

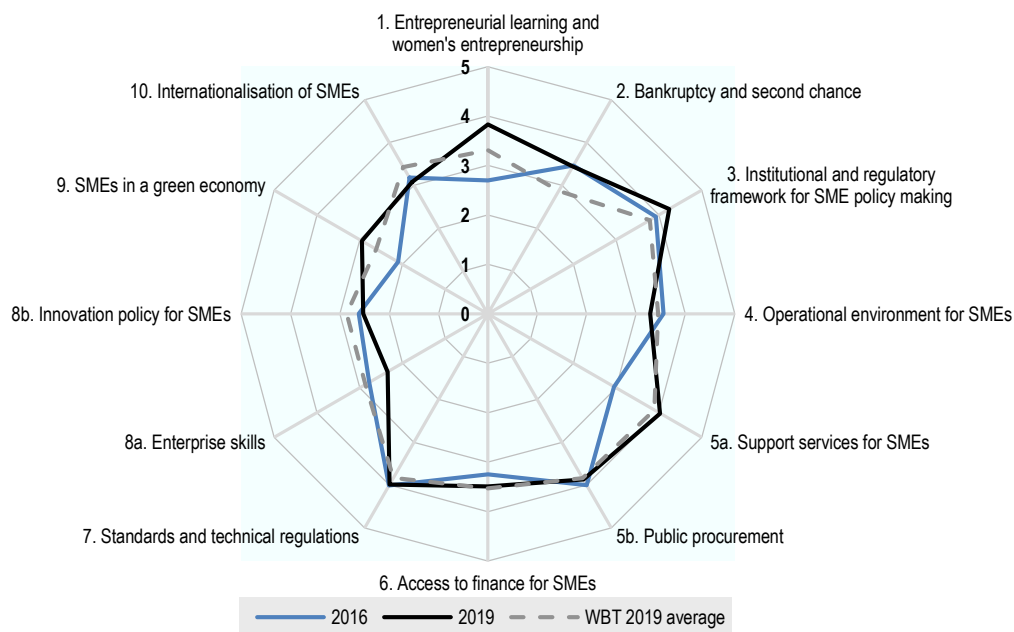
## Chapter 16. Montenegro: Small Business Act profile

*This chapter covers in depth the progress made by Montenegro in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Montenegro's economic context, business environment and status of its EU accession process. It then provides some key facts about 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.*

The full version of this chapter is available at <https://doi.org/10.1787/g2g9fa9a-en>.

## Key findings

**Figure 16.1. Small Business Act scores for Montenegro (2016 and 2019)**



*Note:* A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (Entrepreneurial learning and women's entrepreneurship) and Dimension 8a (Enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Montenegro has made progress in implementing the Small Business Act since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 16.1). Most of the developments since 2016 have involved improving its legal and regulatory environment, which lays the foundations for better SME policy making. The main achievements that have helped Montenegro improve its performance in this assessment are as follows:

**A new SME strategy has been prepared using an inclusive approach.** The new Strategy for the Development of Micro, Small and Medium-Sized Enterprises (MSME Strategy) was adopted in July 2018. This comprehensive document includes objectives which reflect all ten SBA principles, and the priority areas have been identified based on the 2016 SME Policy Index findings. The views of a remarkably wide range of SMEs were sought in preparing it.

**Entrepreneurial learning has been systematically infused into education.** Entrepreneurship has been included as a key competence through a cross-curricular approach in pre-school and primary education, and entrepreneurial learning has been introduced as an optional subject in lower and upper secondary schools. The comprehensive revision of the curricula is likely to have a long-term positive impact on the probability of firms being started up, their performance and their survival.

**Resolving insolvency has become faster and cheaper.** Montenegro's amended insolvency laws now allow businesses that are in financial difficulties to be reorganised, and make it easier to liquidate non-viable companies. A more efficient insolvency regime

has helped Montenegro increase the recovery rate of debt by creditors from 48.6% in 2016 to 50.0% in 2018.

**The legal framework regulating non-bank financial instruments has been strengthened.** Non-bank financial institutions have been brought under the supervision of the Central Bank, and a law adopted in 2018 has set the framework for factoring, leasing and credit guarantee schemes. These developments are expected to further boost the demand for non-bank financial instruments, diversifying financing options for SMEs beyond traditional bank lending.

**Investments in innovation infrastructure have received a boost.** In 2016, the Tehnopolis innovation centre opened in Nikšić. This was the first phase of a science and technology park network in Montenegro that will comprise four institutions. The significant funds dedicated to sustaining and extending this network indicate the government's long-term commitment to fostering innovation activities among SMEs.

**SMEs have easier access to the public procurement market.** Following an amendment to the public procurement law, SMEs may now apply for bigger contracts without the need to fulfil cumbersome procedural requirements. The Public Procurement Office has also prepared detailed guidelines for line ministries to further encourage SMEs to participate in public tenders. The impact of these developments on the SME share of public contracts has yet to be seen.

### *Priority areas*

The enhanced legal and regulatory framework in Montenegro has not yet been accompanied by sufficient targeted measures to support SMEs' competitiveness. There is also room for a more co-ordinated approach to providing support measures, currently spread across different public institutions; SME initiatives would certainly benefit from consolidation to increase their effectiveness. This report identifies seven priority areas in which Montenegro should intensify its activities:

- **Ensure the effective implementation of the MSME Strategy by further strengthening the role of the Directorate of Investments, Development of SMEs and Management of EU funds.** The ambitious measures in Montenegro's newly adopted MSME Strategy require, more than ever, strong co-ordination among the different public institutions involved. Therefore, the directorate must have adequate human and financial resources to successfully implement and monitor the Strategy.
- **Implement a single and transparent system for business licensing and permits.** The process of obtaining various licences and permits needs to be streamlined as it remains lengthy and expensive and disproportionately affects SMEs. The Licence E-register system should be reformed to reduce unnecessary requirements and further simplify procedures.
- **Reduce the tax compliance requirements for SMEs.** Although various tax exemptions are available for SMEs locally, there are no measures to reduce their income tax compliance requirements. Income tax provisions such as presumptive taxes and cash accounting are greatly needed to reduce the disproportionate burden posed on SMEs by the tax system.
- **Introduce alternative equity-based finance.** There is little or no funding available in Montenegro through business angels, venture capital or listings.

Policy makers should consider equity financing, especially for innovative start-ups and SMEs. Introducing crowdfunding into the legislative framework could provide a feasible alternative source of finance for start-ups that have growth potential.

- **Consider setting up an independent unit/agency to implement innovation policy measures.** Both the Ministry of Economy and the Ministry of Science are actively involved in providing institutional and direct financial support to innovative SMEs. Yet the programmes are fragmented, and often fail to attract sufficient interest from SMEs. An independent government unit or agency is warranted to centralise the various initiatives currently spread across ministries.
- **Provide catalytic financial support to help SMEs adopt environmentally friendly practices.** The government could make use of existing mechanisms to boost support for SME greening. The Investment and Development Fund of Montenegro could be instrumental in providing financial support to those SMEs that are willing to invest in improving their environmental performance.
- **Enhance support for export promotion.** Most of the activities directed at the internationalisation of SMEs currently focus on providing information rather than tangible support to build capacity. SMEs need tailored programmes to help them develop their export capacity. However, public bodies need to be well-versed in the challenges and needs of Montenegrin enterprises as a prerequisite to developing these programmes.

## Economic context and role of SMEs

### *Economic overview*

Montenegro is a service-based, upper-middle income economy, with a gross domestic product (GDP) per capita of 18 765 current international dollars in purchasing power parity (PPP) terms and a population of 622 471 in 2017, making it the smallest of the Western Balkan and Turkey (WBT)<sup>1</sup> economies (World Bank, 2018<sub>[1]</sub>). In terms of value added, in 2017 services accounted for 54.5% of GDP, while industry comprised 17.4% and agriculture 7.6% (World Bank, 2018<sub>[1]</sub>). The services sector also accounted for the highest share of employment: 74.3% of total employment, followed by industry (18%) and agriculture (7.6%) (ILO, 2018<sub>[2]</sub>). The economy is particularly reliant on its tourism sector, which employs 15% of the workforce and provides one-fifth of its gross value added (EC, 2018<sub>[3]</sub>).

The economy has grown steadily since the previous assessment, at a rate of 4.7% in 2017 (Table 16.1). Looking ahead, the overall projection for GDP growth is positive, albeit more modest: it is forecast to rise slowly at a rate of around 3% in 2018 and 2.9% in 2019 (EC, 2018<sub>[4]</sub>).

Montenegro's sectoral structure is heavily reliant on capital inflows, which contribute to its large current account deficit and high external imbalances (160.2% in 2017), rendering the economy vulnerable to external shocks (EBRD, 2018<sub>[5]</sub>). Over the assessment period, Montenegro sustained a considerable trade imbalance – in 2017 import levels were 64.5% of GDP, outweighing exports at 41.1% (Table 16.1). Montenegro has the greatest current account deficit of the region at -16.3% of GDP in 2017, more than double that of all the other WBT economies (EBRD, 2018<sub>[5]</sub>). Sustained foreign direct investment (FDI) inflows positively affect the balance of payments, but in the medium to long term, FDI inflows may be conducive to public debt. In particular, they tend to increase the host country's imports because FDI companies import capital and intermediate goods and services that are not readily available in the host country.

As Montenegro unilaterally adopted the euro in 2002, it has no direct control over its monetary policy. It has been making ambitious efforts to correct its fiscal deficit and reduce public debt. Fiscal consolidation efforts have been driven by strengthened tax collection and public spending cuts. Inflation has been low, but rose to 2.8% in 2017, primarily driven by the increase in the value-added tax (VAT) rate from 19% to 21% and the rise of excises on tobacco and alcohol (World Bank, 2018<sub>[6]</sub>). Meanwhile, improvements in administrative capacity have helped fiscal consolidation efforts: the Tax Authority e-platform has simplified procedures, reduced costs and helped Montenegro to significantly improve its tax collection, bringing tax revenues as a share of GDP above the OECD average (OECD, 2018<sub>[11]</sub>). All in all, the economy's fiscal deficit is expected to reach a surplus by 2020 with the completion of major public infrastructure projects (IMF, 2018<sub>[8]</sub>; EC, 2018<sub>[9]</sub>).

Montenegro faces high youth unemployment, low female labour force participation and high long-term unemployment. Youth unemployment stood at 27.5% in the third quarter of 2017, the employment rate of women only reached 49.1% and the long-term unemployment rate reached 73.4% (EC, 2018<sub>[10]</sub>). Past GDP growth has translated into a marginal increase in employment, as Montenegro experienced falling unemployment from 18.0% in 2016 to 16.4% in 2017, primarily driven by increased male employment (World Bank, 2018<sub>[6]</sub>). A skills mismatch and weak inter-institutional co-operation between education and the labour market remain key challenges for growth, (EC,

2018<sup>[3]</sup>). Montenegro's education also lags behind OECD averages in science, reading and mathematics, according to the 2015 OECD Programme for International Student Assessment (PISA) (OECD, 2018<sup>[11]</sup>). Moreover, Montenegro recorded the highest rate of student truancy out of the 70 economies for which data were available in the 2015 PISA assessment, indicating a potentially precarious forecast for youth employment and readiness to work (OECD, 2016<sup>[12]</sup>).

Large infrastructure improvements in transport and energy are expected to strengthen key economic sectors, enhance sustainability and rebalance public finances. The completion of the priority section of the Bar-Boljare highway, connecting the Adriatic port of Bar with Serbia, is expected to stabilise Montenegro's tourism industry and bring its budget into a surplus of 5-6% of GDP in 2020 (EBRD, 2017<sup>[13]</sup>; EC, 2018<sup>[3]</sup>). The concurrent upgrading of its railway system will also improve its trade links and help the expansion of Bar harbour (EIB, 2018<sup>[14]</sup>). The completion of its first commercial 72MW wind power plant, which now represents 6% of the economy's total electricity production, puts Montenegro on track to reach its target of 36% renewables in its energy mix by 2020 (EBRD, 2017<sup>[13]</sup>).

**Table 16.1. Montenegro: Main macroeconomic indicators (2013-18)**

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth <sup>1</sup>	% year-on-year	3.5	1.8	3.4	2.9	4.7	3.0 <sup>f</sup>
Inflation (HICP) <sup>1</sup>	% average	1.8	-0.5	1.4	0.1	2.8	3.0 <sup>f</sup>
Government balance <sup>1</sup>	% of GDP	-4.6	-2.9	-8.3	-3.6	-5.3	-3.5 <sup>f</sup>
Current account balance	% of GDP	-11.4	-12.4	-11.0	-16.2	-16.1	-16.5 <sup>*</sup>
Exports of goods and services <sup>1</sup>	% of GDP	41.3	40.1	42.1	40.6	41.1	33.1 <sup>*</sup>
Imports of goods and services <sup>1</sup>	% of GDP	61.4	60.0	60.6	63.1	64.5	71.9 <sup>*</sup>
Net FDI <sup>1</sup>	% of GDP	9.6	10.2	16.9	9.4	11.3	9.7 <sup>*</sup>
External debt <sup>2,3</sup>	% of GDP	153.5	163.1	161.8	158.8	160.2	..
Gross international reserves <sup>1</sup>	Ratio of 12 months imports of goods moving average	2.9	3.7	4.4	4.7	4.7	5.15 <sup>*</sup>
Unemployment <sup>1</sup>	% of total active population	19.5	18.2	17.8	18.0	16.4	15.6 <sup>f</sup>
National GDP <sup>4</sup>	EUR billion	3.36	3.46	3.65	3.95	4.29	..

Note: <sup>f</sup>: forecast; <sup>\*</sup>: average of 1<sup>st</sup> and 2<sup>nd</sup> quarter; HICP: Harmonised Index of Consumer Prices.

Sources: <sup>1</sup>EC (2018<sup>[4]</sup>), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", <http://dx.doi.org/10.2765/319761>; <sup>2</sup>EBRD (2017<sup>[13]</sup>), *Transition Report 2017-18: Country Assessments*, <http://2017.tr-ebd.com/countries/>; <sup>3</sup>EBRD (2018<sup>[5]</sup>), *Transition Report 2018-19: Country Assessments*, <https://2018.tr-ebd.com/countries/>; <sup>4</sup>Eurostat (2018<sup>[15]</sup>), *Eurostat (database)*, <https://ec.europa.eu/eurostat/data/database>.

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

Montenegro's business environment has improved since the previous assessment. Currently, Montenegro is one of the most open economies for FDI according to the

OECD FDI Regulatory Restrictiveness Index and has made significant improvements in removing barriers to trade (OECD, 2018<sub>[11]</sub>).

The main obstacles to the business environment remain weak enforcement of the rule of law, an inefficient public administration and corruption (EC, 2018<sub>[3]</sub>). These problems are also acknowledged in Montenegro's latest Economic Reform Programme (Box 16.1). The informal economy still presents a significant obstacle to the business environment. Moreover, it hinders the ability of the government to collect revenue and reduce its debt. Recent progress on privatisation has been delayed as several key companies remain publicly owned in the tourism and transport sectors – despite their envisaged privatisation under the 2017 Privatisation Plan (EBRD, 2017<sub>[13]</sub>). More troublesome is the fact that many state-owned enterprises (SOEs) in Montenegro are loss-making and obtain their financing from the government and international development banks. This privileged access to financing despite subpar performance creates market distortions and an uneven playing field for private enterprises, especially SMEs (OECD, 2018<sub>[11]</sub>).

### **Box 16.1. Economic reform programmes**

Since 2015, all EU candidate countries and potential candidates are obliged to prepare economic reform programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

- 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.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and accordingly in developing structural reform measures to overcome them.

Source: EC (2018<sup>[16]</sup>) *Economic Reform Programmes: Western Balkans and Turkey*, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-crp-factsheet.pdf>.

Montenegro is perceived as the most corrupt of the WBT economies, and its score of 46 (out of a possible 100) in Transparency International's *Corruption Perception Index* is the lowest in the region. It was in 64<sup>th</sup> place out of a total of 180 ranked economies in 2017, (Transparency International, 2018<sup>[17]</sup>).

Face-to-face interviews with Montenegrin SMEs highlighted poor institutional support and ineffective administration as key obstacles to their businesses. SMEs also reported that although consultations were carried out, the government did not take them into account sufficiently when forming strategies and action plans. The feedback from the interviews also indicated little awareness of available support programmes, especially in the areas of access to finance, increasing environmental performance and internationalisation. These findings are reflected in other sources, in which Montenegrin businesses have raised their concerns about the poor implementation of laws and delays in obtaining information and services (EC, 2018<sup>[3]</sup>).

Montenegro's ranking in the World Bank's *Doing Business 2018* report has risen four places to 42 out of 190 economies, placing it just after the Republic of North Macedonia and Kosovo\* (World Bank, 2017<sup>[18]</sup>). The main factors contributing to this improvement are listed in Table 16.2.

**Table 16.2. Recent business reforms in Montenegro**

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2018	<b>The electricity supply has become more reliable</b> by 1) implementing the Supervisory Control and Data Acquisition automatic energy management system; and 2) starting to record data for the annual System Average Interruption Duration Index and System Average Interruption Frequency Index.	None
Doing Business 2017	<b>Paying taxes is less costly</b> by reducing the personal income tax rate. Montenegro has made paying taxes easier by providing an electronic system for filing and paying VAT. At the same time, Montenegro increased the health contribution rate paid by employers.	None
Doing Business 2016	<b>Construction permits are easier to deal with</b> by reducing the time needed to issue them.	None
	<b>Paying taxes has been made easier for companies</b> by introducing an electronic system for filing and paying labour taxes – though it also extended the “crisis tax” for an indefinite period on income exceeding EUR 720 per month.	None

Note: Only reforms which had either a positive or a negative impact on conducting business were considered. No reforms were introduced during the assessed period that had a negative impact.

