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CRNE GORE  
MONTENEGRIN EMPLOYERS FEDERATION

# **THE ENABLING ENVIRONMENT FOR SUSTAINABLE ENTERPRISES IN MONTENEGRO**

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*report*



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# **The enabling environment for sustainable enterprises in Montenegro**

**- report -**

**Podgorica, December 2013.**

## ***Montenegrin Employers Federation***

Montenegrin Employers Federation (MEF) is an independent, non-governmental, non-political and not-for-profit organisation based on voluntary membership. MEF is founded on April 2nd 2002. On August 30th 2005 MEF was granted the status of representativity by the Ministry of Labour and Social Welfare which made them the umbrella employers' organisation in Montenegro representing the independent voice of business on national and international level. Having signed the National Tripartite Agreement on December 28th 2006, Montenegrin Employers Federation became a social partner – an official representative of employers in relations with Government and trade unions.

MEF membership comprises entrepreneurs, small and medium enterprises, large economic entities, local and sector employers' associations as well as NGOs. MEF members make 80% of total GDP in Montenegro and employ around 65% of the workforce.

MEF is recognised at national, regional and international level. MEF is a member of International Organisation of Employers, Businesseurope being one of the founders of Adriatic Region Employers Centre as well as the first organisation to sign UN Global Compact in Montenegro. MEF closely cooperate with International Labour Organisation, (the later also supported its founding) and act in accordance with its conventions and recommendations).

MEF established the Association of Business Women in Montenegro and helped founding of other employers associations at local and sector level. MEF signed cooperation agreements with umbrella employers organisations in the region and wider as well as with international institutions and organisations.

Montenegrin Employers Federation actively contributes to improvement of business environment and elimination of business barriers offering a wide range of services to its members. Along with representing the interests of employers in tripartite working groups and bodies at national level working on the development of legislation, strategies and action plans, MEF services comprise legal advices in all areas relevant for enterprise operations, economic studies and analyses, seminars and trainings organisation, implementation of EU funded projects and support to employers networking at national and international level.



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*The responsibility for the opinions expressed in this report rests solely with the author. The International Labour Organisation (ILO) takes no responsibility for the correctness, accuracy or reliability of any of the materials, information or opinions expressed in this report.*

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## Foreword

Montenegrin orientation towards entering the membership of the European Union (EU) calls for a serious review of the conditions in the country. This is especially important in regards to the business environment, visible and hidden business barriers and all other constraints at national and local levels affecting sustainability, stability and overall enterprise development. Micro, small and medium enterprises (MSME) that generate economic growth and employment are particularly important in this regard, as they represent an important precondition for overall growth in production, exports, productivity, and competition.

As a small economy, Montenegro cannot influence changes in the global market, and is influenced by external shocks such as the global financial crisis specifically, which negatively impacted the Montenegrin economy. High debts, problematic debtor-creditor relations, and difficulties securing sufficient financial resources for day-to-day activities define enterprises in Montenegro. The global crisis resulted in an increase in the number of firms that went out of business and those with blocked accounts, reduced solvency of enterprises, and consequently, a decline in economic growth. Therefore, the greatest challenge for the country at this time is how to preserve business and maintain economic activity.

Representing the voice of employers in Montenegro, the Montenegrin Employers Federation (MEF) continuously strives for creation of a better business environment and aims to provide an evidence base for policy reforms in this direction. This report is the result of a survey done with support from the International Labour Organization (ILO) and their methodology for enabling environment for sustainable enterprises (ESEE) that analysed 17 conditions relevant to enhancement of sustainable enterprises. This has provided insight into the existing shortcomings in Montenegro's business environment and provides recommendations for strategic solutions.

MEF wishes to thank all enterprises that participated in the survey and focus group meetings, and for dedicating time and providing information, comments and suggestions that contributed to the overall quality of the document. Special thanks goes to the ILO specifically to Dr. Farid Hegazy, Global Coordinator for Enabling Environment for Sustainable Enterprises in Geneva for his research support and Mr. Dragan Radic, ACT/ EMP Senior Specialist on Employers' Activities from the Budapest Office, for financial and technical support, as well as all information provided that guided our work and enriched our knowledge in the field.

## Abbreviations and acronyms

CSO	Civil society organization
DPS	Democratic Party of Socialists
EU	European Union
ILC	International Labour Conference
ILO	International Labour Organisation
IOE	International Organisation of Employers
KAP	Aluminum Factory in Podgorica
MBA	Montenegro Business Alliance
MEF	Montenegrin Employer Federation
MFI	Micro-finance institutions
MSE	Micro- and Small Enterprises
NGO	Nongovernmental organization
SDP	Social Democratic Party
SME	Small and Medium Enterprise
SOGI	Sexual orientation and gender identity
SSGC	Confederation of Trade Unions of Montenegro (Savez sindikata Crne Gore)
UPCG	Montenegrin Employers' Federation (Unija poslodavaca Crne Gore)
USSCG	Union of Free Trade Unions of Montenegro (Unija slobodnih sindikata Crne Gore)
WB EDIF	Western Balkans Enterprise Development and Innovation Facility

## Executive summary

Montenegrin Employers Federation conducted a comprehensive research in 2013 based on the ILOs toolkit on “Enabling Environment for Sustainable Enterprises which evaluates 17 pillars conducive to the promotion of sustainable enterprises. The report analyses how the country performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in Montenegro.

A key result of primary and secondary surveys and of numerous focus groups’ meetings with representatives of the most important enterprises operating in all economic sectors is a unique and undivided opinion on 5 biggest barriers enterprises in Montenegro face in their everyday operations. Along with a detailed review of problems recognised, it also offers recommendations for their solutions.

The most important constraints for enabling environment for growth and sustainability of enterprises recognised are: inadequate regulatory framework, limited access to financial resources, high share of informal economy, corruption in all areas and at all levels and a mismatch between education system and labour market demands.

When it comes to **regulatory framework**, both primary and secondary surveys show positive shifts and improvements in Montenegro as reported by the relevant international institutions. Nevertheless, significant problems still exists which is confirmed by the fact that 97 per cent of companies think that regulatory framework does not stimulate enterprise growth. The results of primary survey and focus groups’ meetings show that the problem of inconsistent and/or selective implementation of regulations is bigger than that of its drafting. Also, state administration is marked as inefficient, ineffective, clumsy and expensive by 60% of enterprises in the sample. Furthermore, respondents to a large extent agree with the fact of the overlap in the competences/jurisdiction of institutions, which leads to excessive, complicating and expensive procedures. Although there is a legal obligation of cooperation and coordination in the exercise of competences, bad coordination between different state bodies themselves or those of local governments is considered to be a very significant constraint for business operations. Equally important barrier as shown in both primary and secondary survey are the high costs of labour. Only 11.2 per cent of companies in EESE survey reported the opposite.

Recommended key measures for making the regulatory environment support the growth of sustainable enterprises are: simplification of necessary procedures and the elimination of unnecessary ones; reduction of implementation costs, elimination of emerging forms of bureaucratic autocracy - especially at local levels and, in that sense, widening of one-stop- shop concept where possible; further work on simplification of tax collection process (as reported by 43.4 per cent of companies in the survey); greater involvement of employers representatives in creation of legislation and strategic documents relating to economy; strengthening capacities of public administration through increased accountability, transparency, efficiency and coordination of competencies; decrease in labour costs.

**Lack of financial resources** and difficulties in debt collection jeopardise the solvency and reduce enterprises' growth potential in terms of investment in new services, products and new technologies. Highly alarming is the fact that 96 per cent of companies reported problems related to access to finance. Furthermore, 93 per cent of companies find interest rates to be high, accompanied by a problem of ensuring collateral upon business start up. Communication gap between financial institutions and economic operators is evident, since 98 per cent of companies find financial products not adjusted to their needs. The lack of sector specific credit lines and stimulation policies further deteriorates bad economic situation in the country. Poor knowledge of and insufficient use of alternative financial resources contributes to it as well.

If we are to have strong economy it is advisable to create stimulating credit policy for companies regardless their activity and size. It would mean more favourable credit conditions, lower interest rates, more diverse and acceptable collateral as well as the possibility of reprogramming the current credits without changing the credit conditions. There is a need for creation of special credit lines that comply with individual SME needs (e.g. export or production oriented enterprises, especially those producing and/or processing food; enterprises wishing to implement energy efficiency projects, innovative enterprises etc.)

**Informal economy and unfair competition** are burning topics in Montenegro being major concerns for the economic and overall development. Although the official data do not exist, there is a wide-accepted consensus that the share of informal economy in GDP is 23-31 per cent. The survey has shown that 32.7 per cent of companies often face unfair competition in terms of legal and natural persons entirely or partially operating on illegal basis especially in trade and services sectors (as reported by 57.1 per cent of enterprises).

In order to tackle informal economy it is necessary to ensure professional, timely and non-discriminative actions of public and local administration bodies, especially inspections in terms of uncompromisingly turning illegal entities into formal economy. Being closely related to regulatory framework, solution to this problem lies in reduction of fiscal burden related to labour, making labour legislation more flexible as well as in reduction and simplification of all administrative procedures related to business operations.

**Bribery and corruption**, in the context of good governance, is the next recognised business barrier. According to World Bank data, the level of corruption control in Montenegro is very low, as well confirmed by EESE survey whereby 61.6 per cent of enterprises state corruption is a major concern in business operations. The areas most affected by the issue are: spatial planning, public procurement, privatisation processes, education and health and local administrations work. Especially worrying is the fact that only 32.2 per cent of companies in the survey know about the existence of institutions dealing with corruption and about the possibility of reporting it. Another problem having emerged in the survey is inappropriate use of budget resources by state institutions, perceived by 67.6 per cent of companies.

It is therefore necessary to create environment that will guarantee legislation implementation in terms of protecting the independence and impartiality of institutions in decision making

from political and other influences, and increase the accountability in exercise of competencies. Stronger liaisons and cooperation between public and private sector are also needed if we want to increase the transparency of public administration work (especially in the areas of public procurement, inspections activities etc.).

**Mismatch between education system and labour market needs** is another weak point in Montenegrin business environment. 47.5 per cent of enterprises in EESE survey have difficulties in finding skilled worker while 96 per cent of enterprises reported the lack of skills as major problem in everyday activities. Only 3.1 per cent of enterprises is of opinion that existing practical trainings contribute to employment upon the completion. As most enterprises in Montenegro are small, they don't have a sector or person exclusively responsible for training and HRD.

In order to bridge the gap between supply and demand at the labour market Montenegro needs to improve skills anticipation system and create enrolling policies accordingly. Further efforts are needed for involvement of employers in education policy and programmes creation but also in promoting the image of those occupations negatively perceived by youth. In promotion of work based learning as crucial to creating skilled workforce, there is a strong recommendation for improved quality of practical training, its introduction in higher education curricula as compulsory part, as well as for introduction of tax relief or similar stimulating measures that will ensure active participation of enterprises in the processes.

Detailed list key recommendations could be found on page 109.

## Methodology

The assessment described in this report is based on secondary data research, a literature review, focus group discussion, and in-depth interviews with relevant companies' in Montenegro and other stakeholders important for further development of business environment for sustainable companies in Montenegro. This report also covers results of the survey carried out in Montenegro among 200 companies from March to May 2013 focusing on 7 out of 17 pillars.

Secondary survey is based on the analysis of existing documents and reports on Montenegro by relevant international and national institutions and agencies. For the sake of monitoring the progress/regress in particular areas, all data are shown chronologically for different years (5-6 years time depending on available data) in graphs and tables at the end of chapters. Countries used for comparative analysis are: Serbia, Slovenia, Croatia, Bulgaria and Iceland. They were chosen based similar development levels, regional proximity and similarities in size.

For the purpose of readability of the report, all 17 pillars are summarised in four sections (political elements, economic elements, social elements and environmental elements). The final chapter gives an overview and lists the activities to be taken in order to ensure the creation of an enabling environment for the sustainable growth of enterprises, thereby providing clear guidelines for policy makers and decision makers in Montenegro.

Naturally, certain pillars that the ILO targets in the EESE framework represent lesser or no challenge to the business environment in Montenegro. MEF conducted four focus group discussions with the purpose of selecting priority pillars for improvement. Following focus group discussions and in-depth interviews with representatives of companies, other business organizations and relevant institutions, the following priority pillars were chosen:

- Good governance;
- Education, training and lifelong learning;
- Access to financial services;
- Sound and stable macroeconomic policy and good management of the economy;
- Enabling legal and regulatory environment;
- Trade and sustainable economic integration; and
- Fair competition

The table in section 5 of this report provides an overview of activities to be undertaken in order to ensure the creation of an enabling environment for the development of sustainable enterprises, and provides clear guidelines for policy makers and decision makers in Montenegro.

## 1. Introduction

The important role that the private sector plays in social and economic development led the International Labour Conference to discuss the concept of sustainable enterprises in June 2007. The promotion of sustainable enterprises ensures that human, financial and natural resources are combined equitably. An environment conducive to the creation and growth of enterprises on a sustainable basis must take into account the three dimensions of sustainable development – economic, social and environmental – as interdependent and mutually reinforcing pillars.

The 2007 International Labour Conference adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

The same conclusions invite the ILO to focus its interventions on practical responses, including tools, methodologies and knowledge sharing, which are relevant to the social partners in their activities. This is why the ILO has developed a methodology to assess the degree to which the 17 conditions for an enabling environment for sustainable enterprises are met in different countries. This report describes the implementation of such an assessment in Montenegro and is part of a series of country reports on the same topic. The report covers the political, economic, social, and environmental situation of the enabling business environment in Montenegro. The political area comprises 4 of the 17 conditions, the economic includes 8, the social 4, and the environmental dimension consists of 1 condition. In order to understand how Montenegro performs relative to neighbouring and/or similar countries, the report compares Montenegro with the following countries across the selected indicators: Serbia, Croatia, Bulgaria, Iceland, and Slovenia.

The enabling environment for sustainable enterprises in Montenegro was assessed through a careful review of secondary data, findings from a national employers' perception survey and focus group discussions with relevant enterprise owners in the country. The Montenegro EESE survey was conducted in April and May 2013 among companies operating in all sectors and covering the three regions of Montenegro. The survey focused on 7 of the 17 conditions, which were selected through focus group discussion and were approved by the Executive board of MEF.<sup>1</sup>

According to the methodology of the ILO total number of companies sampled in this survey was 200. Whole process of companies' selection was very strict with just one purpose - to reflect the economy of Montenegro as realistically as possible.

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1 These include : "Good governance", "Education, training and lifelong learning", "Access to financial services", "Sound and stable macroeconomic policy and good management of the economy", "Enabling legal and regulatory environment", "Adequate social protection", "Fair competition", and "Trade and sustainable economic integration".

<b>Table 1: Sample group of the survey, by sector</b>	<b>Valid Percent</b>
Agriculture, hunting and forestry	6.9
Mining and quarrying	1.0
Manufacturing	5.9
Electricity and gas supply	2.0
Construction	12.9
Wholesale and retail trade	20.8
Hotels and restaurants	11.9
Transport, storage and communication	1.0
Financial services	12.9
Real estate services	2.0
Education	3.0
Health and social work services	1.0
Other	18.8
<b>Total</b>	<b>100.0</b>

Of the total number of surveyed companies, the trade sector is most represented, making up 20.8 per cent of respondents. It is especially important that this sector be well represented, because it offers the strongest reflection of the state of the Montenegrin economy. Trade is followed by the sector of other communal and personal services with 18.8 per cent of representation in the EESE survey sample. Concerning firm size based on number of employees, the greatest proportion of enterprises have fewer than 5 employees (30.7 per cent), followed by those with more than 99 employees (16.8 per cent). It is important that small firms are well represented as this best reflects the economy of Montenegro, where 99 per cent of the companies are SMEs. Regarding firm age, for the strength of the sample, it is necessary to have stable companies. Of all firms surveyed, 75.2 per cent have operated more than 5 years, and just 10.9 per cent have operated less than 2 years. From the total number, 22.8 per cent of SMEs in the sample operate with the specific goal conducting activities at the international market level, 51.5 per cent are oriented to the national market, and 25.7 per cent of surveyed companies conduct activities at local level. A great number of companies from the survey are members of MEF (74 per cent) and the biggest share of these companies have been members of MEF for more than 5 years. The greatest share of companies in the sample stated that they are not members of some other business association, while 23.8 per cent reported they are members of the following associations: Am Cham, Business Women association, and MBA.

Apart from field survey results, this report takes into consideration the results of the focus group discussions. For the purpose of creating a strong base for the report and the EESE survey organized by MEF, 4 focus groups were conducted with business owners and firm directors from different sectors.<sup>2</sup> All important statements are inserted in the report to reflect the real state of the Montenegrin economy. This report recommends certain activities and goals to be carried out and achieved in the future, emphasising the role of all actors in pursuing these goals. The broad purpose of these recommendations is to support relevant institutions in Montenegro to promote an enabling environment for sustainable enterprise development.

<sup>2</sup> The first focus group covered the construction and energy sectors, the second included the trade and tourism sectors, the third was on the transport, telecommunication and other services sectors, and the final group discussion focused on the agriculture and production sectors.

## 2. Political elements

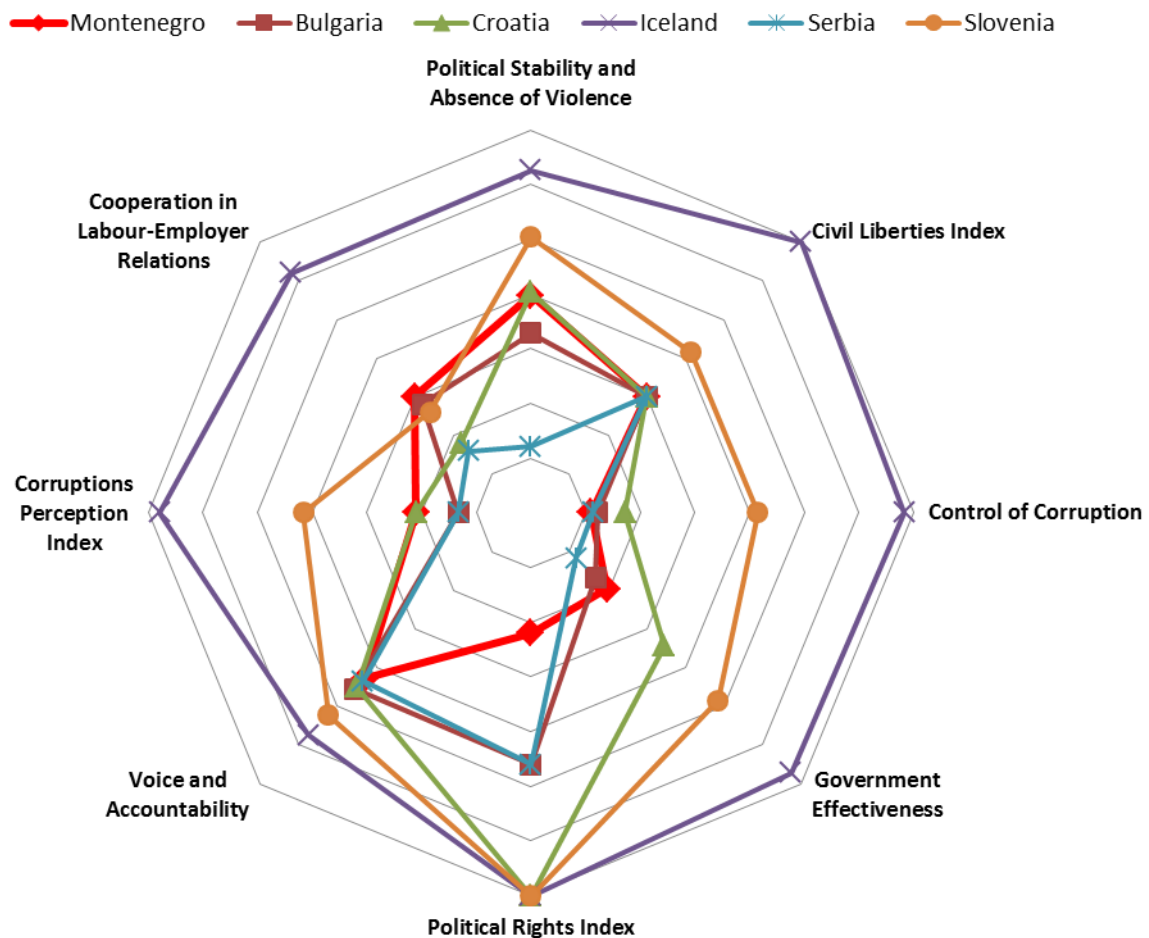
### KEY FINDINGS:

Montenegro reflects a comparatively peaceful and politically stable state. Having started the negotiations as a candidate country for EU membership, and on track towards acceding to NATO membership, Montenegro shows that it is on a positive track in terms of political stability.

Corruption is a key problem in the country, where a strong policy management system in the country comprising sufficient legal framework and necessary bodies, is crippled by poor implementation and a lack of resources. The push for EU accession has helped to stimulate the process of combating corruption, but there is still much space for improvement. An issue of particular importance for the economy, as revealed in the Montenegro ESE survey, is corruption in the public procurement process, which must be made more transparent in order to ensure equal treatment of those participating in it.

Social dialogue is a constitutional category, regulated by special laws, namely Law on Social Council, Labour Law, and Law on Trade Unions Representativity. Social Council is established in 2007 on a tripartite basis and consists of social partners: Government representatives, representatives of representative TU organisations (SSCG i USSCG) and representatives of representative employers' organisation (UPCG). AS regulated by provisions of Law on Social Council, Social Council considers and takes stands on the issues such as: development and improvement of collective bargaining; the influence of economic policies and measures to social development and the stability of employment policy, wages and prices; competition and productivity; privatisation and other structural adjustment issues; environmental and labour protection; education and training; health and social protection and security; demographic flows and other issues important for implementation and improvement of economic and social policy. Social dialogue played very important role at the time of crisis when all major decisions regarding workers and employers in Montenegro were made on tripartite basis, especially in the area of legislation review. Although the level of social dialogue development has been satisfactory, it is still necessary to improve its mechanisms so that they become more efficient. In order to encourage the dialogue of social partners at local levels and satisfy economic and social needs of people, local social councils have been established in 21 municipality, but their work and functioning is far from good. It seems still that decisions made at local level, important for economic position of employers and therefore the employees too in a certain municipality, are not considered as they should be discussed and approved by local social councils.

**Graph 1: Indicators assessing political elements of an enabling environment for sustainable enterprises (2011)\***



\*the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the center a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Montenegro began EU accession negotiations in June 2012, and is currently on track towards acceding to NATO membership by 2014.
- Political tensions have increased in the country in the past two years in spite of positive growth since gaining independence. Tensions between partners of the ruling European Montenegro Coalition grew in regards to planned candidates for the 2013 presidential elections, and the opposition party has substantially increased voter support in recent years.
- Corruption is a major concern in the country and is most pervasive in local self-government, spatial planning, public procurement, privatization, education, and health care.
- Anti-corruption actions have been taken by the government, especially in the push for EU

accession, but gaps in implementation and an inefficient government bureaucracy substantially hinder the effectiveness of laws and policies. Thus, it is likely that the weak implementation of anti-corruption policies and activities is more a product of a lack of capacity, rather than a lack of willingness by the state.

- Acquisition of construction licenses is one of the greatest challenges for businesses operating in the country. According to the

World Bank "Doing Business" 2013 report, Montenegro ranked 176 out of 185 countries on the ease of dealing with construction permits.

- According to the EESE survey findings, bribery is a greater challenge for firms employing up to 5 workers, than for larger firms.
- Public oversight is important in combating

corruption in the country, as government resources are limited. Montenegro boasts a comparatively high level of NGO and public political participation for the region, and the Parliament is now streaming sessions online and information on MP votes is published on the parliamentary website to promote greater public oversight and transparency.

- Montenegro has ratified 4 of the 6 ILO labour conventions on social dialogue, where C151 on the Protection of the Right to Organise and Procedures for Determining Conditions of Employment in the Public Service, and C154 concerning the Promotion of Collective Bargaining are not yet ratified.
- A tripartite body known as the Social Council is responsible for facilitating social dialogue in Montenegro. However, its capacity remains limited, as it can only give opinions on proposed laws and regulations within its authority. The Montenegrin Employer Federation (MEF) also plays a large role in facilitating social dialogue in the country.
- In November 2010, social partners signed the Amendments to the General Collective Agreement at national level, the first since 2004. It then “grew into” so called temporal act since for the first time it was signed as the fix-term act. It endured many changes, whereby its legal effectiveness was first extended to December 31<sup>st</sup> 2011, then to June 30<sup>th</sup> 2012 and finally to September 30<sup>th</sup> 2013. Despite continuous negotiations, social partners failed to reach the agreement and conclude a new General Collective Agreement, starting from September 30<sup>th</sup> 2012 the very act have ceased to be a positive law in Montenegro.
- Montenegro has adopted all 9 main human rights conventions, and has ratified the eight ILO core conventions.
- There is a high rate of impunity in the Montenegrin justice system for perpetrators of crimes against human rights defenders and journalists.
- The Roma population is the ethnic group most discriminated against in the country.
- Concerns also abound regarding the legal status of the 17,000 refugees living in Montenegro, most of whom arrived from Kosovo, Bosnia and Herzegovina, and Croatia during the wars surrounding the fall of the former Yugoslavia.
- In October 2011, the government established the Coordinating Committee for monitoring the implementation of the Strategy for Durable Solution to the Issue of Displaced and Internally Displaced Persons with special emphasis on the Konik site, the largest refugee camp in Europe made up largely of Roma.
- As for human trafficking and forced labour the government has adopted the Strategy for the Fight against Trafficking for 2012-2018, which focuses on education, victim assistance, protection, reintegration, and prosecution.
- Gender equality and protection from gender-based violence, especially for women, are important human rights issues in the country. In 2010, the government adopted the Law on the Protection from Domestic Violence and established a number of measures for the protection of victims.
- In 2011, representatives from the Network of NGOs for Democracy and Human Rights signed a memorandum of understanding with the president of the Montenegrin Parliament, establishing routes of cooperation between NGOs and the government. However, NGOs are generally weak in the country insofar as their ability to act as national political watchdogs.

## 2.1. Peace and political stability

Peace and political stability are key conditions for the creation and development of sustainable enterprises. Montenegro reflects a comparatively peaceful and politically stable environment. During the collapse of the former Yugoslavia, it was the only republic not to experience combat within its borders. Today, Montenegro is on a positive track towards acceding to NATO membership by 2014, and began EU accession negotiations in June 2012.<sup>3</sup>

Montenegro became an independent state in May 2006 when a narrow majority of the population (55.5 per cent) voted in favour of separating from the Union of Serbia and Montenegro (SCG). The SCG was formed in 2003 and was the cause of much political instability.<sup>4</sup> Nonetheless, following the 2006 referendum that ended the SCG, political antagonisms in Montenegro reflected a polarized society, where only a narrow majority has voted in favour of the decision to become independent. Since then, the country has made great strides in respect to political stability, joining various international bodies and reflecting a strong level of cooperation among opposition parties that previously were extremely divided and resistant to dialogue.<sup>5</sup>

The two major political parties in Montenegro are the Democratic Party of Socialists (DPS) and the Social Democratic Party (SDP), which, along with the Liberal Party, make up of the ruling European Montenegro coalition. In the 2012 parliamentary elections, the coalition was two seats short of a majority, provoking them to include the ethnic minority Bosniak, Croat and Albanian party. This has allowed for the inclusion of the ethnic minority parties in the ruling coalition.<sup>6</sup>

Secondary data on “Political Stability and Absence of Violence” assesses a country’s political stability on a scale from -2.5 to 2.5 where higher values correspond to better performance. Between 2006 AND 2009, Montenegro experienced a notable improvement in this regard, moving from 0.07 in the former year to 0.81 in the latter. However, since 2009 the situation has worsened, where Montenegro fell to 0.52 in 2011. Relative to the countries used for comparison, Montenegro outperforms Serbia and Bulgaria, and records a similar value as Croatia in 2011. Slovenia and Iceland reflect the highest levels of political stability and absence of violence in that year.

Confirming the secondary data reflecting Montenegro’s slight worsening in recent years, political tensions have increased in the country in the past two years in spite of positive growth since gaining independence. In 2012, the SDP announced the possibility that it would run independently of its coalition partner, the DPS, in the 2013 presidential race. In the same year, it was announced that opposition parties were attempting to unite all anti-government forces under the former foreign minister and leader of the increasingly popular opposition party, the Democratic Front, Miodrag Lekic.<sup>7</sup> In the 2013 presidential election incumbent DPS president Filip Vujanovic won 52.2 per cent of the vote,

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3 Ministry of Sustainable Development and Tourism. (undated). Montenegro Investment Opportunities Guide. White letter. Government of Montenegro. Accessed 2 May 2013.

4 European Forum for Democracy and Solidarity. 2013. Montenegro – Country updates. Labour Party through Westminster Foundation for democracy; Party for European Socialists. Accessed 27 May 2013.

5 Soury, Marion. 2011. Montenegro Since Independence: Achievement and challenges. London Redaction, 10 May. Accessed 27 May 2013.

6 European Forum for Democracy and Solidarity. 2013.

7 Milosevic, M. 2012. The Montenegrin Political Landscape: The end of political stability?. ELIAMEP Briefing Notes 27/2012, July.

while Miodrag Lekic took 48.8 per cent. Subsequently, the close victory was contested from multiple sides. The SDP had called on its voters to boycott the polls on the basis that Vujanovic's candidacy was unconstitutional, as he had already served two terms, the maximum allowed by the constitution. The DPS defended his candidacy, arguing that Vujanovic's first term did not count because it was prior to Montenegro's independence. Following the victory, Lekic's supporters demanded a recount and other protesters called for an annulment of the results based on allegations of fraud and corruption.<sup>8</sup> Considering the recentness of these events, it is difficult to determine the proximate future extent of political stability in Montenegro.

### Key Indicator

Political Stability and Absence of Violence/ Terrorism		2006	2007	2008	2009	2010	2011
The likelihood that the government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism.  <u>Source:</u> World Bank, Governance Matters database <sup>9</sup>	<b>Montenegro</b>	0.07	0.15	0.79	0.81	0.53	0.52
	<b>Bulgaria</b>	0.42	0.37	0.36	0.37	0.37	0.30
	<b>Croatia</b>	0.54	0.59	0.55	0.58	0.58	0.54
	<b>Iceland</b>	1.44	1.49	1.22	1.18	1.01	1.22
	<b>Serbia</b>	-0.56	-0.60	-0.57	-0.52	-0.41	-0.33
	<b>Slovenia</b>	1.05	1.08	1.12	0.88	0.80	0.84
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.							

<sup>8</sup> European Forum for Democracy and Solidarity. 2013.

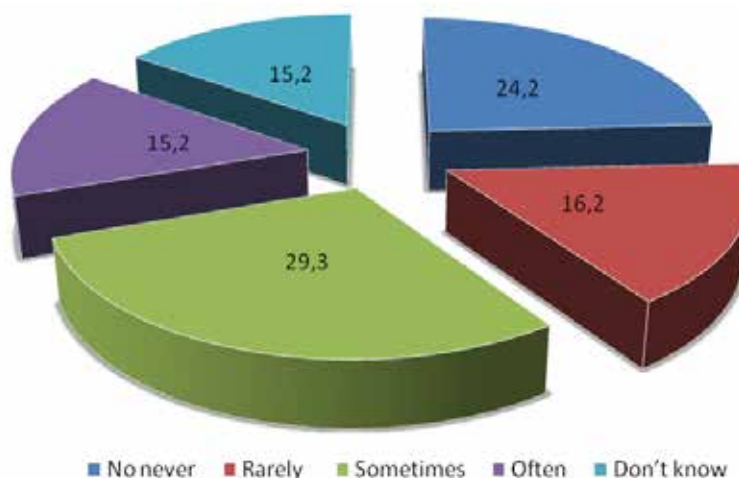
<sup>9</sup> World Bank World Governance Indicators.

## 2.2. Good governance

Good governance, the absence of corruption and efficient institutions foster entrepreneurship and promote private sector growth and development. The Constitution of Montenegro is in line with EU standards regarding good governance. As for the development of entrepreneurship, legal and institutional framework has been set followed by adoption of policies and strategic documents. However, despite formal preconditions, the lack of full institutional support has slowed effective implementation of rule of law and achievement of good governance. There is a disconnect in the country between the strong policy management system comprising a legal framework and necessary bodies, and the limited extent to which laws and policies are actually implemented. Anti-corruption efforts have been made by the government, specifically in the push for EU accession, but there is still space for improvement.

The sectors in which corruption is most pervasive include local self-government, spatial planning, public procurement, privatization, education, and health care. Actions have been taken to facilitate a more business-friendly environment by streamlining business registration procedures.<sup>10</sup> However, companies continue to face many related barriers, particularly in regards to acquiring construction licenses.<sup>11</sup> In the World Bank “Doing Business” 2013 report, Montenegro ranked notably low, at 176 out of 185 economies on the ease of dealing with construction permits.<sup>12</sup>

**Graph 2:** Is bribery and other forms of corrupt payments, an issue that consistently impacts on firms?



According to the Montenegro EESE survey results, 15.2 per cent of all respondents stated that bribery and other forms of corrupt payments are issues that consistently impact firms in the country, which is highly worrying. However, a larger portion of interviewees, 24.2 per cent, responded that it never influences their business operations. The analysis shows that 61.6 per cent of firms recognize bribery as a problem for conducting business in Montenegro. Considering firms by size, the largest percentage of those who see bribery as a problem employ up to 5 workers (40 per cent of all firms). Comparatively, firms employing more than 20 workers make up the biggest percentage of those who do not see bribery as a problem, and 25 per cent of firms who think it is not a problem have more than 99 employees.

<sup>10</sup> Freedom House. 2012a.

<sup>11</sup> Ibid.

<sup>12</sup> World Bank. 2013. Doing Business Report – Economy profile: Montenegro. World Bank and IFC. Accessed 27 May 2013.

**Table 2:** Are firms expected to give monetary contributions/gifts:?

	No never	Rarely	Sometimes	Often	Don't know
To receive a reasonable level of service and avoid administrative obstacles?	<b>51</b>	<b>9</b>	<b>19</b>	<b>3</b>	<b>18</b>
When meeting with tax inspectors?	<b>60.2</b>	<b>6.1</b>	<b>11.2</b>	<b>4.1</b>	<b>18.4</b>
To secure a construction permit?	<b>49.0</b>	<b>11.2</b>	<b>5.1</b>	<b>5.1</b>	<b>29.6</b>
To secure a government contract?	<b>53.1</b>	<b>11.2</b>	<b>6.1</b>	<b>3.1</b>	<b>26.5</b>
To secure an import license?	<b>57.1</b>	<b>7.1</b>	<b>3.1</b>	<b>1.0</b>	<b>31.6</b>
To secure an operating license?	<b>58.2</b>	<b>6.1</b>	<b>6.1</b>	<b>0</b>	<b>29.6</b>

The responses from firms in the EESE survey show that the majority feel that they are not expected to make extra speed payments or illicit backhanders to receive a reasonable level of service, or to give monetary contributions/gifts to secure an import or operating license. Nevertheless, a worrying factor is that positive answers do exist and at non-negligible rates. The EESE survey results show that the procedure of obtaining construction permits is seen by 21 per cent of respondents as a field where bribery and corruption are prevalent.

**Graph 3:** Control of Corruption

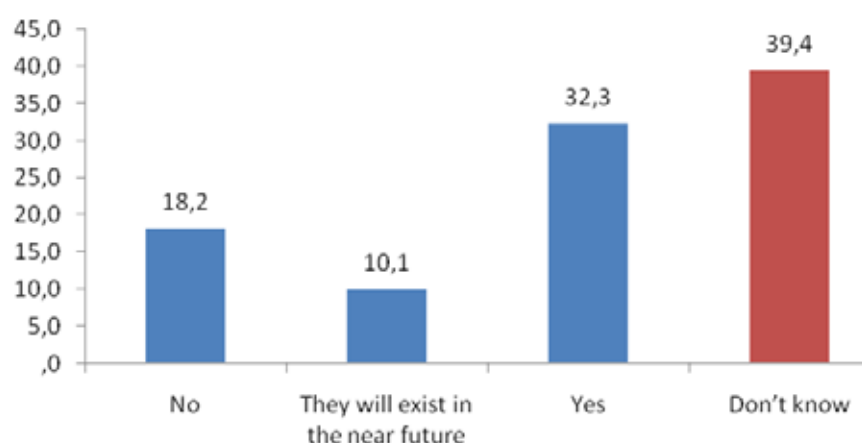

Source: World Bank, Governance Matters database.

Secondary data confirms the picture described by respondents from the EESE survey, though it reflects a slightly more negative picture. Montenegro generally performs poorly. “Control of Corruption” measures the extent to which public power is exercised for private gain and the state is captured by elites and private interests, on a scale from -2.5 and 2.5 where higher values reflect better performance. Though Montenegro improved somewhat between 2010-11, it performs more poorly than other countries used for comparison, reflecting a level of -0.21 in 2011. This is slightly lower than the scores recorded for Serbia and Bulgaria in that year, while Croatia rated 0.02, and Iceland and Slovenia performed the strongest with 1.94 and 0.93 respectively. The “Corruption Perceptions Index” reflects a similar picture.

On a scale from 0 (“highly corrupt”) to 10 (“highly clean”), Montenegro has increased from 3.3 in 2007 to 4.1 in 2012. Though this is still somewhat low relative to other countries, conditions in the other countries used for comparison have worsened over this period, while Montenegro improved.

The majority of firms are not informed about existence of effective, independent anti-corruption institutions responsible for handling complaints made by the private sector. Only 32.2 per cent of enterprises are aware that such institutions exist and are able to combat this threat for the Montenegrin economy compared to 39.4 per cent of enterprises unaware of the existence of such institutions. These data show the need for greater promotion and active involvement of such institutions throughout the private sector in the country.

