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## BUSINESS AGENDA 2025

# Roadmap for a competitive, sustainable and future-ready Montenegrin economy



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# Ten priorities for a competitive, sustainable and future-ready Montenegrin economy

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## MEF's vision 2030: A competitive, sustainable and future-ready Montenegrin economy

The Montenegrin Employers Federation (MEF) envisions Montenegro in 2030 as a strong, dynamic and globally competitive economy, a country in which companies thrive in an enabling business environment, innovation drives progress, and economic growth is both inclusive and sustainable.

To transform this vision into reality, the MEF has identified 10 key priorities that would strengthen Montenegro's position in the regional and global economy and lay the foundations for long-term prosperity:

- ▶ **A modern and effective public administration** – a professional, transparent, efficient, accountable and service-oriented public sector that fosters a regulatory environment conducive to business growth.
- ▶ **Stronger social dialogue and collective bargaining** – effective social dialogue in which government, employers' and workers' representatives engage in open and constructive discussions to shape policies that support economic development and social cohesion.
- ▶ **A clear and predictable regulatory framework** – a legal system that is transparent, consistently enforced and aligned with international standards, giving businesses confidence to invest and expand.
- ▶ **A level playing field for all** – a fair and transparent business environment in which informality is minimized, competition is fair, and all enterprises operate under clear, consistent and equal conditions.
- ▶ **Expanded access to finance for enterprises** – a well-developed and agile financial sector that provides diverse financing mechanisms, enabling businesses, particularly MSMEs, to access capital for growth, innovation and sustainability.
- ▶ **An education system delivering a skilled and future-ready workforce** – a dynamic education system aligned with private sector needs, equipping workers with the skills and competences needed for the digital and green transition.
- ▶ **A digitally transformed and innovation-driven economy** – strategic investments in digital infrastructure, cybersecurity and business innovation to enhance productivity and competitiveness in the global market.
- ▶ **A green and sustainable growth model** – a well-integrated circular economy supported by renewable energy investments, energy efficiency measures and climate adaptation strategies, ensuring long-term environmental and economic resilience.
- ▶ **Higher productivity for stronger competitiveness** – a diversified and innovation-driven economy that maximizes efficiency across industries and enhances value creation.

## MEF's commitment

The MEF is committed to continue working closely with policymakers to inform decisions that shape policies and laws, drive reforms and create a business ecosystem that fosters growth, resilience and sustainability. By championing these priorities, Montenegro can become a regional economic leader and a model for responsible and forward-thinking development.

## Acknowledgements

This Business Agenda outlines the key priorities and policy recommendations of the Montenegrin Employers Federation (MEF) for further improving the business environment and fostering sustainable economic growth. It builds on a comprehensive Enabling Environment for Sustainable Enterprises (ESEE) assessment conducted in 2023 with the support of the International Labour Organization (ILO), reflecting the challenges, opportunities and evolving needs of the private sector.

The MEF extends its sincere gratitude to its members, whose valuable time, expertise and insights contributed to the development of this agenda.

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## Priority

# 1

## Improving the effectiveness and efficiency of public administration

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Montenegro has established a comprehensive strategic framework for public administration reform, largely guided by its EU accession agenda but challenges in implementation and monitoring remain. Many of the key objectives set out in the Public Administration Reform (PAR) Strategy 2022–2026 are progressing slowly and have yet to fully materialize.

Policy coordination lacks coherence and consistent implementation, undermining effective governance. Although the government has introduced structured policy planning processes, evidence-based policymaking is applied only partially. Ministries frequently bypass public consultations through exemptions, while delays in adopting essential bylaws often stall the enforcement of new legislation. The e-participation portal remains largely underutilized by citizens and stakeholders. Although EU integration is a national priority, inactive coordination structures and insufficient cost assessments for accession activities have resulted in unmet commitments.

Montenegro's public sector remains large, putting a significant burden on public finances. According to data from the Ministry of Public Administration, at the end of 2024 there were 54,376 employees in national and local public administration, representing approximately 22% of total employment in the country. However, this figure does not include employees in publicly owned companies or local government-owned companies. The Ministry estimates that the public sector share of total employment is 23.7%, but this figure excludes short-term contracts, which are common in both national and local administrations. As a result, the true size of public sector employment is significantly underestimated. This large administrative system represents a burden on public finances, with public administration wages in 2025 projected at 717 million euros (€), more than three times the planned capital investment budget of €280 million. Additionally, open-ended contracts, valued at €16.7 million in 2023, present a long-term fiscal challenge.

Rightsizing the public administration is a key objective of the PAR strategy, but serious challenges in public service persist. The Civil Service Act does not fully ensure merit-based recruitment or objective criteria for dismissal, while public bodies with executive functions operate under special legislation misaligned with public service principles. Merit-based access to top public management is weakened by acting appointments and non-transparent procedures, while in non-managerial recruitment, heads of authorities have broad discretion to appoint lower-ranked candidates.

The EESE survey echoes many of these findings, revealing significant dissatisfaction among businesses with the efficiency and effectiveness of Montenegro's public administration, which they ranked as a top

Most businesses view public administration as inefficient, with 85% dissatisfied with the central public administration and 76% sharing the same view of local public administration.

66% of companies find laws and regulations inconsistent, unclear and unpredictable.

constraint to doing business in 2023. Approximately 85% of businesses expressed dissatisfaction with the central public administration, while 76% had a similarly negative view of local public administration. Businesses were equally critical of the existing legal and regulatory framework, describing laws and regulations as inconsistent, difficult to understand and unpredictable.

The modernization of public service delivery in Montenegro remains slow; services remain highly bureaucratic and difficult for users to access. Limited digital access, poor public-private communication, and a lack of user feedback integration hinder improvements. The absence of a central public service catalogue, combined with weak institutional capacity, hinders the simplification of administrative procedures. Addressing this requires consolidating e-services into a single portal, improving interoperability between institutions, and addressing gaps in cybersecurity and data governance.

The EESE survey data showed that only a small fraction of businesses benefited from business support services (BSS) in 2023, with just 12% reporting that they accessed such support. Among those who received these services, most businesses expressed dissatisfaction, citing concerns about relevance, affordability and quality. In fact, only 16% of businesses found these services to be relevant and of high quality. These findings highlight the need for more tailored and accessible business support services to better support business growth and improve competitiveness.

Accountability in Montenegro's public administration needs further strengthening despite a well-established legislative framework. The State Administration Act does not cover all administrative bodies, leaving oversight gaps, while centralized management in ministries limits transparency. The strategic framework for preventing corruption has improved with the adoption of the 2024–2028 Anti-Corruption Strategy, but implementation remains inconsistent. Weak enforcement of laws on asset and income declarations and whistleblower protection allow some officials to conceal illicit gains. According to the World Bank's Control of Corruption indicator, Montenegro's score worsened from -0.01 in 2018 to -0.12 in 2022 (on a scale from -2.5 to +2.5). Transparency International's Corruption Perceptions Index likewise shows limited progress, with Montenegro consistently scoring 45, except for slight improvements to 46 in 2021 and 2023, remaining above the Western Balkans average, but stagnating over time.

The EESE survey revealed that 20% of surveyed businesses reported incidents of bribery in 2023. Additionally, over 40% believed that bribery and corruption regularly affected their operations. Confidence in anti-corruption institutions remains low, with 55% of businesses perceiving them as ineffective in addressing private sector complaints. These findings highlight the need for stronger anti-corruption efforts to enhance accountability and create a more transparent, business-friendly environment.

Only 12% of companies used public services in 2023, and just 16% rated them as relevant and high quality.

55% of businesses believe anti-corruption institutions fail to address their complaints effectively.

51% of businesses participating in government tenders in 2023 believe public procurement lacks transparency.

Montenegro has made significant progress in strengthening its public procurement system, with improved legislation and an advanced e-procurement platform. However, implementation gaps remain, competition is low, and price remains the dominant award criterion. Business trust in the process is weak, and further efforts are needed to enhance transparency and fairness. Reducing the high share of small-scale and direct procurement is essential to improve fairness and build business confidence. The EESE survey showed that 51% of businesses that participated in government tenders in 2023 believe that public procurement procedures lack sufficient transparency.

