

Screening report

Montenegro

Chapter 20 – Enterprise and industrial policy

Date of screening meetings:

Explanatory meeting: 25-26 October 2012

Bilateral meeting: 28 November 2012

I. CHAPTER CONTENT

The *acquis* under the enterprise and industrial policy chapter consists of **policy principles and instruments** which are mainly reflected in communications, recommendations, and Council conclusions and are mostly implemented at EU level through the Competitiveness and Innovation Programme. They are also the subject of EU-wide consultation fora or structured exchanges of good practice. Enterprise and industrial policy also comprises **sectoral policies**. Overall, EU enterprise and industrial policy is strongly driven by the Europe 2020 strategy.

By establishing general **policy principles**, the EU seeks to promote the formulation of competitiveness enhancing enterprise policies and industrial strategies. These are geared, in line with Article 173 TFEU, towards speeding up structural adjustments, encouraging an environment favourable to business creation, domestic and inward foreign investments, promoting small and medium-sized enterprises (SME), and entrepreneurship and innovation. More specifically, EU SME policy is characterised by policy recommendations and joint policy review mechanisms comprised in the Small Business Act as well as a common SME definition.

Enterprise and industrial **policy instruments** are developed in the EU programme Competitiveness and Innovation (CIP) 2007-2013. Its specific programme, called Entrepreneurship and Innovation Programme (EIP), provides financial support to enterprises and policymakers and is focused on actions which promote access to finance, business services such as the Enterprise Europe Network, European and national innovation policy and policies in support of SMEs. An important policy instrument is Directive 2011/7/EU on combating late payments in commercial transactions. EU space policy programmes are also part of this chapter, as they contribute to improved EU competitiveness.

Through enterprise and industrial **sectoral policies**, the EU promotes a more targeted analysis of competitiveness of specific sectors and the launch of sector specific initiatives such as high-level groups, policy forums, studies and expert panels as well as networking initiatives.

The formulation and implementation of enterprise and industrial policy require adequate administrative capacity at national, regional and local level, including efficient consultation processes and cooperation mechanisms.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Montenegro and the discussion at the bilateral screening meeting. Montenegro indicated that it accepted the *acquis* regarding enterprise and industrial policy. Montenegro indicated that it did not expect any difficulties in implementing the *acquis* by accession.

During the last decade and preceding the 2009 economic and financial crisis, Montenegro witnessed fast economic development, with annual growth rates of the gross domestic product (GDP) reaching over 5%.

Montenegro has had some success in creating a favourable business climate and has attracted a number of foreign investors. Its overall investment rate was high before the crisis and the country witnessed improvements in its infrastructure.

Most of investment went to the financial sector, tourism and construction. On the other hand, investment in research and innovation remained limited. The public sector investment in research

and development (R&D) amounted to 0.4% of GDP, according to the national statistical office MONSTAT (2011). In 2012, national authorities gathered for the first time data on business research activities. According to MONSTAT, they represented one quarter of all investment in R&D in 2011.

The period of the economic boom saw relatively declining industrial and manufacturing activities. However, the economic crisis affected most the previously expanding service sectors, therefore stabilising the share of industry in the GDP at around 14%.

According to MONSTAT, the current sectoral structure of the Montenegrin economy is as follows: services 70%, industry 14%, agriculture 9% and construction 7%.

II.a. Enterprise and industrial policy principles

The institution which shapes and coordinates enterprise policy is the Council for Regulatory Reform and Improvement of the Business Environment. This body headed by the Prime Minister ensures cooperation among various governmental bodies and the private sector. The Council together with the Ministry of Finance in cooperation with line ministries coordinates activities in all areas of the economic system in order to create a more favourable business environment. More specifically, it proposes regulatory reforms by analysing regulations related to the elimination of business barriers in a way to simplify procedures and make them less time consuming and less expensive. Main institutions representing non-governmental stakeholders in these consultations are the Chamber of Commerce, the Employers' Federation, the Montenegro Business Alliance and the Chamber of Skilled Crafts.

Montenegro has adopted 18 strategy papers which define enterprise and industrial policy in broader terms. Implementation and monitoring of individual strategies is the responsibility of various line ministries. These strategies cover areas such as competitiveness, fiscal policy, sustainable development, regional development, foreign direct investment (FDI), export support and SMEs. Most of them have a short to medium term aspect. Montenegro is currently drafting a new strategy on manufacturing industry and plans, in the near future, to adopt a comprehensive industrial policy document, which would embrace main elements of the Europe 2020 strategy. Through projects financed by the Instrument for Pre-accession Assistance, the European Commission and the Organisation for Economic Cooperation and Development (OECD) have been assisting Montenegro in these efforts.

According to the Montenegrin authorities, the common objectives of these strategies are as follows: increase the accumulation of capital; restructuring towards more efficient sectors (energy, sustainable development activities, agriculture and food processing); diversification of the sectoral structure of the economy. They have inbuilt social and sustainable development aspects. Main outcomes should be improved infrastructure, increased privatisation, more FDI, more scientific research for the benefit of the business sector, a better framework for entrepreneurship and improved competition in the markets.

