Competitiveness and Private Sector Development

# Western Balkans Competitiveness Outlook 2024: Montenegro

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# Foreword

The *Western Balkans Competitiveness Outlook (CO) 2024* is the fourth edition of the OECD's flagship publication that offers an in-depth assessment across 15 policy areas key to bolstering economic competitiveness in the Western Balkans. The CO provides comprehensive guidance to navigate economic reforms, enhance regional co-operation and help the region's economies align their legal frameworks and policies with those of the OECD and EU. It also enables policy makers to track performance over time, by comparing outcomes against those reported in the previous editions since 2016.

The *Western Balkans Competitiveness Outlook 2024* comprises seven reports: one regional and six economy profiles. Each economy profile evaluates performance across each of the 15 policy dimensions, highlighting areas of progress as well as those requiring continued improvement. The regional profile presents findings for the whole Western Balkans across five policy clusters – infrastructure and connectivity, skills, business environment, digital transformation and greening – and seeks to evaluate the broader regional trends in these areas.

Complementing these reports, the publication's findings are accessible for the first time through a landmark interactive digital tool: the *Western Balkans Competitiveness Data Hub*. By providing policy makers with an enhanced ability to assess and benchmark economic reforms seamlessly, the Data Hub aims to support policy makers in designing economic reforms that drive competitiveness and convergence.

The Montenegro profile of the CO is the outcome of work co-ordinated by the South East Europe Division. The assessment was conducted under the guidance of Andreas Schaal, Director of the OECD Global Relations and Co-operation Directorate, and Marzena Kisielewska, Head of the OECD South East Europe Division.

Umur Gökçe and Ali-Fuad Turgut (OECD South East Europe Division) led this work, which was initially also managed by Martin Kohtze. The project also benefitted from inputs by William Tompson (OECD Global Relations and Co-operation Directorate), who served as the lead reviewer of the publication.

Our special thanks also go to the Montenegrin Government officials and other stakeholders who have been actively involved in the data collection, whose support and dedication have made the development of this publication possible. We would like especially to acknowledge the contributions of Ivona Savicevic and Jovana Krunić, CO National Coordinators of Montenegro, and Majda Savicevic, the National Statistical Office Coordinator of Montenegro, along with co-ordination support from Svetlana Stijepović, as well as the following individuals, who supported the data-gathering and verification process.

| Policy dimension | Dimension co-ordinators |
|---|---|
| Investment policy and promotion | Nenad Radović, Montenegrin Investment Agency |
| Trade policy | Svetlana Stijepović, Ministry of Economic Development |
| Access to finance | Aleksandra Popović, Ministry of Finance |
| Tax policy | Miloš Radulović, Ministry of Finance |
| State-owned enterprises | Iva Vuković, Ministry of Finance |
| Anti-corruption policy | Hermin Šabotić, Cabinet of the Deputy Prime Minister for Political System, Justice and Anti-Corruption |

| | |
|---|---|
| Education policy | Branka Kankaraš, Ministry of Education, Science and Innovation |
| Employment policy | Fadil Zejnelagić, Ministry of Labor and Social Welfare |
| Science, technology and innovation | Jelena Šaranović, Ministry of Education, Science and Innovation |
| Digital society | Vanja Lazarević, Ministry of Public Administration |
| Transport policy | Ana Kusovac, Ministry of Transport and Maritime Affairs |
| Energy policy | Kristina Mihailović, Ministry of Energy and Mining |
| Environment policy | Jelena Kovačević, Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development |
| Agriculture policy | Mirsad Spahić, Ministry of Agriculture, Forestry and Water Management |
| Tourism policy | Goranka Lazović, Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development |

The principal authors of the report were Umur Gökçe, Stephanie Lizzo and Judith Koren (Front matter), Damaris Bangean and Judith Koren (Context), Victor Duggan and Zofia Polakiewicz (Investment policy and promotion); Zofia Polakiewicz (Trade policy); Benoit Dicharry (Access to finance); Bert Brys and Daniel Fichmann in co-operation with Stephanie Lizzo and Benoit Dicharry (Tax policy); Korin Kane in co-operation with Viktoria Chernetska and Alexandra Prokschy (State-owned enterprises); Valts Kalnins in co-operation with Viktoria Chernetska and Alexandra Prokschy (Anti-corruption policy); Elma Aga (Education policy); Nicola Duell and Burim Bilali in co-operation with Stephanie Lizzo and Matija Lojpur (Employment policy); Marko Atanasovski in co-operation with Matija Lojpur and Alexandra Prokschy (Science, technology and innovation); Despina Anastasiadou in co-operation with Marijana Petrovic and Hana Aljevic (Digital society); Vatsalya Sohu and Matija Lojpur (Transport policy); Tobias Heldt in co-operation with Matija Lojpur (Energy policy); Clémence Girin, Jovana Pavlović Djukic and Dafina Marashi (Environment policy); Stephanie Lizzo and Drini Imami in co-operation with Sophia Katsira (Agriculture policy); Kai Partale and Sophia Katsira (Tourism policy).

The report benefited from further input from Jane Stacey, Kristen Corrie and Hannes Thees (OECD Centre for Entrepreneurship, SMEs, Regions and Cities); Alejandra Medina, Sara Sultan, Alexandre De Crombrugghe, Martin Kohtze and Tugba Mulazimoglu (OECD Directorate for Financial and Enterprise Affairs); Caitlyn Guthrie and Lucia Alonso (OECD Directorate for Education and Skills); Javier Lopez Gonzalez, Silvia Sorescu, Janos Ferencz, Jibran Punthakey, Chiara Del Giovane and Cemre Balaban (OECD Trade and Agriculture Directorate); Theresa Gebhardt and Talya Vatman (International Energy Agency); and Guineng Chen (International Transport Forum).

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The report was prepared for publication by Jennifer Allain, with the strategic support of Robert Akam (OECD Global Relations and Co-operation Directorate). It was edited and proofread by Randall Holden. The following people also contributed to the success of the project: Dardan Gashi, Vojtech Holik and Stefano Ottino.

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# Reader's guide

## Assessment process

**Following the first three *Western Balkans Competitiveness Outlook* assessments, published in 2016, 2018 and 2021, the fourth assessment cycle was launched on 27 April 2023**. In Montenegro, the Ministry of Economic Development held the main role of co-ordinator for the assessment process, while for each of the 15 thematic policy dimensions, a relevant line ministry was delegated as policy dimension co-ordinator responsible for collecting input. Once the assessment was launched, the OECD team introduced new digitalised frameworks for assessing each of the 15 dimensions. Consisting of qualitative questionnaires and a statistical data sheet, these frameworks were presented and explained by the OECD, with particular emphasis placed on the new questions and indicators.

**Following the launch of the assessment, the national co-ordinators disseminated the assessment materials among the co-ordination network and completed the assessment between April and August 2023**. They assigned a score to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessment materials were returned to the OECD team between August and October 2023. The OECD then reviewed the inputs and, where necessary, requested additional information from the national co-ordinator. The updated assessment materials were sent back to the OECD until November 2023.

**Upon final completion of the assessment materials, the OECD organised a fact-finding meeting in Podgorica on 6 July 2023 to gain a better understanding of the policy landscape, to collect additional information for indicators where necessary, and to discuss the first set of selected draft findings.** Based on the additional inputs received and the outcome of the discussions on preliminary analyses and recommendations, the OECD compiled the key findings for each of the 15 policy dimensions. These findings were then presented during a dedicated preliminary findings meeting held on 13 December 2023, and discussed with the national co-ordinators of the Western Balkan economies. The OECD then held consultations on these findings with local non-government stakeholders, including chambers of commerce, academia and NGOs, in January and February 2024. The draft Competitiveness Outlook economy profile for Montenegro was made available to the government for its review and feedback from February to March 2024.

## Assessment approach

### *Coverage*

**This publication features data from and a comprehensive analysis of the six Western Balkan economies** – Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia – and provides a comprehensive analysis of their key sectors, trends and challenges for achieving convergence with the European Union and OECD area.

**The data collection and assessment are standardised for the region, with some differences in the case of Bosnia and Herzegovina**. As policy making in Bosnia and Herzegovina is much more decentralised than that of the other Western Balkan economies, information from the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) as well as from the state-level has been taken into account in the assessment and scoring of policy dimensions. While Brčko District was not directly included in the assessment, its policies have been specified in various sections of the report, as appropriate. For more information on the exact methodology of the scoring, refer to the Bosnia and Herzegovina profile of the CO 2024.

### *Timeline*

**The assessment and monitoring of the policy developments were conducted between 1 March 2021 and 1 March 2024.** Any policy changes and new developments after 1 March 2024 have not been considered in the assessment.

### *Scoring*

**The assessment comprises a total of 15 policy dimensions that are key to economic competitiveness and constitute the central building blocks under national economic reform agendas**. Each policy dimension is divided into several sub-dimensions (generally between 2 and 4), which are further comprised of granular indicators.

**The methodology consists of assessing a total of 147 qualitative indicators across the 15 policy dimensions, presented in Table 1.** In addition, there are a total of 265 quantitative indicators that provide insights into the policy outcomes, demonstrating whether policies bring out the desired results and the extent to which they help to achieve Western Balkans' socio-economic convergence with the OECD area and EU.

**The 2024 assessment retains the 0-5 scoring scale from previous cycles. However, the scoring criteria have been revised to reflect current best practices and policy trends in OECD and EU countries, as well as policy developments in the Western Balkans**. Each indicator is assigned a numerical score ranging from 0 to 5 based on the level of policy development, implementation and monitoring & evaluation, enabling performance comparison across economies and over time. Level 0 represents the weakest performance, while Level 5 indicates the strongest, signifying a higher level of policy convergence towards OECD good practices and standards.

## Table 1. Policy dimensions and indicators

| Dimension | No. of qualitative indicators |
|---|---|
| 1. Investment policy and promotion | 8 |
| 2. Trade policy | 6 |
| 3. Access to finance | 8 |
| 4. Tax policy | 11 |
| 5. State-owned enterprises | 11 |
| 6. Anti-corruption policy | 13 |
| 7. Education policy | 9 |
| 8. Employment policy | 12 |
| 9. Science, technology and innovation | 9 |
| 10. Digital society | 11 |
| 11. Transport policy | 10 |
| 12. Energy policy | 11 |
| 13. Environment policy | 10 |
| 14. Agriculture policy | 8 |
| 15. Tourism policy | 10 |

**Each criterion that is met on the scale of Level 0 to Level 5 indicates a level of policy sophistication**. This form of scoring allows for more nuanced score progression along the scale, and permits the consideration of more refined inputs in scoring. For this assessment, the OECD team has also prepared simplified versions of the scoring methodology, using benchmark criteria to better illustrate the rationale behind the scores. It is only a simplified representation however, and does not encompass all the elements that influence the scoring. Table 2 presents an example indicator for accommodation quality (Tourism policy), with assessed criteria in the second column.

## Table 2. Competitiveness Outlook scoring system: A sample indicator – accommodation quality

| Score level | Policy requirements | Criterion met |
|---|---|---|
| Level 0 | A consistent accommodation quality standard framework has been adopted. | ✓ |
| | Measures facilitating investments in high-quality private accommodation development or renovation have been adopted. | ✓ |
| | Measures facilitating investments in renovation or building up new high-quality private accommodation are implemented. | ✓ |
| | Accommodation quality standard framework is in the process of implementation. | ✓ |
| | Energy efficiency requirements are included in the accommodation quality standard framework. | ✓ |
| | Regular inspection of quality standards is in place. | X |
| | Requirements for persons with disabilities are included in the quality standards for accommodation. | |
| | The sharing economy is regulated. | X |
| | Accommodation facilities that enhance energy efficiency are supported by the government. | X |
| | Regular monitoring of the accommodation framework is conducted. | X |
| Level 5 | An independent ex post evaluation has been conducted to assess the effectiveness of the implemented measures and to take corrective action. | X |
| | **Score for Montenegro** | **2.5** |

Note: The indicator and criteria shown in the table above do not reflect the actual score for Montenegro and are included solely for demonstration purposes. Moreover, there is no methodology for specific criteria being assessed, which would translate directly into a score. In other words, each criterion does not necessarily result in a score increase.

As part of the current assessment cycle, **the *Western Balkans Competitiveness Data Hub*** (https://westernbalkans-competitiveness.oecd.org/) **has also been developed to access all the scores by indicator, showcasing the fulfilment of criteria by each economy and offering the rationale behind scores**. Scores can be explored through policy dimensions as well as over time, and in comparison to other Western Balkan economies.

**The final scores represent a simple average of all indicators**, and not individual sub-dimensions. Table 3 illustrates an example of the dimension scoring system and thus the final scores. The number of indicators included in each sub-dimension varies depending on the complexity and scope of the concerned policy area. Therefore, the sample average of the sub-dimension scores can be different from the final dimension scores.

### Table 3. Competitiveness Outlook scoring system: A sample presentation of dimension scores

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Investment policy and promotion | 1.1: Investment policy framework | | | 3.7 | 3.9 |
| | 1.2: Investment promotion and facilitation | | | 3.3 | 3.3 |
| | 1.3: Mobilising sustainable investment | | | 3.0 | 2.8 |
| **Montenegro's overall score** | | **3.3** | **3.2** | **3.4** | **3.4** |

For further details on the *Competitiveness Outlook* methodology and individual scores for each indicator, as well as the changes in scope compared to the last assessment cycle in 2021, please refer to the detailed assessment methodology on the *Western Balkans Competitiveness Data Hub*.

### *Comparability*

**The *Western Balkans Competitiveness Outlook* reflects a continual process of methodological refinement aimed at improving the robustness and comparability of indicators**. However, evolving policy trends in the OECD area and EU Member Countries, alongside shifting priorities in the Western Balkans, can sometimes make a direct comparison of scores difficult over time. In the 2024 edition, scores are compared back to 2021 and 2018. Due to vast methodological changes, direct comparisons to the first edition in 2016 are not feasible.

**Since the 2018 edition, indicators have also been reorganised into different sub-dimensions, reflecting the policy aspects that are of key importance for the Western Balkans**. This does not have any impact on the overall score comparability, i.e. dimension scores remain comparable. However, sub-dimension scores cannot be compared across earlier editions.

# Abbreviations and acronyms

| | |
|---|---|
| 5G | Fifth-generation Technology Standard for Cellular Networks |
| AC23 | Action Plan for Chapter 23 “Judiciary and Fundamental Rights” |
| ACER | Agency for the Cooperation of Energy Regulators |
| ADR | Alternative Dispute Resolution |
| AEO | Authorised Economic Operator |
| AEOI | Automatic exchange of information |
| AI | Artificial intelligence |
| AIFMD | Alternative Investment Fund Managers Directive |
| AIMS | Albania, Italy, Montenegro, Serbia |
| AKIS | Agriculture Knowledge and Innovation System |
| ALMPs | Active labour market programmes |
| AMLD5 | Fifth Anti-Money Laundering Directive |
| APC | Agency for Prevention of Corruption |
| AZLP | Agency for Personal Data Protection and Free Access to Information |
| B2C | Business-to-consumer |
| BAN | Business Angel Network |
| BAT | Best available techniques |
| BCR | EU Broadband Cost Reduction |
| BEPS | Base erosion and profit shifting |
| BIT | Bilateral Investment Treaty |
| BREF | Best available techniques reference documents |
| CACM | Capacity Allocation and Congestion Management |
| CADR | Centre for Alternative Dispute Resolution |
| CAP | Common Agricultural Policy |
| CARF | Crypto Asset Reporting Framework |
| CBA | Cost-benefit analysis |
| CBAM | Carbon Border Adjustment Mechanism |

| | |
|---|---|
| CbC | Country-by-country |
| CBCG | Central Bank of Montenegro (Centralna Banka Crne Gore) |
| CBDC | Central Bank Digital Currency |
| CDO | Chief Data Officer |
| CE | Circular economy |
| CEDIS | Electricity Distribution System Operator |
| CEFTA | Central European Free Trade Agreement |
| CEO | Chief Executive Officer |
| CERT | National Montenegrin Computer Emergency Response Team |
| CGES | Electric Power Transmission System Operator |
| CGI programme | Collaborative grants for innovation programme |
| CIRT | National Montenegrin Computer Incident Response Team |
| CIS | Customs Information System |
| CIT | Corporate income tax |
| CLRTAP | Convention on Long-range Transboundary Air Pollution |
| CMA | Capital Market Authority |
| CMO | Common Market Organisation |
| CO | Competitiveness Outlook |
| CORE | Cyber Security Coordination and Response Network |
| COSME | Competitiveness of Enterprises and Small and Medium-sized Enterprises |
| COTEE | Montenegrin Electricity Market Operator |
| CRM | Customer relations management |
| CRPS | Central Register of Business Entities |
| DA | Digital Academy |
| DAM | Day-Ahead Market |
| DESI | Western Balkans Digital Economy Society Index |
| DLT | Distributed Ledger Technology |
| DMOs | Destinations Management Organizations |
| DPR | Directorate for Protection and Rescue |
| EAM | Employment Agency of Montenegro |
| EASI | Programme for Employment and Social Innovation |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| ECE | Early Childhood Education |
| EEA | European Environment Agency |

| | |
|---|---|
| EFTA | European Free Trade Association |
| EIC | European Innovation Council |
| e-ID | Electronic Identification |
| eIDAS | Electronic Identification, Authentication and Trust Services |
| EIS | European Innovation Scoreboard |
| EKIP | Agency for Electronic Communications and Postal Services |
| EMAS | EU Eco Management and Audit Scheme |
| EMD2 | Second Electronic Money Directive |
| EnC | Energy Community |
| ENISA | European Union Agency for Cybersecurity |
| EPR | Extended producer responsibility |
| ESA | Education Sector Analysis |
| ESFRI | European Strategy Forum on Research Infrastructures |
| ESW | Electronic Single Window |
| ETS | Emissions Trading System |
| EU | European Union |
| EU 27 | 27 European Union countries |
| EU NIS/NIS2 | Networks and Information Security Directive |
| EUA | European University Association |
| EUR | Euros |
| EURES | European Employment Services |
| EVCS | Electric vehicle charging stations |
| FAB | Functional Airspace Block |
| FADN | Farm Accountancy Data Network |
| FAO | Food and Agriculture Organization of the United Nations |
| FiT | Feed-in tariff |
| FTAs | Free Trade Agreements |
| FTTP | Fibre to the premises |
| GCF | Green Climate Fund |
| GDP | Gross domestic product |
| GDPR | General Data Protection Regulation |
| GERD | Gross domestic expenditure on research and development |
| GHG | Greenhouse gas |
| GHz | Gigahertz |
| GI | Geographical indications |

| | |
|---|---|
| GIS | Geographic information system |
| GIZ | Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Cooperation) |
| GloBE | Global Anti-Base Erosion Rules |
| GRECO | Groupe d'États contre la corruption |
| GST | Goods and services tax |
| GSTC | Global Sustainable Tourism Council |
| Ha | Hectare |
| HE | Higher education |
| HEI | Higher education institution |
| HS | Harmonised System |
| IACS | Integrated administration and control system |
| IAP | Adriatic-Ionian Gas Pipeline |
| IBRD | International Bank for Reconstruction and Development |
| ICO | Initial Coin Offering |
| ICP Forests | International Co-operative Programme on Assessment and Monitoring of Air Pollution Effects on Forests |
| ICSID | International Centre for Settlement of Investment Disputes |
| ICT | Information and communications technology |
| IDF | Investment and Development Fund of Montenegro |
| IEP | Institutional Evaluation Programme |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| IHMS | Institute for Hydrometeorology and Seismology |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| INSTAT | Montenegrin Institute of Statistics |
| IOM | International Organization for Migration |
| IoT | Internet of Things |
| IP | Intellectual property |
| IPARD | Instrument for Pre-accession Assistance for Rural Development |
| IPPC | Integrated Pollution Prevention and Control |
| IPR | Intellectual property rights |
| ISCED | International Standard Classification of Education |
| ISPS | International Ship and Port Facility Security |

| | |
|---|---|
| ISS Council | Council for Innovation and Smart Specialisation |
| IT | Information technology |
| ITE | Initial teacher education |
| ITF | International Transport Forum |
| ITS | Intelligent Transport Systems |
| ITU | International Telecommunication Union |
| IVET | Initial vocational education and training |
| JBCP | Joint border crossing point |
| JRC | Joint Research Centre |
| JSERP | Unified System for Electronic Data Exchange |
| JSI | (WTO) Joint Statement Initiative |
| KAP | Kombinat Aluminijuma Podgorica (Aluminium Plant Podgorica) |
| KGF | Credit Guarantee Fund of Montenegro |
| KPIs | Key performance indicators |
| LAG | Local action group |
| LED | Light emitting diode |
| LGUs | Local self-government units |
| LLC | Limited liability company |
| LNG | Liquefied natural gas |
| LPC | Law on Prevention of Corruption |
| LPIS | Land parcel identification system |
| MAFWM | Ministry of Agriculture, Forestry and Water Management |
| MAIA | Montenegrin Artificial Intelligence Association |
| MEBAN | Montenegrin Business Angels Network |
| MEIS | Montenegrin Education Information System |
| MEPX | Montenegrin Power Exchange |
| MHz | Megahertz |
| MIA | Montenegro Investment Agency |
| MNE | Multinational enterprises |
| MONSTAT | Statistical Office of Montenegro |
| MoU | Memorandum of understanding |
| MPA | Ministry of Public Administration of Montenegro |
| MRL | Maximum residue levels |
| MSCA | Marie Skłodowska-Curie Action |
| MSDT | Ministry of Sustainable Development and Tourism |

| | |
|---|---|
| MSMEs | Micro, Small and Medium-sized Enterprises |
| MTA | Montenegro Tax Administration |
| MTMA | Ministry of Transport and Maritime Affairs |
| MVP | Minimum viable product |
| NAP | National Adaptation Plans |
| NBDP | Montenegrin National Broadband Development Plan |
| NCSS | National Cyber Security Strategy |
| NCT | National Council for Tourism |
| NDC | Nationally Determined Contribution |
| NECP | Integrated National Energy and Climate Plan |
| NECP | National Energy and Climate Plan |
| NEET | Not in education, employment or training |
| NEMO | Nominated Electricity Market Operator |
| NGO | Non-governmental organisation |
| NIA | National Integrity Agency |
| NIS | Networks and Information Security EU Directive |
| NMSW | National Maritime Single Window |
| NSA | National Safety Authority |
| NSSD | National Strategy for Sustainable Development |
| NTFC | National Trade Facilitation Committee |
| OD | Operating Document for the prevention of corruption in areas exposed to special risk |
| ODO | Open Data Officer |
| OECD | Organisation for Economic Co-operation and Development |
| ÖREK | Österreichisches Raumentwicklungskonzept (Austrian Spatial Development Concept) |
| ÖROK | Österreichische Raumordnungskonferenz (Austrian Conference on Spatial Planning) |
| PCB | Polychlorinated biphenyls |
| PDI Fund | Pension and Disability Insurance Fund |
| PEM | Pan-Euro-Mediterranean |
| PES | Public employment service |
| PIRLS | Progress in International Reading Literacy Study |
| PISA | Programme for International Student Assessment |
| PIT | Personal income tax |
| PPP | Public-private partnerships |
| PRTR | Pollutant Release and Transfer Register |
| PSD2 | Second Payment Services Directive |

| | |
|---|---|
| QDMTT | Qualified domestic minimum top-up tax |
| R&D | Research and development |
| R&I | Research and innovation |
| RAMS | Road Asset Management System |
| RCC | Regional Cooperation Council |
| REA | Real Estate Administration |
| REACH | Registration, Evaluation, Authorisation and Restriction of Chemicals |
| REGAGEN | Energy and Water Regulatory Agency |
| RES | Renewable energy sources |
| RFID | Radio-frequency identification |
| RIA | Regulatory impact assessment |
| RITTD | Research, innovation, technology transfer and digitisation |
| RMS | Risk management system |
| RRA | Regulatory Body for Railways |
| RSV | Register of Beneficial Owners |
| RTCG | Radio and Television of Montenegro |
| S3 | Smart Specialisation Strategy |
| SAAB | Scottish Apprenticeship Advisory Board |
| SAI | State Audit Institution |
| SCC | Secretariat of the Competitiveness Council |
| SDGs | Sustainable Development Goals |
| SEECAO | South East European Coordinated Auction Office |
| SEEIIST | South East European International Institute for Sustainable Technologies |
| SEPA | Single Euro Payment Area |
| SES | Single European Sky |
| SMART | Specific, measurable, attainable, real and time-based |
| SMATSA | Serbia and Montenegro Air Traffic Services |
| SME | Small and medium-sized enterprises |
| SOE | State-owned enterprise |
| SPD | Special Police Division |
| SPP | Single Project Pipeline |
| SPS | Sanitary and phytosanitary |
| SSC | Social security contributions |
| SSPO | Supreme State Prosecution Office |
| STEM | Science, technology, engineering and mathematics |

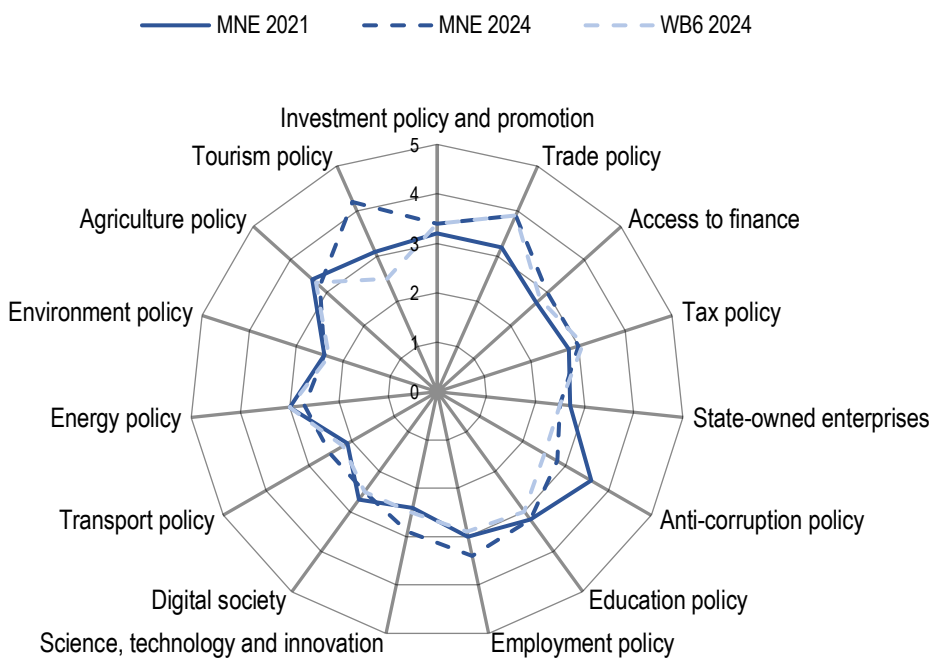
| | |
|---|---|
| STI | Science, technology and innovation |
| STO | Security Token Offering |
| STP | Science and technology park |
| SwEPA | Swedish Environmental Protection Agency |
| TCT | Transport Community Treaty |
| TDS | Transport Development Strategy for 2019-35 |
| TE | Tax expenditure |
| TEUs | Twenty-foot equivalent units |
| TFA | Trade Facilitation Agreement |
| TFI | Trade Facilitation Indicators |
| TIMSS | Trends in International Mathematics and Science Study |
| TO | Tourism Organisations |
| TPPs | Third-party payment services providers |
| TPP | Thermal power plant |
| TSA | Tourism Satellite Account |
| TTO | Technology Transfer Office |
| TVET | Technical and vocational education and training |
| UCITS | Undertakings for Collective Investment in Transferable Securities Directive |
| UIS | UNESCO Institute for Statistics |
| UNDP | United Nations Development Programme |
| UNECE | United Nations Economic Commission for Europe |
| UNEP | United Nations Environment Programme |
| UNFCCC | United Nations Framework Convention on Climate Change |
| UNCITRAL | United Nations Commission on International Trade Law |
| VAT | Value added tax |
| VET | Vocational education and training |
| VHCN | Very High-Capacity Network |
| WB3C | Regional Centre for Cybersecurity Capacity Building |
| WB6 | Western Balkan 6 |
| WBG | World Bank Group |
| WBIF | Western Balkans Investment Framework |
| WBL | Work-based learning |
| WHO | World Health Organization |
| WTTC | World Travel and Tourism Council |
| WWTPs | Wastewater treatment plants |

# Executive summary

## Performance overview

Montenegro has progressed modestly since the 2021 *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook), making positive advancements across 8 of the 15 policy dimensions. Montenegro showed the strongest score increases in the areas of tourism, trade, and science, technology and innovation (STI) policies. Figure 1 illustrates that Montenegro is outperforming the average of the six Western Balkan (WB6) economies across eight policy dimensions. Montenegro positions itself as a regional leader, with the highest score in tourism policy, and is among the leaders in the areas of STI and employment policy. In contrast, it scores below at least four of its Western Balkan neighbours in the areas of tax, energy and agriculture policies, highlighting the areas requiring substantial improvement for achieving convergence with the European Union (EU).

### Figure 1. Scores for Montenegro (2021 and 2024)




Note: Dimensions are scored on a scale of 0 to 5. See the reader's guide and the Data Hub, at https://westernbalkans-competitiveness.oecd.org/, for information on the assessment methodology and the individual score assigned to indicators.

StatLink https://stat.link/v8oeus

## Main progress areas

The main achievements that have led to increased performance for Montenegro since the last assessment are as follows:

- **The governance of tourism policies has markedly improved as a result of empowering local communities and streamlining sustainability measures**. The establishment of the National Council for Tourism represents a step forward in inclusive decision making. With representation from both local communities and regional authorities, the Council addresses key tourism related challenges and promotes sustainable development in tourism. This inclusive policy making yields tangible results. Tailored subsidies, educational workshops, certification programmes and continuous networking with international associations all enhance sustainable destination management in the economy. These developments help Montenegro lead the way in sustainable tourism growth and innovation in the Western Balkans.

- **The institutional framework for STI has been strengthened, boosting innovation activities**. Since becoming operational in 2022, the Innovation Fund has initiated various financial support schemes to stimulate innovation and startup ventures across diverse sectors, emerging as the economy's primary vehicle for implementing innovation policies. While the operationalisation of Montenegro's flagship science and technology park (STP) has faced delays, another pillar of its STP is undergoing expansion. Montenegro has meanwhile inaugurated a centre of excellence and has successfully secured the establishment of a regional centre for cybersecurity capacity building. These advancements have been supported by increased government funding for STI, which more than doubled between 2022 and 2023, rising from EUR 4.1 million to EUR 10 million.

- **Ongoing initiatives in the transport sector have improved internal and regional connectivity**. Montenegro has the highest road infrastructure density in the region, with an average density of 72.6 km per area of 100 km$^2$. Since 2021 the government has approved a new national programme focused on the rehabilitation and maintenance of its rail systems, in addition to a programme aimed at developing and deploying intelligent transport systems in road transport. Montenegro has continued its efforts to bolster regional connectivity through its ongoing bilateral co-operation with Albania, Bosnia and Herzegovina and Serbia, which has led to the establishment and modernisation of several key rail and road border crossing points.

- **New employment policies and programmes have enhanced labour market inclusivity**. Although the employment rate of women in Montenegro remains below that of the EU (48.7% versus 67.7%, respectively), the economy boasted the smallest gender gap of the Western Balkan economies in 2022. This progress towards gender equality in the labour force has been underpinned by strengthened policy focus under the new National Strategy for Gender Equality 2021-25, as well as by the new pilot programme that aims to increase women's activity rates. Ongoing efforts to align the existing Labour Law with the EU's Work-Life Balance Directive demonstrate a commitment to strengthening workers' rights by ensuring fair treatment and opportunities for all individuals.