*Montenegro's public administration reform stands at a critical juncture. Achieving further progress requires sustained political commitment, strong leadership and unwavering accountability. A professional, apolitical and merit-based public service—rightly sized to meet the country's needs and founded on integrity—is essential. Transparent decision-making, robust institutional coordination, and meaningful stakeholder engagement are key to building trust and creating a modern, efficient public administration. Only through these efforts can Montenegro unlock its full potential, improve its business environment, and turn reform ambitions into tangible results.*

## Recommendations

- ▶ **Continue reforming the public administration in order to boost its efficiency and effectiveness.** It is important to regularly update the strategic framework for public administration reform to ensure responsiveness to evolving needs, while improving the transparency and efficacy of the Council for Reform of Public Administration. It is essential that the reform process include a plan to retain the most qualified and high-performing civil servants.
- ▶ **Reduce public sector employment to a level more commensurate with the size of Montenegro's economy.** In order to maintain budgetary stability, it is necessary to reduce staff costs, which are historically high and continuing to rise. This can be achieved through targeted workforce optimization, streamlining administrative processes, and prioritizing efficiency over expansion. Savings generated from these efforts can be redirected toward improving public services and investing in critical infrastructure.
- ▶ **Ensure a transparent and competitive recruitment process based on meritocracy.** Strict compliance with selection criteria based on qualifications, skills and experience, combined with a fair and open recruitment process, will ensure that the best candidates are hired in the public sector. Regular performance evaluations of public sector employees are essential to maintain high standards and promote a more results-oriented public administration.
- ▶ **Conduct economic assessments of state-owned companies in order to check their financial health before they embark on new recruitment.** This will help ensure that these companies adopt a strategic and sustainable approach to hiring, avoiding unnecessary expansion. At the same time, it will improve access to human resources for the private sector, fostering a more balanced labour market and supporting overall economic growth.
- ▶ **Improve the capacity of public administration institutions to deliver effectively on their mandates.** Institutional needs must be regularly identified and assessed. Investing in digitalization and uptake of cutting-edge tools such as AI can improve the productivity of public sector employees and streamline service delivery.
- ▶ **Continue to implement and expand anti-corruption reforms.** Efforts to reduce corruption should be maintained, and existing anti-corruption laws and regulations should be properly implemented and enforced. There should be deeper cooperation with EU member states and international organizations to share knowledge and best practices. A culture of accountability should be fostered, and mechanisms should be established to protect whistleblowers who report corruption or irregularities.
- ▶ **Enhance transparency in public procurement.** Despite progress in the digitalization of public procurement, further improvements are needed to ensure full transparency. Strengthening monitoring mechanisms and compliance oversight is essential to uphold transparency standards in tendering processes. Additionally, building the capacity and skills of both public procurement officials and companies will promote best practices and adherence to transparency requirements.
- ▶ **Strengthen stakeholder engagement and business feedback mechanisms.** The Social Council, as a key platform for social dialogue, should take a more active role in law and policymaking, with all ministries participating actively. Its engagement is crucial to ensure that business perspectives are properly reflected in policy decisions and that social and economic interests are effectively balanced. Creating a centralized platform for businesses to report public service issues will foster a more responsive and accountable public administration. Additionally, establishing a dedicated Business Ombudsman Office would further enhance public sector accountability by independently addressing and resolving business grievances, offering a neutral and transparent avenue for dispute resolution.

## Priority

## 2

## Strengthening social dialogue and collective bargaining

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The legal and institutional framework for social dialogue is well-established in Montenegro, with the Constitution explicitly providing that the Social Council shall consist of representatives of the trade unions, employers and Government. The Social Council of Montenegro was established in 2008 under the Social Council Act as a forum for social dialogue mandated to deliberate on a wide range of economic and social issues, including negotiations on the general tripartite collective agreement.

Despite significant progress in building the legislative and institutional basis for social dialogue, its effectiveness remains limited. Although the law obliges the Government to consult the Social Council on draft laws and policies within its competence, there is a tendency to circumvent these consultations through exemptions. Moreover, consultations are often held too late in the policymaking process, diminishing the Council's influence on key reforms affecting employers and workers. Members of parliament are generally unaware of the Council's debates and recommendations. The Council's capacity to monitor and ensure the implementation of its decisions is weak. Its limited budget keeps its institutional capacities constrained. The secretariat is understaffed, while working groups and specialized commissions operate with insufficient resources, restricting their ability to prepare evidence-based input and meaningfully contribute to policymaking.

Collective bargaining in Montenegro takes place at national, sectoral and enterprise levels. The National Collective Bargaining Agreement (NCBA), signed at the end of 2022, introduced enhanced employee rights and more favourable working conditions. One of its key innovations is that wage increases for night shifts, work on national or religious holidays, overtime, Sunday work, and split shifts are now calculated on top of the minimum wage, rather than being included within it, a significant change from previous practice. In addition to the NCBA, there are 14 sectoral collective agreements, 6 of which were negotiated and concluded by MEF. At the same time, collective bargaining at the enterprise levels remains underdeveloped, and the exact number of company-level agreements is not available.

The EESE survey reveals mixed business perceptions about the government's commitment to social dialogue. 40% of respondents believe the government does not actively promote or consider inputs from social councils, while 44% hold a neutral view on the matter. On a positive note, 94% of surveyed businesses recognize the importance of dialogue with employees or their representatives, emphasizing its value for workplace cooperation. Additionally, 91% of businesses dealing with individual disputes consider direct negotiations between management and employees the most effective way to resolve conflicts.

40% of businesses believe the government does not actively promote or consider inputs from social councils, while 44% hold a neutral view on the matter.

94% of businesses recognize the importance of workplace cooperation through dialogue with employees or their representatives.

*Strengthening social dialogue is crucial for improving policymaking and fostering balanced economic and social development in Montenegro. Greater government commitment and genuine engagement are key to ensuring regular consultations and meaningful participation from social partners. Effective social dialogue results in better-informed decisions on economic, labour and social matters, leading to more sustainable outcomes for employers, workers and the broader economy. Enhancing the Social Council's technical capacity will strengthen its role in policy formulation. Stronger social dialogue will also be essential in supporting Montenegro's EU accession process.*

## Recommendations

- ▶ **Enhance the role of the National Social Council in policy- and law-making.** Strengthening the Social Council requires comprehensive reform to increase its influence and ensure greater transparency in decision-making. This includes the formal appointment of high-level government representatives (ministers or senior officials) as Council members from key areas within its mandate. It should be mandatory for the Social Council to provide an opinion on all legislative acts within its scope. To improve the quality of policymaking, all proposed reforms and legal changes should be accompanied by economic impact analyses to assess their potential effects on employers and workers. These measures will foster stronger cooperation between ministries and social partners, improve governance, and ensure more inclusive and informed policymaking.
- ▶ **Strengthen the Social Council secretariat.** Enhancing the human, technical and financial capacity of the Social Council secretariat is crucial for building effective social dialogue at the national level. A well-equipped secretariat will support policy- and law-making processes through evidence-based policymaking on key business issues such as the green transition, digitalization and occupational safety and health, to name but a few. Expanding its analytical capacity will enable it to produce high-quality studies on legislative reforms with significant business impacts. This will ensure that legislation better reflects the interests of employers, workers and the broader economy.
- ▶ **Protect and strengthen the status of social partners.** Maintaining the existing conditions for the representativeness of employers' organizations is crucial to ensuring a strong private sector voice in the Social Council. In small economies such as Montenegro, balanced representation depends on employers' organizations that bring together members from various sectors and company sizes. The current legislation and criteria support these requirements and help maintain the stability of social dialogue in the country.
- ▶ **Boost social dialogue at the local level by establishing local social councils.** In line with existing legal requirements, local social councils should be established across Montenegro. This will ensure greater participation of employers in local decision-making processes, particularly in reducing and controlling parafiscal charges, which are recognized as a significant barrier to doing business in Montenegro. Local social councils can also contribute to improving other economic decisions, such as the development of economic zones and other local economic initiatives.
- ▶ **Reduce ad hoc decision-making.** Frequent ad hoc decision-making in Montenegro diminishes the importance of social dialogue and leads to poorly designed regulations that are difficult to implement and are costly for both the state and employers. Legislation created without proper consultation results in administrative challenges, additional financial burdens and an unstable, unpredictable business environment, undermining economic growth and competitiveness.

