



2021 SME COUNTRY FACT SHEET'S BACKGROUND DOCUMENT

MONTENEGRO



1. Introduction

Montenegro has made significant progress in adopting policies and reforming regulations to boost innovation, improve education and support the growth of small and medium-sized enterprises (SMEs). However, significant barriers to SME development remain. For instance, market competitiveness is distorted by the informal economy, and start-ups and entrepreneurs lack access to finance.

Montenegro's economy has been severely affected by the COVID-19 pandemic and by the measures taken in response to it. In 2020, GDP dropped by an estimated 15.2%¹, while employment fell by 7.3%². A major factor in this downturn was a reduction in demand in the *tourism* sector, a key sector of the economy³. Tourism revenues dropped by an estimated 88% in 2020 compared to the previous year⁴.

In Montenegro, SMEs⁵ play an important role in the 'non-financial business economy'⁶. In 2018, they contributed 69.3% of total value added and 76.3% of total employment. In comparison, the average SME contributions to value added and employment in the EU were much lower, at 52.9% and 64.9%, respectively. However, SME productivity in Montenegro, measured as value added per person employed, was only EUR 10 100 in 2018, roughly one quarter of the EU average of EUR 41 400. SMEs in Montenegro employ an average of 4.1 people, slightly more than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2018

	Number of enterprises			Number of persons employed			Value added		
	Montenegro		EU-27	Montenegro		EU-27	Montenegro		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	31 919	94.4%	93.1%	57 005	31.3%	29.0%	-	-	-
Small	1 537	4.5%	5.8%	44 007	24.2%	19.9%	0.839	41.5%	35.6%
Medium-sized	304	0.9%	0.9%	37 827	20.8%	16.0%	0.562	27.8%	17.3%
SMEs	33 760	99.8%	99.8%	138 839	76.3%	64.9%	1.401	69.3%	52.9%
Large	52	0.2%	0.2%	43 021	23.7%	35.1%	0.620	30.7%	47.1%
Total	33 812	100%	100%	181 860	100%	100%	2.021	100%	100%

Source: These data are based on data provided by the Statistical Office of Montenegro. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

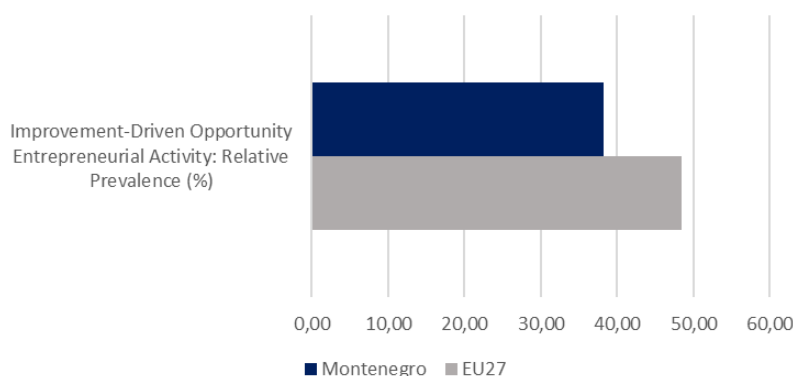
2. Key strengths

Montenegro has a dynamic entrepreneurial activity

Montenegro performs above the EU average in early-stage entrepreneurial activity – both in general and for female entrepreneurial activity. 32% of Montenegrins intend to start a business in the next 3 years – twice the EU average. Entrepreneurship is widely perceived as a desirable career choice by 81% of the population, significantly above the EU average⁷.

However, the share of early-stage entrepreneurs who claim to be driven by the opportunity to increase their income rather than by the lack of other options to work is lower than the EU average⁸.

Figure 2: Improvement driven opportunity entrepreneurial activity: relative prevalence (%)



Source: Global Entrepreneurship Report, 2019⁹

Montenegro has now approved a solid regulatory and strategic framework to promote innovation and boost investment in R&D

A number of government policy documents^{10,11,12} identified the low levels of investment in R&D and the low level of activity in innovation as some of the main challenges to Montenegro's development. According to the Global Innovation Index, the country ranks 45th among the 129 economies in innovation, with gross expenditure on R&D amounting to 0.3% of its GDP¹³.

However, the Montenegrin government delivered a strong response to this development challenge in recent years, and several important steps in innovation policy and regulation have been taken. In 2019, Montenegro adopted its Smart Specialisation Strategy 2019-2024 (*Strategija pametne specijalizacije Crne Gore 2019-2024*)¹⁴ – the first non-EU country to adopt such a strategy. A Council for Innovation and Smart Specialisation was established, as the first step towards better coordinating innovation policies across different government agencies. In 2020, the country adopted new laws on innovation (*Zakon o inovacionoj djelatnosti*)¹⁵ and on incentives for developing research and innovation (*Zakon o podsticajnim mjerama za razvoj istraživanja i inovacija - Lex Specialis*)¹⁶. It is expected that this strengthened regulatory framework will result in more coordinated and effective innovation policies.