## Policy insights

To further improve its competitiveness and boost its economic convergence with the EU and OECD, Montenegro is encouraged to:

- **Strengthen the governance of SOEs.** Montenegro's approximately 50 centrally-owned SOEs operate in a predominantly decentralised manner without a clear ownership policy to professionalise practices. Previous efforts to improve SOE governance and monitoring have stalled or been reversed. The absence of independence requirements for SOE boards, coupled with instances where the state bypasses boards in some SOEs to directly appoint the chief executive officer, constitute weaknesses that prevent SOE boards from shielding corporate decisions from political interference. Moreover, many SOEs fail to achieve significant rates of return or are operating at a loss, pointing to structural issues that hamper efficient resource allocation and ultimately distort the level playing field.
- **Improve energy supply by ramping up decarbonisation efforts.** Diversification of the energy supply is hindered by the absence of a comprehensive policy framework. The economy lacks a natural gas market due to inadequate infrastructure, and its renewable generation capacity has seen limited improvements. Despite being possible under the current legal framework, no new auctions have recently taken place to allocate renewable generation capacity, raising questions about the adequacy of incentives and competitive mechanisms for the deployment of renewables. Moreover, the economy's continued reliance on thermal power plants and non-compliance with the large combustion plants directive of the Energy Community puts into question the credibility of commitments made regarding fossil fuel phaseouts.
- **Enhance the digitalisation of government services for businesses and citizens, while prioritising cybersecurity.** Persisting challenges, such as insufficient capacities for digitisation in the public sector and limited digital awareness among Montenegrin society, are slowing down the digital transformation process. Despite having a well-defined legal framework for interoperability and e-identification, digital government services in Montenegro are trailing behind those of its Western Balkan counterparts. Technical challenges within the government data exchange system and delays in connecting public registers have created bottlenecks, hindering the digitalisation process and reducing the quality and accessibility of e-government services. Moreover, recent cyberattacks targeting the government's digital infrastructure, and the ensuing suspension of some electronic public services, highlight the pressing need for comprehensive cybersecurity measures that require increased investment in financial, technical and human resources.
- **Consider further reforming tax policies for increased revenue to support the economy's competitiveness.** Montenegro can further broaden and diversify its tax base by improving the design of personal income tax (PIT) and corporate income tax, in addition to increasing health and environment-related taxes. Moreover, Montenegro would benefit from prioritising the implementation of the relevant guidelines on digital taxation given the exponential increase in online transactions for services and digital goods, particularly in the tourism sector. These developments necessitate the frequent revision of regulations to guarantee effective value added tax (VAT) collection. Including digital platforms in the process of VAT collection can also reduce administrative costs and improve efficiency. To address the challenges of certain long-term demographic trends, such as population ageing and high levels of emigration, PIT and social security contribution systems need to be restructured.

# 1 Context

This chapter offers an overview of Montenegro's economic developments since the *Competitiveness Outlook* 2021, with a special focus on the economic impact of recent external shocks and economic convergence. The chapter also examines the progress made and challenges encountered in achieving the Sustainable Development Goals. It also recaps the progress made towards EU accession, including the financial and development support provided by the EU for Montenegro's accession efforts. Altogether, this sets the stage for in-depth examination across 15 policy dimensions in the subsequent chapters, all necessary for sustaining economic competitiveness.

## Economic context

### *Key economic developments*

**Montenegro is the smallest economy of the Western Balkans, with a total gross domestic product (GDP) of EUR 6.53 billion as of 2023** (IMF, 2024[1]). Its economy is based predominantly on services, which account for 61.5% of its GDP. Industry and agriculture respectively contribute 13% and 6% to GDP (World Bank, 2024[2]). Employment is even more services-heavy: 74% of employment is concentrated in services, while industry (including construction) and agriculture respectively comprise 18% and 7% of employment (ILO, 2024[3]). The informal sector is estimated to account for one-third of the economy's GDP and 13.8% of employment as of 2019 (EBRD, 2020[4]; ILO, 2023[5]).

**Following a strong post-COVID recovery, Montenegro's growth performance has moderated slightly.** While Montenegro's economy sustained a significant decline of 15.3% in GDP in 2020, Table 1.1 highlights a 13% rebound in 2021 and 6.4% growth in 2022 (European Commission, 2024[6]). Economic growth was strongly underpinned by consumption, owing to increased real disposable income, improved tourism, employment gains, household lending, and higher remittances (European Commission, 2024[6]). Government consumption also added to growth, while investment has slowed. Tourism, trade and other service sectors drove economic growth on the production side (World Bank, 2023[7]; EBRD, 2024[8]). As of the third quarter of 2023, GDP expanded by 6.6% year-over-year compared to growth of 6.9% over the same period in 2022 (European Commission, 2024[6]).

**Montenegro's inflation rate has increased sharply, yet it shows signs of moderation.** Impacted by price rises following the Russian Federation's war of aggression against Ukraine, inflation peaked at a record high level of 13% in 2022 (European Commission, 2024[9]) (See Box 1.1 for more). Higher wages and pensions added to rapidly rising inflation (European Commission, 2024[9]). Inflation declined to an average of 5.5% year-over-year in November 2023, owing to lower increases in prices for food and non-alcoholic beverages, housing and utilities, and furniture and household equipment (European Commission, 2024[6]). Having unilaterally adopted the euro since 2002, the economy's inflation differential with the euro area has come down from its 2022 peak of 17.2% to 4.3% in December 2023 (IMF, 2024[10]).

**Montenegro's labour market improved though structural problems persist, including large regional disparities and gender gaps, informality, and high youth and long-term unemployment** (European Commission, 2024[9]). Unemployment has declined from 18.4% in 2020 to 15.1% in 2022, and reached a historic low of 13.1% in July 2023 (European Commission, 2024[6]). Youth unemployment also fell drastically, from 37.1% in 2021 to 29.4% in 2022 (World Bank, 2023[7]). Concurrently, labour force participation rates picked up among adults aged 15 to 64, from 64.2% in 2020 to 68.2% in 2022, though still remaining below the 2019 rate of 68.8% (ILO, 2024[11]). Average net wages remained steady over 2019 to 2021, and increased by 11.2% over 2022, consistent with the rise in inflation (European Commission, 2024[6]).

**Montenegro's external sector has shown an improvement in its current account deficit, narrowing to 9.4% of GDP in the four quarters to September 2023, compared to a 12.1% deficit in 2022** (European Commission, 2024[6]). In the first half of 2023, the current account deficit remained unchanged from the same period in 2022 owing strong service exports, which offset higher goods imports (EBRD, 2024[8]; European Commission, 2024[6]; World Bank, 2023[7]). Exports of goods and services dropped from 43.8% of GDP in 2019 to 26% in 2020, but recovered to 42.8% of GDP in 2021 and grew further to 51.5% by 2022 (World Bank, 2024[2]). Despite a slight decrease in 2021, FDI inflows reached EUR 5.39 million in 2022 (UNCTAD, 2023[12]). Personal remittances also increased from EUR 526.4 billion in 2020 to EUR 783 million in 2022, and remained relatively consistent as a share of GDP, near 9.5% (World Bank, 2024[2]). International reserves increased by 9.5% in 2022, covering about 5.2 months of prospective imports of goods and services (European Commission, 2024[6]).

**While the government's fiscal position improved in the first 11 months of 2023, it is expected to return to its pattern of deficit** (IMF, 2024[13]). By 2022, Montenegro managed to slightly reduce its growing public debt to 71.7% of GDP, which had peaked at 106.8% of GDP in 2020 (World Bank, 2023[7]). However, its improved fiscal position has been propped up by one-off factors, such as post-pandemic recovery resulting in higher revenues, high inflation, and use of deposits from debt issuance in 2020 (IMF, 2024[10]; European Commission, 2024[6]). Meanwhile, current policies are expected to lead to a gradual increase in public debt, while high financing needs are estimated over the next few years, amounting to 14% and 17% of GDP in 2025 and 2027, respectively (IMF, 2024[10]). In order to achieve its specified debt-to-GDP ceiling of 60% by 2028, medium-term fiscal sustainability needs to be improved through increased fiscal consolidation and better targeting of social expenditures (IMF, 2024[10]; EBRD, 2024[8]). In March 2024, S&P Global Ratings revised its outlook on Montenegro's long-term sovereign credit ratings from stable to positive. At the same time, it affirmed the "B/B" on Montenegro's long- and short-term foreign and local currency sovereign credit ratings (S&P Global, 2024[14]).

**Montenegro's financial sector has shown increased stability, with improved capitalisation and liquidity rates, while tighter financing conditions led to decreased demand for private credit.** The capital adequacy ratio of banks rose 20.1% as of June 2023, well above its regulatory minimum of 10% (Bank of Montenegro, 2023[15]; World Bank, 2023[7]). At the same time, private sector credit growth has slowed dramatically, reaching negative year-over-year rates in 2021 and 2022. The rate of nonperforming loans declined to 6.3% of total loans in 2022, from 6.8% in 2021 (IMF, 2024[10]; World Bank, 2023[7]).

### Table 1.1. Montenegro: Main macroeconomic indicators (2019-23)

| Indicator | Unit of measurement | 2019 | 2020 | 2021 | 2022 | 2023e |
|---|---|---|---|---|---|---|
| GDP growth | % year-on-year | 4.1 | -15.3 | 13.0 | 6.4 | 4.8 |
| National GDP | USD billion | 5.54 | 4.77 | 5.86 | 6.23 | .. |
| Inflation | % average | 0.4 | -0.3 | 2.4 | 13.0 | .. |
| Current account balance | % of GDP | -14.3 | -26.1 | -9.2 | -13.2 | .. |
| Exports of goods and services | % of GDP | 43.8 | 26.0 | 42.8 | 51.5 | .. |
| Imports of goods and services | % of GDP | 65.0 | 61.0 | 62.2 | 74.4 | .. |
| Net FDI | % of GDP | 6.2 | 11.2 | 11.7 | 13.5 | .. |
| Public and publicly guaranteed debt | % of GDP | 80 | 106.8 | 86.8 | 71.7 | 64.2 |
| External debt | % of GDP | 167.4 | 221.6 | 191.7 | 157.9 | .. |
| Unemployment | % of total active population | 15.4 | 18.4 | 16.9 | 15.1 | .. |
| Youth unemployment | % of total | 25.4 | 36.3 | 37.7 | 28.1 | .. |
| International reserves | In months of imports of G&S | 5.1 | 8.2 | 6.8 | 5.2 | .. |
| Exchange rate (if applicable local currency/euro) | Value | 1 | 1 | 1 | 1 | .. |
| Remittance inflows | % of GDP | 10.5 | 12.6 | 13.5 | 12.6 | .. |
| Lending interest rate | % annual average | 6.18 | 5.91 | 5.76 | 5.64 | .. |
| Stock markets (if applicable) | Average index | 10 980 | 10 225 | 10 910 | 11 077 | 14 946 |

Notes: G&S = goods and services. ".." refers to data missing.
Sources: European Commission (2024[6]); World Bank (2021[16]; 2022[17]; 2023[7]); EBRD (2024[8]); IMF (2024[18]); UNCTAD (2024[19]).

### Box 1.1. Economic impacts of Russia's war of aggression against Ukraine on Montenegro's economy

Russia's ongoing large-scale aggression in Ukraine has had negative economic implications for Montenegro's economy, mostly owing to the decline in tourism and investment and rise in inflation. Montenegro aligned itself with the EU's sanctions on Russia, albeit with delay, while internal political divisions regarding the conflict remain tense (Konrad-Adenauer-Stiftung, 2024[20]). Among other measures, Montenegro closed its airspace to Russian airlines, imposed sanctions on the Russian central bank, and sent military aid to Ukraine (Konrad-Adenauer-Stiftung, 2024[20]).

Montenegro's **tourism** sector has been negatively affected by the conflict, as the country has been highly dependent on tourists from Russia and Ukraine. While the number of overnight tourists to Montenegro increased from 1.55 million in 2021 to over 2 million in 2022, it remained significantly lower relative to 2019 when Montenegro welcomed 2.5 million tourists (UN WTO, 2023[21]). In 2022, Russians still comprised the second-largest nationality in terms of overnight stays in Montenegro, at 16.4%, though some of this is attributable to visitors who fled Russia due to opposition to the war and first registered in Montenegro as tourists (Statistical Office of Montenegro, 2023[22]).

Montenegro's **trade** sector has generally continued to expand, though it has experienced decline in investments and imports from Russia. Montenegro's reported exports to Russia declined from EUR 2.34 million in 2021 to EUR 398 078 in 2022 (United Nations, 2024[23]). Data on Russian imports have been more consistent; they declined from EUR 12.5 million in 2021 to EUR 9.3 million in 2022 (United Nations, 2024[23]). Meanwhile, Montenegro's trade relations with Ukraine, though much smaller in scale, have grown since the start of the conflict. In 2022, exports to Ukraine totalled EUR 2.83 million, an increase from EUR 1.13 million in 2021 (United Nations, 2024[23]). Imports also rose, from EUR 6.86 million in 2021 to EUR 10.2 million in 2022. Trade relations with Ukraine are expected to develop further, as the government launched negotiations with Ukraine to amend their Free Trade Agreement (in place since 2013) concerning rules of origin and methods of administrative co-operation in November 2022 (European Commission, 2024[9]).

**Investments** into Montenegro have also declined. Russia, as the top foreign investor in Montenegro, has historically invested significantly in Montenegro's real estate and tourism sectors (EBRD, 2024[8]). FDI inflows from Russia amounted to only EUR 27.4 million in 2022, a significant decline from EUR 164.5 million in 2021 (European Commission, 2024[6]; Bank of Montenegro, 2024[24]). While Montenegro's overall FDI inflows rose to 13.5% of GDP and reached EUR 783 million in 2022, net FDI inflows shrank by 46% on the year in the first eleven months of 2023 to EUR 397 million (Bank of Montenegro, 2024[24]).

Montenegro's **energy** sector has not been significantly affected by the conflict, as it is largely self-reliant and mostly unexposed to the influence of the crisis. However, energy prices have risen in line with other economies in the region. In response to the social and economic impact of the current energy crisis generated by Russian war of aggression against Ukraine, the EU allocated EUR 30 million to Montenegro under the 2023 Energy Support Package immediate measures, 90% of which have been disbursed to assist vulnerable families and SMEs in dealing with rising energy prices (European Commission, 2024[9]).

### *Sustainable development*

**Montenegro shows a moderate level of progress towards reaching the targets of the 2030 Agenda for Sustainable Development** (Sachs et al., 2023[25]). As of 2023, Montenegro has achieved or is on track to achieve 48.3% of its target indicators and has made limited progress in 31.7% of indicators, while performance is worsening across 20% of trend indicators. In December 2015, the government of Montenegro adopted the National Strategy for Sustainable Development (NSSD) until 2030. The designated lead unit responsible for the co-ordination and implementation of the SDGs across ministries is the National Council for Sustainable Development, which holds a guiding role with the support of the Office for Sustainable Development within the Secretariat-General of the government at the expert-administrative level (Government of Montenegro, 2022[26]). Montenegro conducted two Voluntary National Reviews (VNRs) on the implementation of the 2030 Agenda, in 2016 and 2022. According to the latest VNR, there is significant room to improve ownership of the SDGs and co-ordination and integration of policies, as well as monitoring of SDG indicators (Government of Montenegro, 2022[26]).

**Montenegro has achieved or has maintained achievement of the SDGs in only one area**: **elimination of poverty (SDG 1)** (see Table 1.2). It is nearing SDG achievement in the areas of climate action (SDG 13) and partnerships for the goals (SDG 17), while its performance regarding education (SDG 4) is also closer to achievement and shows a moderate level progress. Its performance regarding clean energy (SDG 7) is also nearing attainment, although progress in this area has stagnated since 2021 due to persistent levels of $CO_2$ emissions and a low share of renewable energy as a percentage of final energy consumption (40% as of 2020, while the long-term objective is 55%).

### Table 1.2. Montenegro's progress towards achieving the SDGs (2023)

| SDG | Current assessment | Trends |
|---|---|---|
| 1 – No poverty | SDG achieved | On track or maintaining SDG achievement |
| 2 - Zero hunger | Major challenges | Stagnating |
| 3 – Good health and well-being | Significant challenge | Moderately improving |
| 4 – Quality education | Challenges remain | Moderately improving |
| 5 – Gender equality | Significant challenges | Stagnating |
| 6 – Clean water and sanitation | Significant challenges | On track or maintaining SDG achievement |
| 7 – Affordable and clean energy | Challenges remain | Stagnating |
| 8 – Decent work and economic growth | Significant challenges | Stagnating |
| 9 – Industry, innovation and infrastructure | Significant challenges | Moderately improving |
| 10 – Reduced inequalities | Significant challenges | On track or maintaining SDG achievement |
| 11 – Sustainable cities and communities | Significant challenges | Stagnating |
| 12 – Responsible consumption and production | Information unavailable | Information unavailable |
| 13 – Climate action | Challenges remain | On track or maintaining SDG achievement |
| 14 – Life below water | Major challenges | Moderately improving |
| 15 – Life on land | Major challenges | Stagnating |
| 16 – Peace, justice and strong institutions | Significant challenges | Moderately improving |
| 17 – Partnerships for the goals | Challenges remain | On track or maintaining SDG achievement |

Note: The order of progress (from greatest to least) is as follows: SDG achieved; challenges remain; significant challenges; major challenges.
Source: Sachs et al. (2023[25]).

**Montenegro is progressing with several SDGs but significant challenges remain in achieving 8 of the 17 SDG areas.** Montenegro's progress in the area of clean water and sanitation (SDG 6) is on track towards SDG achievement, though significant challenges remain due to its low rate of wastewater treatment. Moderate progress has also been made in the areas of health and well-being (SDG 3); industry,

innovation and infrastructure (SDG 9); and institutional integrity (SDG 16). Meanwhile, progress has stagnated in the areas of gender equality (SDG 5), decent work and economic growth (SDG 8), and sustainable urban development (SDG 11). Compared to 2021, it has stalled in its progress in the area of economic growth (SDG 8) due to persistently high unemployment rates.

**The most significant gaps remain in the areas of nutrition and sustainable agriculture (SDG 2), marine resources (SDG 14) and protection of terrestrial ecosystems (SDG 15).** Factors that hinder progress of SDG 2 are increasing obesity rates, high energy intensity, and low efficiency in agriculture (Sachs et al., 2023[25]). Performance in the areas of marine life (SDG 14) and protection of terrestrial ecosystems (SDG 15) remains hindered due to low rates of protected terrestrial and freshwater sites important to biodiversity. No data are available for its performance in the area of responsible production and consumption (SDG 12).

### *EU accession process*

**Montenegro applied for EU membership in December 2008, and its Stabilisation and Association Agreement, the legal foundation for relations with the EU, entered in force in December 2010**. Accession negotiations began in June 2012. As of December 2023, 33 negotiating chapters have been opened, of which three have been provisionally closed (European Commission, 2024[9]). In 2017, Montenegro joined NATO, achieving a key foreign policy step in alignment with European Common Foreign and Security Policy. In 2021, Montenegro accepted the revised enlargement methodology, which emphasises credible fundamental reforms, stronger political steer, and increased dynamism and predictability of the process (European Commission, 2021[27]).

**Montenegro remains moderately prepared to apply the EU *acquis* and European standards in the areas of public administration reform and judiciary and fundamental rights but made limited progress overall.** According to the latest enlargement report, Montenegro has experienced a blockage of its political system and little progress in political criteria over the assessment period. No progress was achieved in justice reform, which remains affected by issues of accountability, and recent investigations point to corruption and organised crime in state structures, including at the top level of the judiciary and law enforcement (European Commission, 2024[9]).

**On the economic criteria, Montenegro is moderately prepared and has made limited progress in developing a functioning market economy** (European Commission, 2024[9]). The prior recommendations of the European Commission were addressed to a limited extent, with further efforts needed in the areas of fiscal consolidation and accountability, SOE reform, and reduction of the informal economy. Its capacity to cope with competitive pressures and market forces within the EU is also in a moderate level of preparation, with some progress made in education, attraction of private investors, green and digital transition, and performance in key sectors such as metallurgy and tourism. However, further efforts are needed to address shortcomings in its education system, infrastructure gaps, diversification of its economic base, and increase productivity and competitiveness of firms.

**On 8 November 2023, the European Commission adopted a new Growth Plan for the Western Balkans to improve the level and speed of convergence between the Western Balkans and the EU** (European Commission, 2023[28]; European Commission, 2023[29]). Backed by EUR 6 billion in non-repayable support and loan support, the Growth Plan has the potential to boost socio-economic convergence and bring WB6 closer to the EU single market (Gomez Ortiz, Zarate Vasquez and Taglioni, 2023[30]). The new Growth Plan is based on four pillars, aimed at:

1. “Enhancing economic integration with the European Union’s single market, subject to the Western Balkans aligning with single market rules and opening the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market
2. Boosting economic integration within the Western Balkans through the Common Regional Market

3. Accelerating fundamental reforms, including on the fundamentals cluster,[1] supporting the Western Balkans' path towards EU membership, and improving sustainable economic growth including through attracting foreign investments and strengthening regional stability; and
4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans" (European Commission, 2023[29]).

The new Growth Plan builds on the existing enlargement methodology and creates a package of mutually reinforcing measures, providing incentives to economies to accelerate the adoption and implementation of the EU *acquis*, while narrowing the gap between the Western Balkans and EU Member States. In that context, the OECD has recently released the *Economic Convergence Scoreboard for the Western Balkans 2023* to track the region's performance in achieving economic convergence towards the EU and the OECD area, and highlight policy bottlenecks that hinder faster economic growth in a sustainable and inclusive way (OECD, 2023[31]) (Box 1.2).

As part of the new Growth Plan, the Western Balkans have been asked to submit to the European Commission economy-specific Reform Agendas listing a number of structural reforms that would need to be implemented in order to access part of the Plan's funding. All Reform Agendas are structured along the same four policy areas: 1) business environment and private sector development, 2) green and digital transformation, 3) human capital development and 4) fundamentals (of the EU accession process). They replace Economic Reform Programmes' chapter IV on structural challenges, as, going forward, the Economic Reform Programmes will only cover macrofiscal aspects.

### Box 1.2. *Economic Convergence Scoreboard for the Western Balkans 2023:* A spotlight on Montenegro

Montenegro's GDP per capita grew by 70% from 2003 to 2022 in comparison to the EU's and OECD area's comparatively modest increases of 27% and 25%, respectively (Figure 1.1). In 2003, Montenegro's GDP per capita stood at approximately one-third that of the EU and OECD areas, and by 2022, despite nearly doubling, Montenegro's GDP per capita only narrowed the gap by roughly 12 percentage points. Moreover, Montenegro's overall GDP per capita growth reflects adopting policies in line with EU *acquis* and OECD standards, fostering competitiveness within the labour market. However, a significant disparity persists, illustrated by Montenegro's 2022 GDP per capita of USD (PPP international $) 22 108 (EUR 21 021)[1] compared to the EU's USD 45 978 (EUR 43 679) and the OECD area's USD 46 208 (EUR 43 897). This underscores the substantial progress required for Montenegro to achieve convergence with the EU and OECD area.

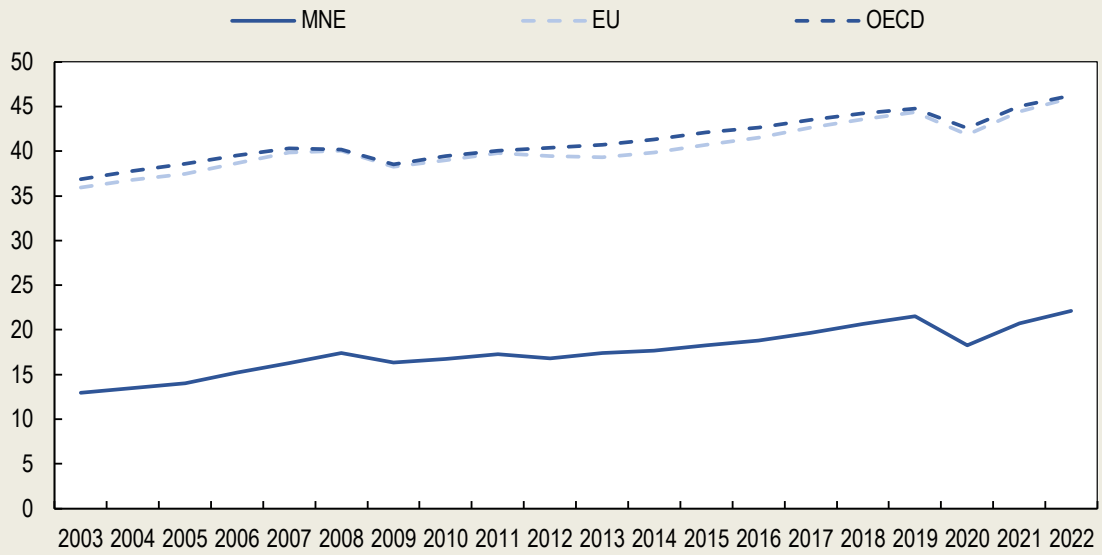
In this context, the OECD developed the Economic Convergence Scoreboard for the first time in 2023, marking the establishment of a recurring monitoring mechanism and dedicated tool designed to evaluate the extent of economic convergence of the Western Balkans with the EU and the OECD area. Prepared to inform discussions at the Berlin Process Western Balkans Leaders' Summit 2023 and grounded in a decade-long series of policy assessments, the Scoreboard offers a thorough analysis of the region's progress across five key policy areas, or clusters, crucial for attaining sustainable and inclusive economic growth. These clusters are the business environment, skills, infrastructure and connectivity, greening, and digital transformation.

Since 2008, Montenegro achieved strong advancements and notable regressions across the five policy clusters, underscoring not only the adoption of policies in alignment with EU *acquis* and OECD standards but also the importance of effective implementation to achieve convergence with the EU and OECD area. Montenegro exhibited noteworthy progress in both the *business environment* and *skills* clusters. As for the *business environment*, Montenegro surpassed convergence with the EU across several indicators, including FDI net inflows, new business density and trade openness. However, trade openness has

reduced consistently over the past decades, warranting attention. Montenegro also shows consistent, albeit slow, progress in control of corruption, nearing parity with the EU. The economy is also producing positive gains within the *skills* cluster, as the employment rate, PISA average score, tertiary education achievement and R&D expenditure are increasing, while the rate of youth not in employment, education or training (NEET) rate has been decreasing.

### Figure 1.1. Montenegro's GDP per capita convergence with the OECD area and the European Union (2003-22)

In Purchasing Power Parity 2017 USD (thousands)




Source: World Bank (2022[32]).

StatLink https://stat.link/2evcoq

In contrast, the *greening* and *digitalisation* clusters require further progress. As for the *greening* cluster, Montenegro is negatively trending in renewable energy consumption, $CO_2$ emissions, and energy productivity. Additionally, crucial policy areas facilitating societal digitalisation and fostering a more competitive and interconnected economy in the *digitalisation* cluster are either stagnating or declining, including mobile cellular penetration, individuals with basic or advanced digital skills, digital payment users, and information and communications technology (ICT) specialists in total employment. In light of these negative trends, the relevance for advancing greening and digitalisation policies is emphasised as the EU and OECD shift their policy priorities in line with these areas.

In the context of aligning with OECD standards, Montenegro has demonstrated consistent progress, with particularly strong advancements in Competitiveness Outlook (CO) access to finance policy, employment policy, science, technology and innovation policy and agriculture policy. The economy, however, experienced slight setbacks in CO transport policy and digital society. Montenegro's considerably strong development within a majority of OECD good policy practices, standards, and tools indicates a positive influence of the CO 2021 Recommendations on Montenegro's long-term policy development.

1. The 2022 market exchange rate has been used to convert PPP constant 2017 international USD into EUR.
Source: OECD (2023[31]).

### *EU financial and development support*

**Montenegro continues to receive significant support from the European Union, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*.** The European Union's financial support to the economy and the region has been provided through both temporary support, such as COVID-19 assistance packages, and long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank (EIB) loans, Western Balkans Investment Framework grants and more.

**Over 2007-20, the EU has provided Montenegro with a total of EUR 504.9 million under the Instrument for Pre-accession Assistance I and II.** IPA II introduced priority sectors for assistance, which included democracy and governance, the rule of law and fundamental rights, environment and climate action, transport, competitiveness and innovation, transport, education, employment and social policies, agriculture and rural development, and regional and territorial co-operation (European Commission, 2024[33]).

**The European Union has been crucial in financially supporting Montenegro in the wake of COVID-19.** Montenegro received EUR 60 million of the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners, and the economy has also received EUR 130 million of the European Union's Team Europe EUR 3.3 billion COVID-19 economic recovery support package to the region (European Commission, 2021[34]). The European Investment Fund has invested EUR 100 million to support Montenegrin companies since the start of the pandemic and invested an additional EUR 50 million at the end of 2021 to support faster recovery of the local economy from COVID-19 and help accelerate the green transition and climate adaptation of SMEs (EIB, 2021[35]).

**Under IPA 2021-23, Montenegro has been allocated over EUR 135 million.** This includes the dedicated EUR 30 million from the 2023 Energy Support Package immediate measures which, as mentioned above, has been almost entirely disbursed towards the assistance of vulnerable families and SMEs in dealing with rising energy prices (European Commission, 2023[36]). Montenegrin SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2023[28]). Under the Economic Investment Plan (EIP) for Montenegro, the EU has already mobilised EUR 824 million in investments, of which EUR 178 million is in grants (European Commission, 2023[28]). Additionally, the new Growth Plan launched in 2020 foresees infrastructural funding for Montenegro's rail and road routes with Serbia and Albania, as well as a Trans-Balkan Electricity Transmission Corridor that will provide electricity transmission to Montenegro and updated waste management systems for the economy. As of January 2024, the European Commission signed an agreement associating Montenegro with the EU4Health programme, thereby allowing Montenegro to benefit from open access to EU funding in the area of health (European Commission, 2021[34]).

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## Note

[1] In line with Communication on "Enhancing the accession process – A credible EU perspective for the Western Balkans" COM(2020)57, the fundamentals cluster includes: chapter 23 – Judiciary and fundamental rights, chapter 24 – Justice, Freedom and Security, the economic criteria, the functioning of democratic institutions, public administration reform, chapter 5 – Public procurement, chapter 18 – Statistics and chapter 32 – Financial control. (European Commission, 2023[28]).

# 2 Investment policy and promotion

Creating an attractive environment for investors is essential to stimulate economic activity and to foster sustainable economic growth. This chapter assesses the scope and effectiveness of existing policies and strategies that aim to enhance investment volume and quality. The first sub-dimension, investment policy framework, assesses the robustness of legal framework for investment, the efficiency of dispute settlement mechanisms, as well as intellectual property rights enforcement and awareness-raising capacity. The second sub-dimension, investment promotion and facilitation, focuses on investment promotion agency structures, investment promotion strategies and investor incentives, all geared towards attracting foreign direct investment. The third sub-dimension, mobilising sustainable investment, explores the strategic framework for a sustainable investment governance, while also reflecting on the scope of financial and technical support allocated to sustainable investment.

# Key findings

Momentum in the improvement of Montenegro's performance in the investment policy and promotion dimension has slowed but remains positive. The economy's score increased slightly from 3.2 to 3.4 between the 2021 and 2024 Competitiveness Outlook (compared to 2.6 in the 2018 assessment), with notable progress in investment promotion and facilitation. Montenegro also outperformed the regional average in mobilising sustainable investment (Table 2.1).

### Table 2.1. Montenegro's scores for investment policy and promotion

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Investment policy and promotion | 1.1: Investment policy framework | | | 3.7 | 3.9 |
| | 1.2: Investment promotion and facilitation | | | 3.3 | 3.3 |
| | 1.3: Mobilising sustainable investment | | | 3.0 | 2.8 |
| **Montenegro's overall score** | | **2.6** | **3.2** | **3.4** | **3.4** |

The **key findings** are:

- Handling commercial cases shows limited progress, with the average time from filing to decision increasing from 197 days in 2021 to 442 days in 2022.
- While the e-Firma portal was introduced in 2021 to offer eight electronic services tied to the Central Register of Business Entities (CRPS) and the Register of Beneficial Owners, the majority of business registration procedures can still only be completed offline.
- Since the last assessment, the adoption of 20 new business laws has significantly changed and clarified the legislative environment.
- There have been several legislative amendments to strengthen the intellectual property rights (IPR) framework since 2021. Moreover, the government adopted a new Intellectual Property Strategy 2023-26, poised to improve the effectiveness of the intellectual property rights registration and enforcement.
- Montenegro's strategic and legal framework prioritises sustainable investment, yet the approach is fragmented across various strategies.