## Improving the legal and regulatory framework

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Over the past decade, Montenegro has implemented significant reforms to enhance its legal and regulatory environment, driven primarily by its pursuit of EU membership and the introduction of the “Europe Now 1 and 2” programmes. These programmes have shaped Montenegro’s reform priorities, focusing on reducing taxes, increasing wages and curbing informality. Additional reforms include a reduced tax burden, the introduction of progressive tax rates, the fiscalization of electronic transactions and the launch of the e-Uprava portal in 2021 to streamline administrative services.

Despite these efforts, challenges persist. Key concerns include uncertainty over the long-term sustainability of the “Europe Now” programme, high lending rates, the absence of a Credit Guarantee Fund and the large informal economy. Issues related to taxation, labour regulations, occupational safety and health legislation, and licensing processes further complicate the business environment. Government decisions are often made without proper consultation with social partners, and the limited timeframes for implementing changes hinder companies’ ability to adjust to new regulations effectively. Legislative changes associated with EU accession are inconsistent. The adoption of secondary legislation, which is essential for enforcing primary laws, is often delayed.

The 2023 EESE survey reveals that many Montenegrin businesses face unclear and burdensome administrative processes. Only 8% of businesses find the process for obtaining licenses, registrations and permits to be clear and affordable, while 43% do not. Regulatory overlap further complicates compliance, as nearly 30% of businesses have to deal frequently with overlapping regulatory bodies and only 5% report no such experiences. These findings highlight the urgent need to streamline procedures and enhance regulatory clarity. The EESE survey also highlights significant challenges caused by Montenegro’s tax system. Poor tax service was identified as a major barrier by 53% of businesses, followed by high tax penalties (52%) and complex tax reporting requirements (47%). Additionally, Montenegro’s VAT rate of 21%, the highest in the Western Balkans, is viewed as the most burdensome tax by 73% of businesses.

Labour legislation has undergone several reforms, notably in 2021 and 2024 as part of the “Europe Now” package. These changes introduced new regulations on remote worker contracts and set limits on employment contracts through agencies. The package also reduced employer contributions to health and pension funds, lowering labour costs. However, it raised VAT rates for some sectors, such as tourism, which prompted mixed reactions from the business community. While some of these reforms were agreed upon by social partners, many regulatory changes bypassed the Social Council, leaving social partners without a formal opportunity to provide input. As a result, only 11%

Only 8% of businesses find obtaining licenses, registrations and permits to be clear and affordable, while 43% do not.

Nearly 30% of businesses frequently have to deal with overlapping regulatory bodies.

The top three tax administration-related burdens are: poor tax service (53%), high tax penalties (52%) and complex tax reporting requirements (47%).

of businesses that participated in the EESE survey believe that labour legislation is well suited to the needs of a dynamic and competitive market economy, indicating significant room for improvement.

Montenegro has updated its OSH legal framework to align with EU standards and collaborated internationally to develop its National OSH Strategy. While businesses generally view the affordability and practicality of OSH regulations positively, significant gaps remain in key sectors. Notably, 27% of businesses remain neutral on whether these standards are practical and affordable, while 25% believe they are not.

*A well-functioning legal and regulatory framework is essential for fostering economic stability, attracting investment and promoting business growth. While Montenegro has made important strides to align its policies with EU standards and improve the business environment, further efforts are needed to ensure that regulations are clear, predictable and consistently applied. Strengthening consultation mechanisms, improving enforcement and reducing administrative burdens will be key to driving long-term progress.*

## Recommendations

- ▶ **Centralize and simplify licensing processes.** Centralizing and simplifying licensing processes will make them more accessible and user-friendly for businesses. Creating an online licensing system will improve efficiency and reduce administrative burdens. Reviewing existing licensing and permissions regimes will help identify gaps in terms of transparency and predictability, addressing the concerns raised by businesses. Accelerating the digitalization of administrative procedures will ensure faster processing, greater transparency and better access for companies, ultimately fostering a more business-friendly environment.
- ▶ **Conduct further reform of the tax system.** Tax reform is essential to strengthen Montenegro's business environment. Addressing key business concerns, such as poor tax services, high penalties and burdensome reporting requirements, is crucial. Revising the VAT rate, particularly for services—currently the highest in the Western Balkans—will boost competitiveness. Enhancing the IT tax system of the tax administration will further streamline and improve revenue collection.
- ▶ **Accelerate the establishment of a Credit Guarantee Fund and strengthen the Development Bank of Montenegro.** The establishment of a Credit Guarantee Fund will help improve access to finance for businesses. The Development Bank of Montenegro should introduce targeted credit lines with favourable conditions for small businesses, women, young people and strategic sectors, such as agriculture and tourism, ensuring inclusive financial support and promoting entrepreneurship across diverse sectors.
- ▶ **Conduct a continuous review of labour legislation to ensure alignment with market needs, ILO standards and EU acquis.** This process should address business concerns while balancing the needs of both workers and employers. Findings from the review and proposed reforms should be discussed within the Social Council to ensure transparency and effective engagement of social partners.
- ▶ **Strengthen occupational safety and health.** Establishing an insurance fund for occupational injuries and diseases through consultations within the Social Council will provide additional security for employees. Improving inspection quality and OSH statistics will help improve enforcement of standards. Targeted capacity-building programmes for employers and employees will promote awareness of OSH responsibilities and provide practical tools for implementing safer workplace practices.
- ▶ **Ensure fair and consistent implementation of regulations.** All companies in Montenegro should be subject to uniform and non-selective enforcement of regulations. Clear instructions must be issued to serve as standardized guidelines for implementation. This will reduce inconsistent interpretations and ensure greater transparency and predictability for businesses.
- ▶ **Improve inspection services and communication with private sector.** Strengthening the effectiveness of inspection services requires better coordination and improved communication with businesses. Decentralized inspection bodies within relevant ministries need a centralized oversight mechanism to ensure consistent standards and effective cooperation. Establishing clear communication channels and reporting structures will help to promote accountability and transparency while ensuring that inspection processes are fair and predictable for businesses.
- ▶ **Ensure evaluation and monitoring of regulatory reforms.** Evaluating and monitoring regulatory reforms is essential to ensure their long-term sustainability. The “Europe Now 1 and 2” programmes should be carefully assessed for their impact on the State Health Insurance Fund, municipal revenues and the Pension Fund. It is important to analyse how these reforms affect public finances and social security systems, particularly in terms of long-term funding for health care and pensions, to avoid future fiscal risks and ensure sustainable outcomes for both businesses and the broader economy.

- ▶ **Consistently involve employers' organizations in policymaking, ensuring that decisions are based on evidence-based analyses.** The employers' voice is crucial in shaping laws and strategies. Although current legislation mandates the Social Council to provide opinions on all relevant policy changes, this is not consistently applied. Improving transparency and inclusivity in decision-making should therefore be a top priority.
- ▶ **Strengthen and promote public-private partnerships (PPPs).** Boosting public-private partnerships requires increasing the visibility of collaboration opportunities and enhancing trust between public institutions and private sector actors. Ensuring the rule of law, improving transparency and fostering accountability are essential for creating a reliable framework that encourages more joint initiatives and successful partnerships.