**Graph 4:** Do effective, independent anti-corruption institutions exist to handle complaints by private sector?



Though corruption is a major issue in Montenegro, largely due to gaps in implementation, inefficient government bureaucracy is the more problematic factor for doing business in the country according to the World Economic Forum Global Competitiveness Report 2012-13.<sup>13</sup> Based on these findings, it is likely that the weak implementation of anti-corruption policies and activities is more a product of a lack of capacity, rather than a lack of willingness by the state. According to a 2010 government survey of business leaders in Montenegro, companies are more negative about dealing with the public administration than they are towards corruption, legal costs, or weak infrastructure. Given reasons for this largely referred to the behavior of public institution staff and include: slowness, rudeness and improper behavior, a lack of professionalism, and a lack of motivation and interest.<sup>14</sup> In addition, ahead of inefficient government bureaucracy in the World Economic Forum list of most problematic factors for business, an inefficient labour force with a poor work ethic is the most hindering factor for businesses operating in the country.<sup>15</sup>

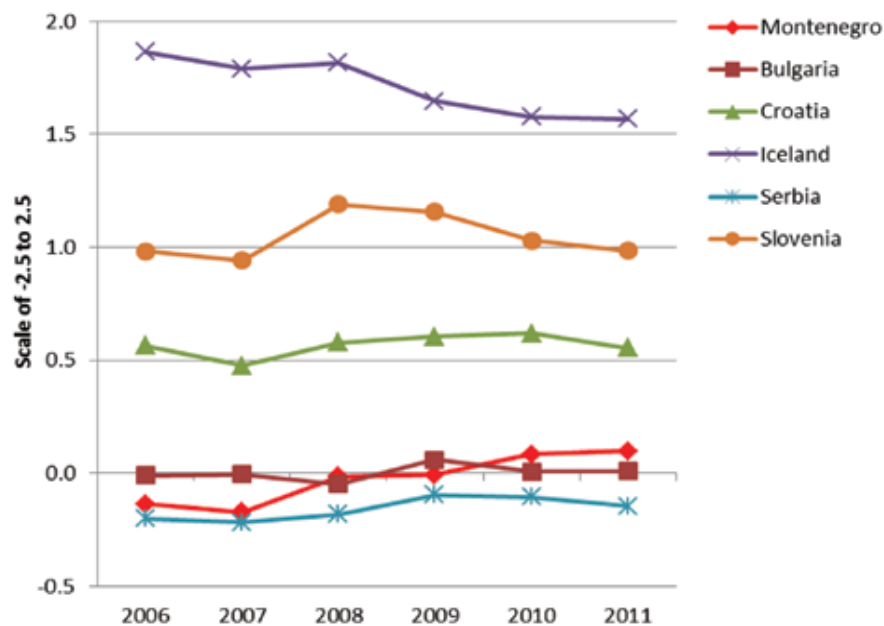
<sup>13</sup> World Economic Forum. 2012. Global Competitiveness Report 2012-2013. WEF (Geneva, Switzerland).

<sup>14</sup> Rojec, M. et al. 2010. Competitiveness of Montenegrin Economy. Ministry of Finance of Montenegro, December. Accessed 25 May 2013.

<sup>15</sup> World Economic Forum. 2012.

Secondary data reflects improvements in regards to government efficiency in Montenegro in recent years. The indicator “Government Effectiveness” measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. In a range of values from -2.5 to 2.5 with higher values indicating better performance, Montenegro recorded values below 0 over the period 2006-09, but has since successfully moved to a score of 0.1 in 2011, outperforming Serbia and Bulgaria in that year. Montenegro is also the only country of those compared to have improved in this regard between 2010-11.

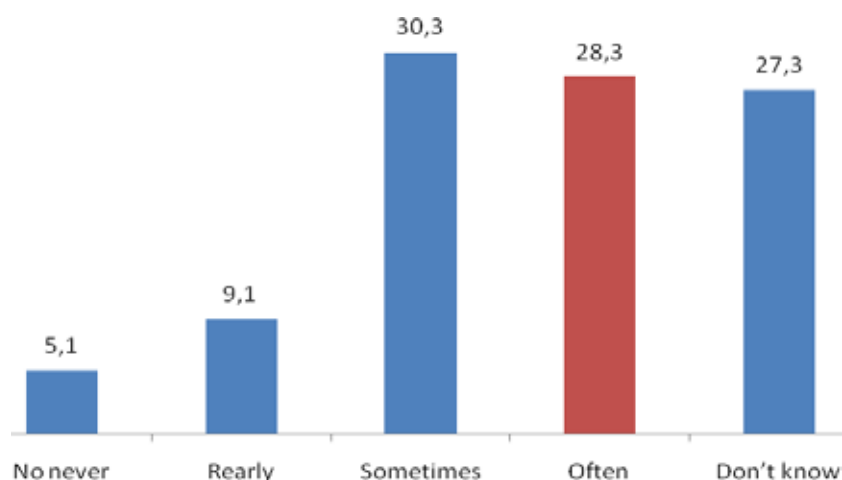
**Graph 5: Government Effectiveness**



Source: World Bank, Governance Matters database.

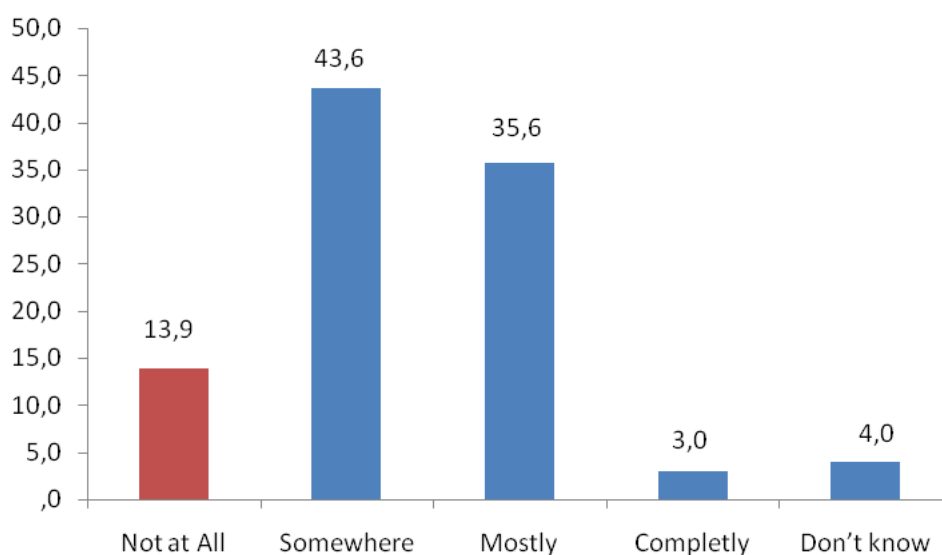
Findings from the Montenegrin EESE survey show that of all the enterprises covered by the research, only 5.1 per cent felt that the government does not waste funds earmarked for public services, while a prevailing 67.6 per cent think that the government does not spend these funds in line with their basic purpose. Moreover, almost 50 per cent of firms that expressed more critical attitudes to government spending think that the funds are often wasted.

**Graph 6:** Does the Government waste funds earmarked for public services?



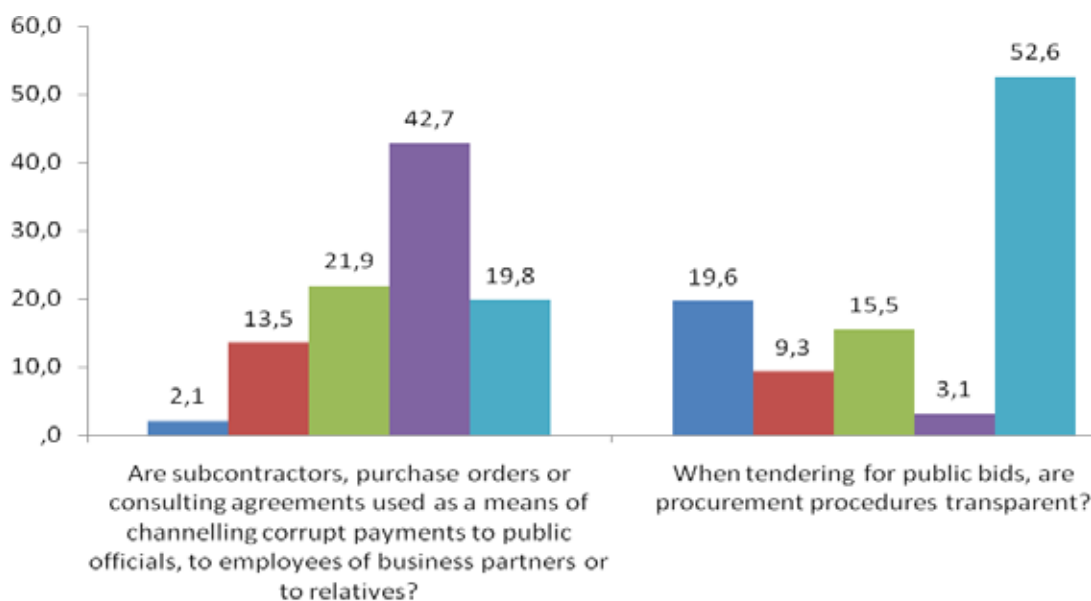
When it comes to trust in government, 13.9 per cent of EESE survey respondents stated that government does not at all provide a regulatory framework to encourage firms to expand operations, and only 3 per cent of firms felt that the opposite is true.

**Graph 7:** Does the government provide a regulatory framework that encourages firms to expand their operations, if the business case permits?



Furthermore, concerning the interpretations of the laws and regulations affecting firms, only 5 per cent of EESE survey respondents find them both consistent and predictable, while all others felt there to be a problem in this field. For 43.6 per cent of firms surveyed, the regulatory framework is not at all predictable expected and reliable.

**Graph 8: Public Procurement**



An important set of questions in the Montenegro EESE survey is related to public procurement and issues and problems as they are reflected in the firms' responses. According to the opinion of enterprises surveyed, 19.6 per cent think that procurement procedures are never transparent when tendering for public bids, while only 3.1 per cent said that these procedures are often or always transparent. In addition, 42.7 per cent of enterprises think that subcontracts, purchase orders or consulting agreements are often used as a means of channeling corrupt payments to public officials, to employees of business partners or their relatives. In this respect, only 2.1 per cent of firms think that this is never the case. These attitudes are confirmed again by similar firm responses to the question "Which areas of public services are the most affected with bribery," whereby the most frequent answers are "public procurement" and "public administration". The next on the list of respondents' answers in this regard are inspection bodies and courts.

Considering the ability of the population to freely participate in and influence politics, Montenegro reflects certain characteristics that imply a comparatively impressive environment, while secondary data counters this picture. "Voice and Accountability" measures the extent to which citizens participate in selecting their government, as well as freedom of expression, freedom of association and a free media. On a scale from -2.5 to 2.5 with higher values indicating better performance, Montenegro has maintained a stable, but relatively weak performance level over the period 2006-11. In the latter year, Montenegro recorded the lowest score of all countries used for comparison at 0.25. Serbia performed similarly in the same year, registering a score 0.29, and all other countries performed notably better.

In spite of relatively poor performance as reflected by secondary data, Montenegro boasts a comparatively high level of NGO and public political participation for the region.<sup>16</sup> The Parliament of Montenegro has made substantial efforts to facilitate ongoing cooperation with nongovernmental organizations (NGOs) and civil society organizations (CSOs). In 2011, several changes were made which clearly reflect a successful increase in cooperation. In that year, NGOs participated in 40 committee sessions, including consultative hearings, parliament signed a memorandum with a network of CSOs focused on democracy and human rights, and a data registry of NGOs interested in cooperation was established by the parliamentary administrative staff. Parliamentary sessions are also now being

<sup>16</sup> Ibid.

streamed online, and information on votes is published on the parliamentary website.<sup>17</sup> These changes reflect positive efforts by the government to remedy the prevalent negative perceptions of the country regarding corruption and provide citizens with increased access to the decision-making process, thereby hopefully increasing the level of transparency in the political decision-making processes.

## Key Indicators

<b>Control of corruption</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.  Source: World Bank, Governance Matters database <sup>18</sup> .	<b>Montenegro</b>	-0.38	-0.31	-0.19	-0.16	-0.24	-0.21
	<b>Bulgaria</b>	-0.10	-0.23	-0.30	-0.21	-0.19	-0.17
	<b>Croatia</b>	0.09	0.08	-0.04	-0.09	-0.03	0.02
	<b>Iceland</b>	2.25	2.28	2.45	2.07	1.92	1.94
	<b>Serbia</b>	-0.28	-0.35	-0.30	-0.25	-0.25	-0.20
	<b>Slovenia</b>	1.02	0.98	0.91	1.05	0.87	0.93
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.							
<b>Corruption Perception Index (CPI)</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
The Transparency International CPI measures the perceived levels of public sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys.  Source: Transparency International. <sup>19</sup>  Note: In 2012, Transparency International changed the CPI scale from 0-10 to 0-100. In the interest of comparison, the numbers reflected here for 2012 are thus altered, where the original score given is divided by 10.	<b>Montenegro</b>	3.3	3.4	3.9	3.7	4.0	4.1
	<b>Bulgaria</b>	4.1	3.6	3.8	3.6	3.3	4.1
	<b>Croatia</b>	4.1	4.4	4.1	4.1	4	4.6
	<b>Iceland</b>	9.2	8.9	8.7	8.5	8.3	8.2
	<b>Serbia</b>	3.4	3.4	3.5	3.5	3.3	3.9
	<b>Slovenia</b>	6.6	6.7	6.6	6.4	5.9	6.1
The scores are on a scale from 0 (highly corrupt) to 10 (highly clean).							
<b>Government Effectiveness</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
The quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.  Source: World Bank, Governance Matters database. <sup>20</sup>	<b>Montenegro</b>	-0.13	-0.17	-0.01	-0.01	0.08	0.10
	<b>Bulgaria</b>	-0.01	-0.00	-0.05	0.06	0.01	0.01
	<b>Croatia</b>	0.57	0.48	0.58	0.61	0.62	0.55
	<b>Iceland</b>	1.86	1.79	1.82	1.65	1.58	1.57
	<b>Serbia</b>	-0.20	-0.22	-0.18	-0.09	-0.10	-0.15
	<b>Slovenia</b>	0.98	0.94	1.19	1.16	1.03	0.99
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.							

<sup>17</sup> Freedom House. 2012a.

<sup>18</sup> World Bank World Governance Indicators.

<sup>19</sup> Transparency International CPI.

<sup>20</sup> World Bank World Governance Indicators.

Voice and Accountability		2006	2007	2008	2009	2010	2011
The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media.  <i>Source:</i> World Bank, Governance Matters database. <sup>21</sup>	Montenegro	0.27	0.27	0.25	0.26	0.21	0.25
	Bulgaria	0.57	0.69	0.57	0.52	0.49	0.47
	Croatia	0.45	0.48	0.47	0.50	0.42	0.42
	Iceland	1.48	1.46	1.46	1.44	1.47	1.46
	Serbia	0.19	0.28	0.25	0.32	0.28	0.29
	Slovenia	1.06	1.05	1.01	1.01	1.00	1.03
		Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.					

### Other Useful Indicators

Political Rights Index		2009	2010	2011	2012
The Political Rights Index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government.  <i>Source:</i> Freedom House, The Freedom in the World Survey. <sup>22</sup>	Montenegro	3	3	3	3
	Bulgaria	2	2	2	2
	Croatia	1	1	1	1
	Iceland	1	1	1	1
	Serbia	2	2	2	2
	Slovenia	1	1	1	1
		Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.			
Civil Liberties Index		2009	2010	2011	2012
The Civil Liberties index measures freedom of expression, assembly, association, and religion.  <i>Source:</i> Freedom House, The Freedom in the World Survey. <sup>23</sup>	Montenegro	2	2	2	2
	Bulgaria	2	2	2	2
	Croatia	2	2	2	2
	Iceland	1	1	1	1
	Serbia	2	2	2	2
	Slovenia	1	1	1	1
		Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.			

<sup>21</sup> Ibid.

<sup>22</sup> Freedom House.

<sup>23</sup> Ibid.

### 2.3. Social dialogue

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for ILO constituents and society at large.

The country has ratified 4 of the 6 ILO labour conventions on social dialogue, where C151 on the Protection of the Right to Organise and Procedures for Determining Conditions of Employment in the Public Service, and C154 concerning the Promotion of Collective Bargaining are not yet ratified.<sup>24</sup>

A tripartite body known as the Social Council, made up of government and trade union and employer representatives, is responsible for facilitating social dialogue in Montenegro.<sup>25</sup> The Council plays a central role in negotiations on amendments to the general collective agreement and may be involved in drafting proposals for laws through creation of working groups. However, its capacity remains limited, as it can only give opinions on proposed laws and regulations within its authority.<sup>26</sup> Furthermore, amendments are required to bring it up to EU standards and ensure effective implementation.<sup>27</sup>

The Montenegrin Employer Federation (MEF) plays a large role in facilitating social dialogue in the country. The MEF was established in 2002 as an organization of voluntary membership. It is a member to the International Organisation of Employers (IOE), BUSINESSEUROPE, and the member of the Adriatic Regional Employers' Center. Its members spread from the largest to the smallest enterprises in Montenegro also comprising local and sector associations of employers and NGOs. In 2005 MEF was granted the status of representativeness. MEF entered into its first tripartite agreement as early as 2006 and its work was instrumental in the adoption of the Law on Social Council in 2007 and the Labour Law as such in 2008, institutionalizing social dialogue in Montenegro.

To date, MEF has signed four branch collective agreements, with 4 more in the making.

Until 2008 when the new one – The Union of Free Trade Unions - was registered, there had been only one trade union association at national level – Association of Trade Unions of Montenegro.

Trade union pluralism at national and sector level as well as at levels of individual employers, called for the need of recognition of their representativeness which had to be preceded by creation of legislative framework, i.e. the Law on the Representativeness of Trade Unions (which was adopted in 2010 and recently amended).

In line with the above, the successor of the former socialist trade union - Confederation of Trade Unions of Montenegro was granted the representativeness the beginning of November 2010, followed by Union of Free Trade Unions by the end of the same month that year.

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24 ILO. (undated). Ratifications for Montenegro. NORMLEX – Information System on International Labour Standards. Accessed 24 May 2013.

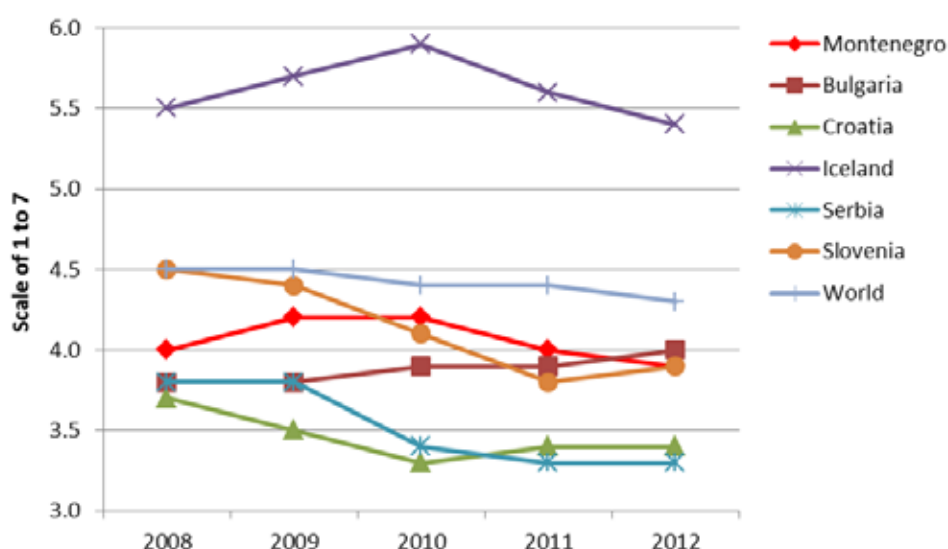
25 European Commission. 2012.

26 ILO. (undated).

27 European Commission. 2012.

In November 2010, social partners signed the Amendments to the General Collective Agreement at national level, the first since 2004. It then “grew into” so called temporal act since for the first time it was signed as the fix-term act. It endured many changes, whereby its legal effectiveness was first extended to December 31<sup>st</sup> 2011, then to June 30<sup>th</sup> 2012 and finally to September 30<sup>th</sup> 2013. Despite continuous negotiations, social partners failed to reach the agreement and conclude a new General Collective Agreement, starting from September 30<sup>th</sup> 2012 the very act have ceased to be a positive law in Montenegro.

**Graph 9: Cooperation in Labour-Employer Relations**



Source: World Economic Forum Executive Opinion Survey.

“Cooperation in Labour-Employer Relations” determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7 with higher values indicating more cooperation. Montenegro performs comparatively well in this area, outperforming all countries used for comparison in 2012, with the exception of Iceland. This comparatively strong performance is in spite of a slight decrease in the rate for Montenegro between 2011 and 2012. The country compares well on a global scale as well, where in 2012, Montenegro earned a score of 4, compared to an only marginally higher world mean of 4.3.

### Related Indicators

Cooperation in Labour-Employer Relations		2009	2010	2011	2012
The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: “Labour-employer relations in your country are”. Source: World Economic Forum Executive Opinion Survey. <sup>28</sup>	Montenegro	4.0	4.2	4.2	4.0
	Bulgaria	3.8	3.8	3.9	3.9
	Croatia	3.7	3.5	3.3	3.4
	Iceland	5.5	5.7	5.9	5.6
	Serbia	3.8	3.8	3.4	3.3
	Slovenia	4.5	4.4	4.1	3.8
	World	4.5	4.4	4.4	4.3
1 = generally confrontational, 7 = generally cooperative.					

28 World Economic Forum Global Competitiveness report.

## 2.4. Respect for universal human rights and international labour standards

Societies, that have successfully integrated sustainability and decent work, respect human rights and international labour standards. The Government of Montenegro has made clear efforts to promote and strengthen human rights in the country with increasing success. However, limited resources hinder effective implementation of protections.<sup>29</sup> Montenegro has adopted all 9 main human rights conventions, as have Serbia and Croatia. Bulgaria and Slovenia have adopted 8 conventions, and Iceland has done so for 7. All six countries used for comparison have ratified the eight ILO core conventions on freedom of association and collective bargaining, the abolition of child labour, forced labour, and all forms of discrimination.

The human rights situation in Montenegro can also be assessed considering other indicators. The “Political Rights Index” measures the level of freedom in the electoral process, political pluralism and participation, and functioning of the government. In a range from 1 to 7, with 1 representing the most free and 7 representing the least free, Montenegro has maintained a stable level of 3 between 2009 and 2012. This is notably weaker than levels in all other countries used for comparison over the same period, where Bulgaria and Serbia maintain levels of 2, and Croatia, Iceland and Slovenia reveal levels of 1 over the same 3-year period. The “Civil Liberties Index” measures freedom of expression, assembly, association, and religion. On a scale from 1 to 7, with 1 representing the most free and 7 representing the least free, Montenegro performs relatively well, maintaining a level of 2 over the period 2009-12. This is identical to the performance of Bulgaria, Croatia and Serbia, while Iceland and Slovenia are the most free, maintaining levels of 1 over the same period.

Torture and ill treatment in detentions is a serious concern in the country, where repeatedly, local and international organizations have reported such violations. At the same time, perpetrators of crimes against human rights defenders and journalists have low conviction and follow-up rates. In 2011, Montenegro experienced a disappointing decline in media freedoms, where media and journalists have become the victims of threats, physical assaults, financial pressures, and defamation charges.<sup>30</sup> In the same year, the European Court for Human Rights (ECHR) ruled that Montenegro violated the European Convention on Human Rights when it fined a journalist with 5,000 euros in 2004 for a defamation.<sup>31</sup> However, in response to this worsening condition of freedom of expression in the country, the Government of Montenegro amended the Criminal Code in June 2011 to decriminalize insult and defamation, and to align national courts with the ECHR case law in this regard.<sup>32</sup>

Montenegro has made improvements in the past couple of years in response to some human rights concerns voiced by the international community, most notably in regards to human trafficking, gender equality and discrimination based on sexual orientation, and the status of refugees and internally displaced persons. The government adopted the Strategy for the Fight against Trafficking for 2012-2018, which focuses on education, victim assistance, protection, reintegration, and prosecution. In 2010,

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29 These are the International Convention on the Elimination of All Forms of Racial Discrimination, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, the International Convention for the Protection of All Persons from Enforced Disappearance, and the Convention on the Rights of Persons with Disabilities.

30 Freedom House. 2012a.

31 Ibid.

32 Office of the High Commissioner for Human Rights. 2013. Universal Periodic Review – Media Brief: Montenegro. OHCHR, 28 January. Accessed 31 May 2013.

the government adopted the Law on the Protection from Domestic Violence and established a number of measures for the protection of victims. In October 2011, the government established the Coordinating Committee for monitoring the implementation of the Strategy for Durable Solution to the Issue of Displaced and Internally Displaced Persons with special emphasis on the Konik site (Roma population).<sup>33</sup>

Furthermore, there is a strong body of non-governmental human rights work being done in Montenegro. Some of the strongest NGOs working in the country focusing on human rights issues have a high capacity for public advocacy. Cooperation between these groups and the government is quite good. In 2011, representatives from the Network of NGOs for Democracy and Human Rights signed a memorandum of understanding with the President of the Montenegrin Parliament, establishing routes of cooperation between NGOs and the government.<sup>34</sup> However, NGOs are generally weak in the country insofar with respect to their ability to act as national political watchdogs.<sup>35</sup>

## Key Indicators

Ratification of Human Rights Conventions		As of January 2013
<p>It shows the status of human rights referring to ratification of following 9 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities.</p> <p>Source: United Nations Treaty Collection Multilateral Treaties Deposited with the Secretary General (UNTC).<sup>36</sup></p>	Montenegro	9
	Serbia	9
	Croatia	9
	Bulgaria	8
	Iceland	7
	Slovenia	8
	Number of Conventions ratified out of 9.	
Ratification of fundamental ILO Conventions		As of January 2013
<p>It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).</p> <p>Source: ILO<sup>37</sup></p>	Montenegro	8
	Serbia	8
	Croatia	8
	Bulgaria	8
	Iceland	8
	Slovenia	8
	Number of Conventions ratified out of 8.	

33 Office of the High Commissioner for Human Rights. 2013.

34 Freedom House. 2012a.

35 Civil Rights Defenders. 2012.

36 UN Treaty Collection.

37 International Labour Organization.

## Other Useful Indicators

Political Rights Index		2009	2010	2011	2012
<p>The Political Rights Index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government.</p> <p>Source: Freedom House, The Freedom in the World Survey.<sup>38</sup></p>	Montenegro	3	3	3	3
	Bulgaria	2	2	2	2
	Croatia	1	1	1	1
	Iceland	1	1	1	1
	Serbia	2	2	2	2
	Slovenia	1	1	1	1
	Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.				
Civil Liberties Index		2009	2010	2011	2012
<p>The Civil Liberties index measures freedom of expression, assembly, association, and religion.</p> <p>Source: Freedom House, The Freedom in the World Survey.<sup>39</sup></p>	Montenegro	2	2	2	2
	Bulgaria	2	2	2	2
	Croatia	2	2	2	2
	Iceland	1	1	1	1
	Serbia	2	2	2	2
	Slovenia	1	1	1	1
	Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.				

<sup>38</sup> Freedom House.

<sup>39</sup> Ibid.

### 3. Economic elements

#### KEY FINDINGS:

The macroeconomic situation in the country is characterized as stable, but problems exist concerning the public debt and national budget deficit. Findings from the Montenegro EESE survey suggest that macroeconomic indicators are not the biggest problem for enterprises in Montenegro, but there is a room for improvement in this area as well. Several years ago Montenegro experienced an economic boom with a growing GDP up until the strong effects of the global economic crisis began. The financial crisis has deeply affected employment, firm growth and solvency, and a great number of large companies that went through privatization process did not achieve the expected results upon privatization. Today all national documents point to three main sectors of a strategic importance for the future economic growth: tourism, energy and rural development and agriculture.

Trade is an important part of the Montenegrin economy. The country has made substantial improvements in terms of encouraging companies to export, though this is not confirmed by the data. Over the past couple of years, Montenegro has become heavily dependent on imports and the amount of exported products is decreasing.

Montenegro has made progress in promoting an enabling legal and regulatory environment for business, particularly in regards to regulatory reform and company registration to improve the business environment in the country. Bankruptcy laws are now in line with international standards and Montenegro outperforms all regional neighbours in the areas of time needed to clear bankruptcy, the costs incurred and the recovery rate. Currently, the authorities have focused their attention on gaps identified in business surveys, specifically the time required to obtain construction permits and complete business registration procedures, as well as the need to streamline investment procedures. In addition, a complicated regulatory framework and costly administrative procedures have been identified by the government as key barriers to increased entrepreneurial activity in the country. However, as stated in EESE focus group meetings, the problem in Montenegro is not the creation of laws, but rather their implementation.

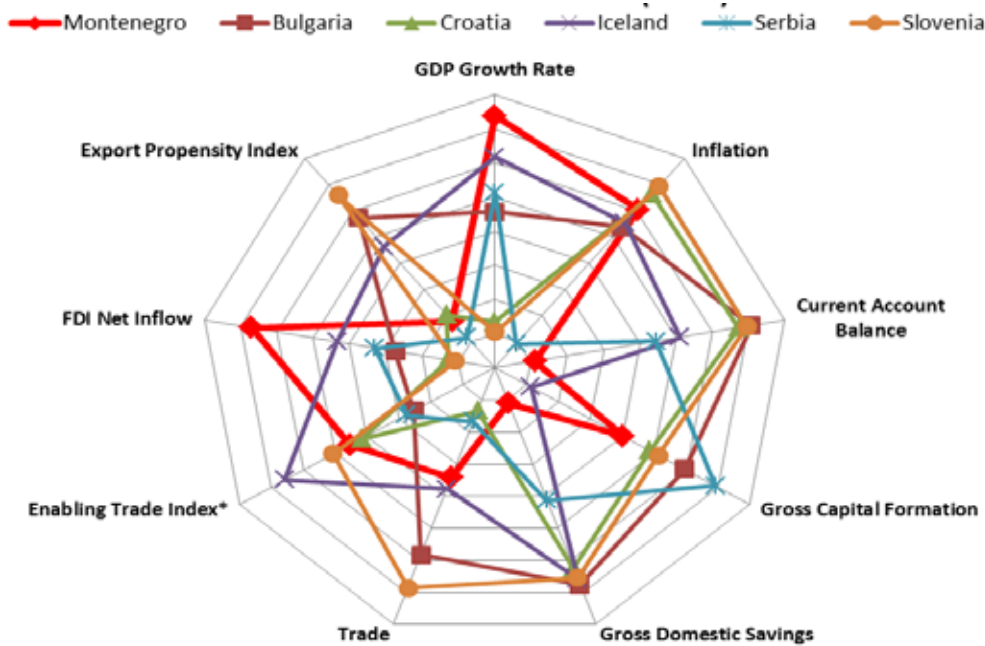
Access to finance has been made clear as the biggest obstacle for enterprises performance in Montenegro over the last couple of years, specifically concerning the lack of financial resources and unfavourable conditions for gaining access to loans from commercial banks. The EESE survey reveals that around 96 per cent of surveyed companies experience financial problems and difficulties in access to finance. The state/owned Investment Development Fund is the only institution that offers favourable loans to companies. One of the necessary measures in this regard is to reduce the collateral for SME loans. In addition, loans are not structured to respond to the needs of SMEs. It is, therefore, necessary to design special guidelines for specific types of enterprises (i.e. for special investment projects such as green business, energy efficiency projects etc.). For example, one of the measures could be introduction and promotion of alternative sources of financing for SME such as international programmes and grants.

ICT usage in Montenegro has increased, but further work on implementation of electronic services is needed so that they contribute to the ease of doing business and to the transparency of public administration activities. According to the EESE survey findings, the high cost of Internet is said to be one of the main burdens in this regard. EESE survey respondents do not see physical infrastructure as one of the main problems for companies, but modern road infrastructure is necessary for the better flow of goods. Monopolies and monopolistic practices in certain sectors are seen as constraints as well. The

informal sector activities and unfair competition also pose specific challenges for the formal business environment in the country. Although the problem has existed for years, intensive activities toward tackling this problem have only just begun.

### Indicators assessing economic elements of an enabling environment for sustainable enterprises\*

Graph 10: Macroeconomic indicators (2011)



\* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the center a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

\* data for the indicator, "Enabling Trade Index", is unavailable for 2011. Figures shown in the above chart reflect data for 2012.

- Montenegro recorded the fastest growing GDP in the region up until a sharp decrease in the growth rate in 2009, largely due to global economic crisis with consequences in contracted banking sector activity and reduced production, particularly of aluminum. The country has since successfully recovered, but lasting negative impacts are still visible in the large and growing public debt and a tightening liquidity squeeze in the economy.
- The three priority sectors for economic development in the 2013 National Development Plan include tourism, energy, and agriculture and rural development.
- A poor work ethic is the most hindering factor to doing business in Montenegro. At the same time, EESE survey findings show that labour costs pose the largest obstacle to productivity improvements for firms, followed by skills shortages and negative attitudes.
- Between 2011-12, Montenegro fell 5 places in the World Bank Doing Business Trading Across Borders rank, moving from 37 to 42, though this is still comparatively high.
- Montenegro is the only country in the region to have not yet completed and implemented legislation and infrastructure for technical regulations concerning trade. It should adopt some or all EU standards and align the sanitary and phytosanitary standards, as well as continue to put into place effective accreditation conformity, metrology and market surveillance infrastructure.

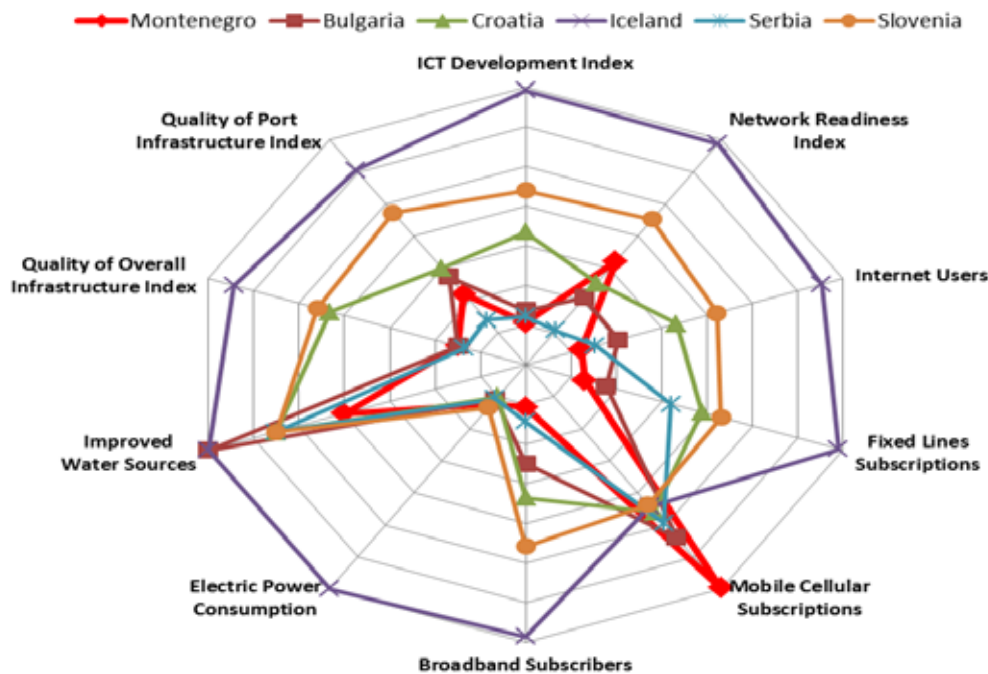
**Graph 11:** Access to credit, property right and competition indicators (2011)



- Progress has been made in terms of regulatory reform and company registration, bankruptcy laws are now in line with international standards, and Montenegro outperforms all regional neighbours in the areas of time needed to clear bankruptcy, the costs incurred and the recovery rate.
- Montenegro moved up the World Bank “Ease of Doing Business Index” rank from 84 in 2008 to 51 in 2012, out of 185 countries, but fell in the “Starting a Business Index” rank from 45 in 2011 to 58 in 2012 out of 185 countries.
- Overlapping regulatory bodies (agencies, inspections) are a key problem undermining the business environment, where 70.4 per cent of EESE survey respondents report overlap to be either a problem either sometimes or very frequently.
- The tax burden is a major constraint on firm investment plans for 43.4 per cent of EESE surveyed enterprises, and all enterprises agreed that tax collection could be simplified.
- The size and effectiveness of the public administration is problematic, and 59 per cent of EESE survey respondents describe it as inefficient and ineffective.
- SMEs suffer from policy gaps in innovation and tailored support services that create an unfavorable legal and regulatory environment. Policies and legislation to promote SMEs exist, but limited resources prevent effective implementation.
- The functionality of institutions is generally unsatisfactory and requires structural and institutional reforms.
- In 2010, the Stabilisation and Association Agreement (SAA) between Montenegro and the EU entered into force to consolidate rule of law, law enforcement and the administration of justice.
- Development of an independent judiciary is a major priority, where the career system and recruitment processes within the judiciary require reform.
- The Anti-Corruption Strategy for 2010-14, and an Action Plan for the period 2010-12 intended to combat corruption. However, they do not sufficiently prioritize results or activities, and results are too vague.
- Citizens’ trust in public institutions is weak, particularly in regards to the judicial system.
- Regarding property rights, the process of restitution is not yet fully ensured in the country and the work of relevant commissions is slow.
- One of the prerequisites for the country’s accession into the EU is to bring intellectual property protections into accordance with international law.
- In 2012, the parliament adopted the Montenegrin Law on the Protection of Competition, intended to further align national legislation with the EU competition *acquis*.