Vocational education is now better aligned with the needs of employers and SMEs

There has been a steady increase both in the number of schools implementing three-year dual vocational education and training (VET) programmes and in the number of employers participating in dual VET, coupled with a substantial increase in dual VET enrolment - accounting for 23% of all VET students in the academic year 2019/2020. Nearly 70% of all secondary school students are enrolled in a VET programme¹⁷.

This progress has taken place in the context of the implementation of the Lifelong Entrepreneurial Learning Strategy 2020-2024, which is aiming to boost the development of work-based learning, particularly the dual model of three-year secondary VET¹⁸.

SME support initiatives have been streamlined and are now more accessible

Several reports on the country's SME policy^{19,20} had noted the uncoordinated approach to providing support to SMEs, as various institutions were providing similar support to the same target groups.

To address this issue, in 2018, the Ministry of Economy established the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds, replacing the former Directorate for SME Development. This provided SMEs with a one-stop shop making it easier for them to access business support services²¹. In 2020, support mechanisms previously scattered across various Directorates were merged into a single support programme - the Programme for Improving the Competitiveness of the Economy (*Program za unapređenje konkurentnosti privrede za 2020 godinu*), integrating different lines of support aimed at a diverse range of target groups²².

3. Key challenges

Market competitiveness is distorted by the informal economy

According to the last available Informal Economy in Montenegro Report (2014), the informal economy is estimated to total between 26% and 31% of the country's GDP. This includes unregistered activities, reduced reporting of turnover in cash transactions, and undeclared or partially undeclared work. In this context, SMEs operating lawfully find themselves competing in an unfair situation. The informal economy in Montenegro is, among other reasons, fuelled by inefficiencies in public administration and inadequacies in the regulatory framework as well as difficulties in accessing finance²³.

There is no specific strategy yet to combat Montenegro's informal economy and the Micro-, small and medium-sized enterprise (MSME) Development Strategy 2018-2022 (*Strategija razvoja mikro, malih i srednjih preduzeća*)²⁴ does not propose any specific measures.

Accessing finance remains a challenge for entrepreneurs and start-ups

Alternative sources of funding are not available for young companies. Venture capital is practically non-existent²⁵ and the local business angel network is limited²⁶. Traditional banking finance does not adapt itself to the needs of entrepreneurs, start-ups or MSMEs with innovative business ideas, as they have lengthy funding approval procedures and stringent funding requirements in terms of creditworthiness or credit security²⁷.

The MSME Development Strategy 2018-2022 recognises 'Access to finance' as one of its strategic objectives, and aims to:

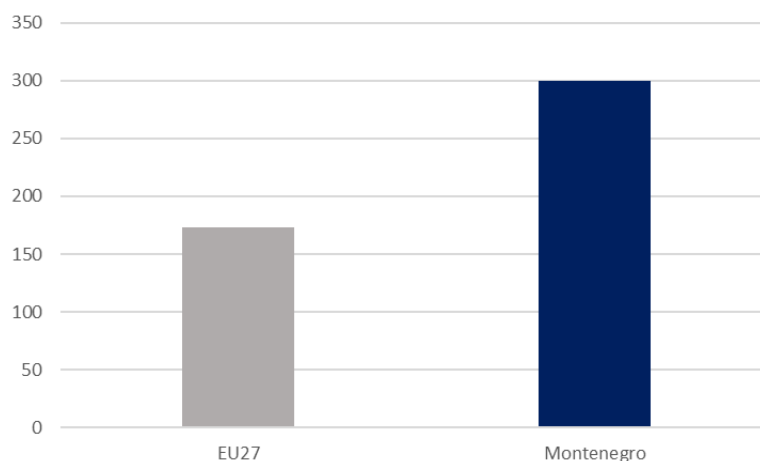
- improve the availability of new financial instruments (grants, credit guarantees, new microcredit instrument, equity instruments);
- strengthen investment readiness and financial management; and
- improve legislation for easier access to finance, including the creation of a legislative framework for venture capital funds²⁸.

Moreover, in 2019 and 2020, a programme to support investment in equipment for both MSMEs and large companies was made available (*Programska linija za podsticaj proizvodnih procesa*)²⁹.

Administrative burden linked to tax and some areas of the business regulatory framework remain a challenge

Although the burden of government regulations is below the EU average in Montenegro³⁰, a number of challenges related to administrative burden and the regulatory framework negatively affect the business environment. These include administrative burden linked to tax payments. Each year, Montenegrin SMEs face 18 tax payments and spend 300 hours preparing, filing and paying taxes. The cost of enforcing contracts is above the EU average³¹.