# 4

## Combating the informal economy

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The informal economy is a significant obstacle to enterprise development in Montenegro. It distorts fair competition by giving informal or partially formal businesses an unfair cost advantage over fully compliant competitors. Estimates indicate that Montenegro's informal economy accounted for 37.5% of GDP in 2019. A significant part of that comes from the informal activities of formal businesses, which accounted for 20.6% of GDP in 2022. Alarming, one in three companies engaged in informal economic activities, while over 60% reported reduced annual revenues due to unfair competition. Informality is further sustained by consumer behaviour, with 70% of employed citizens confirming that they purchase goods or services from unregistered economic units, primarily due to lower prices.

Despite the Programme for the Suppression of the Informal Economy (2024–2026) under the Ministry of Finance, several gaps remain in the legal framework and enforcement mechanisms. Laws such as the Misdemeanours Act, the Inspection Supervision Act and the Criminal Code of Montenegro limit the authority of inspectors. For example, inspectors are prohibited from entering residential premises where unregistered business activities may be carried out, weakening enforcement efforts. The recently adopted Fiscal Strategy (2025–2027) emphasizes the importance of combating the informal economy to ensure public finance sustainability, but better monitoring, evaluation and transparency are needed to achieve tangible results.

The widespread informal economy has multiple causes. Frequent regulatory changes, especially in fiscal matters, and excessive fiscal and para-fiscal burdens create an unpredictable business environment. This uncertainty discourages compliance and encourages informal practices. Other contributing factors include insufficient coordination between ministries and enforcement agencies, complex public administration procedures and weak alignment between social policies and active labour market policies (ALMPs). Montenegro's heavy reliance on cash-based transactions and informal funding sources further exacerbates the issue, suggesting persistently low tax morale and general acceptance of informal practices.

The 2023 EESE survey highlights the extent of competition posed by the informal economy. Some 58% of businesses report direct competition from informal businesses, with 20% facing competition from sellers of counterfeit goods and 18% competing with companies sourcing materials from the informal sector. Only 23% of businesses claim no competition from informal activities.

*Combating the informal economy is essential for fostering a fair and competitive business environment in Montenegro. Strengthening the legal framework, enhancing inspectorate capacity and ensuring coordinated efforts among stakeholders are crucial. Transparent policies, a predictable*

58% of businesses reported direct competition from informal businesses; 20% faced competition from sellers of counterfeit goods; and 18% competed with companies sourcing materials from the informal sector.

*regulatory environment and robust monitoring and evaluation mechanisms will encourage more businesses to formalize. These measures will not only level the playing field but also support public finance sustainability and boost economic growth.*

## Recommendations

- ▶ **Develop a comprehensive definition of the informal economy.** The current legislation on the informal economy primarily targets registered companies, leaving unregistered entities and individuals largely unregulated. It is essential to create a clear and comprehensive definition that addresses all aspects of informality. Specific measures must target unregistered individuals, particularly in trade, tourism and real estate, where they create significant challenges for formal businesses and distort fair competition.
- ▶ **Incentivize formalization and reduce barriers.** Supporting the transition of businesses from the informal to the formal economy requires a balanced mix of targeted incentives and simplified administrative procedures. Measures such as temporary tax credits, streamlined business registration, and reduced initial compliance costs can lower entry barriers to formalisation. At the same time, sustained efforts are needed to address the ongoing challenges businesses face in remaining formal by simplifying reporting obligations, reducing administrative complexity, and lowering compliance costs.
- ▶ **Improve regulatory awareness and foster inclusive policymaking.** Raising awareness of the regulatory framework is crucial for promoting compliance and formalization, especially in agriculture-related sectors and among small businesses. Outreach programmes, workshops and educational initiatives can help businesses better understand regulations. Broad consultations with businesses of all sizes and stakeholders during policy development will foster a more inclusive and responsive regulatory environment. Special attention should be paid to the challenges faced by MSMEs, with targeted measures included in new legislation to boost their competitiveness while ensuring compliance.
- ▶ **Conduct sector-specific analyses to develop targeted, evidence-based policy measures.** Identifying the challenges faced by key industries—such as agriculture, tourism and media—enables the creation of tailored support strategies. Industry-specific policies can reduce pressures from unfair competition and equip businesses with the tools and environment they need to thrive in the formal economy.
- ▶ **Establish a robust monitoring and evaluation mechanism.** A comprehensive monitoring and evaluation system is essential for assessing the effectiveness of implemented policies and initiatives. Accessible reporting and evaluation tools should be made available to all relevant stakeholders to enhance transparency and accountability. Regular, results-based assessments should inform timely policy adjustments, support evidence-based decision-making, and ensure continuous improvement in policy outcomes.
- ▶ **Improve business development services to support formalization and ease of doing business, especially for MSMEs.** Expanding access to affordable and targeted consultancy and advisory services will enable businesses to strengthen managerial skills, improve compliance with regulatory requirements, and better access finance, thereby supporting growth and encouraging formalisation.
- ▶ **Strengthen inspection capacities to address the informal economy.** Increasing the number of inspectors is essential, along with improving their knowledge and skills. Inspectors should prioritise educating businesses, with enforcement applied when necessary. Ensuring equal application of the law for all will promote fairness and better compliance with regulations.

## Priority

## 5

## Expanding access to finance for enterprises

Montenegro's financial sector consists of private and public financial institutions, financial markets and financial infrastructure. Banks dominate the system and account for 90% of total financial assets. The financial sector plays an important role in supporting businesses, with commercial banks and the newly established Development Bank providing financial products to companies.

In 2024, Montenegro reached a significant milestone by joining the Single Euro Payments Area, becoming the first Western Balkan country to be included in its geographical scope. This step, guided by the Central Bank of Montenegro, aligns Montenegro's national payment systems and regulations with European Union standards, an important achievement on the country's path to EU membership. Montenegro has a well-established legal framework for the banking sector, further facilitating its integration with European financial markets. At the end of September 2024, the total value of approved loans reached €4.6 billion, an increase of 12.5% compared with the end of 2023. Of these loans, 42.18% (€1.94 billion) were issued to individuals, while 57.82% (€2.66 billion) were granted to legal entities.

Despite this growth, access to finance remains challenging for many businesses, particularly MSMEs. Lending requirements in Montenegro are relatively stringent, with real estate and land continuing to dominate as loan collateral, limiting access for companies engaged in the production of non-fixed assets. Although the legal framework allows creditors to secure loans with movable assets, securities and stocks, this practice remains underutilized. The MSMEs face particularly demanding criteria, although regulations aim to encourage MSME lending by lowering risk-weight coefficients and reducing provisioning requirements for these loans.

The EESE survey reflects significant concerns among businesses regarding financial inclusivity and access to finance. More than half (55%) of surveyed businesses believe that financial services are not equally available to all, with MSMEs facing more difficulties than larger companies. Additionally, 57% of businesses reported that information on financial services is poorly disseminated, creating further barriers to financial opportunities. High interest rates, lengthy approval processes and insufficient collateral are cited as the top challenges when applying for loans. Eighty-nine per cent of businesses identify high interest rates as one of the biggest obstacles, followed by 62% who cite lengthy approval times and 53% who struggle with collateral requirements. These findings underscore the need for policy reforms to improve financial inclusivity and streamline access to loans for businesses.

The survey also showed that most Montenegrin businesses rely heavily on internal funds or retained earnings for daily operations and investment in fixed assets, with over one-third of businesses naming

55% of businesses think that financial services are not equally available to all, with MSMEs facing more difficulties than larger companies.

57% of businesses reported that information on financial services is poorly disseminated.

this their primary financing source in 2023. Only a quarter of businesses rely on formal banking loans, with 17% borrowing from banks and 9% from non-banking financial institutions. Informal financing from family and friends is used by 14% of businesses, indicating a high dependence on non-formal sources. This reliance highlights the urgent need to facilitate access to formal loans and expand the role of the formal financial system in supporting business growth in Montenegro.

*Access to finance is essential for business growth and economic development in Montenegro. While loan volumes have increased, many businesses—especially MSMEs—still face significant barriers. Targeted reforms, such as reducing collateral requirements, expanding credit options and enhancing financial literacy, will help to bridge the financing gap and create a more inclusive and supportive financial environment. Better access to finance will drive innovation, job creation and sustainable economic growth.*

The top three challenges when applying for loans are: high interest rates (89%), lengthy approval times (62%) and collateral requirements (53%).