- Policies to promote fair competition exist, but suffer from limited resources that prevent effective implementation.
- According to the EESE survey, most companies (45.9 per cent) consider anti-trust legislation to be inefficient in breaking up trusts and other monopolistic practices.
- The privatization process is nearly complete, with only 15 per cent of firms remaining under government control as of 2011.
- According to the EESE survey findings, the great majority of enterprises feel that political factors negatively influence commercial activity.
- The substantial number of businesses operating in the informal or grey economy is a main hindrance to fair competition in the economy. In the trade sector, 57.1 per cent of respondents noted that enterprises in the informal economy are often the greatest competitors,
- and 53.3 per cent of enterprises with less than 5 employees reported the same problem.
- Successes regarding access to finance include the Decision on Public Disclosure of Information and Data by Banks (2012), the Decision on Large Exposures of Banks (2012), the Decision on Minimum Standards for Credit Risk Management in Banks (2012), and the Decision on the Establishment of the Advisory Committee (2011).
- The most prominent gap for access to finance in Montenegro is financial market infrastructure.
- The majority of EESE surveyed enterprises (40.6 per cent) count on self-financing, and only a small percentage count on support of individual investors and investment funds.

**Graph 12: ICT and infrastructure indicators (2010)**

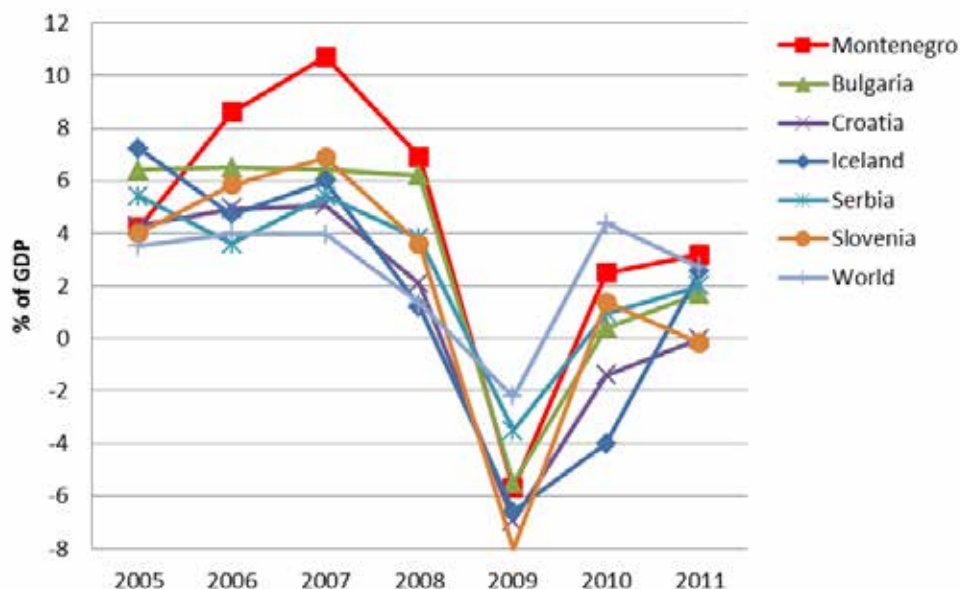


- The World Economic Forum ranked Montenegro 48 out of 142 countries for ICT development in 2012, based on the WEF Network Readiness Index.
- 100 per cent of the ICT sector in Montenegro is privatized and, between 3 mobile operators, 99 per cent of the country's inhabited areas are covered. There is a high degree of mobile telephony, but internet usage should be promoted, especially in areas where it is not profitable for the private sector to make investments.
- Infrastructure priorities tend to be regionally specific. Water and electricity supply are priorities for the whole country, but in the northern region, road infrastructure is prioritized, while in the coastal region, it is sewage systems/wastewater treatment that is important.
- Transport is a key issue because of its relationship to the priority sectors of tourism, agriculture and trade. Physical infrastructure and transport necessary for conducting trade is a challenge for firms, according to EESE survey results.
- Specific land configurations, organization problems in the transportation chain, financing and management, and insufficient or bad conditions of transportation infrastructure limit the ability of the country to maximize usage of transport to promote growth.

### 3.1. Sound and stable macroeconomic policy and good management of the economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. The impact of the economic crisis remains salient in Montenegro, though economic output has nearly recovered in recent years and the financial sector is stabilizing.<sup>40</sup> Up until the economic crisis, Montenegro recorded the fastest growing GDP in the region. Like the countries used for comparison, Montenegro experienced a sharp decrease in the GDP growth rate in 2009, dropping from 6.9 per cent in 2008 to -5.7 per cent in 2009. This was largely due to contracted banking sector activity and reduced production, particularly of aluminum.<sup>41</sup> However, in 2010 and 2011, Montenegro showed the most successful post-crisis recovery of the countries compared, achieving a rate of 2.5 per cent in 2010 and 3.2 in 2011. In the latter year, Montenegro recorded the highest GDP growth rate of the group.

Graph 13: GDP Grow Rate



Source: World Bank national accounts data (World Development Indicators Online).

In the recently presented 2013 National Development Plan for Montenegro, the three priority sectors for economic development include tourism, energy, and agriculture and rural development.<sup>42</sup> The prioritization of the tourism industry in Montenegro is supported by the fact that the country already holds the resources necessary for a thriving tourism industry. In addition, the potential spill-over effects of a strong tourism industry include the development of transport, trade, banking, agriculture, and construction, as well as decreased unemployment, improved standards of living, and enhancing of rural development. The main challenges that the country must confront with in order to sufficiently develop this sector include poor infrastructure quality in transport, wastewater and solid waste treatment, and problems with water and electricity supply. Other hindering factors include the issue of unbalanced distribution of development, where the coastal region tends to be the favoured tourist destination,

40 IMF. 2012. Montenegro Staff Report for the 2012 Article IV Consultation. IMF, 27 April.

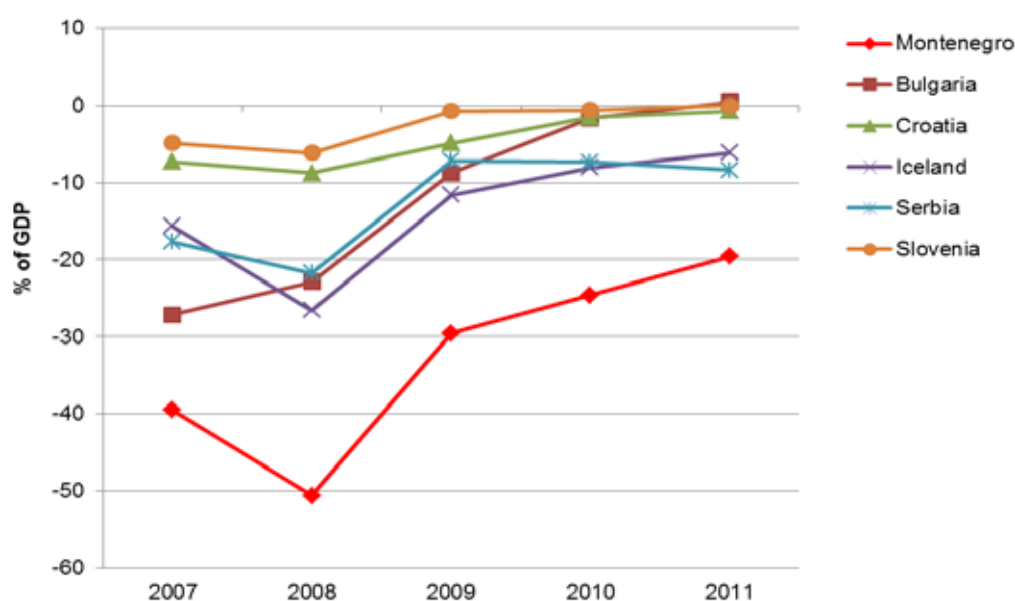
41 Ministry of Sustainable Development and Tourism. (undated).

42 European Commission. 2013. National Development Plan of Montenegro Presented. Delegation of the European Union to Montenegro (Podgorica), 27 February. Accessed 31 May 2013.

insufficiently trained and qualified staff, a short tourist season, and notably large fluctuations in the number of tourists between the high and low seasons. Rural and agricultural development has been prioritized as well because of Montenegro's comparative advantages in this regard. These include the high level of agricultural diversity and the lack of pesticide and fertilizer usage in the soil, which allows the possibility of organic food production. The main challenges, however, will most likely be associated with fulfilling the EU agricultural policy requirements. Energy has also been prioritized, firstly, because of the fact that a sufficient energy supply is a pre-requisite for sustainable economic development, and secondly, because of the crucial need for reforms in this area. Inefficient and problematic energy consumption patterns are a major hindrance for the economic sustainability of the country, as well as import dependency and a low level of use of national natural energy resources such as the available hydro potential.<sup>43</sup>

Though Montenegro has shown a good recovery from the global economic crisis, the negative impact remains most visible in the large and growing public debt and a tightening liquidity squeeze in the economy.<sup>44</sup> The level of debt made up 38 per cent of GDP in 2006 and 45 per cent in 2007, while at the end of 2012 public debt reached 51,1% of GDP<sup>45</sup>. Moreover, the "Current Account Balance" as a percentage of GDP for Montenegro is notably low at -19.62 in 2011. Of the countries used for comparison, none perform worse in that year and the second lowest, Serbia, still earns a notably higher percentage of -8.37. Nonetheless, Montenegro has shown consistent improvement since 2008 when the percentage dropped as low as -50.58 per cent.

**Graph 14: Current Account Balance**



Source: International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).

There is wide agreement that a current account deficit of 4-5 percent of GDP is high, and the higher the current account deficit, the higher the risk for the overall economy. A high current account deficit

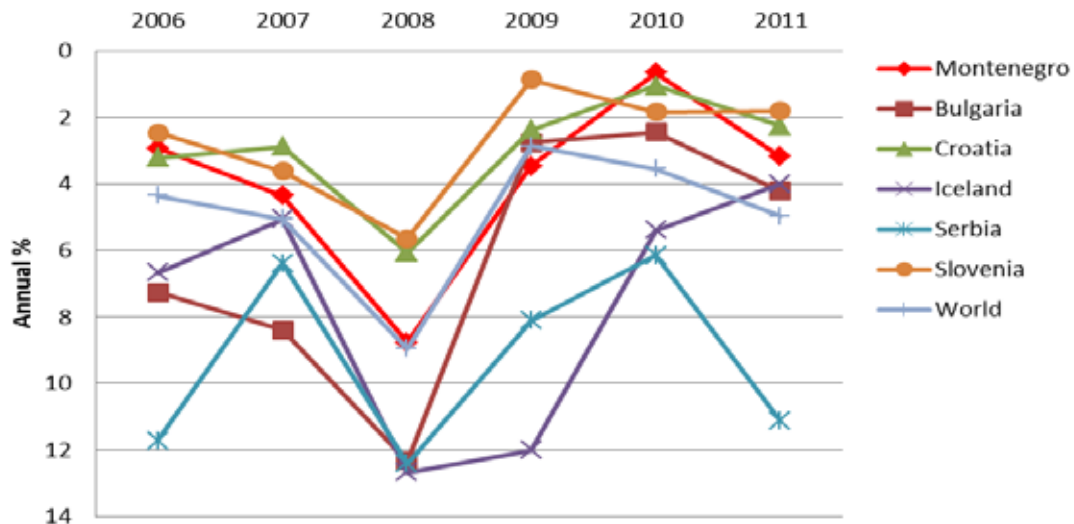
43 Government of Montenegro. 2007. National Strategy of Sustainable Development of Montenegro. Montenegro Ministry of Tourism and Environment Protection; UNDP; UNEP; Government of Italy Ministry of Environment, Land and Sea. Accessed 25 May 2013.

44 IMF. 2012.

45 Central Bank of Montenegro, Annual Report of Chief Economist, 2012. Public Debt (Annual Report 2012)

increases a country's dependency on foreign resources. Montenegro maintains high levels of foreign direct investment (though this rate is currently decreasing), which is essential for the inflow of foreign currency. Should foreign currency fail to cover the current account deficit, the result would mean a renewed economic crisis for Montenegro.

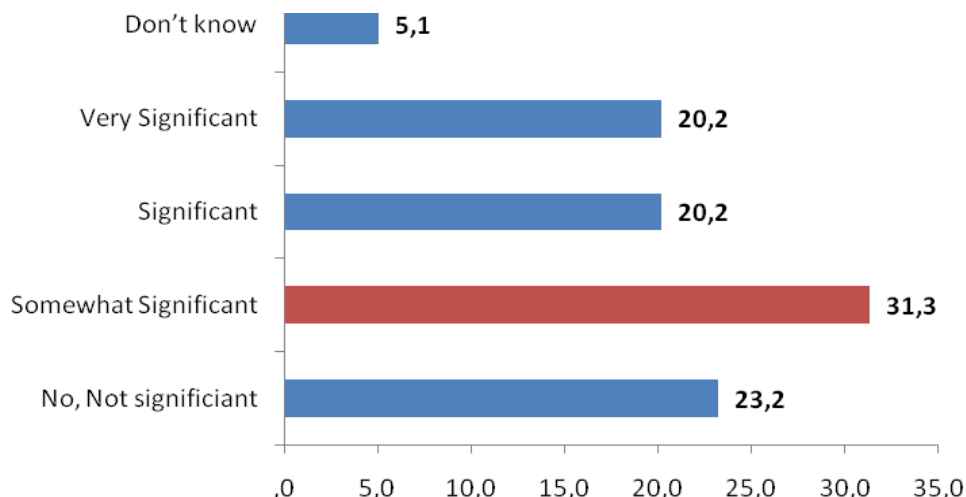
**Graph 15: Inflation, Average Consumer Prices**



Source: International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).

Inflation in the country has fluctuated in recent years, notably in 2008 and 2010, when it spiked and fell respectively. Other countries used for comparison reflect similar changes around the same years. In 2008, the “Inflation Rate” in Montenegro jumped from 4.35 in the previous year to 8.76. By 2010 however, it had fallen to 0.65, the lowest level of inflation of all countries compared in that year. The most recent figure for the country is 3.18 in 2011, which is lower than the rates for Bulgaria, Iceland and Serbia, but still higher than those of Croatia and Slovenia. The world mean for the same year was 4.98. This reflects a positive trend in Montenegro and points to a continued successful recovery from the economic crisis.

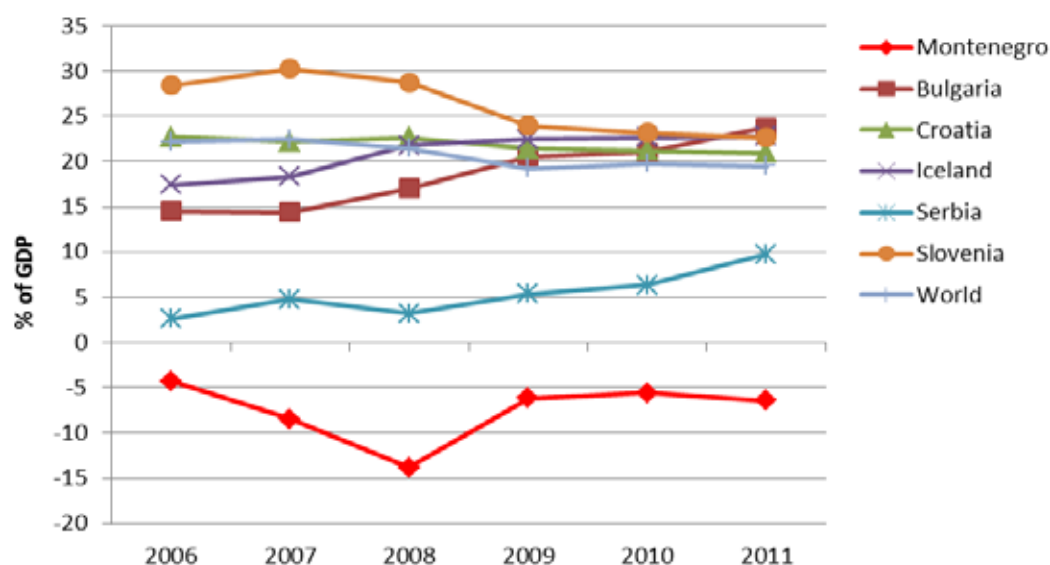
**Graph 16: Does the inflation rate have significant impact on the competitiveness of firms?**



Based on EESE survey responses, an important fact when discussing inflation is that Montenegrin enterprises are aware that their activities have a low impact on the inflation rate. Thus, they find this macroeconomic indicator irrelevant for their business conduct and business plans. More than 23 per cent of enterprises said that the inflation rate does not have a significant impact on the competitiveness and plans of firms to invest or expand. For a slightly larger portion of firms at 31.3 per cent, this factor is still only somewhat significant.

High levels of “Gross Capital Formation” or investment are conducive to economic growth. Montenegro performs relatively poorly in this regard, with only Iceland recording a lower percentage in 2011. Additionally, while all countries used for comparison experience moderate decrease in the percentage of gross capital formation over the period 2008-11, Montenegro saw its percentage half over the same period, reflecting the largest decrease of all countries. “Gross Domestic Savings” rates in Montenegro have remained the lowest of all countries used for comparison over the period 2006-11. The latest available rate for Montenegro is -6.5 per cent of GDP in 2011. This is substantially lower than the next lowest rate of 9.7 in Serbia for the same year.

**Graph 17: Gross Domestic Savings**



Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).

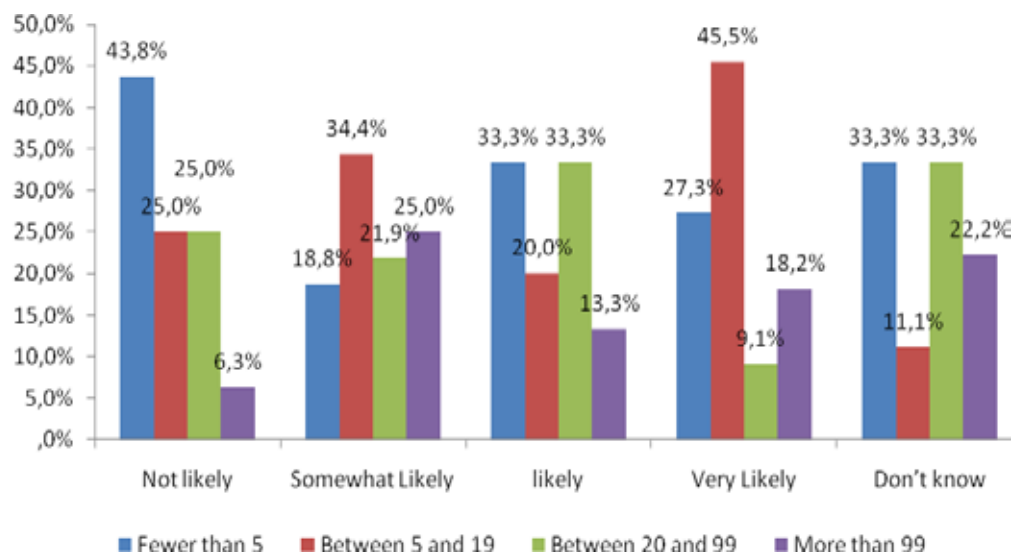
Structural macroeconomic reforms in Montenegro are notably well developed relative to the rest of the region, but progress has been slowed in recent years, especially in the labour markets and previously privatized large enterprises. In particular, the unsuccessful efforts to resolve overstaffing issues in the metal sector, the need to make regular labour contracts more attractive to employers, and the use of public expenditure reforms to reduce unemployment traps need to be addressed within a greater labour market reform effort.<sup>46</sup> Unfortunately, secondary data on the “Labour Force Participation Rate” is not available for Montenegro, nor is it for Serbia.<sup>47</sup>

<sup>46</sup> IMF, 2012.

<sup>47</sup> The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed.

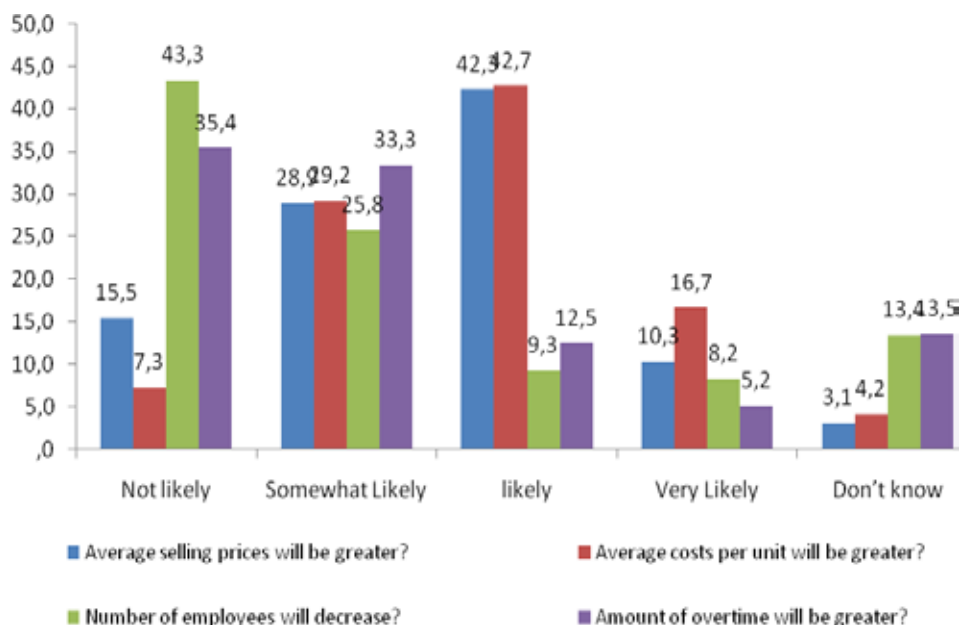
According to findings from the Montenegro EESE survey, only 11.1 per cent of respondents perceive their profitability as being very likely to improve over the next 12 months, which is highly troublesome. However, 32.2 per cent estimate the opposite to be true. The other worrying factor is that 100 per cent of small enterprises answered this question negatively. It is interesting to note that even enterprises that have existed for a long period have a negative opinion concerning the possibility of improving their profits over the next year. For example, among businesses run for more than 5 years, 31.1 per cent do not expect an increase in profits at all, and only 10.8 per cent expect that this increase is very likely.

**Graph 18:** In your view, do firms expect profitability to improve over the next 12 months?  
(by firm size and number of employees)



The situation is similar with other macroeconomic indicators over next 3 years, expected by enterprises.

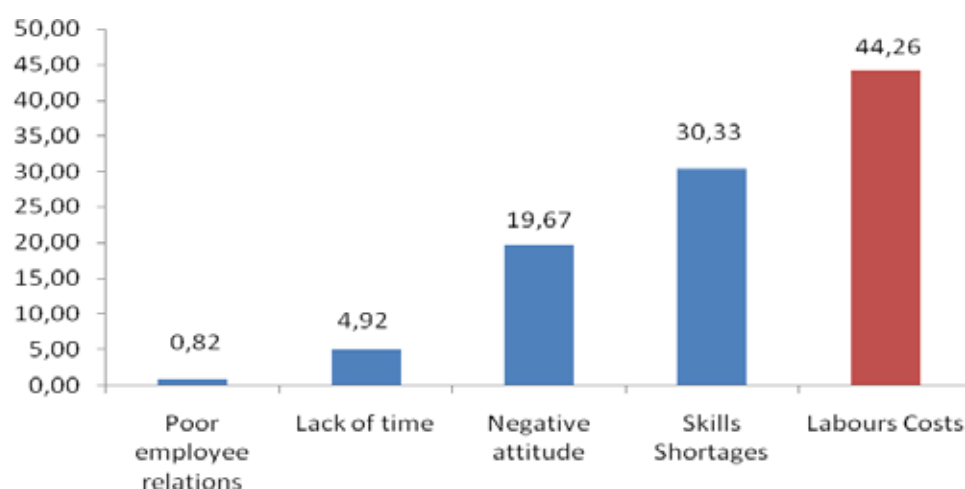
**Graph 19:** Expectation about:



The encouraging signals come from the fact that 43.3 per cent of enterprises said that the number of employees will decrease over the next 3 years. However, almost 50 per cent of responding firms stated that the average selling prices and average costs per unit will be greater in the next 3 years.

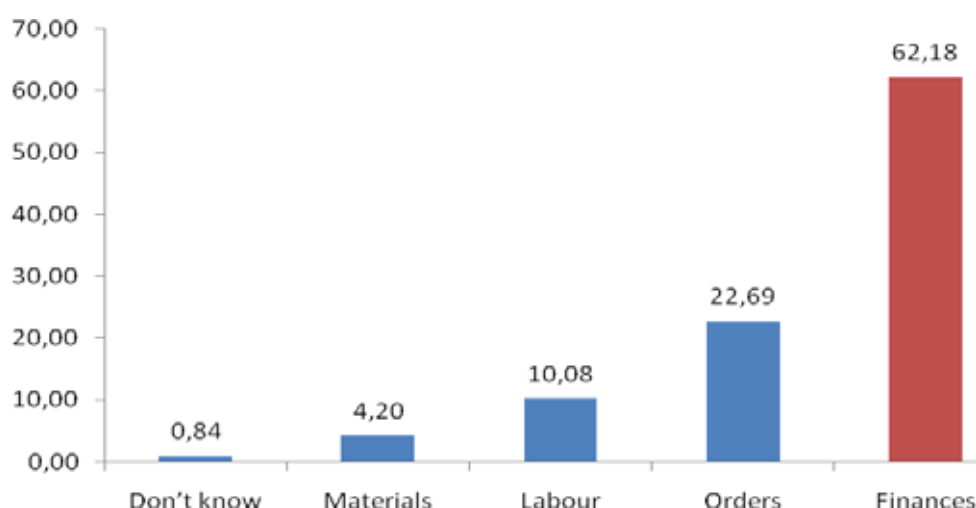
The EESE survey findings also show that the single largest obstacle inhibiting productivity improvements for firms in Montenegro is labour costs, followed by skills shortages and negative attitudes. This is particularly notable considering that the World Bank notes a poor work ethic and low levels of labour productivity as the most hindering factor to doing business in Montenegro.

**Graph 20:** What is the single largest obstacle cohabiting productivity improvement for firms in the country?



According to respond of the enterprises largest obstacles inhibiting productivity improvement are labours costs (for 44.26 per cents) than skills shortages and negative attitude for almost 20 per cent.

**Graph 21:** What single factor is most limiting firm's ability to increase production?



For more than 62 per cent of enterprises that responded to the EESE survey, the single most limiting factor for a firm's ability to increase production is finances, followed by orders and labour.

## Key Indicators

GDP Growth Rate (%)		2005	2006	2007	2008	2009	2010	2011
Annual percentage growth rate of Gross Domestic Product (GDP) at market prices based on constant local currency. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.  Source: World Bank national accounts data (World Development Indicators Online). <sup>48</sup>	Montenegro	4.2	8.6	10.7	6.9	-5.7	2.5	3.2
	Bulgaria	6.4	6.5	6.4	6.2	-5.5	0.4	1.7
	Croatia	4.3	4.9	5.1	2.1	-6.9	-1.4	0.0
	Iceland	7.2	4.7	6.0	1.2	-6.6	-4.0	2.6
	Serbia	5.4	3.6	5.4	3.8	-3.5	1.0	2.0
	Slovenia	4.0	5.8	6.9	3.6	-8.0	1.4	-0.2
	World	3.5	4.0	3.9	1.3	-2.2	4.4	2.7
Annual percentage growth rate of GDP.								

## Other Useful Indicators

Current Account Balance (% of GDP)		2007	2008	2009	2010	2011
Current account balance (also called 'current account surplus/deficit') is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country's transactions with the rest of the world. It shows whether a country is 'living within its means'. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country's currency in relation to other countries' currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice—once as a credit and once as a debit. In principle the net balance	Montenegro	-39.49	-50.58	-29.56	-24.62	-19.62
	Bulgaria	-27.16	-22.91	-8.76	-1.67	0.42
	Croatia	-7.29	-8.74	-4.90	-1.55	-0.71
	Iceland	-15.64	-26.57	-11.62	-8.05	-6.16
	Serbia	-17.69	-21.76	-7.14	-7.34	-8.37
	Slovenia	-4.86	-6.14	-0.67	-0.58	0.01
% of GDP.						

<sup>48</sup> World Bank Databank.

should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners' savings.

Source: International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).<sup>49</sup>

Gross Capital Formation (% of GDP)	2006	2007	2008	2009	2010	2011
<b>Montenegro</b>	25.4	33.8	40.7	27.1	22.8	19.5
<b>Bulgaria</b>	32.1	34.1	37.5	29.4	22.9	23.1
<b>Croatia</b>	29.4	29.4	30.4	24.9	21.7	21.1
<b>Iceland</b>	35.6	29	24.6	13.9	12.5	14.2
<b>Serbia</b>	24.1	29	29.7	23	22.8	24.9
<b>Slovenia</b>	28.9	32	31.9	22.5	22.6	21.6
<b>World</b>	22.3	22.5	22	19.1	19.8	19.9

including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress". Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. High level of gross capital formation in a period of time refers to increase in the value of inventories. High level of gross capital formation or investment is conducive to economic growth.

Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online)<sup>50</sup>

% of GDP.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

Gross Domestic Savings (% of GDP)		2006	2007	2008	2009	2010	2011
<p>Gross domestic savings are calculated by deducting total final consumption expenditure from GDP at current prices. A high gross domestic savings rate usually indicates a country's high potential to invest. Savings can therefore be vital to the amount of fixed capital available, which in turn can contribute to economic growth. However, increased savings do not always correspond to increased investment. If savings are not deposited into a financial intermediary like a bank, there is no chance for those savings to be recycled as investment by businesses. This means that savings may increase without increasing investment, possibly causing a short-fall of demand rather than economic growth. In the short term, if savings fall below investment, it can lead to growth of aggregate demand and economic boom. In the long term, if savings fall below investment it eventually reduces investment and detracts from future growth.</p> <p>Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).<sup>51</sup></p>	Montenegro	-4.3	-8.5	-13.9	-6.2	-5.6	-6.5
	Bulgaria	14.6	14.4	17.0	20.5	21.0	23.8
	Croatia	22.7	22.2	22.7	21.4	21.2	21.0
	Iceland	17.4	18.4	21.8	22.5	22.6	22.8
	Serbia	2.6	4.8		5.3	6.3	9.7
	Slovenia	28.4	30.2	28.7	23.9	23.2	22.6
	World	22.2	22.5	21.5	19.2	19.7	19.5
% of GDP.							
Inflation, Average consumer price change in per cent		2006	2007	2008	2009	2010	2011
<p>The Consumer price index reflects changes in the cost to the average consumer of acquiring a fixed basket of goods and services that may be fixed or changed at specified intervals, such as yearly.</p> <p>Source: IMF, International Financial Statistics and data files (World Development Indicators Online).<sup>52</sup></p>	Montenegro	2.9	4.3	8.8	3.5	0.7	3.2
	Bulgaria	7.3	8.4	12.3	2.8	2.4	4.2
	Croatia	3.2	2.9	6.1	2.4	1.0	2.3
	Iceland	6.7	5.1	12.7	12.0	5.4	4.0
	Serbia	11.7	6.4	12.4	8.1	6.1	11.1
	Slovenia	2.5	3.6	5.7	0.9	1.8	1.8
	World	4.4	5.1	9.0	2.9	3.6	5.0
Annual percentage change.							

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

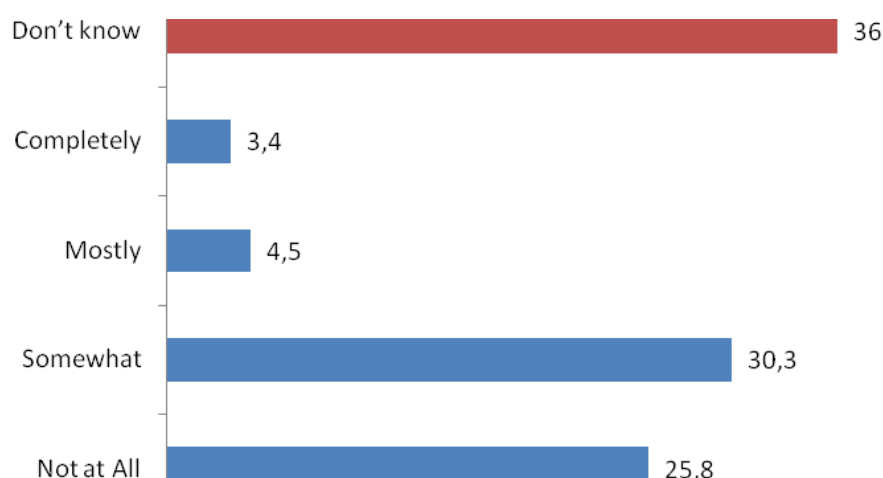
### 3.2. Trade and sustainable economic integration

Trade integration can lead to positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered. Montenegro has integrated export promotion programmes into national policy, but financial support for them has declined.<sup>53</sup> Between 2011-12, Montenegro fell 5 places in the World Bank Doing Business Trading Across Borders rank, moving from 37 to 42. However, it continues to rank well above other countries used for comparison, with the exception of Iceland.

“Trade” as an indicator measures the sum of exports and imports of goods and services as a share of GDP. For some countries, in particular small ones, it exceeds 100 per cent, as is the case for Montenegro. Over the period 2006-08, Montenegro consistently improved in this regard. However, in 2009, along with other countries used for comparison, it experienced a decrease in trade as a share of GDP, most likely due to the global economic crisis. Montenegro has since shown signs of improvement, though Bulgaria and Slovenia reflect the most rapid recoveries since the 2009 drop.

EESE survey covered in a big share problems and future perspectives of Montenegrin companies about production and possibility to increase amount of the export. Special focus is on the procedures and ways to simplify and create better condition for export of domestic products.

**Graph 22:** Have firms seen an increase in the amount of product they exports?



In most of cases, EESE survey respondents abstained from responding to the question of whether exports have increased in recent years. Of those who did respond, only 3.4 per cent of respondents consider exports to have completely increased, compared to 30.3 per cent who consider exports to have increased only somewhat.

The “Enabling Trade Index” measures the factors, policies and services facilitating the free flow of goods across borders and to final destination. On a scale from 1 to 7 where the highest value indicates

53 OECD. 2012. SME Policy Index Western Balkans and Turkey. OECD, European Commission, ETF, European Bank. Accessed 2 May 2013.

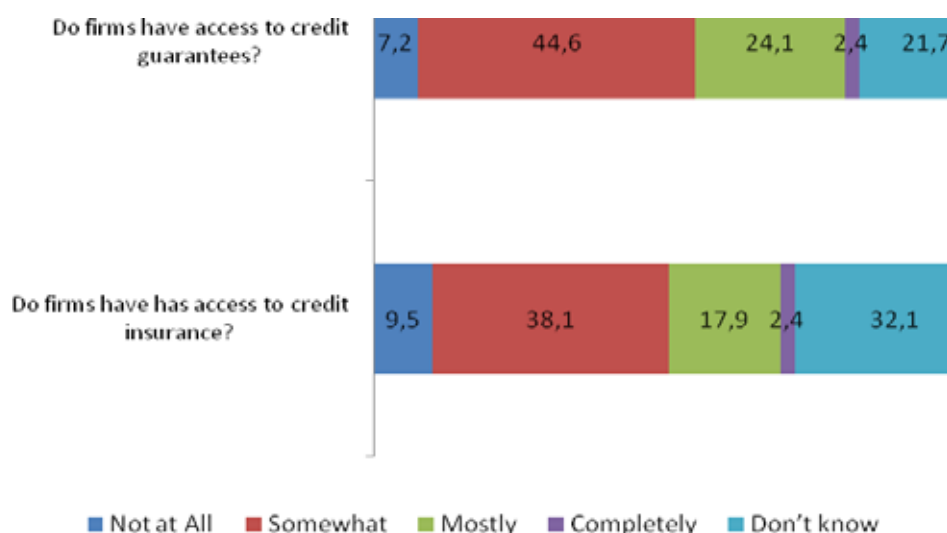
that a country is successful at enabling the free flow of trade, Montenegro earned a score of 4.5 in 2012, showing consistent performance with its 2010 level of 4.47. Unfortunately, earlier data is not available for Montenegro. Nonetheless, the figures for 2010 and 2012 compare well with the other countries used for comparison, where Croatia and Slovenia perform similarly to Montenegro, Bulgaria and Serbia record lower scores, and Iceland performs the strongest in both years.

Considering data from the World Bank's Doing Business Report, in Montenegro the number of documents required to import and export has remained unchanged over the period 2007-12, at 7 required documents in either case. This is similar to requirements in other countries used for comparison, where in 2012 Iceland required 5 documents in either case, and Croatia required 7 to export and 8 to import. Similarly, the number of days it takes to import and export has remained at 14 over the period 2007-12 in Montenegro. This compares well with other countries, where Serbia required only 12 days to export and 14 to import in 2012, and Bulgaria required 21 to export and 17 to import in the same year.

Although Montenegro reflects a reduction of necessary documentation, which has been done for the purpose of simplifying the trade process, the lingering existence of problems in this respect must be mentioned. For example, there is a clear lack of resources that limit the capacity for electronic submission of forms. Based on findings from the EESE survey, 15.2 per cent of respondents believe there is no possibility of electronically submitting forms, and only 1.3 per cent responded that this was possible. The highest percentage (35.4 per cent) of respondents considered the possibility of electronically submitting documents to be rare.

Regarding the existence of government initiatives, for example in terms of tax exemptions, the majority of EESE survey respondents (25.6 per cent) believe that these exist only somewhat. Nonetheless, the percentage of respondents who believe that no such initiatives exist is non-negligible, at 18.9 per cent of the total respondents.

