to meet the challenges of integrating into new value chains. By participating in the project, Montenegrin SMEs have access to training and capacity-building programmes in engineering, ICT, automation, and robotics, which can provide them with a competitive advantage in the integration into GVCs. To promote intra-EU labour mobility with a dedicated focus on SME personnel, Montenegro is benefiting from the EU-funded project MobiliseSME.<sup>98</sup> The initiative promotes short-term secondments for Montenegrin SME staff within the European Union as a way to develop entrepreneurial and managerial skills. Although Montenegro's participation in internationally funded projects is notable, there is a need to develop more national programmes promoting SME integration into GVCs.

*Despite introducing a number of measures, the lack of a strong legislative framework is hindering the promotion of e-commerce in Montenegro*

In the Programme for Improving Competitiveness (2020), the Government of Montenegro introduced a number of measures<sup>99</sup> to promote e-commerce, including voucher schemes, co-financing and subsidies to be used for SME digitalisation, training and purchase of software and hardware (Ministry of Economic Development, 2020<sup>[140]</sup>). This is a welcomed effort, as in the last assessment, Montenegro had the lowest percentage of consumers purchasing on line (12%) and the lowest share of SMEs selling on line (9%) (OECD et al., 2019<sup>[141]</sup>). In the 2021 Programme for Improving Competitiveness, there is a two-fold increase in the budget for the digitalisation programme line,<sup>100</sup> showing an increased commitment to transforming Montenegro into a digital economy.

Digitalisation constitutes a priority across strategic documents in Montenegro. In the MSME Strategy (2018-2022), the government acknowledges the potential of e-commerce to increase competitiveness and create new business opportunities and identifies a clear goal to increase digitalisation levels. The Programme for Improving Competitiveness (2020) outlines co-financing the following initiatives: development and implementation of digitalisation solutions with the goal of business process automation; digitalisation of human resources management; and development and implementation of e-commerce practices, online sales, online customer support and supplier management (Ministry of Economic Development, 2020<sup>[140]</sup>).

Additional measures related to conducting research on SME e-commerce uptake, creating a database of companies using e-commerce in their operations, providing support to MSMEs to meet the e-Trustmark standards and organising informational and educational events on e-commerce have been foreseen since

the previous reporting period. However, the majority of these targets were not implemented in 2020, partly due to the COVID-19 pandemic.

Despite the initiatives being included in strategy documents, Montenegro's legislative framework for promoting e-commerce and e-payments in international trade is non-existent. Payments and transactions are governed by the laws and bylaws issued by the Ministry of Finance and Social Welfare, the Central Bank of Montenegro, and the Law on Payment Transactions. Current legislation does not cover media and information society services; therefore, the online landscape is governed by a set of broad regulations pertaining to payments and transactions. The lack of dedicated legislation hinders the development of e-commerce activities, particularly for SMEs, and therefore hampers their efforts to integrate into GVCs (WTO, 2018<sup>[142]</sup>). SMEs face an added burden of lower flexibility and increased costs of adapting to changing market conditions and adopting new technologies, which explains their low level of participation in e-commerce (OECD, 2019<sup>[143]</sup>).

More than ever, the COVID-19 pandemic underlined the necessity to have a comprehensive framework for SMEs and to create an environment in which they will succeed. The increase in online retail amounted to 12% during the pandemic and is expected to continue rising, which can serve as additional motivation for the government to accelerate the development of a functional e-commerce legislative framework. The economy has solid foundations to build on – 98.8% of SMEs use computers for their daily operations, and 99.5% have access to the Internet, signifying high demand and interest in digitalising SME operations (European Commission, 2021<sup>[67]</sup>).

### ***The way forward for Dimension 10***

- **Facilitate access to information on support services available to SMEs, encouraging their internationalisation.** The information on available SME support is fragmented and often published directly on the Ministry of Economic Development's or dedicated programmes' websites, limiting the availability of the information flow among SMEs. In order to increase the uptake of export promotion initiatives by SMEs, there is a need to raise awareness about potential opportunities in foreign markets and provide training on the expansion process. SMEs should have access to information about prospective export destinations and market reports with a comprehensive analysis of foreign markets, as well as barriers to entry and trade facilitation measures (Box 16.20)

#### **Box 16.20. ProColombia: An export promotion approach in Colombia**

Colombia has a specialised export promotion agency that governs export and investment promotion, as well as tourism. Through its national and international offices, it provides comprehensive support to Colombian companies aiming to export and potential investors interested in the country. Its export promotion function focuses on designing market expansion strategies, identifying potential export destinations and designing action and business plans. In addition, ProColombia organises a number of events nationally and internationally to promote Colombian exports and raise awareness and recognition of the country's products.