## State of play and key developments

Unlike most other economies in the region, Montenegro did not experience a decline in inward foreign direct investment (FDI) flows in 2020 and 2021 during the COVID-19 pandemic. Rather, inward FDI has increased year-on-year since 2019, reaching some EUR 877 million in 2022, levels not seen since the pre-2010 period (UNCTAD, 2023[1]). Average net FDI inflows increased from 9.3% during 2017-19 to 12.4% during 2020-22. On this measure, Montenegro is the largest recipient of FDI flows among the Western Balkan 6 (WB6) (World Bank, 2023[2]). The accumulation of significant net inflows has seen the economy maintain its position as the leading investment destination in the region, its stock of FDI reaching 97% in 2022 (UNCTAD, 2023[1]). In 2022, the European Union accounted for 33% of total FDI inflows, a small decrease from 36.4% in 2021 (European Commission, 2023[3]).

### *Sub-dimension 1.1: Investment policy framework*

Montenegro's **legal framework for investment** remains relatively clear, comprehensive and conducive to business operations, both foreign and domestic. Recent years have seen the adoption of some 20 new business laws that have changed and clarified the legislative environment. Notable legislative reforms since 2021 involve laws on labour, value added tax, contributions for compulsory social insurance, spatial planning and building construction, and innovation activity, all in accordance with the EU *acquis*. Within the framework of the *Europe Now*[1] reform programme, the government introduced changes to the economy's tax system. The Law on Personal Income Tax and the Law on Corporate Income Tax have introduced a new progressive tax schedule, departing from the previous flat tax rate system. Additionally, as of 2024 the new law on Property Transfer Tax has been enforced, incorporating a progressive tax system to replace the previous flat tax rate. The Law on Public Private Partnerships (PPP), which entered into force in 2020, is aligned with Directive 2014/23/EU[2] on the award of concession contracts and Directive 2014/24/EU[3] on public procurement. Both the PPP Law and the Law on Public Procurement, which was adopted in parallel, stipulate that PPP projects should be subject to competitive bidding processes. While the Laws do not include specific provisions around contract renegotiation, responsibility for this is the preserve of the relevant public contracting authority. The Ministry of Finance is responsible for ongoing monitoring of the legal regime governing PPPs while its positive assent is required for the approval of any PPP project. Two PPP projects have been initiated under this framework since January 2021, although both remained subject to approval as of early 2024.

In Montenegro, the market is open with very limited **exceptions to national treatment**. The economy's score in the OECD FDI Regulatory Restrictiveness Index was 0.03 in 2018, reflecting minimal restrictions present particularly in the transport sector. This score is lower than that for the average OECD economy (0.064), indicating a less restrictive FDI regime (OECD, 2020[4]).

A new model bilateral investment treaty (BIT) was introduced in July 2021. The model includes a conventional transparency definition, excluding the application of United Nations Commission on International Trade Law (UNCITRAL) Rules on Transparency[4] and encompassing solely the obligation to publish laws and regulations related to investments. It defines "investor" in such a way that for a legal entity to be classed as foreign, it should conduct substantial business activities in the home contracting state, these being determined by case-specific evaluation. The new model BIT also includes reformulated provisions as to the investment dispute resolution system while the government is actively negotiating a BIT with Hungary that incorporates these reforms. For example, the model stipulates that consultations should be the first port of call in the event of a dispute, a process that may include the use of non-binding, third party procedures, such as conciliation or mediation. The new model BIT was developed on the basis of, among others, Montenegro's experience in investment disputes in preceding years.[5]

Steady reform efforts continue to improve the **dispute settlement** environment. While Montenegro has had a domestic arbitration regime in place since 2015, it put mediation on a reformed, statutory basis with

the adoption of the Law on Alternative Dispute Resolution (ADR) in July 2020. The Centre for Alternative Dispute Resolution (CADR), established at that time as a successor to the Centre for Mediation, has since engaged in efforts to raise awareness of mediation as a viable alternative to litigation, leading to year-on-year growth in its uptake (Council of Europe, 2022[5]). Under the Law on ADR, parties are obliged to try to solve the dispute through mediation before initiating court procedures in disputes with claim regarded as being of small value.[6] In order to get a licence, mediators need to pass basic training covering all types of disputes (family, commercial, civil cases, etc.) while advanced training on specific topics, including mediation in commercial disputes, is organised by the CADR on an ad hoc basis. Under the 2015 Law on Courts, Montenegro established a dedicated commercial court, which has first instance jurisdiction in commercial matters. While its judges receive specialist training to hear complex commercial disputes (OECD, 2021[6]), the commercial court remains challenged by the complexity and weak implementation of laws, limited capacity and other operational issues (US State Department, 2023[7]). Moreover, the average time from filing the commercial court case to reaching a decision increased from 197 days in 2021 to 442 days in 2022 (European Commission, 2023[3]). There has also been little progress on the implementation of judicial reforms. Advancement was observed on high-level court appointments, as in February 2023 the parliament appointed three new judges to the Constitutional Court, following six months without a quorum; however, there is still one vacancy to be filled, which could lead to a backlog of cases (European Commission, 2023[3]).

Montenegro continues to reinforce its **Intellectual Property Rights (IPR) legal framework.** There have been several new and amended legislative measures since 2021, notably the Laws on the Protection of Trade Secrets, Law on Copyright and Related Rights, Law on Patents as well as amendments to the Law on Trademarks and Patents. In October 2022, Montenegro acceded to the European Patent Organisation, following its deposition of its instrument of accession to the European Patent Convention in July 2022. Notwithstanding progress to date, it is important that momentum be maintained with implementation of the national IPR strategy for the 2023-26 period, with priority given to further legislative alignment with the EU *acquis* on copyright and neighbouring rights as well as on industrial property rights. The primary objectives of this strategy revolve around enhancing the administrative capabilities of institutions tasked with registering and enforcing intellectual property rights. Additionally, the plan aims to elevate public awareness regarding intellectual property and to facilitate more effective enforcement of these rights. By addressing these key components, the strategy seeks to create a robust framework that safeguards intellectual property and promotes its responsible use. There has been modest progress in recent years; for example, in March 2023 the Ministry of Economic Development and Tourism approved the 2023 Action Plan for the Working Group combating infringements of intellectual property rights. However, IPR **enforcement and awareness raising** require further strengthening, as public awareness of IPR issues remains limited (US State Department, 2023[7]).

### *Sub-dimension 1.2: Investment promotion facilitation*

Recent years have seen Montenegro consolidate its **investment promotion agency structure and strategy**. Following the adoption of the new PPP law in October 2019, the Montenegro Investment Agency (MIA) was established in 2020 with significantly more employees and a much broader set of responsibilities than its predecessor bodies. The MIA is a government-funded, autonomous public agency. In addition to investment promotion and facilitation, the agency is tasked with realising PPP projects, promoting innovation, and providing investors with information on all the necessary steps and contact points for business registration. By the end of 2022, the MIA had 30 employees. However, the MIA might not yet have sufficient financial and human resources with which to deliver on its broad mandate. The agency's strategy for prioritising economic sectors for investment promotion is guided by the economy's Smart Specialisation Strategy, and includes sustainable and health tourism, sustainable agriculture and food production, energy, and information and communication technologies (ICT). In support of Montenegro's digital transformation efforts, the MIA promotes digital clusters,[7] targets outreach to relevant investors and

projects, and has been actively participating in the working group for creating the strategy for digital transformation.

While some advances were observed in investment facilitation and business registration, there is scope for improvement. The establishment of the MIA was expected to reinforce Montenegro's **investment facilitation services** and aftercare activities. The Competitiveness Council has proved itself to be a valuable public-private consultative platform for discussion on topics such as business registration procedures, obtaining licences, and business barriers. In early 2021, a working group co-ordinated by the Secretariat of the Competitiveness Council (SCC[8]) was established to reform the company registration process, with membership from both state institutions and the private sector. The aim of these efforts is the full digitalisation of registration of all forms of businesses. In mid-2021, the e-Firma portal was launched to provide eight electronic services related to the work of the Central Register of Business Entities (CRPS) and the Register of Beneficial Owners (RSV). This allows businesses to register changes with the CRPS for existing companies electronically, and to submit a request for the issuance of the last statement and certificate with data on the registered business entity from the CRPS's unique information database. Services also include delivery of digitally signed documents from CRPS records via email, which is one of the first such digitally available public services in the economy. As of early 2024, however, only a minority of the procedures to establish a business are available on line. The MIA uses several other digital tools to support its investment facilitation, retention and aftercare activities. These include its website, social media accounts and virtual meetings and webinars. Moreover, the MIA has plans to establish a customer relations management system, although the implementation timeline will depend on the availability of financial resources.

The MIA also has a dedicated department for **aftercare** which uses targeted field visits to gather intelligence, which is then channelled to policy makers as part of the agency's advocacy role in policy design and development. Aftercare services provided include regulatory and administrative assistance (including with respect to real estate), conflict mitigation, matchmaking between foreign investors and local firms, and facilitation of high-level networking with academia and research and development (R&D) institutions. The MIA also operates voluntary programmes aimed at promoting linkages between domestic and foreign firms to maximise the spillover effects. Increased high-quality and well-informed investments create opportunities for small and medium-sized enterprises (SMEs) in investment-prone market segments to establish connections with larger multinational enterprises (MNEs) supplier networks.

Montenegro retains a complex and multi-layered **investor incentive** scheme in place to attract investment. Recent years have seen the addition of several incentives targeting support of the digital transformation. While tax incentives are typically offered on an automatic rather than discretionary basis, and are under the purview of the Ministry of Finance, they are not all contained within the main body of the tax law and, on occasion, may be granted outside of the economy's tax and investment laws.[9] In 2022, in co-operation with the World Bank Group, the Ministry of Economic Development developed a comprehensive Investment Incentives Inventory. While this should help in cataloguing and navigating the various incentives on offer, there remains a need for significant streamlining. Moreover, there is a need for reinforced evaluation mechanisms to ascertain the costs, benefits and appropriate duration of investor incentives. The publication of such an analysis would additionally bolster transparency regarding investment incentives, thereby further advancing investment facilitation and promoting good governance (OECD, 2023[8]).

### *Sub-dimension 1.3: Mobilising sustainable investment*

Although it is much broader ranging, Montenegro's National Strategy for Sustainable Development by 2030 (NSSD; Box 2.1) also provides a high-level **strategic framework and governance for sustainable investment**. Similarly, the NSSD has informed subsequent economy-wide and sectoral strategies, notably including the Industrial Policy of Montenegro 2019-23, the Smart Specialisation Strategy of Montenegro

2019-24, and the government's Economic Reform Programme (ERP) 2022-24. Moreover, in January 2024, the government implemented a new ERP for the period 2024-26. The economic policy's primary strategic objective is to attain intelligent, sustainable, and inclusive economic growth, aiming to enhance the overall quality of life for citizens. While Montenegro's strategic and legal framework places emphasis on attracting sustainable investment, it remains fragmented across different strategies, lacking a cohesive and streamlined structure. This dispersion may hinder the effectiveness of the overall efforts, pointing to the need for a more integrated and consolidated approach to maximise the impact of sustainable investment initiatives in the country.

### Box 2.1. Advancing the Sustainable Development Agenda in Montenegro

Already in 2016 Montenegro adopted a NSSD, closely aligned with the Sustainable Development Goal (SDG) framework agreed at the UN in 2015. In the thematic area of financing for sustainable development (6), the NSSD adopts as one of its strategic goals enabling the introduction of the green economy by mobilising funds for sustainable development (6.2). To deliver on this goal, one of the principal measures (6.2.2) is the establishment of a favourable regulatory framework for investments in the green economy. In turn, 1 of the 14 sub-measures calls for the development of "a good climate for inclusive and sustainable investments from private sector, with transparent and stable rules and standards, and fair competition, all with the aim to foster the achievement of sustainable development goals in the economy" (6.2.2.3).

Efforts to promote the green economy have subsequently been mainstreamed into economy-wide and sectoral policies, while the concept itself has been under development. For example, the Industrial Policy of Montenegro 2019-23 included a focus on the creation of new jobs through investments in renewable energy sources, organic production, the introduction of international environmental standards, waste management and recycling, the development of low-carbon tourism, sustainable management of forests and water, etc. Similarly, the Smart Specialisation Strategy of Montenegro 2019-24 has set the groundwork for upcoming green investment initiatives by outlining priorities and key areas for sustainable and environmentally friendly growth.

The NSSD included establishment of a system for monitoring the sustainability of national development, including monitoring the implementation of goals, measures and tasks contained in the Action Plan integrating global SDGs. The latest report marked progress in poverty reduction, but challenges persist due to data limitations. Early childhood education has improved, alongside women's empowerment, but achieving gender equality faces significant challenges. Progress in implementing the ecosystem approach and designating protected areas in the sea is observed but weaknesses in management and data pose challenges.

It is also planned to connect the national reporting system with the United Nations Environment Programme (UNEP) live platform. Moreover, in late 2022 Montenegro's Office for Sustainable Development, in co-operation with the Directorate of Statistics and with the support of the Office of the Resident Coordinator of the United Nations and the UN Economic Commission for Europe (UNECE), developed a platform for monitoring progress across a range of sustainable development indicators: www.sdgmontenegro.me.

Sources: Ministry of Science (2019[9]); Ministry of Sustainable Development and Tourism (2017[10]); Government of Montenegro (2024[11]).

Montenegro provides **financial and technical supports for sustainable investment** relevant to three of the four SDG-linked objectives, namely i) productivity and innovation, ii) decarbonisation, and iii) gender equality. In terms of financial supports, for example, the Ministry of Economic Development and Tourism,

Innovation Fund of Montenegro and Investment Development Fund of Montenegro all have credit or grant lines for either productivity, innovation, gender equality or decarbonisation. These institutions provide favourable credit lines for investors. In addition, tax incentives, subsidies, and incentives for, respectively, low-carbon investment, female entrepreneurship and investment in female-dominated sectors are provided on a non-differentiated basis between foreign and domestic firms. These financial supports aim to address market failures relating to labour immobility, access to finance and environmental externalities. Technical supports meanwhile consist of training and skills programmes, entrepreneurship programmes, internationalisation programmes, digitalisation programmes and dedicated supports for women. In particular, these aim to address the market failure evident in significant skills gaps. Each year, as part of the programme for improving the competitiveness of the economy, the Ministry of Economic Development and Tourism assesses the need and scope for further financial and technical supports for sustainable investment.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro's progress in implementing the 2021 Competitiveness Outlook Recommendations has been mixed, although with strong progress in improving the investment facilitation framework through the establishment and expansion of the MIA (Table 2.2). Moderate progress was achieved in promoting the use of alternative dispute mechanisms and streamlining investment incentives and evaluating their cost-effectiveness. Scope for improvement remains in improving the transparency of policy making, while limited progress was achieved in reinforcing MIA's green investment promotion activities.

### Table 2.2. Montenegro's progress on past recommendations for investment policy and promotion

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Improve the transparency and inclusiveness of policy making | Limited progress has been made in this respect. The public is not consistently involved in formulating strategies and laws, and obtaining information on line is hindered by limited availability. | Limited |
| Continue efforts aimed at encouraging the use of alternative dispute mechanisms | The Law on Alternative Dispute Resolution was adopted in July 2020, instituting mediation on a firm legal footing and establishing the Centre for Alternative Dispute Resolution as an implementing authority. | Moderate |
| Accelerate the establishment of the MIA, clarify its aftercare mandate, and reinforce its capacity and resources in order to improve its investment facilitation and aftercare services | The MIA was established through the PPP Law in 2020. It has a dedicated aftercare division and provides a range of aftercare services. | Strong |
| Streamline the multiple investment incentives and reinforce mechanisms for evaluating their cost and benefits, their appropriate duration, and their transparency | The Ministry of Economic Development, in co-operation with the World Bank Group, has created a comprehensive Investment Incentives Inventory. New investment incentives have also been introduced to support the digital transformation. It is not clear, however, that there have been efforts to streamline the multiple investment incentives, nor that their evaluation mechanisms have been reinforced. | Moderate |
| Further reinforce the MIA's green investment promotion activities | As part of the NSSD, Montenegro sees "green investments into key economic sectors" as central to the "financing platform for sustainable development of Montenegro by 2030". MIA has intensified its investor targeting in the renewable energy sector with outreach and promotion campaigns, and has initiated mapping areas suitable for sustainable renewable energy production. | Moderate |

## The way forward for investment policy and promotion

Montenegro has maintained its impressive record of attracting investment and continues to consolidate the institutional framework for investment promotion introduced in 2020. In some respects, however, reform

momentum has stalled in recent years. To regain this momentum and cement the economy's position as a leading regional destination for sustainable investment, policy makers should:

- **Improve the efficiency of the commercial court**. Given the deterioration in the time between filing a commercial claim and its resolution, which more than doubled from 2021 to 2022, room for improvement remains in the enforcement of dispute settlement laws. This delay in the resolution of commercial disputes has serious implications for businesses and the overall legal system; the court procedures and processes involved in handling commercial claims should be reviewed and streamlined. This may involve restructuring the court system, as well as identifying and eliminating unnecessary bureaucratic steps, ensuring a more straightforward and expeditious legal process (Box 2.2). The increased uptake of alternative dispute resolution mechanisms had little effect on easing the caseload for commercial courts. Further encouraging the use of alternative dispute resolution mechanisms, such as mediation and arbitration, could therefore be an effective strategy.

### Box 2.2. Streamlining the judicial system in Bulgaria

Bulgaria has an established Inspectorate to the Supreme Judicial Council (SJC), comprising an Inspector General and ten inspectors who are elected by a two-thirds majority of the Members of Parliament in the National Assembly. The Inspector General serves a five-year term, while the inspectors' term is four years. The Inspector General and inspectors function independently under the law. The Inspectorate acts on its own initiative or in response to citizens, entities, or state bodies, including judges, prosecutors, and investigators. It communicates signals, proposals, and reports to state and judicial bodies. Additionally, the Inspectorate shares public information about its activities.

The Inspectorate is the main body, through which the Ministry of Justice can reform the justice system with the goal of improving its efficiency and reducing the duration of legal proceedings. In February 2021, the Judges' College of the SJC adopted a roadmap for the restructuring of district and appellate-level courts. The plan aims to bolster the judiciary by expanding the number of judges, enabling specialisation, implementing mandatory court-ordered mediation in specific cases, and enhancing overall efficiency. This involves optimising judicial workload distribution across courts and judges, which will entail:

- Consolidating of regional courts with the view of reducing the caseload.
- Restructuring of judicial staff contractual status, with personnel categorised into permanent and non-permanent roles. The former will be assigned to regional courts, while the latter will be integrated into higher court staff.
- Increasing the number of judges in district and appellate courts.
- Implementing a workload rate for judges in regional, district, and appellate courts, enhancing the ability to anticipate the specific requirements of judges in each region. The rate will be annually revised using actual workload data to facilitate systematic planning for the judiciary's regional needs.

The concept provides a remedy for current challenges such as uneven workload among courts at a similar level, judge specialisation, the efficiency and quality of justice administration, personnel planning, optimisation of judicial budget costs, and predictability in judges' career development.

Sources: OECD (2022[12]); Inspectorate to the Supreme Judicial Council (2007[13]); European Commission for the Efficiency of Justice (2022[14]).

- **Simplify the various investment incentives and strengthen mechanisms for assessing their costs, benefits, duration, and transparency.** It is crucial to enhance the cost-benefit analyses of these incentives and make their outcomes accessible to the public.
- **Ensure that the MIA is adequately resourced to deliver on its mandate, and to consolidate and extend its existing activities.** This should ensure adequate resourcing of the agency's aftercare activities, including the planned customer relations management.
- **Centralise the strategic framework for sustainable investment.** The existing economic reform priorities and broad economy-wide strategies in Montenegro already incorporate sustainability objectives, explicitly aligned with the SDGs. These strategies also encompass aspects related to sustainable investment. Therefore, centralising these elements within a unified framework would not only enhance coherence but also capitalise on existing synergies, ensuring a more robust and impactful approach to sustainable investment in the economy.

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## Notes

[1] *Europe Now* is a set of economy-wide reforms, which aim to create a more inclusive and sustainable economic growth model. The programme encompasses reforms in taxation, SOEs, employment and social policy and innovation.

[2] Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts Text with EEA relevance, https://eur-lex.europa.eu/eli/dir/2014/23/oj.

[3] Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC Text with EEA relevance, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0024.

[4] The UNCITRAL Rules on Transparency in Investor-State Arbitration based on treaties encompass a set of procedural guidelines aimed at fostering transparency and making such arbitrations accessible to the public.

[5] Of the eight disputes brought against the economy, three were filed with the International Centre for Settlement of Investment Disputes (ICSID), four were filed under the Arbitration Rules of the United Nations Commission on International Trade Law, and one was brought before the foreign District Court.

[6] The threshold for commercial cases is EUR 7 000.

[7] In December 2021, the government signed an agreement with the ICT cluster in Montenegro, ICT Cortex, for support for the development of the strategic priority of the Smart Specialisation Strategy of Montenegro – Information and Communication Technologies. The total amount foreseen for the implementation of the work programme of the ICT cluster Cortex for a period of three years amounts to over EUR 1 million. The programme is being supported by the Ministry of Economic Development in the amount of over EUR 500 000, while these public funds will be matched by the IT companies that are members of the cluster: https://ictcortex.me/en/over-a-million-euros-for-the-development-of-the-it-industry-in-montenegro-mer-and-ict-cortex-signed-a-contract-worth-over-a-million-euros.

[8] The SCC is supported by the European Bank for Reconstruction and Development (EBRD) in collaboration with the UK Good Governance Fund, and has been fully operational since February 2019 based on a signed Memorandum of Understanding between EBRD and the government of Montenegro.

The main goal of the Secretariat is to support the work of the Council on a daily basis and thus impact the efficiency and improvement of public-private dialogue in Montenegro. Some of the key activities of the Secretariat related to Council are: preparation of the proposal of the Council's Annual Work Plan and Annual Report on the Work of the Council; follow-up of the implementation of the conclusions from the meetings of the Council; collection of relevant opinions for the topics envisaged in the Council's Agenda; and continuous communication with the members of the Council, state institutions and business community in order to define measures to improve the business environment. Additionally, SCC provides expert support to the working groups dealing with priority topics defined by Council.

[9] If the investment project has been declared as vital or of strategic importance for the government, a special law can be adopted, granting a different set of tax incentives. For example, at the end of 2014, the Parliament of Montenegro adopted the Law on Bar-Boljare Highway, excluding contractors from VAT, income and personal income taxes, contributions for compulsory social insurance for foreigners involved in the project, and customs on building materials, equipment and facilities in relation to construction of the highway.

# 3 Trade policy

Effective trade policy is vital for regional integration and alignment with the European Union. This chapter examines how the government of Montenegro uses trade policy to ease market access and harness digitalisation for enhanced trade facilitation. The first sub-dimension, trade policy framework, assesses the government's ability to formulate, implement and evaluate trade policy, examining the institutional formulation and co-ordination of trade policy, public-private consultations and the network of free trade agreements. The second sub-dimension, digital trade, focuses on the legal framework for digital trade policy and digital trade facilitation and logistics. The third sub-dimension, export promotion, explores the effectiveness of export promotion agencies and programmes, especially in the context of deepening regional integration.

# Key findings

Montenegro has continued to improve its overall trade policy score since the last two Competitiveness Outlook assessments in 2018 and 2021. Notable progress has been achieved especially under the trade policy framework sub-dimension and the digital trade sub-dimension. While export promotion was not covered under the 2021 assessment cycle, the score slightly deteriorated since the 2018 evaluation (Table 3.1).

### Table 3.1. Montenegro's scores for trade policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Trade | 2.1: Trade policy framework | | | 4.3 | 4.4 |
| | 2.2: Digital trade | | | 4.3 | 3.8 |
| | 2.3: Export promotion | | | 3.3 | 3.6 |
| **Montenegro's overall score** | | **2.6** | **3.2** | **3.9** | **3.9** |

The **key findings** are:

- Montenegro has effectively implemented its Trade Facilitation Strategy, resulting in notable reductions in the time required for import/export processes. The most significant such improvement is seen in export procedures, showcasing a 63% reduction in border clearance times.
- The regulatory framework for trade policy was strengthened in May 2023 with the adoption of the Decision for the Creation of the Council for Trade Facilitation.
- Only 45% of cases involving laws and strategies undergo public consultations, indicating room for improvement in stakeholder engagement.
- Montenegro has been making meaningful progress in enhancing its digital trade policy framework through the enactment of key laws and the strategic implementation of measures. Notably, recent developments include the introduction of the Customs Law and the Strategy for the Development of Postal Activity in Montenegro 2024-28.
- Implementation of paperless trade measures by customs cut processing time by 17%, bringing it down from 23 to 19 minutes. Physical inspections also dropped significantly, from 32% in 2016 to just 10% in 2021.

## State of play and key developments

From 2021, Montenegro has seen a considerable rise in trade in goods and services, with external trade reaching record highs in 2022, up by 43.9% from 2021 (European Commission, 2023[1]). While the significant increase can be partially attributed to a slow global recovery of trade flows following the COVID-19 pandemic, Montenegro improved its trade performance. In 2022, the value of exports amounted to EUR 2.95 billion, indicating a robust 27.9% increase compared to the previous year. Imports reached EUR 4.25 billion in 2022, reflecting a substantial growth of 26.8% from 2021. Services remained the dominant component of exports, constituting 40.6% of gross domestic product (GDP) – a substantially higher proportion compared to goods exports, which accounted for only 12.1% of GDP (European Commission, 2023[1]). Since the assessment, Montenegro's economy became even more open: trade constituted 126% of Montenegro's GDP in 2022, up from 105% in 2021, partially driven by rising exports of transport and tourism services. However, the economy maintains a negative external balance on goods and services, amounting to -22.8% of GDP in 2022 (World Bank, 2022[2]).

The European Union continues to be Montenegro's predominant trade partner, representing EUR 1.77 billion in 2022, equivalent to 41.9% of the total trade in goods during that year (European Commission, 2023[3]). The Central European Free Trade Agreement (CEFTA) remained a crucial market for Montenegro, receiving 26.1% of the economy's imports and accounting for 41.7% of exports in 2022 (European Commission, 2023[1]). Outside of the EU and CEFTA, in 2022 approximately 21.2% of Montenegro's merchandise exports were directed to Serbia, and an additional 15.7% to Switzerland, followed by Bosnia and Herzegovina at 13%. On the import side, 17.4% of merchandise imports originated from Serbia, and 9.3% from the People's Republic of China (European Commission, 2023[3]).

### *Sub-dimension 2.1: Trade policy formulation*

Montenegro boasts a strong regulatory framework for **trade policy formulation.** The Ministry of Economic Development, which plays a central role in shaping trade policies, regularly engages relevant ministries throughout the entire policy-making process to formulate trade regulations. The regulatory framework was further strengthened in May 2023, when the Decision for the Creation of the Council for Trade Facilitation was adopted. While the previous National Committee for Trade Facilitation (NCTF) was created in 2018 to develop Montenegro's first National Trade Facilitation Strategy and define a five-year framework for the implementation of trade facilitation reforms, the new Council will be responsible for overseeing the implementation of the WTO Trade Facilitation Agreement, CEFTA Additional Protocol 5,[1] and other bilateral and multilateral agreements, while also taking over the responsibilities of the former NCTF. The mandate of the new Council will also be expanded to include managing the loan agreement with the International Bank for Reconstruction and Development (IBRD) to establish a single window for international trade. The Council for Trade Facilitation will include new members who represent the private sector.[2] The decision to establish this new body reflects the goal of having a fortified structure and adapting to changes in the state administration's organisation, particularly considering the frequent turnover in personnel.

The NCTF was responsible for adopting the Trade Facilitation Strategy in 2018, which expired in 2022. One of the main strategic goals of the strategy was to reduce administrative and border inefficiencies impacting Montenegro's competitiveness, consequently achieving a minimum 50% reduction in the release time for importing, exporting, or transiting goods, and a minimum 20% decrease in trade-related costs (Ministry of Finance, 2018[4]). Compared to the 2016 baseline established prior to adopting the strategy,[3] Montenegro has seen a significant reduction of time spent on import/export procedures at border points. The biggest improvement was seen in the time for export procedures – from 28 minutes in 2016 to 14 minutes in 2021, a reduction of 50%. The total time of procedures[4] was reduced by 27%, from 5 hours

and 28 minutes to 4 hours 1 minute. The waiting time has a more pronounced impact on the average customs clearance duration than the processing time (Ministry of Finance, 2021[5]).

Montenegro acknowledges the interdependence between trade and environmental goals, and aims to strike a sustainable balance between economic activities and environmental conservation (WTO, 2020[6]). Trade policies incorporate environmental objectives aligned with national environmental targets. Furthermore, collaboration between the ministry responsible for trade and the ministry responsible for the environment is a crucial aspect during the development of all policies and programmes. These relevant ministries actively engage in consultations and contribute to international forums, facilitating the exchange of best practices in the pursuit of environmentally sustainable trade practices.

Montenegro has a well-developed framework in place for **public-private consultations**, but their use remains low (European Commission, 2023[1]). Consultations are launched after a public invitation announcement on the ministry's website and the e-government portal, and span a duration of 20 to 40 days. The specific timeline is determined by the significance and complexity of the law or strategy under discussion. Upon conclusion of the public consultations, the ministry responsible for the draft regulation publishes a comprehensive report[5] on the consultation process on its website and the e-government portal.

Despite the importance of public consultations in the policy-making process, there is a lack of consistency among ministries in conducting them. Only 45% of cases involving laws and strategies undergo public consultations (European Commission, 2023[1]), indicating a notable gap in stakeholder engagement. Essential accompanying documents, such as the regulatory impact assessment (RIA), crucial for understanding the potential effects of proposed drafts, are published for 48% of the drafts under consideration (European Commission, 2023[1]). This suggests a need for ministries to enhance both the frequency and the comprehensiveness of their public consultation processes, ensuring a more inclusive and informed decision-making framework.

In February 2021, Montenegro strengthened the mandate of the Competitiveness Council, originally founded in 2017, with the goal of elevating it to the primary forum for fostering dialogue between the government and the business community. The Council is responsible for reviewing laws and procedures and offering recommendations to the government to enhance the business environment. Additionally, it advises the government in formulating an annual structural reform programme to boost competitiveness, a crucial component of Montenegro's Economic Reform Programme. The Council's membership has been expanded to include new representatives.[6] The President of the Council is the Minister of Economic Development, with the Minister of Finance serving as the deputy president. The Council is further assisted by a dedicated full-time Secretariat, funded and established by the European Bank for Reconstruction and Development, which provides technical, administrative, and analytical support.

### *Sub-dimension 2.2: Digital trade*

Montenegro has a robust policy framework for digital trade, with the Montenegrin Law on Electronic Commerce aligned with EU regulations, including the EU Directive on e-Commerce (European Commission, 2022[7]). E-commerce regulations are within the purview of two institutions: the Ministry of Public Administration is tasked with enacting the Law, and the Ministry of Economic Development oversees its implementation in pertinent trade areas. The economy’s strategic framework, including the Digital Transformation Strategy and the Strategy for the Development of Postal Activity in Montenegro 2024-28, is well integrated with the digital trade landscape.

Significant advances have been made in enhancing the **digital trade policy framework**. The enactment of the Law on Fiscalisation of Trade in Products and Services[7] in January 2021 marks a substantial move towards the complete digitalisation of service sales processes. Included are the activation of new services, digital invoice delivery, and comprehensive digital payment procedures from start to finish.

Another element within the strategic framework with implications for digital trade is the aforementioned Strategy for the Development of Postal Activity in Montenegro 2024-28. This strategy is designed with the objective of establishing a sustainable market for postal services in Montenegro within the context of a rapidly evolving digital environment. Its aim is to address the challenges and opportunities posed by digitalisation, ensuring that postal services in Montenegro remain resilient and effective in meeting the demands of the modern digital landscape. Given that postal services often provide a crucial physical infrastructure that can be drawn on for the distribution of physical goods, they also contribute to the digital trade ecosystem. The legal framework helps ensure that the postal infrastructure is well integrated with digital platforms, enabling efficient cross-border transactions (Ministry of Economic Development, 2023[7]).