## Recommendations

- ▶ **Reduce collateral requirements and enhance access to finance for MSMEs.** The banking sector, in cooperation with companies and government, should reduce collateral requirements and ease lending conditions for MSMEs in order to drive innovation and boost competitiveness in Montenegro's economy. This represents a key step towards more affordable and inclusive finance.
- ▶ **Reduce interest rates on loans.** Lowering interest rates on loans is essential for stimulating investment in the private sector. The state, in collaboration with other stakeholders, should engage with the banking sector to facilitate this reduction. Given the high liquidity in the financial system, reduced interest rates would increase funding for businesses, thereby supporting their growth and development.
- ▶ **Strengthen communication between companies and the banking sector.** Improving dialogue and information sharing between the private sector and banks is crucial for better access to finance. Many businesses, particularly MSMEs, are unaware of the available financing options. Clearer communication and closer cooperation will help to bridge this gap, enabling businesses to secure the resources they need for growth.
- ▶ **Establish dedicated credit lines for targeted sectors and groups.** To promote greater inclusion, the government, in collaboration with development partners and donors, should create dedicated credit lines for specific sectors, such as agriculture and manufacturing, and for specific groups, including women and youth. These tailored financial instruments would provide accessible and affordable financing, enabling business creation and expansion.
- ▶ **Strengthen the newly established Development Bank of Montenegro.** As a state-owned institution, the Development Bank of Montenegro should focus on directly supporting businesses, particularly those unable to access loans through commercial banks. It is essential to develop programmes aligned with the needs of the private sector. Transparency in operations and loan approval processes must be prioritized to maintain accountability and public trust.
- ▶ **Establish a Credit Guarantee Fund of Montenegro.** A Credit Guarantee Fund is essential for the growth of small businesses and for improving access to finance for underserved groups that struggle to secure loans from private financial institutions. By guaranteeing a portion of the loan, the fund will reduce the risk for lenders, encouraging them to extend loans to startups and small businesses.
- ▶ **Foster the diversification and uptake of alternative financial resources.** Expanding alternative funding opportunities is crucial for supporting companies of all types. Developing instruments such as business angels, trust funds, and other innovative financing options will create new financial resources for Montenegrin businesses. These alternative sources of capital will diversify the economy and drive innovation and growth across multiple sectors.

## Improving education, skills development and lifelong learning

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Montenegro has made significant strides over the past decade to improve its education, training and lifelong learning systems. The country has implemented strategic, legal and institutional reforms, culminating in the provisional closure of negotiations with the European Union on the “Education and Culture” chapter of its accession process. Montenegro’s education system performs comparably with other Western Balkan countries and, in some areas, even leads the region.

A key element of Montenegro’s skills framework is the Montenegrin Qualification Framework (MQF), a comprehensive lifelong learning framework adopted in 2010. Reforms in technical vocational education and training (TVET) have been notable, particularly with the introduction of dual TVET, which facilitates school-to-work transitions through work-based learning. Under this system, students split their time between learning in school and working with an employer, receiving a monthly stipend for their employment.

Despite these advancements, Montenegro’s education system faces several challenges. A persistent shortage of graduates in science, technology, engineering and mathematics (STEM) is part of a broader skills mismatch between the education system and labour market needs. This mismatch has contributed to an increase in job vacancies over the past decade, highlighting the need for better alignment between education outcomes and labour market demands.

In part because of these challenges, unemployment and inactivity rates in Montenegro remain relatively high, especially among people with lower levels of education. In December 2024, the unemployment rate was just over 11%, however among young people it exceeded 20%. The long-term unemployment rate was 10.2% in 2022, which is extremely high compared with the EU average (2.9%). The most vulnerable labour market categories are women, young people, Roma, people with disabilities and low-skilled workers.

The EESE survey revealed significant business concerns regarding Montenegro’s education, training and lifelong learning system. Some 76% of businesses believe that vocational and higher education institutions fail to equip students with job-relevant skills. A further 74% of businesses highlight the lack of coordination between enterprise needs and educational offerings as a key barrier to developing and maintaining a skilled workforce.

Montenegrin businesses face significant challenges in recruiting skilled employees, primarily due to skill mismatches and a shortage of applicants. Over 36% of businesses report difficulties with skill mismatches, while 35% struggle with a low number of qualified applicants.

The most in-demand skills include job-specific skills (75%), interpersonal

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76% of businesses believe that vocational and higher education institutions fail to equip students with job-relevant skills.

74% of businesses think that the lack of coordination between enterprise needs and educational offerings is a key barrier to developing and maintaining a skilled workforce.

Over 36% of businesses report difficulties with skill mismatches, while 35% struggle with a low number of qualified applicants when recruiting skilled staff.

Most in demand are job-specific skills (75%), interpersonal and communication skills (63%), and problem-solving skills (57%).

About 27% of businesses lose employees to outward migration, while 26% face challenges competing with the public sector.

and communication skills (63%), and problem-solving abilities (57%). To bridge this gap, many companies rely on in-house training, with 44% using existing staff to train employees during regular duties and 19% employing dedicated trainers. However, the lack of a training budget remains a major obstacle for 54% of businesses, limiting their ability to develop the necessary skills internally.

Retaining skilled employees is equally challenging because of outward migration and competition from the public sector. About 27% of businesses report losing employees to better opportunities abroad, while another 27% cite difficulties in competing with the public sector, which often offers more attractive benefits and job security.

*Despite notable reforms, Montenegro's education and training system still struggles to meet the evolving demands of the labour market. Persistent skills mismatches, high unemployment and difficulties in recruiting and retaining skilled workers are key challenges for businesses. Addressing these issues requires closer alignment between education and labour market needs, improved coordination between stakeholders and policymakers, and expanded investment in professional training and lifelong learning. Fostering stronger links between businesses and educational institutions will be essential to equip the workforce with job-relevant skills, reduce unemployment, and support sustainable economic growth.*

## Recommendations

- ▶ **Anticipate skills needs in key growth sectors.** To improve the competitiveness of Montenegrin businesses, it is important to address current and prevent future skills mismatches. Assessing skills needs in key sectors and incorporating the findings into standards, curricula and training programmes will (i) increase the labour-market responsiveness of TVET and adult education, (ii) showcase how skills anticipation can be improved overall, and (iii) foster comprehensive approaches to education, training and lifelong learning between employers, trade unions and the government.
- ▶ **Increase STEM education in primary and secondary education and TVET.** This can be achieved by assessing the STEM skills that employers need and work jointly with the Ministry of Education to include these skills in curricula and training programmes. Regular visits of teachers and students to companies, as part of the curriculum, can also support the development of STEM skills.
- ▶ **Modernize the mechanisms for financing professional training.** The system for financing training, including dual TVET and adult education, needs to be reviewed and modernized, including levy systems, formula funding, tax incentives and public-private partnerships. Tax deductions can help businesses to address skills shortages and finance training and capacity-building. Additional mechanisms need to be explored to ensure the financial viability of dual TVET vis-à-vis companies' costs for training new employees.
- ▶ **Establish a modern, flexible and responsive adult education system.** Employers, employees and unemployed would benefit from mechanisms that allow quick upskilling and retraining of the labour force. This should include rapid detection of up-skilling and re-training needs and their translation into short-term training courses, quality assurance mechanisms and sustainable financing mechanisms, and ensure that talent among women and disadvantaged population groups can be adequately developed.
- ▶ **Develop short training courses on improving digital skills and due diligence.** The digital transformation and compliance with environmental and social standards demand new competences for enterprise management and staff alike. Short courses on existing and emerging technological and regulatory changes can help companies adapt their business models and operations.
- ▶ **Simplify visa and residence permit programmes to ensure that Montenegrin businesses have access to skilled workers from abroad.** Reforms and simplifications in the procedures for obtaining work and temporary residence permits could help address administrative barriers that slow down the recruitment of skilled labour from abroad.