ProColombia has a comprehensive website, which offers support for potential exporters. Portal de Exportaciones contains information on how to start exporting, available support policies of the government and ProColombia, trade statistics, market analysis and information on promotional events and trade fairs. The portal also contains user-friendly export guides, steps to follow and a variety of export tools available for exporters and potential investors and buyers. ProColombia also includes a business-to-business (B2B) online marketplace, where Colombian exporters can showcase their

products and be matched with a potential client. The portal is an effective vehicle for ProColombia's agenda of financial and non-financial export support and promotion.

Colombian companies, both larger enterprises and SMEs, have facilitated access to a broad range of in-depth information and tools at their disposal. ProColombia, apart from a comprehensive portal containing all support policies and programmes, has regional offices across the country and abroad, which broadens its outreach. Potential exporters have access to a number of capacity-building projects, training and skills development initiatives, as well as tailored consultancies to assess their potential and market opportunities. Potential exporters also have access to a cost visualisation tool, which assesses the logistics and trade costs of particular operations. There is a variety of educational events and programmes, both on line and in person, as well as access to assistance in participating in trade fairs independently or under the organisation's umbrella. By forming alliances with private and public partners, ProColombia expands its broad portfolio of services to stimulate the growth and development of the Colombian export base.

Facilitating access to information for Montenegrin SMEs is key to increasing the awareness and thus uptake of available support programmes. Compiling all information on internationalisation initiatives, relevant policies and grants in one easily accessible portal, as opposed to several websites, would raise awareness about the support granted by the government and private providers.

Sources: ProColombia (ProColombia, n.d.<sup>[144]</sup>)

- **Reduce reliance on external development programmes.** Most of the services available to SMEs aiming to integrate into GVCs are funded by international partners, which lowers the sustainability and predictability of resources. The government should emphasise developing national support programmes to lower reliance on external funds and promote a sustainable and flourishing business environment.
- **Broaden the export offer of SMEs and enhance the supplier base in the economy to match the inflowing foreign direct investment.** In line with OECD's product-space analysis, Montenegro can improve its economic complexity by focusing on the production of base metals, electronic equipment, machinery and chemicals<sup>101</sup> (OECD, 2019<sup>[145]</sup>). These sectors align with the type of FDI Montenegro is attracting, increasing the opportunities for SMEs to be linked to the supplier network of MNEs. Establishing co-operation links between SMEs and MNEs would be of significant mutual benefit. For SMEs, it would mean greater integration into GVCs and access to training, expertise and technology. Linkages to MNEs would help improve the quality of national suppliers in Montenegro and would contribute to knowledge transfers in relation to compliance with international standards, management and innovation. To develop these linkages, Montenegro could reinforce MIA's mandate to formally include aftercare services and continue its proactive investor targeting campaigns. Cogent co-ordination between the Directorate for Competitiveness and MIA to increase its visibility and effectiveness is crucial.
- **Introduce non-financial support for SMEs aiming to form a cluster.** Montenegro has made significant progress in cluster development; however, to maintain it, SMEs need to have access to training schemes and capacity-building programmes, which would foment skills development and innovation. SME clusters would then be able to become suppliers for MNEs based in Montenegro and could integrate into GVCs more successfully. Introducing non-financial support into the policy mix to complement the subsidies and co-financing provided through the Programme for Improving Competitiveness (2020) would help maintain the progress achieved by Montenegro in the area of cluster formation and development. See (Box 16.21) for a relevant example from the Slovak Republic.

### Box 16.21. Lessons from the Slovak Republic: Institutional support for clusters

In recent years, the Slovak Innovation and Energy Agency (SIEA) and the Ministry of Economy have complemented their financial support for cluster formation with increased involvement of public organisations, such as the Slovak Union of Clusters, which was included in designing support programmes for SMEs aiming to form a cluster and existing clusters. SIEA formed a working group together with representatives of industrial clusters in the Slovak Republic with the goal of introducing a Business Networking Support Scheme. SIEA also organises capacity-building activities, such as certification programmes, to assist clusters in improving their capabilities and integrating into GVCs.