Source: adapted from World Bank (2018<sup>[19]</sup>), *Doing Business: Business Reforms in Montenegro*, [www.doingbusiness.org/en/reforms/overview/economy/montenegro](http://www.doingbusiness.org/en/reforms/overview/economy/montenegro).

\* 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.



### *EU accession process*

Montenegro applied for EU membership in 2008. The Stabilisation and Association Agreement (SAA) came into force in September 2010 and Montenegro was granted EU candidate status in December 2010. Accession negotiations began on 29 June 2012. As of April 2018, Montenegro had opened 30 out of 35 negotiating chapters, of which three have been provisionally closed, i.e. completed.

Chapter 20 of the accession negotiations, opened in December 2013, covers enterprise and industrial policy. Montenegro's progress in this area is assessed in this *SME Policy Index: Western Balkans and Turkey 2019*; the findings and recommendations provide monitoring and guidance for the country to meet Chapter 20 requirements for accession into the EU.

Chapter 20 aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment for SMEs. Implementing the ten Small Business Act (SBA) principles is one of the requirements under this chapter. In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs' interests through government bodies. There are no SME envoys in pre-accession countries; the Directorate of Investments, Development of SMEs and Management of EU Funds under the Ministry of Economy of Montenegro acts as the SBA co-ordinator responsible for implementing the SBA principles.

The latest EU progress report finds that Montenegro is moderately prepared in enterprise policy (EC, 2018<sub>[10]</sub>). Going forward, Montenegro needs to:

- strengthen its administrative capacity and ensure strong inter-ministerial co-ordination to apply the EU *acquis*
- continue to implement industrial policy in close co-operation with industry and other relevant stakeholders, and conduct a mid-term review of the policy to assess its effectiveness.

As of February 2018, Montenegro's process of accession to the EU has gained further momentum, along with the other Western Balkans economies, thanks to the launch of the European Commission strategy on "a credible enlargement perspective for an enhanced EU engagement with the Western Balkans" (EC, 2018<sub>[21]</sub>). The new Western Balkans accession strategy details six flagship reform initiatives addressing key issues regarding rule of law, security and migration, increased connectivity and neighbourly relations (EC, 2018<sub>[21]</sub>). The initiatives also incorporate elements that support SME policy and Chapter 20 preparedness in the *acquis*, namely socio-economic development and a digital agenda.

### *EU financial support*

The EU is the largest provider of financial assistance to Montenegro. Through the EU pre-accession funds, a total of EUR 506.2 million has been allocated to Montenegro for the period 2007-20, 7.9% of which has been apportioned to improving the business environment by enhancing competitiveness and innovation (EC, 2018<sub>[22]</sub>).

The EU also provides financial support for Montenegrin SMEs in the form of raising capital for start-ups, providing subsidised loans and guarantees, and skills and financial literacy programmes. Financial support is offered and co-ordinated through the following financial institutions: the European Investment Fund, the Western Balkans Investment Framework, the European Investment Bank, the European Bank for Reconstruction and

Development (EBRD), and the Western Balkans Enterprise Development and Innovation Facility. Since 1999, the European Investment Bank has provided EUR 621 million in loans to Montenegro (EC, 2018<sub>[22]</sub>). Grants through the Western Balkan Investment Framework total EUR 81 million, generating investments to the value of EUR 732 million (EC, 2018<sub>[22]</sub>). At the time of writing, the EBRD's cumulative investment stands at EUR 567 million, with a current portfolio of projects valued at EUR 352 million (EBRD, 2018<sub>[23]</sub>).

Likewise, various programmes such as Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) – financed by the Enterprise Europe Network; InnovFin (Horizon 2020); the Programme for Employment and Social Innovation; the European Structural and Investment Funds; and the SME Instrument; also play vital roles in the landscape of support to Montenegrin SMEs.

### *SMEs in the national economy*

The definition of SMEs in Montenegro is given by Article 5 of the Law on Accounting 2016 (Official Gazette of the Republic of Montenegro, No. 52/2016). The categories conform to the EU standard definition of SMEs by employee size, but diverge on the other criteria (Table 16.3).

**Table 16.3. Definition of micro, small and medium-sized enterprises in Montenegro**

	EU definition	Montenegro definition
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 or ≤ EUR 43 million balance sheet	< 250 employees ≤ EUR 40 million total annual income or ≤ EUR 20 million total assets

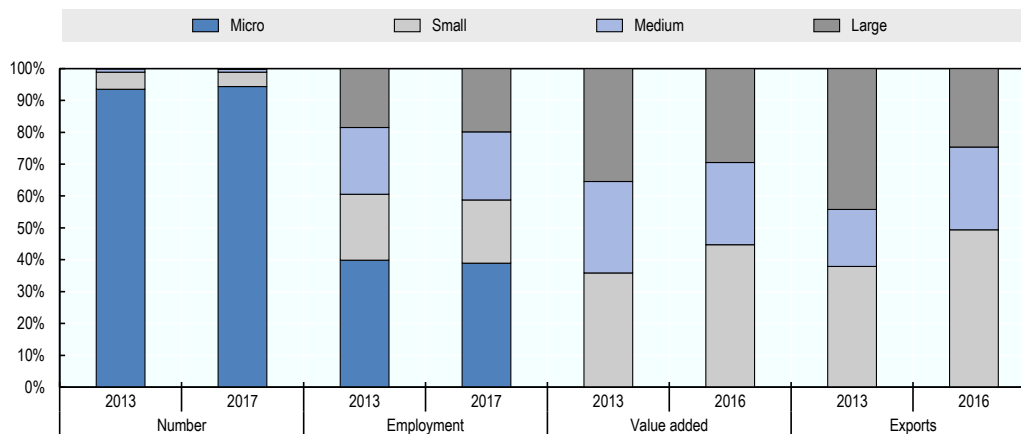
Source: Parliament of Montenegro (2016<sub>[24]</sub>), *Law on Accounting*, <http://www.poreskauprava.gov.me/ResourceManager/FileDownload.aspx?rid=248374&rType=2&file=Zakon%20o%20racunovodstvu.doc>.

In 2017, there were 30 238 SMEs, making up 99.8% of the total business sector, compared to only 25 106 SMEs in 2013 (Figure 16.2). However, between 2013 and 2017 the share of large enterprises increased by 0.1 percentage point. In 2017, Montenegrin enterprises broke down into 94.4% micro enterprises, 4.5% small enterprises, 0.9% medium-sized enterprises and just 0.2% large enterprises (Figure 16.2). In terms of number of enterprises, Montenegro's business sector is clearly dominated by micro enterprises. They also contributed the greatest share of employment, with 39% of total business sector employment in 2017 (Figure 16.2). In comparison, micro enterprises in the EU accounted on average for only 29.4% of non-financial business sector employment in the same year (EC, 2018<sub>[25]</sub>). In total, 106 014 people were employed by SMEs in Montenegro in 2017, representing 80.1% of total business sector employment (Figure 16.2). This figure has slightly decreased since 2013 when SMEs represented 81.5% of all business sector employment, but was still much higher than the 2017 EU average of 66.4% (EC, 2018<sub>[25]</sub>). SMEs' contribution to the business sector's value added increased from 64.5% in 2013 to 70.5% in 2016 (Figure 16.2), much higher than the EU

average where SMEs only accounted for 56.8% of the business sector's value added in 2017 (EC, 2018<sup>[25]</sup>). The most striking development between 2013 and 2016 in the SME sector in Montenegro was in SMEs' share of exports, which increased by 19.6 percentage points to reach 75.3% of all exports in 2016 (Figure 16.2).

The role of women in the Montenegrin SME sector has increased since 2013. According to data provided by the Statistical Office of Montenegro for this assessment, the share of SMEs owned by women in Montenegro increased from 14.9% in 2013 to 19.2% in 2016.

**Figure 16.2. Business demography indicators in Montenegro (2013 and 2017)**

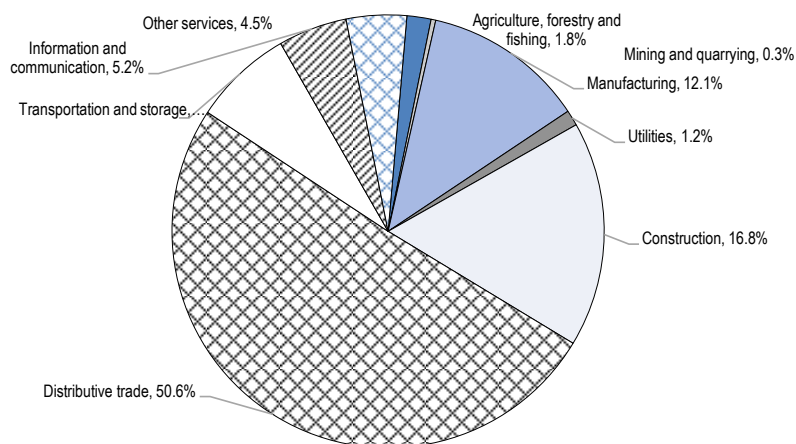


*Note:* Disaggregated data for micro enterprises have not been available for value added and exports. 2017 data for value added and exports has not been available. 2016 data was used instead.

*Source:* Statistical Office of Montenegro.

StatLink  <http://dx.doi.org/10.1787888933937907>

On a sectoral level, the greatest number of SMEs are in distributive trade, representing 50.6% of active SMEs, followed by 16.8% in construction and 12.1% in manufacturing (Figure 16.3). The sectoral distribution of SMEs has remained mostly constant since 2013, although a rise (of almost 900 companies) was noted in the number of SMEs engaged in construction, whereas the number of enterprises engaged in transport and storage decreased by more than 360 in the same period.

**Figure 16.3. Sectoral distribution of SMEs in Montenegro by sector (2017)**

*Note:* The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: “Utilities” represents the sum of “Electricity, gas, steam and air conditioning supply” (D) and “Water supply, sewerage, waste management and remediation activities” (E); “Distributive Trade” covers “Wholesale and retail trade; repair of motor vehicles and motorcycles” (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.

*Source:* Statistical Office of Montenegro.

Geographically, about 37% of enterprises were located in Podgorica in 2017 (Table 16.4)

**Table 16.4. Number of registered companies in Montenegro by enterprise size and municipality (2017)**

Municipality	Enterprise size, by number of persons employed				Total	Share of total number of enterprises
	0-9	10-49	50-249	250+		

Andrijevica	69	3	0	0	72	0.24%
Bar	2767	93	11	2	2873	9.49%
Bijelo Polje	1032	48	10	2	1092	3.61%
Budva	3415	123	18	6	3562	11.76%
Cetinje	679	30	3	1	713	2.35%
Danilovgrad	497	29	10	0	536	1.77%
Žabljak	127	8	1	0	136	0.45%
Berane	489	23	7	0	519	1.71%
Kolašin	212	12	1	0	225	0.74%
Kotor	1176	69	12	0	1257	4.15%
Mojkovac	144	5	1	0	150	0.50%
Nikšić	1746	93	27	2	1868	6.17%
Plav	105	1	1	0	107	0.35%
Plužine	32	1	0	0	33	0.11%
Pljevlja	554	29	7	1	591	1.95%
Rožaje	561	21	1	0	583	1.92%
Tivat	1244	54	6	0	1304	4.31%
Podgorica	10432	605	150	33	11220	37.05%
Ulcinj	1008	30	4	0	1042	3.44%
Herceg Novi	2207	99	14	1	2321	7.66%
Šavnik	37	1	0	0	38	0.13%
Petnjica	18	2	0	0	20	0.07%
Gusinje	23	1	0	0	24	0.08%
<b>Montenegro</b>	<b>28574</b>	<b>1380</b>	<b>284</b>	<b>48</b>	<b>30286</b>	<b>100.00%</b>

Source: Statistical Office of Montenegro.

## Assessment and recommendations

### *Process*

The Small Business Act (SBA) assessment cycle for Montenegro began in Podgorica on 19 October 2017. A meeting was organised in co-operation with the Ministry of Economy, which acts as the SBA Co-ordinator nominated by the European Commission, and which is responsible for implementing the SBA principles (see Section Operational environment (Dimension 4)).

During the meeting, the new assessment framework (see Policy Framework and Assessment Process chapter and Annex A for details) was presented to the line ministries and public institutions which were to help collect the assessment information. The assessment framework's two primary documents – the questionnaire and statistical data sheet – were explained to participants in depth, giving particular attention to newly added questions and indicators.

Following the launch event, the Ministry of Economy distributed the questionnaire to the appropriate ministries and government agencies, and the statistical sheet to the Statistical Office of Montenegro (MONSTAT). These institutions compiled the data and documentation between October 2017 and January 2018 and completed the questionnaire. Each policy dimension was given a self-assessed score accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 19 January 2018.

The OECD and its partner institutions reviewed the inputs and requested additional information on certain elements from the Ministry of Economy. They sent the updated questionnaire back to the OECD on 28 February 2018.

Meanwhile, the OECD and its partner organisations also carried out an independent assessment. This was based on inputs from a team of local experts in Montenegro who collected data and information and conducted interviews with key public and civil society stakeholders, including SME representatives. A preliminary reconciliation meeting was then held in Paris on 8 March 2018 to identify areas requiring further completion and harmonisation.

Having completed the government self-assessment and the independent assessment, the OECD and the EBRD held a reconciliation meeting in Podgorica on 27 March 2018. The meeting aimed to close any remaining information gaps in the questionnaire. 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. Similar meetings took place in Podgorica on 6-7 February 2018, focusing on two of the policy dimensions, entrepreneurial learning, and women's entrepreneurship and enterprise skills, whose assessment was led by the European Training Foundation.

The reconciliation meeting allowed the OECD and partner organisations to consolidate the assessment findings. They also evaluated the final scores under each policy dimension presented in this report (more information on how the scores are calculated can be found in Annex A). They presented the preliminary findings and scores to the SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Montenegro were made available to the Government of Montenegro for their review and feedback from August to October 2018.

### *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 16.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

**Table 16.5. 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)

With a score of 4.08, Montenegro is one of the regional leaders on entrepreneurial learning (Table 16.6). It has also taken a significant step forward in developing policy for women's entrepreneurship, resulting in a score of 3.46.

**Table 16.6. 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	4.73	3.73	
		Implementation	3.59	3.61	
		Monitoring and evaluation	4.33	2.57	
		<b>Weighted average</b>	<b>4.08</b>	<b>3.43</b>	
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.33	3.57	
		Implementation	3.29	3.16	
		Monitoring and evaluation	2.60	2.37	
		<b>Weighted average</b>	<b>3.46</b>	<b>3.12</b>	
	<b>Montenegro's overall score for Dimension 1</b>			<b>3.83</b>	<b>3.31</b>

### *State of play and key developments*

#### *Entrepreneurial learning*

Since 2008, Montenegro has been working to create a more entrepreneurial culture among its citizens. Active engagement by the National Partnership for Entrepreneurial Learning has helped to successfully implement the latest Lifelong Entrepreneurial Learning Strategy (2015-2019), making Montenegro an example of good practice in the region. The Strategy aims to improve the entrepreneurial mindset of children, young people and adults, including via formal and non-formal education and training.

As a result of implementing these learning strategies effectively (the first Lifelong Entrepreneurial Learning Strategy was adopted in 2008), Montenegro has made good progress in embedding entrepreneurship as a key competence at all levels of education.

Entrepreneurship as a key competence is part of a cross-curricular approach in pre-school education (from ages 3 to 6), primary education and secondary education. Since 2014/15, entrepreneurial learning has been taught in lower and upper secondary schools as an elective subject. Five upper secondary schools have started entrepreneurial clubs as an extracurricular activity to develop an entrepreneurial spirit and to gain practical knowledge and skills. The entrepreneurship module is compulsory in the new modularised vocational education and training (VET) programmes and the establishment of training firms was introduced within the economics courses. Entrepreneurship centres in four secondary vocational schools in Berane, Bijelo Polje, Bar and Mojkovac encourage students to consider careers in entrepreneurship or self-employment. The Bureau for Education is retraining teachers and school directors on how to concretely introduce entrepreneurship as a key competence into the classes, based on the European Entrepreneurship Competence Framework (EntreComp). In addition, guidelines for implementing entrepreneurial learning as a cross-curricular subject have been developed

at national level. Examples of good practice in entrepreneurial learning are exchanged by teachers at regional and national level and good practice examples are published on the Bureau for Education's web-based platform.

In higher education, the University of Montenegro includes entrepreneurship as a discipline within its faculty of economics. In April 2016, the University of Montenegro signed a co-operation agreement with the capital city, Podgorica, which envisages areas of co-operation to strengthen students' entrepreneurial competences. A private university, the University of Donja Gorica, offers an applied degree programme called Entrepreneurship, Management and Business. The university also offers entrepreneurship courses to students in non-economic faculties, as either an optional or a mandatory course.

Good efforts are being made to increase pupils' practical entrepreneurial experience in upper secondary general education and VET; for instance through the introduction of work-based learning in VET. This requires a consistent focus on developing entrepreneurship skills alongside occupational skills. Article 81 of the new law on higher education in Montenegro (adopted in June 2017) made practical teaching obligatory. The challenge will be to include practical entrepreneurial experience for university students.

Building on the good results of adapting the curriculum to the entrepreneurship key competence approach, Montenegro has started to address the digital competences based on the European Digital Competence Framework (DigComp). In future, learning outcomes should embrace both entrepreneurship and digital competences.

The Entrepreneurial Learning National Partnership's mandate expires in 2019, as part of the Entrepreneurial Learning Strategy. It has made great efforts in monitoring the Strategy's implementation. Since 2015, the National Partnership has provided policy advice to the government on formal and non-formal entrepreneurial learning in a lifelong learning context. This policy advice role could be reflected in the partnership's future mandate.