**Graph 23: Credit guarantees and credit insurance?**



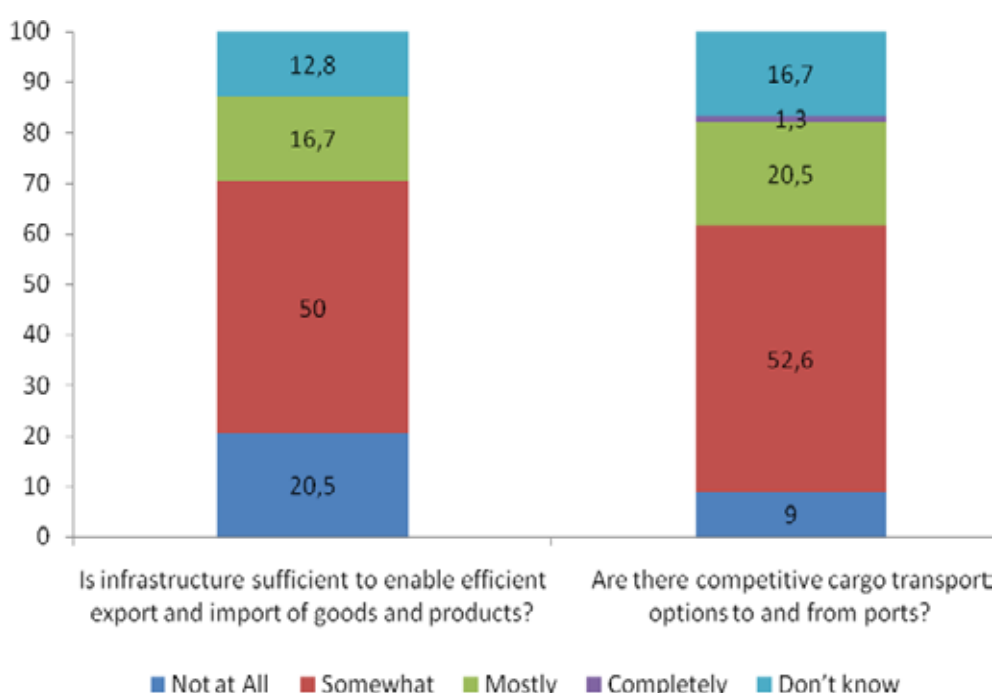
In regards to access to credit guarantees and loans for financing business-trade oriented activities, only 2.4 per cent of EESE survey respondents felt these services exist completely. On the other hand, 7.2 per cent concluded that enterprises in general have no access to credit guarantees and 9.5 per cent have no access to loans for financing business-trade oriented activities. Concerning enterprise access

to information about trade procedures, tariffs, duties, and taxes, only 5.6 per cent of EEESE survey respondents consider that enterprises have complete access. The highest percentage of respondents consider access to be mostly available (42.2 per cent) and only 8.9 per cent consider such information unavailable. Customs procedures are not positively rated. Only 1.2 per cent of respondents completely agree with the fact that efficient and transparent custom procedures facilitating import and export exist, while 11 per cent completely disagree. The highest percentage of respondents at 45.1 per cent somewhat agree with this statement.

The process of standardization and certification in Montenegro is recognized as a very important segment of the trade sector and product export. The EEESE survey results show that for 6.6 per cent of respondents, certification does not meet the required standards, while 45 per cent stated that it only partially meets the required standard. Regarding how the certification framework is applied, 38.7 per cent of respondents conclude that it is done so effectively and consistently, while 9.3 per cent conclude that it is not applied effectively and consistently. The process of obtaining certificates of origin and other documentation is, for 11.8 per cent of respondents, the not difficult at all, while for 36.8 per cent it is a somewhat difficult process. For 22.4 per cent of respondents, this is usually a difficult process.

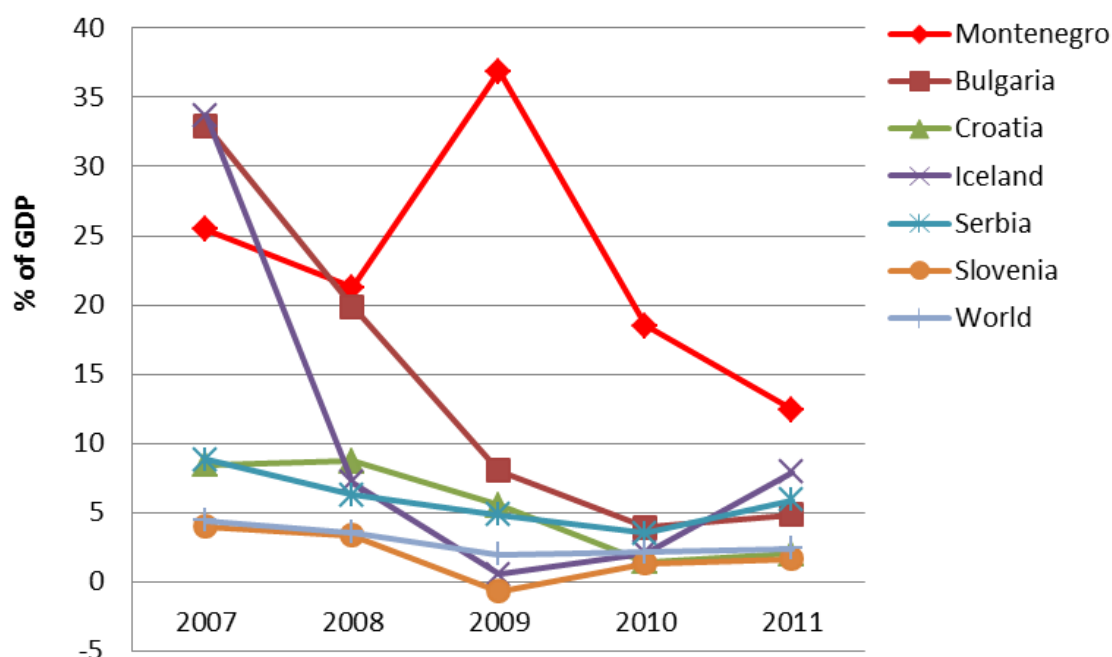
One element of the above indicators (“Enabling Trade Index”) refers to the physical infrastructure necessary for conducting trade, as well as the availability of freight transport. In this sense, the EEESE survey results imply that there is a problem in the case of transport and physical infrastructure. Of all EEESE survey respondents, 20.5 per cent consider the existing infrastructure to be insufficient for supporting efficient import and export of goods, while 9 per cent consider there to be a competitive choice of freight transport to and from the final destination. Survey results show that there are no firms that think the existing infrastructure is completely adequate for efficient export and import, and only 1.3 per cent was in full agreement that there is a choice of freight transport to and from the final destination.

**Graph 24:** Infrastructure/transport:



Montenegro is the only country in the region to have not yet completed and implemented legislation and infrastructure for technical regulations concerning trade, though it is in the draft stages of doing so. What is needed is to continue adopting some or all EU standards and aligning Montenegro's sanitary and phytosanitary standards, among others. It is also recommended that Montenegro continue to put effective accreditation conformity assessment, metrology and market surveillance infrastructure into place. They should upgrade their institutes in accordance with EU requirements and improve their provision of administrative and regulatory information to the business community, and especially in regards to SMEs.<sup>54</sup>

**Graph 25: FDI Net Inflow**



Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases & World Development Indicators Online.

When it comes to “Foreign Direct Investment”, Montenegro is a leader among other transitional countries.<sup>55</sup> FDI measures the net inflows of investment to acquire lasting management of an enterprise operating in a country different from that of the investor. The percentages recorded in Montenegro are higher than those registered in all countries used for comparison over the period 2008-11, but have been consistently decreasing since a peak in the percentage in 2009. This has largely been a product of the global economic crisis.<sup>56</sup> Nonetheless, in 2011, Montenegro recorded a percentage of 12.41, which is the highest of the countries compared in that year, where Iceland recorded the second highest level at 7.89 per cent.

<sup>54</sup> Ibid.

<sup>55</sup> Ministry of Sustainable Development and Tourism. (undated).

<sup>56</sup> United States Department of State. 2013. Investment Climate Statement – Montenegro. Bureau of Economic and Business Affairs, April. Accessed 27 May 2013.

## Key Indicators

Trade (% of GDP)		2006	2007	2008	2009	2010	2011
<p>Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and</p> <p><u>Source:</u> World Bank national accounts data (World Development Indicators Online).<sup>57</sup></p> <p><u>Note:</u> The trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100 per cent.</p>	Montenegro	126.6	129.7	132.2	97.5	97.8	106.4
	Bulgaria	140.0	138.6	136.9	103.8	116.7	132.3
	Croatia	92.4	91.8	91.9	76.7	79.2	83.7
	Iceland	82.7	80.0	91.6	97.1	102.6	110.1
	Serbia	81.3	85.2	88.7	76.4	86.3	87.3
	Slovenia	133.6	140.8	137.5	115.3	130.3	143.5
	World	56.5	57.4	59.7	51.2	56.1	59.1
Trade share (%) in GDP.							
Enabling Trade Index (ETI)			2008	2009	2010	2012	
<p>The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment.</p> <p><u>Source:</u> World Economic Forum.<sup>58</sup></p>	Montenegro	-	-	4.47	4.5		
	Bulgaria	4.31	3.76	3.87	3.93		
	Croatia	4.45	4.36	4.45	4.4		
	Iceland	-	-	5.26	5.08		
	Serbia	-	-	3.98	4		
	Slovenia	4.74	4.61	4.68	4.65		
	On a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade.						
FDI Net Inflow (% of GDP)			2007	2008	2009	2010	2011
<p>Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.</p>	Montenegro	25.47	21.25	36.88	18.50	12.41	
	Bulgaria	32.95	19.87	8.02	3.91	4.84	
	Croatia	8.45	8.70	5.51	1.43	2.02	
	Iceland	33.67	7.17	0.52	2.05	7.89	
	Serbia	8.81	6.27	4.82	3.49	5.89	
	Slovenia	3.98	3.34	-0.71	1.35	1.65	
	World	4.39	3.56	1.96	2.11	2.37	
FDI net inflow (in current US\$ as % of GDP).							

<sup>57</sup> World Bank Databank.

<sup>58</sup> World Economic Forum Global Enabling Trade report.

Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases & World Development Indicators Online.<sup>59</sup>

### Other Useful Indicators

Export Propensity Index (% of GDP)		2006	2007	2008	2009	2010	2011
Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.	<b>Montenegro</b>	48.45	43.71	38.83	32.08	34.71	40.18
	<b>Bulgaria</b>	61.21	59.47	58.22	47.51	57.41	66.51
	<b>Croatia</b>	42.84	42.28	42.06	36.60	39.36	41.78
	<b>Iceland</b>	32.24	34.65	44.40	52.84	56.33	59.32
	<b>Serbia</b>	29.87	30.51	31.08	29.39	34.89	36.08
	<b>Slovenia</b>	66.54	69.56	67.14	58.39	65.42	72.30
	<b>World</b>	28.15	28.69	29.57	25.64	28.03	29.34
		It ranges from 0 (with no exports) to 100 (with all domestic production exported).					
		Source: World Bank national accounts data and OECD national accounts data files (World Development Indicators Online). <sup>60</sup>					

### Trading Across Borders Data

Ease of doing business index ranks economies from 1 to 183, with first place being the best. The cost to export is the cost US\$ per container. The number of import and export documents required to carry out an international trade transaction. The time to export and import is measured in days.

Source: International Finance Corporation.<sup>61</sup>

	2007	2008	2009	2010	2011	2012
<b>Montenegro</b>						
Rank	-	-	-	-	37	42
Cost to export (US\$ per container)	\$645	\$775	\$775	\$775	\$805	\$855
Documents to export (number)	7	7	7	7	7	7
Documents to import (number)	7	7	7	7	7	7
Time to export (days)	14	14	14	14	14	14
Time to import (days)	14	14	14	14	14	14

<sup>59</sup> World Bank Databank.

<sup>60</sup> Ibid.

<sup>61</sup> World Bank Doing Business report.

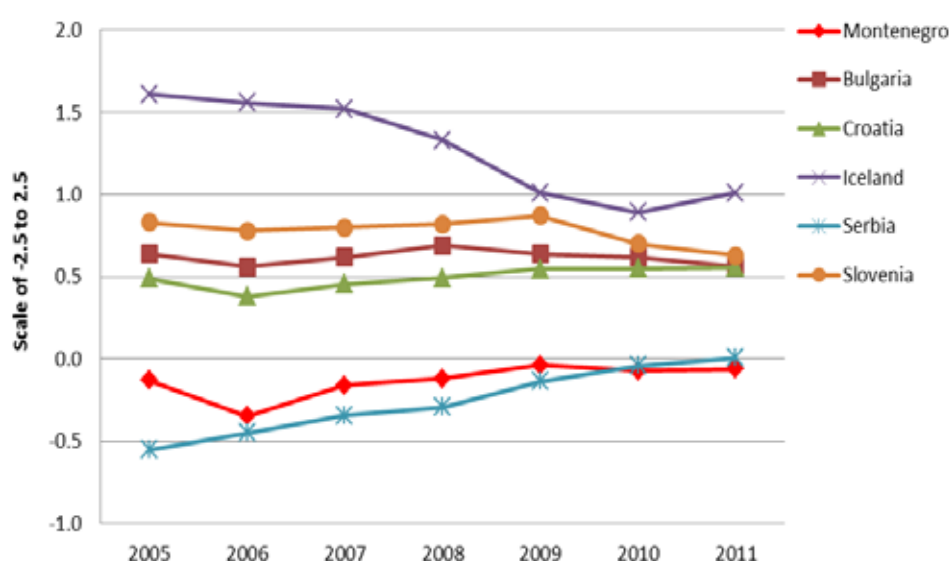
<b>Bulgaria</b>						
Rank	-	-	-	-	95	93
Cost to export (US\$ per container)	\$1329	\$1626	\$1551	\$1551	\$1551	\$1551
Documents to export (number)	5	5	5	5	5	5
Documents to import (number)	6	6	6	6	6	6
Time to export (days)	23	23	23	23	21	21
Time to import (days)	18	18	18	18	17	17
<b>Croatia</b>						
Rank	-	-	-	-	105	105
Cost to export (US\$ per container)	\$1200	\$1200	\$1281	\$1281	\$1300	\$1300
Documents to export (number)	7	7	7	7	7	7
Documents to import (number)	8	8	8	8	8	8
Time to export (days)	26	22	20	20	20	20
Time to import (days)	18	16	16	16	16	16
<b>Iceland</b>						
Rank	-	-	-	-	13	14
Cost to export (US\$ per container)	\$1269	\$1109	\$1532	\$1532	\$1532	\$1465
Documents to export (number)	5	5	5	5	5	5
Documents to import (number)	5	5	5	5	5	5
Time to export (days)	15	15	19	19	19	19
Time to import (days)	14	14	14	14	14	14
<b>Serbia</b>						
Rank	-	-	-	-	92	94
Cost to export (US\$ per container)	\$1240	\$1398	\$1398	\$1398	\$1433	\$1455
Documents to export (number)	7	7	7	7	7	7
Documents to import (number)	7	7	7	7	7	7
Time to export (days)	12	12	12	12	12	12
Time to import (days)	14	14	14	14	14	14
<b>Slovenia</b>						
Rank	-	-	-	-	54	57
Cost to export (US\$ per container)	\$971	\$1075	\$1075	\$710	\$710	\$745
Documents to export (number)	6	6	6	6	6	6
Documents to import (number)	8	8	8	8	8	8
Time to export (days)	20	20	20	19	16	16
Time to import (days)	21	21	21	17	15	14

### 3.3. Enabling legal and regulatory environment

Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. They facilitate formalization and boost systemic competitiveness. Montenegro has made progress in this area, particularly in regards to regulatory reform and company registration to improve the business climate in the country. Bankruptcy laws are now in line with international standards and Montenegro outperforms all regional neighbours in the areas of time needed to clear bankruptcy, the costs incurred and the recovery rate.<sup>62</sup> Currently, the authorities have focused their attention on gaps identified in business surveys, specifically the time required to obtain construction permits and complete business registration processes, as well as the need to streamline investment procedures.<sup>63</sup> In addition, a complicated regulatory framework and costly administrative procedures have been identified by the government as key barriers to increased entrepreneurial activity in the country.<sup>64</sup>

The “Regulatory Quality Index” measures the ability of a government to provide sound policies and regulations for the promotion of the private sector on a scale from -2.5 to 2.5 with higher values indicating better performance. Montenegro’s performance in this regard has been poor and below 0, though the country has experienced a consistent improvement since 2007, shifting from -0.16 in that year to -0.06 in 2011. Of the countries compared, this is the lowest score for 2011, with Serbia registering the second lowest score at 0.01 in that year, and Iceland achieving the highest score at 1.01.

**Graph 26: Regulatory Quality Index**



Source: World Bank, Governance Matters database.

In spite of relatively poor performance in the case of regulatory quality in Montenegro, there has been notable progress in the creation of a more enabling regulatory and legal business climate in

62 OECD. 2012.

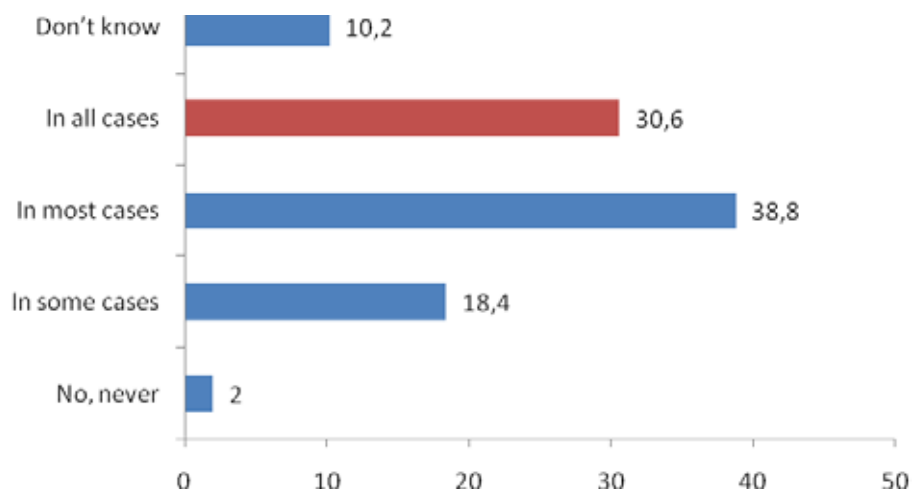
63 IMF. 2012.

64 Government of Montenegro. 2011. Strategy for Development of Small and Medium Sized Enterprises 2011-15. Montenegro Directorate for Development of Small and Medium Sized Enterprises (Podgorica), January.

the country. The World Bank Doing Business survey indicator, “Ease of Doing Business Index”, ranks economies from 1 to 185, where a high ranking reflects a regulatory environment that is conducive for business operations. The data shows that Montenegro has improved in this regard over time, moving from 84 in 2008 to 51 in 2012, and of the other compared countries, it is outperformed only by Slovenia at 35 and Iceland at 14 in 2012. The “Starting a Business Index” records the officially required procedures to start and operate an enterprise and ranks countries accordingly. Montenegro’s rank in this regard worsened from 2011 to 2012, moving from 45 out of 185 countries, to 58 in the latter year. Bulgaria, Croatia, Iceland, and Slovenia also saw dips in their rank over the same period, while Serbia moved up from 91 to 42.

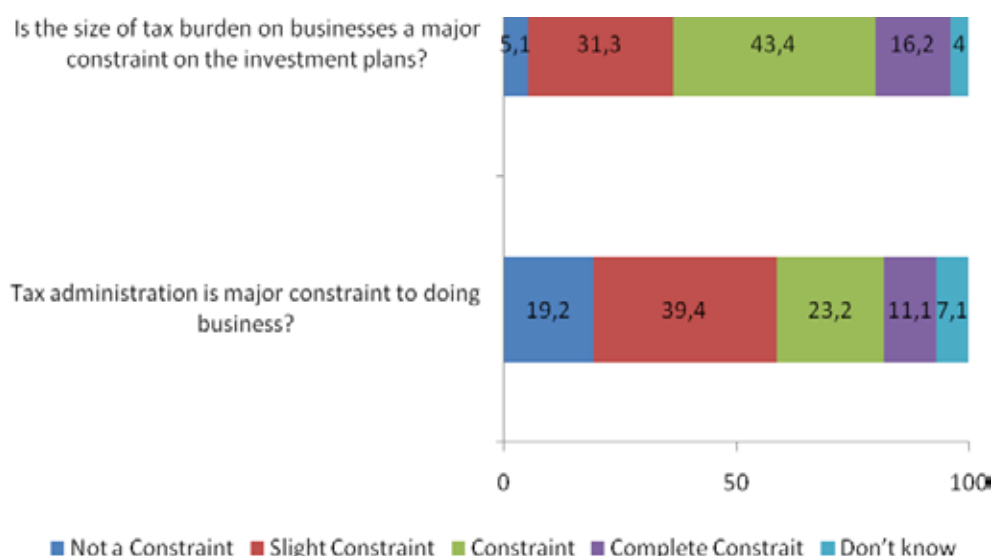
The situation presented by secondary data is largely confirmed by the Montenegro EESE survey’s responses from firms. Nearly all surveyed enterprises (90 per cent) agree with the statement: “The amount of overall management time firms spend dealing with the requirements of government regulation is a major issue for firms.” Only a very small number of respondents (4.15 per cent) disagree with the statement. Concerning whether it is easy to obtain business licenses and permits, 40 per cent of respondents disagreed that it is easy, as opposed to 1 per cent who fully agreed that the processes are easy. The majority (45.4 per cent) however, somewhat agreed that it is easy.

**Graph 27:** Do firms have to deal with overlapping regulatory bodies?



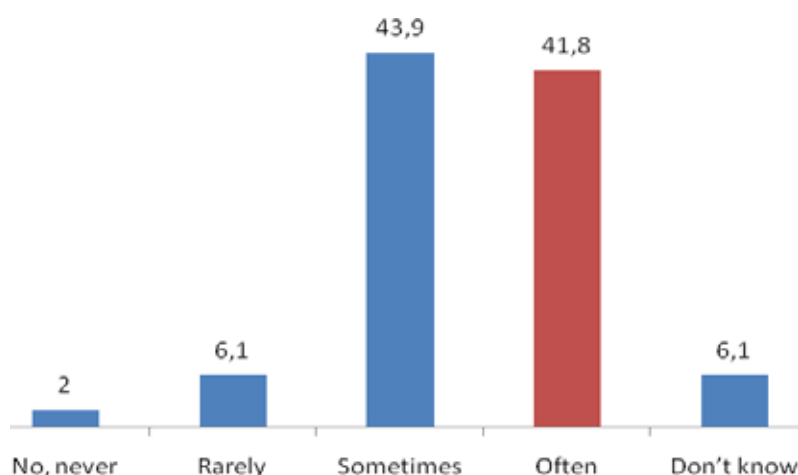
The overlapping of regulatory bodies (agencies, inspections) is a key problem undermining the business environment in Montenegro. The above chart reflects the extent of this problem, where 30.6 per cent of respondents from the EESE survey report overlap to be a very frequent phenomenon, and 38.8 per cent stated that it is sometimes a problem. Only 2 per cent of firms responded that there are no regulatory bodies with overlapping jurisdictions. Regarding the tax burden as a major constraint, for 43.4 per cent of EESE survey respondents this is a key constraint on their investment plans. While only 5.1 per cent of interviewees stated that it is not a major constraint at all, 16.2 per cent reported it to be a complete constraint. Furthermore, all enterprises in the sample agreed with the statement that tax collection could be simplified. The functioning of the tax administration was perceived by respondents as somewhat more positive, and while 39.4 per cent of interviewees perceived the administration to pose a slight constraint on business, for 19.2 per cent, it does not pose any constraint. Only 11.1 per cent of those interviewed reported the administration to be a very significant barrier for their operations, as shown in the chart below.

**Graph 28:** Constraint about size of tax burden/tax administration?



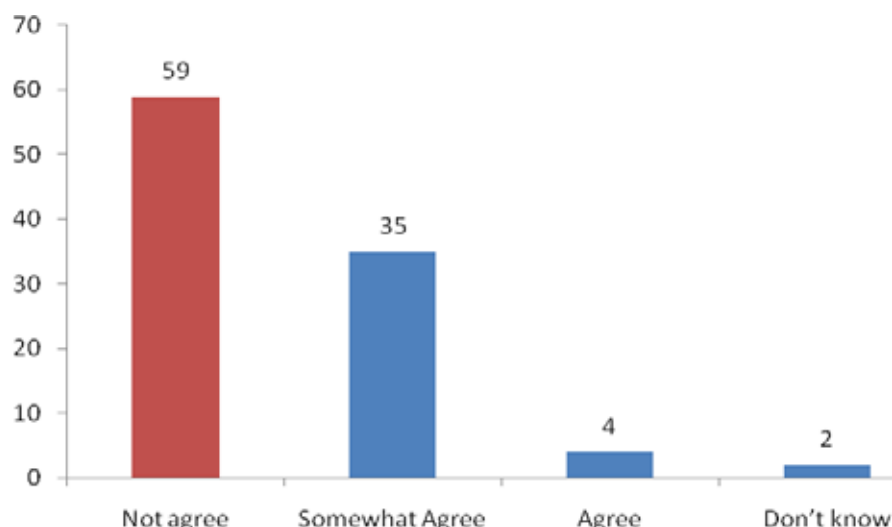
According to the EESE survey, most enterprises (over 45 per cent), agree (completely or mostly) that the costs of payroll taxes are a major issue for firms, compared to only 11.2 per cent that disagreed. The ratio of answers on the reporting requirements to comply with the taxation frameworks is similar. Namely, 11.3 per cent of respondents reported this not to be an issue, while 54.6 per cent think this is a problem. Another problem reported to be a constant constraint for the business environment in Montenegro is the multilayer nature of the tax collection process. Of the enterprises surveyed, 41.8 per cent think that certain taxes and duties are often collected in a multilayer process (at the central and local levels), while 43.9 per cent think it happens only sometimes. A somewhat worrying factor here is that 2 per cent of enterprises feel that the tax collection is not a multilayered process.

**Graph 29:** Is tax collection a multilayered process?



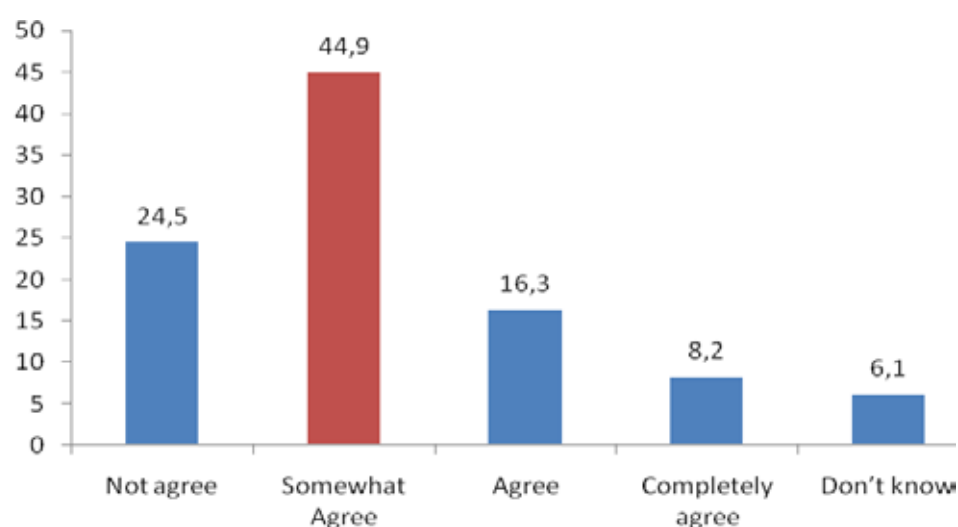
As a crucial problem when it comes to public administration in Montenegro is its size and effectiveness. According to the EESE survey results, 59 per cent of respondents perceive the public administration to be inefficient and ineffective, and only 4 per cent feel the opposite.

**Graph 30:** To what extent do you agree with the statement, “Public administration is efficient and effective”?



A quarter of the enterprises in the Montenegro EESE survey sample (24.5 per cent) disagree with the statement: “Overall the amount of time involved in complying with statutory worker entitlements is a major issue for firms”. Only 8.2 per cent is completely agreeable with the statement. Nonetheless, because 50 per cent of the survey respondents somewhat agree with the above statement, it is highly likely that there are problems in this regard.

**Graph 31:** “Overall the amount of time involved in complying with statutory worker entitlements is a major issue for firms”



The EESE survey reveals a large gap in enterprises' awareness on the tax deductions available for investment in equipment and facilities. The portion of respondents who are not aware of the possibility of using tax deductions when investing in equipment and facilities was as high as 32.3 per cent. On the other hand, the rest of the enterprises in the sample had a negative opinion in this regard, where 28.1 per cent feel that enterprises are not allowed to use tax deduction in these

cases. Almost half of the enterprises in the sample (46.7 per cent) stated there are no tax rebates available to small enterprises which are particularly prone to losses. Nonetheless, a bit over 10 per cent of respondents were more positive about this, where 3.3 per cent were completely positive, and 7.6 per cent were partially positive.

The number of interviewees who responded that they did not know is notable at 39.1 per cent. This may further be a reflection of enterprises' unawareness of the possibilities available in this matter.

E-government has been a burning topic in Montenegro for years now. Along with the portal [www.euprava.me](http://www.euprava.me), many other activities are being taken up in order to strengthen the IT network. The purpose of this is to ensure that companies can complete the process of establishing a business, along with other administrative requirements, electronically via the Internet. Still, these systems have not yet achieved broad usage. The EESE survey results show that 23.2 per cent of respondents think there are not electronic systems for the submission of reports and payments, and only 5 per cent are aware of this possibility.

The legal and regulatory environment in Montenegro is particularly challenging for SMEs, where the country suffers from policy gaps in innovation and SME support services. Policies and legislation to promote SMEs exist, but due to limited resources, efficient implementation is a challenge. At the same time, SMEs make up 99.6 per cent of registered businesses, of which 88.9 per cent are microenterprises (less than 10 employees), and 61.6 per cent of labour is employed in SMEs.<sup>65</sup> The Montenegro Strategy for Development of Small and Medium Enterprises for 2011-15 states that processes have been initiated in recent years by the government to simplify the administrative procedures for businesses and to establish analysis of how new regulations may affect SMEs in particular. The document also notes that it has been recognized that the business registration process needs to be simplified, that all necessary permits for starting a business should be issued at a single location, and that there is a need for institutional coordination in the process of creating and implementing a policy to enhance SME competitiveness.<sup>66</sup>

In general, the functionality and development of institutions in Montenegro is unsatisfactory, implying the need to implement a series of structural and institutional reforms to improve the enabling legal and regulatory environment for businesses and thus, to provoke increased competitiveness and economic productivity. Among other changes, state regulation should be made flexible to ensure that bureaucratic obstacles for business and investments are removed, comprehensive reform of public management and labour legislation is carried out, the tax burden is removed from the economy, public expenditure and all other forms of indebtedness are decreased, and the negative impact of the economic crisis is neutralized.<sup>67</sup>

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<sup>65</sup> OECD. 2012.

<sup>66</sup> Government of Montenegro. 2011.

<sup>67</sup> Radovic, M. et al. 2013. Economic Institutions and Competitiveness of Economy with Emphasis on Montenegro. Montenegrin Journal of Economics, vol. 9 no. 1.

## Key Indicators

Regulatory Quality Index		2005	2007	2009	2010	2011
<p>The ability of the government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p> <p><u>Source:</u> World Bank, Governance Matters database.<sup>68</sup></p>	Montenegro	-0.13	-0.16	-0.04	-0.07	-0.06
	Bulgaria	0.64	0.62	0.64	0.62	0.56
	Croatia	0.49	0.45	0.55	0.55	0.56
	Iceland	1.61	1.52	1.01	0.89	1.01
	Serbia	-0.55	-0.34	-0.14	-0.04	0.01
	Slovenia	0.83	0.8	0.87	0.7	0.63
<p>Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p>						
Ease of Doing Business Rank		2008 (2009 report)	2009 (2010 report)	2010 (2011 report)	2011 (2012 report)	2012 (2013 report)
<p>Ease of Doing Business Index ranks economies from 1 to 185, with first place being the best. A high ranking means that the regulatory environment is conducive to business operation. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic.</p> <p><u>Source:</u> World Bank, Doing Business Project.<sup>69</sup></p>	Montenegro	84	77	65	57	51
	Bulgaria	44	42	51	64	66
	Croatia	107	110	89	80	84
	Iceland	11	11	14	13	14
	Serbia	91	90	90	95	86
	Slovenia	64	58	43	35	35
<p>The index ranks economies from 1 to 185, with first place being the best.</p>						

## Other Useful Indicators

Starting a Business Rank		2011 (2012 report)	2012 (2013 report)
<p>Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.</p> <p><u>Source:</u> World Bank, Doing Business project.<sup>70</sup></p>	Montenegro	45	58
	Bulgaria	48	57
	Croatia	72	80
	Iceland	37	45
	Serbia	91	42
	Slovenia	28	30
<p>The index ranks economies from 1 to 185, with first place being the best.</p>			

68 World Bank Databank.

69 World Bank Databank.

70 World Bank Doing Business Project

### 3.4. Rule of law and secure property rights

A formal and effective legal system which guarantees that contracts are honoured and upheld, the rule of law is respected and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society. Rule of law and secure property rights are the two main areas that have been prioritized in Montenegro in order to accede to the EU.<sup>71</sup>

The Montenegrin judicial system is a three-instance court system with fifteen basic courts, two high courts, and Appellate Court, and a Supreme Court, as well as two Commercial Courts and an Administrative Court. The Constitutional Court is made up of 7 elected judges and decides on the conformity of laws with the Constitution and ratified international agreements. It can also make decisions on whether or not the President has violated the Constitution. The Judicial Council administers the judiciary, and consists of a President who is also the President of the Supreme Court, and nine members, including the Minister of Justice. The Council selects, appoints, promotes, dismisses, and disciplines judges. A major concern for the legal system in Montenegro is to ensure the independence of the judiciary, and determine where the career system and recruitment processes must be reformed and strengthened. Rules and a code of conduct exist concerning the impartiality of judges, but the judiciary insufficiently monitors rules regarding corruption and conflict of interest. Judges and prosecutors also benefit from immunity from prosecution.<sup>72</sup>

In 2007, Montenegro signed the Stabilisation and Association Agreement (SAA) with the EU which entered into force in 2010. The SAA states that the consolidation of rule of law, law enforcement and the administration of justice should be emphasized in the parties' cooperation on justice, freedom and security. In particular, strengthening the judiciary and improving its efficiency is a central focus. Because corruption is one of the greatest challenges for Montenegro, and the justice system is the main tool used to combat corruption, it is essential that the judiciary functions properly. In addition, the Government of Montenegro passed an Anti-Corruption Strategy for 2010-14, and an Action Plan for the period 2010-12 which was revised and as such adopted in July 2011. According to the Report on the Implementation of Renewed Action Plan for Fight against Corruption Measures<sup>73</sup>, in the period from July 31<sup>st</sup> to December 31<sup>st</sup> 2012 there were 161 measures implemented (43.28 per cent). 109 measures (29.30 per cent) are only partially implemented while 102 measures (27.42 per cent) are not implemented at all. Having adopted the Action Plan for 2013-2014, Montenegro commenced the second implementation phase of the Strategy.

According to secondary data, the rule of law in Montenegro has improved over time. The "Rule of Law Index" measures the extent to which agents have confidence in and abide by the rules of society on a scale from -2.5 to 2.5 with higher values indicating better performance. This includes the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence. Over the period 2007-11, Montenegro records consistently improving levels, moving from -0.2 to 0.03. Over this period, Serbia and Bulgaria performed worse than Montenegro, while Croatia, Iceland and Slovenia consistently recorded the highest levels of rule of law of the group.

A critical concern regarding the rule of law in Montenegro is the need to strengthen citizen's trust in public institutions, particularly in regards to the judicial system. As Montenegro works to improve its legal

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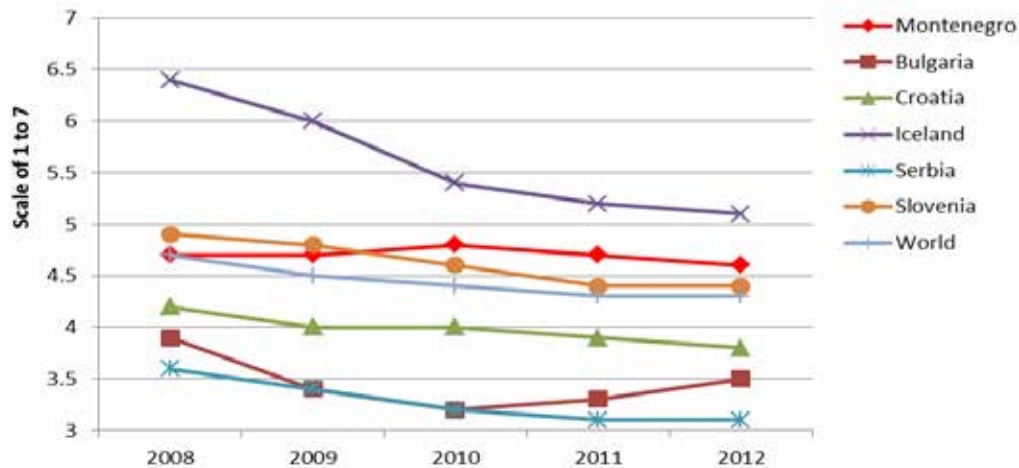
71 Ministry of Sustainable Development and Tourism. (undated).

72 Berenschot. 2013. Thematic Evaluation of Rule of Law, Judicial Reform and Fight against Corruption and Organised Crime in the Western Balkans – Lot 3. European Union; Bereschot, February. Accessed 30 May 2013.