## Priority

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## Driving innovation and digital transformation of business

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Montenegro's digital transformation, driven by the Digital Transformation Strategy 2022–2026, focuses on high-speed broadband expansion and 5G network development. However, delays in adopting a national broadband plan and a pending framework for 5G cybersecurity have slowed progress. Digital government services also face setbacks due to technical issues in the government data exchange system and slow integration of public registers, limiting interoperability and the quality of e-services. The Cybersecurity Strategy 2022–2026 addresses critical gaps but delays in passing the information security law have stalled the establishment of the National Cybersecurity Agency. Meanwhile, the Personal Data Protection Agency remains operational, though full alignment with the EU's General Data Protection Regulation (GDPR) is still pending.

Digital adoption in Montenegro's private sector has surged in recent years, boosted by the Covid-19 pandemic. Currently, 85% of enterprises have websites, reflecting an increasingly tech-savvy business environment. The growing use of e-commerce and e-payments highlights the sector's progress, though challenges in payment processing continue to limit SMEs' capacity for global expansion. Montenegro's ICT sector is expanding rapidly, contributing 4.5% to GDP and employing 4.5% of the workforce, making it one of the country's fastest-growing sectors. In 2023, the ICT sector accounted for 25% of total exports. However, despite these advancements, Montenegro ranked 65th out of 133 countries in the Global Innovation Index 2024, with a score of 28.9, indicating room for improvement in fostering innovation and competitiveness.

While the legal framework is broadly aligned with EU standards, implementation gaps and resource constraints persist. GDPR compliance and cybersecurity obligations remain difficult for many businesses to navigate, particularly SMEs, which often lack the necessary expertise. Broadband access continues to improve, but rural areas still face connectivity challenges, limiting their participation in the digital economy. Initiatives such as the Strategy for the Development of MSMEs 2023–2026 aim to address the digital skills gap and promote e-commerce, while the 5G Development Strategy and the Law on Innovation Activities support the growth of emerging technologies such as AI, blockchain and IoT. Targeted investments in infrastructure, capacity-building and regulatory clarity will be essential if Montenegro is to unlock its full digital potential and boost its innovation capacity.

The 2023 EESE survey highlights key regulatory barriers to digital adoption for businesses in Montenegro. Digital payment regulations (25%), tax regulations (20%) and data privacy requirements (14%) are the most often cited obstacles, while 26% reported no significant legal issues. Limited financial resources (29%), high fees for digital tools (21%)

The top three regulatory barriers to digital adoption are: digital payment regulations (25%), tax regulations (20%), and data privacy requirements (14%).

and lack of industry-specific digital knowledge (14%) further hinder digitalization, indicating a need for targeted government support through financial assistance, affordable solutions and digital training programmes. Perceptions of digital public services are mixed—25% of businesses found them effective, while 34% rated them ineffective, and 20% were unaware of their availability, highlighting the need for improved service quality and greater outreach to boost adoption.

*Montenegro has made steady progress in its digital transformation, particularly with the rapid growth of its ICT sector and increased digital adoption among businesses. However, significant challenges remain, including gaps in digital infrastructure, limited cybersecurity capacity, and uneven digital government services. These obstacles, combined with the need for greater innovation and stronger support for businesses, continue to slow the country's digital advancement. Moving forward, Montenegro must prioritize investments in infrastructure, digital skills and innovation, while fostering a more inclusive digital environment. By addressing these challenges and building on its strengths, Montenegro can unlock its full digital potential, boost competitiveness and position itself as a leader in the regional digital economy.*

The top three barriers to the uptake of digital technologies are: limited financial resources (29%), high fees for digital tools (21%) and lack of industry-specific digital knowledge (14%).

## Recommendations

- ▶ **Improve the implementation of legislation regulating digitalization.** Addressing administrative challenges in implementing key laws that regulate digitalization—such as the Law on Electronic Identification and Electronic Signature and the Law on Electronic Documents—is essential for creating a seamless digital environment. Efforts should focus on removing implementation barriers to ensure that businesses and public institutions benefit fully from digital services. Additionally, adopting new legislation aligned with EU standards and the Digital Agenda 2030 will further accelerate Montenegro's digital transformation.
- ▶ **Increase public investment in ICT, especially in R&D.** Boosting public investment in ICT, particularly in research and development (R&D), is essential for fostering innovation. Investments should focus on improving laboratories and modern equipment to support broader ICT adoption in Montenegro. Equally important is strengthening collaboration between universities and companies to facilitate knowledge transfer and develop skills aligned with the needs of the private sector.
- ▶ **Incentivize technology adoption.** Expand incentives and create dedicated credit lines to support the digital transformation of businesses. Special financing programmes, tax credits and other targeted measures can encourage investment in productivity-enhancing technologies. Both direct financial support—such as subsidies and low-interest loans—and indirect incentives, such as tax credits, will help businesses adopt advanced technologies, driving innovation and improving competitiveness.
- ▶ **Develop tailored digital skills programmes for MSMEs.** Targeted programmes could be supported through public funding or partnerships between the government and ICT companies. These initiatives should combine training and collaboration with educational institutions to help bridge the digital skills gap. Learning from international best practices, especially in relation to AI adoption, will help Montenegrin businesses capitalize on digital transformation.
- ▶ **Adopt a New Smart Specialization Strategy.** Adopting a new Smart Specialization Strategy and increasing funding for its implementation is essential for promoting innovation and growth. Strengthening capacities to access EU funds and use them effectively, particularly for digitalization projects, will improve outcomes. Greater involvement of MSMEs, business associations and the private sector in project implementation will enhance the relevance and success of initiatives. Building skills in project preparation, management and evaluation will ensure that these efforts are sustainable and impactful.
- ▶ **Remove barriers to global business expansion.** Businesses in Montenegro face significant challenges in processing international payments, which limits their global reach. Facilitating partnerships with globally recognized payment processors and platforms will help overcome these obstacles. By ensuring easier access to reliable payment solutions, businesses will be better positioned to operate seamlessly in the global digital economy and expand their international presence.
- ▶ **Enhance E-Government services.** Digitalized services will streamline operations, reduce costs and improve efficiency. Raising awareness about these services through marketing and educational campaigns, user-friendly interfaces, and partnerships with business associations will boost adoption and minimize reliance on manual processes.
- ▶ **Promote innovation and business-academia partnerships.** Increasing the visibility of institutions that support digital transformation and innovation is essential. More promotional activities should showcase successful projects and innovations, while highlighting opportunities for collaboration between academia and the business sector. Sharing best practices will help businesses adopt innovative solutions and foster stronger cooperation across sectors.

## Accelerating the transition towards a green economy

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Montenegro is undergoing a complex and transformative transition to a green economy in its efforts to align its policies with EU standards and global climate commitments. The country has established a solid legislative, policy and institutional framework to support this shift. Key strategies, such as the National Energy and Climate Plan (NECP), the National Strategy for Sustainable Development and the Circular Economy Strategy and Action Plan, reflect Montenegro's clear intention to embed sustainability in its national development agenda. These frameworks aim to promote decarbonization, enhance resource efficiency and foster a circular economy. Montenegro's updated Nationally Determined Contribution (NDC) sets a target of reducing greenhouse gas emissions by 35% by 2030, reaffirming its commitment to global climate goals.

Despite positive developments, Montenegro faces significant obstacles that could slow its green transition. The energy sector, heavily dependent on coal, remains one of the biggest challenges and the largest source of carbon emissions. While progress has been made in wind and solar power projects, their expansion is limited by insufficient infrastructure and low private sector involvement. Waste management is another critical area in which progress has been slow even though the key policies are in place. The infrastructure remains inadequate, with limited recycling facilities and insufficient capacity for proper waste treatment. Illegal waste disposal is widespread, causing environmental degradation and serious public health risks. Poor coordination between institutions, weak administrative capacity and fragmented responsibilities further hinder the development of an integrated waste management system aligned with circular economy principles.