### *Women's entrepreneurship*

The government has paid more attention to women's entrepreneurship since the last assessment, resulting in a 5% greater share of women owners of micro, small and medium-sized enterprises (Ministry of Economy, 2018<sup>[26]</sup>). The annual action plan of the new Strategy for developing women's entrepreneurship (2015-20) includes measures to strengthen women entrepreneurs' competences and promote self-employment and start-ups. However, there are no financial resources linked to these measures, which puts the Strategy's implementation at risk.

Women's entrepreneurship activities are mainly project-based and driven from the bottom up through various private sector institutions (Chamber of Economy of Montenegro, Montenegrin Employer's Federation) and non-government organisations (NGOs) such as the Institute for Entrepreneurship and Economic Development, Business Women Association of Montenegro, Association of Women Entrepreneurs of Montenegro, and the Bar Business Start-up Centre. These organisations work in co-operation with government institutions, and with the support of international donors such as the United Nations Development Programme (UNDP), EU, EBRD and the World Bank.

The Montenegrin Government supports women's entrepreneurship through specialised credit lines within the Investment Development Fund, which is managed by the Ministry



of Economy. The Employment Agency is preparing a new programme, “I will succeed”, to provide training and financial support to a specific category of unemployed women. Also, the Montenegrin Federation of Employers supports women entrepreneurs through open calls and grants. However, beyond financial support, there is a lack of training programmes that specifically target women entrepreneurs. There are plans to establish a new guarantee fund for women’s entrepreneurship; this would be an opportunity to target potential female entrepreneurs outside the capital, and to combine financial and non-financial support. But more co-ordination between government and non-government institutions is needed to make government support for women entrepreneurs better and more efficient. Not all women have equal access to information on the existing support services. It would therefore be useful to link all the relevant websites or create a dedicated portal where good practices can be shared and information aggregated on access to finance, training, mentoring and networking. Support for women’s entrepreneurship is still concentrated around the capital. Therefore, it would be useful to raise awareness among officials in charge of economic development in the municipalities in order to spread support across the economy.

Since there is no formal national partnership responsible for monitoring and evaluating the women’s entrepreneurship Strategy, policy makers have no feedback on what is working well and where the gaps are in order to improve specific policies and measures for this area. The Strategy is monitored on an annual basis by the multi-stakeholder working group that developed it, but this remains more of an administrative task than a structured dialogue between key stakeholders. At the Ministry of Human and Minority Rights, a National Commission was established to monitor implementation of the Action Plan for Gender Equality 2017-2021, which also collects information on implementing the women’s entrepreneurship Strategy. Stronger co-operation among the National Committee on gender equality, the multi-stakeholder working group on women’s entrepreneurship and all other actors would help to keep it on the political agenda. There is no evaluation report on women’s entrepreneurship, and overall, there is a lack of gender-sensitive statistics to support evidence-based policy design and improvements on this issue.

### *The way forward for Dimension 1*

Montenegro is keeping pace with Europe – and is ahead in some aspects – in implementing entrepreneurship key competences across all levels of education. The government will need to keep up these efforts to maintain its lead, and should also address the following:

- **Expand teacher training on entrepreneurship key competences to cover all teachers at all levels of education.** The Bureau of Education should continue to retrain teachers and school managers on how to integrate entrepreneurship key competences into the curricula at all levels of education.
- **Share good practice to create a positive image of entrepreneurship among young people.** Encourage all actors to systematically share their good practice in formal and informal entrepreneurial learning to promote entrepreneurship among young people. Better co-ordination and co-operation among the various actors implementing entrepreneurial learning (schools, universities, employer organisations, chambers of commerce, NGOs, and student or youth organisations) would increase the efficiency and impact of all efforts for creating a more entrepreneurial society.

- **Ensure that public universities modernise their curriculum by integrating entrepreneurship competences.** Entrepreneurship as a key competence should also be embedded in the curricula of non-economic and non-technology faculties, and practical entrepreneurial experiences should become common practice for all university students.
- **Institutionalise the National Partnership for Lifelong Entrepreneurial Learning.** The partnership's future role and financial sustainability needs to be decided, building on its long experience of monitoring entrepreneurial learning with a lifelong learning concept. The National Partnership should further develop its advisory role for policy makers by ensuring coherence and linkages across the different national policy areas of education, employment and economy. It should also ensure that entrepreneurial learning is covered at EU level in the accession negotiation chapters of the *acquis* (particularly Chapter 19, Social Policy and Employment, and Chapter 20, Enterprise and Culture) and in the Economic Reform Programme.
- **Foster an ecosystem for women entrepreneurship.** The multi-stakeholder working group in charge of annual monitoring of the women's entrepreneurship Strategy should establish formal co-operation with all relevant government and NGOs. This would allow the government to have a complete picture of women's entrepreneurship and to financially support implementation of the women's entrepreneurship Strategy.
- **Strengthen the monitoring and evaluation of women's entrepreneurship support initiatives.** More attention should be given to producing gender-sensitive statistics and conducting a national evaluation report on women's entrepreneurship in Montenegro in order to promote it further.

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

Montenegro continues to be the WBT regional leader in this dimension, thanks to its efforts to bring its bankruptcy regulation closer to international standards. Since the last assessment, Montenegro's performance has remained unchanged, at 3.44, well above the regional average of 2.87 (Table 16.7).

**Table 16.7. Scores for Dimension 2: Bankruptcy and second chance**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
<b>Dimension 2: Bankruptcy and second chance</b>	Sub-dimension 2.1: Preventive measures		<b>2.86</b>	<b>2.39</b>
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	4.33	3.71
		Performance, monitoring and evaluation	3.40	2.46
		<b>Weighted average</b>	<b>3.96</b>	<b>3.21</b>
	Sub-dimension 3.3: Promoting second chance		<b>1.90</b>	<b>1.93</b>
<b>Montenegro's overall score for Dimension 2</b>			<b>3.44</b>	<b>2.87</b>

### *State of play and key developments*

The death rate<sup>2</sup> of companies has decreased since the last assessment, from 7.6% of active enterprises in 2015 to 5.5% in 2017. It should be underlined that only micro and small enterprises officially closed down in Montenegro during the assessment period. No company employing more than 49 employees has ceased to operate in the last four years.

### *Preventive measures and bankruptcy procedures*

Montenegro's legal insolvency framework is based on the 2011 Insolvency Act (Box 16.2) and the law on voluntary financial restructuring of debts towards financial institutions, amended in June 2016. This law facilitates out-of-court settlements between debtors and creditors where at least one bank or secured creditor supports the reorganisation plan. The rationale is to find a compromise between helping financially distressed companies to survive and preserving macroeconomic stability. However, there are some controversial provisions in the law – for instance, a 75% majority of creditors<sup>3</sup> must agree for certain decisions to be enforced, regardless of the extent of their claims. Furthermore, the law does not provide any alternatives nor any possibility of appeal for creditors who do not share the same opinion as the majority, even when that creditor might hold half of the claims. Currently, as there is not enough information or impact assessment of this law, the outcomes need to be evaluated in the future.

The current legal framework allows creditors, the debtor or the liquidator (where the debtor has started the voluntary liquidation procedure), to file a petition initiating an insolvency proceeding. The court reviews the petition and decides on the inability of the debtor, company or entrepreneur to make payments. The law defines a debtor's inability to pay if their debts were not paid within 45 days from the date when the debts became due or if the debtor has completely suspended payments for a consecutive period of 30 days (permanent inability to make payments). Following the decision on the inability to make payments, the creditors can file a petition to initiate insolvency proceedings. The

court then begins insolvency proceedings and the case progresses to one of two main procedures for companies in financial difficulty: bankruptcy resulting in liquidation or bankruptcy reorganisation.

1. **Bankruptcy resulting in liquidation:** the bankruptcy administrator releases management and the workers, sells the assets from the bankrupt estate and distributes the proceeds from the sale to the creditors, following payment ranks determined by the law.

2. **Bankruptcy reorganisation:** the debtor needs the consent of at least one creditor. A reorganisation plan may be proposed within 90 days from the date of opening insolvency proceedings; a maximum of 30 days is allowed under special circumstances. Within this timeframe, in order for the plan to be adopted, the majority of secured creditors need to approve it. However, after accepting the petition to initiate bankruptcy, the court may invite the petitioner to use a mediation procedure involving the mediation centre before adopting the decision to speed up the procedure.

Montenegro emerges as the best performer in the WBT region in terms of time and cost to resolve insolvency. It takes approximately 1.4 years to complete liquidation proceedings in Montenegro, while the OECD average is 1.8 years. The average cost is 8% of the estate, 1.6% less than the OECD average. Major expenses include remunerating the administrator (3%), attorneys' fees (3%) and fees of other professionals involved in the insolvency proceedings, such as accountants (1%) and an auctioneer (1%). Moreover, the recovery rate of 50 cents for every USD 1 is the highest in the WBT region.

#### Box 16.2. New insolvency regulations

The latest changes to Montenegro's insolvency laws were introduced in 2016, even though the initial Insolvency Law adopted in 2011 already closely followed the provisions set out in the United Nations Commission on International Trade Law Guide on Insolvency Law.

These amendments have harmonised them more closely with international standards, as well as with commercial law and practices. The resulting revised legislation promotes reorganising businesses that are in financial difficulties and liquidating non-viable companies. The reorganisation procedure was introduced with the dual purpose of ensuring debtors' financial recovery and settling creditors' claims. The procedure includes a reorganisation plan that needs to be submitted to the judiciary body along with the petition to initiate insolvency proceedings. If sent after the insolvency proceedings have begun, the reorganisation plan should be delivered within 90 days of the insolvency proceedings opening. The reorganisation plan may be submitted by:

- the debtor
- the receiver
- creditors holding at least 30% of the aggregate amount of the secured claims
- creditors holding at least 30% of the aggregate amount of the unsecured claims
- persons owning at least 30% of the share capital of the debtor.

The legislation also contains detailed provisions for the more complex areas of insolvency law, such as the avoidance of transactions or insolvency set-off.

The current legislation provides an example of good practice, as the Insolvency Law also applies to state-owned enterprises, which do not receive funding from the budget. Overall, these changes not only bring Montenegro closer to EU regulations, but also make

the insolvency regime more efficient. Shorter deadlines and clearer provisions for certain cases make the system more transparent and limit opportunity for different interpretations.

Source: Babić and Branović (2016<sup>[27]</sup>), *Insolvency/Restructuring in Montenegro*, [www.schoenherr.eu/publications/publication-detail/insolvency-restructuring-in-montenegro-1/](http://www.schoenherr.eu/publications/publication-detail/insolvency-restructuring-in-montenegro-1/).

For preventive measures, no major progress has been made since the last assessment. The economy's early warning infrastructure remains undeveloped. The Central Bank collects data from different banks on entrepreneurs' blocked accounts and publishes them on its website,<sup>4</sup> allowing it to identify financially distressed companies before they file for bankruptcy. However, this system does not allow enough time for a customised reorganisation. The regulations also oblige the Central Bank to publish data in instances of forced collection procedures, specifically by revealing the names of legal entities/entrepreneurs, their registration numbers, blocked accounts as well as the number of uninterrupted days the account is blocked.

In addition, the Judicial Council publishes annual reports on court activities and results, which include statistical information on insolvency procedures (open, closed and in process). This requirement is established by the Law on the Judicial Council and provides reporting obligations on workload and case distribution among courts; it cannot be considered a monitoring and evaluation mechanism.

### *Promoting second chance*

Montenegro does not promote giving a second chance to previously bankrupt entrepreneurs to start a new business. However, this may change quite soon. The recently adopted Strategy for the Development of Micro, Small and Medium-Sized Enterprises in Montenegro 2018-22 specifically highlights the importance of second chance policies, which are currently lacking (Ministry of Economy, 2018<sup>[26]</sup>). However, no concrete measures have been so far included in the Strategy's action plan.

### *The way forward for Dimension 2*

- **Develop a fully fledged early warning system.** SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardship. Therefore, Montenegro should consider introducing a system which would convince entrepreneurs to initiate recovery measures at an early stage. This system might take different forms, but should include certain features. First, it should devise special detection procedures that would screen for early signs of SMEs in financial difficulties. Second, these identified SMEs need to be approached and provided with advice on objectively assessing their financial situation, as well as the different recovery options available to them. If better informed, SMEs would be able to take the required steps at an earlier stage, thereby increasing their chance of survival. Early warning mechanisms established by EU Member States could offer a blueprint for Montenegro (Box 16.3).
- **Further simplify parts of the bankruptcy legislation.** A simplified procedure for reorganisation should be introduced by providing clear rules for an automatic debt discharge. This would allow bankrupt entrepreneurs to efficiently reintegrate as soon as the judicial decision is taken.

- **Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure.** A clear distinction has to be made between measures or regulations that apply to fraudulent bankruptcies and those that apply to honest ones – this could be instrumental in changing society’s attitude towards debtors. However, this type of amendment in the legal framework would not suffice on its own: it should be complemented by initiatives promoting a fresh start and a culture that is receptive and tolerant of failure. Workshops and seminars aimed at sharing the lessons learned from previously bankrupt entrepreneurs could break down stigma.

### Box 16.3. Early Warning Europe

The international project Early Warning Europe (EWE) was developed with the objective of promoting SMEs’ growth across Europe by assisting them during financially difficult periods. In 2016, Early Warning Europe applied for funding through Europe’s Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and obtained almost EUR 5 million. The first wave of the project ran for three years and focused on setting up a full-scale early warning mechanism in Poland, Italy, Greece and Spain.

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the, European Small Business Alliance, Eurochambres and SME United. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. Currently, five new EU Member States are in the process of joining the EWE community, and several others have expressed their interest. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

The consortium is composed of three groups of organisations: 1) mentor organisations with substantial experience in providing support to companies in distress; 2) national or regional organisations that intend to implement early warning mechanisms; and 3) organisations that are responsible for supporting the pan-European communication and dissemination activities of the project.

Through EWE, entrepreneurs can receive help from consultants to get a clear overview of the company, identify the areas which are causing problems, and propose further remedial activities. The second step of the restoration process is collaboration with a mentor. Mentors work closely with the entrepreneur providing expertise, knowledge and support to get the enterprise back on the right track. Alternatively, they can guide companies toward a quick, organised closure when this is the best option for the company. This also contributes greatly to the company owner’s chances of a second start and reduces the loss for the owner, the creditors and society as a whole.

Independent evaluations show a highly positive impact on society of the Early Warning system in terms of jobs saved and savings for the public treasuries. Evaluations show a

general saving of 20% for the public treasuries on company closures under the Early Warning mechanism, a high level of job preservation and significantly better first-year turnover and growth after the Early Warning intervention.

An innovative element of the project is the introduction of artificial intelligence and the processing of big data in detecting early signs of distress in companies. Early Warning Europe has developed a data model that identifies the probability of distress in companies in Poland, Italy, Greece and Spain based on publicly accessible data, allowing the network partners to proactively assist companies that may not otherwise realise their problems before it is too late.

Currently the project has the support of more than 500 mentors. The support provided is impartial, confidential and free-of-charge. In the first wave, EWE provided support to 3 500 companies in distress in Poland, Spain, Italy and Greece. In its second wave (2017-19) the project will support the establishment of early warning mechanisms in five additional EU Member States, with the ultimate goal of establishing early warning mechanisms in all EU Member States.

*Source:* Early Warning Europe (2018<sup>[28]</sup>), *Early Warning Europe website*, [www.earlywarningeurope.eu](http://www.earlywarningeurope.eu).

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

Starting from an already high base in 2016 (3.93), Montenegro has further improved its performance in the 2019 assessment cycle (Figure 16.1). With a score of 4.24, it has become the top-performing economy for the institutional and regulatory framework dimension, together with Serbia. This enhanced performance is the result of improvements in each of the three policy aspects covered under this dimension (Table 16.8).

**Table 16.8. Scores for institutional and regulatory framework for SME policy making**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average
<b>Dimension 3: Institutional and regulatory framework for SME policy making</b>	Sub-dimension 3.1: Institutional framework	Planning and design	4.43	4.06
		Implementation	4.27	4.06
		Monitoring and evaluation	4.43	3.92
		<b>Weighted average</b>	<b>4.35</b>	<b>4.03</b>
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.60	4.00
		Implementation	4.00	3.25
		Monitoring and evaluation	4.47	3.23
		<b>Weighted average</b>	<b>4.27</b>	<b>3.47</b>
	Sub-dimension 3.3: Public-private consultations	Frequency and transparency of PPCs	4.29	3.86
		Private sector involvement in PPCs	4.68	4.26
		Monitoring and evaluation	2.33	2.73
		<b>Weighted average</b>	<b>4.05</b>	<b>3.79</b>
<b>Montenegro's overall score for Dimension 3</b>			<b>4.24</b>	<b>3.79</b>

#### *State of play and key developments*

##### *Institutional framework*

The government adopted the new Strategy for the Development of Micro, Small and Medium-Sized Enterprises (2018-2022) (MSME Strategy) in July 2018. Following an analysis of Montenegro's SME sector, SME consultations and monitoring of the previous SME Strategy's implementation, the new Strategy identified the main challenges faced by SMEs. They are: 1) a complex business environment; 2) limited access to finance; 3) limited access to skilled employees and skills development; and 4) insufficient competitiveness.

The MSME Strategy addresses these challenges with the following strategic goals, including operational objectives and measures: 1) creating a stimulating environment for SME development and entrepreneurship (business environment, access to finance, knowledge and skills); 2) strengthening SME competitiveness (the entrepreneurship ecosystem, programming support, clusters, innovativeness and green economy, internationalisation); and 3) promoting entrepreneurship (women, youth and social entrepreneurship) (Ministry of Economy, 2018<sup>[26]</sup>). The Strategy contains clear and measurable – if rather ambitious – targets, an action plan and monitoring mechanisms. It has been linked to regional and EU strategy documents, and is based on the principles of



the Small Business Act for Europe. All the measures are largely aligned with the findings of the 2016 SME Policy Index, such as the integration of entrepreneurship competences in curricula, or increasing the number of e-services available to businesses.