Cluster development in the Slovak Republic is supported both with financial resources and non-financial support policies aiming to develop the skills and capacities of potential and existing clusters. Such a policy mix is beneficial for SMEs, who frequently lack the capabilities to successfully form a cluster with skills and technology transfer potential. Providing them with support programmes, training, and networking opportunities on top of financial support can result in effective integration into GVCs and regional spillovers.

Montenegro has achieved considerable progress in cluster development since the last assessment cycle. However, the support for SMEs with the intention of forming a cluster is limited to subsidies and co-financing. Though comprehensive and well-monitored, Montenegrin SMEs could benefit from non-financial programmes, fomenting skills development, expansion of capabilities, innovation, networking and B2B matchmaking. Introducing a dedicated entity for cluster support could ensure that SME stakeholders, as well as higher education institutions and public organisations, are included in the scheme design process.

Source: SIEA (n.d.<sup>[146]</sup>).

- **Develop a legal framework governing e-commerce and online services.** Targeted provisions on e-commerce would contribute to the efforts related to implementing the MSME Strategy (2018-2022). Higher levels of digitalisation and e-commerce uptake would improve the economy's competitiveness, attract more investment and generate more inclusive international trade linkages. Consumer protection, including payment infrastructure, needs to be well developed for e-commerce to become popular among SMEs and consumers alike. Aligning legal frameworks on e-commerce with the EU E-Commerce Directive would be a good step to start building digital trust. Capacity building on integrating a payment system, transactions and security would improve the region's perception and uptake of e-commerce. Having a dedicated institution or agency that co-ordinates e-commerce policy would streamline communication and standardise processes on a national level.

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 Geneva, [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_trade\\_report16\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_trade_report16_e.pdf).

## Notes

<sup>1</sup> The Western Balkan average for tourism contributions to GDP does not include Kosovo.

<sup>2</sup> Statistics provided through the Tax Administration of Montenegro for the purposes of the SME Policy Index. They are not yet publicly available.

<sup>3</sup> National stakeholders involved in the National Partnership for Entrepreneurial Learning, as a working group of the Competitiveness Council, include the following: Ministry for Economic Development; Ministry of Education, Sciences, Culture and Sports; Bureau of Education; Centre for Vocational Education; Chamber of Economy of Montenegro; Employment Service of Montenegro; University of Montenegro – Faculty of Philosophy; University of Montenegro – Faculty of Economics; University of Donja Gorica; Union of Employers of Montenegro; Montenegro Business Alliance; Union of Young Entrepreneurs; American Chamber of Commerce – Labour Relations Committee; Business Start-Up Centre Bar; Technopolis Innovation and Entrepreneurship Centre; EBRD; UNDP.

<sup>4</sup> For more information, see Održana prva sjednica Savjeta za konkurentnost: Zajedničko djelovanje državnih institucija (For more information, see Održana prva sjednica Savjeta za konkurentnost: Zajedničko djelovanje državnih institucija (<https://www.gov.me/>)).

<sup>5</sup> The Chamber of Economy of Montenegro organises a wide range of open-access educational activities such as seminars, roundtables, presentations, workshops and conferences. These are intended for its members (companies and their employees) but also include student and youth participants looking to improve their skills by educating themselves. The topics of these activities are chosen by the private sector members and their purpose is to support industry demands for further insight into skills and contemporary topics and promotion of entrepreneurship. In 2021, a total of 80 educational activities were organised with over 4 800 participants.

<sup>6</sup> For more information, see <https://intervetwb.net/partners/>.

<sup>7</sup> For more information on DigNest, see <https://dignest.me/>; for more information on e-VIVA, see <https://evivaproject.eu/> (accessed on 20 January 2022).

<sup>8</sup> For more information, see Održana prva sjednica Savjeta za konkurentnost: Zajedničko djelovanje državnih institucija (<https://www.gov.me/>).

<sup>9</sup> For more information on IWA 34, see <https://www.iso.org/obp/ui/#iso:std:iso:iwa:34:ed-1:v1:en>.