The private sector in Montenegro has taken important steps towards adopting sustainable practices, particularly in energy and agriculture, but significant challenges remain, especially in the construction industry, in which stronger incentives are needed to promote environmentally friendly investments. While some sectors are advancing, many businesses face considerable obstacles in adapting to the green transition. Access to financing is a major challenge, as energy-efficient technologies and circular business models are often too costly for smaller companies with limited capital. Low awareness of green opportunities and compliance requirements further limits engagement, particularly among small businesses. Progress is also slowed by the scarcity of green technologies, technical expertise and skilled professionals in key sectors, such as renewable energy, waste management and sustainable construction. Complex legislation, inconsistent policy implementation and insufficient government incentives add additional obstacles, making it harder for companies to harness the benefits of green transition.

The 2023 EESE survey highlights the significant challenges Montenegrin

Only 31% of Montenegrin businesses have strategies for efficient energy and material use. However, over half (53%) recognize the importance of environmental responsibility.

Top 3 barriers to adopting green technologies: lack of awareness (46%), insufficient technical knowledge (39%) and lack of capital (36%).

businesses face in adopting sustainable practices. Approximately one-third (34%) of surveyed companies reported being unfamiliar with environmental regulations and uncertain about complex compliance, indicating a significant lack of understanding of regulatory requirements. This limited awareness affects how companies perceive the need to incorporate sustainability into their operations. As a result, only 31% of surveyed companies reported having developed strategies to improve energy efficiency and material use or reduce emissions and waste. However, over half (53%) recognize the importance of environmental responsibility.

The survey also identified the key barriers hindering businesses from adopting green technologies and practices. Lack of awareness was cited by 46% of respondents as one of the top three obstacles, followed by insufficient technical knowledge (39%) and limited capital for green investments (36%). These findings highlight the urgent need for targeted interventions, including capacity-building programmes, improved business development services, better access to financing and clearer regulatory guidance. Failing to address these challenges will leave many businesses ill-prepared to seize the opportunities of the green transition.

*Montenegro's abundant natural resources and strong commitment to environmental protection offer a solid foundation for its green transition. Climate change adaptation and mitigation provide opportunities to shift toward a more resilient and productive growth model, but addressing structural challenges is essential. Improving the business environment, investing in human capital and strengthening public sector capacity will be crucial. At the same time, Montenegro must act swiftly to mitigate escalating climate risks—such as floods, droughts and rising temperatures—which are already affecting the country and are projected to intensify. Building a sustainable economy that balances environmental resilience with long-term prosperity will require decisive action and well-coordinated strategies.*

## Recommendations

- ▶ **Strengthen institutional coordination and monitoring framework for the green transition.** Effective coordination and strong institutional capacity are crucial for managing Montenegro's green transition. A centralized mechanism should be established to coordinate, monitor and evaluate progress across sectors, ensuring alignment among national strategies and regulations. Regular assessments will track progress and enable timely adjustments to strategies, policies and regulations to effectively address business needs.
- ▶ **Strengthen and expand green incentive mechanisms for the private sector.** Existing incentives must be improved and diversified to help businesses adopt sustainable practices. Financial incentives, grants, tax breaks, preferential public procurement, and low-interest green loans can facilitate the transition to energy-efficient operations and green technologies. Better promotion of existing VAT reductions on green energy equipment will further boost business engagement in the green transition.
- ▶ **Improve access to finance for green investments.** Access to finance remains a key barrier preventing businesses from adopting sustainable practices. Collaboration with financial institutions and organizations such as Eco Fund Montenegro can help in the development of tailored financing products, including green loans and grants. Targeted financial support will accelerate the adoption of innovative green solutions.
- ▶ **Build a future-ready workforce for the green transition.** A targeted strategy should be developed to address the growing demand for sustainability-related competencies in sectors such as renewable energy, waste management and sustainable construction. This strategy should introduce training programmes and qualification standards focused on green economy occupations and skills. Close collaboration between relevant authorities, educational institutions and the private sector is essential to align education and training with the needs of emerging green industries.
- ▶ **Raise awareness of the green transition and responsible business practices.** Targeted campaigns should highlight the economic benefits of sustainable business practices. For greater impact, a partnership between the relevant authorities and the MEF would be highly effective. The existing MEF CSR recognition programme could be expanded in collaboration with relevant authorities to include more nominations and new categories for environmental leadership, raising awareness and encouraging more businesses to accelerate their green transition.
- ▶ **Strengthen cooperation between public institutions and the private sector.** Cooperation between public institutions and the private sector needs to improve. Industry-specific working groups can help in the development of tailored guidelines for environmentally sustainable business practices. Engaging businesses in this process ensures that the guidelines are practical and relevant. Providing customized resources for each industry will address distinct environmental challenges and create more targeted solutions, helping companies to transition more effectively to sustainable practices.

## Priority

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## Enhancing productivity for increased competitiveness

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In 2024, Montenegro's labour productivity was just 40% of the EU average. Without improvement, competing in the EU market will be increasingly difficult.

A productive private sector is vital to enhance competitiveness, drive economic growth and raise living standards in Montenegro. Productivity in Montenegro is relatively high compared with other Western Balkan countries. However, in 2024, it was still only 40% of the EU average, and the gap is even wider compared with the most productive EU economies. In recent years, the country's total factor productivity (TFP)—a key measure of efficiency—has remained stagnant or even declined.

Montenegro's labour productivity growth has largely been driven by heavy investment in physical capital, particularly in infrastructure and real estate development. However, these investments have been funded primarily through foreign capital. While this inflow of external resources has fuelled economic growth and modernized the country's infrastructure, it also poses long-term risks. A strategy overly reliant on foreign investments is unsustainable, as it leads to a progressive transfer of domestic assets into foreign ownership. Investors expect returns on their capital in the form of repatriated profits, interest payments and dividends, which could create significant outgoing cash flows in the future. This outflow may undermine the country's fiscal stability and balance of payments, especially if productivity does not improve at a faster pace.

The country's economic structure, heavily dependent on a narrow range of low-tech services—particularly tourism, retail and construction—hinders innovation and constrains the growth of high-value-added industries. Globally, productivity gains have been most pronounced in manufacturing and agriculture, while sectors such as tourism, retail and construction—which dominate Montenegro's economy—are characterized by much slower productivity growth. Tourism, while a vital component of Montenegro's GDP, is inherently labour-intensive and low-tech, limiting its capacity to drive significant productivity improvements. An economy increasingly reliant on tourism and other low-tech services is likely to face difficulties in closing the productivity gap and have difficulties in competing with more advanced European economies.

Demographic challenges, including a shrinking and aging population, coupled with the emigration of skilled workers, exacerbate labour shortages and erode Montenegro's productive potential. These demographic pressures are compounded by labour market inefficiencies that limit the effective utilization of the existing workforce. Adding to these challenges is a significant mismatch between workforce skills and private sector needs, rooted in an education system that falls short in preparing people for the requirements of the modern labour market.

The informal sector is a major challenge that further hinders

productivity. Informality affects the economy in two main ways: first, informality creates unfair competition, allowing informal businesses to operate outside tax and regulatory frameworks. Second, informal companies often remain small, with low adoption of technology and limited ability to invest or grow. These businesses typically attract lower-skilled workers and have little incentive to offer proper training, keeping them trapped in a low-productivity cycle. As a result, they fail to contribute meaningfully to overall economic growth.

A level playing field remains essential for fostering productivity growth in Montenegro. Ensuring fair competition allows the most productive and innovative companies to thrive and expand. Few new companies successfully enter the market, and those that grow are not always the most productive or innovative. Factors such as unequal access to resources, regulatory barriers and favouritism can distort competition. In this environment, the most efficient firms do not always succeed, hindering the overall productivity potential of the economy.

Finally, the size of Montenegro's public sector is overall comparable to that of other European countries, but its quality-of-service delivery often falls below EU standards. Improving public sector efficiency and governance is essential for supporting broader productivity growth. Streamlining bureaucratic processes, adopting digital solutions and improving the capacity and professionalism of public institutions can reduce transaction costs for businesses and foster a more competitive environment.