Furthermore, Montenegro adopted the new Customs Law in July 2022, which mandates electronic data processing for information exchange within customs authorities and among economic entities. This development enhances efficiency in customs-related processes, contributing to a more streamlined and secure digital trade environment. Moreover, the CEFTA Joint Committee Decision to streamline electronic commerce has been reached and is prepared for formal acceptance, as affirmed by the Committee of Contact Points in December 2022. This Decision aims to align e-commerce regulation and consumer protection within the European Union's regulations, including the EU E-Commerce Directive (European Commission, 2022[7]).

Montenegro made moderate progress in implementing **digital trade facilitation measures**. Many of the measures are still to be implemented or in the planning stage. However, there have been moderate improvements in implementing paperless trade measures since 2021. The introduction of electronic transit confirmations by customs led to a 17% decrease in the average duration of this process, reducing it from 23 minutes to 19 minutes and the percentage of physical inspections decreased from 32% in 2016 to 10% in 2021 (Ministry of Finance, 2021[5]).

Further advances, such as fully connecting customs administration with other border agencies and laying the groundwork to establish a system for electronically exchanging sanitary and phytosanitary (SPS) certificates (United Nations Regional Commissions, 2023[8]) also had a positive impact on trade facilitation. This upgrade and the introduction of electronic SPS certificate exchange are crucial steps in modernising and streamlining trade processes, ensuring greater efficiency, and facilitating international trade while maintaining strict health and safety standards. Moreover, there are plans to implement the SEED+ programme, which will be initially adopted by phytosanitary services in early 2024. The government also implemented improvements to the Customs Information System (CIS), a crucial component of trade and border management. The improved CIS has been operational since November 2023 and allows for a simplified and automated submission of customs declarations. Nevertheless, the Electronic Single Window System is not yet fully implemented. Although customs declarations are initially submitted electronically, a physical copy must be submitted by the end of the CIS upgrading project, expected to conclude in the first quarter of 2025. Once completed, all customs procedures will transition to a digital format. The Customs Administration employs a risk management system (RMS), integrating Central and Local Risk Analysis for automated risk assessment across customs procedures and transit. However, only four[8] economic operators have been granted Authorised Economic Operator (AEO) status, falling below the regional average in the Western Balkans of 20 entities with AEO status. Since 2019, Montenegro also fully implemented trade facilitation measures for authorised operators, allowing for the electronic exchange of data, and partially implemented trade finance services for exporters (United Nations Regional Commissions, 2023[8]). The continued implementation of the digital trade facilitation measures partially drove the improvements in Montenegro's performance under the OECD Trade Facilitation Indicators in 2022 (Box 3.1).

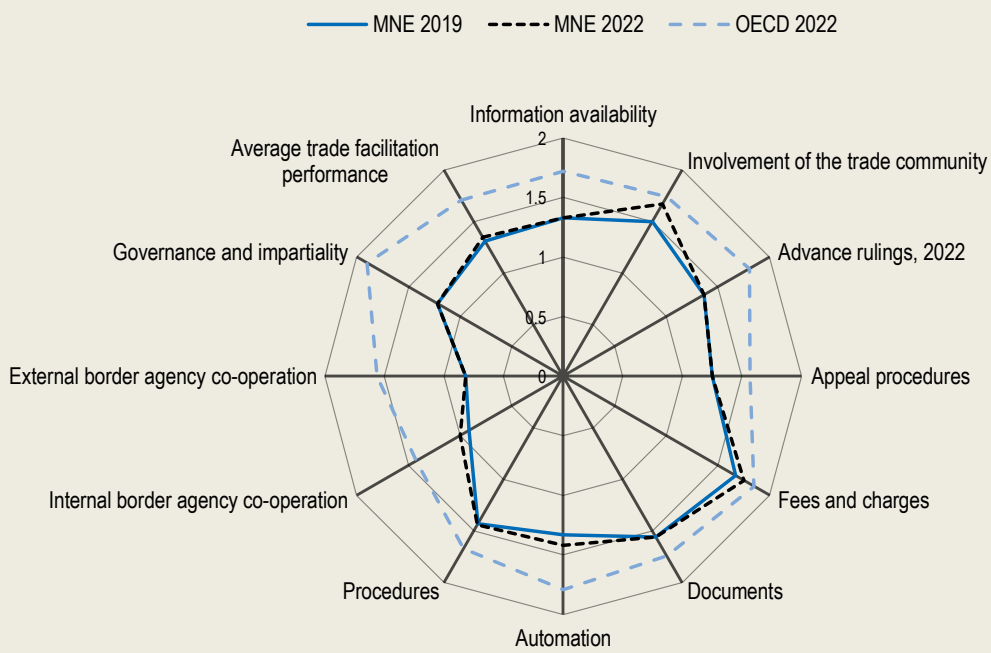
However, monitoring and evaluation of digital trade facilitation measures have been hindered due to the COVID-19 pandemic and frequent changes in the organisation of the state administration, as well as to frequent changes in the management staff members of the National Committee for Trade. Similarly,

evaluating the effectiveness of past programmes aimed at digitalising businesses in Montenegro and digital trade facilitation measures – and identifying any shortcomings in the design of regulatory measures for e-commerce – fell short, as there are no specific performance indicators developed to gauge Montenegro's adoption of e-commerce or its participation in digital trade.

### Box 3.1. Montenegro's performance under the OECD Trade Facilitation Indicators

In order to assist governments in streamlining their border processes, reducing trade costs, increasing trade volume, and optimising gains from global trade, the OECD has formulated a set of Trade Facilitation Indicators (TFIs).

### Figure 3.1. OECD Trade Facilitation Indicators (2019-22)




Notes: These indicators pinpoint areas for improvement and enable the assessment of potential reforms' impact. Covering a comprehensive range of border procedures, the OECD indicators apply to over 160 countries, spanning various income levels, geographical regions and developmental stages. Utilising estimates derived from these indicators allows governments to prioritise trade facilitation initiatives and strategically channel technical assistance and capacity-building efforts for developing nations. Moreover, the TFIs serve as a tool for economies to visualise the status of policy implementation across different areas and measures outlined in the WTO Trade Facilitation Agreement. The assessment is conducted every three years.
Source: OECD (2022[9]).

StatLink https://stat.link/ndpeao

Since the last assessment in 2019, Montenegro improved in five of the eleven indicators: involvement in the trade community, fees and charges, automation, procedures, and internal border agency co-operation. Average trade facilitation performance also improved, edging closer to convergence with the OECD average. Montenegro also outperformed the Western Balkan economies in terms of involvement with the trade community, documents, procedures and internal and external border co-operation. The average trade facilitation performance remains on par with the regional average. While none of the scores deteriorated, six areas remained stable since the last TFI assessment: information

availability, advance rulings, appeal procedures, documents, external border co-operation and governance and impartiality.

In the area of adherence to international standards in digital trade facilitation, in comparison to other economies in the Western Balkans, Montenegro positioned itself as a frontrunner in adopting international standards in digital trade, ratifying or adhering to ten international instruments (Table 3.2). Notably, Montenegro actively participates in the ongoing WTO Joint Statement Initiative (JSI) on E-Commerce, engaging in discussions encompassing various aspects such as cybersecurity, privacy, business trust, transparency, and consumer protection. Furthermore, Montenegro stands out as one of the only economies (alongside Albania) to embrace the Information Technology Agreement. This agreement, operating on a most-favoured-nation basis, eliminates tariffs for a broad spectrum of IT products, including computers and telecommunications equipment. Moreover, Montenegro is the only economy in the region to adhere to the legally binding UN Electronic Communications Convention, which aims to ease the use of electronic communications in global trade, ensuring that contracts and other electronic exchanges hold the same validity and enforceability as their traditional paper-based counterparts.

## Table 3.2. OECD's Digital Trade Inventory

| | Instrument | Description | Montenegro's adherence |
|---|---|---|---|
| E-transaction frameworks | JSI Participant | WTO Joint Statement Initiative comprises discussions on trade-related aspects of e-commerce, including cybersecurity, privacy, business trust, transparency, and consumer protection. | ✓ |
| | UN Electronic Communication Convention | Convention encourages standardisation of national laws and regulations governing e-commerce transactions. | ✓ |
| Consumer protection | OECD Recommendation of the Council on Consumer Protection in E-commerce | The OECD Recommendation on Consumer Protection in E-commerce provides guidelines and recommendations for member countries to enhance consumer protection in the context of electronic commerce. The recommendations typically cover various aspects of online transactions to ensure that consumers can engage in e-commerce with confidence and trust. | ✗ |
| Paperless trading | WTO Trade Facilitation Agreement | The Trade Facilitation Agreement (TFA) includes clauses aimed at accelerating the transit, release, and clearance processes for goods, encompassing those in transit. It also outlines measures for fostering efficient collaboration between customs and relevant authorities concerning trade facilitation and customs compliance matters. | ✓ |
| Cross-border data transfer/ privacy | Convention 108 | Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data is the first legally binding international treaty dealing with privacy and data protection. | ✓ |
| | 2001 Additional Protocol to the Convention | The Additional Protocol reinforces the protection of individuals' rights in the context of automated processing of personal data and encourages international co-operation on privacy and data protection matters. | ✓ |
| | Convention 108+ | 2018 Amending Protocol to Convention 108 updates the provisions on the flow of personal data between signatories. | ✗ |
| Cybersecurity | The Convention on Cybercrime of the Council of Europe (Budapest Convention) | An international treaty aimed at addressing crimes committed via the Internet and other computer networks. It serves as a framework for international co-operation in combating cyber threats and promoting a harmonised approach to cybercrime legislation. | ✓ |
| Goods market access | The Information Technology Agreement (ITA) | The Information Technology Agreement, on a most-favoured-nation basis, removes tariffs for a broad range of IT products, including computers and telecommunications equipment. | ✓ |
| | Updated ITA concluded in 2015 | Expands the products covered by the Information Technology Agreement by eliminating tariffs on an additional list of 201 products. | ✓ |

When extending the focus beyond the Western Balkans, Montenegro's adherence to various instruments within the JSI framework remains incomplete. Notably, the economy has yet to adopt or adhere to key instruments crucial in the realm of electronic transactions, such as the non-binding United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Commerce. The Law establishes three fundamental principles for e-commerce legislation: non-discrimination, technological neutrality, and functional equivalence between electronic communications and traditional paper documents, serving as a complement to the UN Electronic Communications Convention. Moreover, Montenegro has yet to adhere to the OECD Recommendation of the Council on Consumer Protection in E-Commerce, which encompasses principles related to transparent and efficient consumer protection, equitable business practices, online disclosures, payment procedures, dispute resolution and redress mechanisms, as well as privacy and security measures (OECD, 2021[10]).

### *Sub-dimension 2.3: Export promotion*

The economy does not have a dedicated **export promotion agency**: all export promotion activities are co-ordinated by the Directorate for Enhancement of Competitiveness within the Ministry of Economic Development, responsible for implementation of the activities that would usually be conducted by specialised agencies. The centralised approach, with a single entity overseeing policy design, implementation and evaluation poses potential risks. These include the lack of specialisation within the ministry and difficulties in connecting with underrepresented business segments (e.g. SMEs, start-ups, young firms) due to the geographical distance between the central government and local entrepreneurial communities. Such challenges may adversely impact the effectiveness of support programmes (OECD, 2022[11]).

Apart from the Trade Facilitation Strategy, the government implements a Programme for Improving Competitiveness every year, which serves as a de facto **export promotion programme**. A comprehensive assistance of EUR 4 million was provided to a total of 353 companies through the 2022 programme.

In contrast to the Programme for Improving Competitiveness 2022, the 2023 Programme introduces a total of nine programme lines, comprising seven lines for financial assistance and two for non-financial support. The 2023 Programme introduced two entirely new financial support lines. These focus on bolstering the internationalisation efforts of micro, small, and medium-sized enterprises by enhancing their marketing activities, as well as promoting economic empowerment among young entrepreneurs and women in business through dedicated incentive support mechanisms. Through the 2023 Programme, Montenegrin SMEs have access to co-financing of the cost of participation in international fairs and meetings, support producing promotional material, and informational and educational support granted by the Ministry of Economic Development. The potential beneficiary covers the entire cost of the support activity for which it is applying until its completion. After submitting the necessary documentation to verify the expenses incurred for the contracted activity, the Ministry of Economic Development and Tourism reviews and approves a reimbursement, subsidising a portion of the costs.

Furthermore, the Programme offers support for companies seeking to meet international standards and comply with international quality and regulatory requirements. The existing seven programme lines have undergone enhancements and innovations, aligning them more closely with the evolving needs of the business sector, such as upskilling, developing export-readiness and capacity building. The programme is aligned with the overarching Montenegro Industrial Policy 2019-23,[9] which envisions improved access to international markets through trade facilitation. However, the scope of dedicated export promotion programmes beyond the Programme for Improving Competitiveness is limited.

The 2022 and 2023 Programmes for Improving Competitiveness include a programme line for promoting circular economy. The main goal is to improve resource efficiency and, through other available incentives, encourage exports; however, there is no explicit programme line for stimulating trade in environmentally friendly products. While Montenegro exhibits a relative comparative disadvantage in low-carbon

technology products[10] it has since improved, from 0.14 in 2019 to reach 0.23 in 2022[11] (IMF, 2022[12]). Nevertheless, it is still one of the lowest in the Western Balkan region – North Macedonia has the highest comparative advantage, amounting to 1.94 in 2022, trailed by Serbia with 1.27 (IMF, 2022[12]). While the absence of export promotion programmes for low-carbon technology products is not the primary cause of comparative disadvantage, factors such as skilled labour shortages, infrastructure challenges, and high production costs contribute to the setback. This highlights the need for strategic initiatives that actively foster and support international trade in this sector.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro's progress in implementing 2021 Competitiveness Outlook Recommendations has been progressing moderately (Table 3.3). The economy advanced on evaluating regulatory frameworks for public-private consultations and effective regulatory impact analysis, although again, the pace was moderate. The strategic framework for e-commerce was strengthened, but no digital-trade-related performance indicators were developed to monitor implementation effectively. Limited progress was achieved in establishing monitoring mechanisms for public-private consultations.

### Table 3.3. Montenegro's progress on past recommendations for trade policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Adopt a system for evaluating regulatory frameworks by implementing public consultation standards | Following public consultations, the regulating ministry publishes a detailed report on its website and the e-government portal, ensuring transparency. This report is shared with actively involved entities and submitted to participants in public hearings within 15 days after the specified time limit's expiration.<br>However, there was limited progress on creating a universal standard for public consultations, or developing a set of indicators for a comprehensive review of the process. | Moderate |
| Enforce the effective application of regulatory impact analysis | Trade policy formulation mechanisms are evaluated on an ad hoc basis. However, based on the legal and methodological framework in force, all strategic documents should be evaluated upon their expiry or earlier. Self-evaluations are regularly done within the monitoring and reporting mechanisms in the Ministry of Economy and Tourism on strategic documents and the ministerial work programme. | Moderate |
| Further enhance the existing process for evaluating the public-private consultation frameworks | The Ministry of Public Administration compiles statistics on legislative projects that undergo public-private consultations. Notably, there is a clear upward trend in public engagement in the policy-making process, indicated by a surge in comments received compared to 2018. However, it is important to highlight that there are currently no established performance indicators to gauge the extent of openness or transparency in these consultations. | Limited |
| Strengthen the regulatory framework for e-commerce by creating co-ordination mechanisms and strengthening programme planning in order to establish an effective monitoring and evaluation process to improve policy revision | Montenegro's Digital Transformation Strategy 2022-26 has been developed in co-operation with relevant stakeholders and the Operational Working Group for the preparation of the strategy, which consists of various ministries, the Agency for Electronic Communications and Postal Services, NGOs, academia, the banking and telecommunications sector and the ICT community. No digital trade-specific performance indicators were created to measure Montenegro's e-commerce uptake and digital trade participation. | Moderate |

## The way forward for trade policy

To further support Montenegro's progress toward strengthening its trade policy, policy makers should adopt the following efforts:

- **Improve the enforcement of public-private consultation guidelines and procedures to boost stakeholder engagement.** Acknowledging the crucial role of public consultations in the policy-making process, it is imperative for ministries in Montenegro to address the existing inconsistency in their execution. To enhance the effectiveness of the policy-making process, ministries are encouraged to increase the frequency and comprehensiveness of their public consultation processes by establishing and enforcing public consultation guidelines. This will contribute to a more inclusive and informed decision-making framework, fostering transparency and greater engagement with stakeholders.
- **Accelerate the implementation of the Electronic Single Window (ESW) for trade to streamline and modernise trade processes.** The platform would serve as a centralised hub, facilitating efficient exchange of trade-related information among various government agencies, businesses, and other stakeholders. By consolidating documentation and data submissions into a unified electronic interface, Montenegro can significantly reduce administrative burdens, enhance transparency, and expedite the clearance of goods across borders. The adoption of an ESW system fosters a more agile and responsive trade environment and ultimately bolster the economy's competitiveness and attractiveness for international trade. In addition, the development of the ESW should follow international best practices and guidelines.
- **Develop indicators to gauge the impact of digital trade facilitation measures.** Policymakers and stakeholders can use these indicators to gain insights, make informed decisions, and enhance the digital trade landscape. While Montenegro conducts time release studies, assessing costs and time in border processes, a gap exists in evaluating the effectiveness of digital trade facilitation measures, necessitating a more detailed analysis. Examples of additional indicators include the percentage of paperless trade transactions and adoption of digital certificates.
- **Introduce dedicated export promotion support programmes for exporters of environmental goods and services.** These programmes might include financial incentives, capacity-building initiatives to improve specialisation, and market access support aimed at fostering the growth and competitiveness of businesses involved in providing environmentally friendly goods and services (Box 3.2). This strategic approach not only aligns with global efforts to address environmental challenges, but also positions Montenegro as a proactive participant in the green economy.

### Box 3.2. E3F: Export Finance for Future

In April 2021, the governments of Denmark, France, Germany, the Netherlands, Spain, Sweden and the United Kingdom launched the Export Finance for Future alliance, with the goal to use export finance to expedite the shift towards a low-carbon economy. This approach seeks to hasten the gradual elimination of carbon-intensive projects while substantially boosting financial support for exporters' projects aligned with the Paris Climate Agreement.

The seven members of the E3F coalition have officially embraced a set of principles. Among these commitments, the coalition pledges to create export promotion incentives that better facilitate the advancement of exports toward sustainable projects across diverse sectors of the economy. Additionally, there is a firm commitment to cease trade and export support directed towards coal-powered projects. The coalition members acknowledge the need to reassess trade and export finance support provided to fossil fuels, conducting a thorough evaluation to determine the most effective way to phase it out, considering the unique characteristics of respective industries.

Recognising the imperative to address the climate impact of their trade and export finance activities, the coalition has initiated a climate-oriented review. This collaborative effort aims to establish a shared

and well-documented understanding of the climate implications associated with their activities. Furthermore, there is a concerted effort to enhance transparency regarding climate-related information, especially in the identification of sustainable projects. The coalition is actively promoting this initiative and commits to engaging with other providers of official trade and export finance on a global scale. This collaborative engagement seeks to shape a level playing field that duly incorporates considerations of the climate emergency.

By tailoring support initiatives to environmental goods and services, Montenegro can actively encourage and assist businesses that contribute to environmental sustainability, and consequently improve its comparative advantage in low-carbon technology products.

Source: Export Finance for Future (2021[13]).

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## Notes

[1] CEFTA's Additional Protocol 5 on trade facilitation aims to streamline inspections related to clearance procedures, simplify formalities, exchange data among customs authorities and strengthen co-operation among border agencies. It entered into force in 2018.

[2] The Council of Foreign Investors, American Chamber of Commerce, Association of Managers of Montenegro, and the Montenegrin Association of Employers.

[3] The Time Release Study is a mandatory requirement stemming from World Trade Organization membership and the ratified Trade Facilitation Agreement. Article 7.6 of the Agreement advises the periodic measurement and publication of data on the average time taken for goods release in cross-border traffic. The initial Study occurred from November to December 2016, at four locations, while the second Study, conducted for comparability, took place from November to December 2021, at the same locations.

[4] Measured without inland transit.

[5] This report is then shared with the entities that actively participated in the consultation process. Furthermore, the ministry commits to publishing the mentioned report on its website and the e-government portal, ensuring transparency and accessibility. Within 15 days from expiration of the specified time limit, the ministry is obligated to submit the report to the entities that took part in the public hearings.

[6] Two business associations focused on women in business, the Union of Young Entrepreneurs, and the Association of Managers. Currently, the Council comprises 10 non-governmental sector members out of a total of 22.

[7] The implementation of the Law on Fiscalisation in the Turnover of Trade in Goods and Services now mandates taxpayer adoption of electronic cash registers for recording transactions. This shift ensures real-time reporting to the tax authorities, enhancing efficiency and transparency in financial transactions.

[8] Neregelia, Mesopromet, Trebjesa and Montenomaks.

[9] Montenegro's Industrial Policy Strategy 2019-23 is set to be evaluated and updated in the course of 2024.

[10] Low-carbon technology products are assessed by consolidating Harmonized System (HS) 6-digit commodities recognised as such according to the classification outlined by Pigato et al. (2020[14]). The classification methodology is sourced from research conducted by the World Bank and the IMF.

[11] A value exceeding one signifies a comparative advantage in low-carbon technology products, whereas a value below one indicates a relative disadvantage in this sector.

# 4 Access to finance

Access to finance is crucial for developing the private sector in all economies. This chapter, along with three sub-dimensions, explores the necessity for businesses to be able to access financing sources to start up, grow, diversify and ultimately contribute to overall competitiveness. The first sub-dimension, bank financing framework, assesses the regulatory framework of bank financing, including the quality of banking industry legal framework, registration and information systems and the policies making bank finance inclusive. The second sub-dimension, access to alternative financing sources, focuses on the various means that businesses can get financing, encompassing access to capital markets, private equity as well as factoring and leasing. The third sub-dimension, digital finance, delves into the effects of digital solutions on payment services and the emergence of new avenues for business finance.

# Key findings

Montenegro has substantially improved its access to finance score since the 2018 *Competitiveness Outlook* – from 2.4 to 3.0 (Table 4.1). Notably, the economy has implemented measures to enhance the capital market and align banking regulation more closely with international standards.

### Table 4.1. Montenegro's scores for access to finance

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Access to finance | 3.1: Bank financing framework | | | 4.0 | 3.5 |
| | 3.2: Access to alternative financing sources | | | 2.5 | 2.4 |
| | 3.3: Digital finance | | | 2.4 | 2.3 |
| **Montenegro's overall score** | | **2.4** | **2.7** | **3.0** | **2.8** |

The **key findings** are:

- Montenegro has undertaken significant regulatory changes to align its banking industry's legal framework with international standards, achieving full compliance with Basel III. This milestone was reached in January 2022 with the implementation of the Law on Credit Institutions and the Law on Resolution of Credit Institutions, supported by the introduction of 40 associated bylaws.
- Relatively stringent collateral requirements hinder access to bank finance for the smallest businesses, as do limited credit guarantee schemes and the absence of policies supporting microfinance. As a result, SME loans from commercial banks accounted for 14.9% of Montenegro's GDP in 2022, lagging behind the Western Balkans' average of 17.7%.
- The development of capital markets in Montenegro faces a hurdle due to the absence of pension funds. To address this, the Capital Market Authority (CMA) has drafted the Law on Pension Funds, expected to be implemented in the last quarter of 2024.
- Montenegro has made good progress in strengthening its legal framework for digital payments as part of its Single Euro Payments Area (SEPA) integration efforts. The legal framework aligns with the EU's Second Electronic Money Directive (EMD2) licensing for e-money institutions, facilitating electronic money issuance. Moreover, Montenegro has extended banks' payment services to third-party payment service providers with appropriate security requirements in line with the EU's Second Payment Services Directive (EU PSD2).
- Montenegro is currently paving the way for alternative financing methods, such as private equity and crowdfunding, with new regulations in the works. Notably, the Capital Market Authority has drafted legislation to implement the EU Alternative Investment Fund Managers Directive (AIFMD) in Montenegro for an expected implementation in the last quarter of 2024.

## State of play and key developments

Montenegro's financial sector relies heavily on the banking industry, constituting 94.2% of total financial system assets in 2022, a slight increase from 90.6% in 2016 (Central Bank of Montenegro, 2024[1]). This contrasts sharply with the euro area, where the banking sector represents only 50% of total financial assets (European Central Bank, 2023[2]). In the banking sector, consolidation persisted, reducing the number of commercial banks to 11 in 2022, down from 13 in 2019. This trend has led to a notable increase in concentration within the Montenegrin banking market, suggesting a decrease in competitive pressures. In detail, the top three Montenegrin banks manage 83.2% of total assets of the banking industry in 2022, a significant rise from 58.3% in 2013 (World Bank, 2022[3]), surpassing the dominance observed in both the Western Balkans (68.8%) and the EU (71.5%).

The total credit provided by the Montenegrin financial sector has been growing over the past decade, suggesting substantial development in the primary means of accessing finance in Montenegro. In 2022, domestic credit to the private sector was equivalent to 55.7% of GDP, while 47.6% in 2013 (World Bank, 2022[3]). This figure is substantially higher than the average value in the Western Balkan region (46.4% in 2022), yet still below that of the European Union (69.5%).

### *Sub-dimension 3.1: Bank financing framework*

Montenegro has a well-established legal framework for the **banking industry**, fully implementing Basel III standards since January 2022 through implementing the Law on Credit Institutions and the Law on Resolution of Credit Institutions, accompanied by 40 related bylaws. The regulatory and supervisory frameworks have been strengthened, contributing to the robustness of Montenegrin banks in terms of liquidity and solvency. Notably, Montenegrin banks exhibit high liquidity, boasting a coverage ratio of 317.7% in 2022, surpassing both the Western Balkans (256.6%) and the euro area (163.8%) (European Central Bank, 2024[4]). Furthermore, the Montenegrin banks' solvency level significantly exceeds the Western Balkan average, with Regulatory Tier 1 capital constituting 18.4% of risk-weighted assets in 2022 (IMF, 2024[5]), in contrast to 11.8% in the Western Balkans and 16.4% in the euro area (European Central Bank, 2024[4]).

Lending requirements are relatively stringent in Montenegro. The Montenegrin legal framework permits secured creditors to establish and enforce their rights over non-fixed assets like securities, movable assets and stocks. However, real estate and land continue to serve as the predominant collateral for loans, posing challenges for firms engaged in activities leading to the production of assets. Additionally, small and medium-sized enterprises (SMEs) face stringent requirements. Nevertheless, existing regulations seek to promote SME lending by reducing banks' provisioning requirements through lowered risk-weight coefficients for SME loans.

While the cadastre and credit information systems are well developed, the Montenegrin **registration and information** systems are not comprehensive regarding the registration of assets. Cadastral information is automatically updated with each transaction and is publicly available on the Real Estate Administration's (REA) website. Since the last ten years, the REA has undertaken efforts to broaden the coverage of the graphical database, including property ownership and land records, to encompass 94% of Montenegro's territory. Plans are under way to extend the digital database to include the remaining portion of the territory, although a specific timeline for this expansion has not been communicated. On credit information systems, Montenegro's primary credit information service, the Credit Registry, is managed by the Central Bank of Montenegro (CBCG) and encompasses all financial institutions and non-regulated entities, such as non-bank financial institutions, retailers, and utilities. Mandated reporting by financial institutions includes comprehensive credit and loan-related activity histories for individuals and businesses. Financial institutions can obtain online access to borrower data with written consent. Robust measures are in place to prevent unauthorised access, destruction, loss, or misuse of credit information data. However, a

challenge Montenegro's credit information systems face is the absence of clear guidelines on the retention period for credit information data to align with international data privacy standards. On this specific point, the CBCG indicated that the Decision on Credit Registry will be amended in April 2024 to define retention periods of three years. Finally, regarding the Pledge Register, while the information is digitalised and accessible via applications to the electronic database, it is not comprehensive, which may hurt the assessment of borrowers' collateral values for Montenegrin banks. Indeed, the available information on registered fixed assets only includes valuation data, lacking details on the characteristics of the assets. Similarly, for non-fixed assets, the information is incomplete, as it does not encompass the valuation and characteristics of the assets.

Montenegrin SMEs face challenges in **accessing bank finance,** and there is a limited presence of policy initiatives to facilitate their access to finance. SME loans from commercial banks stand for 14.9% of GDP in 2022 (17.2% in 2015), a lower level than in the Western Balkans (17.7%) (IMF, 2023[6]). Furthermore, the EU COSME programme (Competitiveness of Enterprises and Small and Medium-sized Enterprises), targeted at SMEs, and the Programme for Employment and Social Innovation, targeting micro-enterprises – which guaranteed support for the Investment and Development Fund of Montenegro (IDF) – have stopped operating since December 2022 following the end of the last EU multiannual financial framework.[1] While remaining at a relatively high level, the end of the EU COSME competitiveness programme had a substantial impact on the activities of the IDF, as the total loans provided by the institution were equivalent to EUR 284.7 million in 2020 (6.8% of GDP), and EUR 185 million in 2022 (3.1% of GDP). As a result, small businesses may not benefit as extensively from the credit enhancement and risk mitigation schemes introduced during the pandemic, potentially leading to a widening gap with their regional counterparts. Addressing this issue, the Ministry of Economic Development, with technical assistance and financial backing from the European Bank for Reconstruction and Development (EBRD), is in the process of establishing the Credit Guarantee Fund of Montenegro (KGF). This fund is intended to offer enduring support to SMEs. In November 2023, the Ministry of Economic Development announced that legislative work would conclude in 2024, and EUR 10 million from the government's budget would be allocated for its capitalisation and operationalisation.

While the smallest businesses increasingly benefit from microfinance, its development remains limited. In 2022, eight institutions operate in Montenegro, while there were seven in 2019 and six in 2013. Moreover, the loans provided by these institutions are equivalent to 1.3% of GDP in 2022, a slightly higher level than in 2013 (1.0%) (IMF, 2023[6]), confirming the limited development of microcredit solutions in Montenegro. The absence of policies focused on enhancing the competitiveness of microfinance, such as interest caps or facilitating technical accessibility through platforms providing information or services, may impede the sector's development.

### *Sub-dimension 3.2: Access to alternative financing sources*

Despite relatively developed legal frameworks, alternative financing sources remain limited in Montenegro, maintaining the dependency on traditional banking.

The Montenegrin **stock market** is the most developed in the Western Balkan region, as total market capitalisation stands for 64.4% of GDP, a level comparable to the EU (75.4%) (World Bank, 2022[3]). Nevertheless, the legal framework governing both stock and debt markets falls short of complete alignment with the EU *acquis*, posing potential obstacles to cross-border investments, particularly from the EU capital market. The Capital Market Authority (CMA) undertook measures to bridge the gap in response to this challenge. In March 2021, the CMA finalised the drafting of the Law on Open-End Investment Funds with Public Offering, aiming to harmonise it with the EU Undertakings for Collective Investment in Transferable Securities Directive (UCITS). The UCITS Directive seeks to establish a unified market for investment funds, promoting seamless cross-border investments. Additionally, the CMA crafted the Law on Pension Funds

to address their absence in the Montenegrin market.[2] The CMA indicated that the implementation of both these legislative texts is expected in the third quarter of 2024.

There is no clear definition of **private equity** activities in Montenegro, and therefore there is no registered activity; however, the legal frameworks allow these activities to be established as investment funds. The legislation contains basic provisions, such as rules for determining net asset value and detailed requirements for investors. However, a law specific to private equity activities is being developed; the Capital Market Authority has drafted legislation to implement the EU Alternative Investment Fund Managers Directive (AIFMD) in Montenegro to create a specific set of rules for regulating and standardising the operations of managers handling alternative investment funds within the EU.[3] The law is being prepared for submission to the European Commission for their review and opinion, with implementation expected in the fourth quarter of 2024. Finally, in the absence of policies fostering the development of Business Angel Networks (BAN), the Montenegrin Business Angels Network (MEBAN), the only active BAN, continues to attract minimal investment. In 2022, EUR 0.24 million was raised, reflecting a significant decline from the already modest EUR 2.1 million raised in 2019 (European Business Angels Network, 2023[7]).