<sup>10</sup> For more information, see [https://www.poslodavci.org/site/assets/files/3107/uputstvo\\_za\\_primjenu\\_mest\\_iwa\\_34.pdf](https://www.poslodavci.org/site/assets/files/3107/uputstvo_za_primjenu_mest_iwa_34.pdf).

<sup>11</sup> Through the Digital Governance for Development Acceleration project, a collaboration between UNDP and the Ministry for Economic Development.

<sup>12</sup> For more information, see <https://gender-data-hub-2-undesa.hub.arcgis.com/>.

<sup>13</sup> The main deficiencies of the Insolvency Act are:

- Lack of legal provisions on solving obstruction of proposed reorganisation plan for voting by hold-out and dissenting creditors. Inadequate rules for selection and voting of several alternative reorganisation plans, which does not provide for best recovery of creditors' claims.
- The sale of debtor as a legal entity in bankruptcy liquidation is a good option, but single criteria sales based only on price bidding may lead to lower proceeds from the sale, similar to the sale of a bank portfolio of NPLs, and lower recovery of creditors' claims.
- No provision for simplified and shorter insolvency proceedings for the reorganisation of micro and small SMEs.
  - Lack of promotion or support measures for second-chance programmes for SMEs.

<sup>14</sup> The Insolvency Law of Serbia, Article 158 provides for a pre-packaged hybrid bankruptcy reorganisation plan.

<sup>15</sup> The pre-insolvency proceeding was first enacted in Republika Srpska in 2016 and then introduced in 2021 in the rest of Bosnia and Herzegovina. The same pre-insolvency proceeding has been introduced in the new draft of the Insolvency Act of North Macedonia, which is expected to be enacted in 2022.

<sup>16</sup> A mid-term evaluation of the MSME Strategy (2018-2022) was conducted in late 2020 using the OECD-DAC methodology, which focuses on six standard criteria: 1) relevancy; 2) effectiveness; 3) efficiency; 4) influence; 5) sustainability; and 6) coherency.

<sup>17</sup> Such as: reducing the administrative burden, simplifying business registration, making the tax system more transparent and predictable, strengthening the analysis of SME aspects in RIA, and developing digital government services.

<sup>18</sup> The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to the potential impacts of a regulation on SMEs. The SME Test methodology starts with an examination of the SME aspects in RIA and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see: [https://ec.europa.eu/info/sites/default/files/br\\_toolbox-nov\\_2021\\_en\\_0.pdf](https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf)

<sup>19</sup> Under Goal 7 of the strategy – the development of electronic administration.

<sup>20</sup> The level of sophistication of online services can be divided into five levels:

- 1) Information: The web pages provide the user with informative material for the transaction of a demand.
- 2) One-way interaction: The web pages provide the applications in electronic form and the user has the ability to download, fill and deposit them to the public sector.

3) Two-way interaction: Apart from the informative material, the user has the ability to fill an electronic form and submit electronically their data.

4) Transaction: At this stage, the electronic gate provides the user with the possibility of fulfilling demands, of completing transactions.

5) Personalisation: In the fifth stage, the supplier of services make actions with the fundamental objective to make the electronic platform friendlier to the user. In addition, the supplier of services can upgrade the services or provide the services automatically without the need for the citizen to make actions (European Commission, 2006[148]).

<sup>21</sup> Based on the combined share of “completely satisfied” and “tend to be satisfied” responses to the Balkan Business Barometer survey’s question: Could you please tell me how satisfied are you with each of the following in your place of living: Digital services currently provided to business by public administration?

<sup>22</sup> During 2021, the Government of Montenegro went through structural and organisational changes resulting in a decreased number of ministries and the withdrawal of certain electronic services.

<sup>23</sup> The once-only principle aims to ensure that users of digital services only need to provide certain information to the government once, which is then shared by various administrations through the government’s interoperable data exchange network.

<sup>24</sup> Most OECD countries have established governance mechanisms where relevant representatives from public sector organisations participate in advising on the design and implementation of digital government strategies, and/or taking concrete decisions in terms of priority areas of work or funding for digital government implementation. For further information on the benefits of having sound governance frameworks for digital government, see OECD (2021[54]).