Enterprise policy has a strong emphasis on SMEs. SMEs contribute around 60% of GDP and employ 60% of the total labour force. Rules for companies which can be classified as SMEs are defined by the law on accounting and auditing.

Out of the 18 strategies mentioned, three deal with SMEs, namely the Strategy for Competitiveness Support on Micro Level, the Strategy for Small and Medium Enterprise Development and the Strategy for Lifelong Entrepreneurial Learning. The implementation of these strategies is supervised by three bodies which bring together various public and private

stakeholders. In all cases, the responsible agency for implementation is the Directorate for SMEs of the Ministry of Economy.

Montenegro applies the "regulatory guillotine" process to simplify its legislation. It has screened primary and secondary legislation according to these principles. New legislation is subject to regulatory impact assessment (RIA). The exercise is coordinated by the Ministry of Finance.

Montenegro participates in EU-led evaluation of its SME policies according to the principles of the EU Small Business Act.

II.b. Enterprise and industrial policy instruments

Montenegro participates in the specific programme for Entrepreneurship and Innovation (EIP) of the EU Competitiveness and Innovation Programme since 2008.

Under this specific programme, it has established an Enterprise Europe Network (EEN) member, which provides local companies with information on doing business with EU partners and on latest policy initiatives. The Montenegrin EEN member is a consortium of partners from the Ministry of Economy, the Chamber of Commerce, the Faculty of Mechanical Engineering and the Business Start-Up Centre of the town of Bar. According to the Montenegrin authorities, 1306 companies participated in events organised by the EEN in 2011.

Under the part of the EIP dealing with financial instruments, a Montenegrin bank signed an agreement with the European Investment Fund with the aim of providing more microcredit to local SMEs. As of September 2012, more than 250 SMEs benefit of this facility.

Montenegro is also implementing EIP-financed projects in the area of eco-innovation and women entrepreneurship.

The main national instrument supporting enterprises and industry is the Investment and Development Fund of Montenegro which provides loans with reduced interest rates to companies for selected activities. Since its establishment in 2008 it has supported over 400 projects. Most of these projects were in the industrial sector. The same fund, in cooperation with commercial banks, establishes guarantee schemes which also contribute to easier financing of the economy. However, no application for such guarantees have been yet placed by banks to the fund.

No public financing programmes are in place with regards to risk capital (seed, business angels, venture capital).

The Employment agency of Montenegro provides funds for new entrepreneurs and subsidises new jobs which they create.

To support the dynamic SME sector, the company registration processes have been unified, combining simultaneous legal and tax registration. Some procedures can be conducted on-line.

Montenegro has put in place a cluster and a business zone programme which are linked to the goal of equal regional development and supporting sectoral expertise (e.g. clusters in agriculture).

Montenegro has put in place a set of legislation which helps combating liquidity problems of companies due to late payment. According to Montenegro, these measures are in the meaning of Directive 2011/7/EU on late payment. There are four legal acts which establish the following principles: the default interest rate, publication of names of companies which are in financial

difficulties, and deadlines for settling liabilities. The main institution in charge of the legislation and overseeing the situation is the Ministry of Finance.

Montenegro does not have a national space policy and it does not participate in EU programmes in this field.

II.c. Sectoral policies

According to MONSTAT the following industrial sectors contribute most to the economy: food processing, metal and aluminium manufacturing.

The authorities, in cooperation with businesses, have established a comprehensive sectoral strategy only in tourism. Initiatives and analytical capacities which support other sectors are rare and are limited to support for clustering and vocational education.

The national tourism strategy was adopted in 2008. It is closely interlinked with strategies on sustainable development and human resources development for the tourism sector (adopted a year earlier). The objectives of the strategy are as follows: upgrading the infrastructure, making the country a year round destination, improving marketing of the destination and increasing the numbers of people employed in the tourism sector and visiting the country. The sector currently represents nearly 10% of the economy, but should reach 15% by 2020 if it is to grow with the same dynamic as in recent years. According to the Montenegrin authorities, total private and public investment in tourism reached 33% of overall investment in 2011. These investments include a number of loans from International Financial Institutions (IFIs), which are actively involved in the sector.

Metal and aluminium production are key sectors for export, as they contribute almost half of the total value of exported goods. However, they account for only 5% of the total labour force and contribute 11% to the national gross value added. As they are energy intensive, they are dependent on energy imports. Both sectors have been in a restructuring process recently and received a number of state guarantees. The main restructuring strategy has been privatisation.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Montenegro has achieved a satisfactory level of alignment with the *acquis* in the area of enterprise and industrial policy.

The country has produced a number of strategies which address the competitiveness of its economy. Responsibility for design and implementation of the policy is shared among various institutions.