**Factoring and leasing** are accessible and supported by comprehensive legal frameworks. Their growth has been robust following significant legal enhancements with implementation of the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-credit and Credit-guarantee Operations in 2018.

Factoring volumes experienced substantial development, representing 1.78% of GDP in 2022 (0.84% in 2015), while factoring turnover was equivalent to 12.6% of GDP in the EU in 2022 (EU Federation of Factoring & Commercial Finance, 2023[8]). Regarding leasing volumes, these accounted for 0.74% of GDP in 2022, a significant increase from 0.18% in 2013, while this figure is 2% of GDP in the EU in 2022 (Leaseeurope, 2023[9]). Such development might be related to the fact that interest on leasing is fiscally deductible, and value added tax (VAT) is only applied to service fees, reducing the overall cost of leasing and therefore supporting market development.

### *Sub-dimension 3.3: Digital finance*

Montenegro has made good progress in strengthening its legal framework for **digital payments** as part of its SEPA integration efforts, by implementing the amendments to the Payment System Law in October 2023.[4] Achieving alignment with the EU's Second Electronic Money Directive (EMD2) licensing for **e-money institutions,** thereby facilitating electronic money issuance, these amendments extended banks' payment services to third-party payment services providers (TPPs) with appropriate security requirements by complying with the Second Payment Services Directive (PSD2).[5] Moreover, following these regulatory alignments, Montenegro plans to modernise its payment infrastructure with the operationalisation of instant payments by the CBCG. However, as of 2022, no entities were operating in Montenegro's digital payment and e-money services sector. The recent legal advancements are anticipated to impact this situation by allowing the emergence of such businesses.

Despite the progress made in developing the legal framework of digital payments, their adoption remains limited. In 2021, around 75% of the Montenegrin adult population reported having made or received a digital payment (World Bank, 2022[3]), which remains significantly lower than the EU average (93.0%).[6] The data suggest that Montenegro may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods. The overall low penetration of digital payments poses several challenges, ranging from increased business transaction fees to hindered financial accessibility and higher citizen remittance costs. This is particularly crucial for Montenegro considering the importance of remittance inflows standing at 9.8% of GDP in 2022 (World Bank, 2024[10]). To increase the use of digital finance technologies among citizens, the Montenegrin Financial Education Development Programme (2023-27) was endorsed in July 2022 to cultivate financial digital literacy. While the programme is designed to benefit the entire population, it also places particular emphasis on specific demographic groups facing

heightened financial education needs.[7] The increased digitalisation of the financial system can also promote the use of bank accounts (Khera et al., 2021[11]). However, this is not a significant concern in Montenegro, as 85.3% of the adult population already possesses a bank account – a proportion closely aligned with the EU's 95.1% (IMF, 2023[6]).

Montenegro currently lacks a legal framework for **crowdfunding**, leaving it without active operators. However, crowdfunding regulation is under preparation as the CMA completed the drafting of the Law on Alternative Investment Funds, and implementation is expected by the end of 2024. Moreover, there is no legal structure for Distributed Ledger Technology (DLT) for financing, indicating that smaller businesses cannot yet circumvent traditional banking requirements and regulatory requirements associated with capital markets using digital assets (OECD, 2019[12]). However, in April 2023, the CBCG signed an agreement with Ripple, a cryptocurrency and blockchain solutions provider, to enhance capacity through the acquisition of essential knowledge and understanding of digital currency functions, encompassing the provider's potential, requirements, and implications. Moreover, Montenegro already addressed the DLT security requirements aligned with the Fifth EU Anti-Money Laundering Directive (AMLD5) by adopting the Law on Digital Assets in December 2023 and its subsequent implementation in January 2024 (Official Journal of the European Union, 2018[13]).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro has made significant strides in aligning its banking regulations with global standards, and several legal projects are in the drafting phase to strengthen capital markets. Despite this progress, there need to be more policies that facilitate businesses' access to long-term debt financing and develop access to capital markets. The critical developments based on the previous CO recommendations are elaborated in Table 4.2.

### Table 4.2. Montenegro's progress on past recommendations for access to finance

| CO 2021 Recommendations | Progress status | Level of progress |
|---|---|---|
| Continue efforts to align Montenegro's banking regulations with international standards | Regulation has been harmonised with Basel III standards since January 2022 thanks to implementation of the Law on Credit Institutions and the Law on Resolution of Credit Institutions. | Strong |
| Extend and simplify the provision of loan guarantees to enable commercial banks to expand lending to SMEs | The loan subsidies of the Investment Fund have experienced a substantial decrease after the COVID-19 pandemic. However, Montenegro is in the process of creating the Credit Guarantee Fund of Montenegro (KGF), which is expected to be active in 2024. | Moderate |
| Enhance credit information | The legal framework allows for the participation of non-regulated entities (e.g. non-bank financial institutions and utility companies) in the provision of data. It is ensured by Article 3 of the Decision on Credit Registry. | Strong |
| Continue efforts to diversify financing sources | The Capital Market Authority drafted the Law on Open-End Investment Funds with Public Offering, the Law on Alternative Investment Funds, and the Law on Pension Funds for expected implementation by the end of 2024. Crowdfunding activities are included. Moreover, in June 2023 a collaborative working group comprising representatives from the CBCG, the CMA, and the Ministry of Finance started the drafting of the Law on Digital Assets. | Moderate |
| Increase investor interest by conducting awareness campaigns on the existence of capital markets and the advantages they offer | There is still no policy aiming to incentivise the use of capital markets for SMEs, such as platforms for SME equity. There is also no digital platform-raising awareness of available financial services among SMEs. | None |

## The way forward for access to finance

To ensure diverse financing options are available in the financial markets, policy makers should:

- **Make bank finance accessible for all businesses.** According to the 2023 business environment survey conducted by the Chamber of Economy of Montenegro, the biggest hurdle for businesses in Montenegro is access to finance. To facilitate the growth and innovation of innovative businesses, it is crucial to expand the financing options available to SMEs. Additionally, as the Chamber of Economy of Montenegro's 2023 business environment survey recommended, permanent credit guarantee schemes could broaden financing opportunities for SMEs. Policies to develop microfinance, such as interest rate caps and active platforms, can also help remove barriers to finance for the smallest businesses (Box 4.1).
- **Continue efforts to harmonise further capital markets' legal framework with EU standards.** Adopting EU *acquis* regulations on stock and debt markets can increase investor confidence, attracting investment and raising capital from investors operating on the EU market.
- **Implement specific legal frameworks to develop alternative financing sources for SMEs.** Alternative investment funds like private equity and digital finance options such as crowdfunding, Initial Coin Offerings (ICOs), and Security Token Offerings (STOs) offer alternative financing avenues for larger corporations. These options help address the challenge of limited availability of early-stage capital financing, which often hampers the growth prospects of promising SMEs.
- **Advance digitalisation in the finance industry for all individuals and businesses.** Financial services are increasingly digitalised, and individuals with low education levels, those residing in rural areas and elderly people face more significant financial exclusion. Similarly, the smallest businesses might also be the least likely to adopt digital financial solutions. Given the importance of remittance flows, Montenegro would benefit from spreading digital financial solutions in its economy following the substantial savings on transaction costs.

### Box 4.1. Accelerator 2 Programme in Lithuania

In May 2021, the Lithuanian National Development Institution for Investment and Business Guarantees and the Ministry of Economy of Lithuania announced an investment of EUR 18 million for the Accelerator 2 Programme. The programme selects two financial intermediaries to set up two venture capital funds (pre-seed and seed). It combines the provision of capital with mentoring, counselling, and education for companies in the early stages of development.

The pre-seed fund will benefit from an endowment of EUR 6.5 million. It will implement two programmes:

1. Pre-acceleration programme: targets individuals working in innovations who wish to start a business, form teams, and generate business ideas.
2. Acceleration programme: designed to strengthen teams of partially or fully established companies. It includes mentoring and counselling to grow participants' competencies.

All eligible companies will be provided with initial venture capital investments.

The seed fund, with an endowment of EUR 2.7 million, aims to provide venture capital to SMEs. However, at least 70% of the allocated funds must be invested in companies that have participated in the pre-seed stage of the fund's acceleration programme.

Source: OECD (2022[13]).

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World Bank (2022), *The Global Financial Development Database*, https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database (accessed on 24 November 2023). [3]

## Notes

[1] The credit lines provided by the EU COSME Investment Support Programme and EU Programme for Employment and Social Innovation (EASI) lasted until 31 December 2022. The only running scheme, adopted in May 2022, is specific to entities selling wholesale essential food products.

[2] The UCITS Directive aims to provide a single European market for investment funds and allows for selling these funds to retail investors throughout the EU (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009L0065-20140917).

[3] The AIFMD Directive regulates the activities of alternative investment fund managers (AIFMs) within the EU (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0061).

[4] It can also be mentioned that following the creation of the Fintech Hub and Regulatory Innovation Centre in June 2021, the CBCG launched two surveys to respectively evaluate the Montenegrin Fintech ecosystem and the customer perspective of digital banking and payment services. The outcome of this consultative work is the drafting and pending adoption of the National Fintech Strategy with no specific timeline announced.

[5] EMD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110; PSD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L2366.

[6] Imputation based on the performance of Montenegro relative to the Western Balkan average in 2017.

[7] These groups encompass preschool and school-age children, young adults, high school and university students, unemployed individuals, working adults, senior citizens, and residents of rural areas.

# 5 Tax policy

A well-planned tax policy provides the necessary incentives to promote economic growth. This chapter, along with two sub-dimensions, explores the effectiveness of tax policy and tax administration. The first sub-dimension, tax policy framework, assesses the soundness and efficaciousness of the legal framework, the tax system, and the incentives for investment in promoting steady economic growth. The second sub-dimension, tax administration, focuses on the efficiency and transparency of the tax administration organisation while also reflecting upon the tax filing and payment procedures and taxpayer services.

# Key findings

Montenegro has continued to improve its overall tax policy score since the previous Competitiveness Outlook (Table 5.1), nearly matching the Western Balkan average. The economy in particular improved its tax policy framework due to a number of new tax reforms as part of the 2022 *Europe Now* package.

### Table 5.1. Montenegro's scores for tax policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Tax | 4.1: Tax policy framework | | | 2.2 | 2.5 |
| | 4.2: Tax administration | | | 3.9 | 3.8 |
| **Montenegro's overall score** | | **2.0** | **2.8** | **3.0** | **3.1** |

The **key findings** are:

- The 2022 *Europe Now* reform package engendered substantial change to Montenegro's tax system, namely through the introduction of progressive corporate income tax (CIT) and personal income tax (PIT) regimes. These changes are expected to foster formal employment, reduce labour costs for businesses and create new jobs, thereby broadening the economy's tax base.
- Given the effects of long-term demographic trends, such as population ageing and high levels of emigration, expanding and financing social protections will be an increasing challenge for Montenegro. This necessitates the restructuring of PIT and social security contributions (SSCs) systems to effectively address the challenge.
- Montenegro will need to ramp up its efforts on international co-operation in tax matters, as it does not yet exchange information under the OECD Automatic Exchange, adhere to Global Anti-Base Erosion (GloBE) rules, or implement international VAT/GST (value added tax/goods and services tax) Guidelines.
- The economy boasts widespread availability of electronic tax filing; in 2022, over 99.6% of VAT returns, 98% of CIT returns, and 96% of PIT returns were filed on line. Additionally, tax filing and payment procedures are regularly reviewed by the State Audit Institution to ensure their clarity and transparency.
- Thanks to Montenegro's ongoing co-operation with the International Monetary Fund (IMF), the economy has developed a strategy to improve tax regulation and compliance management. However, broader advances in this domain were limited by the absence of a legal framework that ensures procedural justice in decisions on tax compliance rulings.

## State of play and key developments

### *Sub-dimension 4.1: Tax policy framework*

Montenegro's **tax revenues** are relatively high compared to the rest of the region; despite the decrease in the tax-to-GDP ratio from 35.7% in 2019 to 31.8% in 2021, this ratio remains above the WB6 average (28.5%) but close to the OECD area average of 33.6%. Montenegro's tax mix, however, is relatively unbalanced and very dependent on revenues from taxes on goods and services, which accounted for 62.6% of total tax revenues. For comparison, taxes on goods and services on average make up 49.2% and 32.1% in WB6 economies and OECD member countries, respectively. As a share of GDP, VAT revenues account for 19.9%, which is almost twice as much as the OECD average of 10.6%. Revenues from SSCs were similar to the OECD average both as a share of GDP (8.0%) and as a share of total tax revenues (25.1%). Tax revenues from personal and corporate income taxes, on the other hand, are relatively low and make up only 1.4% and 1.6% of GDP, respectively (Table 5.2). To some extent, the outsized share of VAT revenues in Montenegro's tax mix is driven by the size of the tourism industry.

### Table 5.2. Montenegro's tax revenues composition (2022)

Tax revenues are expressed as a percentage of GDP

| | Corporate income tax revenues | Personal income tax revenues | Social Security contributions revenues | Taxes on goods and services revenues | Total tax revenues |
|---|---|---|---|---|---|
| Montenegro | 1.6 | 1.4 | 8.0 | 19.9 | 31.8 |
| WB6 | 2.1 | 1.9 | 9.9 | 14.9 | 30.4 |
| OECD | 2.8 | 8.3 | 9.2 | 10.6 | 33.6 |

Note: Information on Montenegro is from 2022 and information from the OECD is from 2020.
Sources: Data from the Directorate for State Budget of the Ministry of Finance provided for the *Competitiveness Outlook* assessment and (OECD, 2024[1])

The 2022 *Europe Now* (Box 5.1) **corporate income tax (CIT)** reform in Montenegro is a significant step toward improving the balance of its revenue structure, which will have a positive impact on labour market outcomes. As part of the reform, Montenegro replaced its 9% flat CIT rate with a progressive CIT rate schedule of 9% on profits below EUR 100 000, 12% on profits between EUR 100 000 and EUR 1 500 000, and 15% on profits above EUR 1 500 000. A 15% withholding tax is levied on both corporate **capital gains and dividend** distributions.

Furthermore, Montenegro offers standard cost-based **investment tax incentives** that are in line with OECD best practices and only a limited number of profit-based tax incentives.[1] The most generous profit-based tax incentive is only available to companies that invest in designated underdeveloped areas and whose total tax liability, without the incentive, would not exceed EUR 200 000. Companies that meet these criteria are eligible for an 8-year CIT exemption.

Despite its recent CIT reform, Montenegro may face certain implications from international tax developments that require additional assessment. For example, the **Global Anti-Base Erosion (GloBE) Rules** ensure large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. While countries are not required to adopt the GloBE Rules, jurisdictions that adopt them will apply an effective tax rate test using a common tax base and a common definition of covered taxes to determine whether an MNE is subject to an effective tax rate of at least the agreed minimum rate of 15% in any jurisdiction where it operates (OECD, 2022[2]). For Montenegro, this means that in-scope Ultimate Parent Entities of MNE Groups – that have their headquarters in a jurisdiction that

has implemented the GloBE Rules and that operate a subsidiary (or Constituent Entity) in Montenegro – may be subject to a top-up tax in the residence jurisdiction, if the profits earned in the subsidiary are taxed at an effective rate below 15%. To avoid forgoing tax revenues in the short run, Montenegro is the only WB6 economy that is planning to introduce a **qualified domestic minimum top-up tax** (QDMTT).

### Box 5.1. 2022 *Europe Now* reform

The *Europe Now* tax reform came into effect on 1 January 2022. The programme was designed to serve as a concrete measure toward achieving the economy's long-term development goals, particularly in the aftermath of the COVID-19 pandemic. Its main objectives are to: i) increase the standard of living; ii) raise employment; iii) reduce informality in the labour market; and iv) improve the business and investment environment.

Before the programme was formally implemented, the Chamber of Commerce of Montenegro, in co-operation with the programme's co-ordination body, organised a roundtable to discuss the reform's potential challenges and explain its implementation guidelines.

**Main changes in the reform package**

The *Europe Now* reform introduced several changes across the main types of taxes:

- *Corporate income tax* – Amendments to the Law on Corporate Income Tax abolished the flat rate of 9% and introduced a progressive system. Businesses that make less than EUR 100 000 are taxed at 9%; those that make between EUR 100 000 and EUR 1.5 million must pay EUR 9 000 plus a 12% rate on earnings above the EUR 100 000 threshold; and those making over EUR 1.5 million must pay EUR 177 000 plus a 15% rate on earnings above EUR 1.5 million.
- *Personal income tax* – Under the Law on Personal Income Tax, a new progressive PIT schedule was introduced. The law introduced a non-taxable portion of income (up to EUR 700 per month), followed by a progressive scheme: earnings from EUR 700 to EUR 1 000 are taxed at a 9% rate, while income exceeding EUR 1 000 per month is subjected to a 15% rate. These brackets apply to both employees and self-employed individuals.
- *Social security contributions* – Under the Law on Contributions for Compulsory Social Insurance, the contribution for health insurance for all types of income has been abolished. As such, contributions are required solely for pension and disability insurance (15% by the insured individual and 5.5% by the payer) as well as unemployment insurance (0.5% by both the insured individual and the payer).

Additionally, in 2021, prior to the programme's implementation, the Montenegrin Government worked with the IMF to develop a novel micro-simulation model to assess the likely effects of the *Europe Now* reform on wages, taxes, and contributions.

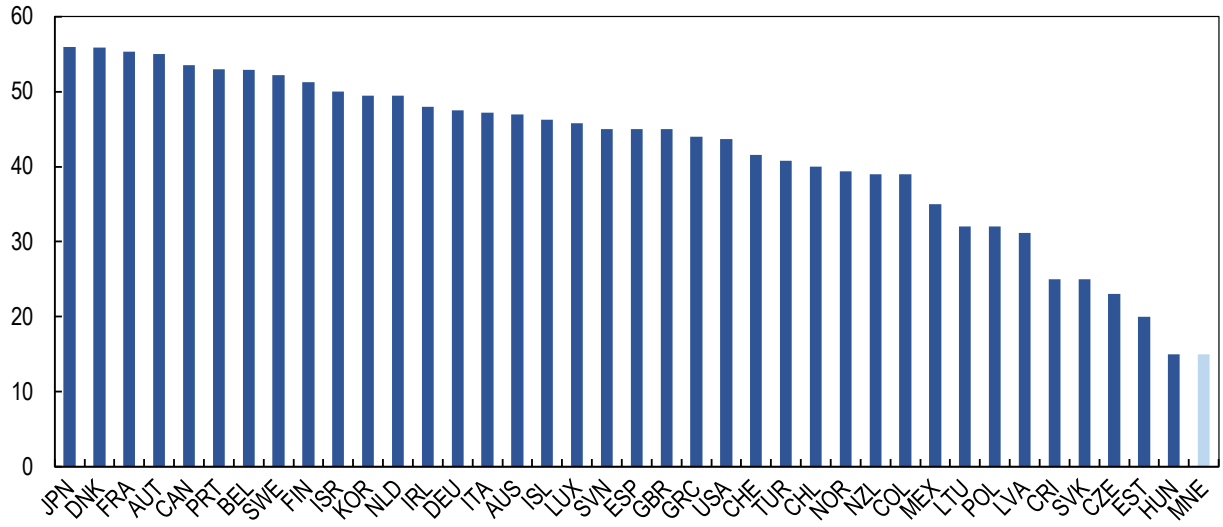
Source: Official Journal of the European Union (2022[3]); IMF (2024[4]).

Further examining Montenegro's international co-operation in tax policy, the economy does not yet **exchange tax information** through the OECD Automatic Exchange of Information (AEOI) framework. However, Montenegro has fully implemented the AEOI legal framework in accordance with the terms of reference, and the government has committed to start exchanging information in 2024. One remaining challenge is that the economy has not yet acquired a software solution that will facilitate the automatic exchange of information.

In addition to CIT, governments have the option to implement presumptive tax regimes when taxing firms. However, Montenegro does not have a **presumptive tax regime** that targets small businesses**.** Presumptive tax regimes, also known as simplified tax regimes, simplify the tax compliance process for micro and small businesses (Mas-Montserrat et al., 2023[3]). By reducing tax compliance costs and levying lower tax rates compared to the standard tax system, these regimes aim at encouraging business formalisation and compliance. They are particularly useful when actual taxable income is difficult to quantify. A taxpayer's tax base is determined using alternative indicators.

In the 2022 *Europe Now* reform, Montenegro replaced its flat **personal income tax (PIT)** regime, which previously offered no allowances, with a new progressive PIT (see Box 5.1). This reform represents a substantial effort toward diversifying the tax mix and increasing tax revenues, while shielding low-income workers from additional tax burdens. Though the augmented top PIT rate is a welcome reform, it is worth noting that most OECD countries have significantly higher top rates, with all members exceeding 15% and most averaging above 45% (as shown in Figure 5.1).

### Figure 5.1. Personal income tax rates, Montenegro and OECD member countries (2022)




Source: OECD (2024[1]).

StatLink https://stat.link/xhmfjl

With respect to **modelling and forecasting**, one major development was the creation of a micro-simulation model as part of the PIT reform under the *Europe Now* programme. Developed in 2021 with the technical assistance of the IMF, this model was used to calculate the effects of the *Europe Now* reform on taxes, contributions and wages. Although existing micro-simulation models only analyse PIT and SSCs, the Montenegrin Government has been developing plans to create a model that covers corporate income tax. Montenegro also has an aggregated forecasting model used for all the main types of taxes that makes projections on tax revenue twice annually.

As Montenegro implements new tax reforms, it is essential to consider their potential effects on labour market dynamics. One potential change is bringing more employees into the formal sector, which could expand the coverage of social protection. Since the last Competitiveness Outlook, Montenegro has decreased its total **SSCs rate**.[2] The sum of employee and employer SSC rates is 20.5% (in 2020 it was 32.3%). Employers pay 5.5% of gross income and employees pay 15%. Additionally, employers and employees each pay 0.5% toward unemployment insurance. Meanwhile, the SSC rate for the

self-employed is 20.5% and 1% for unemployment insurance. The maximum annual base for SSCs was EUR 55 249 in 2022.

The need to expand and finance social protection is intensified by long-term demographic trends of ageing and emigration. Between 2013 and 2023, the share of population aged 65 years or over has increased by 3.3 percentage points in Montenegro (Statistical Office of Montenegro, 2024[4]). Additionally, the average life expectancy in the economy has risen from 73.98 years in 2000 to 77.78 years in 2023 (UN Population Division, 2022[5]). If these trends continue, they are likely to put pressure on PIT and SSC revenues. Although VAT revenues are relatively robust with regard to population ageing, Montenegro may still wish to protect its PIT base by, for example, stimulating labour force participation. Since the last Competitiveness Outlook in 2021, Montenegro has made substantial progress in analysing and simulating the effect of potential reforms on informality and labour force participation. However, the economy currently does not have any plans or initiatives aimed at changing the PIT or SSC systems to estimate and prepare for the impacts of an ageing population and emigration.

Regarding the **design and structure of the VAT system**, the standard VAT rate in Montenegro is 21%, which is similar to the OECD average of 19.2% and significantly above the EU minimum rate of 15%. The VAT registration threshold in Montenegro is EUR 30 000. For comparison, the average VAT registration threshold in OECD countries is around EUR 53 000 (OECD, 2022[6]). Montenegro applies a reduced rate of 7% on, among other things, basic nutrition, medicine, and magazines. Exported goods and a limited list of specific goods and services are taxed at a 0% rate. In response to high inflation, Montenegro temporarily applied a 0% VAT rate on bread, flour, and sunflower oil until the end of 2022 and permanently included biomass fuel, compressed wood bricks, menstrual hygiene products, baby diapers, and solar panels in the list of goods for which the reduced (7%) rate applies. Overall, the VAT rules also generally follow the principles of EU VAT directives, and the fairly limited list of goods and services that are exempt from VAT – or for which a reduced rate applies – is in line with the OECD VAT guidelines (OECD, 2017[7]).

In terms of **digital taxation**, Montenegro has levied VAT on cross-border digital services since 2014. The rules determining the place of taxation follow the destination principle, but Montenegro has not yet implemented all the international VAT/GST guidelines (OECD, 2017[7]). Further progress in this area is crucial, given the exponential increase in online transactions for services and digital goods. These developments necessitate frequent revision of regulations to guarantee effective VAT collection. Including digital platforms in the process of VAT collection and remittance can reduce administrative costs and improve efficiency.

As for **environmentally related taxes**, Montenegro levies a specific excise tax on motor fuels**.** The specific excise on gas oils is EUR 440 per 1 000 litres. While such policies represent positive steps, there is scope for additional carbon pricing and increased excise taxes. For example, Montenegro does not currently levy a carbon tax, nor are there any imminent plans to introduce one. Furthermore, the economy has not yet implemented an emissions trading system or assessed the potential impact of the EU Carbon Border Adjustment Mechanism (CBAM),[3] scheduled to take effect in 2026. The EU CBAM will impose taxes on carbon-intensive imports, such as fossil fuel-powered electricity generation. Thus, given Montenegro's current absence of carbon pricing initiatives and the significance of aligning with EU climate policy, it is imperative that policy makers undertake a comprehensive effort to use the tax system to better prepare for future challenges related to climate change mitigation and adaptation.

While environmentally related taxes are levied on activities considered harmful to the environment, **health taxes** are those levied on goods that adversely affect health. Montenegro levies excise taxes on tobacco and alcohol products, although it does not use its health tax system to full potential; there is scope to further increase health taxes. Montenegro levies specific tax on alcohol products and both an *ad valorem* and specific tax on tobacco,[4] which is a common approach among OECD countries. Combining specific and *ad valorem* taxes for tobacco products discourages consumption of both high- and low-priced tobacco products (OECD, 2020[8]). Aligned with the EU Directive on Tobacco Taxation, there is a minimum specific

excise tax of EUR 83.50 per kilogramme of tobacco (World Bank Group, 2018[9]). Nevertheless, there is still significant scope to further induce smokers to quit smoking, as the prevalence of smokers in Montenegro is more than 14 percentage points higher than the EU average (40.7% versus 26%, respectively) (Cizmovic et al., 2022[10]).

Although Montenegro offers various tax reliefs and incentives, there is room for improvement in its **tax expenditure reporting**. Currently, Montenegro only calculates the aggregate tax revenue forgone and does not systematically estimate the revenue forgone for each tax expenditure. Expanding and regularising public tax expenditure reporting increases transparency and improves efficiency. Indeed, making this process public and calculating the tax expenditures of separate incentive schemes can assist policy makers in evaluating the efficiency and effectiveness of tax incentives through cost-benefit analysis.

### *Sub-dimension 4.2: Tax administration*

With respect to **tax administration functions and organisation**, Montenegro operates a unified tax administration system responsible for the collection of all types of taxes, except for VAT on imports, which is managed by the Customs Administration. As is common practice, tax fraud investigations are handled by the prosecutor's office and the police department. The Montenegro Tax Administration (MTA) falls under the supervision of the State Audit Institution (SAI), which annually assesses the MTA and, based on the results of this monitoring exercise, issues public recommendations.

The Audit Plan is informed by a risk-based approach by the Division for Risk Analysis. With support from its eight regional offices, the MTA oversees **compliance assessment and risk management**. Montenegro is presently collaborating with the IMF to devise a strategy for tax regulation and compliance management. However, currently Montenegro does not have a legal framework in place to ensure procedural justice in decisions for tax compliance rulings, despite procedural justice's positive linkage to improved compliance with tax rules and regulations.

When it comes to **independence and transparency**, Montenegro made progress in January 2019 when the MTA transitioned to an independent entity. The MTA's head is now appointed for five years and reports directly to the Minister of Finance. Nevertheless, its budget is still the responsibility of the Ministry of Finance. Montenegro's efforts toward improving independence and transparency are significant, but certain aspects require improvement. For example, the MTA needs an independent operational budget, separate from the annual budget process, as well as procedural protections to ensure its recent independence. Additionally, the OECD recommends that the staff of a tax administration is clearly and directly under the control of the chief executive and separate from the normal civil service system.

Access to electronic **tax filing** is extensive and available for every major tax type. It is compulsory for income taxes and optional for others. In 2022, 99.6% of all VAT and 98.3% of all CIT declarations were e-filed. However, only taxpayers who buy a digital certificate at a cost of EUR 110 can access the e-filing software.

Regarding **taxpayer services**, the MTA provides online access to information, electronic communication, and face-to-face inquiries. Additionally, every two years the MTA conducts a taxpayer and employee satisfaction survey to identify areas of improvement. One shortcoming in this area is the absence of customer segmentation models, which would allow the MTA to differentiate between different groups of taxpayers and thus better meet the needs of these individuals and firms.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro's progress on implementing past CO Recommendations has been mixed: in some areas, such as instituting a progressive PIT schedule or strengthening international co-operation, the economy has

made strong advances since the CO 2021. Conversely, its progress has stagnated in domains such as expanding its VAT base. Table 5.3 shows the economy's progress on implementing past recommendations for tax policy.

### Table 5.3. Montenegro's progress on past recommendations for tax policy

| CO 2021 Recommendations | Progress status | Level of progress |
|---|---|---|
| Diversify the tax mix by strengthening the role of the CIT and PIT, recurrent taxes on immovable property and environmentally related taxes | The 2022 *Europe Now* tax reform strengthened the role of the CIT and PIT. | Strong |
| Avoid the use of profit-based tax incentives given the low CIT rate | The CIT was reformed, and no new profit-based tax incentives were introduced. | Moderate |
| Continue to implement anti-BEPS measures to protect the domestic tax base and to avoid international tax avoidance and evasion | Montenegro has yet to implement AEOI standards and CbC (country-by-country) reporting. | Limited |
| Develop an action plan in case members of the OECD/G20 Inclusive Framework on BEPS reach a consensus on Pillar 2's global minimum tax | Montenegro is the only Western Balkan economy that plans to implement a QDMTT. | Strong |
| Carry out a cost-benefit analysis on the merits of a worldwide taxation system for resident corporations | No policy actions have been taken. | None |
| Replace part of the high employee SSCs with a progressive PIT rate schedule | The 2022 *Europe Now* reform introduced a progressive PIT schedule, and Montenegro has also significantly decreased its SSC rates. | Strong |
| Explore the scope to broaden the VAT base by reducing the lists of goods and services taxed at the reduced VAT rate | No policy actions have been taken. | None |
| Prepare an annual tax expenditure report as part of the annual budget cycle and make it publicly available | Currently the annual tax expenditure report is prepared for internal government use only, and tax expenditures on forgone tax revenues are not calculated. | Limited |
| Expand the use of micro-simulation models to analyse the impact of the tax system and simulate impacts of tax reforms. Improve the methods applied to forecast tax revenues | As part of the 2022 *Europe Now* reform, Montenegro developed multiple micro-simulation models for individual taxes, as well as an aggregate revenue-forecasting model. | Strong |
| Implement strong procedural safeguards to protect the newly established independence of the tax administration | The tax administration has implemented a number of procedural safeguards to strengthen its independence. | Moderate |
| Continue to engage in international tax dialogue | Montenegro is in the process of implementing BEPS minimum standards. Furthermore, it is working toward implementing AEOI in the future. | Strong |

## The way forward for tax policy

Considering the level of the previous recommendations' implementation, there are still areas in which Montenegro could enhance the tax policy framework and further improve the functioning of the tax administration. As such, policy makers may wish to:

- **Consider further broadening and diversifying the tax base by improving the design of personal and corporate income taxes in addition to increasing health and environmentally related taxes.** Diversifying the tax mix can raise revenues and make them more resilient to shocks as well as long-term trends. While the recent *Europe Now* reform programme constituted a notable step forward in rebalancing the sources of the economy's tax revenue, its relatively limited use of health and environmentally related taxes represents an opportunity to further raise tax revenues for the government.
- **Assess the impact of GloBE Rules on large in-scope MNEs operating in Montenegro.** Montenegro may face certain implications from the GloBE Rules. As such, policy makers should examine the influence of these rules, particularly their effects on subsidiaries of multinational

enterprises within Montenegro's jurisdiction, through an impact assessment that will enable the economy to evaluate different policy options in response to these developments. Depending on this assessment's outcome, Montenegro may want to consider revising some of its tax incentives and main CIT rates. In particular, profit-based tax incentives, such as rate cuts and exemptions, are more likely to be impacted by the GloBE Rules.