<sup>25</sup> To access the Rulebook, see: Pravilnik o načinu objavljivanja informacija u otvorenom formatu ([www.gov.me](http://www.gov.me)).

<sup>26</sup> On paper or CD, or through peer-to-peer transfer.

<sup>27</sup> The e-Firma platform is the result of co-operation on company registration between the Revenue and Customs Administration, the Ministry of Finance and Social Welfare, and UNDP Montenegro, and is financed by the EU delegation in Montenegro.

<sup>28</sup> The project is implemented within the IPA CBC Program Italy – Albania – Montenegro. More information is available at <https://bre.italy-albania-montenegro.eu/>.

<sup>29</sup> Information on licences is available in Montenegrin and English.

<sup>30</sup> Some 38% of Montenegrins reported the excessive discretionary power of government officials and inconsistent application of regulations as being a big or very big obstacle to obtaining licences (compared to 17% in 2019), and 34% of business representatives reported that they frequently need to rely on personal or private connections to solve problems, compared to 14% to 2019 (Regional Cooperation Council, 2021[70]).

<sup>31</sup> The local business organisations and associations included the Chamber of Commerce, the Employers Federation, the Montenegro Business Alliance, the Business Start-Up Centre Bar and the Chamber of Economy.

<sup>32</sup> The international partners included the EEN and the EBRD.

<sup>33</sup> As indicated in the Industrial Policy of Montenegro (2020-2023).

<sup>34</sup> See <https://www.ebrd.com/work-with-us/projects/tcpsd/14518.html>

<sup>35</sup> That number is a result of calculating cumulative beneficiaries from 2019 and 2020. Beneficiaries are counted per every BSSs they use.

<sup>36</sup> In order to further strengthen the private sector's involvement in BSSs provision and beyond, the government has created the Council for Competitiveness. The Council consists of the Chamber of Commerce of Montenegro, the Union of Employers of Montenegro, the Council of Foreign Investors in Montenegro, the American Chamber of Commerce in Montenegro, the Montenegro Business Alliance and representatives from women-led business associations.

<sup>37</sup> The Industrial Policy of Montenegro (2020-2023) has dedicated budget lines for improving the capacity of business centres, incubators and competence building centres, and overall development of institutional infrastructure and support services for SMEs.

<sup>38</sup> The number of applications for the self-employment grant amounted to 1 034 in 2021.

<sup>39</sup> For more information, see <https://boostmeup.me/>

<sup>40</sup> For more information, see [www.ebrd.com/news/2021/ebrd-eu-and-montenegro-enhance-smes-access-to-business-advice-and-information-services.html](http://www.ebrd.com/news/2021/ebrd-eu-and-montenegro-enhance-smes-access-to-business-advice-and-information-services.html)

<sup>41</sup> Data provided by Montenegrin authorities.

<sup>42</sup> Ibid.

<sup>43</sup> For example, financial, legal or other services in proceedings related to the privatisation of the economy, the procurement of election material, and tasks related to the development and adoption of planning documents as stipulated by the law governing spatial planning.

<sup>44</sup> The strategy proposes the organisation of a forum to establish a dialogue with the private sector and identify obstacles and challenges for participation in the public procurement market; the organisation of training to encourage and increase the capacity of SMEs to participate in public procurement; an analysis of the ability of economic operators to participate and respond in a proper fashion to the conditions applicable to public tenders and contracts; and the development of guidelines and documentation on how to do business with the public sector.

<sup>45</sup> In principle, supporting documents issued by public authorities or third parties are required only from the bidder with the best tender.

<sup>46</sup> Bidders submitting joint tenders should conclude in advance a contract on joint participation which regulates mutual rights and obligations, determines which member of the joint bid is the holder of the bid, which part of the procurement subject each of the members of the joint bid is in charge of, as well as their percentage share in the total value of the bid.

<sup>47</sup> In a negotiated procedure without prior publication; to award contracts on the basis of the framework agreement; in an electronic auction or a dynamic purchasing system; in procedures for social and other



specific services; and in the case of public procurement for the needs of defence and security or for the needs of diplomatic missions, consular offices, and military and diplomatic representatives abroad.

<sup>48</sup> Procurement in which environmental or social considerations are applied.

<sup>49</sup> PPL, Article 91.

<sup>50</sup> PPL, Article 25.