Preparations for the new Strategy were comprehensive and involved a record number of stakeholders. The government organised a Business Caravan which visited a number of municipalities in Montenegro, giving SME representatives an opportunity to share their views on the draft Strategy and express their needs and potential concerns (Box 16.4). In addition to this, and in order to improve the existing dialogue and partnership between the private and public sector in the process of creating the MSME policy, a working group for the preparation of the MSME Strategy 2018-2022 was established under the auspices of the Ministry of Economy. The working group consists of 80 members: representatives of all relevant ministries, institutions, universities, business associations and international donors.

According to reports, the action plans have mostly been implemented as planned. A former Directorate for SME Development was restructured in 2018 to become the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds. Under the auspices of the Ministry of Economy, it remains the institution responsible for SME policy design and the main body in charge of its implementation. Monitoring of the Strategy and action plan implementation is entrusted to the Ministry of Economy and the MSME Strategy 2018-2022 working group, which will prepare annual reports on the action plans' implementation, and submit them to government for adoption (Ministry of Economy, 2018<sup>[26]</sup>).

There are no strategic documents that aim to combat Montenegro's informal economy and the MSME Development Strategy does not have any specific measures in this area. However, the informal economy is recognised as an important issue more broadly, and efforts are being made to address it. There are for instance punitive measures towards the grey economy, such as more frequent tax inspections, more rigid controls and stricter penalties. The tax administration is the main institution responsible for implementing these measures to reduce the informal economy.

### *Legislative simplification and regulatory impact analysis*

Work on regulatory reform started in 2009 in Montenegro. Since the previous assessment, the government has focused more on simplifying legislation and improving regulatory impact analysis (RIA) practices. To create a more favourable business environment, the government plans to reform the public sector in line with the Montenegro Development Directions 2018-2021, particularly via its Public Administration Reform Strategy 2016-2020 (Government of Montenegro, 2016<sup>[29]</sup>). One main measure is to introduce an e-government portal as a single point of access to e-services (EC, 2017<sup>[30]</sup>).

To simplify legislation, the government adopted the Regulatory Guillotine Action Plan in May 2012, comprising 1 446 recommendations to simplify and/or eliminate regulations. This is now in its final phase. The government's Report on Implementing the Regulatory Guillotine (Government of Montenegro, 2017<sup>[31]</sup>) states that around 90% of these actions (1 246 out of 1 446) were executed between 2009 and the end of the third quarter of 2017; due to regular delays in implementation, the reform efforts have been unsatisfactory so far and need to be intensified. With renewed impetus, the government expected the reform to be complete by the end of 2018 (EC, 2017<sup>[30]</sup>; Government of Montenegro, 2017<sup>[31]</sup>).

Regulatory impact analysis was formally introduced in 2012 and is mandatory for all new legislation (laws and by-laws), with an RIA report accompanying each legislative proposal submitted to the government for approval. Although Montenegro has a well-developed procedure for RIA, and the Ministry of Finance – as the central RIA unit in Montenegro – conducts the process efficiently, the quality of the RIAs could be improved. Namely, they do not always compare several policy options and lack other important elements, such as assessing impacts on the most affected stakeholders (EC, 2017<sup>[30]</sup>). These problems have been recognised by the Montenegrin Government – the new MSME Strategy (2018-2022) introduces a number of measures aimed at refining Montenegro’s regulatory system, mainly through improvements to RIAs. It envisages more effective and broader application of RIAs at the national and local level (Ministry of Economy, 2018<sup>[26]</sup>). Some of the key measures in the Strategy include introducing the SME test (by 2020) and assessing competition distortion as an integral part of RIA. Some of its actions had already been taken in 2018, such as training officials in producing impact assessments of legislative draft proposals.

### *Public-private consultations*

The general objective of Montenegro’s Public Administration Reform Strategy 2016-2020 is to create an efficient and service-oriented public administration, characterised by improving its performance and increasing citizens’ trust (Government of Montenegro, 2016<sup>[29]</sup>). All business-related legislation (both primary and subordinate) is subject to consultation in Montenegro. As of June 2018, RIA reports will also be published for public consultation purposes. In addition, line ministries are required to publish reports on the outcomes of consultations, including suggestions that were accepted and not accepted, with reasons for both. All ongoing public-private consultations (PPCs) and related reports are published on the e-government portal, which is regularly updated. Montenegro is also among the WBT economies that refrain from adopting laws via an urgent procedure without consultation – just 9% of all laws in 2016 were adopted in this way (OECD, 2017<sup>[32]</sup>). Only Albania has a lower share (5%).

There was a particularly strong emphasis in this assessment period on involving private sector representatives in developing public policies. As described above, the government tackled weak participation by SMEs in PPCs by contacting them directly using the Business Caravan (Box 16.4).

The government also formed the Council for Competitiveness in 2017 – a body consisting of government, business sector and academia representatives, chaired by the Prime Minister. This council succeeds the previous Council for Improvement of Business Environment and Regulatory Reform, and aims to ensure effective implementation of the regulatory reform and increase the involvement of all interested parties in developing business-related legislation. It meets regularly, and the reports on its activities and meeting outcomes are publicly available.

Finally, the Board of Small and Medium-sized Enterprises of the Chamber of Economy of Montenegro, created in 2015, has also been an effective advocate for SMEs in this assessment cycle. All Montenegrin SMEs are members of the board. It organises meetings at least quarterly and discusses topics that businesses find most relevant. These are then transmitted to the government in report form and discussed at the Council for Competitiveness.

#### **Box 16.4 Montenegro’s Business Caravan: reaching out to SMEs for a better business environment**

Preparations for the new MSME Development Strategy in Montenegro started with a “Business Caravan” in March 2017. The Business Caravan was a set of meetings with private sector representatives, organised by the Ministry of Economy in co-operation with the United Nations Development Programme (UNDP), which aimed to gather SMEs’ insights into the quality of the current SME support programmes and government measures. Over the course of 15 months, the government (led by the Minister of Economy herself) held meetings with private sector representatives in 14 Montenegrin municipalities to discuss SME policies’ strong and weak points and potential avenues for improvement.

One of the main catalysts for the caravan was SMEs’ weak participation in support programmes and public-private consultations in general. The Business Caravan is a mechanism to reach out to SMEs and contact them directly. Local SMEs were contacted through local municipality offices and the SME response to these meetings was substantial. The presence of the minister in the meetings added weight to discussions and encouraged active participation by entrepreneurs, who shared their opinions, suggestions and observations.

The SMEs’ feedback was collected methodically and analysed by experts from the Ministry of Economy, which took the lead in drafting the new MSME Development Strategy. It produced a report with an overview of the suggestions that were accepted and included in the Strategy, as well as those that were not, with a clear explanation for the decision.

*Sources:* Data provided by the Government of Montenegro as part of the SBA Assessment; Vijesti (2017<sup>[33]</sup>), *Babić: Biznis karavan daje rezultate [Babić: Business Caravan Gives Results]*, [www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultat](http://www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultat).

### *The way forward for Dimension 3*

Montenegro has established an advanced institutional and regulatory framework for SMEs. The focus should now be on the following:

- **Ensure that the MSME Strategy is implemented effectively, given its wide-ranging and ambitious objectives and measures.** The government should build strong and timely co-ordination among the various stakeholders. As the main implementation body, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds is especially important in this regard, in particular in maintaining close dialogue with the key actors implementing the Strategy. The Ministry of Economy and the newly formed Council for Micro, Small and Medium-Sized Enterprises also need to ensure that activities are regularly monitored and corrective actions taken if there are delays.
- **Enforce effective application of regulatory impact analyses.** Despite the existence of a well-developed procedure for RIA, its application remains far from ideal. The required analyses of the expected impact of legislative proposals are not always satisfactory in quality (e.g. often incomplete). Therefore, the government needs to enhance its efforts to first raise awareness of the benefits of

RIA, and second, build line ministries' capacity to undertake impact assessments and evaluate the effects of legislative proposals. The proposals' impact on SMEs should also be made a core part of the methodology for conducting RIAs.

## Operational environment (Dimension 4)

Montenegro is one of three economies in the WBT to regress in this dimension since 2016, from 3.62 to 3.29 (Figure 16.1), slightly below the regional average of 3.46 (Table 16.9). Montenegro's digital government services score (3.35) is slightly above that of the 2016 assessment, 3.27. For company registration, Montenegro's performance regressed from 3.90 to 2.93 between 2016 and 2019. However, for business licensing, Montenegro increased its score from 2.98 to 3.45 during the assessment period.

**Table 16.9. Scores for Dimension 4: Operational environment**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average	
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.29	4.07	
		Implementation	3.80	3.47	
		Monitoring and evaluation	1.40	2.05	
		<b>Weighted average</b>	<b>3.35</b>	<b>3.29</b>	
	Sub-dimension 4.2: Company registration	Design and implementation	4.40	4.48	
		Performance	3.87	3.72	
		Monitoring and evaluation	1.00	3.59	
		<b>Weighted average</b>	<b>2.93</b>	<b>3.97</b>	
	Sub-dimension 4.3: Business licensing	Licence procedures	3.93	3.67	
		Monitoring and streamlining of licence system	2.97	3.18	
		<b>Weighted average</b>	<b>3.45</b>	<b>3.43</b>	
	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	No scores		
	<b>Montenegro's overall score for Dimension 4</b>			<b>3.29</b>	<b>3.45</b>

*Note:* A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

### *State of play and key developments*

#### *Digital government services for enterprises*

In September 2016, the Montenegrin Government adopted the Montenegro Information Society Development Strategy for 2016-2020. The Strategy defines the framework for improving Montenegro's information society, sets out directions for developing e-services in order to reach EU standards, and provides concrete targets to be achieved by 2020 (Ministry for Information Society and Telecommunications, 2016<sup>[34]</sup>). These include increasing the percentage of citizens who use e-services to 50%, and at least 30% of legal persons. The newly created Ministry for Public Administration, Directorate General for e-Governance and Information Security is the body responsible for implementing the Strategy.

The Strategy includes a specific chapter on e-government and foresees electronic services horizontally and vertically integrated into national and local administrations, in line with the Digital Agenda for Europe 2020. Some strategic targets include:

- **e-services:** improve existing and develop new electronic public services, including cross-border electronic services
- **interoperability:** establish a unique system for electronic data exchange at the state level
- **electronic identification (eID):** adapt the existing structure and develop new eID systems and mechanisms, in order that service providers meet the new requirements
- **open data:** make public administration data available in open formats for further use and processing (Ministry for Information Society and Telecommunications, 2016<sup>[34]</sup>).

Since the last assessment in 2016, several changes have been introduced in the legal framework, in line with the Information Society Development Strategy. In May 2017, the government adopted the Law on Electronic Identification and eSignatures, based on the EU eIDAS (Electronic Identification, Authentication and Trust Services) Regulation on electronic identification and trust services for electronic transactions in the internal market (N°910/2014). This legislation is a legal requirement for establishing an eID system, allowing enterprises to complete services entirely online, such as filing social security returns or cadastre. Private sector interviews found that e-signatures are widely used by enterprises.

A law on administrative procedure came into force in September 2017, introducing the “once-only” principle.<sup>5</sup> Its implementation has not been finalised at the time of writing, since full connectivity between different public institutions’ databases had not yet been established – less than 50% of public institutions were able to view each other’s data. SMEs are still therefore required to submit paper-based information that is already available in other public institutions’ databases (company registration office, tax administration, social security administration and labour authorities).

Despite the strides made towards digitalising registers, not all of them are currently part of the government interoperability network, preventing the once-only principle from being fully implemented. The electronic data exchange information system that started with the government’s Service Bus initiative has yet to integrate the following existing electronic registers: the central population register, the central business entities register, the register for children in educational institutions, pension and disability fund registers, tax administration registers and Employment Agency records. The integration process was expected to be finished by the end of 2018.

In October 2018, the tax administration launched a new service offering taxpayers digital access to the Central Registry of Taxpayers and Insurance Holders. The new function allows taxpayers who hold a digital certificate to access data from the main registry and employee data.

With regard to open government data, the Law on Amendments to the Law on Free Access to Information was adopted in 2017. It is fully compliant with Directive 2013/37/EU, amending Directive 2003/98/EC on the reuse of public sector information. This sub-law was adopted in July 2018 and the open data portal, [www.data.gov.me](http://www.data.gov.me), is fully operational, providing access to 29 datasets published by 8 institutions. Montenegro joined the Open Government Partnership in 2011 and was initially an active member. However, in July 2017 the Steering Committee of the partnership sent a request to other members to give Montenegro “inactive” status, as the government had not delivered an action plan to set concrete targets for the previous three cycles, which is one of the membership requirements. At the time of writing, the Ministry of Public Affairs was

co-ordinating an action plan. Also, according to the latest Global Open Data Index conducted in 2016, Montenegro is ranked 49 out of 94 assessed economies, the third worst position after Bosnia and Herzegovina and Kosovo in the WBT region.

For monitoring and evaluation, the government is currently working to establish a system measuring user satisfaction with digital services. This system is expected to be operational at the end of 2018. Currently, the only monitoring is a follow-up email inviting users to complete an online survey about their satisfaction with the e-service and the portal in general.<sup>6</sup>

### *Business registration and licensing*

Entrepreneurs in Montenegro can register their companies in one-stop shops available in eight regional tax administration units. The process can be completed with a single tax identification number. Online company registration is operational, but does not apply to every phase of the company registration process – the final payment must be done in person. A request to register business entities can be submitted through the e-government portal ([www.euprava.me](http://www.euprava.me)), while the service is only available to businesses who have created a user account and have a digital certificate issued by the Montenegrin Certification Authority (Box 16.5).

The company registration process assumes that “silence is consent”; officers have four working days to issue queries, and if no queries are issued within the time frame, firms are automatically deemed to be registered.

While the costs have fallen slightly from 1.5% to 1.3% of income per capita, the number of days and procedures to start a business has slightly increased since 2016, from 6 procedures and 10 days for registration to 8 procedures and 12 days in 2018. As result, Montenegro has fallen by 31 places rankings since the previous assessment and is ranked 87 out of 190 economies for ease of starting a business, according to the World Bank *Doing Business* report (World Bank, 2017<sup>[18]</sup>).

Enterprises can access detailed information on the requirements and procedures needed to obtain licences and permits through the central Licence E-register hosted by e-government portal (<http://www.euprava.me/elicence1>). This is an online database of all licences issued by the competent government authorities, administrative bodies and administrative agencies in Montenegro. The aim of the Licence E-register is to improve transparency and reduce regulatory risk for businesses by making information easily available on line for business licensing, including application forms, fees and documents that must be submitted. At the time of writing, information on 275 licences issued by 29 institutions at different levels can be found on line; however, only a limited number of licences and permits can be obtained on line.

In 2017, the government began working to streamline and simplify the licensing process. A working group of representatives from the Ministry of Finance, Ministry of Public Administration, Ministry of Economy and other relevant stakeholders created a roadmap for the process. According to the roadmap, the steps for simplification are: 1) revise existing business licence records; 2) collect and publish data relevant to licences on the e-government portal; 3) publish data and create electronic services on the e-government portal for each licence separately; and 4) adopt a framework that will ensure the project’s sustainability. The licence simplification process is yet to be completed.

### Box 16.5. Montenegro's eUprava portal

In accordance with the EU Digital Agenda for Europe 2020, in 2012 Montenegro introduced the Information Society Development Strategy 2012-2016. The document became a road map for developing Montenegro's information society, in order to reap the potential of ICT services for societal and economic progress. One of the main goals of the strategy was to create an e-government portal for delivering public services to citizens and entrepreneurs.

Accordingly, the eUprava portal was launched in April 2011 and initially provided 12 services, all in the Montenegrin language. In 2018, seven years after its creation, the portal operates under the Ministry for Public Administration and offers 527 services. eUprava provides key electronic registers such as the central population register, business entities register and register of immovable property titleholders. Moreover, the portal brings substantial benefits to SMEs by serving as a one-stop shop for entrepreneurs. Implementing e-services at each administrative level initially met with some resistance to change. To enable e-services to be developed further, the Montenegrin Government made them mandatory through the Law on Electronic Administration.

The introduction of eUprava was combined with technology upgrades, training for civil servants and clear instruction manuals. Despite still being in the process of development and adding new services, such as the Electronic Document Management System, and improving systems' interoperability, Montenegro's e-government ranked 58th out of 199 assessed economies in the world in the UN E-Government Survey 2018 (UN, 2018<sup>[35]</sup>).

Sources: Lazovic et al. (2015<sup>[36]</sup>), "Analysis of e-government portal in Montenegro", <https://ieeexplore.ieee.org/document/7160504>; Milonjić, M. (2016<sup>[37]</sup>), *Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro*, [https://dgap.org/sites/default/files/article\\_downloads/institut\\_alternativa\\_egovernment.pdf](https://dgap.org/sites/default/files/article_downloads/institut_alternativa_egovernment.pdf); Government of Montenegro (2016<sup>[29]</sup>), *Public Administration Reform Strategy in Montenegro 2016-2020*, [www.mna.gov.me/ResourceManager/FileDownload.aspx?rid=268749&rType=2&file=PUBLIC%20ADMINISTRATION%20REFORM%20STRATEGY%20IN%20MONTENEGRO%202016-2020.pdf](http://www.mna.gov.me/ResourceManager/FileDownload.aspx?rid=268749&rType=2&file=PUBLIC%20ADMINISTRATION%20REFORM%20STRATEGY%20IN%20MONTENEGRO%202016-2020.pdf).

### *Tax compliance procedures for SMEs*

Montenegro does not provide SMEs with a presumptive tax regime for income tax, which would enable them to calculate income tax on a basis other than their income. Yet a presumptive tax regime could be an efficient way of reducing tax compliance costs for businesses and tax costs for the administration.