- **Prepare to start exchanging information through the OECD AEOI standards.** The implementation of these standards has implications for Montenegro's domestic tax policies as well as its international co-operation, particularly given the economy's EU accession ambitions. This exchange of information can provide timely information on non-compliance where tax has been evaded either on an investment return or the underlying capital sum. Additional steps include implementing the Country-by-Country (CbC) Reporting Package as set out in base erosion and profit shifting (BEPS) Action 13 (OECD, 2015[11]), as well as updating the reporting requirements to incorporate the OECD Crypto Asset Reporting Framework (CARF) (OECD, 2023[12]). Strengthening its capacity in this area will help Montenegro improve its technical and IT capacity, which is likely to become increasingly important for tax co-operation with the European Union and other key trading partners. Furthermore, automatically exchanging information with other countries will also assist Montenegro in more effectively taxing capital income from its top earners (OECD, 2017[13]).
- **Consider the benefits of introducing a presumptive tax regime following best practices to reduce the size of the relatively large informal sector**. Well-designed presumptive tax regimes can reduce compliance costs for businesses and promote business formalisation. Specifically, policy makers may wish to consider the benefits of introducing a regime that follows the best practices outlined in Mas-Montserrat et al. (2023[3]).
- **Assess the impact of future demographic changes on revenue and the functioning of the SSC system**. Given the changing population structure of Montenegro, this assessment is an important step towards developing a plan to make Montenegro's public finances more resilient. Specifically, policy makers may want to estimate the impact of a drop in the number of people active in the labour market on tax revenues and the functioning of the SSC system.
- **Continue to expand the usage of micro-simulation models**. While Montenegro made substantial progress with the development of its new model as part of the *Europe Now* reform, there is still room to broaden the applications of such simulations. Namely, given the gap between the top PIT rates in Montenegro and most OECD member countries, Montenegro may want to use these micro-simulation models to analyse the potential impact of a top PIT rate increase. Moreover, it might be beneficial for Montenegro to continue to examine the potential development of micro-simulation models for CIT, which could explore firm-level or sector-specific CIT revenues.
- **Implement a vendor collection regime supported by streamlined registration and collection procedures**. The regime would help collect VAT on business-to-consumer (B2C) services and intangibles supplied by non-resident providers (OECD, 2019[14]). This approach to digital taxation can simplify the VAT compliance process for consumers, particularly in cases of cross-border transactions.
- **Assess the impact of the EU CBAM on the export economy and consider increasing carbon pricing accordingly.** In order to tackle climate change, Montenegro should introduce a carbon tax or implement carbon pricing that is sufficiently high. Pricing carbon domestically or through a regional or EU-wide Emissions Trading System comes with the added benefit of generating revenues that can be mobilised to further accelerate the green transition and meet other social and political priorities (OECD, 2022[15]). In Montenegro for example, these revenues could be used to mitigate some of the impacts of the transition, such as reduced energy and food affordability.

- **Induce smokers to quit smoking through tobacco tax reform**. Doing so would also raise additional tax revenue to finance the public healthcare system. Montenegro could move toward implementing the World Health Organisation's guidelines on the taxation of tobacco products, which include the abolition of taxes that differentiate based on tobacco product characteristics, and ensuring specific excise taxes are automatically adjusted for inflation (WHO, 2021[16]). Finland offers a good practice example of how tobacco taxation can increase government revenue while also discouraging consumption among the population (Box 5.2).

### Box 5.2. Successful taxation of tobacco: The case of Finland

As the first country globally to establish a goal for ending all use of tobacco products (and by the deadline of 2030), Finland has undertaken a series of ambitious measures aimed at reducing – and ultimately eliminating – the use of tobacco and nicotine.

A substantial component of this plan has included increasing the tax rate and broadening the base of taxes on tobacco products. Since 2016, the Finnish Government has increased taxes on tobacco products every six months. As a result of these constant increases, Finland levied the third-highest excise duties on cigarettes in the European Union as of July 2023. The excise duty on a 20-pack of cigarettes was approximately EUR 6.76. Moreover, the total tax (composed of the excise duty and VAT) as a share of the final retail selling price amounted to 91.5% – well above the EU average (81.1%) and the World Health Organisation's recommended 75%.

The positive effects of this steadily increasing taxation are already evident. The prevalence of both daily and occasional smoking has been declining in recent years, and the average prevalence of smoking in Finland is significantly below the EU average (11% versus 20%, respectively). In terms of revenue for the government, in 2021 the tax revenue from tobacco products was EUR 1.03 billion.

Sources: OECD (2021[17]) WHO (2021[16]); Finnish Ministry of Social Affairs and Health (2023[18]).

- **Make the tax expenditure reporting process public and calculate the tax revenue forgone of all tax expenditures and incentives**. This can assist policy makers in evaluating the efficiency and effectiveness of tax incentives through cost-benefit analysis. The economy would also benefit from the implementation of regular and systematic tax expenditure reporting.

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## Notes

[1] Profit-based incentives generally reduce the tax rate applicable on taxable income, while cost-based incentives lower the cost of an investment and increase with the size of the investment.

[2] Law on Contributions for Compulsory Social Insurance, *Official Gazette of Montenegro*, (OG MNE Nos. 145/2021 and 146/2021).

[3] The EU Carbon Border Adjustment Mechanism (CBAM) is the policy instrument designed to reduce the likelihood of carbon leakage by instituting a carbon price on imported goods. This tool reflects EU commitments to reducing its greenhouse gas emissions under the "Fit for 55" package while still ensuring a level playing field between EU and non-EU businesses. The CBAM transitional period, which started on 1 October 2023 and continues until the end of 2025, exclusively involves reporting obligations; however, from 1 January 2025, carbon pricing will also be implemented.

[4] According to the Law on Excise Tax, the specific excise duties per kilogramme for different tobacco products are as follows: cigars and cigarillos, EUR 25; fine-cut tobacco, EUR 60; other tobacco for smoking, EUR 25; smokeless tobacco products, EUR 190, starting from 1 January 2024. Cigarettes are subject to both specific excise taxes (set to increase from EUR 50.50 in January 2024 to EUR 53.50 in January 2025) and *ad valorem* excise taxes (EUR 24.40, starting from 1 January 2024) per 1 000 pieces.

# 6 State-owned enterprises

State-owned enterprises are important economic actors and can enhance economic activity and competitiveness if a level playing field with private companies is ensured. This chapter, along three sub-dimensions, explores the importance of implementing policy, institutional and legal frameworks that contribute to competitive neutrality between private firms and state-owned enterprises. The first sub-dimension, efficiency and performance through improved governance, assesses clarity of the ownership policy and the board nomination framework, including independent and professional boards, and privatisation practices. The second sub-dimension, transparency and accountability, focuses on the financial and non-financial reporting and audit practices, including anti-corruption integrity measures and protection of minority shareholders. The third sub-dimension, ensuring a level playing field, explores the discrepancies in the legal and regulatory treatment of SOEs compared to private businesses, and the financing conditions of SOEs.

# Key findings

Montenegro scores in line with the Western Balkans' regional average on the overall state-owned enterprise (SOE) policy dimension (Table 6.1). Compared to its regional peers, it performs slightly above average with respect to the level playing field, reflecting among others its high degree of SOE corporatisation. However, Montenegro's SOE governance practices still lag behind international good practice in a number of areas, including the absence of a state ownership policy to harmonise and professionalise ownership practices across a dispersed portfolio; weaknesses in SOE board independence; and shortcomings in transparency by SOEs on their non-financial performance and by the state on the performance of the SOE portfolio as a whole. A nascent SOE reform programme adopted in 2023 foresees reforms to bring Montenegro's ownership practices in line with international good practices, including through stronger central oversight of SOEs and enhanced qualifications criteria for SOE boards and management. This reform programme has not significantly affected Montenegro's scores in this dimension since its implementation has not begun in earnest.

### Table 6.1. Montenegro's scores for state-owned enterprises

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| State-owned enterprises | 5.1: Efficiency and performance through improved governance | | | 2.2 | 2.3 |
| | 5.2: Transparency and accountability | | | 2.6 | 2.7 |
| | 5.3: Ensuring a level playing field | | | 3.0 | 2.8 |
| **Montenegro's overall score** | | **2.7** | **2.7** | **2.5** | **2.5** |

The **key findings** are:

- Montenegro's approximately 50 centrally-owned SOEs operate in a mostly decentralised manner without a clear ownership policy to professionalise practices across the state administration. Earlier efforts to improve SOE governance and monitoring, such as the establishment of a company to monitor SOEs' performance or the publication of financial reports on the SOEs in the Ministry of Capital Investments' portfolio, have stalled or been rolled back.
- SOE board nominations in Montenegro are not competitive or open to the public and are not subject to formal qualifications criteria, although politicians are barred from serving on SOE boards. The absence of general independence requirements for SOE boards, together with the fact that the state bypasses boards in some SOEs to directly appoint the Chief Executive Officer (CEO), constitute significant weaknesses that prevent SOE boards from performing their good-practice role of supervising management and shielding corporate decisions from political interference.
- Some targeted measures have been implemented to combat corruption risk in SOEs, such as the development of integrity plans by the majority of SOEs by end-2023. However, broader weaknesses in SOEs' supervision arrangements – including their unclear objectives, limited central monitoring of their activities, and insufficient independence of SOEs' boards of directors – constitute foundational shortcomings that exacerbate corruption risks.
- SOEs are generally subject to high standards of financial reporting, although not all SOEs are required to undergo an external commercial audit of their financial statements. Shortcomings persist in SOEs' non-financial reporting and the transparency of the state as shareholder; the authorities do not publish an aggregate report on SOEs.

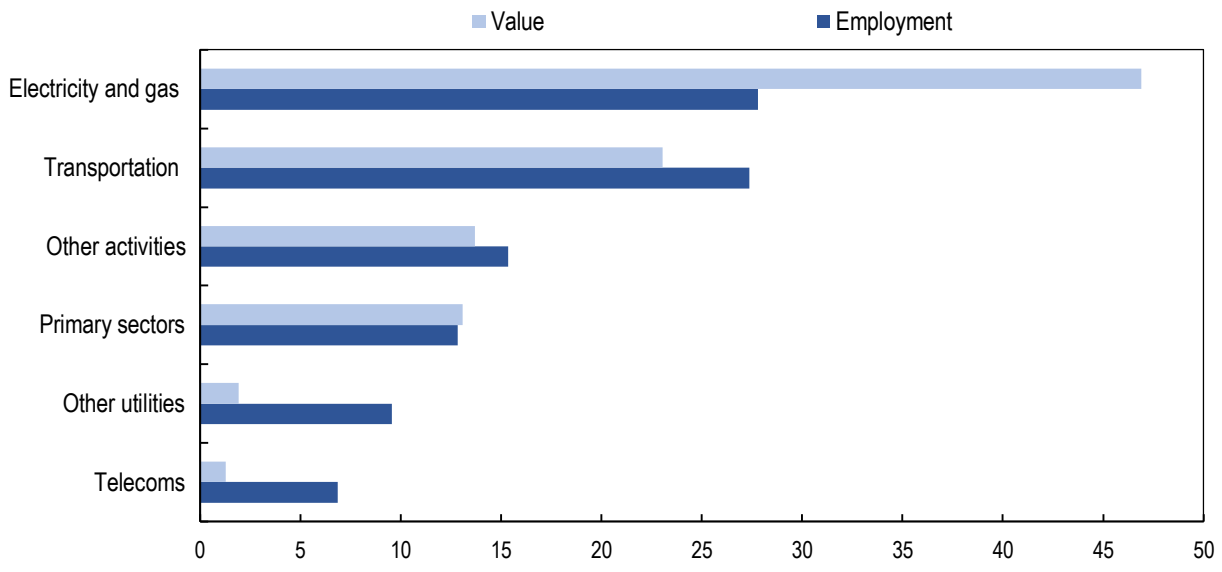
- Concerning the level playing field with private companies, the vast majority of SOEs are incorporated as joint-stock or limited liability companies in line with good practice – only 3 SOEs have the special legal form of "public enterprise". Many SOEs do not achieve significant rates of return or are loss-making, pointing to structural issues that hamper efficient resource allocation and ultimately distort the level playing field.

## State of play and key developments

The central government of Montenegro is the majority or full owner of approximately 50 SOEs (or up to 58 according to data gathered by non-governmental sources), which together employ 12 371 people accounting for 4% of total national employment as of end-2022.[1] Approximately half of these SOEs include non-state shareholders. SOEs in Montenegro are present in many structurally important sectors, including energy production and distribution, railway transport and postal services. The electricity and gas sector accounts for the majority of SOEs' value (47%) and 28% of SOEs' employment, followed by transportation (23% of all SOEs by value and 27% by employment) and other activities (14% by value and 15% by employment) (Figure 6.1). The "other activities" sector comprises 20 companies often operating in less "traditional" sectors for state ownership, including for example 9 SOEs operating in the hotels and accommodation sector, together employing 662 people. Primary sector SOEs are also important, accounting for 13% of all Montenegrin SOEs by both employment and value, and comprising three SOEs engaged respectively in mining, grape production and other agricultural production.

### Figure 6.1. Distribution of employment and value of centrally owned SOEs by economic sector in Montenegro (2022)

Sectoral shares in value and employment are expressed in percentages




Notes: The SOE value denotes the book value of shareholders' equity. The finance, health and social services, manufacturing and real estate sectors are not represented in the figure, owing to the near-absence of SOEs operating in these sectors (although one SOE classified under the "other activities" sector does provide some health-related services).
Source: OECD calculations based on information provided by the authorities of Montenegro for the *Competitiveness Outlook* assessment.

StatLink https://stat.link/9eopd7

The largest individual SOE employers in Montenegro are: the electricity transmission company CEDIS (1 623 employees); the electricity and gas producer Elektroprivreda Crne Gore (1 109 employees); the postal services operator Pošta Crne Gore (1 103 employees); the lignite mining company Rudnik Uglja AD Pljevlja (966); Airports of Montenegro/Aerodromi Crne Gore, which operates the airports in Podgorica and Tivat (885); the railway infrastructure company Željeznička Infrastructura Crne Gore A.D (779); and the national radio and television broadcaster (746). In addition to the railway infrastructure company, the central government also owns three separate railway companies managing, respectively, passenger transport, cargo transport and the maintenance of rolling stock (carriages).

According to data provided by the authorities in the context of this assessment, nearly half of the state's portfolio (23 SOEs) reported positive returns on equity in 2022, with the remainder reporting zero or negative returns. SOEs' frequent underperformance is exacerbated by the fact that for the majority of them the state does not set quantifiable performance objectives. In some cases, SOE losses may indicate public-service obligations that are subsidised from commercial revenues, but the authorities have not undertaken to establish a clear overview of the costs and funding arrangements related to such non-commercial objectives.

### *Sub-dimension 5.1: Efficiency and performance through improved governance*

Concerning the **clarification of ownership policy and rationales**, Montenegro does not have a state ownership policy that defines the overall rationales for state ownership or the roles and responsibilities of the institutions responsible for state ownership. The rationales for state ownership in some individual enterprises can often be implicitly gleaned from sectoral legislation, but there remain many SOEs operating in less "traditional" sectors for state ownership, such as the hotel industry, in which the rationales for maintaining state ownership are not clear.

In April 2023, the government adopted a decision to establish a working group tasked with developing a strategic framework for state-owned enterprise management. The working group's planned activities include an analysis of SOEs' legal and regulatory framework and comparison with EU practices, followed by legislative reform to bring Montenegro's state ownership framework in line with international good practices (Government of Montenegro, 2024[1]). At the time of writing the working group had not yet commenced its SOE-related work, but the authorities announced their ambition to undertake related legislative reforms in 2024.

Montenegro has predominantly decentralised state ownership arrangements, with a mix of ministries, state funds and other institutions holding ownership shares in state-owned enterprises. Montenegro differs from most other economies with decentralised ownership arrangements in that state shares in many SOEs are not held by a single public institution, but often by the state as a whole – which exercises ownership rights either by whole-of-government decisions or by delegated authority to sectoral ministries – together with one or more state funds. According to an external review of the public ownership structure of 26 state-owned joint-stock companies published by the non-governmental Institut Alternativa, in 2021, 21 of the reviewed companies had at least 2 public shareholders, while 16 had at least 3 public shareholders (Institut Alternativa, 2021[2]). In most of these companies, the largest public shareholder was the "state", while the other shareholders were the Employment Bureau and/or the Pension and Disability Insurance (PDI) Fund. Other state funds with shareholdings in SOEs include the Investment and Development Fund, the Republic Health Fund and the Compensation Fund. The state as a whole generally exercises its ownership rights through delegated powers assigned to sectoral ministries, but some decisions, such as board nominations, are made by a whole-of-government vote. Among the sectoral ministries with delegated ownership responsibilities, the Ministry of Capital Investments holds the largest number of SOEs in its portfolio (21), followed by the Ministry of Economic Development (11 SOEs). Complementing the role of these sectoral ministries, the Ministry of Finance often plays a role in SOE oversight by approving SOEs' financial plans, in addition to having its "own" portfolio of three SOEs.

In the context of these decentralised ownership arrangements, Montenegro has in the recent past taken some steps to further **professionalise state ownership** practices, in particular for the 21 SOEs under the purview of the Ministry of Capital Investments, which does not perform sectoral regulatory functions that could conflict with its shareholding objectives. In 2021, a Department for Corporate Governance Improvement was established within the Ministry of Capital Investments and undertook some preliminary steps to improve monitoring of SOEs. In its founding year, it notably published quarterly reports on the operations of SOEs in its portfolio as well as detailed information on individual SOEs, including links to their financial reports and corporate statutes (Ministry of Capital Investments of Montenegro, 2021[3]). However, no more recent financial information has been published by the Ministry since then, pointing to a one-off, or stalled, effort at greater transparency.

Other, earlier steps to improve SOE monitoring have similarly come to a halt. For example, in July 2022, Montenegro Works, a company that had been tasked with analysing SOEs' financial performance and advising the government on the development of policies to improve SOE efficiency, was liquidated less than a year after its establishment. The authorities report that the company was not financially sustainable and have opted to explore a different model of SOE monitoring, involving the aforementioned development of a new strategic framework for SOE oversight coupled with legislative reforms. Together, these elements point to SOE reform initiatives which, although positive, lack the institutional permanence to endure changes in the political cycle. As highlighted in a recent report by the European Bank for Reconstruction and Development (EBRD), the majority of SOEs in Montenegro continue to operate without uniform supervision or policies (EBRD, 2022[4]). This being said, it should be noted that the Ministry of Finance recently established a Division for Fiscal Risks, which is responsible for monitoring and managing SOEs' potential impact on the state budget. The Division gathers and publishes information on SOEs' liquidity, profitability and solvency ratios.

Montenegro currently does not have a **robust board nomination framework** applicable specifically to SOEs. The authorities have not developed any specific SOE board member qualifications criteria or elaborated a uniform process by which shareholding institutions are expected to nominate or appoint SOE board members. SOE board member recruitment processes are not competitive or publicly announced. The main document establishing related requirements is the general companies law (the Law on Business Organisations), but this is applicable to all companies and does not prescribe how state shareholding institutions should select or vet board nominees. The companies law establishes only very basic requirements that an individual must meet in order to serve on a board, such as not having served as the auditor of the firm and not having been convicted of a crime. Plans to develop clearer qualifications criteria for SOE board members have been announced by the aforementioned working group, with the authorities reporting their intention to address issues related to non-transparent and politically influenced SOE board nomination processes.

Efforts to promote **independent and professional boards** of SOEs in Montenegro have been similarly limited. The legal framework allows for a patchwork of different rules regarding both the responsibilities and the required composition of SOE boards of directors. In many cases, board responsibilities are weak compared to those of the state, making it difficult for them to fulfil their good-practice roles of supervising management and shielding enterprises from political interference. For example, according to a review of the articles of association of 14 Montenegrin SOEs, in 5 of these SOEs the state shareholding entity as identified in the founding legislation – and not the board of directors – is granted the authority to appoint the CEO, depriving the board of one of its crucial good-practice supervisory functions (Institut Alternativa, 2021[2]). Concerning board composition, Montenegrin SOEs are frequently perceived to be politically affiliated, despite rules in the Law on the Prevention of Corruption barring certain high-level politicians from serving as SOE board members or CEOs (Institut Alternativa, 2021[2]).[2] There are no general requirements for SOE boards to include a minimum number of independent directors, and the authorities report that most SOE boards do not include independent directors. This being said, amendments to the general companies law adopted in 2020 introduced a new requirement that the boards of all joint-stock companies

(including those owned by the state) must comprise at least three members and that one-third of the board must be independent. For joint-stock companies that are listed on the stock exchange, the board must comprise at least five members, of which two-fifths must be independent. These new rules can introduce greater professional independence to the boards of at least some SOEs.

Concerning **privatisation practices**, Montenegro's Privatisation and Capital Projects Council is responsible for overseeing and ensuring implementation of all privatisation processes in Montenegro. Because the Council is tasked with overseeing privatisation processes in the national interest and informing the public of its decisions, its existence can be considered to constitute a measure to ensure that privatisations are undertaken transparently and in the public interest. Members of the Council are appointed by the government for a four-year mandate. The Council, which is chaired by the prime minister and comprises representatives of relevant ministries, trade unions and state funds, adopts yearly privatisation plans and submits them to the Cabinet for adoption. In practice, these privatisation plans are generally shared with the public via a press release following the Council's meetings (and prior to their adoption by the Cabinet), although the Law on Privatisation does not explicitly require such public transparency. At the end of 2022, the Council announced its proposal to move forward with plans to sell off the state's shares in the health Institute "Dr Simo Milošević" LLC Igalo and with the privatisation of five other SOEs. Separately, the privatisations of SOEs facing bankruptcy are overseen by the commercial courts, in line with the Law on Insolvency. Privatisations in Montenegro have historically been subject to some criticism alleging that they lacked transparency and ultimately benefited private investors more than the state or its citizens. Such criticisms were highlighted in a 2015 report by the NGO MANS, alleging that during a wave of privatisations commenced in the early 2000s, many SOEs were sold at less than their true market value and in some cases benefited from significant state investments prior to their sale, which ultimately drained public finances with little public benefit (MANS, 2015[5]).

### *Sub-dimension 5.2: Transparency and accountability*

The state has not elaborated **financial and non-financial reporting** requirements that are specific to SOEs, but since the vast majority are incorporated as limited liability or joint-stock companies, they are subject to the same basic financial reporting requirements as private companies. These include the requirement to submit annual financial statements to the central registry. Company financial statements must be prepared in accordance with international accounting and financial reporting standards, according to the Law on Accounting and Auditing. Requirements and practices for SOE non-financial disclosures are limited in Montenegro, but companies with over 500 employees are required by applicable legislation to prepare annual non-financial reports. Most SOEs are not required to publish sustainability reports, but Montenegro's state-owned electricity producer – which is perhaps the SOE with the largest potential carbon footprint – does report on its environmental protection efforts in its annual reports.

Concerning reporting by the state shareholder, Montenegro does not publish an aggregate report on the activities and performance of SOEs. As mentioned earlier, in 2021 the Ministry of Capital Investments published quarterly aggregate reports, including key financial performance data, on the 21 enterprises in its portfolio (Ministry of Capital Investments of Montenegro, 2021[3]). However, this was an ad hoc initiative that has not been repeated since. The 2024-26 Economic Reform Programme (ERP) foresees the establishment of a public registry of SOEs over the course of 2024 (Government of Montenegro, 2024[1]).

Requirements for SOEs' **auditing practices** vary depending on their legal form and size. Applicable legislation establishes that certain categories of SOEs are required to have their financial reports audited by an external audit firm. This includes notably all joint-stock companies and all limited liability companies that exceed a certain size threshold. However, certain categories of SOEs do not fulfil the requirements necessitating an external audit, for example medium-sized limited liability companies. According to non-governmental monitoring, 21 SOEs – albeit including those held at the sub-national level – are not required by applicable legislation to have their financial statements audited by an external auditor (Institut Alternativa, 2021[2]). While the Law on Audit requires all public-interest companies to undergo such an audit, the Law on Accounting does not explicitly define SOEs as public-interest entities. In addition to external financial statement audits, SOEs can also be subject to ad hoc audits undertaken by the State Audit Institution. Earlier, such audits focused on the extension of state guarantees to certain SOEs and concluded that the guarantees had been extended without sufficient justification, leading to significant fiscal risk.[3]

Some efforts have been taken to implement targeted **anti-corruption and integrity measures** in SOEs. These include requirements first introduced in 2016 that SOEs undertake corruption-risk assessments and submit integrity plans (taking into account the conclusions of the corruption-risk assessments), as well as subsequent yearly reports on implementation, to the Agency for the Prevention of Corruption. At the end of 2019, 52 SOEs had adopted an integrity plan and submitted it to the agency, while by the end of 2023 this number had increased to 60 companies. The Agency for the Prevention of Corruption regularly monitors implementation of integrity plans and shares its insights on related shortcomings in publicly available reports. It also offers training on the development and implementation of integrity plans to concerned enterprises and institutions, which 34 SOE representatives attended in 2022. Additionally, the authorities report that during the two-year period from 2020 to 2021, more than half of SOEs surveyed by the Agency on Prevention of Corruption organised or participated in training on ethics, integrity and anti-corruption. Concerning legislation related to the reporting of corrupt practices, SOEs explicitly fall under the scope of the Law on Prevention of Corruption, which contains provisions to protect whistleblowers. As is the case in many Western Balkan economies, shortcomings in SOEs' ownership and corporate governance arrangements – including insufficient central monitoring of SOEs, unclear objectives by the state shareholder and insufficient board independence – constitute broader foundational weaknesses in the anti-corruption and integrity framework in the SOE sector.

The **protection of minority shareholders** is a high-priority issue for state ownership in Montenegro, given that half of all SOEs include non-state shareholders in their ownership structure. Minority shareholders in Montenegro have sound basic legal protections as well as some additional shareholder rights to facilitate their participation in corporate decision making. For example, shareholders with at least 5% of share capital have the right to call a general meeting, to add items to the agenda and to nominate board members. External assessments have nonetheless pointed to minority shareholders' limited engagement in corporate decision making in practice (see, for example, (EBRD, 2017[6])).

### *Sub-dimension 5.3: Ensuring a level playing field*

Concerning SOEs' **legal and regulatory treatment**, the vast majority of SOEs in Montenegro are incorporated as limited liability or joint-stock companies and thus operate primarily according to the general companies law, in line with good practice. Currently only three SOEs operate under the separate legal form of "public enterprise": Morsko dobro, responsible for managing coastal zones in Montenegro; National Parks of Montenegro; and the state radio and television broadcaster RTCG. These three enterprises are subject to the Law on Realisation of Public Interest in Public Enterprises and Public Institutions, which accords the state certain exceptional powers, such as the right to dismiss the board and the CEO before the end of their terms subject to certain conditions. Such dismissals are notably allowed in the presence of operational issues that lead to an interruption in services, or the non-respect of applicable legislation or statutes. The limited number of SOEs with this separate legal form reflects a decision by the Montenegrin

authorities, implemented in 2010 by legal amendments (among others, revoking the Law on Public Enterprises), to transform all "public enterprises" into companies operating under the general companies law. Despite this positive trend toward levelling the playing field in Montenegro, external assessments point to other sources of legal differences applicable to Montenegrin SOEs: the aforementioned analysis by the Institut Alternativa points out that for some SOEs beyond the three public enterprises, the articles of association accord the government several significant corporate powers, such as the right to appoint directors, manage assets and take out loans (Institut Alternativa, 2021[2]). Such provisions are not in line with good corporate-governance standards, which call for independent and professional boards of directors to oversee management in the interests of the company and its shareholders. Creating a channel for political influence over corporate objectives may distort the level playing field with private companies that operate under purely commercial objectives.

Regarding **SOE financing conditions**, explicit state guarantees on SOE loans are prevalent in Montenegro, reaching an estimated EUR 515 million in 2020 (Institut Alternativa, 2021[2]). The conditions of state loan guarantees to SOEs were last subject to an audit by the State Audit Institution in 2013, which found that guarantees issued to SOEs in 2010 and 2011 were accorded without a detailed assessment of the SOEs' financial situation or commercial viability (Institut Alternativa, 2021[2]). Under EU state aid rules, state support to SOEs is restricted, prohibiting any forms of state aid that could confer an advantage on the company and distort competition. As an EU candidate country, Montenegro will be required to comply with these rules, which should make SOE financing conditions more market-consistent going forward. The Agency for Protection of Competition is mandated to enforce state aid rules in Montenegro. It notably opened a case against the state-owned Montenegrin Airlines in 2019 for direct grants issued to the company without prior approval from the regulator. This signals that the agency is not unduly excluding SOEs from the scope of its enforcement activities. A more fundamental issue affecting SOE financing conditions in Montenegro is that, according to the authorities, many SOEs in Montenegro either do not achieve significant rates of return or are outright loss-making. This points to potential structural issues that may hamper efficient resource allocation in the market, ultimately distorting the level playing field.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro's ERP for the period 2024-26 foresees the establishment of a new strategic framework for monitoring SOEs, involving an alignment of SOE governance and oversight arrangements with OECD good practices, including strengthened qualifications criteria for SOE boards and management (Government of Montenegro, 2024[1]). However, at the time of writing, this undertaking was in the very early stages of implementation and therefore has had very limited impact on Montenegro's assessed progress in implementing OECD state ownership Recommendations (Table 6.2). As mentioned previously, there is also evidence that earlier efforts to improve the monitoring and/or transparency of SOEs have either stalled or backtracked. This includes the July 2022 liquidation of the SOE Montenegro Works, which was created in August 2021 to monitor SOEs' financial performance, as well as the discontinuation of online publication of SOE financial statements by the Ministry of Capital Investments.

### Table 6.2. Montenegro's progress on past recommendations for state-owned enterprises

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Develop a state ownership policy and review the effectiveness of current state ownership arrangements | In 2023, a working group was established at the initiative of the Ministry of Finance to lead reform work on state ownership practices and the development of a new strategic framework for SOEs. The working group held its first meeting in April 2023, but its work is not sufficiently advanced to be able to assess how the announced plans on SOE reform align with good practice or the extent to which they will be implemented. | Moderate |
| Improve the process for setting objectives and monitoring their fulfilment | The authorities of Montenegro have not undertaken any targeted steps to clarify SOEs' performance objectives. Concerning the recommendation on publishing an aggregate report on SOEs, an initiative by the Ministry of Capital Investments to publish 21 SOEs' financial statements on line in 2021 appears to have been a one-off effort. | Limited |
| Ensure that the SOE board nomination process is merit-based and transparent | The authorities of Montenegro have not introduced an SOE board nomination framework. The SOE reform plans that are being spearheaded by the Ministry of Finance's aforementioned working group foresees measures to improve SOE board nominations, but at the time of writing the related work was too nascent to assess its content or direction. | Limited |
| Ensure that SOEs create value for all shareholders, including the state and minority non-state owners | No apparent steps have been taken in Montenegro to enhance the role of minority shareholders in SOEs. | None |

## The way forward for ownership and governance of state-owned enterprises

Once implemented, Montenegro's plans to develop a strategic framework for SOE governance, in line with OECD good practices, could go a long way towards implementing many of the recommendations set forth in the previous Competitiveness Outlook assessment. At the time of writing, these plans were too nascent to assess their content or degree of implementation. The CO 2021 policy Recommendations remain therefore largely relevant today. These recommendations, with some elements added to fine-tune them, are as follows:

- **Develop a state ownership policy and introduce more centralised SOE ownership and monitoring arrangements.** The authorities should ensure that the different state actors exercising ownership rights operate under a unified ownership policy, which the announced plans to develop a strategic framework for SOE management aim to achieve. The working group tasked with leading this work should ensure that its analysis also looks at the role of state funds in SOE shareholding decisions and how state shareholding structures affect efficiency and value-creation in the state-owned enterprise sector. Taking into account the important potential role of some SOEs in contributing to the low-carbon transition – in particular the state-owned electricity producer – the authorities should ensure that any sustainability-related commitments applicable to the broader economy are adequately communicated as shareholder expectations and integrated by SOE boards into SOE-related policies and practices.[4] Finally, the authorities should also consider establishing a centralised state ownership entity to monitor SOE performance and contribute to more harmonised ownership practices across the state portfolio. Box 6.1 highlights the recent experience of Bulgaria in establishing such an institution under the Council of Ministers, as a successor to the Agency for Privatisation and Post-Privatisation Control.
- **Improve the process for setting objectives and monitoring their fulfilment**. There is scope to strengthen the state's role in setting performance targets for SOEs and monitoring their achievement. The state should also produce an aggregate report presenting information on the performance of the state's portfolio. The 2021 aggregate reports produced by the Ministry of Capital Investments for the SOEs in its portfolio could serve as inspiration for a more expansive report

including all SOEs. Such a performance-monitoring and reporting function could be usefully undertaken by a new SOE ownership co-ordination and monitoring entity.