<sup>51</sup> PPL, Article 110.

<sup>52</sup> PPL, Article 118.

<sup>53</sup> PPL, Article 93.

<sup>54</sup> PPL, Chapter VII.

<sup>55</sup> Below the threshold of EUR 5 000, contracting authorities may directly award a contract to the selected economic operator, in the form of acceptance of the pro-forma invoice, fiscal bill or the contract. Between EUR 5 000 and EUR 20 000 (EUR 40 000 for works), contracting authorities may publish a request for submission of tenders on the National System of Electronic Public Procurement or by means of the National System of Electronic Public Procurement send a request directly to select economic operators (at least three), unless specific conditions are fulfilled, such as extreme urgency or lack of competition. The minimum time period for receipt of bids is three days and together with the bid, tenderers should submit a self-declaration about the fulfilment of conditions for participation. Contracting authorities may award simple contracts based on the lowest price only or price/quality ratio.

<sup>56</sup> PPL, Article 185.

<sup>57</sup> PPL, Article 188.

<sup>58</sup> PPL, Article 193.

<sup>59</sup> This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

<sup>60</sup> MTP GROW market is a development market of the Montenegro Stock Exchange intended for newly established joint stock companies that do not meet two or more conditions for inclusion in the free market.

<sup>61</sup> 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.

<sup>62</sup> This OECD report was based on a survey of levels of financial literacy in Bulgaria, Croatia, Georgia, Moldova, Montenegro, North Macedonia and Romania. It collected primary data using its globally vetted OECD/INFE Toolkit. In addition to calculating globally comparable financial literacy scores, the analysis covers financial inclusion and elements of financial well-being, paying particular attention to attributes of individual financial resilience.

<sup>63</sup> All six Western Balkan economies covered in this report form part of the CEFTA. Work in CEFTA is structured by committees, subcommittees and expert groups. The subcommittee on non-tariff measures

deals with all policy measures other than customs. This subcommittee includes an expert Working Group on Technical Measures, which discusses methods and tools to eliminate discriminatory non-tariff barriers and holds exploratory discussions on the mutual recognition of technical regulation. Furthermore, the group also discusses the implementation of aligned legislation with relevant EU legislation, World Trade Organization or other international agreements. Both the expert working group and the subcommittee meet once a year.

<sup>64</sup> This comprises 26 testing laboratories, 2 medical laboratories, 2 calibration laboratories, 9 inspection bodies, 2 certification bodies for product certification and 3 certification bodies for management system certification.

<sup>65</sup> Research shows that there may be additional costs associated with specific actions or achieving certain standards linked to improved sustainability, e.g. ISO standards or environmental standards. For example, this can be an implicit cost linked to the need for training and capacity-building for managers and employees to ensure full implementation of new processes or practices across the business. For deeper insight, see OECD's SMEs: Key Drivers of Green and Inclusive Growth at [https://www.oecd.org/greengrowth/GGSD\\_2018\\_SME%20Issue%20Paper\\_WEB.pdf](https://www.oecd.org/greengrowth/GGSD_2018_SME%20Issue%20Paper_WEB.pdf).

<sup>66</sup> See Operational Objective 2.1 on p. 34 of Government of Montenegro (2020[40]).

<sup>67</sup> The Strategy for Lifelong Entrepreneurial Learning (2020-2024) includes an action to establish a system-level framework for regular monitoring and analysis of SME training needs, building on the national training needs analysis (TNA) pilot. It mentions the potential for a sector focus within this, but this is not yet linked to S3 priority sectors. The S3 Operational Plan (2021-2024) highlights TNA as part of the process of building sector clusters and identifies the need for new education and training programmes. The Innovation Fund is responsible for setting up the performance monitoring and evaluation system for S3.

<sup>68</sup> Within the current government programme to support economic competitiveness, the circular economy is mentioned, but this is limited to the treatment of wastewater. Future plans by the government include the creation of a National Platform for the Circular Economy. See <https://www.privrednakomora.me/projekti-aktuelnosti-saopstenja/kreiranje-smjernica-ka-cirkularnoj-ekonomiji>

<sup>69</sup> For more information, see <https://www.gov.me/dokumenta/2dd06bd7-cda2-4635-961c-d84cfe4a3eb>

<sup>70</sup> For more information, see Priority Reform Measure 11, pp. 115-116, Montenegro's ERP (2021-2023) (Government of Montenegro, 2021[150]).