For value-added tax, lower-rate taxpayers who run businesses with an annual taxable turnover of less than EUR 18 000 can opt for lump sum compensation, in accordance with the rules on lump sum taxation.

The Montenegrin administration allows certain exemptions at the local level. In economically underdeveloped municipalities (including all northern municipalities, Cetinje and Ulcinj), newly established legal entities are exempted from paying corporate income tax for the first eight years of operation. Unincorporated businesses that commence an activity in such municipalities also have their personal income tax for the period of the first eight years reduced by 100%. However, the total tax holiday in both cases cannot exceed EUR 200 000 for the first eight years of operation.



### *The way forward for Dimension 4*

Despite a relatively well-established institutional framework Montenegro needs to further enhance its operational environment for SMEs. To this end the government should address the following points:

- **Continue efforts to implement digital authentication or e-signatures** in order to get services fully on line. E-signatures or digital authentication allow users to complete all processes on line and would save time, as the current system requires their physical presence to complete some services.
- **Establish monitoring mechanisms for the business registration process.** During the assessment period no clear supporting evidence was found on the monitoring and evaluation of business registration. Improving this (i.e. by collecting relevant data) would enable the government to use evidence to tailor the business registration process in order to reduce its length and costs.
- **Finish streamlining the licensing procedures.** The licensing system should be regularly reviewed and streamlined to allow businesses to obtain licences in an easy and timely manner. The government needs to pursue its roadmap and simplify the licensing process.
- **Reduce compliance requirements for SMEs.** Although there are a number of tax exemptions for SMEs at the local level, there are no measures that reduce SMEs' compliance requirements for regular income taxes. Well-designed income tax provisions (Box 16.6), such as presumptive taxes and cash accounting, are greatly needed to reduce the disproportionate tax compliance burden on SMEs.

#### **Box 16.6. Hungary: Two simplified tax regimes for SMEs**

Hungary has two simplified tax regimes for small businesses. The first, KIVA (Small enterprise tax), is a cash-flow based tax which replaces corporate income tax, social contribution taxes and vocational training contributions. This tax applies at a rate of 16% of the tax base, which is based on the taxpayer's cash-flow profit and is increased by staff costs. The tax is available to entities with fewer than 25 staff and where the revenue and balance sheet for the previous tax year were below HUF 500 million (Hungarian forints, around EUR 1.55 million). The aim is to provide a simple framework to favour fast-growing and labour-intensive businesses, and to ensure that wage payments are neutral with regard to an employer's tax liability.

A second simplified regime in Hungary, KATA (Small taxpayers' itemized lump sum tax), is a lump-sum tax for the self-employed. Under this regime, full-time entrepreneurs registered as small business taxpayers pay HUF 50 000 (around EUR 155) per month in tax. Taxpayers may elect to pay HUF 75 000 (around EUR 230) per month in return for higher social security service eligibility. Part-time entrepreneurs pay HUF 25 000 (around EUR 77). The lump-sum tax is payable separately for each person registered as a small business taxpayer. It applies up to a revenue limit of HUF 6 million. Once revenues exceed this amount, tax is payable at 40% of the revenue exceeding HUF 6 million. Making KATA payments releases the taxpayer from corporate income tax, personal income tax, social contributions tax, and healthcare, pension, employment and vocational contributions. It does not, however, provide an exemption from VAT obligations, although the taxpayer may apply for the tax exemption detailed in the VAT section.

KATA was designed to counter informality and also allows simplified obligations for bookkeeping purposes.

*Source:* OECD (2015<sup>[38]</sup>), “Taxation of SMEs in OECD and G20 countries”, <https://doi.org/10.1787/19900538>.

## Support services for SMEs (Dimension 5a)

Since the 2016 SME Policy Index assessment, Montenegro has improved its performance in this dimension on business support services (BSSs) for SMEs – from an overall score of 2.95 to 4.03 (Figure 16.1). It now scores slightly above the WBT average score of 3.89. This progress on the overall dimension score reflects the improvements made to both the policy aspects covered (Table 16.10).

**Table 16.10. 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: Business support services provided by the government	Planning and design	3.96	3.84	
		Implementation	4.05	3.68	
		Monitoring and evaluation	3.08	3.19	
		<b>Weighted average</b>	<b>3.83</b>	<b>3.63</b>	
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67	
		Implementation	3.86	3.85	
		Monitoring and evaluation	4.00	4.07	
		<b>Weighted average</b>	<b>4.23</b>	<b>4.14</b>	
	<b>Montenegro's overall score for Dimension 5a</b>			<b>4.03</b>	<b>3.89</b>

### *State of play and key developments*

Since 2016 Montenegro has made progress in its BSS provision for SMEs. Following expiry of the economy's main SME strategy document in 2015, the government's adoption of the MSME Strategy in July 2018 represents a major step forward for future BSS provision. This new Strategy benefitted from extensive consultations with key stakeholders and its action plan includes measurable targets for BSS provision, which will facilitate the future monitoring and evaluation process. For example, the Strategy's action plan foresees the expansion of the mentoring programme, with a 2017 baseline value: "21 mentors trained to provide mentoring services" and a measurable target for 2020: "more than 45 mentors trained to provide mentoring services" (Ministry of Economy, 2018<sub>[26]</sub>).

Since the last assessment, various institutions have mapped the supply and demand of BSSs in Montenegro. On the supply side, the Ministry of Economy worked with the United Nations Industrial Development Organization (UNIDO) to map BSS providers in 2017, creating an Excel spreadsheet with information on more than 300 public and private BSS providers. The spreadsheet is available to SMEs on the ministry's website (Ministry of Economy, 2017<sub>[39]</sub>). On the demand side, the Chamber of Economy and the Montenegrin Employers Federation collect data on SMEs' skills needs individually (for more information, see Section Operational environment (Dimension 4)). Similarly, Montenegro's Employment Agency has been conducting an employers' survey annually since 2007 that sheds light on skill shortages and the demand for skills. Given that more than 98% of respondents are SMEs, the survey's results also reflect SMEs' skills needs. However, while the Employment Agency makes use of these surveys to adapt its training offer, the results have not been used by the other relevant public institutions to create a single co-ordinated and harmonised BSS offer at the national level.

The leading institution for BSS provision is the Ministry of Economy, via its Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds. This directorate was set up in January 2018 as part of a larger restructuring process with the objective of providing SMEs with a one-stop shop for BSS provision. In 2018, it was staffed with 20 employees and a budget of about EUR 600 000. The directorate provides training and mentoring to SMEs under the Ministry of Economy's Business Stimulating programmes. In 2017, the directorate provided nine Business Stimulating programmes in co-operation with the UNDP, ranging from business zone development and cluster development to processing industry modernisation. The budget allocated to these nine programmes in 2018 was EUR 1.5 million. Since 2012, the directorate has also been providing mentoring services to SMEs with the support of the Japanese International Cooperation Agency (JICA). The mentoring support follows the business support methodology developed by Serbia's former National Agency for Regional Development in co-operation with JICA and offers the same activities. In Serbia, where the programme was already standardised in 2008, it achieved very positive results (see Box 16.7).

#### **Box 16.7. The Development Agency of Serbia's standardised mentoring service**

##### **Background**

The Development Agency of Serbia's (RAS) mentoring programme is designed to provide timely, continuous mentoring support to SMEs and start-ups with growth potential at crucial stages of their business paths. The programme began in 2005 using business support methodology developed by the National Agency for Regional Development in co-operation with the Japan International Cooperation Agency (JICA). In 2008, following a three-year pilot period that saw positive results, RAS standardised the programme and has run it ever since.

##### **Programme activities**

The mentoring programme follows a sequence of four main steps: 1) diagnosis; 2) analysis and action plan (proposing measures to improve the business); 3) intervention (implementing the proposed measures; and 4) evaluation and tracking.

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the most growth potential. Based on the factors identified, the mentor and the beneficiary prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure, human resources management, financial management, logistics and distribution, production-technological processes, intellectual property, and quality systems. Depending on their needs, mentors could also refer SMEs to more specialised consulting services.

##### **Impact**

- 2005-06: 37 civil servants received certified training by JICA
- 2006-09: more than 700 businesses supported
- 2011-12: 268 SMEs supported

- 2013-14: 213 SMEs supported
- 2015-16: 204 SMEs supported
- 2017: 253 SMEs supported

#### **Results and feedback from SMEs (up to 2015)**

- 99% of beneficiaries completed the entire programme
- 92% of beneficiaries felt there was a positive impact on some aspect of their business
- 95.2% of beneficiaries accepted almost all the proposed measures to improve their business.

It is also worth noting that the programme gave a significant number of RAS personnel the opportunity to upgrade their skills and knowledge. This professional development has had a positive impact on the RAS and, in turn, enabled the agency to provide long-term support to the national SME base via the same trained civil servants.

The programme also contributed to raising awareness among Serbian SMEs on the importance and benefits of expert advisory support and non-financial business support schemes.

#### **Success factors**

While the programme faced a number of challenges during its planning and implementation phase due to bureaucracy and public sector systemic delays, it nonetheless achieved all its objectives. Furthermore, its results were so positive that they led to the mentoring programme being institutionalised in 2011 as a standard service for SMEs in Serbia, delivered by the RAS with support from JICA.

*Source:* (RAS, 2017<sup>[40]</sup>), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, <http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service>; information collected from RAS over the course of this assessment.

The directorate also co-ordinates projects with Montenegrin SMEs in the Enterprise Europe Network. Business support services are also available to SMEs through the Investment and Development Fund of Montenegro, which offers training on financial literacy and business plan development, information on financing opportunities, and loans to SMEs and specific target groups (e.g. women and young entrepreneurs). Montenegro's Employment Agency provides training to the unemployed and to potential entrepreneurs. Through the Programme for Continuous Stimulation of Employment, it provides annual two-day training courses to improve SMEs' entrepreneurship skills. In 2018, these three institutions collaborated to provide SMEs with both non-financial and financial support through two programmes: the Support to Entrepreneurship Development Programme and the Programme for the Development of Entrepreneurship in Art and Culture. Prior to applying for the fund's loans under these programmes, SMEs or potential entrepreneurs need to complete dedicated training delivered by either the directorate or the Employment Agency. Co-financing is available to SMEs under five of the nine Business Stimulating programmes. For example, under the Regional and Local Competitiveness Boosting programme, SMEs' costs for complying with certain international product standards are co-financed, up to 60% for medium-sized enterprises and up to 70% for small enterprises, with an upper support limit of EUR 5 000. Under the Innovation Enhancing in SMEs programme, SMEs in the processing industry that meet

the eligibility criteria can receive co-financing for 50% of the cost of using consultants, to an upper support limit of EUR 2 500 in 2016 (increased to EUR 3 500 in 2017). The beneficiary is required to cover the consulting costs in full and the costs are reimbursed after project completion.

According to data received for this assessment, 1 735 SMEs benefitted from publicly (co-)funded BSSs in 2017. This figure corresponds to 5.7% of the economy's SMEs. By comparison, 18.6% of SMEs in Turkey used publicly funded BSSs in 2017, and 2.9% of SMEs on average in the other five Western Balkan economies.

Montenegro monitors its various business support services but beneficiaries' feedback on services is rarely taken into account. The directorate's monitoring feeds into the Ministry of Economy's annual performance reports, which are publicly available on the ministry's website. However, while the directorate uses surveys to collect feedback from participants in its mentoring programme, it does not collect feedback from SMEs that have benefitted from its other BSS programmes. The directorate has continuously monitored the previous SME strategy implementation and the results helped to better tailor the newly adopted MSME Strategy. The Business Caravan project carried out in 2017 (see Box 16.4) by the Ministry of Economy, in co-operation with the UNDP, was also a noteworthy initiative. As part of the project, ministry representatives held meetings with private sector representatives in 14 municipalities to present existing BSS programmes and to receive feedback on them. This feedback was then used to prepare the new SME Strategy.

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

Despite the progress in the provision of BSSs, some challenges remain. Future steps should include:

- **Conduct regular training needs analyses at the national level and an independent evaluation of business support services**, to better adapt them to SMEs' actual skills needs and to harmonise the BSSs offered by different public institutions. While several institutions collect data on SMEs' skills needs individually (the Employment Agency, the Chamber of Economy and the Montenegrin Employers Federation), a common analysis based on a larger and more diverse SME population could make findings more representative. Subsequently, it would help to fill in the gaps in BSS provision, to better target the support provided and to create more effective BSS provision systems. It would particularly help to tailor the BSS offer to the characteristics of micro and SME beneficiaries, to their sector, and to their stage of development – as well as to their actual experience in the market. Montenegro should also consider calling in an independent institution to conduct an in-depth evaluation of the BSSs offered by the directorate, the Investment and Development Fund and the Employment Agency, assessing the impact of BSS programmes according to key performance indicators and making sure to avoid overlaps.
- **Provide easier access to information on business support services** to stimulate SME uptake. In 2017, only 6.2% of Montenegrin SMEs used a publicly (co-)financed BSS. SMEs' take up of EU and regional funding instruments, such as COSME and the Western Balkan Enterprise Development and Innovation Facility, also represents a challenge (EC, 2018<sup>[3]</sup>). SMEs surveyed as part of this assessment were often not aware of BSS opportunities. The Business Caravan project is a welcome initiative, and similar projects should be pursued to increase

SMEs' awareness of the BSSs available. Nonetheless, given that several public institutions (in addition to international donors) provide BSSs in Montenegro, information about the services available is fragmented. Co-ordination should be strengthened among the respective institutions' information channels to create a common communication strategy and a single, centralised web portal.

- **Introduce a quality assurance mechanism for the private sector consultants and trainers** that SMEs are required to use under co-financed support programmes (such as an accreditation system). Currently, SMEs in Montenegro can freely choose private sector consultants or trainers under co-financing programmes such as Innovation Enhancing in SMEs. Montenegro should consider introducing an accreditation system to make sure that private sector providers have a minimum required level of experience and qualifications. It could later limit co-financing support for private sector consultants and trainers to those providers who have accreditation. This would guarantee service quality, with a positive effect on SMEs' growth. It would also encourage SMEs to seek the benefits of privately delivered BSSs.

## Public procurement (Dimension 5b)

Montenegro obtained a weighted score of 3.87 for public procurement in this assessment (Table 16.11), the second highest score for all the assessed economies. However, it is lower result than its 2016 score of 4.0 (Figure 16.1).

**Table 16.11. Scores for Dimension 5b: Public procurement**

Dimension	Thematic block	Montenegro	WBT average
Dimension 5b: Public procurement	Policy and regulatory framework	4.53	3.92
	Implementation	3.39	4.05
	Monitoring and evaluation	4.16	3.24
<b>Montenegro's overall score for Dimension 5b</b>		<b>3.87</b>	<b>3.84</b>

### *State of play and key developments*

The Law on Public Procurement (PPL) adopted in 2011 is the basic legal act for public procurement, with the latest amendment in 2017. From the point of view of SME access to the public procurement market, the changes to the 2017 amendment present a mixed picture. The lower threshold for applying the PPL has been raised to EUR 15 000 for supplies and services and EUR 30 000 for works. For contracts below those values, contracting authorities are obliged to follow less formal, simplified procedures set by the contracting authorities themselves, but in accordance with general instructions provided by the Public Procurement Office (PPO). This gives SMEs the chance to apply for smaller value contracts without needing to fulfil onerous procedural requirements – provided that the contracting authorities follow transparent and competitive procedures. The amendment also raised the maximum value of fees for submitting appeals to the review body from EUR 8 000 to EUR 20 000.

Montenegro has the highest share of public procurement as a proportion of GDP among the WBT economies, as well as one of the highest shares of contracts awarded to foreign economic operators<sup>7</sup>. The provisions of the Law on Public Procurement are mostly based on the 2004 EU directives, while the draft of the new PPL will implement the 2014 EU directives. The current PPL offers a number of solutions for facilitating economic operators' access to public procurement, such as dividing procurement into lots, allowing consortia to participate in public procurement procedures and ensuring that suppliers' requirements are proportionate and contract-related. Public procurement provisions allow for advance payment to the contractors before the full execution of a contract. Advance payment is, however, subject to the submission of a special guarantee. Contracts awarded on the basis of the most economically advantageous tender criterion are much fewer than those based on price alone, although the use of non-price criteria is slightly higher than in other economies in the region. Contrary to the EU *acquis*, Montenegrin procurement provisions set limits on the maximum share of a contract which may be subject to subcontracting (up to 30% of the contract's value).

The Public Procurement Office (PPO), the main institution responsible for public procurement, explicitly tackles the issue of obstacles faced by SMEs. It has published a *Guide to Promote the Participation of Small and Medium-Sized Enterprises in the Public Procurement Market in Montenegro*, which will form part of its training programme (Government of Montenegro Public Procurement Agency and World Bank, 2017<sup>[41]</sup>). In 2016, the PPO organised four roundtable meetings with contracting authorities, dedicated specifically to the issue of SMEs participating in public procurement procedures.



Bidders, defined as persons or entities who have submitted tenders in public procurement procedures, have the right to appeal against contracting authorities' decisions. "Interested persons" may also appeal – those who had requested clarification about tender documents and who have proved that they suffered or could have suffered damage because of a decision by a contracting authority.

The main body in charge of reviewing economic operators' complaints about public procurement procedures is the State Commission for Control of Public Procurement Procedures (SC). Appeals must be submitted through the contracting authority concerned. Appeals must be submitted within ten days, counting from the day the contracting authority's decision is delivered (on selecting a tender or cancelling a procurement procedure). The contracting authority is obliged to deliver the appeal and its response to the SC, together with all related documents, within eight days of receiving the appeal. If the contracting authority finds that there are grounds for appeal, it may annul the challenged decision, correct the performed acts or terminate the whole procurement procedure. An appeal submission causes the whole procurement procedure to be suspended until the SC has made its decision.