Figure 3: Time to pay taxes (hours per year)



Source: World Bank's Doing Business, 2020³²

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

The World Bank estimates that Montenegro is expected to experience the deepest recession among the Western Balkans countries in 2020, during the COVID-19 crisis, mainly due to its heavy reliance on tourism³³. The government launched three packages of measures in 2020 to tackle the impact of COVID-19, including credit lines, loan deferrals, tax relief measures and wage subsidies.



GREEN TRANSITION OF SMES

Only 81% of Montenegrin SMEs have taken resource efficiency measures and 20% of them offer green products and services – against the respective EU averages of 89% and 25%. Montenegrin SMEs have received widespread support to implement resource efficiency measures – however, they have not received any support in order to produce green products and services³⁴. The MSME Development Strategy 2018-2022 envisages the provision of advice and guidance on resource efficiency, backed up by financial incentives for SMEs. However, it is worth noting that no budget was assigned to this objective in 2020³⁵.



START-UP ENVIRONMENT

The Science and Technology Park Montenegro was established in 2019 in order to promote innovation and entrepreneurship and to provide support to the establishment and growth of high-tech young companies³⁶. In addition, the government is expected to approve a reform of the company registration process so that companies can register electronically. Business associations strongly support this initiative.



DIGITALISATION OF SMES

Almost all businesses (98.8%) use computers for their activities and have access to the internet (99.5%), but high-speed broadband connections are not yet commonplace³⁷. Only 18% of businesses use cloud services³⁸, and only 6% use their own websites or apps for sales³⁹, against EU averages of 23% and 16%, respectively. In 2020, the government started preparing the Digital Transformation Strategy of Montenegro 2021-2025 and established the Coordination and Advisory Body for Digital Transformation⁴⁰.

¹ Montenegro Economic Reform Programme 2021-2023, published by the Government of Montenegro. Available at: https://www.gov.me/en/homepage/Montenegro_Economic_Reform_Programme

² Data for 2020 are provisional estimates published by Montenegro's Chamber of Economy. Available at https://www.privrednakomora.me/sites/pkcq.org/files/multimedia/gallery/files/2012/09/cg_privreda_2020.pdf.

World Bank (2020), *Recession Deepens in Montenegro as COVID-19 Pandemic Threatens Jobs and Poverty Reduction in Western Balkans*, available at: <https://www.worldbank.org/en/news/press-release/2020/10/22/recession-deepens-in-montenegro-as-covid-19-pandemic-threatens-jobs-and-poverty-reduction-in-western-balkans>

³ World Bank (2020), *Recession Deepens in Montenegro as COVID-19 Pandemic Threatens Jobs and Poverty Reduction in Western Balkans*, available at: <https://www.worldbank.org/en/news/press-release/2020/10/22/recession-deepens-in-montenegro-as-covid-19-pandemic-threatens-jobs-and-poverty-reduction-in-western-balkans>

⁴ Privredna Komora (2020), *Analiza poslovanja crnogorske privrede u 2020.godini*, available at: https://www.privrednakomora.me/sites/pkcq.org/files/multimedia/gallery/files/2012/09/cg_privreda_2020.pdf.

⁵ Data for micro firms in Montenegro exclude self-employed persons (micro: 1-9 persons employed).

⁶ Montenegrin value added data for the 'non-financial business economy' also includes sections P, Q, R, S. The data on the number of enterprises and number of persons employed in the Montenegrin 'non-financial business economy' also includes sections A and S.

⁷ Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at: <http://www.gemconsortium.org/data/key-aps>

⁸ Ibid.

⁹ Ibid.

¹⁰ Government of Montenegro (2016), *National Strategy for Sustainable Development by 2030*, available at: <https://mrt.gov.me/ResourceManager/FileDownload.aspx?rId=280311&rType=2>

¹¹ Government of Montenegro (2019), *Industrial Policy of Montenegro 2019-2023*, available at: <https://www.gov.me/ResourceManager/FileDownload.aspx?rId=385020&rType=2>

¹² Government of Montenegro (2018), *Strategy for the Development of Micro, Small and Medium Enterprises 2018-2022*, available at: https://gsv.gov.me/ResourceManager/FileDownload.aspx?rid=325628&rType=2&file=22_87_26_07_2018.pdf

¹³ World Intellectual Property Organisation (2019), *Global Innovation Index*, available at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2019/me.pdf

¹⁴ Ministry of Science (2019), *Smart Specialization Strategy 2019-2024*, available at: https://mna.gov.me/ministarstvo/Strategija_pametne_specijalizacije/

¹⁵ Ministry of Science (2020), *Law on Innovation*, available at: <http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/1040/2340-13766-25-20-2.pdf>

¹⁶ Ministry of Science (2020), *Law on Incentives for the Development of Research and Innovation*, available at: <http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/1041/2341-13767-25-20-3.pdf>