Montenegro needs to improve implementation and coordination of these policies and institutions. In particular, it needs to further improve its capacity to collect business statistics, which will enable better analysis of its business environment and improve policymaking. Mechanisms for cooperation with stakeholders exist, but need to be further improved.

Montenegro has developed some national instruments to support business and has been participating successfully in the EU specific programme for Entrepreneurship and Innovation since 2008. Montenegro is active in combating late payments, but still needs to fully align to Directive 2011/7/EU.

With regard to sectoral strategies, one exists only in the tourism sector. The industrial and the manufacturing activities, which represent 15% of the economy, are not supported by comprehensive strategies.

III.a. Enterprise and industrial policy principles

Montenegro has produced a large number of policy documents relevant for industrial and enterprise development, which take into account EU principles in these areas.

However, the mechanisms for regular review and evaluation of these strategies are not in place. Some business related indicators, especially at the sector level, need to be collected so that analytical capacity for policymaking increases in order to ensure future policymaking is based on evidence. Many of these indicators need to be collected in line with obligations of the *acquis* under Chapter 18: Statistics.

A comprehensive industrial strategy is still under preparation. Efforts to develop a comprehensive industrial policy document, which would embrace the main elements of the Europe 2020 strategy and its flagship initiatives, will need to be stepped up and bring together the existing strategy documents. Key EU industrial policy priorities such as support for industrial innovation and speeding up the adoption of new technologies by businesses have yet to be developed and implemented in a manner consistent with the need to upgrade Montenegrin industry's capabilities and specialisation. Montenegro will need to develop its analytical and policy governance capacities to ensure closer co-operation with Member States, as prescribed by Article 173 TFEU, and monitor the success and competitiveness performance of industrial policies in the context of the Europe 2020 framework.

The SME sector plays an important role in the economy. It is supported by several strategies based on EU principles. Montenegrin SME policy is evaluated by an SME policy index of the European Commission and the OECD, which bi-annually check its performance in all key aspects of the EU Small Business Act. Montenegro is rated as good but uneven performer. Company registration, the start-up process and regulatory reform are evaluated as good, but implementation of SME policy and support for innovation and provision of public services to

SMEs, including entrepreneurial learning programmes, are assessed negatively. The evaluation confirms that, whereas businesses are regularly invited to comment on new legislative and policy initiatives, their suggestions tend not to be taken into account. The assessment also indicates the areas where Montenegro needs to make further efforts to improve its environment for SMEs, in particular: access to finance; business licensing and permits; competition from the informal sector as well as fight against corruption.

The SME definition applied by the authorities is only partially in line with the recommended definition of the European Commission, in particular it does not deal with linked and partner enterprises. Montenegrin SMEs would benefit from full implementation of the recommendation, as this would enable them to better predict their treatment by the national authorities and in EU programmes, for which this definition is binding.

III.b. Enterprise and industrial policy instruments

Montenegro has been participating in the specific programme for Entrepreneurship and Innovation under the EU Competitiveness and Innovation programme (CIP) since 2008.

The Commission evaluated the performance of the Montenegrin member of the Enterprise Europe Network as satisfactory over the 2008-2012 period. The small Montenegrin EEN Consortium has progressively improved its performance and should deliver higher EU-added value in the 2013-2014 cycle.

Montenegro has developed a set of national instruments which mainly target improved access to finance for SMEs. However, there is not yet any assessment of the effectiveness of these instruments. Such assessment would be needed to further develop the system. The analysis should consider the possibility of establishing financial instruments covering risk capital, such as a fund of venture capital, network of business angels, seed capital investment.

With regards to the use of collaterals to secure bank loans, Montenegro has ownership issues, in particular on lands which in most cases could not be considered as collateral. Montenegro has therefore to improve the established system of guarantee schemes, with the aim of involving financial intermediaries more effectively and address the issue of lack of collateral.

Clustering is the second most supported activity to develop business. On the other hand, little has been achieved in terms of support to innovation, even if it appears as a policy priority across many documents.

Montenegro implements the main principles of Directive on combating late payments in commercial transactions 2011/7/EU. Montenegro is thus already partly aligned with the directive but will need to fully align with it before accession. The main provisions which need to be applied are as follows: public authorities must pay for the goods and services that they procure within 30 days; enterprises will have to pay their invoices within 60 days; enterprises can obtain reimbursement of their recovery costs related to late payments; even small amounts of interest for late payments may be charged.

III.c. Sectoral policies

The key Montenegrin sectoral policy deals with tourism, and applies main EU principles of this sector.

Other sectors are not supported by comprehensive policies, but there is some analytical capacity in state administration, business associations and clusters which allow for ad-hoc policymaking.

The problems of the metal and aluminium industries are addressed only through privatisation. The viability of the companies depends on the price of energy and might therefore require further state involvement. This will need to be done in accordance with the state aid rules which are obligations of the *acquis* under Chapter 8: Competition policy.