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

Montenegro has established a solid institutional and regulatory framework for public procurement. There is room to improve support for economic operators, however, as the Montenegrin authorities state that central government offices do not offer economic operators specific training on procurement. Montenegro should give more attention to the following:

- **Further align national legislation with EU rules and international good practice.** In particular:
  - remove limitations on subcontracting, such as the maximum percentage of the procurement contract that may be subject to subcontracting
  - complete the process of implementing the 2014 EU directives on public procurement.
- **Further reduce the administrative burden of participating in public procurements.** In particular, ensure that supporting documents are required only from bidders whose offers were evaluated as the most advantageous. In principle, the bidder should only be required to submit a declaration with their offer confirming that they satisfy the requirements imposed by the contracting authority, and that they can provide documentary evidence if the contracting authority demands it. Introducing mandatory e-procurement in line with the 2014 EU directives, especially for submitting tenders in electronic form, would also reduce bidding costs, facilitating SMEs' access to public contracts.
- **Increase the use of non-price criteria for awarding contracts** to enable public buyers to receive best value for money. The Public Procurement Office should encourage contracting authorities to apply non-price criteria by providing them with manuals, guidelines, instructions and examples of good practice.
- **Monitor the way that simplified public procurement procedures are applied,** particularly their transparency and competitiveness, below the threshold at which the PPL applies.

## Access to finance for SMEs (Dimension 6)

Montenegro has made progress in facilitating SMEs' access to finance since the last assessment (OECD, 2016<sup>[42]</sup>). With an overall score of 3.49 (Table 16.12), Montenegro represents the median for the region, scoring slightly ahead of Albania, Bosnia and Herzegovina, and Kosovo, but below the remaining economies. Most progress has been made in the area of non-bank finance, reflecting the entry into force of a new law reforming legislation in this area in 2018.

**Table 16.12. 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	4.20
		Registers	4.58	4.58
		Credit information bureaus	4.42	4.55
		Banking regulations	3.50	3.79
		Stock market	4.00	2.93
		<b>Weighted average</b>	<b>4.41</b>	<b>4.14</b>
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	2.07	2.92
		Credit guarantee schemes	1.00	2.30
		<b>Weighted average</b>	<b>1.64</b>	<b>2.67</b>
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.67	3.57
		Leasing	2.33	2.84
		Factoring	3.00	2.45
		<b>Weighted average</b>	<b>3.33</b>	<b>2.95</b>
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	1.67	2.32
		Design and implementation of government activities	1.54	2.48
		Monitoring and evaluation	1.00	1.48
		<b>Weighted average</b>	<b>1.48</b>	<b>2.22</b>
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.33	2.44
		Monitoring and evaluation	1.00	1.19
		<b>Weighted average</b>	<b>2.07</b>	<b>2.19</b>
<b>Montenegro's overall score for Dimension 6</b>			<b>3.49</b>	<b>3.53</b>

### *State of play and key developments*

#### *Legal and regulatory framework*

Montenegro benefits from a well-developed and robust legal and regulatory framework, which supports lending and protects creditors' rights. It has implemented Basel II recommendations, while implementation of Basel III recommendations is expected to be finalised in 2019 and envisage some exemptions for SME lending.

A cadastre system and registration system for pledges over movable assets are in place and fully functional; the cadastre's coverage has increased to 75%, and covers 100% of urban territory. As for the previous assessment, the registry is available on line, though registration continues to be off line.

Public credit registry coverage has improved significantly, according to the World Bank *Doing Business* report: 56.6% in 2018 of the adult population, compared to 26.0% in 2015 (World Bank, 2018<sup>[43]</sup>). This is estimated to be close to 100% of all debtors, indicating limited levels of financial intermediation in the economy. However, a continuing challenge is the unavailability or unreliability of borrowers' audited financial statements and an inability to independently verify linkages among counterparties. There are plans to expand the credit registry with data from non-financial institutions in 2019, which may increase coverage further. The government is also in talks with a power company to pilot incorporating some of their consumer data to enhance credit information, while trying to balance this with data protection. The economy still does not have a private credit information bureau.

Some progress has been made in facilitating access to capital markets. A new law on capital markets was adopted in January 2018, making the system more compliant with EU standards and establishing a legal framework for multilateral trading platforms. This, in theory, would enable SMEs to register on an SME growth market; however, there are currently no plans to establish such a dedicated SME multilateral trading platform, as capitalisation and trading volumes of the Montenegrin stock exchange remain low. To date, Montenegro has not yet joined the regional SEE link, which would help local enterprises to exploit capital market finance opportunities.

#### *Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)*

Bank finance continues to dominate the financial sector, and the banking sector has stabilised in recent years thanks to increasingly sound solvency and liquidity indicators. The high level of non-performing loans (NPLs), identified as a key constraint for private sector lending in the previous report (OECD, 2016<sup>[42]</sup>), has fallen dramatically to just above 7% at the end of 2017. The definition of NPLs, however, does not exclude impaired assets that have adequate collateral. The diminishing number of NPLs has encouraged lending, which has grown by over 8% in 2017 and is recovering from years of subdued performance. While some banks have increased the share of SMEs in their lending portfolio, there is still substantial credit exposure to the public sector; with some banks having over 15% of their total assets in the public sector. In addition, the banking sector – now comprising 15 banks in total following the market entry of a new local bank since the last assessment – remains largely foreign-owned and requires consolidation in the coming years to increase resilience and reduce the risk of external shocks. A shift of lending activity towards locally owned and newly established banks may equally create asset problems, and more competition may present a challenge for bank profitability and asset quality.

Montenegro is currently preparing a first EUR 1 million SME guarantee scheme, and the government's Investment and Development Fund continues to provide significant finance to SMEs directly or indirectly via local commercial banks at reduced interest rates. The fund offers significant lending to SMEs and sub-segments, such as women, for instance, at preferential interest rates. Supervision of the fund has recently been transferred to the Central Bank of Montenegro, thereby imposing stricter requirements on capital adequacy ratios to improve risk management, which is likely to reduce the risk of crowding out the private financial market.

Good progress has been made in the area of enhancing non-bank financial instruments. The authorities have closed supervision gaps by bringing non-bank financial institutions

under the supervision of the Central Bank. The newly adopted Law on Financial Leasing, Factoring, Purchase of Claims, Micro-credit and Credit-Guarantee Issues in 2017 provides the framework for credit guarantee schemes, factoring and leasing. The EBRD has helped draft the legal framework for leasing and factoring. Factoring has already gained some momentum as volumes are up, and the new legal framework is expected to further boost the market's appetite. Microfinance also expanded to a volume of EUR 60 million at the end of 2017, thereby almost reaching pre-crisis levels.

Venture capital (VC) is practically non-existent and the local business angel network is limited. Montenegro has contributed to the Enterprise Innovation Fund, and new legislation on collective investment schemes and the establishment of alternative investment funds is currently underway which will regulate VC in the future. Crowdfunding is also being considered, but there are no concrete plans to introduce it at present.

### *Financial literacy*

Although financial literacy and training are increasingly incorporated into the secondary school curricula, there is no consolidated platform or dedicated national strategy in place to promote financial literacy across the economy. Financial training through the General Directorate for Investments, Development of SMEs and Management of EU Funds and other business organisations is limited and ad hoc.

### *The way forward for Dimension 6*

Despite improvements, access to finance remains a major obstacle to doing business for SMEs. Ensuring the continued stability of the banking sector and overcoming information asymmetries within the system could help ease finance for SMEs. The following measures could be important to implement:

- **Strengthen banking sector stability.** In light of increasing competition among financial institutions, the banking sector requires consolidation and continued tight supervision. The decision to move supervision of the publicly owned Investment and Development Fund to the Central Bank is positive but, amid fierce competition, further efforts are required to ensure that banks, both foreign and domestic, remain committed to sound banking principles.
- **Enhance credit information.** Montenegro should consider expanding the coverage and granularity of the credit information system, which will enable smaller companies without a decent credit history to access finance. The decision to include information from non-bank financial institutions is a positive move, but further efforts could include improving the timeliness of information collected and distributed, and incorporating information from retailers and utilities. This could also be achieved by encouraging a private credit bureau to be established, which would collect data beyond the financial sector.
- **Introduce alternative equity-based finance.** In the absence of viable equity-finance options through VC, angel networks or listings, introducing crowdfunding into the legislative framework could provide a feasible alternative source of finance for start-ups that have growth potential and funding needs.

## Standards and technical regulations (Dimension 7)

With an overall score of 3.99 for standards and technical regulations (Table 16.13), Montenegro is one of the best-performing economies in the region, alongside Serbia and Turkey. The economy would have upheld or improved on its previous assessment score of 4.01 (Figure 16.1), if it were not for its weak performance in the newly added sub-dimension, SME access to standardisation. Although progress has been made in transposing technical regulations and conformity assessment, Montenegro is not fully prepared for the free movement of goods to the EU.

**Table 16.13. Scores for Dimension 7: Standards and technical regulations**

Dimension	Sub-dimension	Thematic block	Montenegro	WBT average	
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	-	3.00	3.12	
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	3.93	3.87	
		Standardisation	4.00	3.97	
		Accreditation	4.69	4.53	
		Conformity assessment	4.00	3.65	
		Metrology	5.00	4.47	
		Market surveillance	5.00	4.43	
		<b>Weighted average</b>	<b>4.44</b>	<b>4.15</b>	
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.33	4.24	
		SME participation in developing standards	2.50	2.57	
		Financial support to SMEs	1.80	2.39	
		<b>Weighted average</b>	<b>2.88</b>	<b>3.07</b>	
	<b>Montenegro's overall score for Dimension 7</b>			<b>3.99</b>	<b>3.83</b>

### *State of play and key developments*

#### *Overall co-ordination and general measures*

The Ministry of Economy is responsible for the overall policy co-ordination of technical regulations and quality infrastructure in Montenegro. The free movement of goods section in the Programme of Accession of Montenegro to the EU 2014-2018 constitutes the overarching policy document guiding the transposition of EU *acquis* in this area.

In line with the programme and its action plan, Montenegro has completed the transposition of EU sectoral legislation in priority sectors. Although not mandatory under EU legislation, there is currently no designated portal or contact point to assist SMEs in placing their products on the EU Single Market. Putting this in place would relieve Montenegrin SMEs from the burden of gathering fragmented information from different sources.

#### *Harmonisation with the EU acquis*

Montenegro's legal framework for quality infrastructure is largely aligned with the EU *acquis*. It has prepared a new draft law on technical requirements for products and conformity assessment, for which public consultation was completed in September 2018.

This law aims to further harmonise provisions with Decision No 768/2008/EC on a common framework for marketing products, requirements for conformity assessment bodies (CABs) to be notified to the European Commission, notification procedures and procedures for conformity assessment.

Montenegro has also adopted strategies and action plans for developing standardisation and accreditation systems. Since 2016, the Institute for Standardisation of Montenegro (ISME) adopted a total of 3 925 standards and related documents that are identical to European standards. However, only 73.3% of the European Committee for Standardization (CEN) and 68.2% of the European Committee for Electrotechnical Standardization (CENELEC) standards have been adopted. As the national standards body, ISME is currently an affiliate member of CEN/CENELEC and seeks to become a full member by 2020. In order to achieve this, ISME needs to raise the adoption rate of European standards to 80%. Montenegro also plans to review the standards already adopted, aiming to review 2 081 standards in 2018 and 2 153 in 2019. However, ISME only has 15 employees, while the Standardisation Development Strategy for Montenegro 2015-2018 prescribes 32. ISME has also yet to upgrade its information technology (IT) system with new software for communicating with the CEN/CENELEC system, and has said that an upgrade is unlikely without an increase in its budget. ISME is a correspondent member of the International Organization for Standardization, and an associate member of the International Electrotechnical Commission.

The Accreditation Body of Montenegro (ABM) is an associate member of the International Laboratory Accreditation Cooperation and a full member of the European co-operation for Accreditation (EA). However, the ABM has not yet signed the EA Multilateral Agreement (EA MLA) which would formally recognise the Montenegrin accreditation system's equivalence and equal competence with those of EU Member States. The ABM cited a lack of sufficient financial resources as the reason for postponing its application. Nevertheless, it plans to submit the application by mid-2019 for EA MLA status for testing, calibration, certification and inspection. By comparison, Turkey has signed an EA MLA covering seven areas of accreditation. A successful application would require further budget and staff increases in order to carry out regular peer evaluations.

Montenegro's conformity assessment legislation is in line with the EU *acquis*; however, the ABM anticipates the need for additional assessors due to the growing demand for conformity assessment body accreditation. Since 2016, the number of accredited CABs in Montenegro has increased from 29 to 33: comprising 21 testing laboratories, 2 calibration laboratories, 6 inspection bodies, 1 CAB for product certification, and 3 CABs for management system certification. More CAB accreditations are also being prepared, for medical laboratories and personnel certification.

The law on metrology is in line with the EU *acquis*. However, with only 43 employees of the 52 prescribed by the Metrology Development Strategy 2016-2018, the Bureau of Metrology remains understaffed. While its budget has increased slightly, the bureau's premises are inadequate and its availability is not assured for the long term. By integrating the Bureau of Metrology into international structures, Montenegro could ensure that measurement results are comparable worldwide, thus supporting its SMEs' integration into international value chains. The Bureau of Metrology is a full member of the European Association of National Metrology Institutes and of the European Cooperation in Legal Metrology, as well as a correspondent member of the International Organization of Legal Metrology. In 2018, it became further integrated into the

international metrology system by signing the Metre Convention and becoming a full member of the International Bureau of Weights and Measures.

In the area of market surveillance, a new Law on General Product Safety was adopted in 2017 in line with the EU *acquis*. Based on existing legislation for product safety and market surveillance, a total of 1 515 inspection controls were carried out in the Montenegrin market, of which 425 inspections involved proactive surveillance and the rest reactive surveillance. As a result, 105 products were permanently removed from the Montenegrin market. However, Montenegro's market surveillance capacities are still weak and only a moderate increase in the number of staff (ten more employees) is planned by 2020. Given the growing need for product sampling and inspections in Montenegro, market surveillance will need additional budget and human resources.

### *SME access to standardisation*

Montenegro has introduced only basic measures to facilitate SMEs' access to standardisation. ISME informs SMEs about the adoption of new standards and organises seminars to introduce them to the public. In 2017, ISME launched a new website, but has yet to develop it fully; it does not provide practical guides on implementing standards or successful case studies on the benefits of using them. However, ISME has regularly co-organised events with the Chamber of Economy of Montenegro to raise awareness among SMEs of the importance of implementing standards; as well as sharing experiences and promoting SMEs that have implemented standards. These events are organised three times a year.

Montenegro has not introduced any financial support measures to help SMEs acquire standards and participate in their development. To provide financial support for implementing standards, Montenegro runs a programme to enhance regional and local competitiveness by complying with international business standards. The programme provides financial support to SMEs, particularly those from less developed municipalities, and aims to support compliance with international product standards by reimbursing business up to 70% of the certification costs. While 34 SMEs benefitted from the programme in 2017, the draft action plan for the new MSME Strategy 2018-2022 foresees the number increasing to 100 SMEs and an overall programme value of EUR 420 000 (Ministry of Economy, 2018<sub>[26]</sub>).

### *The way forward for Dimension 7*

Montenegro has made significantly progress on aligning its quality infrastructure legislation with the EU *acquis*, but several challenges remain. To address them, the government should consider the following:

- **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. This would greatly benefit SMEs in Montenegro, who are often forced to search for relevant information from various government agencies. Comprehensive information should also be provided on government support mechanisms for exporters to the EU Single Market.
- **Increase the adoption rate of European standards.** Although the Standardisation Development Strategy for Montenegro 2015-2018 foresees adopting all applicable European standards by the end of 2018, the rate currently

stands at 73.3% of CEN standards and 68.2% of CENELEC ones. Montenegro has therefore yet to reach an 80% adoption rate, one of the criteria for full membership of CEN/CENELEC. To transpose European standards at a faster rate, ISME needs more human and financial resources. It has only 15 employees out of the 32 stipulated by the standardisation strategy, and investment is needed to upgrade its IT system with software for communication between CEN/CENELEC and national standards development bodies.

- **Step up efforts to sign the EA Multilateral Agreement.** Policy makers must ensure the recognition of national accreditations as an authoritative statement on the competence and credibility of CABs. Montenegro has yet to sign the EA MLA, which would recognise the equivalence, reliability and therefore acceptance by the European market of certification, inspection and calibration certificates issued by accredited CABs in Montenegro. As a consequence, Montenegrin CABs have a below-par reputation outside their national borders, and the SMEs they have assessed can be required to undergo additional conformity assessments by CABs in the European Union. Montenegrin SMEs are therefore compelled to undergo double assessments in order to enhance their competitiveness in the EU market. The Montenegrin authorities should ensure that the ABM has adequate capacity to successfully undergo EA MLA peer evaluation, including the document review and on-site evaluations.



## Enterprise skills (Dimension 8a)

Montenegro scores 2.35 for its support for enterprise skills, which is below the average score for the WBT economies (Table 16.14).

**Table 16.14. Scores for Dimension 8a: Enterprise skills**

Dimension	Thematic block	Montenegro	WBT average
Dimension 8a: Enterprise skills	Planning and design	3.17	3.38
	Implementation	2.00	2.83
	Monitoring and evaluation	2.00	2.29
	<i>Weighted average</i>	2.35	2.87
<b>Montenegro's overall score for Dimension 8a</b>		<b>2.35</b>	<b>2.87</b>

### *State of play and key developments*

Montenegro is putting more emphasis on non-financial support for SMEs, including training and mentoring. This is reflected in several national strategic documents, the MSME Strategy for 2018-2022 and the Economic Reform Programme 2018-2020. To make Montenegrin businesses more competitive in the domestic and international market, and to create new, innovative enterprises, more efforts are needed to build the capacity of SME managers and employees. The newly developed MSME Strategy is a good step in this direction. It covers several measures to develop entrepreneurs' knowledge, skills and competences. The challenge Montenegro will face is addressing skills needs under the upcoming Smart Specialisation Strategy,<sup>8</sup> which will require flexibility in education and training provision with actions that target in particular the micro and small SMEs in the smart specialisation priority areas.