73 National Commission Report on the Implementation of Strategy for Fight against Corruption and Organised Crime – March 2013, accessed September 5th 2013

system to meet EU accession requirements, it is important that reforms are not rushed, especially with regard to constitutional amendments impacting the judiciary. Because amendments require a two-thirds majority, a rushed effort to pass these could easily lead to extreme political bargaining, which would then give room to political opportunism and nationalistic posturing at the cost of real reforms.<sup>74</sup>

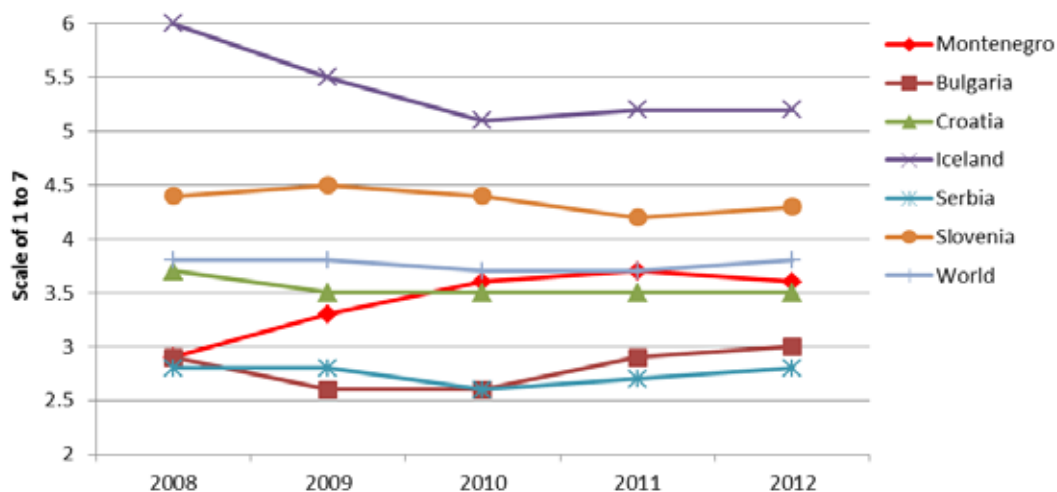
**Graph 32: Property Rights**



Source: World Economic Forum, The Global Competitiveness Report.

Minimal progress has been made in recent years in regards to property rights in Montenegro. The process of restitution is not yet fully ensured in the country and the work of relevant commissions tends to move slowly. However, secondary data shows that business leaders in Montenegro are comparatively positive about the clarity of property rights and the legal protection they provide. Of the countries used for comparison, only Iceland performed more favourably in this regard over the period 2010-12. This is in spite of a slight worsening in perceptions of protection in Montenegro over the same period.

**Graph 33: Intellectual Property Protection**



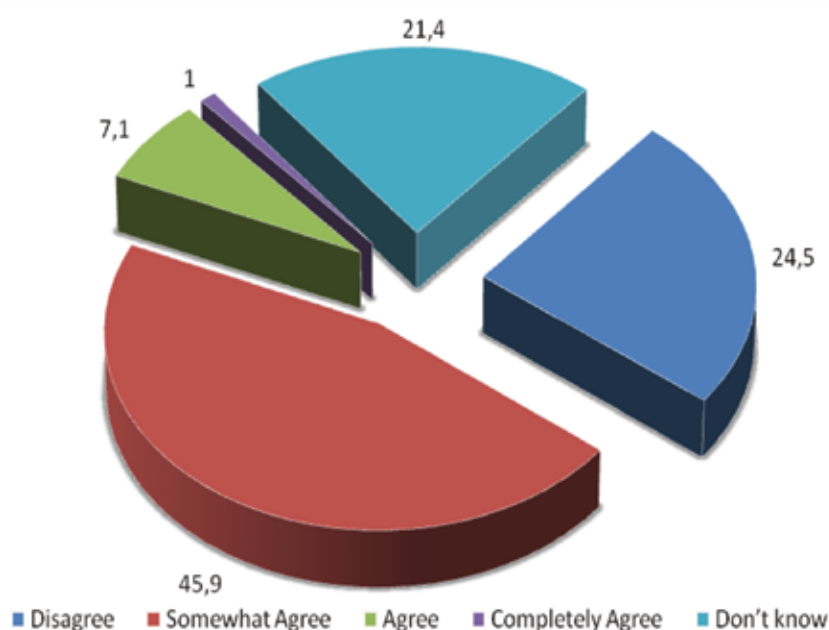
Source: World Economic Forum, The Global Competitiveness Report.

<sup>74</sup> Freedom House. 2012a.

Strong intellectual property protection is of pivotal importance for Montenegro, where one of the prerequisites for the country's accession into the EU is to bring protections into accordance with international law. It is also crucial for the development of SMEs in the country, where strong intellectual property protection allows for easier access to financial resources, contributes to an increase in the market value of enterprises, profitability, improved marketing, and differentiation of goods and services.<sup>75</sup> Intellectual property protection in Montenegro is perceived to be relatively strong compared to other countries. In 2012, Montenegro outperformed Bulgaria, Croatia and Serbia in this regard, while Iceland and Slovenia reflected the strongest intellectual property protection. In addition, Montenegro was only marginally lower than the world mean of 3.8 in the same year. However, intellectual property protection in Montenegro is perceived to be weaker than property rights protection, where the country scored a level of 4.6 in property rights in 2012 and 3.6 in intellectual property protection, on a scale for 1 to 7 where the highest value indicates stronger protection and enforcement.

Findings from the EESE survey show that progress has been made in the area of intellectual property protection, but there is still much space for improvement. In the chart below, it is apparent that only 1 per cent of the interviewees agreed with the statement on intellectual property protection, though 46.9 per cent think these rights are somewhat well defined.

**Graph 34:** Intellectual property protection is well defined:



<sup>75</sup> Government of Montenegro. 2011.

## Key Indicators

Rule of Law Index		2007	2008	2009	2010	2011
The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence.  Source: World Bank, Governance Matters database. <sup>76</sup>	Montenegro	-0.2	-0.08	0.07	0	0.03
	Bulgaria	-0.14	-0.19	-0.05	-0.08	-0.09
	Croatia	0.04	0.07	0.14	0.18	0.18
	Iceland	1.85	1.89	1.70	1.69	1.69
	Serbia	-0.50	-0.53	-0.43	-0.38	-0.33
	Slovenia	0.88	0.98	1.09	1.02	1.07
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						

## Other Useful Indicators

Property Rights		2008 (GC 08/09)	2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1=poorly defined and not protected by law, 7=clearly defined and well protected by law".  Source: World Economic Forum, The Global Competitiveness Report. <sup>77</sup>	Montenegro	4.7	4.7	4.8	4.7	4.6
	Bulgaria	3.9	3.4	3.2	3.3	3.5
	Croatia	4.2	4	4	3.9	3.8
	Iceland	6.4	6	5.4	5.2	5.1
	Serbia	3.6	3.4	3.2	3.1	3.1
	Slovenia	4.9	4.8	4.6	4.4	4.4
	World	4.7	4.5	4.4	4.3	4.3
1=poorly defined and not protected by law, 7=clearly defined and well protected by law.						
Intellectual Property Protection		2008 (GC 08/09)	2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting measures in your country are 1=weak and not enforced, 7=strong and enforced".  Source: World Economic Forum, The Global Competitiveness Report. <sup>78</sup>	Montenegro	2.9	3.3	3.6	3.7	3.6
	Bulgaria	2.9	2.6	2.6	2.9	3
	Croatia	3.7	3.5	3.5	3.5	3.5
	Iceland	6	5.5	5.1	5.2	5.2
	Serbia	2.8	2.8	2.6	2.7	2.8
	Slovenia	4.4	4.5	4.4	4.2	4.3
	World	3.8	3.8	3.7	3.7	3.8
1=weak and not enforced, 7=strong and enforced.						

<sup>76</sup> World Economic Forum Global Competitiveness report.

<sup>77</sup> Ibid.

<sup>78</sup> World Bank World Governance Indicators.

### 3.5. Fair competition

As a precondition of development and growth of the private sector and sustainable enterprises, it is important to have competition rules, including those ensuring respect for labour and social standards. In addition, anti-competitive practices at the national level must be eliminated. Montenegro is in the process of EU accession, one condition of which is a certain level of competition in the Montenegrin economy.

In Montenegro, policies to promote fair competition exist, but suffer from limited resources that prevent effective implementation. Nonetheless, according to the World Economic Forum Global Competitiveness report, Montenegro's improvement in regards to competition has been rapid and consistent. In 2012, the parliament adopted the Montenegrin Law on the Protection of Competition, intended to further align national legislation with the EU competition *acquis*. This law includes stronger market regulation and merger control, as well as establishing an operationally independent authority, now known as the Montenegrin Competition Agency.<sup>79</sup> In addition, the privatization process, a key element of promoting fair competition in the country, is nearly complete, where only 15 per cent of previously state-owned firms remained under government control as of 2011. Most of the retained public companies are of strategic importance to the country and are in such industries as energy, tourism, and transport.<sup>80</sup>

Increased competition exposure is a concern in Montenegro, firstly due to the informal economy existence, and secondly because of the higher level of globalization and openness of the country where domestic companies may not be sufficiently prepared for this level of competition.<sup>81</sup> Thus, efforts must be made by the government to foster transitions from informal to formal economy and, at the same time, determine strategies to prepare domestic business operators for international competition.

According to findings from the EESE survey in Montenegro, most enterprises have not reduced the prices of their main products in response to price reductions by both domestic and foreign competitors. Only 14.9 per cent of sampled enterprises significantly reduced the price of their main product at the domestic market, and just 12.1 per cent did so at the foreign market.

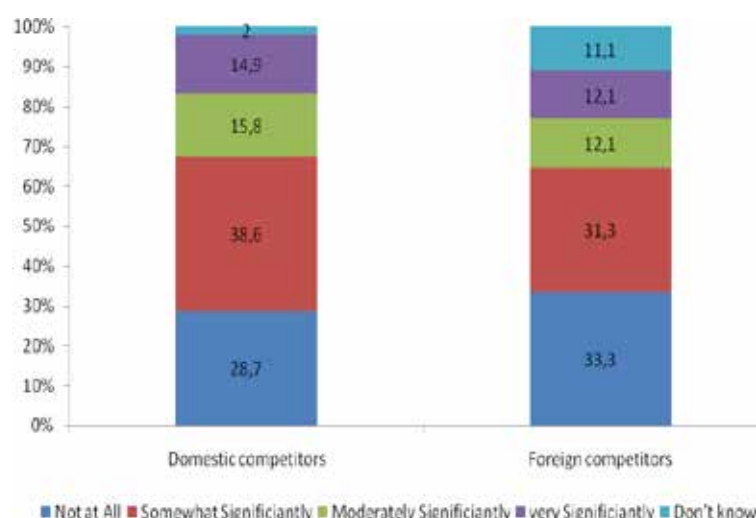
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79 BDK Attorneys at Law. 2012. Montenegro: Competition. BDK Newsletter, No. 6/2012. Accessed 24 May 2013.; European Commission. 2012.

80 European Bank for Reconstruction and Development. 2010. Strategy for Montenegro 2010-2013. Accessed 24 May 2013.

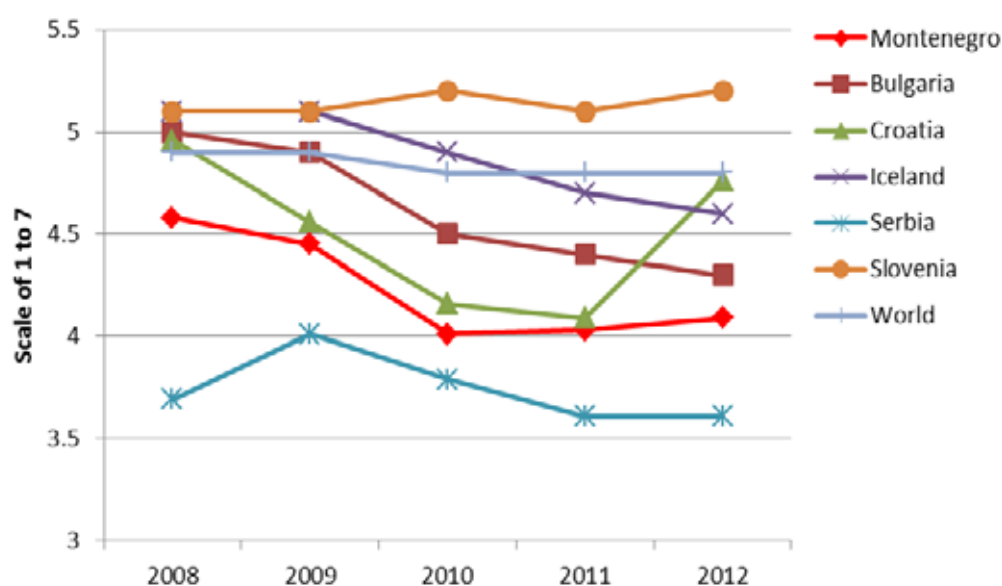
81 Rojec, M. et al. 2010.

**Graph 35:** Has your firm significantly reduced the price of its main product in response to price reductions by domestic/foreign competitors?



According to World Economic Forum Executive Opinion surveys, competition in Montenegro is perceived to be less intense than in other countries used for comparison, with the exception of Serbia, where competition is the least intense of the group. The “Intensity of Local Competition Index” measures the level of competition in local markets from 1 to 7, 1 being limited and 7 being intense in most industries. Only Serbia records a lower intensity level than Montenegro over the period 2008-12. Moreover, the competitive environment in Montenegro has worsened since 2008, with marginal improvements between 2010 and 2012.

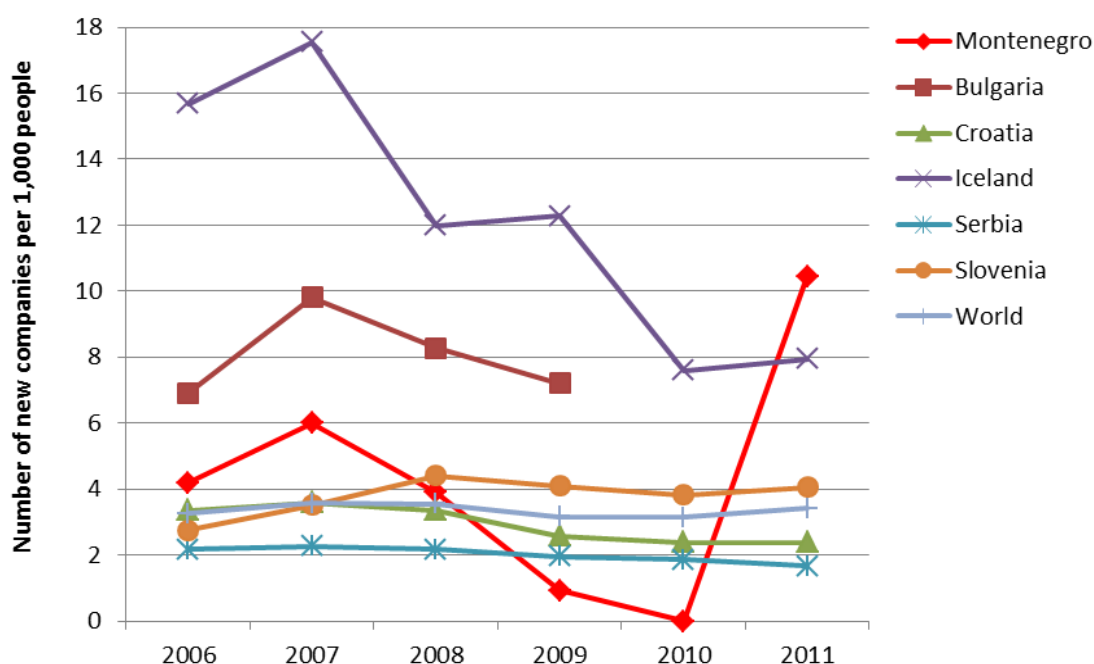
**Graph 36:** Intensity of Local Competition Index



Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.

Further reflective of the level of market competition in the country, “New Business Density” indicates the number of newly registered, limited liability companies per 1,000 working aged people (15 to 64 years old) in a given year. The amount of newly registered businesses in Montenegro has rapidly declined since 2007, and in 2009, it was the lowest among all countries used for comparison. In 2011 however, Montenegro recorded the highest number of newly registered companies of the group at a rate of 10.44. This is a large leap from 2009, when it recorded the lowest rate at 0.92\

**Graph 37: New Business Density**

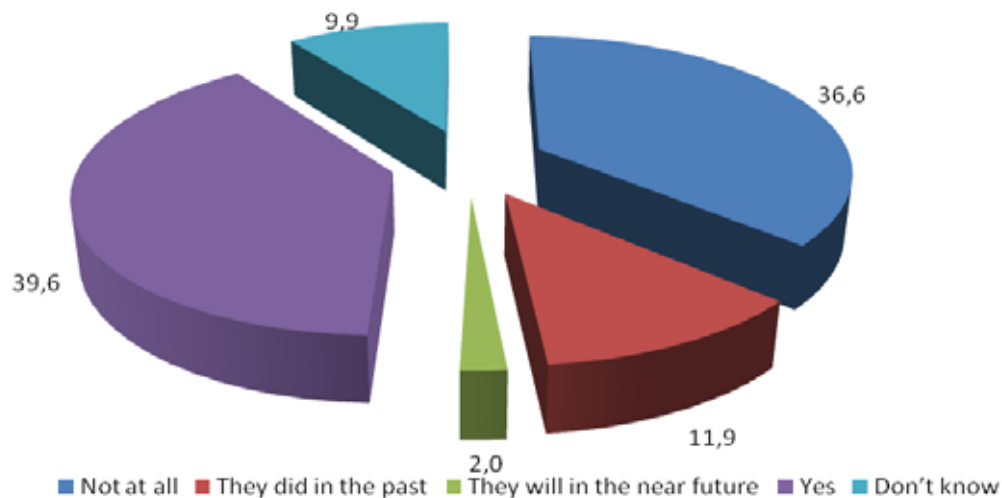


Source: World Bank's Entrepreneurship Survey (World Bank World Development Indicators Online).

While anti-monopoly policies exist in Montenegro, insufficient resources tend to hinder implementation. Nonetheless, secondary data shows that Montenegro still stands well in this regard relative to similar countries. The “Effectiveness of Anti-monopoly Policy Index” reflects the level of efficiency of anti-monopoly policy in promoting competition, on a scale from 1 to 7 with higher values corresponding to better performance. In 2012, Montenegro recorded a value of 3.79, outperforming Serbia, Bulgaria, and Croatia.

According the results from the Montenegro EESE survey, the largest portion of respondents confirms the existence of monopolies and monopolistic practices. However, opinions are largely divided on this issue. While 39.6 per cent of interviewees responded positively to the existence of monopolies and monopolistic practices, a comparatively large portion of respondents (36.6 per cent) think there are no monopolies at all in their sector.

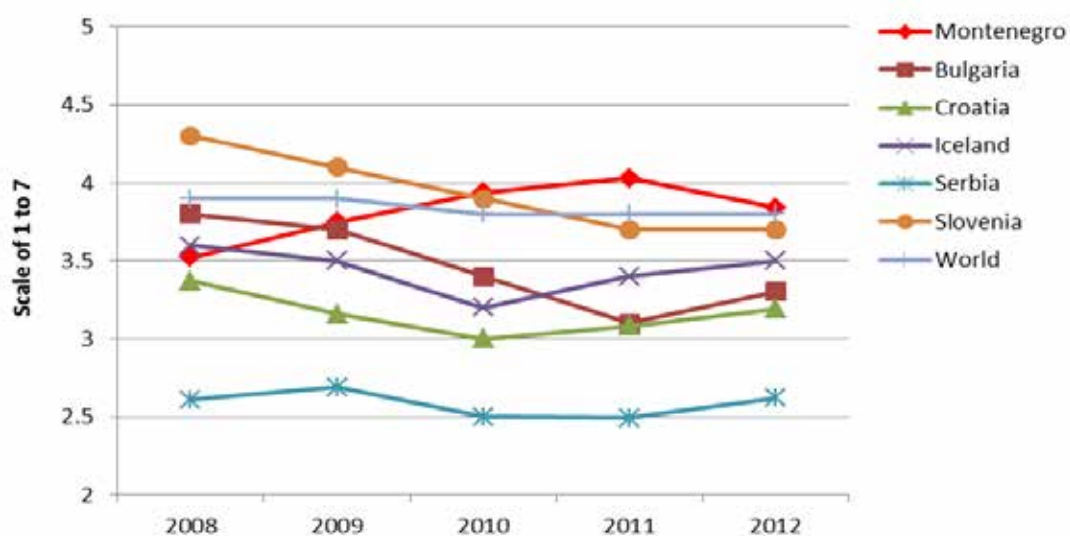
**Graph 38:** Do monopolies or monopolistic practices exist in your sector?



According to the EESE survey, most companies (45.9 per cent) consider anti-trust legislation to be inefficient in breaking up trusts and other monopolistic practices, while only 9.8 per cent of enterprises think this legislation is efficient. The most worrying outcome is that none of the enterprises surveyed reported that this legislation is entirely effective.

The “Extent of Market Dominance Index” indicates whether corporate activity is dominated by only a few business groups or spreads among many firms, in a range of values from 1 to 7 with higher values corresponding to more firms. The value for Montenegro in this regard decreased between 2011 and 2012, moving from 4.03 in the former year to 3.84 in the latter. Nonetheless, between 2009 and 2012, it outperformed all other countries used for comparison.

**Graph 39:** Extent of Market Dominance

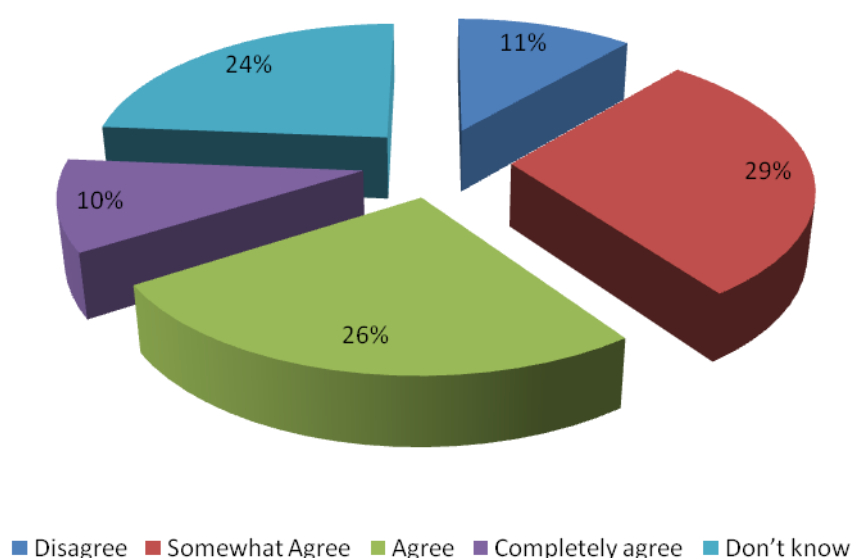


Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.

It should not be surprising that Montenegro would perform well in the area of market dominance as the country's business environment is defined by many small businesses, where large companies are practically non-existent. This is also why prioritization of business development and improvements in competition in the country economic development strategy is focused primarily on small and medium size companies.<sup>82</sup>

Political factors can, in addition to having positive influences, also negatively impact competition. According to the EESE survey findings, the great majority of enterprises clearly state that there are political factors negatively influencing commercial activity in the country. Of the firms interviewed, 10.3 per cent completely agree with the above opinion, 26 per cent agree, 28.9 per cent only somewhat agree, and 11 per cent disagree.

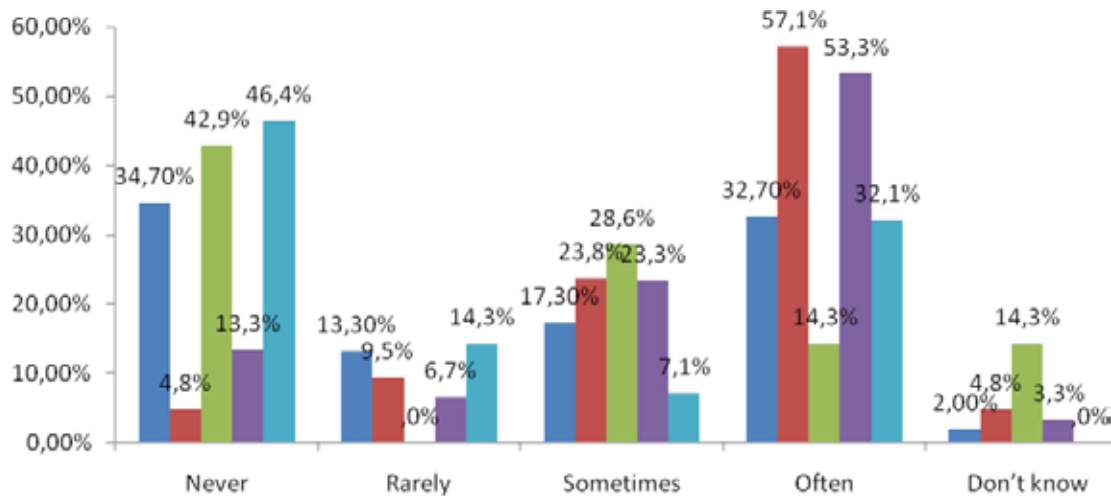
**Graph 40:** There are political factors at play that negatively influence commercial activity:



One of the main hindrances to competition in Montenegro is the substantial number of businesses operating in the informal or grey economy, as this greatly affects all the regular activities of enterprises operating in the formal economy. The EESE survey shows that 32.7 per cent of enterprises often compete with unregistered and informal economy enterprises, though a larger portion equal to 34.7 per cent reported never having competition problems with unregistered and informal economy enterprises. In the trade sector, 57.1 per cent of respondents noted that enterprises in the informal economy are often the greatest competitors, and 53.3 per cent of enterprises with less than 5 employees reported the same problem. The non-existence of informal sector companies is reported mostly by enterprises having 5 to 19 employees, where 46.4 per cent of them did not report having any problems with this kind of competition.

<sup>82</sup> Radovic, M. et al. 2013.

**Graph 41:** Does your firm compete against unregistered or informal firms?



While 30.6 per cent of EESE survey respondents reported that enterprises in the informal economy are the major source of competition, a notable portion of 25.5 per cent stated that this is only sometimes/rarely the case. The most worrying fact however, is that only 13.3 per cent of enterprises reported that companies operating in the informal economy are never the major source of competition. Interestingly, 53.3 per cent of enterprises employing less than 5 people think that companies operating in the informal sector are often the major source of competition, while companies employing over 99 employees think it is somewhat a major source of competition and 18.8 per cent of them that do not consider it a source of competition at all. Although respondents feel the existence of the informal economy, the greatest number of enterprises in the sample (86.3 per cent) does not cooperate with firms operating in the informal economy, and only 5.3 per cent reported that sometimes they do business with such companies. Another frequent problem recognised by the respondents in the EESE survey is the issue of bootleg goods. Of the interviewees, 69.4 per cent reported this to be often or occasionally a problem, as opposed to only 7.1 per cent that felt it is not a problem. The worrying fact however, is that 27.2 per cent of enterprises noted that the issue of bootleg goods has been increasing over the past couple years, and 26.1 per cent consider it to be at least moderately increasing from one year to another.

## Key Indicators

New Business Density		2006	2007	2008	2009	2010	2011
The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.  Source: World Bank's Entrepreneurship Survey (World Development Indicators Online) <sup>83</sup>	Montenegro	4.19	5.99	3.89	0.92	-	10.44
	Bulgaria	6.91	9.81	8.27	7.20	-	-
	Croatia	3.35	3.59	3.36	2.58	2.38	2.39
	Iceland	15.68	17.54	11.99	12.28	7.60	7.94
	Serbia	2.17	2.26	2.17	1.96	1.87	1.66
	Slovenia	2.75	3.52	4.41	4.10	3.81	4.04
	World	3.25	3.57	3.54	3.16	3.13	3.42
The number of newly registered limited liability companies per 1,000 working-age people.							

## Other Useful Indicators

Intensity of Local Competition Index		2008 (GC 08/09)	2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)".  Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report. <sup>84</sup>	Montenegro	4.6	4.5	4.0	4.0	4.1
	Bulgaria	5.0	4.9	4.5	4.4	4.3
	Croatia	5.0	4.6	4.2	4.1	4.8
	Iceland	5.1	5.1	4.9	4.7	4.6
	Serbia	3.7	4.0	3.8	3.6	3.6
	Slovenia	5.1	5.1	5.2	5.1	5.2
	World	4.9	4.9	4.8	4.8	4.8
1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership.						

Effectiveness of Anti-monopoly Policies		2008 (GC 08/09)	2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)".  Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report <sup>85</sup>	Montenegro	3.5	3.8	3.8	3.9	3.8
	Bulgaria	3.4	3.4	3.3	3.3	3.5
	Croatia	3.5	3.6	3.6	3.7	3.8
	Iceland	5.3	4.9	4.4	4.6	4.5
	Serbia	2.6	2.7	2.8	2.8	2.8
	Slovenia	4.2	4.4	4.5	4.3	4.1
	World	4.0	4.0	4.1	4.0	4.0
1=lax and not effective at promoting competition, 7=effective and promotes competition.						

<sup>83</sup> World Bank Databank.

<sup>84</sup> World Economic Forum Global Competitiveness report.

<sup>85</sup> Ibid.

Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)".  Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report. <sup>86</sup>	<b>Montenegro</b>	3.52	3.75	3.94	4.03	3.84
	<b>Bulgaria</b>	3.8	3.7	3.4	3.1	3.3
	<b>Croatia</b>	3.37	3.16	3	3.08	3.19
	<b>Iceland</b>	3.6	3.5	3.2	3.4	3.5
	<b>Serbia</b>	2.61	2.69	2.5	2.49	2.62
	<b>Slovenia</b>	4.3	4.1	3.9	3.7	3.7
	<b>World</b>	3.9	3.9	3.8	3.8	3.8
1=dominated by a few business groups, 7=spread among many firms.						

### 3.6. Information and communication technologies

In the era of the knowledge economy, the use of information and communication technologies (ICTs) is fundamental to the development of sustainable enterprises. Affordable broadband technology is also very important and should be facilitated. The World Economic Forum ranked Montenegro 48 out of 142 countries for ICT development in 2012, based on the WEF Network Readiness Index.<sup>87</sup>

The Agency for Electronic Communications and Postal Services is the independent regulatory agency for the ICT sector in Montenegro and was established by the telecommunications law in 2008. It is specifically responsible for promoting competition and access to networks, issuing licenses to operators, and regulating tariffs in this sector.<sup>88</sup> The Ministry of Information Society in Montenegro developed and implemented the Strategy for Information and Society Development (2009-13), which is intended to improve the state of ICTs and how they interact with the economic and social environment<sup>89</sup>, followed by a new Strategy 2012-2016. Currently, 100 per cent of the ICT sector in Montenegro is privatized and between 3 mobile operators 99 per cent of the country's inhabited areas are covered.

According to UN Global E-Government Reports<sup>90</sup> Montenegro has recorded positive shift in the development of e-government in recent years. Montenegro ranked 57 among 191 countries in 2012. Compared with countries from the region it ranked better than Bosnia and Herzegovina which took 79 place and Macedonia which ranked 70, while Serbia (51), Croatia (30) and Slovenia (25) ranked significantly better. According to this report, Web Measure Index is at the level of 0.5098 which means that these services are only half-developed.

<sup>86</sup> Ibid.

<sup>87</sup> Bilbao-Osorio, B; Dutta, S.; and Lanvin, B. (ed.). 2013. The Global Information Technology Report 2013. World Economic Forum; The Business School for the World (INSEAD). Accessed 24 May 2013.

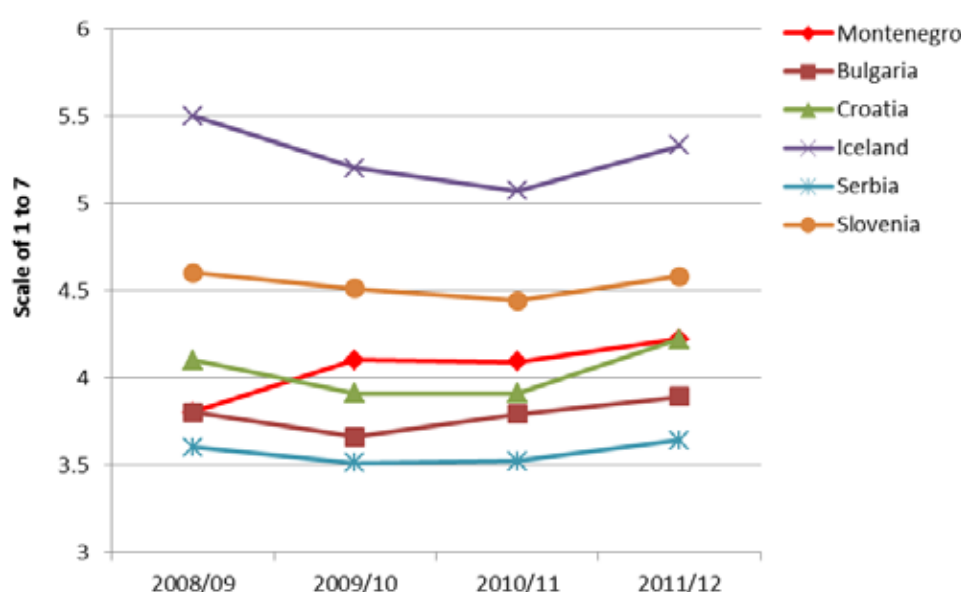
<sup>88</sup> United States Department of State. 2012b. Doing Business in Montenegro. Accessed 27 May 2013.

<sup>89</sup> Ministry for Information Society. 2009. Strategy for Information Society Development in Montenegro from 2009 to 2013. Government of Montenegro. Accessed 24 May 2013.

<sup>90</sup> <http://unpan3.un.org/egovkb/about/Introduction.htm>

Electronic services (available both for natural and legal persons) play an important role in enabling business environment in Montenegro. Having started the portal [www.euprava.me](http://www.euprava.me) Montenegro made a great step towards improving the situation in this field. Still, this system has not yet reached its full potential so naturally there is a need for its upgrade. Moreover, current facts point out pretty low level of usage of this service, both by citizens and enterprises posing the need for its promotion to both parties. Recent data reveal that only 11.7 per cent of citizens use Internet services of public institutions and administrative bodies while only 41.4 per cent of enterprises used these services in electronic processing of administrative procedures<sup>91</sup>. The same survey reveals that only 21.8 per cent of enterprises used online services for ordering products/services. Also, in 2011 59.6 per cent of companies used public administration services via Internet. The same survey revealed that only 53,1 per cent of all the enterprises with Internet access has their own homepage/website.<sup>92</sup>

**Graph 42: Network Readiness Index**



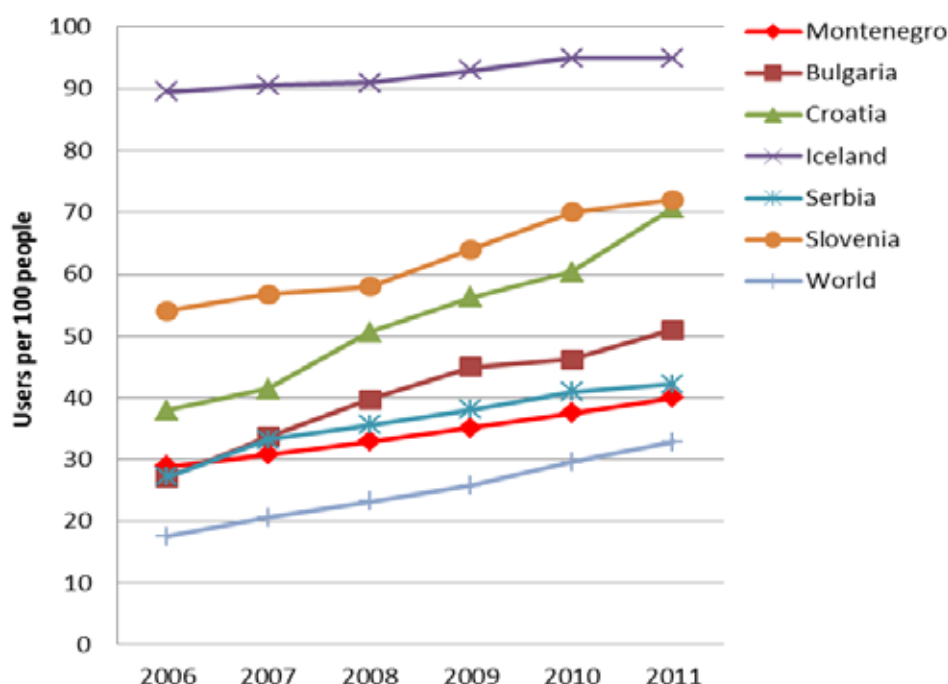
Source: World Economic Forum, The Global Information Technology Report.

The “Network Readiness Index” measures the extent to which a country leverages ICTs for enhanced competitiveness. On a scale from 1 to 7 with higher values corresponding to better performance, Montenegro reflects a slow but consistent improvement from 2008 to 2012. In 2011-12, Montenegro outperformed Serbia and Bulgaria, and registered an equal level as Croatia. Slovenia and Iceland consistently maintain the highest scores over the period 2008-12. The “ICT Development Index” compares developments in ICT in 154 countries. It combines several indicators, such as households with a computer, number of Internet users, literacy levels, etc., on a scale from 1 to 10 with higher values indicating better performance. Data for Montenegro is only available for 2008 and 2010, during which time the country improved in this regard. However, in 2010 Montenegro scored the lowest of the countries used for comparison.

91 Statistical Office of Montenegro ‘The Use of Information Communication Technologies in Montenegro’ Podgorica, 2012.

92 Ibid

**Graph 43: Internet Users**

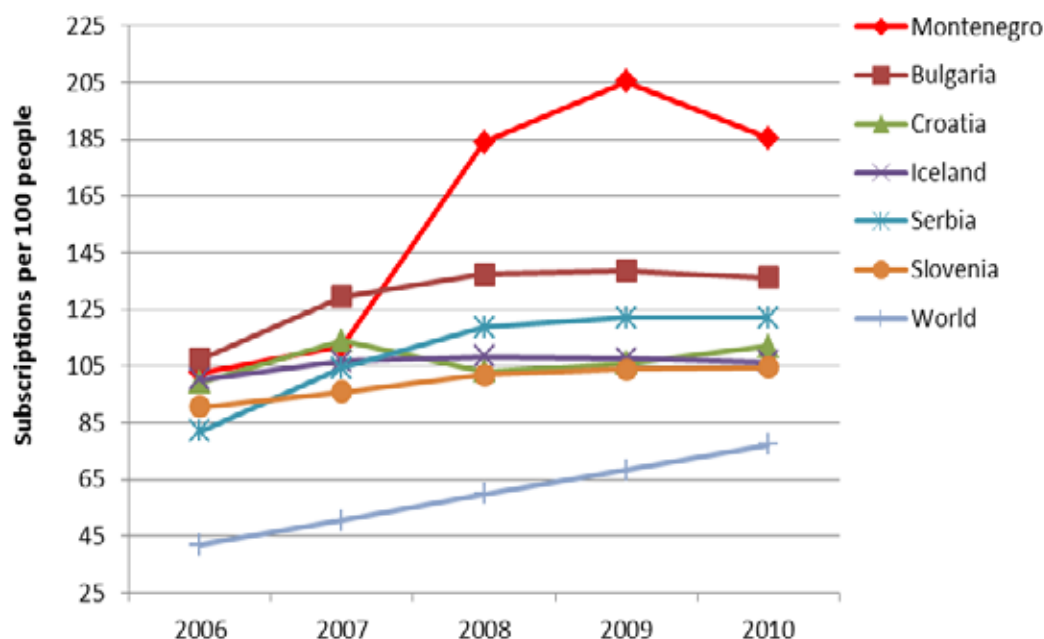


Source: International Telecommunication Union.