¹⁷ European Training Foundation, Montenegrin Ministry of Education, International Labour Organization (2019), *Dual Education in Montenegro*, available at: https://www.etf.europa.eu/sites/default/files/2020-09/dual_education_in_montenegro.pdf

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- ¹⁸ Government of Montenegro, Ministry of Economy (2020), *Lifelong Entrepreneurial Learning Strategy 2020-2024 with the Action Plan for the implementation of the Strategy 2020-2021*, available at: <https://www.gov.me/ResourceManager/FileDownload.aspx?rid=404070&rType=2>
- ¹⁹ Government of Montenegro (2018), *Strategy for the Development of Micro, Small and Medium Enterprises 2018-2022*, available at: https://gsv.gov.me/ResourceManager/FileDownload.aspx?rid=325628&rType=2&file=22_87_26_07_2018.pdf
- ²⁰ OECD, EU Commission, EBRD and ETF (2019), *SME Policy Index: Western Balkans and Turkey 2019, Assessing the Implementation of Small Business Act for Europe*, available at: <https://www.oecd-ilibrary.org/sites/09eb6108-en/index.html?itemId=/content/component/09eb6108-en>
- ²¹ Ministry of Economy (2019), *Ministry of Economy Annual Report*, available at: https://www.gov.me/ResourceManager/FileDownload.aspx?rid=403354&rType=2&file=20_168_16_04_2020.pdf
- ²² Government of Montenegro (2020), *Program for Improving the Competitiveness of the Economy*, available at: <https://mek.gov.me/ResourceManager/FileDownload.aspx?rid=412076&rType=2>
- ²³ Montenegrin Employers Federation (2014), *Report on Informal Economy in Montenegro - The Enabling Environment for Sustainable Enterprises in Montenegro*, available at: <http://poslodavci.org/en/publications/informal-economy-in-montenegro>
- ²⁴ Ministry of Economy (2018), *Strategy for the Development of Micro, Small and Medium-Sized Enterprises 2018-2022*, available at: https://gsv.gov.me/ResourceManager/FileDownload.aspx?rid=325628&rType=2&file=22_87_26_07_2018.pdf
- ²⁵ Eurostat (2018), *EVCA*, available at: <http://www.investeurope.eu>
- ²⁶ Global Entrepreneurship Monitor (2019), *National Expert Survey*, available at: <http://www.gemconsortium.org/data/sets>
- ²⁷ See Note 5.
- ²⁸ See Note 12.
- ²⁹ Ministry of Economy (2020), *Public Call to Participate in the Procedure for Allocating Funds for Program for Improving the Competitiveness of the Economy for 2020*, available at: <https://mek.gov.me/pretraga/229959/Javni-poziv-za-ucesce-u-postupku-dodjele-sredstava-za-Program-za-unapredenje-konkurentosti-privrede-za-2020-godinu.html>
- ³⁰ World Economic Forum (2018), *Global Competitiveness Report*, available at: http://www3.weforum.org/docs/GCR2018/GCI_4.0_2018_Dataset.xlsx
- ³¹ World Bank (2020), *Doing Business Report*, available at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/m/montenegro/MNE.pdf>
- ³² Ibid.
- ³³ World Bank (2020), *Recession Deepens in Montenegro as COVID-19 Pandemic Threatens Jobs and Poverty Reduction in Western Balkans*, available at: <https://www.worldbank.org/en/news/press-release/2020/10/22/recession-deepens-in-montenegro-as-covid-19-pandemic-threatens-jobs-and-poverty-reduction-in-western-balkans>
- ³⁴ European Commission (2017), *Eurobarometer survey of SMEs and the environment*, available at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm
- ³⁵ See Note 24.

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- ³⁶ Ministry of Science (2020), *Annual Report 2019*, available at:
<https://mna.gov.me/ResourceManager/FileDownload.aspx?rid=407536&rType=2&file=Izvjestaj%20o%20radu%20MNA%202019%20.pdf>
- ³⁷ Montenegro Statistical Office Monstat (2020), *ICT usage in enterprises in Montenegro in 2020*, available at:
<https://www.monstat.org/uploads/files/ICT/ICT%20USAGE%20IN%20ENTERPRISES%20IN%202020.pdf>
- ³⁸ Eurostat (2018), *Cloud computing services*, available at:
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_cicce_use
- ³⁹ Eurostat (2019), *E-commerce sales*, available at:
https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_eseln2&lang=en
- ⁴⁰ Ministry of Public Administration (2020), *Report on consulting the interested public in the process of preparation of the Digital Transformation Strategy of Montenegro 2021-2025*, available at:
<https://mju.gov.me/ResourceManager/FileDownload.aspx?rid=403973&rType=2&file=Izvjestaj%20sa%20konsultovanja%20Strategije%20digitalne%20transformacije%20CG.doc>