Montenegro has a wide range of support services including training for SMEs, but there is little co-ordination among the institutions that provide them. The Montenegrin Employment Agency targets the unemployed, potential entrepreneurs and start-ups. There are two types of training, and they are a precondition for getting credit support: 1) training to enhance self-employment, such as experience exchanges between participants, introducing an entrepreneurial way of thinking, motivation for business creation, how to start a business; and 2) basic entrepreneurship training, such as how to register a business, how to develop a business plan, basics of business management and accounting. The employment agencies in all municipalities also organise advanced business and management training for entrepreneurs who apply for small loans.

The Ministry of Economy provides support to SMEs through its Investment and Development Fund, which includes training, coaching and mentoring for new and existing businesses. For example, about 80 applicants attended training modules in 2015/16, organised by the Ministry of Economy. Of these, 16 received financial support from the fund to start a new business. The Chamber of Economy and the Montenegrin Employment Federation are doing their part to develop SMEs' skills and competences to keep up with the EU's high international standards and regulations. Good efforts are also being made to train start-ups and support potential entrepreneurs in developing their businesses plans through existing business incubators (e.g. Innovation and Entrepreneurship Center Tehnopolis) and specific start-up programmes. See also Section on support services for SMEs for more information on financial and non-financial support.

The training delivered through various public and private institutions is usually open to everybody and not tailored to a specific group, such as youth entrepreneurs, women entrepreneurs or silver entrepreneurs.

Because of the fragmented training on offer for SMEs in Montenegro, it is important that information on training and training providers is made available for entrepreneurs and potential entrepreneurs through a dedicated web-based platform or one-stop shop.

To improve innovation and competitiveness, the government should invest still more in developing SMEs' skills for growth and internationalisation, including developing a green and digital economy. It is therefore important to carry out training needs analyses regularly at national level. This would allow policy makers to introduce new training programmes based on the identified skills gaps and needs of SMEs. Various business support institutions (the Chamber of Economy, the Montenegrin Employers' Federation and employment agencies) collect data on skill needs for SMEs individually, but these datasets are not collected or analysed at system level. To avoid overlaps, the existing employers' survey carried out by the Employment Agency could be a good basis for identifying the specific training needs of small and medium-sized enterprises, as 98% of respondents are SMEs. This would require co-ordination among the various institutions, and a lead institution to drive SME skills intelligence in the economy.

Montenegro is actively taking part in several EU programmes, such as COSME, Horizon 2020, Erasmus for Young Entrepreneurs and the European Enterprise Network. The challenge is to further promote these initiatives and to develop more project proposals with the aim of developing an entrepreneurial culture and building the capacities of SMEs and entrepreneurs. The Ministry of Economy has so far only co-ordinated one Horizon 2020 programme that aimed to enhance SMEs' innovation management capacities in Montenegro. The Erasmus for Young Entrepreneurs programme has had very limited participation.

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

Montenegro recognises the importance of improving the skills and competences of entrepreneurs to make them more innovative and competitive. In order to move forward, the government should consider the following:

- **Ensure systematic evaluation of the effectiveness and impact of existing training programmes.** Evaluating non-financial business support services would improve the quality of the existing training and help develop new targeted training programmes so that SME entrepreneurs and employees are more willing to participate.
- **Consider the need for tailored training for start-ups.** When designing new training programmes for start-ups, attention should be given to where entrepreneurs are in their entrepreneurial life-cycle: from the “wannabe” entrepreneurs who need help with their business idea, to the “early-phase” start-ups that need support to make their business sustainable, to the “up-starts” that need a push to scale up their business.
- **Increase the training offer to enhance SMEs' competitiveness.** More training should be made available to develop SMEs' skills for growth and internationalisation, including the necessary skills to reap the benefits of a green and digital economy. The skills development actions foreseen in the new MSME Strategy 2018-2022 are scattered across the Strategy's various objectives. A

consolidated SME skills development action plan that has dedicated resources attached to it would be advisable.

- **Better co-ordinate training needs analyses.** To better match the training, mentoring and coaching on offer with the actual needs of SMEs, data collection about training needs should be better co-ordinated across different business support institutions and analysed at national level.

## Innovation policy for SMEs (Dimension 8b)

Montenegro is a mid-level performer on innovation policy in the region, ranking fourth out of the seven WBT economies. The economy has stagnated in this area since the 2016 assessment, slipping from a score of 2.62 to 2.53 in 2019 (see Figure 16.1 and Table 16.15). This stagnation is evident in all sub-dimensions of the innovation policy dimension, except innovation support infrastructure, where Montenegro has made some investments.

**Table 16.15. 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	3.45	<b>3.46</b>	
		Co-ordination of innovation policy	2.33	2.97	
		Implementation of innovation policy	2.57	3.04	
		<b>Weighted average</b>	<b>2.79</b>	<b>3.15</b>	
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.00	2.99	
		Technology extension services for established SMEs	1.00	1.74	
		<b>Weighted average</b>	<b>2.20</b>	<b>2.49</b>	
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.40	3.76	
		Indirect financial support	1.00	1.38	
		<b>Weighted average</b>	<b>2.44</b>	<b>2.81</b>	
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.52	
		Institutional infrastructure for industry-academia co-operation	2.80	2.72	
		Intellectual property rights	2.50	3.00	
		<b>Weighted average</b>	<b>2.42</b>	<b>2.70</b>	
	<b>Montenegro's overall score for Dimension 8b</b>			<b>2.53</b>	<b>2.86</b>

### *State of play and key developments*

#### *Policy framework for innovation*

The policy framework for innovation in Montenegro was set out in 2016 when the First Innovation Strategy and Law on Innovation Activities were adopted. In 2017, the government adopted the 2017-2022 Research Strategy, which includes some elements of innovation policy but in far less detail. The Ministry of Science is in charge of implementing and monitoring progress on the Innovation Strategy, and sends an annual report on implementation to the government for adoption. There are no plans at the moment to separate policy design and implementation through an independent agency. The Ministry of Science acts as co-ordinator and the Scientific Research and Innovation Council brings all actors together regularly.

### *Government institutional support services for innovative SMEs*

Montenegro has two business incubators in Bar and Berane housing about 40 tenants each, but their focus is not on innovative enterprises. In 2016, the Tehnopolis innovation centre was opened in Nikšić. It is meant to be the first of a four-institution network that will act as Montenegro's science and technology park. At the moment it operates as a business incubator with about 20 tenants. The Ministry of Science provides Tehnopolis's operational funds and an additional EUR 1 million was allocated in 2018 to buy specialist equipment. There are no technology extension services in Montenegro.

### *Government financial support services for innovative SMEs*

Several instruments are offered by the Ministry of Science and the Ministry of Economy that could potentially support innovative enterprises. However, the scale of this support was relatively small until 2018, and these instruments are only designed to support the acquisition of some services rather than fully fledged research and development (R&D) or commercialisation activities.

The Ministry of Economy extended its programme of support for innovation in SMEs beyond the processing industry in 2018. It also runs schemes to encourage standardisation to support innovative clusters. In 2018, the ministry offered the following to innovative SMEs:

- a programme to enhance innovation for SMEs, with a budget of EUR 50 000
- a programme to strengthen companies' innovation by complying with international standards, with a budget of EUR 140 000
- a programme to stimulate the development of innovative clusters, with a budget of EUR 150 000.

In 2017, the Ministry of Science ran a pilot programme to support innovation activities with a budget of EUR 200 000. Both businesses and academics could apply, and preference was given to consortia as well as to women and young entrepreneurs. This pilot drew a lot of interest and received 45 applications. However, the selection committee – composed of Ministry of Science, Ministry of Economy and university representatives – assessed the proposals to be low in quality, and eventually only five projects were supported, with a total budget of EUR 60 000.

Montenegro does not have any dedicated fiscal support measures (such as tax incentives) to foster SMEs' innovative activities. Enterprises can only benefit from a VAT and customs duty exemption when purchasing R&D equipment.

### *SME and research institution collaboration and technology transfer*

Innovation vouchers were piloted in Montenegro in 2012, when 12 companies received support, and the Ministry of Economy then ran an almost identical programme for the processing industry in 2015, 2016 and 2017. However, only four companies were supported in this three-year period. This instrument has a decision committee made up of four Ministry of Economy representatives and one Ministry of Science representative. Finding little interest from companies in the processing industry, in 2018 the Ministry of Economy extended the support to all SMEs and raised the maximum amount to EUR 5 000. However, the application procedure is complex and discourages companies from applying. Applicants need to cover the cost of consulting services first, and then apply for 50% reimbursement. Due to strict state aid rules and requirements, they also

need to provide positive balance sheets and submit several documents with the application itself.

The Higher Education and Research for Innovation and Competitiveness Project, supported by the World Bank, provided significant co-operative grants in Montenegro – but this project has ended and the funds are no longer available. The Ministry of Science has decided to offer co-operative grants itself and allocated EUR 1 million for a new programme in 2018 which could award individual projects grants of up to EUR 100 000. The call for application is open to legal entities in Montenegro that are listed in the Register of Innovative Organisations, including scientific research institutions, higher education institutions, innovative-entrepreneurial centres and business incubators. Applicants can only apply as a partnership, which must include at least one business entity from Montenegro.

The amount allocated for co-funding an innovation project will be determined depending on the total accepted project budget and on the size of the company or organisation. The maximum amount of funds provided as support may be:

- 70% for micro and small enterprises/organisations with up to 49 employees
- 60% for medium-sized enterprises/organisations with between 50 and 249 employees
- 50% for large enterprises/organisations with over 250 employees.

As mentioned above, infrastructure for business-academia collaboration in Montenegro has improved with the opening of Tehnopolis, and preparations are well under way to establish the second of the four centres in Podgorica. The remaining two centres will be located in Bar and Pljevlja but construction has not yet started.

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

It is evident that Montenegro needs to do more to boost enterprises' innovation activities. The following would be key steps to take:

- **Improve co-ordination of innovation policies.** There is no formal body to co-ordinate innovation policy in Montenegro. Such a body should bring private sector actors on board throughout the policy-making process and ensure that all government actors' efforts (primarily the Ministry of Science and the Ministry of Economy) are complementary. Examples from OECD countries can provide valuable guidance for Montenegro (Box 16.8 has one example).
- **Improve the design of instruments and decision-making processes.** The Ministry of Economy operated the same voucher scheme for three years up to 2017, despite the processing industry's almost complete lack of interest in these grants. Extending the scheme's eligibility to all SMEs in 2018 was a positive step towards increasing demand, but the application process is disproportionately complex given the funds on offer. As of November 2018, only 55% of the total allocated funds (EUR 50 000) had been distributed to a total nine SMEs. This clearly indicates the need to improve the design of these innovation instruments.

In addition, the decision-making bodies for all the existing schemes are primarily made up of Ministry of Science and Ministry of Economy staff, who select which applicants will receive support. For the time being, it is foreseen that only the co-operative grant programme by the Ministry of Science will have a process of

evaluation carried out by international experts. Introducing expert and independent decision-making processes for all the programmes would ensure the quality of supported projects and build trust in the instruments themselves among the research and business communities. Introducing monitoring and evaluation for the existing instruments would ensure that they meet their objectives, or are redesigned if they do not.

- **Scale up financial support for innovative SMEs.** Vouchers are good instruments for establishing connections between business and academia and for businesses to acquire small-scale services. However, seed-like support (ranging from EUR 30 000 to 80 000 per project) is needed for a company to actually engage in R&D activities and develop and test a prototype. Considering the costs involved in bring these prototypes to market, more financial support would be needed for innovative SMEs.
- **Further advance business-academia collaboration.** Soft measures such as removing administrative obstacles for professors to work with businesses can go a long way towards achieving this goal. Technology transfer capacities are also needed, and although the University of Montenegro has established a technology transfer office it is not yet staffed so cannot perform this function. The significant efforts the government has made towards establishing the four-node science and technology park need to be regularly monitored and evaluated (as well as financed adequately to operate) to ensure that this effort is not diluted and that the companies supported are actually high-growth enterprises with innovative potential.

#### Box 16.8. The Israel Innovation Authority

The Israel Innovation Authority's purpose is to carry out tasks mandated by the Research and Development Law and provide high-quality and effective services for the Israeli innovation ecosystem. The authority is made up of several innovation divisions with a total budget of EUR 0.38 billion per year.

In 2016, the authority distributed grants to 1 115 R&D projects in 650 companies, with an average grant of EUR 0.33 million. The authority's board, which supervises the authority's activities and compliance with policy goals, has approved four new support programmes in addition to the existing programmes moved from the Office of the Chief Scientist to the Innovation Authority. These programmes include innovation labs and biotech incubators in the authority's Start-up Division, coding boot-camps in its Societal Challenges Division, and a programme of multinational R&D centres in biotechnology and medicine in its Growth Division. As a result of the authority's work, national reports and science, technology and innovation policy documents show a greater focus on biotechnology, nanotechnology and low-tech industries; a growing interest in clean tech sectors; and an ambition to establish and develop an information system in innovation.

Helping innovative companies grow in Israel as "mature companies" is one of the authority's objectives. A mature company – unlike a start-up, which focuses on the technology development – carries out additional activities, including manufacturing advanced components, R&D, global tech support, product engineering and manufacturing, global operations, accounting, budgeting and logistics. The significant financial influence of these companies is expressed in their ability to employ people with

a variety of specialisations at a high salary, which makes nurturing them a key strategic goal of the Innovation Authority. Specifically, the authority encourages this activity via a framework of bank guarantees intended to increase the credit available for growth in hi-tech companies.

*Source:* IIA (2017<sup>[44]</sup>), *Israel Innovation Authority Report 2017*,

<http://economy.gov.il/English/NewsRoom/PressReleases/Documents/2017IsraelInnovationAuthorityReport.pdf>.



## SMEs in a green economy (Dimension 9)

Montenegro has made substantial progress on this dimension since the last assessment (Figure 16.1) – jumping from a score of 2.1 in 2016 to 2.95 in 2019 (Table 16.16). It is the second-best performer in the WBT region after Turkey but it still has a long way to go to fully implement the related SBA principle (enabling SMEs to turn environmental challenges into opportunities).

**Table 16.16. 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	3.80	3.81	
		Implementation	2.70	2.56	
		Monitoring and evaluation	2.50	2.12	
		<b>Weighted average</b>	<b>2.99</b>	<b>2.85</b>	
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	2.98	2.32	
		Implementation	3.41	2.76	
		Monitoring and evaluation	1.53	1.72	
		<b>Weighted average</b>	<b>2.91</b>	<b>2.42</b>	
	<b>Montenegro's overall score for Dimension 9</b>			<b>2.95</b>	<b>2.61</b>

### *State of play and key developments*

#### *Framework for environmental policies targeting SMEs*

During this assessment cycle, Montenegro has especially emphasised the introduction of environmental policies that target SMEs. The newly adopted MSME Strategy 2018-2022 recognises the importance of going green for strengthening SMEs' competitiveness. It includes a set of measures for providing advice and guidance to SMEs, improving their resource efficiency, and backing these up with financial incentives. It also incorporates measures to promote the application of eco-standards and eco-labelling involving educational and promotional workshops for SMEs.

There is a particular focus on energy efficiency, where the Strategy envisages a number of actions. First, it is planned to establish a database of medium-sized entities and classify them by type and level of energy consumption. This will help evaluate potential energy savings and allow the government (Ministry of Economy) to propose concrete energy efficiency measures. To that end, the Ministry of Economy will carry out training for government officials on how to conduct energy audits of SME facilities. In a similar vein, the government will work on raising enterprises' awareness and strengthening their capacities to deal with energy management issues and energy system optimisation. Furthermore, SMEs will be offered financial incentives to encourage energy efficiency activities and enhanced use of renewable energy sources, from both public and EU funds, though it is unclear what type of financial support will be provided. In addition to these measures, the Strategy envisages the introduction of environmental impact criteria to public procurement.

The MSME strategy complements the comprehensive National Strategy for Sustainable Development (NSSD), adopted in July 2016 for the period up to 2030. It defines the

green economy as one of its six priority themes, specifically focusing on its potential for creating new markets (through the production of green products and services) and new green jobs. There is a special emphasis on improving product and service quality in terms of environmental impact. It introduces some circular economy elements, although with no concrete activities attached: reusing and recycling products or some of their parts. The NSSD was prepared through a broad consultation process, including SMEs both directly and indirectly via business association representatives participating in the National Council for Sustainable Development. This council, chaired by the President of Montenegro, was established in 2002 as an advisory body to the Government of Montenegro on sustainable development issues.

### *Incentives and instruments for SME greening*

Apart from a few ad-hoc initiatives on phasing out ozone-depleting substances in the air conditioning and refrigerating sector,<sup>9</sup> which are now completed, the greening policies are not yet fully realised. This is partly explained by the fact that the new MSME Strategy was only adopted in July 2018 and that the NSSD has no separate budget allocated for the implementing its action plans. In the case of the latter, each ministry is expected to provide funds from its own budget for the NSSD measures they are responsible for. Biannual reports are planned on NSSD implementation, with the first one expected in 2019.

The gap in public initiatives for SME greening has been partially filled by Montenegro's business associations, which have become increasingly active in supporting SME greening measures. For example, the Montenegro Chamber of Economy has a dedicated committee on energy efficiency that organises quarterly meetings to raise awareness of the benefits of good environmental policies for both business and society. One of its latest initiatives was to promote efficiency in the construction industry through reducing construction waste and improving waste material recycling.