### Box 6.1. Establishing a central state ownership co-ordination and monitoring agency: The recent experience of Bulgaria

Bulgaria's Agency for Public Enterprises and Control was created as a successor to the Agency for Privatisation and Post-Privatisation Control, with a mandate to continue carrying out privatisations but also to undertake several additional SOE monitoring and ownership responsibilities through legislation passed in October 2019. Like most Western Balkan economies, Bulgaria has predominantly decentralised ownership arrangements over its 265 SOEs, with several line ministries responsible for acting as state shareholder in distinct SOE portfolios. The new Agency contributes to better central monitoring of SOE performance, together with improved accountability through its regular publication of performance data on SOEs. As an entity that is not tasked with sectoral policy or regulatory functions (as line ministries are), it also contributes to a stronger separation of the state's ownership and regulatory functions, for example through its role in contributing to certain ownership decisions such as SOE board nominations and objectives setting.

Among the Agency's new functions are the following:

- developing the state's ownership policy, monitoring its implementation and updating it as needed
- advising ownership ministries (line ministries) on the development of SOEs' strategic goals as well as financial and non-financial key performance indicators
- monitoring and preparing an annual aggregate report on SOEs' activity
- publishing up-to-date financial and non-financial information about SOEs
- monitoring the selection, nomination and appointment of SOE boards and directors, according to a dedicated policy to be developed
- evaluating implementation of SOEs' business plans and preparing proposals for improvement.

The Agency's website (with most of its resources in the Bulgarian language) provides a one-stop shop for information on SOE governance and performance in Bulgaria, including links to the state ownership policy and legislation related to SOEs; all published aggregate reports on SOEs; and a list of each ministry's SOE portfolio together with links to individual SOEs' annual reports and financial statements. The website also includes notices regarding ongoing SOE board member recruitment procedures, addressed to interested candidates and the general public. The website can be accessed here: https://www.appk.government.bg/bg/17.

Source: OECD description based on Republic of Bulgaria Agency for Public Enterprises and Control (2023[7]).

- **Ensure that the SOE board nomination process is merit-based and transparent**. The state should ensure that SOE boards are equipped with qualified professionals and should minimise the risk of political board nominations. As the aforementioned working group moves forward with plans to develop an SOE board nomination process, it is important that the new procedures ensure that SOE boards of directors are equipped with a sufficient diversity of expertise, as well as independence from both political influence and corporate management, to oversee corporate decision making in the interest of the SOEs and their shareholders. In many economies with predominantly decentralised state ownership arrangements, central SOE co-ordination or monitoring entities have played a useful role in improving SOE board nomination procedures, for

example by participating as voting members on dedicated interministerial commissions responsible for nominating SOE board members. In some economies, including Lithuania and the United Kingdom, SOE board nominations have benefited from the involvement of private sector recruitment agencies in the process.

- **Ensure that SOEs create value for all shareholders**, including the state and minority non-state owners. Since the authorities have chosen to prioritise private investments in their SOE sector, they need to ensure that private capital-holders' interests are taken into account and that SOEs create value for all shareholders. As a first step, the authorities should gather, analyse and publish performance data on the entire SOE portfolio to better inform ownership decisions.

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## Notes

[1] The figures in this assessment are based on data gathered by the authorities of Montenegro and shared with the OECD. Separate data provided by the non-governmental Institut Alternativa differ somewhat, reporting notably that the central government owns 58 SOEs. However, the difference in scope between the two datasets does not appear to significantly impact SOEs' assessed economic footprint; according to the alternative data, these 58 SOEs employed 11 091 people (compared with 12 371 for the 50 SOEs included in reporting by the authorities), while 27 of the 58 SOEs posted negative income in 2021, the same number that posted zero or negative returns on equity in 2021 according to the authorities.

[2] The Law on the Prevention of Corruption allows for public officials to serve as SOE board members or CEOs, but prohibits certain categories of high-level public officials from doing so, e.g. the president of Montenegro, members of parliament and members of the government. SOEs are defined as any companies in which the state or municipal governments own at least 33% of shares.

[3] The referenced state audit reports on guarantees extended to SOEs do not appear to be available on line but are referenced in Institut Alternativa (2021[2]) as follows: State Audit Institution of Montenegro (2013), "Audit Report on State Guaranties issued in 2010 and 2011". In 2021, a former economy minister and 10 other former officials were arrested in relation to the guarantees accorded to the state-owned aluminium plant KAP in 2009 (Balkan Insight, 2021[8]).

[4] For general information on the role of SOEs in the low-carbon transition and international practices for setting related objectives, see (OECD, 2022[9]).

# 7 Anti-corruption policy

An effective anti-corruption policy is essential for promoting fair competition. This chapter, along four sub-dimensions, explores the effectiveness of the prevention, investigation and prosecution of corruption cases. The first sub-dimension, anti-corruption policy and risk management, assesses the planning, co-ordination and monitoring of anti-corruption policies, including corruption risk assessments and corruption proofing of legislation. The second sub-dimension, prevention of corruption, focuses on anti-corruption public-awareness as well as the effectiveness of the legal framework regarding corruption prevention bodies, conflicts of interest, and whistleblower protection. The third sub-dimension, business integrity and corporate liability, explores the robustness of the framework for businesses integrity and regulatory mechanisms, as well as the liability of legal persons. The fourth sub-dimension, investigation and prosecution, assesses the capacities of specialised anti-corruption investigative and prosecutorial bodies in investigating and prosecuting high-level corruption cases.

# Key findings

Montenegro (along with North Macedonia) has the second highest score for the anti-corruption policy dimension, following behind the region's front runner Albania but scoring above the WB6 regional average (Table 7.1). While the overall strategic, legal and institutional anti-corruption framework of Montenegro has changed little since the previous assessment, the economy made efforts to improve practices in several areas, notably with regard to developing integrity plans in public bodies, introducing an electronic solution for declarations of assets and interests, and a stronger record of prosecuting high-level corruption cases. The main obstacle to achieving greater progress was the lack of legislative reforms.

### Table 7.1. Montenegro's scores for anti-corruption policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Anti-corruption | 6.1: Anti-corruption policy and risk assessment | | | 2.7 | 2.4 |
| | 6.2: Prevention of corruption | | | 3.5 | 2.9 |
| | 6.3: Business integrity and corporate liability | | | 2.0 | 1.9 |
| | 6.4: Investigation and prosecution | | | 2.5 | 2.4 |
| **Montenegro's overall score** | | **2.7** | **3.6** | **2.8** | **2.5** |

Notes: Scores for 2024 are not directly comparable to the 2021 scores due changes in the scoring methodology of this indicator. Sub-dimension 15.3 as well as several indicators in the other sub-dimensions is scored for the first time in this assessment. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy.

The **key findings** are:

- National anti-corruption policy documents expired over 2018-19. In 2022, the government commenced preparatory activities, including consultations with various stakeholders, to develop a new anti-corruption strategy. Planning, co-ordination and monitoring functions have been consolidated under the National Council for Fight against Corruption (established in 2022). However, no draft policy documents have been published yet.
- While the Law on Prevention of Corruption (LPC) aims to protect whistleblowers in both the public and private sector, it deviates in several ways from the relevant EU Directive. Only corruption can be the subject of whistleblowing, and the law does not provide for whistleblowers to make disclosures to the media or public associations. Despite these challenges, there has been an increase in the number of whistleblower reports, suggesting growing trust in the economy's protection mechanisms for whistleblowers.
- The Special State Prosecutor's Office (SSPO) is responsible for the prosecution of high-level corruption. While it has initiated several high-profile investigations of corruption, there is a modest track record of imposing final sanctions for high-level corruption that entail imprisonment without conditional or other types of release.
- The Law on the SSPO contains several guarantees for the office's independence, transparency and accountability. Nonetheless, the SSPO's autonomy is limited as the Supreme State Prosecutor retains the authority to directly exercise all powers and undertake all actions for which the head of the SSPO is authorised. The Special Police Division (SPD) operates under the directions of a special prosecutor without possessing distinct independence safeguards

compared to other police units. However, the appointment of the SPD's head requires approval from the Chief Special Prosecutor.

## State of play and key developments

The perceived level of corruption in Montenegro has not changed significantly since 2018. On a scale from -2.5 (worst) to +2.5 (best), Montenegro's score in the World Bank's Control of Corruption indicator has slightly deteriorated, from -0.01 in 2018 to -0.12 in 2022 (Table 7.2). Transparency International's Corruption Perceptions Index reflects minimal change over the past four years. On a scale from 0 (highly corrupt) to 100 (very clean), Montenegro consistently scored 45 every year, except for 2021 and 2023, where its score slightly improved to 46. Montenegro's scores have consistently remained above the WB6 average.

### Table 7.2. Montenegro's perceived anti-corruption policy performance in 2018-23

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| **Control of Corruption Indicator** | | | | | | |
| MNE (percentile rank) | 56.2 | 54.8 | 54.3 | 52.9 | 50.9 | |
| MNE (score) | -0.01 | -0.03 | -0.04 | -0.04 | -0.12 | |
| WB6 (score) | -0.41 | -0.45 | -0.44 | -0.41 | -0.38 | |
| **Corruption Perceptions Index** | | | | | | |
| MNE (rank) | 67 | 66 | 67 | 64 | 65 | 63 |
| MNE (score) | 45 | 45 | 45 | 46 | 45 | 46 |
| WB6 (score) | 38.67 | 37.67 | 37.5 | 38.67 | 38.67 | 39.50 |

Note: Percentile rank (0-100) indicates rank of economy among all economies in the world. (0 corresponds to lowest rank and 100 corresponds to highest rank.)
Sources: World Bank (2023[1]); Transparency International (2023[2]).

According to the Balkan Barometer, only a minority of people in Montenegro agree that the government fights corruption successfully. The share decreased significantly in 2021 when it dropped to 35% from 43% in 2020 (RCC, 2021[3]; RCC, 2020[4]).

### *Sub-dimension 6.1: Anti-corruption policy and risk assessment*

Montenegro's **anti-corruption policy framework** is weak, as most of its national anti-corruption policy documents expired in 2018-19. Montenegro used to plan its anti-corruption policy in the context of the EU accession process. The Action Plan for Chapter 23 "Judiciary and Fundamental Rights" (AC23) of accession negotiations and the "Operating Document (OD) for the Prevention of Corruption in Areas Exposed to Special Risk" served as equivalents of an anti-corruption strategy and action plan. The last public report on the implementation of the AC23 and OD covered the period July-December 2018 (Vlada Crne Gore, 2019[5]). Montenegro also reported to the European Commission on the progress of implementation in 2019. However, since then no monitoring or reporting activities have taken place, suggesting that the implementation of the AC23 and OD have halted.

In 2022, Montenegro initiated preparations for the development of a new national anti-corruption policy document. The government issued a call for consultations with interested members of the public, and organised focus groups along 11 thematic areas with representatives from the public sector, non-governmental organisations, the business sector, academia and citizens. Moreover, in 2022 the

government set up a multi-stakeholder co-ordination body, the National Council for Combating Corruption, which is tasked with preparing the anti-corruption strategy and action plan as well as with subsequently monitoring the implementation and reporting on progress. The prime minister heads the Council, which consists of representatives from various public authorities and several non-governmental organisations. The constitutive session of the Council took place in January 2023 (European Commission, 2023[6]), but as of March 2024 the strategy is still in the process of being drafted.

The legal framework for **corruption risk assessment** in Montenegro is well established. The LPC, adopted in 2014, requires the adoption and regular renewal of integrity plans. These plans serve as internal anti-corruption documents, outlining measures to prevent and eliminate opportunities for corrupt and unethical behaviour within all public bodies. Corruption risk assessment plays a crucial role in the integrity plan preparation process, with its findings required to be reflected in the plans. The authorities must submit their integrity plans and annual implementation reports to the Agency for Prevention of Corruption (APC) and assess the plans' efficiency and effectiveness every second year. The level of compliance among public bodies regarding the development, adoption and renewal of integrity plans, including the implementation of corruption risk assessments, is generally high. As of end-2023, 98.9% of authorities had adopted integrity plans. The APC monitors the corruption risk assessments of the authorities and has found a decrease in the average risk intensity. By the end of 2016, the average risk intensity across all valid integrity plans was 27.1 (on a scale of 1-100 with 1 signalling no corruption risks and 100 signalling high corruption risks). By comparison, the average risk intensity had decreased to 20.6 in 2023 (APC, 2024[7]). The APC's report, however, did not examine the quality of the authorities' assessments as such.

In 2021, the APC developed in co-operation with the United Nations Development Programme (UNDP) a methodology for assessing the application of anti-corruption measures to enhance the content and effectiveness of integrity plans. In 2022, this methodology was applied in the state administration and other public authorities as well as by social and child protection authorities (APC, 2023[8]). The report on the state administration highlighted several issues, including infrequent updates to risk registers and the tendency for adopted plans to remain valid for extended periods. Recommendations from the report stress the need for authorities to focus on risk specific to their roles, specify detailed residual risks, and establish corresponding mitigation measures (Sosic, 2022[9]). Montenegro has the legal basis and methodology for **corruption proofing of legislation**. The LPC envisages proofing indirectly, by granting the APC authority to provide opinions on draft laws, other regulations and general acts regarding their alignment with international anti-corruption standards. As such, the APC can propose amendments to regulatory acts to eliminate corruption risks or to enhance alignment with international standards. Within the APC the Section for Monitoring Regulations and Provision of Opinions on Regulations in the Field of Anti-Corruption is responsible for corruption proofing of legislation. The APC has in addition developed a methodology for corruption proofing (APC, 2022[10]). However, the agency's website lists only one out of four anticipated staff members for this section, suggesting either a genuine shortage in human capacity or sporadic updates to the website. While the APC published only 7 opinions in 2018-20, there was an increase in activity with 10 opinions published in both 2021 and 2022, and 11 in 2023. Moreover, the APC carried out a broader analysis of 14 legal acts in the field of conflicts of interest in 2022 (APC, 2022[11]). Montenegro provided evidence that recommendations of the APC have led to modifications in several cases. For example, in 2022, the government terminated the "Decision on the method and criteria for solving the housing needs of officials" in response to the critical opinion of the APC on corruption risks. Additionally, in 2022 the APC proposed a set of questions for mandatory preliminary corruption risk assessment during the drafting of laws, but as of November 2023 these proposals have not been adopted (APC, 2022[12]).

### *Sub-dimension 6.2: Prevention of corruption*

The APC, established in 2016, is Montenegro's main **corruption prevention body** with a broad competency. The LPC includes strong safeguards to uphold the autonomy and accountability of the APC,

which is accountable to the parliament. The APC is overseen by its governing bodies – the Council and the Director. The Council consists of five members who are selected based on a public vacancy announcement and appointed by the parliament. The most recent Council members were elected in 2019, and their terms expired in 2023. As of March 2024, new Council members have yet to be selected. The Council selects the Director based on a public call and has the authority to dismiss the Director. The procedures are designed to ensure transparency, while minimising undue influences. Over recent years, the APC experienced significant budget increases, reaching over EUR 2 million in 2023. While the capacity of the APC has been improving, it falls short of target levels. As of September 2023, only 61 employees were actively engaged in their roles despite a target number of 77 staff (APC, 2023[13]). The APC regularly prepares activity reports, which are all published on line, contributing to the transparency and accountability of the APC.

Trust in the APC's independence and effectiveness has improved over time, although it remains far from universal. The 2023 report of the European Commission noted an improvement of the APC's performance in "quantitative terms" (European Commission, 2023[6]). In 2022, the Groupe d'États contre la corruption (GRECO) issued a cautiously favourable opinion noting signs of progress towards more independence, efficiency, and pro-activeness, especially after the appointment of the new director in 2020 (GRECO, 2022[14]). Civil society analysts have also noted a heightened level of proactivity from the APC, including investigations against high-level public officials. Nevertheless, concerns persist regarding the practical independence of the APC (Papovic et al., 2023[15]).

The LPC governs the management of **conflicts of interest,** which apply to a wide range of public officials. Civil servants, however, are not considered public officials and are subject to conflict-of-interest rules of the Law on Civil Servants and State Employees. While the LPC outlines measures to address conflicts of interest, it lacks specific guidance on the actions that public officials must take to effectively avoid such conflicts. The APC, as the competent oversight institution, has been increasingly active in issuing opinions (2020-23) on conflicts of interest and compliance with restrictions in exercising public functions and finding violations (2021-23) (Table 7.3). The Director of the APC has the authority to decide whether a public official has violated the provisions of the LPC. Once a decision is made, it is published on line. If the decision confirms a violation, the APC notifies the relevant authorities where the officials serve to initiate procedures of dismissal, suspension, or the imposition of disciplinary measures. As such, a total of 20 resignations were prompted by the opinions and decisions of the APC in 2023, showing a decrease compared with earlier years, possibly indicating greater compliance by public officials. Some violations are sanctioned as misdemeanours although the number of such sanctions has been declining (APC, 2023[8]; 2024[7]). Moreover, sanctions related to violations of post-employment rules are notably scarce.

### Table 7.3. Oversight and enforcement to prevent conflicts of interest and breaches of limitations in the exercise of public functions (2020-23)

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Opinions on conflicts of interest and compliance with restrictions in exercising public functions issued by the APC | 135 | 186 | 213 | 227 |
| Number of violations in the areas of prevention of conflicts of interest and limitations on the exercise of public functions found by the APC | 38 | 23 | 24 | 27 |
| Resignations prompted by the opinions and decisions of the APC due to functions or duties incompatible with public office | 41 | 26 | 24 | 20 |
| Misdemeanour sanctions | 7 | 6 | 3 | 2 |
| Sanctions related to violations of post-employment rules | 0 | 0 | 1 | Missing data |

Source: Public reports of the APC and data provided by Montenegro's authorities in the context of the *Competitiveness Outlook* assessment.

Various challenges persist, such as the courts imposing minimal fines and the lack of a requirement for state institutions to provide updated lists of public officials to the APC on a regular basis. These issues affect not only the controlling of conflicts of interest but also income and property verification of public officials (Gilic, 2023[16]). The procedure whereby the APC finds facts and decides on the existence of a violation, while other entities handle the legal repercussions, further constrains the effectiveness of the law. The government did not provide any evidence of invalidating decisions or contracts made in breach of conflict-of-interest rules, suggesting that consequences of conflicts of interest are not necessarily fully remedied.

All public officials and certain categories of civil servants are required to comply with **asset and interest disclosure** requirements. Members of a political official's cabinet, however, are exempt from this obligation. The declarations generally comprise comprehensive data, although there are some notable gaps. For instance, there are no explicit requirements to report beneficial ownership, virtual assets, or movable assets registered abroad. Additionally, there is no requirement to provide transaction values for asset acquisitions and other major expenses in the declaration form in a consistent manner, which complicates financial analysis of the data. The digital system for declaration is well developed with an online platform that facilitates the submission of declarations and publishes declared information by default, with certain data exempted for privacy reasons. The platform also allows for declarations to be searchable and electronically readable, making it easier for the public to access and analyse the information. In recent years the APC has reached agreements with all relevant authorities to access data for the verification of declarations. However, a significant obstacle remains due to the LPC's stipulation that the APC must obtain consent from public officials to gain access to their bank data. In collaboration with a software company, the APC is in the process of further enhancing the digital system for the verification and analysis of declarations.

The APC's section responsible for verification of income and assets of public officials has seven staff positions, although the website of the APC only lists four employed officers, suggesting limited human resources. In recent years, the APC has been issuing constantly rising numbers of requests to courts to initiate misdemeanour proceedings for violations related to the reports of assets and income (Table 7.4). According to the APC, the primary reasons are related to failure to submit annual asset declarations in due time and failure to submit declarations after termination of office.

### Table 7.4. Misdemeanour proceedings for violations related to the reports of assets and income

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Requests to courts to initiate misdemeanour proceedings for violations related to the reports of assets and income | 442 | 1 002 | 1 057 | 1 722 |
| Fines imposed by courts | 177 | 473 | 332 | 388 |
| Warnings issued by courts | 88 | 229 | 438 | 595 |

Source: Public reports of the APC.

While the APC verifies a large share of declarations, with a focus on cross-checking the reported data with databases of the competent authorities, the number of full in-depth verifications remains limited, totalling only 20 annually in 2021-23 (APC, 2023[8]) (APC, 2024[7]). The APC does not have the mandate to conclusively determine instances of inexplicable wealth based on the verifications. In case of suspected inexplicable wealth, the APC refers the files to the prosecutor's office with unclear prospects of legal consequences.

The LPC also contains provisions for the **protection of whistleblowers** who report corruption-related wrongdoing that they believe to be true at the time of reporting and do so in good faith. These protections are crucial in fostering a culture of accountability and transparency and extend to employees in both the

public and private sector. However, the law deviates in several ways from the EU Directive 2019/1937 on the protection of persons reporting breaches of EU law. The good faith standard may lead to unfair and unnecessary deprivation of protection if implementers decide to probe the motives of whistleblowers. Additionally, the LPC limits whistleblowing to corruption-related matters and does not explicitly provide protection for whistleblowers who disclose information publicly. Furthermore, while the LPC lists fewer and narrower forms of retaliation than the relevant EU Directive, it does not exclude considering other types of retaliation. The burden of proof on the person or entity that may have committed an act of retaliation against a whistleblower is narrower in Montenegro, with the LPC requiring proof that the act was not a result of whistleblowing. In contrast, the EU Directive demands proof that any retaliation was founded on duly justified grounds. The LPC's relevant provisions also lack specificity regarding available protection measures, such as full legal aid, compensation for damage and interim protection before the resolution of legal proceedings. In the past, Montenegro faced public controversy over decisions to reject whistleblower protection status, most notably in the case where a hotel employee was fired in 2016 after revealing that a public entity paid the bill for a political party, and was not granted protection as a whistleblower (Council of Europe, 2017[17]). However, there has been a steady rise of whistleblower reports received by the APC over time, rising from 75 reports in 2020 to 190 in 2023. Despite this increase, the effectiveness of whistleblowing in uncovering corruption has been modest. In 2023, the APC completed 64 procedures based on whistleblower reports. Additionally, based on whistleblower reports, the APC referred 12 proceedings to the prosecutor's office in 2022 and 16 in 2023, and received feedback that in two cases from 2022 investigations have been initiated (APC, 2023[8]) (APC, 2024[7]).

The APC regularly carries out **anti-corruption public awareness and education** activities. In 2022-23, the APC ran a campaign with posters and video material to promote corruption reporting and to inform the public about whistleblower protection. The agency also focused on facilitating the process of income and asset declarations for public officials by publishing a manual and video with information on deadlines and reporting procedures (APC, 2022[18]). In 2023, the APC launched a communication strategy for the period 2023-25 laying out its plan to improve public understanding of the APC's role, improve the presentation of achieved results, strengthen society's resistance to corruption, and increase the number of registered lobbyists. Moreover, training activities constitute a fundamental aspect of the APC's awareness-raising efforts, with events organised for newly appointed public officials and for entities subject to the law under the jurisdiction of the APC (APC, 2023[8]). In the period 2018-22, the APC budgeted annual procurement expenses for awareness-related activities ranging between EUR 13 000 and EUR 69 000, reflecting a serious commitment by the authorities to public awareness and education on anti-corruption efforts. The APC has a dedicated Section for Public Relations, Research and Campaigns with four staff members. Furthermore, the agency commissioned opinion surveys, including on "Public Attitudes on Corruption and Awareness of the Work of the Agency for Prevention of Corruption". This survey gauges citizens' trust in the APC, their perceptions of the APC's contribution to the overall fight against corruption, and their willingness to report corruption to the APC and other institutions (APC, 2021[19]). A new survey has been conducted in 2023, reflecting a relatively high trust of citizens in the APC (APC, 2024[7]). According to the authorities, the results of these surveys have been considered in the preparation of planning documents of the APC.

### *Sub-dimension 6.3: Business integrity and corporate liability*

The policy framework for strengthening **business integrity** is limited in Montenegro. While the Law on Business Organisations, adopted in 2020, stipulates the development of companies' risk management policies as one of the responsibilities of the board of directors, it does not mandate responsibilities regarding corruption risk management. Moreover, there is no out-of-court mechanism, such as a business ombudsman, to address claims of companies that have been impacted by corruption-related activities. The Chamber of Economy of Montenegro, representing Montenegrin business interests, adopted the Business Ethics Code in 2011. According to the Chamber's legal foundations, a Court of Honor is set up which

decides in proceedings against members of the Chamber for violating the rules of good business conduct. However, annual reports of the Chamber do not contain any evidence of court activity, thus hindering an assessment of the effectiveness of such proceedings.

According to the Law on Prevention of Money Laundering and Terrorist Financing, adopted in 2018, Montenegro's tax administration keeps and maintains a register of beneficial owners, which was launched in 2021 within the Central Register of Business Entities. The definition of a beneficial owner largely reflects the definition of the EU anti-money laundering directives. Entities must provide the data about beneficial owners within eight days from their registration or from the change of the beneficial owners, which indicates a possible gap exempting entities that have been established before coming into force of the provision. The law provides for sanctions in the form of fines ranging from EUR 3 000 to EUR 20 000 for the failure to provide data on beneficial owners or inform about changes in beneficial ownership. However, there are no data available about the practice of imposing these sanctions.

Montenegro's legal framework clearly establishes the **liability of legal persons**, which subject to the conditions of the Criminal Code of Montenegro are liable for all criminal offences. The Law on Criminal Liability of Legal Entities establishes a comprehensive framework for imposing penalties on legal entities found guilty of offences, including both financial repercussions amounting to at least double the illicit gains or damages incurred, and a spectrum of non-monetary sanctions such as security measures. This law also establishes the autonomous liability of legal persons, contingent upon identification of the physical person within the organisation. The law moreover outlines sentencing principles specifically designed for legal persons, offering the possibility of a reduced fine or exemption from punishment if the legal person has undertaken all the necessary, effective, and reasonable measures to prevent and uncover the commission of the criminal offence. A legal person shall be liable for criminal offences of a responsible person who committed the criminal offence acting within their authority on behalf of the legal entity with the intention to obtain some gain for the legal entity, or when the activity of the responsible person was contrary to the business policy or orders of the legal entity. Hence, corporate liability is not automatically invoked for acts committed by lower-level employees or beneficial owners. Despite the existence of these legal provisions the actual enforcement of corporate liability for corruption-related offences appears to be lacking, as there are no online statistics available detailing the prosecution, trial outcomes, or sanctions imposed on legal entities for such transgressions.

### *Sub-dimension 6.4: Investigation and prosecution*

Montenegro has a limited track record in the **investigation and prosecution of high-level corruption**. Performance reports of the Prosecutorial Council and State Prosecutor's Office contain data about cases of high-level corruption, but the definition of high-level corruption, as per the Law on SSPO, is rather broad and comprises offences committed by public officials of any level (Prosecutorial Council, 2023[20]). The track record of convictions for high-level corruption in 2018-22 remained limited and decreased in 2021-22. According to data provided by Montenegro, the number of convictions, subject to appeal and final, for high-level corruption have been consistently low (Table 7.5).

**Table 7.5. Misdemeanour proceedings for violations related to the reports of assets and income (2018-22)**

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Number of convictions (subject to appeal and final) for high-level corruption | 0 | 3 | 3 | 2 | 1 |
| Final sanctions that entailed imprisonment without conditional or other type of release | 0 | 2 | 3 | 1 | 1 |

Source: Data provided by Montenegro's authorities in the context of the CO 2024 assessment.

The SSPO has started several high-profile investigations of corruption. In 2023, the parliament lifted the immunity of five members of parliament upon request of the SSPO in a case related to suspected abuse of office in the allocation of apartments and loans (European Commission, 2023[6]). No evidence has been provided regarding confiscations or return of corruption proceeds from abroad in high-level corruption cases in 2018-22.

The SSPO, established in 2015, forms the core of the **specialised anti-corruption investigative and prosecutorial bodies** and has several safeguards of independence. The competency of the SSPO covers various corruption offences committed by public officials, money laundering, the abuse of position in business operations and the abuse of authority in economy if the obtained proceeds exceed EUR 40 000. The SSPO brings its actions before the Special Division of the High Court in Podgorica. The Law on the SSPO contains several guarantees for the independence, transparency and accountability of the SSPO. The Chief Special Prosecutor and special prosecutors are selected from applicants who have responded to a public advertisement and are elected by the Prosecutorial Council. The law sets out the selection process and criteria in detail. The tenure of the Chief Special Prosecutor is five years while special prosecutors shall be elected to serve life tenure if they have worked for at least four years as a state prosecutor or as a judge. However, the autonomy of the SSPO is limited in that the Supreme State Prosecutor may directly exercise all powers and undertake all actions for which the head of the SSPO is authorised. Despite the consistent occupancy of the acting Supreme State Prosecutor position by the same individual since 2019, the prosecution system lacks a properly appointed leader, resulting in instability in the position. Montenegro has made efforts to strengthen the capacity of the SSPO. According to the government, the number of prosecutors of the SSPO increased from 13 in 2018 to 18 in 2022, but the external report cites fewer prosecutors and raises concerns about persistently poor office conditions (European Commission, 2023[6]). The SSPO has a separate budget since 2022 that was totalling over EUR 1.6 million in 2022 and over EUR 2 million in 2023, reflecting efforts to strengthen the institution. In 2022, the SSPO filed 230 indictments for offences of high-level corruption (Prosecutorial Council, 2023[20]). While this figure appears substantial, the expansive scope of the term “high corruption” in Montenegro implies that numerous cases might not meet the criteria for high-level corruption as per the OECD definition.[1]

Montenegro’s specialised investigation units operate within the police. The Police Directorate comprises the Special Police Division (SPD), which has recently expanded from 32 to 50 positions. Additionally, in 2022, the Department for Fighting against Corruption, Economic Crime and Conducting of Financial Investigations was formed within the Police Directorate, comprising 60 posts. However, a significant share of the newly created posts has remained vacant as of November 2023 (European Commission, 2023[6]). The new rulebook introduced in the Police Directorate in 2022 envisages the possibility of employing bank, accountancy and tax specialists (European Commission, 2023[6]). The SPD is an integral organisational unit of the Police Directorate and, as such, does not have special formal independence guarantees different from those of other police units. The head of the division is appointed by the director of the administrative authority responsible for police affairs subject to the consent of the Chief Special Prosecutor, and the SPD acts on the orders and instructions of a special prosecutor. The independence of the SPD is a matter of controversy, as evidenced by an expression of the Minister of Justice that the division’s head “will not be the head” of the SPD (State Prosecutor, 2023[21]).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro’s progress on implementing past CO recommendations has been modest (Table 7.6). In some areas, such as the alignment of the whistleblower protection framework with the relevant EU Directive or the improvement of anti-corruption investigative and prosecuting bodies’ independence, no tangible

progress has been observed. The most notable improvements have been made in the enhanced practice of corruption proofing legislation and establishing a beneficial owners register.