Concerning ICT usage in Montenegro, there is a high degree of mobile telephony, but a major challenge for the country is the need to promote internet usage, especially in areas where it is not profitable for the private sector to make investments.<sup>93</sup> Considering “Internet Users” per 100 people, Montenegro has consistently improved over the period 2006-11. Though the country reflected the lowest number of users of the countries compared in 2011, with 40 users per 100 people, Montenegro compares well to the world mean of just 32.8 in the same year. Similarly, when it comes to “Fixed Line Subscriptions” per 100 people, Montenegro again performs the poorest of the countries used for comparison, but outperforms the world mean over the period 2006-10. Unlike the rate of Internet users however, there has been a decrease in fixed line subscriptions in Montenegro from 2007 to 2010. Comparatively, the number of “Mobile Cellular Subscriptions” per 100 people has increased substantially over the period 2006-10, moving from 102.7 in the former year to 185.3 in the latter. In this regard, Montenegro outperforms all countries used for comparison in 2010, and recorded more than double the rate of the world mean in that year. Concerning “Broadband Subscribers” per 100 people, Montenegro improved its performance between 2007 and 2009. Again outperforming the world mean for the latter year, Montenegro nonetheless reflected the lowest rate of subscribers of any country used for comparison.

93 Ministry for Information Society. 2009.

**Graph 44: Mobile Cellular Subscriptions (per 100 people)**



Source: International Telecommunication Union

According to most recent data, at the end of 2012 number of mobile phone users in Montenegro was 990.869 which correspond to the penetration rate of 159.81 per cent. Out of that number 31.9 per cent belong to postpaid users while 68.1 per cent are prepaid users.<sup>94</sup> On the other side, overall number of fixed lines connections at the end of December 2012 was 169.803.<sup>95</sup>

<sup>94</sup> Agency for Electronic Communications and Postal Services of Montenegro, Information on the state of Electronic communications market in December 2012 – mobile lines

<sup>95</sup> Agency for Electronic Communications and Postal Services of Montenegro, Information on the state of Electronic communications market in December 2012 – fixed lines

## Key Indicators

ICT Development Index (IDI)		2002	2007	2008	2010	2011
<p>IDI compares developments in information and communication technologies (ICT) in 154 countries. The Index combines 11 indicators in a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, including households with a computer, the number of Internet users and literacy levels.</p> <p>Source: International Telecommunication Union.<sup>96</sup></p>	Montenegro	-	-	4.57	5.03	-
	Bulgaria	2.74	4.37	4.87	5.19	5.2
	Croatia	3.19	4.68	5.53	6.21	5.75
	Iceland	5.88	7.14	7.23	8.06	8.17
	Serbia	-	-	4.23	5.11	5.4
	Slovenia	4.47	5.88	6.26	6.75	6.7
Scale from 1 to 10, with lower scores reflecting lower development levels.						

## Other Useful Indicators

Network Readiness Index		2008-09	2009-10	2010-11	2011-12
<p>The NRI measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub indexes that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.</p> <p>Source: World Economic Forum, The Global Information Technology Report.<sup>97</sup></p>	Montenegro	3.8	4.1	4.09	4.22
	Bulgaria	3.8	3.66	3.79	3.89
	Croatia	4.1	3.91	3.91	4.22
	Iceland	5.5	5.2	5.07	5.33
	Serbia	3.6	3.51	3.52	3.64
	Slovenia	4.6	4.51	4.44	4.58
Scale of 1 to 7, with higher scores reflecting a better readiness to utilise the opportunities created by ICT.					

Internet Users (per 100 people)		2006	2007	2008	2009	2010	2011
<p>The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total</p>	Montenegro	28.9	30.8	32.9	35.1	37.5	40.0
	Bulgaria	27.1	33.6	39.7	45.0	46.2	51.0
	Croatia	38.0	41.4	50.6	56.3	60.3	70.7
	Iceland	89.5	90.6	91.0	93.0	95.0	95.0
	Serbia	27.2	33.2	35.6	38.1	40.9	42.2

<sup>96</sup> International Telecommunication Union.

<sup>97</sup> World Economic Forum Global Information Technology report.

number of Internet users is divided by the population and multiplied by 100. Source: International Telecommunication Union. <sup>98</sup>	Slovenia	54.0	56.7	58.0	64.0	70.0	72.0
	World	17.5	20.6	23.2	25.7	29.5	32.8
	Number of users per 100 people.						
Fixed Line Subscriptions (per 100 people)		2006	2007	2008	2009	2010	2011
Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network. Source: International Telecommunication Union. <sup>99</sup>	Montenegro	26.8	28.1	27.7	27.2	26.8	-
	Bulgaria	31.2	30.1	28.9	29.2	29.7	31.6
	Croatia	41.3	41.7	42.5	42.2	42.4	40.1
	Iceland	62.7	61.1	64.2	60.3	60.5	58.9
	Serbia	33.6	37.0	38.1	38.3	38.3	37.3
	Slovenia	51.3	50.0	48.5	46.4	44.9	42.9
	World	19.2	18.8	18.6	18.3	17.8	17.3
	Number of subscribers per 100 people.						
Mobile Cellular Subscriptions (per 100 people)		2006	2007	2008	2009	2010	2011
Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network. Source: International Telecommunication Union. <sup>100</sup>	Montenegro	102.7	112.0	184.1	205.3	185.3	-
	Bulgaria	107.3	129.5	137.4	138.6	136.1	140.7
	Croatia	99.1	113.8	103.1	106.0	111.9	116.4
	Iceland	100.3	106.7	108.5	107.7	106.5	106.1
	Serbia	82.0	104.4	118.7	122.1	122.1	125.4
	Slovenia	90.7	95.8	101.8	103.8	104.6	106.6
	World	41.8	50.6	59.9	68.2	77.1	85.6
	Number of subscribers per 100 people.						
Broadband Subscribers (per 100 people)		2006	2007	2008	2009	2010	2011
Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem or other high-speed technologies. Source: International Telecommunication Union. <sup>101</sup>	Montenegro	-	2.6	5.4	8.4	8.3	-
	Bulgaria	5.0	8.2	10.8	12.7	14.5	16.5
	Croatia	5.7	8.7	11.9	15.5	18.3	19.6
	Iceland	29.2	32.0	33.4	33.2	33.4	33.9
	Serbia	1.5	4.0	5.6	7.3	9.9	11.3
	Slovenia	13.9	17.1	21.1	22.2	23.5	24.3
	World	4.6	5.2	6.2	7.0	7.7	8.6
	Number of subscribers per 100 people.						

98 International Telecommunication Union.

99 Ibid.

100 Ibid.

101 Ibid.

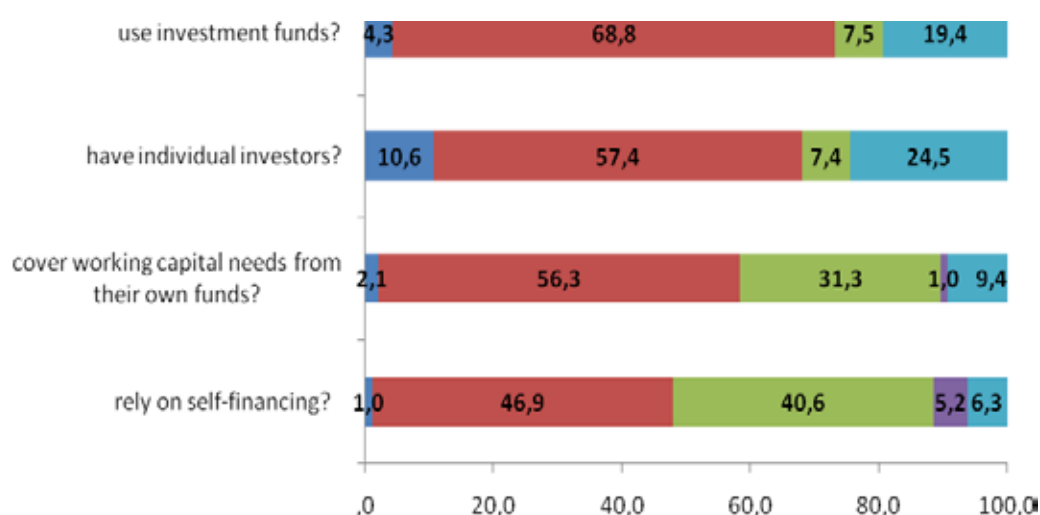
### 3.7. Access to financial services

The creation and expansion of sustainable enterprises require access to financial resources. Montenegro, Croatia and Serbia are the only Western Balkan countries to have integrated basic SME support services into their national strategies, including measurable targets.<sup>102</sup> The Enterprise Development and Innovation Facility (WB EDIF), a joint initiative of several European financial institutions intended to promote micro and small enterprise development in the Western Balkans region, is the main driver of access to finance for micro- and small enterprises (MSEs).<sup>103</sup> However, access to finance remains limited in Montenegro and the level of SME development is inconsistent across regions.<sup>104</sup>

Access to finance is limited in Montenegro, but some progress has been made, particularly in the area of financial services as part of EU alignment efforts. Major successes include the Decision on Public Disclosure of Information and Data by Banks, which was adopted in 2012 to bring the Montenegro Central Bank Regulation in line with EU Directive 2006/48/EC. Other notable developments include the Decision on Large Exposures of Banks (2012) on calculation and treatment of large exposures, the Decision on Minimum Standards for Credit Risk Management in Banks (2012), and the Decision on the Establishment of the Advisory Committee (2011) as a standing advisory board of the Central Bank Council. The most prominent gap for access to finance in Montenegro is financial market infrastructure.<sup>105</sup>

Considering “Credit to Private Sector” as a percentage of GDP, Montenegro experienced fluctuating percentage changes over the period 2005-11. The country increased its rate from 18 per cent in 2005, to 87 per cent in 2008, followed by a post-crisis decrease to 55.8 by 2011. Only Serbia registered a lower percentage than Montenegro in 2011 at 48.2 per cent. Iceland and Slovenia perform the strongest in this regard, with 97.3 and 91.4 per cent respectively in the same year.

**Graph 45: Do many firms:**



<sup>102</sup> OECD. 2012.

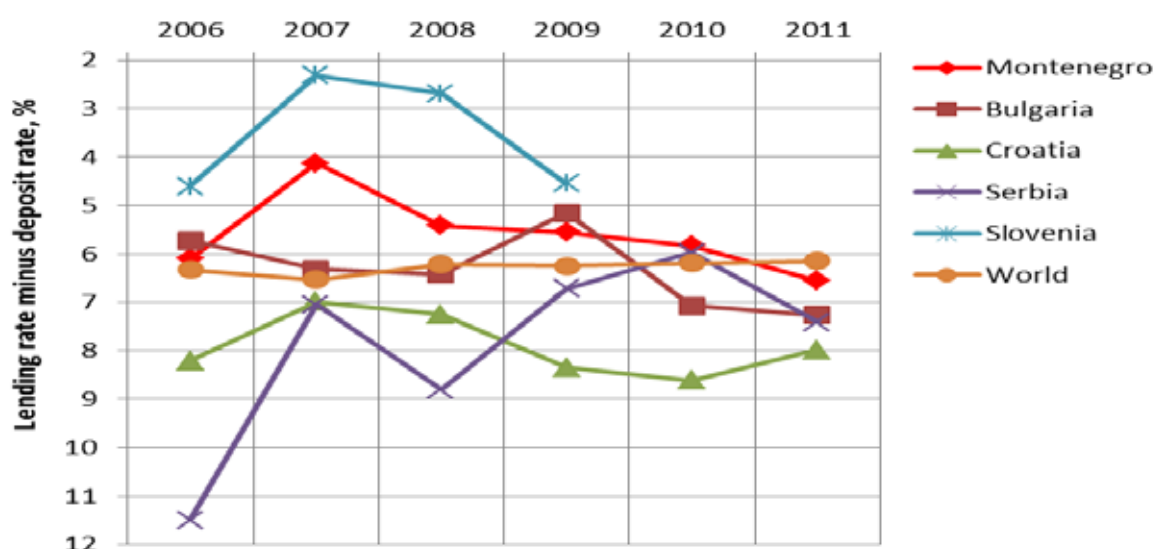
<sup>103</sup> European Investment Fund. (undated). Western Balkans Enterprise Development & Innovation Facility (WB EDIF) – What We Do. Accessed 3 May 2013.

<sup>104</sup> European Bank for Reconstruction and Development. 2011. Business Advisory Services –Montenegro. European Union; EBRD, June. Accessed 28 May 2013.

<sup>105</sup> European Commission. 2012.

The chart above reflects findings from the EESE survey showing that the majority of Montenegrin enterprises interviewed (40.6 per cent) count on self-financing. Within the examined sample of enterprises, only a small percentage of enterprises count on support of individual investors and investment funds. On the other hand, in terms of the most important external sources of financing, the majority of respondents listed banks (53.7 per cent), while the next most common source was advance payments from clients (24.7 per cent). Credit unions have not been used very much as external sources of enterprises' financing in Montenegro. Therefore, access to finance in Montenegro represents a huge problem, and 96 per cent of respondents covered within the research agree that this is so. In terms of enterprise size, only 7.1 per cent of enterprises employing 5-19 employees do not agree with this statement and the percentage of enterprises employing more than 99 employees in this context is also low at only 6.3 per cent. The majority of enterprises employing less than 5 workers have the biggest problems in accessing external financing where 55 per cent completely agree with the previously mentioned statement.

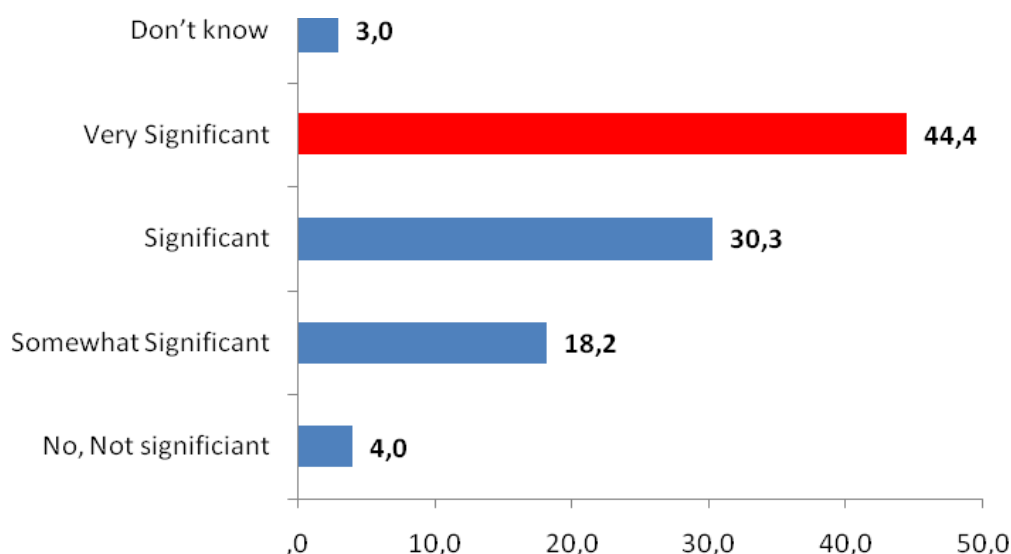
**Graph 46: Interest Rate Spread**



Source: International Monetary Fund, International Financial Statistics and data files. (World Development Indicators Online).

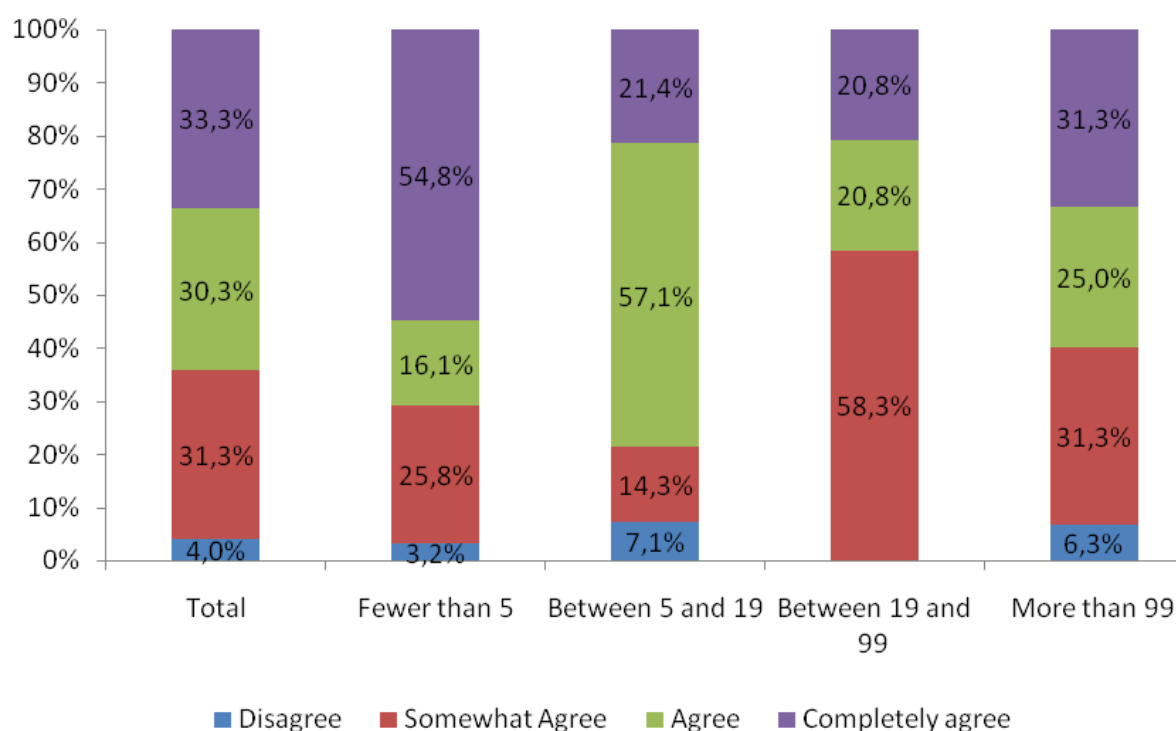
“Interest Rate Spread” measures the difference between the lending rate and deposit rate. In this area, Montenegro performs well, registering a lower interest rate spread than Bulgaria, Croatia and Serbia in 2011, the only countries for which data was available for that year. However, in 2009, the last year for which data was available for Slovenia, this country registered an interest rate notably lower than that of Montenegro in the same year. Moreover, the rate has consistently increased in Montenegro from 2007 to 2011.

**Graph 47:** What is the influence of the value of interest rate?



Because interest rates in Montenegro are at a moderately high level, they are perceived as posing a large burden and obstacle for businesses and planning business operations and activities. According to the EESE survey results, 74.7 per cent of enterprises believe the interest rate level is either important or very important. Only 4 per cent of the responding enterprises in Montenegro responded that the interest rate does not influence their business plans and business activities.

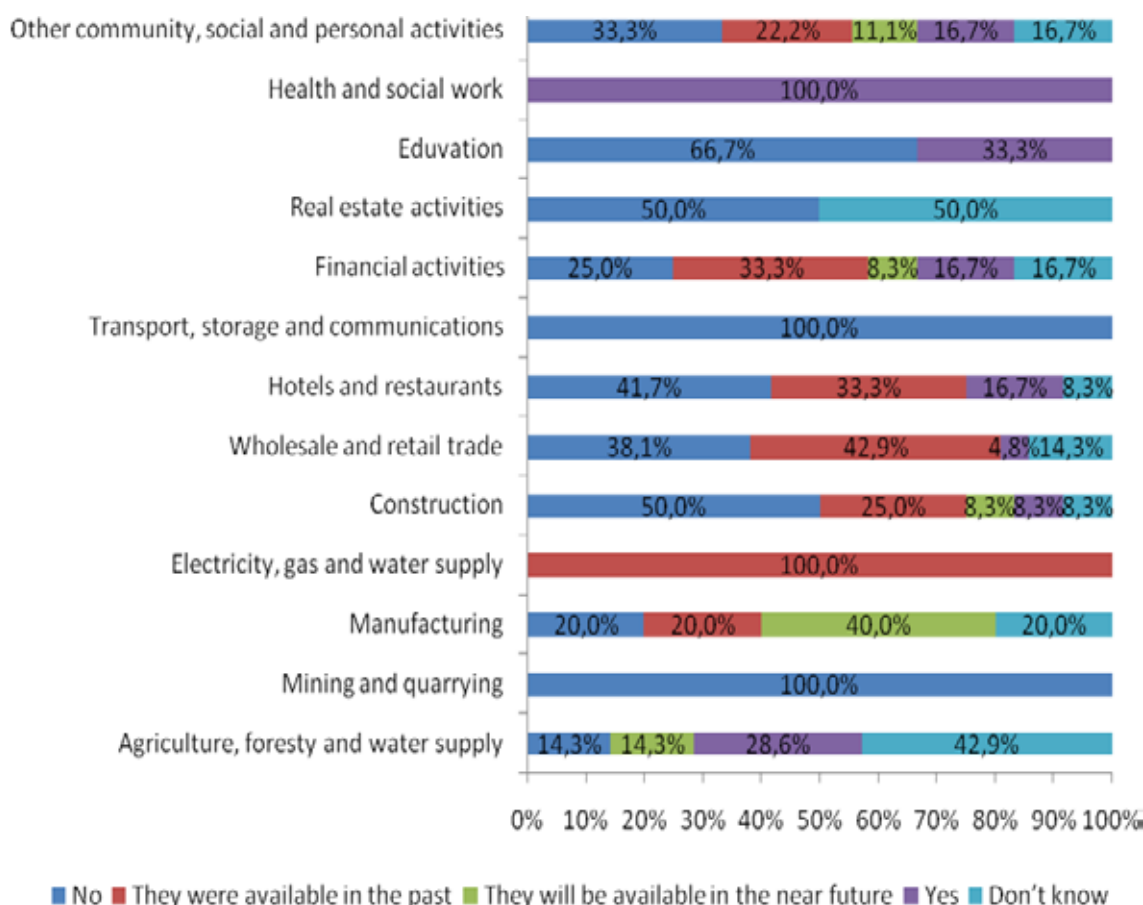
**Graph 48:** Access to finance represent big problem for companies in Montenegro?



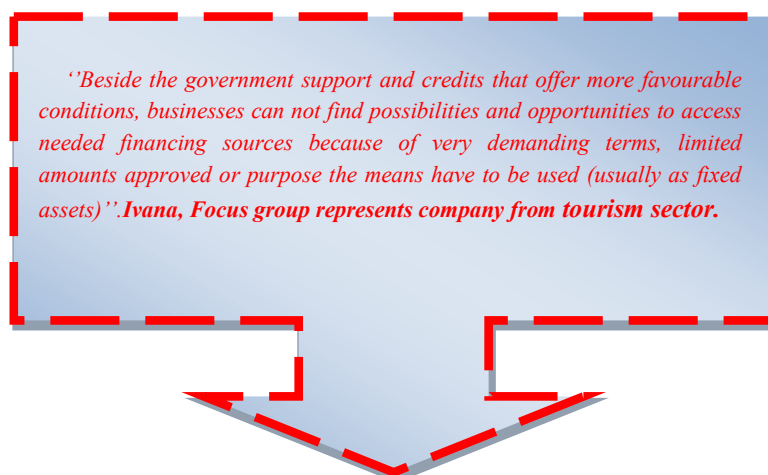
Access to finance in Montenegro represents a huge problem, where 96 per cent of respondents covered in the EESE survey agree with this statement. In terms of size, only 7.1 per cent of enterprises employing 5-19 employees do not agree with this statement and the percentage of enterprises employing more than 99 employees who agree is only 6.3 per cent. Furthermore, the enterprises employing less than 5 workers appear to have the greatest problems in accessing external financing, where 55 per cent of those enterprises completely agree with the previously mentioned statement.

Regarding the question of affordability of financial products and services available that enterprises need at each stage of their evolution, the largest portion of EESE survey respondents (36.5 per cent) answered negatively regarding the context in Montenegro. Only 13.5 per cent responded positively in this regard, which implies a pretty unfavourable situation in the country.

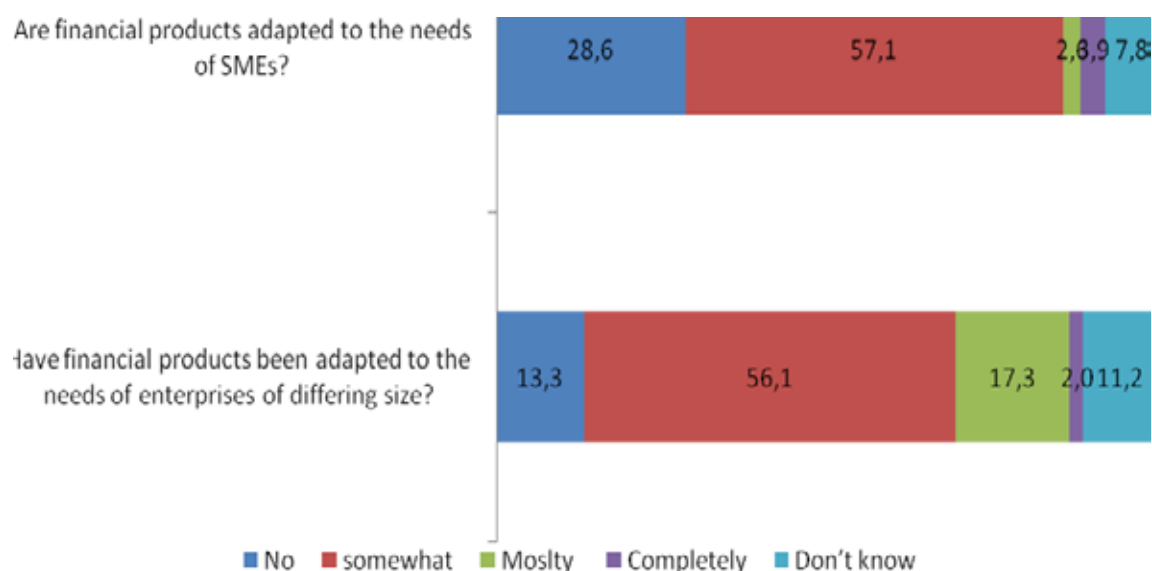
**Graph 49:** Affordability of financial products and services, by sector



Needs of SME financial products do not conform to the needs of 28.6 per cent of the survey sample, and different types of enterprise financial products do not conform to 13.3 per cent of the sample's needs. Only 2 per cent of companies in the sample think that financial products are tailored to the needs of companies of all sizes, while on the other hand 3.9 per cent of respondents think that they are fully adapted to the needs of SMEs.



**Graph 50:** Are financial products adapted to the needs of SMEs/ enterprises of different size?

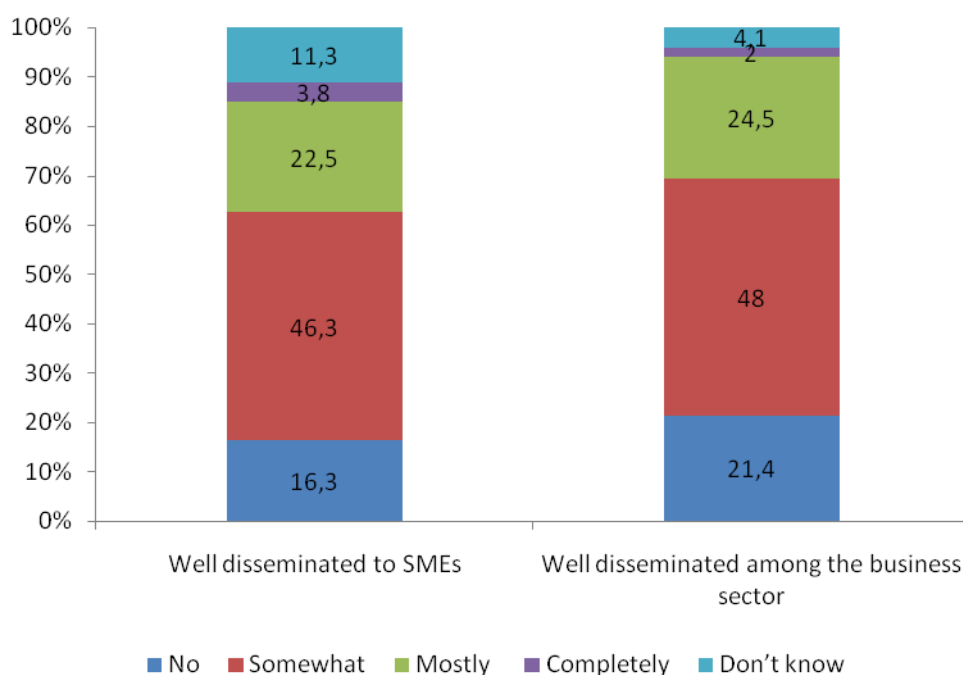


Regarding EESE survey respondent attitudes towards microfinance, one quarter do not think that micro-finance institutions (MFIs) play a useful intermediary role in disseminating information about financial services among the business sector. However, 41.8 per cent of enterprises somewhat agree that MFIs provide this service. Another quarter of responding SMEs think that there is no sufficient support targeted to SMEs, such as advisory services and programmes to assist them in preparing bankable loan proposals. Only 3.8 per cent of SME respondents completely agree that this kind of support exists. There were no respondents estimating that access to short-term financing was completely effective. While 43.6 per cent think that it is somewhat effective, 28.2 per cent considers this access to not be effective at all.

When analyzing perception of availability of using different types of collateral to access loans at better rates, 20.2 per cent of EESE survey respondents stated that they cannot use their positive credit “history” in seeking more competitive terms of lending, though 22.3 per cent of SMEs have a more positive opinion on this issue. Nevertheless, the fact that 29.8 per cent of SMEs have no information regarding this question is concerning and implies that smaller enterprises are not well informed on the

opportunities and possibilities in respect to access to financial services. There is a similar situation in terms of respondents' opinion on availability of collateral share risk schemes for SMEs, where 44.9 per cent of enterprises do not know anything about this option, and only 19.4 per cent said that these schemes are available.

**Graph 51:** Is information about financial services well disseminated to SMEs/among the business sector?

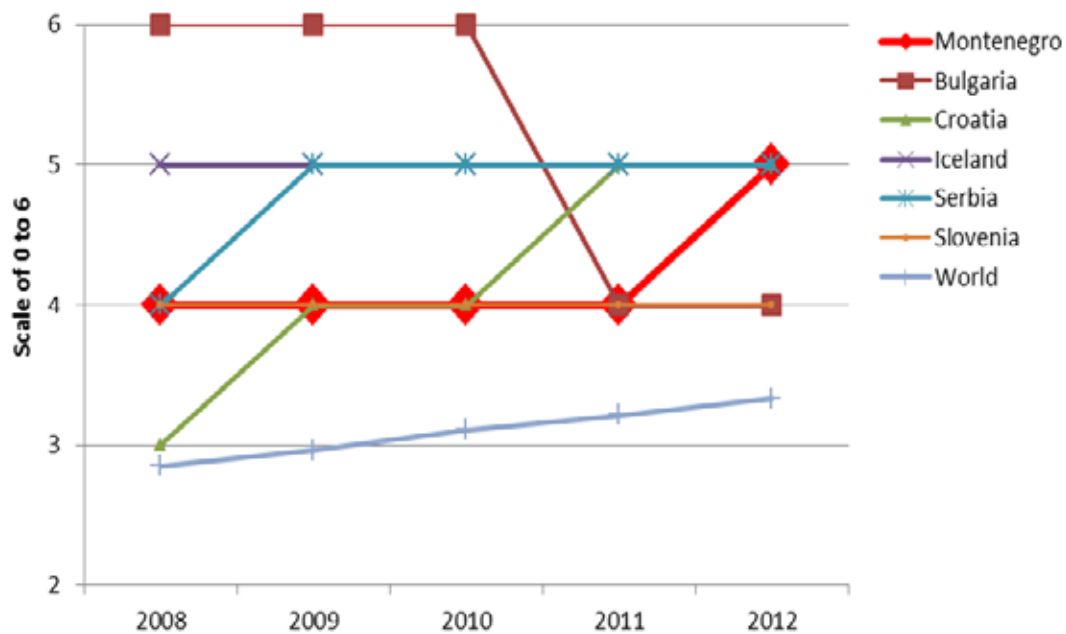


The majority of enterprises in the EEESE survey stated that the policy and regulatory incentives to encourage financial institutions to lend to SMEs are somewhat sufficient (55.7 per cent), but there is also a considerable percentage of respondents (24.1 per cent) who think that these incentives are not sufficient. Only 8.9 per cent found these incentives to be mostly sufficient, and none of the responding SMEs stated that these measures are completely sufficient.

One issue hindering better performance in this regard by Montenegro may be a low rate of credit applicants, rather than a low level of access to finance. According to an annual survey of SMEs in Montenegro, only 32 per cent of companies reported applying for credit in 2009, and in 2010 this number decreased to 20 per cent. However, in the latter year, of those who did apply, 70 per cent were awarded financial support. Findings from the same 2010 survey reveal that companies have poor cooperation with business and financial service providers and only 20 per cent of respondents reported having communicated with such institutions.<sup>106</sup>

<sup>106</sup> Government of Montenegro. 2011.

**Graph 52: Credit Information Index**



Source: World Bank, Doing Business project.

In spite of this, Montenegro performs relatively well in the area of credit information. The “Credit Information Index” measures the level of credit information available in a country through public or private registries to facilitate lending decisions. On a scale from 0 to 6, higher values indicate better performance. In 2012, Montenegro recorded a score of 5. This is higher than the scores recorded for Bulgaria and Slovenia, and is equal to those of Croatia, Iceland and Slovenia. It is also notably higher than the world mean of 3.3 for the same year.

At the same time, according to focus groups’ statements, as well as data provided by enterprises on the basis of their day-to-day activities, it can be concluded that there is a certain number of reasons for insufficient use of finances that are not related to financial institutions in the country (banks, microfinance institutions, development fund). As a main reason respondents indicate lack of information on available funds and inadequate and irrelevant knowledge about these funds that could be used for financing of innovation activities. The second reason is unsatisfactory level of awareness and lack of skills of their employees during preparation of project proposals, as it implies high engagement and dedication of human resources and adequate experience. Nevertheless, this is an issue that should be resolved in the future as it can be extremely important within the process of strengthening and growth of manufacturing and production activities in Montenegro, as well as in the process of connecting science and businesses through realization of common initiatives.

## Key Indicators

Credit to Private Sector (% of GDP)		2005	2007	2008	2009	2010	2011
Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.  Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online). <sup>107</sup>	Montenegro	18.0	80.3	87.0	76.5	66.9	55.8
	Bulgaria	41.0	62.8	71.7	75.5	74.1	72.1
	Croatia	52.6	62.3	64.7	67.2	71.7	73.8
	Iceland	247.9	261.4	126.7	113.6	108.7	97.3
	Serbia	29.0	35.2	40.2	45.2	51.4	48.2
	Slovenia	56.3	78.8	85.3	92.9	94.4	91.4
	World	131.9	134.7	129	137.4	133.6	128.8
Credit to private sector (% of GDP).							

## Other Useful Indicators

Credit Information Index		2009	2010	2011	2012		
Credit information index measures rules affecting the scope, accessibility and quality of credit information available through public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.  <u>Source:</u> World Bank, Doing Business project. <sup>108</sup>	Montenegro	4	4	4	5		
	Bulgaria	6	6	4	4		
	Croatia	4	4	5	5		
	Iceland	5	5	5	5		
	Serbia	5	5	5	5		
	Slovenia	4	4	4	4		
	World	3	3.1	3.2	3.3		
0=less information to 6=more information.							
Interest Rate Spread		2006	2007	2008	2009	2010	2011
Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time or savings deposits.  <u>Source:</u> International Monetary Fund, International Financial Statistics and data files. (World Development Indicators Online) <sup>109</sup>  <u>Note:</u> Data for Iceland is not available.	Montenegro	6.10	4.12	5.42	5.55	5.83	6.55
	Bulgaria	5.72	6.32	6.42	5.16	7.07	7.26
	Croatia	8.21	6.99	7.25	8.35	8.62	7.98
	Serbia	11.50	7.05	8.81	6.72	5.97	7.41
	Slovenia	4.61	2.32	2.61	4.54	-	-
	World	6.33	6.54	6.22	6.25	6.19	6.14
Interest rate spread (lending rate minus deposit rate, %).							

<sup>107</sup> World Bank Databank.

<sup>108</sup> Ibid.

<sup>109</sup> Ibid.

### 3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available, such as physical facilities and transportation systems. Access to water and energy also plays a pivotal role. In Montenegro, infrastructure priorities tend to be regionally specific. While water and electricity supply are priorities for the whole country, in the northern region, road infrastructure is also very important, while in the coastal region, it is sewage systems/wastewater treatment that is a priority.<sup>110</sup> Based on secondary data, infrastructure in Montenegro is generally good and notable progress has been made in the area of transport. Financial constraints however, continue to limit infrastructural development.<sup>111</sup>

The “Quality of Overall Infrastructure Index” reveals whether a country’s infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. Over the period from 2008-12, Montenegro consistently rose in the index, reaching 3.7 in the latter year. This is higher than the values recorded for Serbia and Bulgaria in the same year, and lower than those for Croatia, Slovenia and Iceland. The “Quality of Port Infrastructure Index” reflects the level of development of port facilities and inland waterways on a range from 1 to 7 with higher values indicating better development. For landlocked countries, this indicates how accessible port facilities are. Montenegro experienced a decline in this regard between 2008-12, and in the latter year, of the countries compared, only Serbia registered a lower score than Montenegro.