### *The way forward for Dimension 9*

SME greening is certainly gaining momentum in Montenegro. Going forward, the government should focus on taking the following steps:

- **Adopt a whole-of-government approach to create synergies and avoid overlaps between greening initiatives.** While the NSSD is Montenegro's roadmap for sustainability measures, it is crucial to co-ordinate its wide range of activities effectively and make sure they do not overlap with other environmental measures, such as those of the MSME Strategy. For this reason, a whole-of-government approach is needed to ensure an integrated government response to SME greening. That may warrant establishing a formal co-ordination mechanism in which the Ministry of Sustainable Development and Tourism and the Ministry of Economy should have a vital role to play. But given the cross-cutting nature of greening policies, other relevant ministries such as the Ministry of Science should also be active members of this co-ordinating mechanism.
- **Provide catalytic financial support to help SMEs adopt environmentally friendly practices.** While financial incentives are part of the new MSME Strategy, it is not clear what type of incentives will be used or how these will be financed. It is essential for government to make decisions on the type of financial support that will be offered, mobilise the funds accordingly and carefully plan financial schemes to support SMEs. Also, the government could leverage existing

mechanisms to offer financial support for SME greening. For instance, a well-functioning Montenegro Investment and Development Fund which has been providing loans to SMEs and specific target groups (such as women and young entrepreneurs), could provide financial support to those SMEs that are willing to make investments in improving their environmental performance. These loans could be offered at subsidised interest rates.

- **Support the transition to a circular economy by facilitating partnerships between businesses.** Businesses have a central role in the transition towards a more resource-efficient economy by adapting their business models. To help them in their endeavours and achieve the objective set under the NSSD, the government could encourage the creation of business networks to enhance peer-to-peer learning and collaboration on resource exchange – including those of large firms with smaller suppliers. The Turkey Materials Marketplace serves as a good example (Box 16.9). Networks like this increase the overall value for both buyers and sellers, while at the same time increasing their total environmental performance and bringing various benefits to society as a whole.

#### **Box 16.9. Increasing resource efficiency: the Turkey Materials Marketplace**

The circular economy concept is about decoupling natural resource extraction and use from economic output, resulting in the more efficient use of resources. The concept is gaining momentum in OECD and EU countries. Turkey has recognised the potential of changing the linear economic model of “take, make, dispose” to a circular one in order to improve its country-wide resource efficiency and increase its material productivity.

The Turkey Materials Marketplace (TMM) project was established by the Turkish Ministry of Environment and Spatial Planning and the Ministry of Science, Industry and Technology, with financial support from the EBRD and the EU.

The TMM is a secure online marketplace platform through which project members are invited to share data on materials used or left over from their operations. With support from the TMM project team, companies work together to identify, evaluate and carry out material reuse opportunities. There are significant economic benefits for buyers in the platform in purchasing industrial by-products, waste or alternative raw materials at moderate prices. Similarly, those selling by-products and production outputs can charge a higher fee than that of traditional recycling or disposal, since the materials will be used by another member of the platform and therefore become an upcycled product. Another benefit is the reduced costs of storage. The overall social benefit is better waste management and environmental performance.

TMM membership is free of charge while the EBRD funds the project. The TMM team provides technical assistance to members; reviews innovative best practices in materials management from around the world and Turkey; explores the potential use of the members’ materials across different sectors; and identifies potential synergy opportunities among platform members. Also, in June 2018, the EBRD launched the Circular Vouchers Scheme, which members can apply for. These vouchers are grants to help companies purchase consultancy services to assess the feasibility of material exchanges, and are worth up to EUR 25 000.

This good practice could serve as a model for the rest of the WBT region in improving

their waste management and enhancing material flows. The model is also important in the context of the region's EU perspective. The EU's Circular Economy Initiative and the related waste management directives point to a growing emphasis on this topic in the EU and potential projects and funds that could foster the adoption of the circular economy practices in the WBT region.

*Sources:* Near Zero Waste (2018<sup>[45]</sup>) *Turkey Materials Marketplace*, <http://www.circularchange.com/wp-content/uploads/2017/05/Astrid-Motta-2.pdf>; TMM (2018<sup>[46]</sup>), *Turkey Materials Marketplace website*, <http://turkey.materialsmarketplace.org/>; OECD (2018<sup>[7]</sup>), *Competitiveness in South East Europe: A Policy Outlook*, <http://dx.doi.org/10.1787/9789264250529-en>.

## Internationalisation of SMEs (Dimension 10)

On the whole, efforts to promote the internationalisation of SMEs in Montenegro over the assessed period have been below par. Indeed, Montenegro's overall dimension score of 3.08 has fallen below the WBT average score (Table 16.17).

**Table 16.17. 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	5.00	4.86	
		Implementation	3.12	4.24	
		Monitoring and evaluation	1.57	3.01	
		<b>Weighted average</b>	<b>3.37</b>	<b>4.18</b>	
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	3.80	3.58	
		Implementation	2.43	3.08	
		Monitoring and evaluation	3.67	1.76	
		<b>Weighted average</b>	<b>3.09</b>	<b>2.97</b>	
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45	
		Implementation	2.00	2.26	
		Monitoring and evaluation	1.00	1.36	
		<b>Weighted average</b>	<b>2.19</b>	<b>2.44</b>	
	<b>Montenegro's overall score for Dimension 10</b>			<b>3.08</b>	<b>3.43</b>

### *State of play and key developments*

Montenegro's overall trade performance is faring relatively well, with an export-to-GDP ratio of 40%, compared to the 38% average for the WBT economies (World Bank, 2018<sub>[11]</sub>). From 2014 to 2017 the costs of import and export border compliance remained the same in Montenegro, at USD 306 for imports and USD 158 for exports (World Bank, 2018<sub>[47]</sub>). These costs are significantly higher than for the rest of the Western Balkan economies.

At the same time, other reports have found Montenegro to be weakly integrated in internationalisation production processes. Local companies have poor export performance or are only focused on the local market and non-tradeable sector (EC, 2018<sub>[9]</sub>), the production of competitive higher value-added products is limited, and local industry is characterised by marginal participation in global supply chains, as well as a low level of digitalisation (EC, 2018<sub>[9]</sub>).

### *Export promotion*

Montenegro has measures to support and promote exports in its MSME Strategy 2018-2022, adopted in July 2018. The accompanying action plan has export promotion as one of its pillars, and includes activities aimed at reducing trade barriers and simplifying export and import procedures. Likewise, the Industrial Policy Strategy 2016-2020 recognises that trade barriers inhibit companies' output performance and highlights the need to simplify procedures for trade and business to access domestic and international markets. SME representatives are consulted on Montenegro's strategies through working groups, roundtable meetings or by public consultation. Private sector actors have a 30-40 day period once drafts are complete during which they can raise their concerns.

SME partners are identified through the Montenegro Chamber of Economy and other business associations via a sectoral approach.

Until 2016, the Ministry of Economy, via the Directorate for SME Development, was responsible for carrying out export promotion programmes under the previous SME Development Strategy (2011-2015). However, the SME Directorate did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on the Enterprise Europe Network (EEN) to carry out export promotion activities. Following a larger restructuring process of the Ministry, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds was set up with the objective of providing SMEs with a one-stop shop for BSS provision. In the future, export promotion activities will continue to be provided through the EEN, co-ordinated by the Ministry of Economy. However, for 2019, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds has a plan to develop a new programme which will be dedicated to enhancing export promotion for SMEs.

Activities in the action plan of the MSME Strategy 2018-2022 include providing information and educational support on accessing international markets, including creating a database of international trade fairs and holding export information seminars; and providing support for participation in international markets. However, other than these activities, there are no programmes in the plan that would offer concrete support to exporting SMEs in the form of grant schemes or technical assistance.

Montenegro's Investment and Development Fund has been offering guarantee support to SMEs to facilitate their access to trade finance since 2009, with the participation of commercial banks (IDF Montenegro, 2014<sub>[48]</sub>). The fund covers the exports of goods and services against non-market risks, and all major banks offer trade finance loans, guarantees and letters of credit (IDF Montenegro, 2014<sub>[48]</sub>).

Non-loan trade finance products such as guarantees and letters of credit are available to SMEs from most banks in Montenegro. According to the European Investment Bank, guarantees are reasonably well used, but there is little take-up of letters of credit. Bankers argue that the low supply of letters of credit to SMEs is a consequence of low demand and does not reflect financial institutions' unwillingness to provide these products on reasonable terms. Among the four banks that provided data, the value of outstanding guarantees on behalf of SMEs totalled EUR 28.5 million, which corresponds to 19% of their SME loan portfolio, whereas the total value of outstanding letters of credit was just EUR 55 000 (EIB, 2016<sub>[49]</sub>).

### *Integration of SMEs into global value chains*

Montenegro's MSME Strategy 2018-2022 includes provisions for supporting existing clusters and further cluster development, forming vertical clusters in the agriculture and tourism sectors, and linking clusters to scientific research institutions (Ministry of Economy, 2018<sub>[26]</sub>). Likewise, the Industrial Policy 2016-2020 aims to achieve the economy's integration into global value chains, with the goal of attaining a higher positioning within value chains and higher export values (Ministry of Economy, 2016<sub>[50]</sub>). It focuses on improving the modernisation, smart specialisation and connectivity of strategic sectors with an emphasis on improving market access.

The Ministry of Economy has been implementing cluster support programmes in co-operation with international donors. For example, since 2014, the Ministry of

Economy, the UNDP and UNIDO have facilitated cluster development through a joint project, co-funded by the EU (UNIDO, 2015<sup>[51]</sup>). One of the nine Business Stimulating programmes, which are implemented in co-operation with the UNDP, seeks to foster cluster development by providing co-financing support for investment costs into intangible and tangible assets and operating costs. This programme supported 16 clusters during 2012-16, which received almost EUR 99 500 in support (Ministry of Economy, 2017<sup>[52]</sup>).

Overall, Montenegro has 37 established clusters registered with the Ministry of Economy, 7 of which are SME-specific. Montenegro seeks to advance its cluster development through programmes by the Ministry of Economy, the Investment and Development Fund and international organisations. The programmes were also supported by the Business Caravan project, which has gained widespread media coverage as part of the government initiative to ensure that SMEs are aware of the support services available to them. The action plan of Montenegro's MSME Strategy aims for 48 clusters to be registered in the Ministry of Economy's database by 2020.

Montenegro is the only WBT economy with a monitoring mechanism for programmes supporting SMEs' integration into global value chains. A monitoring report is made publicly available because of its link with international donors.

### *Promoting the use of e-commerce*

Of the six WBT economies for which data was available, Montenegro had the lowest percentage of individuals who purchased on line in 2018 (12%) lagging behind the EU average of 60% (Eurostat, 2018<sup>[15]</sup>). Similarly, of the four WBT economies for which data were available, Montenegro had (together with Turkey) the smallest share of SMEs selling on line in 2018 (9%), which was also much lower than the EU's average of 17% (Eurostat, 2018<sup>[15]</sup>).<sup>10</sup>

The action plan of the MSME Strategy 2018-2022 anticipates the following measures for promoting e-commerce among SMEs, to be rolled out between 2019 and 2022: 1) conducting research on enterprises using e-commerce in their business operations; 2) creating a database of companies using e-commerce; 3) organising educational sessions on e-commerce; and 4) organising support for MSMEs in order to meet the requirements for e-Trustmark standards. Likewise, Montenegro's Information Society Development Strategy 2016-2020 lists strategic indicators for measuring e-commerce adoption. Despite this, programmes to increase SME e-commerce adoption remain altogether absent.

Montenegro has set an ambitious target of achieving 100% broadband coverage by 2020. If realised, this should strongly accelerate the prospect of widespread e-commerce adoption by ensuring the necessary infrastructure to sustain it. However, this initiative lacks an implementation plan (EC, 2018<sup>[9]</sup>).

According to the 2018 OECD assessment *Competitiveness in South East Europe: A Policy Outlook*, Montenegro's legislative framework on e-commerce does not cover media and information society services, leaving some room for improvement (OECD, 2018<sup>[11]</sup>). It has been possible to make online payments via PayPal in Montenegro since June 2014, and business-to-consumer sites have grown in the past two years to include online banking, bill payments and consumer products (export.gov, 2018<sup>[53]</sup>).

### *The way forward for Dimension 10*

In order to further promote SMEs' competitiveness and their access to international markets, Montenegro should aim to pursue the following measures:

- **Increase efforts to support export promotion.** Most of the activities directed at internationalising SMEs focus on providing information rather than tangible support for capacity building. Montenegro could consider a co-financing programme to provide financial assistance to individual SMEs for developing their export strategies and plans, attending international fairs, and developing export capacity. Simpler initiatives could complement the regular planned seminars, such as creating a centralised web portal that covers the benefits and procedures of exporting, linked to its upcoming database on exporters. This would provide a more permanent information resource for SMEs to access. Within this, a formal customer relationship management system could help track export results, assess SME performance and satisfaction, and identify key trends and areas for improvement (OECD, 2018<sup>[11]</sup>).
- **Support global value chain integration for SMEs in priority sectors.** These priority sectors are outlined in the draft Smart Specialisation Strategy (S3). Montenegro has several strategies that touch on integration in global value chains, from developing clusters in its MSME development Strategy to attaining higher positioning within value chains in its Industrial Strategy. Montenegro should now aim to implement these strategies and action plans, by channelling its limited financial resources to those sectors that are deemed to be most competitive and promising under the upcoming S3 strategy. This should ensure that objectives are harmonised and clearly linked to planned activities and programmes that would translate into measurable impacts.
- **Develop programmes that promote e-commerce** among SMEs according to the MSME development strategy action plan. Montenegro could create a dedicated team within the government to co-ordinate implementation of the digital business pillar of the Information Society Strategy 2020 and the related objectives of the Industrial Policy 2016-2020 (OECD, 2018<sup>[11]</sup>).

## Conclusions

Since 2016, Montenegro's efforts have revolved around strengthening the legal and regulatory framework underpinning the operational environment for SMEs. There is growing recognition of the need to take SMEs' interests into account, and to devise tailored SME support measures. The newly adopted MSME Strategy certainly provides a clear roadmap for implementing the SBA principles. However, compared to the other WBT economies, the number of public initiatives aimed at improving SME competitiveness is still limited at present. Had the MSME Strategy been implemented according to its action plan, we could expect a growing number of them. But timely implementation of the Strategy and achieving the desired outcomes hinge on efficient institutional co-ordination. This will require a strong role and capacity for the Directorate for Investments, Development for SMEs and Management of EU Funds.



## Notes

<sup>1</sup> The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the “region” in this publication implies these seven economies.

<sup>2</sup> Death rate: number of enterprise deaths in the reference period (*t*) divided by the number of enterprises active in *t*. Source: Montenegro Statistical Business Register 2018.

<sup>3</sup> All creditors have one vote.

<sup>4</sup> See [http://www.cb-cg.org/index.php?mn1=platni\\_promet&mn2=prinudna\\_naplata&mn3=podaci\\_o\\_blokiranim\\_pravnim\\_licima\\_i\\_preduzetnicima](http://www.cb-cg.org/index.php?mn1=platni_promet&mn2=prinudna_naplata&mn3=podaci_o_blokiranim_pravnim_licima_i_preduzetnicima) (in Montenegrin).

<sup>5</sup> According to the once-only principle, authorities should not ask businesses for information that is already in the possession of another public authority in that country.

<sup>6</sup> See [www.euprava.me/eankete](http://www.euprava.me/eankete).

<sup>7</sup> According to the 2014 EU Public Procurement Directive, ‘economic operator’ means “any natural or legal person or public entity or group of such persons and/or entities, including any temporary association of undertakings, which offers the execution of works and/or a work, the supply of products or the provision of services on the market” (EU, 2014<sub>[66]</sub>). The Directive also specifies that economic operators may include “any persons and/or entities which offer the execution of works, the supply of products or the provision of services on the market, irrespective of the legal form under which they have chosen to operate. Thus, firms, branches, subsidiaries, partnerships, cooperative societies, limited companies, universities, public or private, and other forms of entities than natural persons should all fall within the notion of economic operator, whether or not they are ‘legal persons’ in all circumstances” (EU, 2014<sub>[66]</sub>).

<sup>8</sup> Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

<sup>9</sup> The Country Programme for phasing out of Ozone Depleting Substances in Montenegro (CP); the Terminal Phase-out Management Plan for CFCs in Montenegro for the period 2007- 2010 (TPMP); and the HCFC Phase-out Management Plan 2010-2020 (HPMP) are implemented through the combination of investment and non-investment activities mainly in Montenegro’s refrigeration and air-conditioning service sectors. The main objective of these national plans and programmes is to enable the Government of Montenegro to phase out ozone-depleting substance consumption especially in the air conditioning and refrigerating sector and to meet the provisions of the Montreal Protocol on ozone depleting substances. The Agency for Nature and Environmental protection (EPA) consulted with the private sector during the process of implementing the HPMP, CP and TPMP. Also, as a part of the TPMP/ HPMP, SMEs in this specific sector were provided with the equipment for good servicing practice, as well as with training on good refrigeration practice. Around 40 service companies were equipped with the necessary equipment. In addition, as part of these programmes, EPA organised awareness-raising meetings and prepared brochures to inform interested companies in the sector about the related regulations, news and changes happening in the sector.

<sup>10</sup> The Eurostat indicator refers to SMEs, excluding in the financial sector, employing between 10 and 249 employees.

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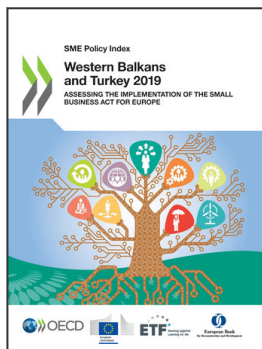
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