*Montenegro's productivity challenges stem from deeper structural issues that require a multi-pronged strategy. While foreign capital has fuelled recent growth, the focus must now shift to boosting total factor productivity through technological innovation, better business practices and fair competition. Promoting market fairness, incentivising formalization and investing in skills development will be key to building a more competitive economy. Reducing reliance on low-tech services such as tourism and expanding high-productivity sectors such as manufacturing and knowledge-based industries is essential for sustainable growth. With the right policies, Montenegro can achieve a more resilient, high-productivity and competitive economy.*

## Recommendations

- ▶ **Create a level playing field in the market.** Market rules must apply equally to all companies to ensure fair competition, enabling the most productive companies to thrive and drive overall growth. New businesses should be able to enter the market and succeed based on their ability to create value, free from political influence and favouritism. An independent judicial system and an efficient public administration are essential for fostering fair competition and supporting business growth.
- ▶ **Foster financial inclusion and formalization of business.** Affordable electronic payments are key to reducing cash reliance and encouraging formalization by making transactions traceable and limiting informality. Access to low-cost payment systems and a credit rating framework will improve credit opportunities for excluded businesses. Formalization enables companies to access financing, invest, train employees and benefit from a fair tax system, thereby ensuring a balanced tax burden and boosting productivity.
- ▶ **Improve public administration effectiveness and efficiency.** The public sector should prioritise recruitment based on competence and merit, while addressing staffing needs in the most critical areas. For equivalent job descriptions and skill profiles, public sector wages should not exceed those in the private sector. Qualified and productive workers are essential to raising national productivity. Education and training systems must equip workers with the skills required for high-knowledge, high value-added sectors. Both the public and private sectors should provide strong incentives to retain skilled professionals.
- ▶ **Diversify the economy beyond tourism.** Reducing reliance on tourism is vital for improving productivity and economic resilience. An economy heavily dependent on tourism cannot achieve sustained productivity growth. High-productivity sectors such as manufacturing, sustainable agriculture and high-value services should be prioritized. Montenegro could explore the development of health tourism by attracting foreign patients while maintaining free health care for its citizens, making use of its skilled medical workforce.
- ▶ **Equip the workforce with relevant and future-ready skills.** Education and training systems must align with evolving labour market needs to equip individuals with skills that boost productivity and ensure economic resilience. Curricula should focus on high-demand areas such as digital skills, problem-solving and technical expertise. Lifelong learning, vocational training and reskilling programmes are essential to help employees adapt to technological advancements. Stronger partnerships between educational institutions and industries will reduce the skills gap and enable businesses to innovate and grow.

## Fostering responsible business conduct for long-term sustainability

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Montenegro is emerging as a regional leader in ESG adoption, driven by a strong commitment to sustainable development and alignment with EU standards. Embracing ESG principles is no longer optional, it is essential for maintaining competitiveness, attracting sustainable investment and ensuring long-term economic sustainability. Although not yet an EU member, Montenegro does not operate in a vacuum; its businesses are deeply integrated in regional supply chains and European markets, making them subject to evolving corporate responsibility standards set by the EU.

Central to Montenegro's EU accession aspirations, the Reform Agenda 2024–2027 prioritizes strengthening the rule of law, democratic institutions and human rights protection, while also advancing the green and digital transition. Ensuring transparency, accountability and legal certainty is essential not only for meeting EU membership criteria but also for fostering a stable and competitive business environment. Aligning with the EU's legal and regulatory framework will enhance investor confidence, reduce corruption risks and improve governance practices across both the public and private sectors. Additionally, investment in renewable energy, energy efficiency and workforce skills development is critical to Montenegro's long-term economic competitiveness, ensuring that businesses can adapt to evolving sustainability-driven market demands.

As part of its commitment to balancing economic growth with sustainability, Montenegro has taken steps to align its legislation with EU directives. The 2024 Law on Waste Management introduced extended producer responsibility (EPR) schemes, stricter polluter sanctions and stronger waste management oversight. Additionally, Montenegro is working to reform its corporate governance framework, including a revision of the 2009 Corporate Governance Code. The updated Code, applying primarily to joint-stock companies, particularly those listed on the Montenegro Stock Exchange, aims to strengthen governance structures, enhance transparency and prevent conflicts of interest, reinforcing responsible business conduct and improving the investment climate.

Responsible business conduct is gaining traction in Montenegro, with large companies and multinational corporations leading the way in ESG integration, driven by investor expectations and access to international markets. Many have dedicated resources to sustainability strategies, green technologies and compliance with ESG reporting frameworks. However, SMEs face significant challenges, including limited financial resources and lack of knowledge. Awareness of ESG benefits remains low among smaller businesses and adoption has been uneven. As Montenegro continues to promote sustainable business practices, ensuring broader engagement across the private sector will be key

Adopting ESG principles is no longer optional – it is essential for maintaining competitiveness, attracting investment and ensuring long-term economic sustainability.

to strengthening corporate responsibility and long-term economic resilience.

*Montenegro's commitment to sustainable business practices is key to unlocking long-term economic growth, attracting green investments and strengthening global competitiveness. Companies that integrate ESG will gain a competitive edge, build resilience and enhance customers' trust. However, SMEs face significant barriers and risk exclusion from markets and financing opportunities. A constructive social dialogue is essential to shaping policies that ensure a fair and inclusive green and digital transition. By embedding ESG principles across all sectors, Montenegro can build a sustainable, resilient economy and thrive in an increasingly green and responsible global market.*

## Recommendations

- ▶ **Simplify ESG reporting for MSMEs.** Developing clear and tailored ESG reporting guidelines and standardized templates will help reduce administrative complexity and enhance compliance. Simplified reporting frameworks will make it easier for MSMEs to integrate ESG into their operations, ensuring that sustainability is both practical and achievable.
- ▶ **Provide green investment incentives.** Providing grants, tax incentives and low-interest loans can encourage MSMEs to invest in sustainable practices, green technologies and energy-efficient solutions. Targeted financial support will enable MSMEs to adopt ESG initiatives, drive innovation, reduce costs and improve long-term competitiveness.
- ▶ **Leverage public procurement for sustainability.** Embedding ESG criteria in public procurement policies could incentivize responsible business conduct by prioritizing suppliers that uphold worker protection, fair wages and environmental sustainability. Leveraging public procurement as a tool for sustainability creates a ripple effect, encouraging more businesses to integrate ESG principles into their operations.
- ▶ **Expand access to green financing.** Strengthening collaboration with financial institutions, development banks and investors is essential to increasing MSME access to finance, including green bonds and sustainability-linked loans, allowing them to fund eco-friendly projects and business innovations.
- ▶ **Provide targeted business support services.** Training and consultancy programmes on ESG standards, responsible business conduct, supply chain due diligence and risk management should be developed and delivered in collaboration with employer and business associations. These associations have a deep understanding of MSMEs' specific needs and can enhance the outreach, scalability and cost-effectiveness of such services.
- ▶ **Strengthen public-private partnerships for ESG integration.** Facilitating collaboration between government agencies, large enterprises and MSMEs will facilitate knowledge-sharing, ESG mentoring and the inclusion of smaller businesses in sustainable supply chains. Employer and business associations can take the lead in driving these efforts.
- ▶ **Raise awareness of the benefits of ESG adoption.** Increasing engagement and knowledge-sharing between government agencies, large enterprises and MSMEs will help smaller businesses understand the benefits of ESG and responsible business conduct. Employer and business associations should take the lead in raising awareness, providing guidance and ensuring that ESG initiatives are accessible, industry-driven and aligned with business needs.
- ▶ **Establish an ESG business excellence award.** Expanding the existing Montenegrin Employers Federation's award to include ESG recognition would encourage businesses to adopt sustainable and responsible practices. A partnership with the government would help to enhance the visibility and impact of the award, providing stronger incentives for businesses to integrate ESG principles in their operations.

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