Transport is a key issue for infrastructure development, particularly on main pan-European road corridors. Improvement in road and rail networks, and strengthening of port and airport accessibility are also key government transport priorities.<sup>112</sup> Montenegro has two international airports in Podgorica and Tivat.<sup>113</sup> Paved roads as a percentage of total roads in Montenegro have increased from 64.4 per cent in 2006 to 69.1 per cent in 2010, the last year for which data is available. Montenegro outperforms Iceland and Serbia in this regard, as well as the world mean in 2010. However, Croatia and Bulgaria record higher rates above 90 per cent in 2010.

Transport is especially important to economic development because of its relationship to the priority sectors of tourism, agriculture and trade. However, certain issues currently prevent transport infrastructure from seriously benefiting growth in the country. These include specific land configurations, organization problems in the transportation chain, financing and management, and insufficient or bad conditions of transportation infrastructure. Budgetary limitations over the past 15 years have led to deficiencies in the Montenegrin road system where nearly 60 per cent of state roads required urgent maintenance in 2007. Furthermore, damage from transportation accidents costs the country 2 per cent of GDP, making transport security a priority issue for the government.<sup>114</sup> Awarding competitive public-private partnership contracts has been proposed as a strategy to increase private sector participation in Montenegro to stimulate priority transport infrastructure development projects.<sup>115</sup> Transport Development Strategy of Montenegro objectives

<sup>110</sup> Government of Montenegro. 2007.

<sup>111</sup> European Commission. 2012.

<sup>112</sup> European Bank for Reconstruction and Development. 2010.

<sup>113</sup> United States Department of State. 2012b.

<sup>114</sup> Government of Montenegro. 2007.

<sup>115</sup> European Bank for Reconstruction and Development. 2010.

include: improving safety and security, connection to TEN-T network, improving of transport services, more efficient and less expensive transport and minimizing negative impacts of transport development and traffic infrastructure.<sup>116</sup>

Energy is also an infrastructural concern in view of the need to develop and execute the South-Eastern Europe Energy Community.<sup>117</sup> “Electric Power Consumption” measures the production of power plants and combined heat and power plants less transmission, distribution and transformation losses, and own use by heat and power plants. In this regard, Montenegro registers a comparatively high level of consumption, where only Slovenia and Iceland recorded higher rates over the period 2005-10. However, since 2007, Montenegro has experienced a mild decline, moving from 6,605.5kWh per capita in that year, to 5,547.2kWh in 2010. In addition to these findings, it also been shown that 2.1 times more energy is consumed per unit of domestic product in Montenegro than in developed countries on average, and 3.3 times more than in the EU. This is in part due to the fact that the transmission and distribution systems reflect very high electricity losses, mainly caused by organizational weakness and obsolete or depreciated networks and equipment. In addition, the consumer structure is problematic, where KAP and Steel Mill in Niksic consume nearly half of the gross electricity consumption in the country. On the supply side, there is very high import dependency in meeting the country’s energy needs and the entire consumption of oil and oil derivatives is covered from imports, as well as one third of electricity consumption. This, combined with the low consumption efficiency, creates a high vulnerability to energy shortages. Montenegro has set in place legislative framework regulating energy efficiency: Energy Development Strategy by 2025, Energy Efficiency Strategy in Buildings, Law on Energy Efficiency, Law on Construction Materials (in the process of adoption), regulations on buildings characteristics, Minimum Requisites of energy efficiency in buildings, energy control in buildings and building certification. Montenegro has significant potential for energy generation from hydro power plants along with potential in usage of Solar energy but the biggest problem in implementation is lack of financial resources, especially favorable credit lines for companies and citizens.

Like other compared countries, Montenegro performs very well regarding the percentage of the population with access to improved water sources. The country maintains a level of 98 per cent and consistently outperformed the world mean over the period 2003-10.

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<sup>116</sup> Transport Development Strategy of Montenegro, 2010.

<sup>117</sup> European Bank for Reconstruction and Development. 2010.

## Key Indicators

Electric Power Consumption (kWh per capita)		2005	2007	2008	2009	2010
Electric power consumption measures the production of power plants and combined heat and power plants less transmission, distribution and transformation losses, and own use by heat and power plants.  <u>Source:</u> International Energy Agency, Energy Statistics and Balances of Non-OECD Countries and Energy Statistics of OECD Countries (World Development Indicators Online).  * Taken from Index Mundi. <sup>118</sup>	<b>Montenegro</b>	6371.1	6605.5	6389.2	5042.5	5547.2
	<b>Bulgaria</b>	4121.6	4455.8	4594.3	4400.6	4476.5
	<b>Croatia</b>	3475.9	3737.6	3878.4	3711.7	3813.5
	<b>Iceland</b>	27988.0	36852.5	50067.1	51259.2	51439.9
	<b>Serbia</b>	3921.9	4159.1	4291.8	4224.4	4358.8
	<b>Slovenia</b>	6917.9	7137.8	6920.2	6103.4	6521.1
	<b>World</b>	2660.2	2832.6	2860.7	2815.5	2974.8
KWh per capita.						

Roads, paved (% of total roads)		2006	2007	2008	2009	2010
Paved roads are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete or with cobblestones, as a percentage of all the country' roads, measured in length.  <u>Source:</u> International Road Federation, World Road Statistics (World Development Indicators Online). <sup>119</sup>	<b>Montenegro</b>	64.4	66.5	66.5	-	69.1
	<b>Bulgaria</b>	-	-	-	-	98.6
	<b>Croatia</b>	-	89.1	86.9	90.5	90.7
	<b>Iceland</b>	35.9	36.6	37.3	38.4	39.9
	<b>Serbia</b>	-	-	47.7	63.2	63.3
	<b>Slovenia</b>	100	100	100	100	-
	<b>World</b>	-	-	-	64.9	55.2
% of total roads.						

## Other Useful Indicators

Improved Water Source (% of population with access)		2003	2006	2009	2010
Access to an improved water source refers to the public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres per person per day from a source within one kilometre of the dwelling.	<b>Montenegro</b>	98	98	98	98
	<b>Bulgaria</b>	100	100	100	100
	<b>Slovenia</b>	100	100	99	99
	<b>World</b>	84.6	86.3	87.9	88.4
% of population with access.					

<sup>118</sup> World Bank Databank and Index Mundi.

<sup>119</sup> World Bank Databank.

Source: World Health Organization and United Nations Children's Fund, Joint Measurement Programme (World Development Indicators Online).<sup>120</sup>

Quality of Overall Infrastructure Index		2008 (GC 08/09)	2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Survey data: "General infrastructure in your country is: 1=underdeveloped, 7=as extensive and efficient as the world's best". Source: World Economic Forum, The Global Competitiveness Report. <sup>121</sup>	Montenegro	2.6	2.7	3.1	3.5	3.7
	Bulgaria	2.5	2.8	3.1	3.1	3.3
	Croatia	4.1	4.5	5.1	5.2	5.2
	Iceland	5.9	6.3	6.6	6.4	6.3
	Serbia	2.3	2.6	3	3.1	3.2
	Slovenia	4.8	5.2	5.3	5.3	5.4
	World	3.8	4.1	4.3	4.3	4.3
	1=underdeveloped, 7=as extensive and efficient as the world's best.					
Quality of Port Infrastructure Index		2008	2009	2010	2011	2012
Survey data: "Port facilities and inland waterways in your country are: 1=underdeveloped, 7=as developed as the world's best. For landlocked countries, this measures the ease of access to port facilities and inland waterways". Source: World Economic Forum, The Global Competitiveness Report. <sup>122</sup>	Montenegro	3.8	3.3	3.4	3.7	3.6
	Bulgaria	3.7	3.6	3.8	3.8	3.7
	Croatia	3.4	3.8	4	4	4
	Iceland	6	6.2	6.3	6.2	6.2
	Serbia	3.5	3.3	2.8	2.7	2.7
	Slovenia	4.8	5.2	5.3	5.2	5.2
	World	4.1	4.2	4.3	4.3	4.3
	1=underdeveloped, 7=as developed as the world's best.					

<sup>120</sup> Ibid.

<sup>121</sup> World Economic Forum Global Competitiveness report.

<sup>122</sup> Ibid.

## 4. Social Elements

### KEY FINDINGS:

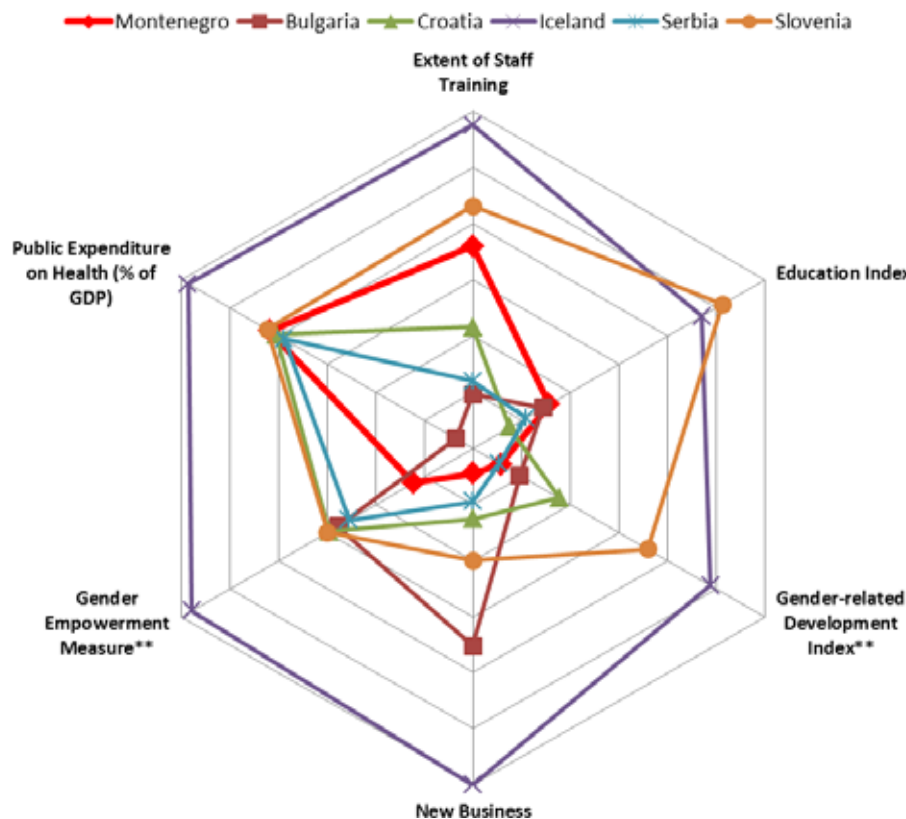
Entrepreneurial culture is one of the main preconditions for economic development. Montenegro has achieved significant progress when it comes to raising awareness on the importance of building the entrepreneurial competences with youth, primarily through the education system. Entrepreneurship is included as a subject within curricula in VET schools, and is a separate department within the Faculty of Economics. However, representation of such programmes at the primary and secondary education levels and non-economic studies is insufficient. Despite government efforts to promote this type of training, such efforts are contradictory, where the advisory and financial support to potential entrepreneurs is limited to only a few institutions, commercial banks and a single development fund. Although available, loans are often unfavourable, with high interest rates, and the network of business centres/incubators is underdeveloped, both in terms of human resources and physical infrastructure.

A long-term problem in the Montenegrin labour market is a disconnect between supply and demand (i.e. the education system focus and private sector employers' needs). The mismatch is reflected in a deficit of certain profiles and a low level of demanded skills in the current labour market. Low levels of practical training in school curricula and the complete absence at the tertiary level (with the exception of individual voluntary initiatives), the workforce is unable to respond to the requirements of labour market skill demands. Craft occupations and those requiring III and IV levels of qualifications are still widely unpopular and the majority of youth acquiring those qualifications prefer continuing with education at tertiary levels, rather than entering the labour market directly. Within the Montenegrin economy, 99.7 per cent of enterprises are small and medium enterprises that typically do not have a separate department or even a focal point responsible for human resources development at the company level. Therefore, the number of enterprises with their own training budget is very limited. Evident, but also contradictory, is the fact that enterprises often rely on the education system to ensure that their future workforce is adequately prepared for position, but at the same time, they do not actively participate in education policy development or cooperation with schools, universities or other education providers.

Between 2010 and 2011, the poverty rate and the level of inequality in Montenegro increased significantly. The rural population in the country faces greater poverty levels compared to urban areas, the Northern region has a poverty rate three times higher than in the Southern and Central regions, and the rate is highest among self-employed persons more than any other labour activity status. Concerning social exclusion, the Ministry of Health, Labour and Social Welfare has identified specific groups as particularly vulnerable, including first, the Roma population, which suffers the highest concentrations of poverty and social exclusion. Refugees and displaced persons are also a highly vulnerable group due to their status. In addition, the disabled, elderly and children are considered vulnerable groups in the country. One of the positive trends recently has been a lower participation of women in the overall unemployment due to creation of new jobs, especially in those sectors where women are more active such as trade, tourism, etc.

Medical facilities in Montenegro are generally available, but can be limited in terms of provided and available services. However, reform is needed in this area to ensure that the available social protections are not producing a low labour activity rate by creating incentives for beneficiaries to work in the grey market. A major issue in this regard is the relationship between social protection and labour market productivity, where the social assistance and transfers system is designed in such a way that it negatively affects the performance and productivity of the labour market, is the lead factor hindering doing business in the country, and can lead to increased participation in the informal economy.

**Graph 53:** Indicators assessing social elements of an enabling environment for sustainable enterprises for 2009\*



\* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the center a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

\*\* data for the gender-related indicators refer to 2006, as this is the most recent year for which data was collected.

- SMEs make up 99.6 per cent of registered businesses, of which 88.9 per cent are microenterprises (less than 10 employees), and 61.6 per cent of labour is employed in SMEs.
- Montenegro, Croatia and Serbia are the only Western Balkan countries to have integrated basic SME support services into their national strategies, including measurable targets, but in Montenegro the level of SME development is inconsistent across regions.
- Further development of e-government services, human capital, and broader governmental budgetary support for women's entrepreneurship are essential to promote SME development and an entrepreneurial culture.
- The main challenges to MSMEs are bureaucratic bottlenecks with regard to starting and closing businesses, access to finance, corruption, and regional discrepancies in SME development. After starting a business, other challenges include high interest rates, a great number of duties imposed by the state and local authorities, and unfair competition.
- Lifelong entrepreneurial learning programmes can no longer survive due to insufficient funding.
- The relationship between the private sector and education providers is weak, in spite of incongruent demand and supply of labour skills.
- Concerning human resources staff in particular, 47.5 per cent of EESE respondents faced problems recruiting skilled employees.

- In 2010, the greatest barriers to personal development were a lack of time for improving professional skills and a lack of appropriate training.
- In May 2013, a Memorandum of Understanding was signed between the European Commission and Montenegro on the participation of the country in the EU Lifelong Learning Programme.
- The majority of enterprises in Montenegro are small, which means that within most enterprises there is no sector or a person in charge of training.
- Between 2010 and 2011, the poverty rate and the level of inequality in Montenegro increased significantly.
- The rural population in the country faces greater poverty levels compared to urban areas, the Northern region has a poverty rate three times higher than in the Southern and Central regions, and the rate is highest among self-employed persons more than any other labour activity status.
- The Roma population suffers the highest concentrations of poverty and social exclusion. Refugees and displaced persons are also a highly vulnerable group, as are the disabled, elderly and children.
- One of the positive trends recently has been a lower participation of women in the overall unemployment rate due to creation of new jobs in sectors where women are more active such as trade, tourism, etc.
- In 2011, women made up 46 per cent of the active labour population, though the majority of female labour is employed on fixed-term contracts, which makes them financially vulnerable and hampers their right to maternity leave.
- An electoral gender quota was introduced in 2011 as part of amendments made to the Law on election of municipal councilors and members of parliament. However, these rules are largely ineffective as the law does not specify that candidates of each sex must be ranked high enough on party lists to have a serious chance at being allocated a mandate.
- Medical facilities in Montenegro are generally available, but can be limited in terms of provided and available services.

#### 4.1. Entrepreneurial culture

The general recognition of the key role of enterprises in development is a fundamental element for a conducive business environment. Strong public and private support to entrepreneurship, innovation, creativity, and the concept of mentorship are other important determinants of an enabling environment for sustainable enterprises. The Montenegrin economy is dominated by the MSME sector which represented nearly 60 per cent of the national GDP and employs 67 per cent of the total workforce.<sup>123</sup> However, in spite of government efforts to improve the business environment for SMEs, barriers specific to this sector persist and positive change is slow.

Montenegro is a party of the Western Balkans Enterprise Development Innovation Facility (WB EDIF)<sup>124</sup> and is one of the only Western Balkan countries to have integrated SME support services into the national strategy. In Montenegro, SMEs make up 99.6 per cent of registered businesses and constitute 61.6 per cent of employment. In spite of SME dominance in the economic market, progress to promote SMEs has been slow, especially in regards to innovation and support services. Priority actions to promote SME development in Montenegro include: further development of e-government services and establishment of online portals for SMEs; re-establishing policy momentum in the area of human capital development to promote skills at all levels, especially in sectors that have significant trade with the EU; and creating broader and more emphasized governmental budgetary support for women's entrepreneurship. However, no major improvements have been made in this area in recent years due to the lack of resources that prevents affective implementation.<sup>125</sup> The main challenges to MSMEs in Montenegro are bureaucratic bottlenecks with regard to starting and closing businesses, access to finance, corruption, and regional discrepancies in SME development.<sup>126</sup>

Secondary data on the degree of entrepreneurial culture in Montenegro reflects a promising picture of the successful improvement of entrepreneurial culture in recent years. "New Business Density" indicates the number of newly registered limited liability companies per 1,000 working age people in a year. Poor countries tend to be characterised by a large majority of micro and small enterprises that are normally not limited liability companies. In 2009, the number of new registers in Montenegro decreased sharply from 3.89 in 2008 to 0.92, but has since recovered, reaching it's highest rate over the period 2006-11 in the latter year at 10.44. This jump moved Montenegro from the weakest performer of the countries compared in 2009, to the strongest performer in 2011, the most recent year for which data is available.

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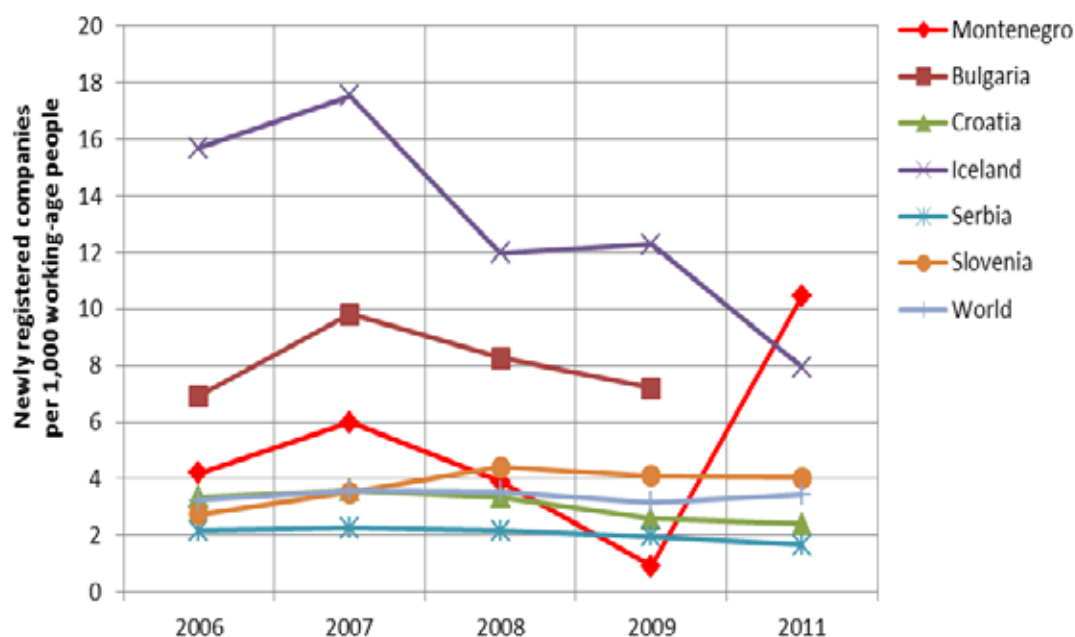
123 European Bank for Reconstruction and Development. 2011.

124 European Investment Fund. (undated).

125 OECD. 2012.

126 European Bank for Reconstruction and Development. 2011.

**Graph 54: New Business Density**



Source: World Bank's Entrepreneurship Survey (World Development Indicators Online).

According to the 2013 World Economic Forum Global Competitiveness report, the most problematic factor for doing business in Montenegro is a poor work ethic in the national labour force.<sup>127</sup> Customer service and sales support is one area where improvements in labour quality in this regard may be provoked through exposure to foreign competition. As U.S. firms enter the market, the concept of customer support and other value-added services is growing in popularity and may eventually help to regain business from the grey economy in Montenegro where no customer support is generally offered.<sup>128</sup> It may also help to kick-start positive improvements in the work ethic of the national labour force, as it should create commission-based incentives and other customer/client focused remuneration scales.

Training may be another route towards alleviating the challenge of a poor work ethic among the national labour force. The Ministry of Education and Sport in Montenegro committed in January 2013 to launching an initiative to support vocational schools to establish local entrepreneurship centres. One of the first activities in this project is to establish entrepreneurial learning centres in three vocational schools in the north-eastern region of Montenegro. Currently, the focus of the curricula is on developing SMEs and promoting employment in the agriculture and tourism sectors in the north east of the country. The reason for selecting this area is to combat local poverty and deter young people from migrating out of the area. However, the goal of the project is to eventually support all vocational schools in the country to introduce similar programmes.<sup>129</sup>

Although the Montenegro EESE survey reflects some progress when it comes to the ease of establishing a business and promotion of entrepreneurial culture, focus group meetings confirmed a clear

<sup>127</sup> World Economic Forum. 2012.

<sup>128</sup> United States Department of State. 2012b.

<sup>129</sup> European Training Foundation. 2013. Entrepreneurial Learning Comes to Vocational Schools in Montenegro. ETF, 21 February. Accessed 31 May 2013.

negative opinion in regards to current conditions for starting a business. The general conclusion is that the entrepreneurial culture should not be cherished only in the sense of simplifying the procedures for companies' registration. After starting up a business, entrepreneurs face a whole range of other problems including high interest rates, a great number of duties imposed by the state and local authorities, and unfair competition. These issues must also be addressed to effectively promote a strong entrepreneurial culture in the country.

*"My congratulations to all who at this very moment start their own business in Montenegro"*

Milan, a focus group participant - from a construction company.

## Key Indicators

New Business Density		2006	2007	2008	2009	2010	2011
The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year. Source: World Bank's Entrepreneurship Survey (World Development Indicators Online). <sup>130</sup>	<b>Montenegro</b>	4.19	5.99	3.89	0.92	-	10.44
	<b>Bulgaria</b>	6.91	9.81	8.27	7.20	-	-
	<b>Croatia</b>	3.35	3.59	3.36	2.58	2.38	2.39
	<b>Iceland</b>	15.68	17.54	11.99	12.28	7.60	7.94
	<b>Serbia</b>	2.17	2.26	2.17	1.96	1.87	1.66
	<b>Slovenia</b>	2.75	3.52	4.41	4.10	3.81	4.04
	<b>World</b>	3.25	3.57	3.54	3.16	3.13	3.42
The number of newly registered limited liability companies per 1,000 working-age people.							

<sup>130</sup> World Bank Databank.

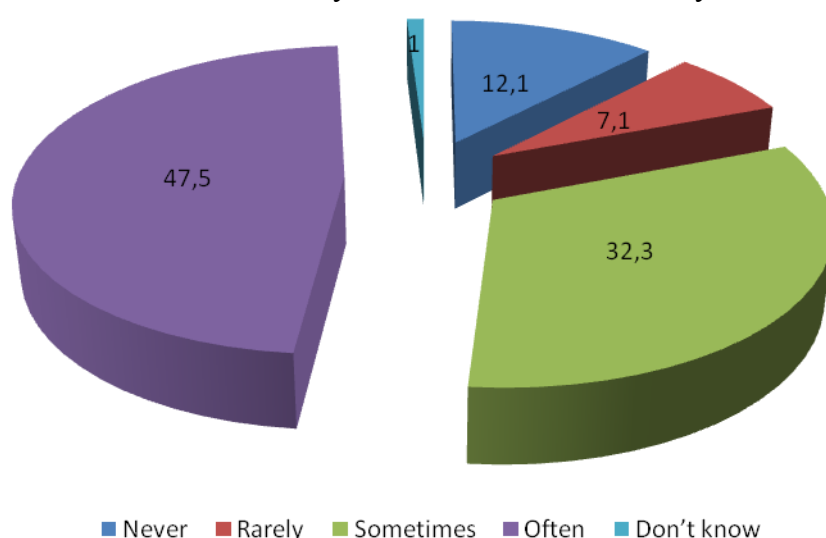
## 4.2. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning is important in helping workers to find good jobs as well as enterprises to find the skilled workers they require. Montenegro performs well in the areas of education and promotion of entrepreneurship skills in VET. School/university-enterprise cooperation is set but it should be further developed if Montenegro is to achieve full quality assurance in education. However, lifelong entrepreneurial learning programmes can no longer survive due to insufficient funding and progress has slowed in the area of entrepreneurial learning in general.<sup>131</sup>

Data on “Public Spending on Education” is scanty for the region, and no data is available on Montenegro.<sup>132</sup> The “Education Index” measures the educational achievement on a scale from 0 to 1 with higher values indicating better performance. Over the period 2006-11, Montenegro maintained stable and relatively high values, and showed improvement in 2012. The “Youth Literacy Rate” for ages 15-24 in Montenegro is notably high, at 99.33 per cent in 2010, compared to the world mean of 89.63 per cent for the same year. Montenegro outperformed Serbia in this regard, and while no data for Bulgaria is available for 2010, the 2010 rate in Montenegro is higher than Bulgaria’s rate in 2011. Slovenia and Croatia recorded marginally higher rates in 2010.

The EESE survey shows that the majority of enterprises consider both formal and informal relationships with local schools and private education providers to be underdeveloped. Only 3.1 per cent think that most enterprises have developed this sort of relationship, while 9.1 per cent think that such relationships do not exist at all. The other interviewees who responded to this question, representing 67 per cent of the surveyed enterprises, believe that only a very limited number of companies have developed this kind of relationship (20.6 per cent of interviewees responded that they do not know).

**Graph 55:** Has your firm experienced difficulties recruiting individuals with certain skills in the last three years?skills in the last three years?



<sup>131</sup> OECD, 2012.

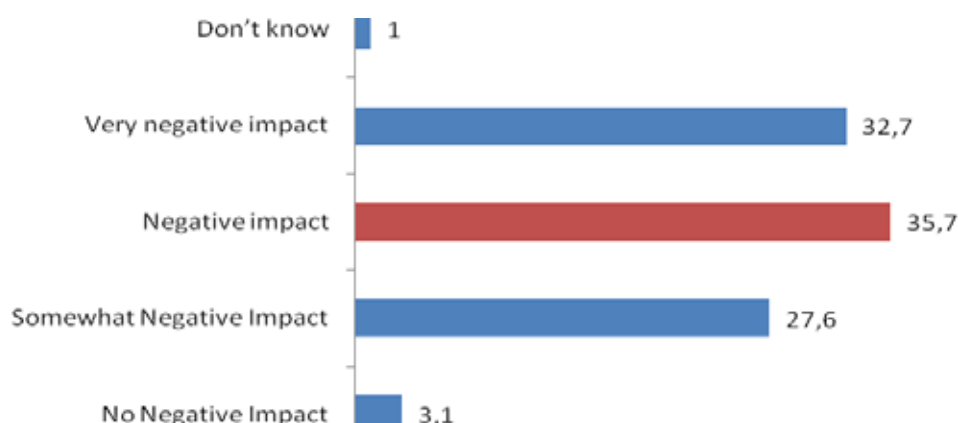
<sup>132</sup> “Public Spending on Education” consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels, and is calculated as a percentage of GDP.

The EESE survey findings also reflect the worrying reality that 47.5 per cent of enterprises faced problems regarding the recruitment of skilled human resources within the last 3 years. Only 12.1 per cent of those surveyed reported having no problems in this regard. In order to fill their vacancies, 50.5 per cent of enterprises have had to provide additional training for their newly employed staff, while in 23 per cent of cases, qualified foreign staff was recruited and in 21 per cent of cases this problem caused a reallocation of jobs within an enterprise.

The EESE survey also shows that Montenegrin enterprises face major challenges with regards to skill shortages in the labour market. Only 3.1 per cent of enterprises consider skills shortages to not pose a negative impact on business operations, while the rest of the companies from the sample are of the opposite opinion.

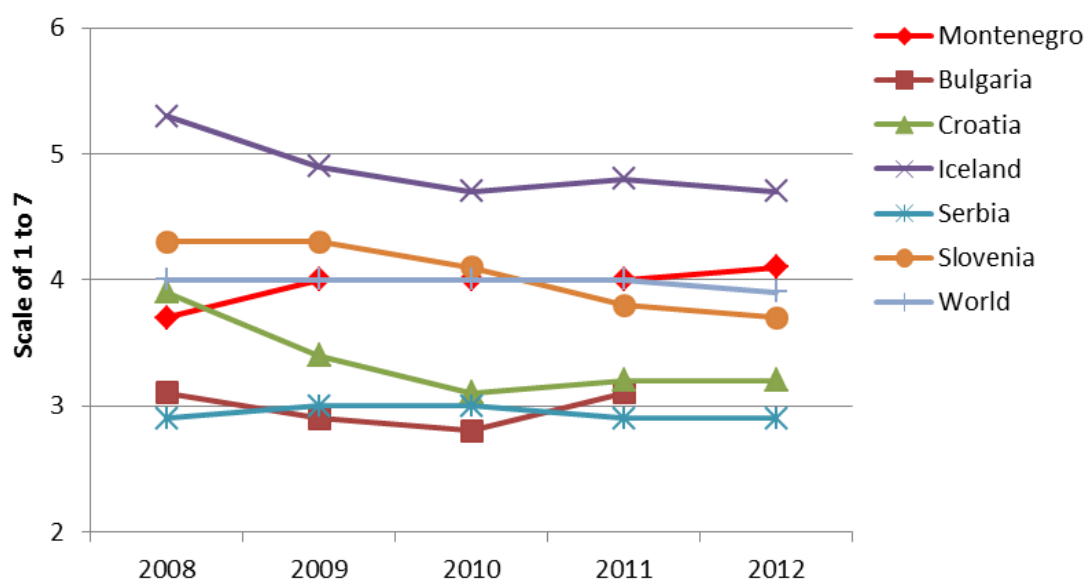


**Graph 56:** To what extent do the current skills shortages negatively affect firms?



According to World Economic Forum survey data, perceptions of Montenegro's business leaders concerning the extent of investment in staff training over the period 2008-12 slightly improved. The "Extent of Staff Training" shows whether companies in a country invest little or heavily in training and employee development to attract, train and retain staff, on a scale from 1 to 7 with higher values indicating more investments. In 2012, Montenegro reached 4.1, outperforming all countries used for comparison in that year, with the exception of Iceland at 4.7. The world mean for the same year was 3.9. Conversely, concerning "Firms Offering Formal Training" to their permanent and full-time staff, Montenegro seems to perform relatively poorly compared to other countries used for comparison. However, it is difficult to assess the country, as data for this indicator is only available for Montenegro in 2009, and data for other countries is also scanty. In 2009, Montenegro registered 25.2 per cent of firms offering formal training, compared to 30.6 per cent in Bulgaria, 36.5 in Serbia and 47.5 in Slovenia.

**Graph 57: Extent of Staff Training**



Source: World Economic Forum, The Global Competitiveness Report.

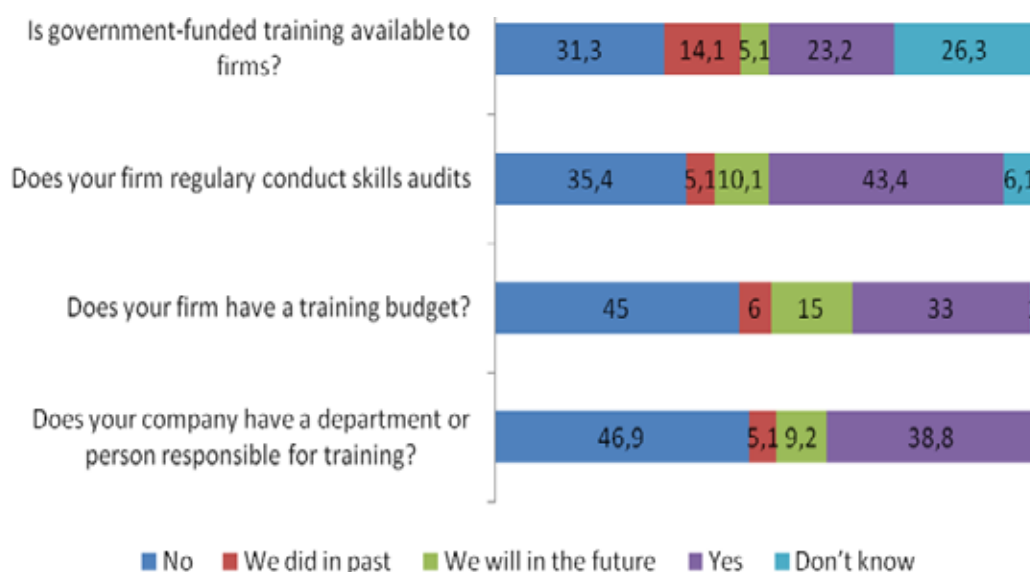
According to a survey of SMEs and entrepreneurs conducted by the Montenegro Directorate for Development of Small and Medium Sized Enterprises and the German international cooperation agency, GIZ, in 2010 the greatest barriers to personal development were a lack of time for improving professional skills and a lack of appropriate training. It was also found that there is a need for different forms of knowledge and skills acquisition for managers and employees.<sup>133</sup> Actions by the government since 2010 point towards improvements in this regard. In May 2013 for example, a Memorandum of Understanding was signed between the European Commission and Montenegro on the participation of the country in the EU Lifelong Learning Programme. This programme funds a range of activities relevant to developing the education and training sectors in Europe. Educational professionals, Ministry representatives and other stakeholders in Montenegro will be able to be involved in the programme through networks at varying levels and sectors of the educational system including all educational levels.<sup>134</sup>

In spite of reports by international institutions, the EESE survey reflects growth in the amount of resources companies invest in training. Furthermore, only 9.1 per cent of enterprises in the sample reported that resources invested in training are not the main barrier for development and retention of skilled workforce. The rest of the respondents (excluding 2 per cent of those whom did not know the answer to this question) consider the resources invested in training to a small or greater extent a barrier for the development and retention of skilled workforce.

<sup>133</sup> Government of Montenegro. 2011.

<sup>134</sup> European Union. 2013a. Memorandum of Understanding Between EC and Montenegro on Lifelong Learning Programme. Delegation of the European Union to Montenegro, 24 May. Accessed 29 May 2013.

**Graph 58: Funding for education:**



As already noted, the majority of enterprises in Montenegro are small. This often means that there exists a problem of enterprises not having a sector or a person in charge of training. In almost one half of the enterprises in the sample there is no sector or person in charge of education and training of employees. These results are expected having in mind that other surveys of the business climate in Montenegro have shown that up to 90 per cent of companies do not have a training budget. This is generally confirmed by the EEESE survey, whereby only 33 per cent of enterprises in the sample have a training budget and only 5 per cent of those with less than 5 employees do. This is compared to 70.6 per cent of large companies that have a training budget. If these data are projected to the entire Montenegrin economy, comprising mainly small enterprises, it is clear that only a small number of enterprises in the country have either staff or a budget for education and training of employees.

According to the EEESE survey findings, one of the major issues recognised by the business sector in Montenegro is that the system of practical training as such does not provide employment after its completion. Of those surveyed, 23.7 per cent feel this way, while only 3.1 per cent consider the system of practical training as the one providing employment. Conversely, 36.1 per cent of enterprises consider the system of practical training only rarely contributing to employment along, with 30 per cent of enterprises considering it sometimes contributory to employment. Another problem is the mismatch between practical training structures and enterprise needs. 28 per cent of EEESE survey interviewees think there is no connection at all, and only 1 per cent of enterprises responded with the opposite attitude. Almost 50 per cent of enterprises interviewed consider that the practical training structures only partially fit enterprises needs.

The EEESE survey has shown that a notable portion of companies (30.9 per cent) think that the workforce, as produced by public education institutions, is not of superior quality to the employees coming from private education institutions. At the same time, 12.8 per cent of enterprises disagree, stating that the workforce produced by public education institutions is better. Although 17 per cent of respondents do not believe there to be any difference between these two institutions, they believe that the workforce coming out from the education institutions generally do not fully meet the requirements of enterprises in the private sector. Slightly more positive about the environment, 60 per cent of enterprises stated that the workforce produced by the education system in general meets the requirements of private sector enterprises, but only to a certain extent.

## Key Indicators

Education Index		2006	2008	2009	2010	2011	2012
It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 1]) (with one-third weighting).  <u>Source:</u> UNDP, Human Development Report. <sup>135</sup>  <u>Note:</u> Data for 2012 is adjusted for inequality, as the UNDP altered their methodology for this indicator in that year.	Montenegro	0.80	0.80	0.80	0.80	0.80	0.82
	Bulgaria	0.78	0.79	0.80	0.80	0.80	0.76
	Croatia	0.76	0.77	0.78	0.78	0.78	0.70
	Iceland	0.89	0.90	0.91	0.91	0.91	0.89
	Serbia	0.77	0.78	0.79	0.79	0.79	0.71
	Slovenia	0.88	0.91	0.92	0.93	0.93	0.91
On a scale from 0 to 1. Higher values correspond to better performance.							