<sup>71</sup> For more information, see <https://startupactivator.me/>.

<sup>72</sup> For example, [www.euroinfo.me](http://www.euroinfo.me) is the government-led portal linked to the internationalisation of businesses in Montenegro, while there are also non-government websites, such as <https://digitalizuj.me/> and <https://www.umpcg.me/> that offer information and events.

<sup>73</sup> The four strategic sector priorities are: 1) sustainable agriculture and the food value chain; 2) energy and sustainable environment; 3) sustainable and health tourism; and 4) information and communication technologies (as a horizontal sector).

<sup>74</sup> For more information, see <https://s3platform.jrc.ec.europa.eu/montenegro> (accessed on 25 January 2022).

<sup>75</sup> In accordance with the Government Decision on the formation of the Innovation and Smart Specialisation Council, No. 80/08, 14/17 and 28/18, dated 1 August 2019.

<sup>76</sup> This was a recommendation from the 2018 final report of the specific support to Montenegro through the Horizon2020-funded Policy Support Facility. See <https://ec.europa.eu/research-and-innovation/en/statistics/policy-support-facility/specific-support-montenegro-towards-entrepreneurial-innovation-ecosystems-montenegro>

<sup>77</sup> Government Decision on the formation of the Innovation and Smart Specialisation Council, Official Gazette 078/21 on 19 July 2021.

<sup>78</sup> The Innovation Fund was introduced through the Law on Innovation Activity, which regulates the institutional, governance and financial framework for the innovation ecosystem in Montenegro. See the Law on Innovation Activities at [www.gov.me](http://www.gov.me).

<sup>79</sup> Smart specialisation and innovation policy portfolios are now under the responsibility of the Ministry of Economic Development. After a new government was established in December 2020, the overall number of ministries was reduced to 12 and the government portfolio for science now sits within the Ministry for Education, Science, Culture and Sports.

<sup>80</sup> The annual European Innovation Scoreboard provides a comparative assessment of the research and innovation performance of EU countries and their regional neighbours. It allows policy makers to assess relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional Dimension 8b chapter for further information.

<sup>81</sup> The Science and Technology Park is envisaged to be a four-institution based network with with a central base in Podgorica and three decentralised impulse centres in Nikšić, Bar and Pljevlja.

<sup>82</sup> Hydrochlorofluorocarbons (HCFCs) are gases used worldwide in refrigeration, air-conditioning and foam applications, but they are being phased out under the Montreal Protocol since they deplete the ozone layer. Recognising the potential benefits to the Earth's climate, in September 2007 the Parties decided to accelerate their schedule to phase out HCFCs. Developed countries have been reducing their consumption of HCFCs with an aim to completely phase them out by 2020. Developing countries agreed to start their phase-out process in 2013 and are now following a stepwise reduction until the complete phase-out of HCFCs by 2030. In this regard, Montenegro plans to complete its phase-out process before the Montreal Protocol's requirement.

<sup>83</sup> Public calls were held in 2021 for two energy efficiency financial support programmes: 1) public competition for the award of subsidies for the purchase and installation of a photovoltaic system; and 2) procurement of electric and hybrid vehicles. Funds for these calls were donated by the UNDP (EUR 100 000) as part of the "Development of Green Jobs in Montenegro" to encourage SMEs and agricultural farms to implement energy efficiency measures.

<sup>84</sup> The polluter-pays principle is a basic principle of all European environmental policies. It is specifically referred to in the EU Water Framework Directive, which establishes clear requirements concerning financing for water management in EU member states. The polluter-pays principle states that those who pollute should bear the costs of preventing damage to human health or the environment.

<sup>85</sup> UNDP's Growing Green Business in Montenegro project and FORS Montenegro's Green Economy and Green Entrepreneurship projects.

<sup>86</sup> A hackathon is an event that brings together experts and creates a collaborative environment for solving a certain problem. Climathon is a city-based programme that offers a clear pathway to action and interaction – an opportunity for cities and citizens to co-create local ideas to shared climate challenges.

<sup>87</sup> The Ministry of Economic Development approves the reimbursement of up to 70% of eligible costs, excluding VAT, for micro and small enterprises and up to 60% for medium-sized enterprises, with the maximum amount set at EUR 4 000 excluding VAT. Maximum support available for the enterprises whose founders and owners of at least 50% are women and/or persons younger than 35 is up to 80% of eligible costs excluding VAT, up to a maximum of EUR 5 000.

<sup>88</sup> The European Commission has launched the first tranche of its Fit for 55 measures that will support Europe's climate policy framework and put the European Union on track for a 55% reduction in carbon emissions by 2030, and net-zero emissions by 2050. The interconnected proposals cover areas of climate, land use, energy, transport and taxation to bring them into line with the targets agreed in the European Climate Law. For instance, proposed targets by 2030 include a 55% reduction of emissions from cars, a 50% reduction of emissions from vans, a 3% renovation of the total floor area of all public buildings annually and a benchmark of 49% of renewables in buildings. More information can be found at [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en).

<sup>89</sup> In 2020, 127 businesses received a grant for standardisation, 2 for modernisation of production processes, 1 for the development of circular economy activities, 44 for the support of small-scale investments and 55 for the digital transformation of business operations.

<sup>90</sup> In 2020, internationalisation activities had a set budget of EUR 100 000, which was used for the reimbursement of up to 50% of eligible costs, excluding VAT, with a ceiling of EUR 4 000. The total budget for the introduction of international standards amounted to EUR 300 000 in 2020.

<sup>91</sup> Vertical specialisation clusters occur when imported inputs are used in the production of goods, which are further exported (Hummels, Ishii and Yi, 2001[147]).

<sup>92</sup> The programme has a dedicated budget of EUR 150 000. SMEs can apply for a reimbursement of up to 65% of total eligible costs of investing in tangible and intangible assets, as well as operation costs. Furthermore, the Ministry of Economic Development provides subsidies for the cost of improving the quality of products and services, product testing, packaging design, preparation of technical and technological studies and hiring national or international external consultants.

<sup>93</sup> The regulations in Montenegro define a cluster as a formation of three physical persons or entities. At the time of the assessment, there are 36 active cluster initiatives in Montenegro. In 2019, seven clusters received support amounting to EUR 69 595, while in 2020, EUR 83 920 was awarded to ten clusters.

<sup>94</sup> For more information, see [https://www.unido.org/sites/default/files/2015-12/Montenegro\\_Brochure\\_FINAL2014pdf\\_0.pdf](https://www.unido.org/sites/default/files/2015-12/Montenegro_Brochure_FINAL2014pdf_0.pdf).

<sup>95</sup> Of the registered, 5 producers registered in the freshwater fish cluster, 17 in the olive oil cluster, 5 in the metalworks cluster and 34 in the wine cluster

<sup>96</sup> For more information, see <https://www.interreg-danube.eu/>.

<sup>97</sup> The Europe 2020 Strategy is a ten-year EU strategy for inclusive and sustainable growth. The Strategy has set targets covering employment, research and development, climate change, energy sustainability,

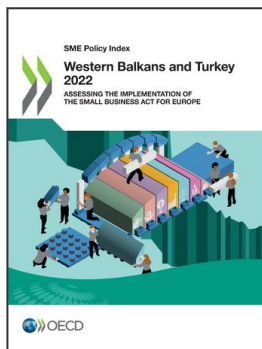
education, fight against poverty and social exclusion. Europe 2020 is financed by the Cohesion Policy funds and commits to a specific percentage of the funding to be spent on thematic objectives. The goal of the strategy is an innovative, efficient and sustainable Europe. For more information, see [https://ec.europa.eu/regional\\_policy/en/policy/what/glossary/e/europe-2020-strategy](https://ec.europa.eu/regional_policy/en/policy/what/glossary/e/europe-2020-strategy).

<sup>98</sup> For more information, see <https://mobilise-sme.eu/>.

<sup>99</sup> The Programme for Improving Competitiveness envisages a maximum of EUR 3 500 for SMEs aiming to digitise their operations, supporting 55 SMEs in 2020.

<sup>100</sup> The amount doubled, from EUR 200 000 in 2020 to EUR 400 000 in 2021.

<sup>101</sup> The product-space analysis does not take into account intangible exports in services and tourism, which constitute a high percentage of Montenegrin exports.



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