Firms Offering Formal Training (% of firms)				2005	2007	2009
Firms offering formal training are the percentage of firms offering formal training programmes for their permanent, fulltime employees.  <u>Source:</u> World Bank, Enterprise Surveys and World Development Indicators Online. <sup>136</sup>  <u>Note:</u> Data for Iceland is not available.	Montenegro			-	-	25.2
	Bulgaria			34.9	36.5	30.6
	Croatia			62.6	28.0	-
	Serbia			49.4	-	36.5
	Slovenia			75.0	-	47.5
% of firms offering formal training.						

135 UNDP Human Development report.

136 World Bank Enterprise Surveys.

Extent of Staff Training		2008 (GC 08/09)	2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)	
The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)”.	Montenegro	3.7	4.0	4.0	4.0	4.1	
	Bulgaria	3.1	2.9	2.8	3.1	-	
	Croatia	3.9	3.4	3.1	3.2	3.2	
	Iceland	5.3	4.9	4.7	4.8	4.7	
	Serbia	2.9	3.0	3.0	2.9	2.9	
	Slovenia	4.3	4.3	4.1	3.8	3.7	
	World	4.0	4.0	4.0	4.0	3.9	
<u>Source:</u> World Economic Forum, The Global Competitiveness Report. <sup>137</sup>		1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees.					
Youth Literacy Rate (% of people ages 15-24)						2010	
Youth literacy rate is the percentage of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life.	Montenegro						99.3
	Bulgaria*						97.9
	Croatia						99.7
	Serbia						99.3
	Slovenia						99.9
	World						89.6
<u>Source:</u> United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online). <sup>138</sup>		% of people.					
<u>Note:</u> Data for Iceland is not available.							
*The rate for Bulgaria is for 2010, as no data for 2009 was available for this country.							

137 World Economic Forum Global Competitiveness report.

138 World Bank Databank.

### 4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed. According to the Montenegro Statistical Office, between 2010 and 2011, the poverty rate and the level of inequality in the country increased significantly. The rural population in the country faces greater poverty levels compared to urban areas, the Northern region has a poverty rate three times higher than in the Southern and Central regions, and the rate is highest among self-employed persons more than any other labour activity status.<sup>139</sup> Concerning social exclusion, the Ministry of Health, Labour and Social Welfare has identified specific groups as particularly vulnerable, including first, the Roma population, which suffers the highest concentrations of poverty and social exclusion. Refugees and displaced persons are also a highly vulnerable group due to their status. They suffer structural discrimination, notably regarding housing and the right to formal employment. In addition, the disabled, elderly and children are considered vulnerable groups in the country.<sup>140</sup>

The “GINI Coefficient” measures the extent to which the distribution of income among individuals or households within an economy is equal. Absolute equality corresponds to a value of 0, whereas absolute inequality is represented by 100. Data for Montenegro reflects slight improvement towards greater equality over the period 2002-10, where the GINI coefficient value moved from 30.12 in the former year to 28.58 in the latter. The values for Montenegro over this period are similar to those recorded for other countries, though scanty data makes cross-country comparison difficult. For example, no data on the GINI coefficient is available for either Iceland or Slovenia between 2005-10, and for Bulgaria and Croatia there is data for only one of the selected years.

Though more recent secondary data on the GINI coefficient is not available for Montenegro, the country’s Statistical Office published the Poverty Analysis report in 2011, which shows that inequality has increased in the country since 2010. According to this study, the poverty line increased to 175.25 in 2011, as did the poverty gap, moving from 1.1 to 2.0, and the poverty rate, moving from 6.6 to 9.3 per cent of the total population. In 2011, the poverty rate in rural areas was 18.4 per cent, while in urban areas it was 4.4 per cent. Poverty is also notably more prevalent in the North of the country, where the rate there in 2011 was 17.5 per cent, compared to 6.3 and 6.4 per cent in the center and south respectively. More than half of the country’s poor population lived in the North in 2011, though the region only makes up about 27 per cent of the total population. It is also worth mentioning that, when looking at the poverty rate disaggregated by employment status, the rate among self-employed people is the highest at 21 per cent, followed by unemployed persons (15.2 per cent) and those under the age of 15 (14.1 per cent). The poverty rate is lowest among employed persons at 2.6 per cent, and retired persons at 5.2 per cent.<sup>141</sup> The high rate of poverty among youth in particular has gained increasing attention in recent years. According to the UNICEF Child Poverty Study in Montenegro, 10 per cent of children in 2010, compared to 6.1 per cent of adults, lived below the poverty line, and the child poverty rate in the north was four times that in the central part of Montenegro.<sup>142</sup>

139 Montenegro Statistical Office (MONSTAT). 2012. Poverty Analysis in Montenegro in 2011. MONSTAT; World Bank; Ministry of Health, Labor and Social Welfare (Podgorica), December. Accessed 31 May 2013.

140 European Commission. 2008. Social Protection and Social Inclusion in Montenegro. Directorate-General for Employment, Social Affairs and Equal Opportunities – European Commission, June. Accessed 4 May 2013.

141 Montenegro Statistical Office (MONSTAT). 2012.

142 UNICEF. 2012. Child poverty rate four times higher in north of Montenegro than in the central part of the country. UNICEF Montenegro (Rozaje and Polje, Montenegro), June. Accessed 31 May 2013.

Certain groups in the country are more at risk of suffering from poverty and social exclusion than others. Montenegro is home to the largest refugee camp in the Balkans, Konik, which is made up of Roma, most of whom migrated from Kosovo during the 1999-2000 conflict. During this period, they were granted “displaced persons” status, which at the time allowed them to migrate to Montenegro, but today deprives them of basic rights such as the right to work. Lacking the right to register with the local employment agency as jobseekers, Roma from Kosovo living in the Konik camp have practically no rights to formal employment, leaving them reliant on informal labour.<sup>143</sup> More than half of Montenegro’s Roma population lives below the poverty line and unemployment is very high.<sup>144</sup> Furthermore, while the participation of Albanian, Croat and Bosniak minorities in Montenegro is supported by the leading political party, the Roma population is rarely involved in public life. The 17,000 refugees in Montenegro who migrated from Kosovo, Bosnia and Herzegovina, and Croatia during the wars of the fall of the former Yugoslavia are another group that suffers from structural discrimination and social exclusion. The Government of Montenegro allows these populations to apply for permanent residency provided they have the necessary documents, but most do not, thereby limiting their possibilities of gaining permanent residence and formal employment.<sup>145</sup>

Gender equality and the status of women in Montenegro is a key priority and the government has made clear efforts to improve conditions for women in the country. Specifically, Montenegro is a Party to the Council of Europe Convention on Action against Trafficking in Human Beings and to the International Convention on the Elimination of All Forms of Discrimination against Women, as well as a signatory to the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence. In addition, the Constitution prohibits direct or indirect discrimination and guarantees gender equality. Domestic violence in the family was incorporated into the penal code as a criminal offence in 2002, and in 2010 Montenegro adopted a law on the prevention of domestic violence. A national strategy on prevention of domestic violence has since been adopted by Parliament. This, of course, also has positive implications for women in the workplace.<sup>146</sup> An electoral gender quota was introduced in 2011 as part of amendments made to the Law on election of municipal councilors and members of parliament, requiring that 30 per cent of candidates on the electoral candidate list be female. However, these rules are largely ineffective in increasing female representation in the political system as the law does not specify that candidates of each sex must be ranked high enough on party lists to have a serious chance at being allocated a mandate. Since 2011, female representation in the Parliament has only mildly increased from 12.3 to 13.6 per cent following the 2012 elections.<sup>147</sup>

According to the 2007 Labour Force Survey carried out in the country, the gender unemployment rate indicates that unemployment among females of working age was lower than for men and amounted to 11.7 per cent, while unemployment of males of working age was 13.5 per cent. Two explanations for this could be that there is a lower level of labour activity among women as many are engaged in unpaid domestic labour, and that job growth since Montenegro’s independence in 2006, has been recorded in activities that are traditionally female-dominated (i.e. trade and tourism).<sup>148</sup> In 2011, women made up

143 Haliti, M. and Kelly, E. 2012. Europe’s Shame: Konik Camp for Roma in Montenegro. Open Society Foundation Roma Initiatives Office, 10 December. Accessed 27 May 2013.

144 Minority Rights Group International. (undated). Roma Profile – World Directory of Minorities and Indigenous Peoples. Accessed 28 May 2013.

145 Civil Rights Defenders. 2012.

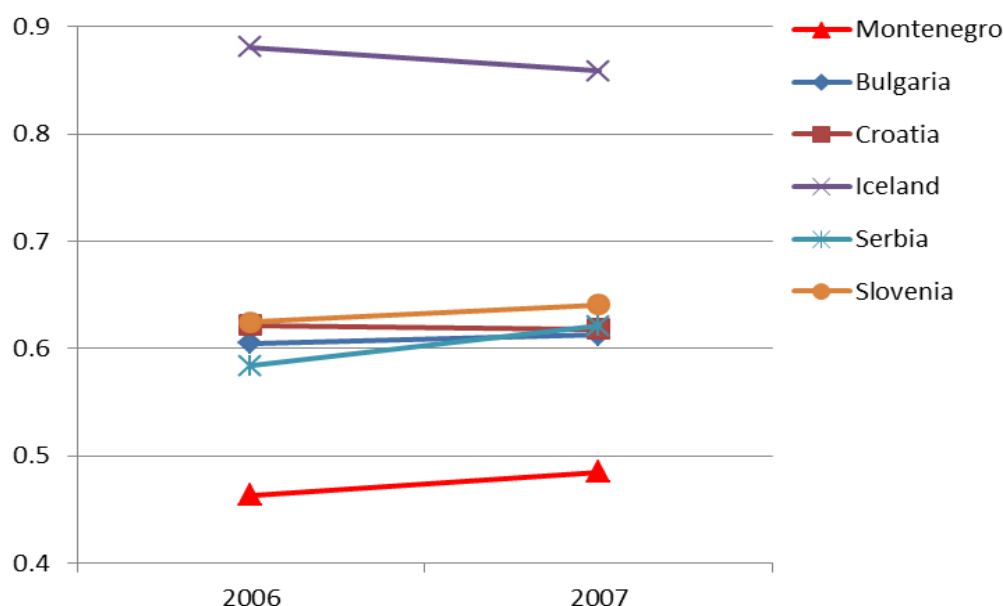
146 Council of Europe: Parliamentary Assembly. 2013. Gender equality in the countries of the former Yugoslavia. Doc 13092, 17 January. Accessed 3 May 2013.

147 European Commission. 2011. Montenegro 2011 Progress Report. Commission Staff Working Paper. Communication for the Commission to the European Parliament and the Council (Brussels), 12 October. Accessed 31 May 2013.

148 European Commission. 2008.

46 per cent of the active labour population in Montenegro. The majority of female labour however, is employed on fixed-term contracts, which makes them financially vulnerable and hampers their right to maternity leave.<sup>149</sup>

**Graph 59: Gender Empowerment Measure**



Source: UNDP, Human Development Report.

Secondary data on gender relations in Montenegro is quite scanty, and no data is available for the “Gender Inequality Index” and the “Female Economic Activity Index” for the country.<sup>150</sup> The “Gender Empowerment Measure” (GEM) is a composite index measuring gender inequality based on dimensions of empowerment. The lower the value, the more heavily a society is penalized for having inequalities. EM data from 2010 (most recent available) point out Montenegro is characterised by increased industrialisation and economic scope and dominated by large companies, which puts it into the group of **economies based on efficiency**. According to GEM results for 2010, such countries are those having: 1) the highest level of entrepreneurial activity among population aged 25-34; 2) more prominent entrepreneurial activity of men compared to that of women (GEM report for Montenegro says male entrepreneurial activity is twice larger compared to female).

The “Gender-related Development Index” measures average achievement in long and healthy life, knowledge and a decent standard of living, adjusted to account for inequalities between men and women. Higher values indicate a better situation. Data on Montenegro is only available in 2006 when the country recorded a value of 0.819. This is similar to the value for Serbia and below the values recorded for Bulgaria, Croatia, Slovenia, and Iceland in the same year. Because more recent data is not available for Montenegro, it is difficult to deduce whether new legislation and policies have had the intended positive impacts.

<sup>149</sup> Council of Europe: Parliamentary Assembly. 2013.

<sup>150</sup> The “Gender Inequality Index” is a composite index measuring loss in achievements in three dimensions of human development—reproductive health, empowerment and labour market, due to inequality between genders. The “Female Economic Activity Index” is a measure of women over the age of fifteen who are working in industry, agriculture or services as a percent of males.

## Key Indicators

GINI Coefficient		2005	2006	2007	2008	2009	2010
<p>Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.</p> <p><u>Source:</u> World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments.<sup>151</sup></p> <p><u>Note:</u> Data for Iceland and Slovenia is not available.</p>	<b>Montenegro</b>	30.12	29.33	30.83	29.99	-	28.58
	<b>Bulgaria</b>	-	-	28.19	-	-	-
	<b>Croatia</b>	-	-	-	33.65	-	-
	<b>Serbia</b>	33.40	29.63	29.40	28.16	27.80	29.62
	0=perfect equality, 100=perfect inequality.						
Gender-related Development Index (GDI)					2004	2006	2007
<p>A composite index measuring average achievement in the three basic dimensions captured in the human development index—a long and healthy life, knowledge, and a decent standard of — adjusted to account for inequalities between men and women.</p> <p><u>Source:</u> UNDP Human Development Report.<sup>152</sup></p>	<b>Montenegro</b>	-	0.819	-			
	<b>Bulgaria</b>	0.814	0.832	0.839			
	<b>Croatia</b>	0.844	0.859	0.869			
	<b>Iceland</b>	0.958	0.963	0.959			
	<b>Serbia</b>	-	0.818	-			
	<b>Slovenia</b>	0.908	0.92	0.927			
The lower the value, the more heavily a society is penalized for having inequalities.							

<sup>151</sup> World Bank Databank.

<sup>152</sup> UNDP Human Development reports.

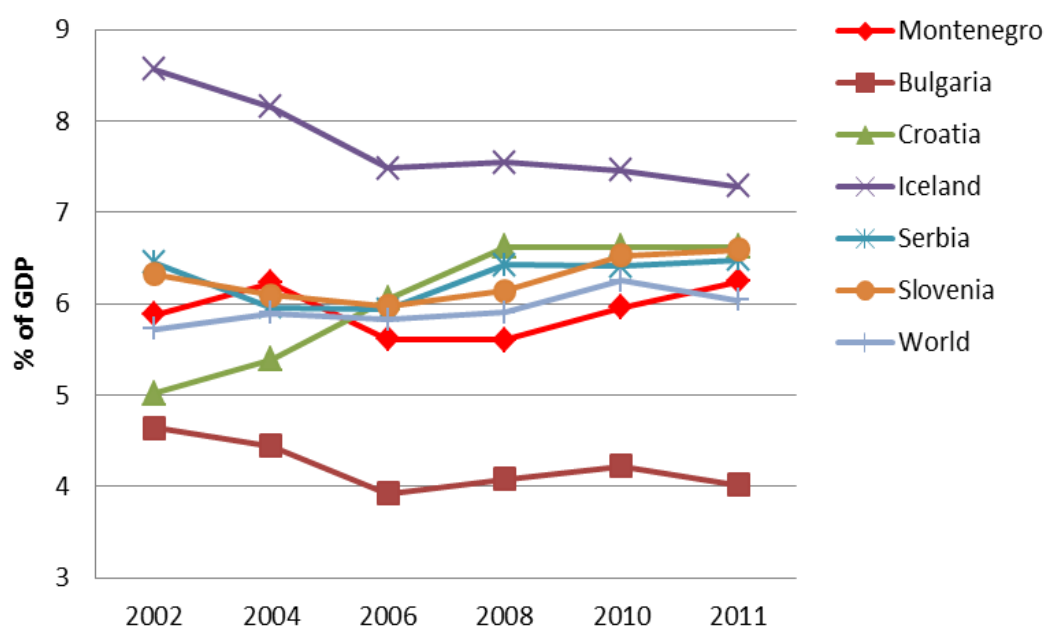
#### 4.4. Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, are key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. In general, the country offers wide social protection coverage. Medical facilities in Montenegro are generally available, but can be limited in terms of provided and available services.<sup>153</sup> Parental leave lasts up to 365 days from the day of childbirth. Employed woman can start her maternity leave 45 days but not later than 28 days prior to childbirth. An employee is entitled to compensation in the amount of salary they would earn if working. Recently adopted new Law on Social and Child Protection (in comparison to the old one) provides more restrictive conditions of refunding employers for maternity and parental leave. Provisions of the Law, among other things, provides that the amount of funds that are reimbursed to the employer for an employee who is employed for at least 12 continuous months, can be determined up to the amount of two average wage in the state in the previous year, while for those employees employed less than 12 months up to the amount of an average wage in the country for the year prior to the leave. However, reform is needed in this area to ensure that the available social protections are not producing a low labour activity rate by creating incentives for beneficiaries to work in the grey market.

Currently, the main challenges for the social protection system include:

- Targeting benefits to fit social welfare demands;
- Transparency and monitoring of system;
- Decentralization of Centre for Social Work in terms of financing and the delivery of welfare; and - Improved administrative capacities of relevant institutions.<sup>154</sup>

**Graph 60: Public Expenditure on Health**



Source: World Bank data online.

<sup>153</sup> United States Department of State. 2012b.

<sup>154</sup> Ibid.

Secondary information on social protection in Montenegro is largely missing. Only data on “Public Expenditure on Health” as a percentage of GDP is available for the country. Considering the period 2002-11, a positive trend is apparent for Montenegro, where the country improved from 5 per cent in the former year to 6.2 per cent in the latter, surpassing the world mean of 6 per cent in the latter year. Relative to the countries used for comparison however, in 2011 only Bulgaria performed worse than Montenegro in this regard.

A major issue plaguing social protection in Montenegro is the relationship between social protection and labour market productivity, particularly in regards to participation in informal economic activities. The social assistance and transfers system is designed in such a way that it negatively affects the performance and productivity of the labour market, which, as mentioned already, is the lead factor hindering doing business in the country.<sup>155</sup> Specific negative consequences of the current social protection system include a low labour activity rate, growth of the informal economy and long-term unemployment. Though the system provides extensive coverage for beneficiaries, it is designed in such a way that it promotes participation in the grey economy, which is already notably large in Montenegro and the growth of which has obvious negative consequences for the overall economy. In 2007, nearly 22.6 per cent of the total number of employed persons were employed in the informal sector or worked informally for registered companies, and of those formally employed, 17.5 per cent only paid social security contributions on half of their actual wages. Multiple reforms have been made in the past to decrease the extent to which social welfare benefits create disincentives to enter the formal labour force. However, the issue remains that for many living in Montenegro, it is more financially advantageous to remain in the grey economy so as to avoid registering their incomes, and thus continue to receive social assistance from the state.<sup>156</sup>

## Key Indicators

Public Expenditure on Health (% of GDP)		2002	2004	2006	2008	2010	2011
Public expenditure on health as a percentage of GDP—Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.  Source: World Health Organization (WHO) WHOSIS133 and World Development Indicators CD-ROM and UNDP Human Development Report. <sup>157</sup>	Montenegro	5.9	6.2	5.6	5.6	6.0	6.2
	Bulgaria	4.6	4.4	3.9	4.1	4.2	4.0
	Croatia	5.0	5.4	6.1	6.6	6.6	6.6
	Iceland	8.6	8.2	7.5	7.5	7.5	7.3
	Serbia	6.4	6.0	5.9	6.4	6.4	6.5
	Slovenia	6.3	6.1	6.0	6.1	6.5	6.6
	World	5.7	5.9	5.8	5.9	6.3	6.0
% of GDP.							

<sup>155</sup> World Economic Forum. 2012.

<sup>156</sup> Institute for Strategic Studies and Prognoses. 2012. Labour Supply Effect of Social Security Transfers. Slovak Balkan Public Policy Fund; Pontis Foundation (Montenegro), July. Accessed 31 May 2013.

<sup>157</sup> World Bank Databank.

## 5. Environmental elements

### KEY FINDINGS:

In Montenegro, the main characteristic of the evolving legal framework of sustainable development is the progressive harmonization with the EU as part of the accession process. However, economic development in the Western Balkans adds to environmental strains, particularly in the areas of resource use, waste and biodiversity. Thus, efforts are being made to integrate environmental policies into economic growth frameworks. Legislative framework in this regard has been to a great extent harmonized with EU legislation, though the implementation of legislation remains a question of concern. One of the problems indicated in numerous reports is illegal and unplanned use of land. Another issue is the environmental impact of transport in Montenegro, though the government is making active efforts to ensure that the two goals--development of transport infrastructure and environmental sustainability--are not contradictory.

- The evolving legal framework of sustainable development is heavily influenced by the progressive harmonization with the EU as part of the accession process.
- Economic development in the Western Balkans adds to environmental strains, particularly in the areas of resource use, waste and biodiversity.
- The environmental impact of transport is a key concern. Of the two objectives for transport in the 2007 National Strategy of Sustainable Development of Montenegro, one was the full integration of environmental requirements in the development of infrastructure projects.
- The illegal use of land and natural resources has led to serious environmental challenges, in particular because parts of the country have been recognized as biodiversity hotspots, implying a risk of losing rare species in unprotected areas.
- Over-consumption of water is also an issue. Losses in the distribution system lead to large and environmentally detrimental over consumption.
- Montenegro boasts a high percentage of forested area and a relatively low level CO<sub>2</sub> emission levels.

### 5.1. Responsible stewardship of the environment

In the absence of appropriate regulations and incentives, markets can lead to undesirable environmental outcomes. The development of sustainable enterprises and the protection of the environment require sustainable production and consumption patterns. In Montenegro, the main characteristic of the evolving legal framework of sustainable development is the progressive harmonization with the EU, as part of the accession process. However, economic development in the Western Balkans adds to environmental strains, particularly in the areas of resource use, waste and biodiversity. Thus, efforts are being made to integrate environmental policies into economic growth frameworks.<sup>158</sup>

The environmental impact of transport in Montenegro is a key concern, but one which the government has actively acknowledged and is working to remedy. Of the two objectives for transport in the 2007 National Strategy of Sustainable Development of Montenegro, one was the full integration of environmental requirements in the development of infrastructure projects and in the adoption of regulations in the field of transport, reduced pollution from transportation and increased transportation

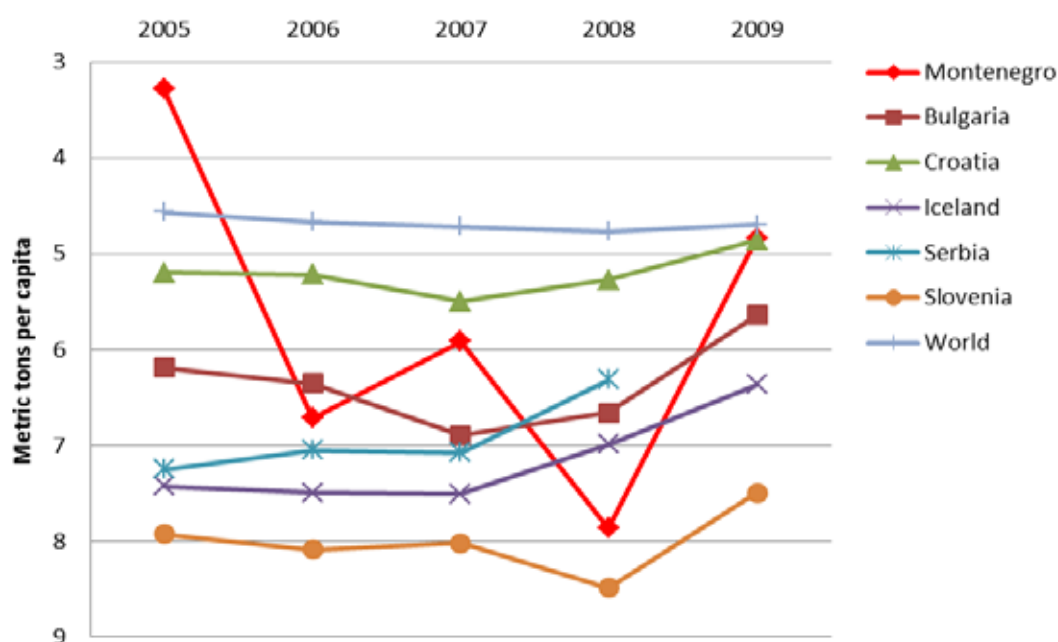
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<sup>158</sup> European Environmental Agency. 2010. How will the Western Balkans shape its environmental future?. EEA News, 12 May. Accessed 3 May 2013.

safety.<sup>159</sup> Another key concern for Montenegro's environmental sustainability is the illegal use of land and natural resources that has led to serious environmental challenges. This is an even more serious issue as parts of the country have been recognized as biodiversity hotspots, implying a risk of losing rare species in unprotected areas. Another focal environmental issue in the country is over-consumption of water. Though more than 90 per cent of the population has access to drinking water, losses in the distribution system lead to large and detrimental over consumption, which has negative consequences on the environment.<sup>160</sup>

The "Environmental Sustainability Index" benchmarks the ability of nations to protect the environment over the next several decades. Higher values indicate better performance. In 2005, Montenegro registered a score of 47.3, equal to that of Serbia, but below the scores for all other countries used for comparison in that year. Considering "Total Ecological Footprint", where lower values indicate better performance, Montenegro performs notably well, rating 2.61 in 2005 – the only year for which data on Montenegro is available. This is equal to that of Serbia and just under the world mean for the same year. All other countries compared in 2005 reflected poorer performance in this regard. No data is available on Montenegro for the "Environmental Performance Index".<sup>161</sup>

**Graph 61: CO2 Emission**



Source: Carbon Dioxide Information Analysis Center, Environmental Sciences Division, Oak Ridge National Laboratory, Tennessee, United States (World Development Indicators Online).

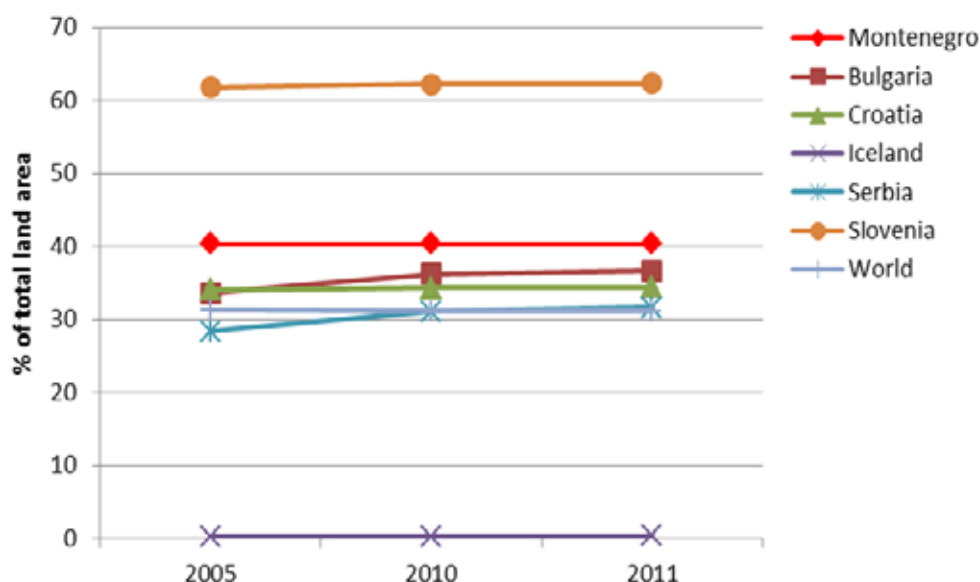
<sup>159</sup> Government of Montenegro. 2007.

<sup>160</sup> Economic Commission for Europe. 2007. Environmental Performance Reviews – Republic of Montenegro. United Nations (New York and Geneva). Accessed 4 May 2013.

<sup>161</sup> The "Environmental Performance Index" ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change. The EPI identifies broadly accepted targets for environmental performance and measures how close each country comes to these goals.

CO<sub>2</sub> emissions in metric tons per capita indicate that Montenegro increased its emission levels between 2005 to 2008, but in 2009 the country showed successful improvement from a steep increase the previous year. Of the six compared countries, Montenegro registered the lowest CO<sub>2</sub> emissions in 2009, and was only marginally higher than the world mean.

Graph 61: Forest Area



Source: World Bank Indicators Online.

With the exception of Slovenia, Montenegro also consistently registered the most forest area of the countries compared over the period 2005-11. Though this and relatively low CO<sub>2</sub> emission levels appear to reflect superior environmental conditions, it is likely that they are more the product of underdeveloped industry than of comparatively effective environmental protection policies and practices.

## Key Indicators

Environmental Sustainability Index (ESI)		2001	2002	2005
The Environmental Sustainability Index (ESI) benchmarks the ability of nations to protect the environment over the next several decades. It does so by integrating 76 data sets—tracking natural resource endowments, past and present pollution levels, environmental management efforts, and the capacity of a society to improve its environmental performance—into 21 indicators of environmental sustainability. Source: Yale University's Center for Environmental Law and Policy in collaboration with Columbia University's Center for International Earth Science Information Network (CIESIN), and the World Economic Forum <sup>162</sup>	Montenegro	-	-	47.3
	Bulgaria	47.4	49.3	50.0
	Croatia	54.1	62.5	59.5
	Iceland	67.3	63.9	70.8
	Serbia	-	-	47.3
	Slovenia	59.9	58.8	57.5
The higher a country's ESI score, the better positioned it is to maintain favourable environmental conditions into the future.				

162 Yale University Environmental Sustainability Index.

Total Ecological footprint (EFP) (global hectares per capita)		2005	2006	2007
<p>The Ecological Footprint (global hectares per capita) measures the amount of biologically productive land and sea area an individual, a region, all of humanity, or a human activity requires to produce the resources it consumes and absorb the waste it generates, and compares this measurement to how much land and sea area is available.</p> <p>Source: Global Footprint Network, based on international data (UNSD, FAO, IEA, IPCC).<sup>163</sup></p> <p>Note: Data for Iceland is not available.</p>	Montenegro	2.61	-	-
	Bulgaria	2.71	3.25	4.07
	Croatia	3.20	3.34	3.75
	Serbia	2.61	-	-
	Slovenia	4.46	3.89	5.3
	World	2.66	2.70	2.70
<p>Lower value=better performance. For 2005, humanity's total ecological footprint was estimated at 1.3 planet Earths. In other words, humanity uses ecological services 1.3 times as fast as Earth can renew them.</p>				

## Other Useful Indicators

CO <sup>2</sup> Emissions (metric tons per capita)		2005	2006	2007	2008	2009
<p>Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring.</p> <p><u>Source:</u> Carbon Dioxide Information Analysis Center, Environmental Sciences Division, Oak Ridge National Laboratory, Tennessee, United States (World Development Indicators Online)<sup>164</sup></p>	Montenegro	3.28	6.72	5.92	7.87	4.84
	Bulgaria	6.19	6.36	6.89	6.66	5.64
	Croatia	5.20	5.22	5.50	5.27	4.86
	Iceland	7.43	7.50	7.51	6.99	6.37
	Serbia	-	7.25	7.05	7.08	6.32
	Slovenia	7.93	8.09	8.02	8.49	7.50
	World	4.57	4.67	4.72	4.77	4.70
	Metric tons of CO <sup>2</sup> emitted per capita.					
Forest Area			2005	2010	2011	
<p>Forest area is land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.</p> <p><u>Source:</u> World Bank Indicators Online<sup>165</sup></p>	Montenegro	40.37	40.37	40.37		
	Bulgaria	33.61	36.17	36.68		
	Croatia	34.01	34.31	34.37		
	Iceland	0.25	0.30	0.31		
	Serbia	28.31	31.02	31.56		
	Slovenia	61.72	62.21	62.31		
	World	31.24	31.03	31.02		
Percentage of total land that is forested.						

<sup>163</sup> Global Footprint Network.

<sup>164</sup> World Bank Databank.

<sup>165</sup> Ibid.

## 6. Assessment results and ways forward

The following table lists the most important obstacles recognized in each pillar, actions needed to be taken in order to overcome them and main actors responsible for their implementation. This EEE report provided a solid platform for further work on developing a Strategic Policy Framework - high level policy document of MEF which will outline five crucial business barriers and provide main suggestions as to have to overcome them. In addition this report, considering its detailed analysis on numerous business constraints will enable MEF to develop relevant position papers in number of areas that are important to MEF members and broader business community.

Condition for action	Desired results	Concrete Measures	Main actors
Good governance	Efficient and transparent use of public resources and active and proper implementation of policies and laws; reduced level of corruption perception	<ul style="list-style-type: none"> <li>- Strengthen institutional capacities for tackling bribery and corruption;</li> <li>- Improve the system of electronic submission of documents;</li> <li>- Improve the efficiency of public administration through good management, better organization and higher level of responsibility;</li> <li>- Improve control and monitoring over the public resources spent by the state and local authorities through internal control and through consultations with public services' users;</li> <li>- Improve the transparency of the public procurement process at all stages and simplification of conditions for participation in public procurement</li> <li>- inform the public on corruption affairs and persons involved</li> </ul>	Ministry of Finance, Ministry of Economy, Ministry for Information Society, local authorities, The Association of Municipalities, MEF
Education, training and lifelong learning	Education system matches the needs of businesses; Increased importance of HRD	<ul style="list-style-type: none"> <li>-Advocate for and promote relations between enterprises and education providers and vice versa;</li> <li>-Insist on work-based curricula: advocate for an increased amount of practical training within VET curricula and obligatory practical training (traineeships, internships) at tertiary level;</li> <li>-Advocate for more active participation of employers in education planning and curricula design;</li> <li>-Strengthen the capacities of enterprises in regards to HRM;</li> <li>-Work on the promotion of university-business links in the fields of research and innovation;</li> <li>-Build the capacities of Sector Commissions so that they become a leading stakeholder in the analysis of labour market trends, identification and anticipation of future skill needs.</li> </ul>	Ministry of Education, Ministry of Science, VET Centre, MEF, enterprises and entrepreneurs, schools and universities, and tripartite bodies comprising all the stakeholders mentioned

Enabling legal and regulatory environment	Reduced costs of doing business; Acceleration and simplification of procedures; Higher level of legal security and predictability both for citizens and companies	<ul style="list-style-type: none"> <li>- Continue with labour legislation reforms;</li> <li>- Reduce the number of procedures (licences, approvals)/ implement „one stop shop system“;</li> <li>- Introduce the rule of adoption of bylaws following the adoption of laws;</li> <li>- Have parties in the procedures not submitting documents already in possession of other state or local bodies (now regulated with Law on Administration Procedure, but still not implemented);</li> <li>- Reduce the costs of labour, and those arising from obtaining different licences, permits etc;</li> <li>- In procurement procedures eliminate the payment of fees in case of appeals;</li> <li>- Entirely implement the system of e-government (i.e. electronic applications);</li> <li>- Adopt a law on the deadlines for settlement of liabilities.</li> <li>- Introduce an equal model at local level when it comes to local revenues (so called principle of getting Government approval prior to local governments' decisions and/or have the level of local revenues regulated by law);</li> <li>- Change the concept of penalty policy and set it according to the economic power of enterprises and the level of violation.</li> </ul>	Ministry of Labour and Social Welfare, Ministry of Finance, Ministry of Economy, Ministry for Information Society and Telecommunications, Ministry of Internal Affairs, Council for the Improvement of Business Environment, Regulatory and Structural Reforms, local governments, MEF
Access to financial services	Favourable loans for SMEs with reduced collateral	<ul style="list-style-type: none"> <li>- Create stimulating credit policy in terms of better loaning conditions, lower interest rates, more diverse and acceptable collateral and the possibility of reprogramming the current credits without changing the credit conditions;</li> <li>- Create special credit lines that comply with individual SME needs (e.g. export or production oriented enterprises, especially those producing and/or processing food; enterprises wishing to implement energy efficiency projects, innovative enterprises etc.)</li> <li>- Promote the use of alternative sources of financing for companies through seminars, workshops and better dissemination of information from institutions to companies and improve capacities of all actors for better usage of these funds through seminars and education for preparation of proposals and applications;</li> </ul>	Ministry of Finance, Central Bank, Ministry of Economy, commercial banks, MEF, Association of Banks, Am Chamber, NASME

Fair competition	Reduced informal economic activities and monopoly	<ul style="list-style-type: none"> <li>- Further intensify the activities aimed at reducing informal economic activities and encourage registration of unregistered (informal) companies through decrease of tax burden of salaries, better flexibility of labour regulations, decrease and simplification of number and costs of administrative procedures needed for business conduct;</li> <li>- Strengthen institutional capacities to better deal with the informal economy;</li> <li>- Create policies and targeted actions against monopolistic practices in certain sectors.</li> <li>- intensify public campaigns on negative effects of informal economy</li> <li>- encourage entrepreneurship and self-employment through appropriate micro financing schemes</li> </ul>	Ministry of Finance, Ministry of Economy, Ministry of Labour, MEF, National Agency for SME Development, Tax Administration, Inspections, and others.
Trade and sustainable economic integration	Improved process of standardisation and certification; Accelerated process of getting the necessary documents for export.	<ul style="list-style-type: none"> <li>- Reduce the number of documents needed for the export of certain goods and speed up the process of obtaining them;</li> <li>- Introduce the system of electronic submission of documents at all stages and phases of business operations;</li> <li>- Strengthen the financial support to production companies, trade and export through creation of favourable credit lines and grant to support this crucial part of every economy;</li> <li>- Improve the existing infrastructure for better and simpler transport of goods.</li> <li>- better connections and networking of companies and widening the markets through obtaining adequate information on market trends and possibilities</li> </ul>	Ministry of Economy, MEF, NASME, Institute for Standardisation, Accreditation Body

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