### Table 7.6. Montenegro's progress on past recommendations for anti-corruption policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Develop and adopt a renewed national anti-corruption plan or strategy based on an overall corruption risk and gap assessment | In 2022, Montenegro initiated preparations for the development of a new national anti-corruption policy document. However, no draft of the document has been published. | Limited |
| Widen the scope of corruption proofing of legislation to cover most of the laws and regulatory acts that may embody corruption risks. For this task, the capacity of the APC may need to be strengthened | The APC increased the number of assessments of legislation in 2021-23. However, assessments for all draft laws are not mandatory. Moreover, the relevant corruption proofing section of the APC falls short of projected staffing levels. | Moderate |
| Strengthen the verification of asset and interest reports by encouraging public officials to give permission for the APC to access the necessary bank information and by exploring the options for developing an advanced electronic risk monitoring system. Explore further possibilities for strengthening the effectiveness of inexplicable wealth detection | The APC is developing a new digital system for the verification and analysis of the declarations. In case of suspected inexplicable wealth, the APC refers the files to the prosecutor's office with unclear prospects of legal consequences. | Limited |
| Continue the dissemination of information for potential whistleblowers. Strive to fully implement the EU Directive regarding opportunities for public reporting | In 2022-23, the APC produced and disseminated posters and a video animation to promote reporting of corruption as well as to inform the public about whistleblower protection. The Law on Prevention of Money Laundering and Terrorist Financing has not been amended to align with the EU Directive on opportunities for public reporting. | Limited |
| Ensure registration and oversight of the disclosure of beneficiary owners of legal entities | The beneficial owners register was launched in 2021. The law provides fines for failure to provide data on beneficial ownership but no data regarding oversight are available. | Moderate |
| Consider further strengthening the independence of anti-corruption investigative and prosecuting bodies | No evidence of progress. | None |

## The way forward for anti-corruption policy

Considering the varied level of implementation of the previous recommendations, Montenegro may wish to further strengthen its anti-corruption framework and practice by continuing to follow the policy advice of the CO 2021. These policy recommendations, with some elements added to fine-tune them, are as follows:

- **Intensify efforts to develop and adopt a new national anti-corruption policy document** based on an overall corruption risk and gap assessment. The United Nations Convention against Corruption requires that states develop and implement or maintain effective, co-ordinated anti-corruption policies that promote the participation of society (United Nations, 2004[22]). Montenegro should introduce participatory and evidence-based practices to develop its planned anti-corruption strategy and action plan, which have become a staple in anti-corruption efforts in OECD countries. Elements of the development of an anti-corruption action plan in Greece could offer some useful inspiration for Montenegro, as Greece developed its National Anti-Corruption Action Plan 2022-25 based on a comprehensive assessment of the previous plan's outcomes and impact, and in consultation with various stakeholders from the public, private and civil society sectors. An action identification document was prepared for each new planned action with details on stakeholders, descriptive analysis of the action, implementation steps, deliverables, and outcomes. Another innovative element was a comprehensive set of output and results indicators to allow for measuring the outcomes and the impact of the interventions (Huss et al., 2023[23]).

- **Enhance legal clarity for public officials in instances of conflicts of interest**. Montenegro should enhance clarity within the Law on Prevention of Corruption (LPC) regarding the procedural steps that public officials must follow in case of conflict of interest. Moreover, the economy should introduce the practice of invalidating decisions or contracts made in circumstances of conflict of interest. The OECD *Guidelines for Managing Conflict of Interest in the Public Service* (2004[24]) defines several strategies for the resolution or management of a conflict of interest, such as the recusal of the public official from involvement in an affected decision-making process; the restriction of access by the affected public official to particular information; the transfer of the public official to duty in a non-conflicting function; or the resignation of the public official from their public office (OECD, 2022[25]).
- **Strengthen the verification of asset and interest reports** by addressing any existing deficiencies within the reports; facilitating access of the APC to the necessary bank information; launching a digital risk monitoring system for detecting violations of law; and strengthening analysis to detect possible inexplicable wealth. The *Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials* (2014[26]) recommends that banking secrecy should not be an obstacle to using banking data to verify the economic plausibility of the declared information. Moreover, verification should not be limited to comparing data but should aim at detecting undeclared cash flows and any possible illicit origin. In numerous OECD member countries, bodies responsible for oversight of asset declarations have access to banking data regardless of consent of the public official concerned. The good practice example of the National Integrity Agency in Romania demonstrates that protective measures against the misuse of banking data can be established without necessitating consent of the audited person, as opposed to the current practice in Montenegro (Box 7.1).

### Box 7.1. Access to banking data in the case of the National Integrity Agency of Romania

When carrying out wealth evaluations, an integrity inspector of the National Integrity Agency (NIA) may request documents and information from all institutions and public authorities, other legal entities under public or private law, and individuals. The integrity inspector is obliged to treat the accessed information confidentially.

The evaluation, which includes routine requests of bank data, is designed to check whether there are substantial disparities in wealth, specifically when exceeding EUR 10 000, observed during the exercise of public functions and income gained during the same period. The inspectors reconstruct the full picture of the asset situation of the audited persons and request banking information concerning all declarants that have been selected for the relevant audit. Prior to this, the NIA solicits information regarding the existence of bank accounts from the tax administration.

The banking information that the NIA has access to includes current, capital and deposit accounts, account balances and turnover, transactions, and (notably) transfers to foreign financial institutions. As a safeguard, integrity inspectors may request data or information that are not public only after informing the person who is the subject of the evaluation and inviting them to present their point of view. This illustrates that protective measures against the misuse of banking data can be established without necessitating the consent of the audited person.

Sources: Law No. 176 of 1 September 2010 Regarding Integrity in the Exercise of Public Functions and Dignities, for the Amendment and Completion of Law No. 144/2007 Regarding the Establishment, Organization and Operation of the National Integrity Agency, as well as for the Modification and Completion of Other Normative Acts, https://legislatie.just.ro/Public/DetaliiDocument/248216; Information provided by the National Integrity Agency in 2022.

- **Further develop legislation to protect whistleblowers**, including by removing the good-faith requirement; explicitly providing protection for public disclosure; broadening the burden of proof on the person or entity that may have committed an act of retaliation against a whistleblower; defining more specifically protection measures such as full legal aid, compensation for damages and interim protection before the resolution of legal proceedings; and expanding the scope of the rules to cover those who report violations other than corruption. The good-faith motive of a whistleblower is immaterial for the merits of the reported information. The relevant EU Directive explicitly envisages protection for a person who makes a public disclosure if, among other things, the person has reasonable grounds to believe that the breach may constitute an imminent or manifest danger to the public interest.
- **Further strengthen the independence of anti-corruption investigative and prosecuting bodies**. Ongoing political controversies surrounding the leadership of the Special Police Division (SPD) contribute to the continuing relevance of this recommendation. Standards under the United Nations Convention against Corruption state that a body or bodies or persons specialised in combating corruption through law enforcement should be granted the necessary independence, in accordance with the fundamental principles of the legal system of the State Party, to be able to carry out their functions effectively and without any undue influence (United Nations, 2004[22]). Montenegro should consider introducing additional measures for safeguarding the independence of the SPD, such as a more public and competitive process for selecting its management and ensuring reliable funding through strengthened budgetary guarantees. Montenegro should also consider whether granting the Supreme State Prosecutor direct authority to wield all powers and execute actions authorised for the head of the Supreme State Prosecution Office (SSPO) aligns with the requisite independence of the SSPO.

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## Notes

[1] High-level corruption: corruption offences, which meet any of the following criteria:

1) involve high-level officials in any capacity punishable by criminal law (for example, as masterminds, perpetrators, abettors, or accessories)

2) involve substantial benefits for officials, their family members, or other related persons (for example, legal persons they own or control, political parties they belong to).

A substantial benefit means a pecuniary benefit that is equal to or exceeds the amount of 1 000 monthly statutory minimum wages (or the equivalent of the minimum wage if it is not applicable) fixed in the respective country on 1 January of the year for which data are provided.

High-level officials are the President, Members of Parliament, Members of Government and their deputies, staff of private offices of political officials, heads of executive and other central public authorities and their deputies, members of collegiate central public authorities (including autonomous bodies), ambassadors

and heads of diplomatic missions, governors, heads of regional administrations, mayors of the country's capital and regional capital cities, judges, prosecutors, top managers and executive and supervisory board members of the 10 biggest state-owned enterprises in the economy, and any other officials defined as politically exposed persons under the national law.

# 8 Education policy

A robust education policy framework is essential for developing human capital and meeting the labour market's need for a skilled and productive labour force. This chapter, composed of four sub-dimensions, assesses the presence and efficacy of education strategies, legislation, programmes and institutions. The first sub-dimension, equitable education for an inclusive society, examines system governance and the quality of pre-university education starting from preschool. The second, teachers, looks at the selection, initial training and ongoing professional development and management of the teaching workforce. The third sub-dimension, school-to-work transition, focuses on VET governance and the labour market relevance and outcomes of higher education. The fourth sub-dimension, skills for green-digital transition, explores the frameworks and initiatives for fostering green and digital skills in education curricula.

# Key findings

Montenegro's overall score in education policy is higher than the WB6 average (Table 8.1). While its score remained stagnant compared to 2021, this is attributed to the inclusion of the "Skills for the green-digital transition" sub-dimension, which was evaluated for the first time in this assessment cycle. Nevertheless, Montenegro's performance in preparing for the green-digital transition is one of the best in the region. Additionally, the economy has achieved notable progress in improving the inclusiveness and quality of education.

### Table 8.1. Montenegro's scores for education policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Education | 7.1: Equitable education for an inclusive society | | | 3.0 | 3.3 |
| | 7.2: Teachers | | | 3.5 | 3.1 |
| | 7.3: School-to-work transition | | | 3.8 | 3.4 |
| | 7.4: Skills for the green-digital transition | | | 2.8 | 2.0 |
| **Montenegro's overall score** | | **2.8** | **3.2** | **3.2** | **3.0** |

The **key findings** are:

- Montenegro lacks a comprehensive education strategy, instead relying on individual strategies for most – but not all – levels of education. Updates of previous strategies have been delayed, leading to fragmented planning and implementation. However, efforts to develop an overarching education strategy for the period 2025-35 recently commenced with the support of the EU Delegation to Montenegro and the United Nations Children's Fund (UNICEF).
- The economy has some of the highest education enrolment rates in the region. It has particularly seen an upward trend in net pre-primary enrolment, where it has developed policies to increase accessibility for diverse groups through cost reduction and outreach programmes.
- While Montenegro has made progress in teacher education and professional development, there are no targeted efforts to increase the teaching profession's attractiveness or establish alternative pathways to becoming a teacher.
- The vocational education and training (VET) system demonstrates strong engagement with social partners and has clear regulations and quality standards. However, despite the high quality and relevance of its VET programmes, the economy continues to struggle with easing the school-to-work transition, with a NEET rate (not in employment, education or training) among youth of 20.0% in 2022.
- The framework for digital skills in Montenegro is advanced, including a Digital Competence Framework (2020) and a new Education System Digitalisation Strategy (2022-27). The strategy includes measures further to elaborate the Framework of Digital Competence of Students.
- Although Montenegro lacks a specific strategy for developing green skills, sustainable development topics are integrated across education levels, with tertiary institutions offering relevant courses. This signals progress towards addressing environmental concerns in education.

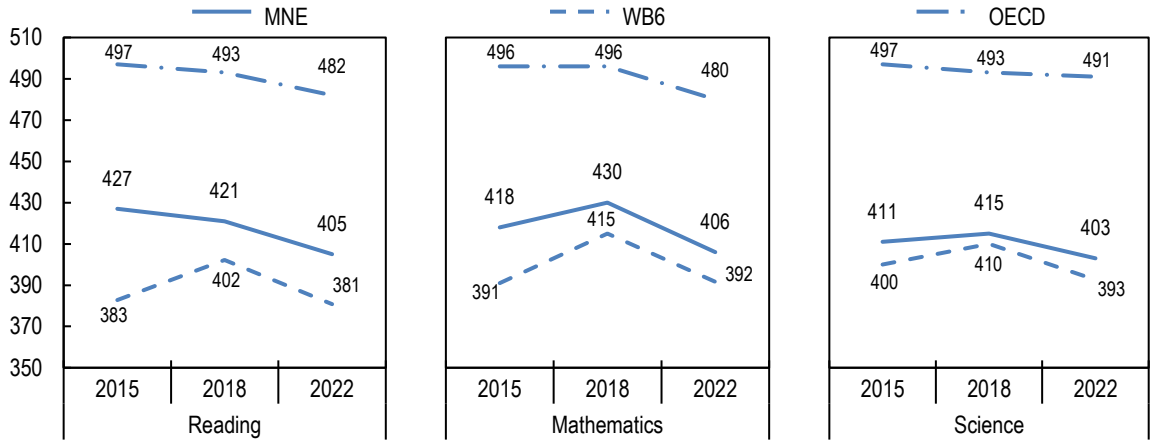
## State of play and key developments

Overall net enrolment rates are close to universal across lower education levels in Montenegro. Net enrolment rates in primary and lower secondary education are at 99.9% and 97.9%, respectively (UIS, 2023[1]). Although enrolment rates in upper secondary education fell by two percentage points between 2021 and 2022, decreasing to 86.6%, they are still the highest among the WB6. However, EU and OECD averages in net enrolment rates in upper secondary are six percentage points higher, at 93% each.

Montenegro's performance in the Programme for International Student Assessment (PISA) 2022 is the second highest of the Western Balkan economies, exceeding average regional performance in the three assessed subjects (Figure 8.1). However, despite an overall decline in scores in mathematics, reading, and science by 5, 16, and 12 points respectively between 2018 and 2022, the economy has managed to contain this decline quite effectively compared to other PISA-participating countries. Additionally, 60% of participating students in Montenegro scored below level 2 in all three subjects in PISA 2022, double the OECD average of 30%. In addition, 74% of students at the bottom of the ESCS (PISA index of economic, social, and cultural status) were among the low performers in PISA 2022 (OECD, 2023[2]).

### Figure 8.1. Performance in reading, mathematics and science in Montenegro, the Western Balkans and the OECD (2015-22)

Scoring in reading, mathematics and science is expressed in points




Note: WB average excludes Bosnia and Herzegovina for PISA 2015 and PISA 2022, and excludes Serbia for PISA 2015.
Source: OECD (2023[2]).

Some of Montenegro's **system governance** features align with the policies and practices found in European and OECD education systems. For instance, the National Qualifications Framework has been referenced to the European Qualifications Framework. Furthermore, the Montenegrin Education Information System is in place, which stores information on the education system and monitors performance through a set of key indicators. The system contains data on students' learning outcomes, absences and external testing in addition to information on teaching and other education staff and the infrastructural conditions of schools (Eurydice, 2024[3]).

Contrary to most WB6 economies, Montenegro does not have an overarching education strategy. However, a comprehensive Education Sector Strategy will be developed for the period 2025-35, accompanied by an Action Plan, in co-operation with the EU Delegation to Montenegro and the United Nations Children's Fund (UNICEF). The objectives of this strategy are entirely based on the findings of the Education Sector Analysis, published in 2022. A joint initiative of Montenegro's Ministry of Education, Science and Innovation (MESI) and UNICEF, this analysis aims to be a basis for comprehensive, systemic, well-co-ordinated and evidence-based reforms. To date, there are several individual strategies covering different levels of education, such as the Strategy for Early and Preschool Education in Montenegro (2021-25) and the Strategy for the Development of Vocational Education (2020-24). Monitoring of strategic documents is carried out by co-ordination bodies that, as a rule, meet quarterly to analyse the implementation of planned activities. Other strategic documents, such as the Strategy of General Secondary Education (2015-20) and the Higher Education Development Strategy (2016-20), have expired, but new drafts are currently being prepared.

The evaluation mechanisms overseen by the Bureau for Education and the Centre for Vocational Education play a pivotal role in assessing the educational system, spanning from pre-university to university education, and are instrumental in shaping policy. These two entities are responsible for conducting external evaluations of all pre-university education institutions at least once every four years. Reports on these assessments are published on the websites of the Bureau for Education and the Centre for Vocational Education. Additionally, schools prepare self-evaluation reports, and develop improvement plans based on the recommendations from the self-evaluation and external evaluation reports.

Complementing this broader evaluation framework, MESI conducted external evaluations of all higher education (HE) institutions through the Institutional Evaluation Programme (IEP) by the European University Association (EUA). This assessment led to the publication of an integrated report as well as individual institution reports. System evaluation of the VET sector is done in partnership with the European Training Foundation and the International Labour Organization (ILO). The findings of the evaluation on the implementation of the previous VET Strategy were used to inform the development of the 2020-24 VET Strategy.

Montenegro's net pre-primary enrolment has been experiencing an upward trend over the past five years. The enrolment rate stood at 77% in 2021, which was far above the WB6 average (63%) but still below the EU average (88%) (UIS, 2023[1]). The main strategic document covering **early childhood education and care** (ECEC) in Montenegro is the Strategy for Early and Preschool Education (2021-25). This document has clear objectives to increase coverage and improve the quality of preschool education, as well as improve the chances for early development of children from vulnerable groups. However, there is still a lack of curricular guidance and regular policy adjustments based on monitoring data. A working group established by the MESI annually defines an operational plan for the implementation of the Strategy's Action Plan. In addition, even though the sector is not exclusively donor-funded, donor-led initiatives still hold significant importance.

To expand ECEC provision and to make it more accessible to marginalised groups, there are policy measures in place such as adjusting opening hours of facilities and measures to help reduce cost barriers for families. For instance, preschool education is free for vulnerable groups of children, including those with special education needs and those who are socio-economically disadvantaged. Outreach to families and communities about the importance of early education has been addressed through various programmes led by MESI and international partners (such as UNICEF). The framework guiding preschool education encourages the development of knowledge, skills and aptitudes supporting competencies key to lifelong learning. In addition, there is a concept note for the transition into primary school, but there is no curricular guidance or framework documents at this level. The concept note sets out activities (such as student workshops, school visits and meetings between educational staff and parents) that ensure continuity across education levels, although it does not outline learning standards for this level of education.

Regarding ECEC staff, clear and differentiated education requirements are well established. The Department for Continuous Professional Development of the Bureau of Education regularly implements trainings for ECEC personnel. Trainings are organised in accordance with the Catalogue adopted by the National Council. A range of data on the ECEC sector is collected on a regular basis and shared publicly. However, there are no examples of the regular monitoring or reporting contributing to the adjustment of policy.

There is significant scope to strengthen Montenegro's approach to ensuring **quality instruction for all**. As previously stated, the economy currently lacks a comprehensive strategy for its entire education system, although the ongoing project to develop the Education Sector Strategy marks a notable advance since 2021. Instead, Montenegro has multiple strategies addressing different levels of education over various time periods. Additionally, the economy has in place the Strategy for Inclusive Education 2019-25, an intergovernmental strategy that aims to support students with special education needs.

To assess student learning outcomes, Montenegro administers two national examinations designed to evaluate students' knowledge, skills and competencies in specific subjects, ensuring they meet educational standards. As stipulated in the Law on Primary School, the first exam is taken upon completing primary school, which is Grade 9 due to the economy's single structure education system. This exam covers Montenegrin-Serbian, Bosnian, or Croatian language and literature (based on the student's mother tongue), mathematics, and one elective subject. The second exam, known as the matura exam, is taken at the end of general secondary education (Grade 12) and tests students on literature, mathematics or a first foreign language, and two elective subjects. This is a positive step aligning with practices observed in several OECD countries, where core language and numeracy are compulsory, but there is flexibility for students to demonstrate their knowledge in other subjects. Both exams serve to certify students' completion of primary and upper-secondary education, respectively. The economy's Examination Centre is responsible for administering these two examinations as well as several international assessments in which Montenegro participates, including PISA, the Trends in International Mathematics and Science Study (TIMSS) and the Progress in International Reading Literacy Study (PIRLS).

There are school quality standards in line with the Law on General Education. The Law and a rulebook prescribe the content, forms and manner of quality assessment of educational work at preschool institutions, primary schools, gymnasiums, vocational schools, educational centres, resource centres, adult education providers and boarding homes for students.

Over the past decade, Montenegro's share of early school leavers has generally fluctuated between 5.0% and 6.0%.[1] However, this rate reached a 10-year high in 2021, peaking at 6.7%. Despite these variations, Montenegro's rate has remained comparatively low at 5.2% in 2022, making it one of the lowest among the WB6 economies and below the EU average of 9.6% (Eurostat, 2023[4]). The IPA Project "Improvement of educational programmes and services to meet the needs of marginalised groups", which concluded in December 2020, enhanced 54 educational modules and redesigned 16 educational programmes for students at risk of leaving, such as students with special education needs or Roma and Egyptian children. A Protocol on the Procedure and Prevention of Early School Leaving was drawn up with clearly defined multidisciplinary actions of the competent institutions. The Montenegrin Education Information System created an application to identify the risk of early school leaving at the primary and secondary school level. Risk indicators, record parameters, warning criteria and measures to be taken have been set.

### *Sub-dimension 7.2: Teachers*

Montenegro's strong performance in this sub-dimension is largely due to the comprehensive Teacher Education Strategy (2017-24), which outlines measures and goals guiding both initial teacher education and teachers' professional development. However, while this strategy has a designated budget, measures linked to other education budgets (i.e. those under different strategic frameworks) are not included, which can reduce the likelihood of these activities' successful implementation.

According to the Law on Higher Education, **initial teacher education (ITE)** is the responsibility of higher education institutions, which allows them to set the requisite conditions and criteria for entry into ITE. There are no minimum requirements aside from having completed secondary education, although some institutions require entry exams. ITE comprises an integrated bachelor's and master's programme and focuses on student learning outcomes. There is an accreditation process for ITE, based on professional teacher standards. Programmes consist of pedagogical, psychological and didactic-methodological training, with the acquisition of content-oriented knowledge in core areas and 25% of learning time for practicum.

There apparently are no targeted efforts to increase the attractiveness of the teacher profession, although Montenegro reports that recent increases to salary and other benefits have helped to enhance the field's appeal. Moreover, there are not any alternative pathways to enter the teaching profession other than through ITE. A novice teacher must go through a one-year traineeship, realised through the mentoring process by a trained teacher-mentor. After this practical learning experience is completed, the candidate must take a professional exam, which is a precondition to obtain a teaching licence (which is valid for five years). There are data on the teaching workforce and ITE, and some evaluations and analysis of the sector have been performed.

In addition to ITE, the Teacher Education Strategy (2017-24) addresses **teacher professional development**. Complementing this framework is the Strategy for the Development of Vocational Education (2020-24), which addresses professional development for vocational education teachers. Teachers in Montenegro follow a progressive career structure, starting as a beginner teacher after passing the professional exam and during their first year of work. They then progress through stages as a teacher in development, competent teacher, exemplary teacher, and finally, expert teacher. More senior teacher titles include teacher mentor, teacher advisor, teacher senior advisor and finally teacher researcher. Advancing to each level is based on work efficiency, as demonstrated through positive work performance evaluations, active participation in professional development, and the demonstrated application of professional knowledge. These factors are measured through students' performance in school, success in local, national and international competitions, and involvement in extracurricular activities, among others.

Regardless of their career stage, all teachers are subject to the same professional standards[2] – meaning that these standards do not define increasing responsibilities, competencies or specialisations as teachers progress in their careers. These standards are used to design ITE programmes and plan the professional development of the school principal and teacher. Funding for teacher professional development comes from MESI, the Centre for Vocational Education/Bureau for educational services, schools, international projects and teachers' personal budgets. In some cases, funds are transferred directly to schools, especially in the case of international projects.

Professional development needs are determined using a range of sources, such as self-appraisals or surveys, or appraisals by school leadership and external experts (i.e. inspectors). Other sources include research, external school evaluations (required at least once every four years) and internal school self-evaluations. Teachers are required to take part in professional development, although financial incentives are also available to further encourage this participation. Moreover, completion of training under professional development programmes is necessary for renewing teaching licences (which must be done every five years). There is a wide array of professional development activities and programmes, which are

assessed through school evaluations and feedback from teachers who participate in the programmes or activities. The National Council for Education accredits professional development based on criteria developed by the Bureau for Education and the Centre for VET.

### *Sub-dimension 7.3: School-to-work transition*

Since the COVID-19 crisis, school-to-work transition continues to be a pressing challenge for Montenegro. The employment rate of recent graduates decreased by more than ten percentage points, falling from 65% in 2019 to 54% in 2020. Furthermore, the NEET rate (not in employment, education or training) among 15-24 year-olds has not yet reached pre-COVID-19 levels, standing at 20% in 2022 compared to 17.3% in 2019 (Vienna Institute for International Economic Studies, 2024[5]). It is the third-highest rate in the region, and significantly greater than the EU average (9.6% in 2022) (Eurostat, 2024[6]).

The Strategy of Vocational Education (2020-24) sets forth goals to improve vocational education and make it more relevant for the individual, the labour market and society. **VET governance** is overseen by MESI, which oversees the whole education system; the Examination Centre, which manages the preparation and evaluation of the national vocational examination; and the Bureau for Education Services, responsible for general education within vocational education. In addition, the Centre for Vocational Education is responsible for developing all qualifications, from occupational standards to educational programmes; it determines the quality of vocational education, is responsible for the professional development of teachers, and provides support for all segments of VET implementation. Policy coherence is ensured by good co-operation and connection of institutions within the education system and dealing with VET.

There are clear quality standards and/or regulations for VET programmes set out in the Law on Vocational Education. The Chamber of Commerce, the Union of Employers and the Federation of Trade Unions are involved in the National Council and the Qualifications Council, as well as in the sectoral commissions and committees. These institutions give an opinion on all occupational standards. Employers are specifically involved in preparing documents that translate occupational standards into educational programmes at all levels. Employers are also involved in the training and assessment of students in dual education. The Employment Service of Montenegro conducts annual surveys to assess the views of employers on the most important issues of the workforce, and the results are used to design germane measures and programmes.

There is an accreditation process for VET programmes under the responsibility of the National Council for Education. Prior to accreditation, programmes are evaluated by sectoral commissions and committees. New VET providers/programmes undergo an approval process. Quality control mechanisms (i.e. assessments) ensure that VET qualifications are rigorous, transferable and understood by the public. There is an external evaluation of VET providers at least once every four years and an internal evaluation once every two years. Reports on the evaluations, which are publicly available on the Centre for VET and school websites, make recommendations for improvements.

The VET institutions collect information on completion rates, employment rates of VET graduates and apprenticeship or work-based learning (WBL) graduates. However, there is no information on the earnings of VET graduates. Although MESI collects data on student completion rates, it currently lacks a reliable system for gathering information on the employment rates of VET graduates. The key areas used to monitor the VET system are teaching/learning and training, student achievement, quality of teachers, trainers and associates, quality management, material resources, and competency testing. Data are used to inform career and education paths of learners and inform or update VET policy.

The Strategy for the Development of Vocational Education in Montenegro (2020-24), which was developed in consultation with a a wide range of stakeholders, recognises the importance of work-based learning. Montenegro is the first WB6 economy to nationally roll out dual VET. There are no financial incentives for employers to join the WBL programme, but a Fund for Dual Education is planned, from which certain incentive funds will be paid to employers who offer WBL places to students. This could potentially address the common issue of employers withdrawing from dual VET programmes in the third year, when they (rather than the government) become responsible for student payments (ETF and ILO, 2020[7]).

In 2020, drafting started for an updated Strategy for Development of **Higher Education** in Montenegro, which is not yet complete. The previous Higher Education Development Strategy (2016-20) included a goal to harmonise education with the needs of the labour market by modernising study programmes, introducing new learning methods (e.g. information and communications technologies [ICTs]), promoting entrepreneurial learning, and teaching English. Higher education institutions (HEIs) have their own acts for the promotion of mobility and internationalisation. For instance, the University of Montenegro has a Strategy for Internationalisation. Montenegro is a partner economy of the EU Erasmus+ programme. Quality assurance in higher education is performed by the Agency for Control and Quality Assurance of Higher Education and the Council for Higher Education. The core agencies with responsibilities for higher education and its labour market relevance are the Agency for Control and Quality Assurance of Higher Education, the Qualifications Council, and the Chamber of Commerce (as an association of employers). These actors were involved in developing all strategic policies in the higher education sector, and law defines their roles. By law, HEIs are autonomous in the design and implementation of study programmes and are not required to have advisory committees.

The system uses a wide range of information sources to monitor the labour market and higher education relevance, including data from employer surveys and surveys of workers and graduates. Outcomes from study programmes can be found on the websites of higher education institutions; data on the labour market are under the jurisdiction of Montenegro's Employment Service, which monitors trends in the labour market and publishes strategies, plans and data on its website. The Employment Service also exchanges data with other state institutions to further facilitate evidence-based policy making across the economy. Several mechanisms are in place to help align HEIs with the labour market, namely communications and awareness campaigns for prospective students as well as the use of labour market information to inform curriculum design. There are no grants or scholarships for in-demand programmes; however, as public higher education is free, this may not significantly influence students' choices.

### *Sub-dimension 7.4: Skills for the green-digital transition*

The framework for digital skills includes a Digital Competence framework (that began to be implemented in September 2020); the national curriculum that incorporates **digital skills** in compulsory subjects in parts of the primary and secondary education system and in the Strategy for Higher Education; and a new Education System Digitalisation Strategy (2022-27) with Action Plan (2022-23), which aim to improve digital skills and competencies. The upcoming Action Plan (2024-25) foresees the elaboration of the Framework of Digital Competence of Students. Every school in Montenegro has access to the Internet (96% of primary and secondary school students); however, the speed of Internet connectivity varies significantly depending on location and availability of infrastructure. Computer equipment at schools is outdated and not all classrooms are equipped, especially in suburban and rural areas. Efforts are being made to bring new computer equipment to reduce this problem. Software and digital tools for collaboration and learning are gradually being adopted in classrooms.

Several government bodies and public institutions have a role ensuring digital skills are incorporated in the education system. Good co-operation exists with the private sector, civil society and international organisations in the policy and curricula design. There is a coherent progression of digital skills and competencies between primary, secondary and higher education curricula. Quality assurance processes

include some qualitative indicators on ICT-related subjects included in the curricula. Teachers can attend seminars on the development of general digital competencies and training for the use of digital technologies in the educational process; indeed, over the past three years, around 40% of teachers have successfully participated in these training programmes. Every year, primary and secondary schools participate in a SELFIE survey,[3] which is based on a tool developed by the European Commission to help schools integrate digital technologies into teaching, learning and assessment. The results of these surveys have influenced the development of the Education System Digitalisation Strategy, and subsequent surveys will be used in order to develop new action plans.

There is no specific strategy focusing on the development of **green skills**. However, the National Strategy for Sustainable Development of Montenegro by 2030 (NSSD) is the umbrella, horizontal and long-term development strategy of Montenegro that not only covers the environment and economics, but also touches upon human resources and social capital that should ensure prosperous development. The VET Strategy does not define any goals related to cultivating green skills. Currently, no training programmes either at secondary or tertiary level specifically target occupations and skills in the renewable energy sector. In addition, no specific qualification standard or programme has been developed; however, many VET programmes contain certain elements and courses relevant to the needs of the renewables sector. At the tertiary level, the Faculty of Electrical Engineering and Faculty of Mechanical Engineering are the main institutions providing relevant education that can to some extent respond to the needs of the renewables market (ETF, 2020[8]). In Montenegro, particular topics related to sustainable development have been introduced at all levels of education. For high schools, these topics include climate change, the green economy, environmental protection, sustainable cities and villages, biodiversity, health education, human rights education and entrepreneurial learning (ILO, 2019[9]).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro has taken some steps towards implementing past recommendations for education policy, but there is yet room for progress (Table 8.2). In 2022, Montenegro published an analysis of its education system as one of the steps in developing a comprehensive education strategy, and efforts continue under the new project with the EU Delegation to Montenegro and UNICEF. Conversely, there has been no progress toward implementing a standardised national assessment, although there is growing recognition within the sector of the importance of using formative assessment in the classroom to support student learning.

### Table 8.2. Montenegro's progress on past recommendations for education policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Develop a new and comprehensive education strategy with a clear set of priorities and a strong monitoring framework | Montenegro conducted a comprehensive analysis of the education system (ESA) for the period 2015-20, which was published in 2022. This type of analysis was conducted for the first time and contributes to the development of a long-term strategic plan for the improvement of the overall education sector in Montenegro.<br>In January 2024, a new project, Quality Education for All Children in Montenegro, commenced. It will be implemented by UNICEF in partnership with MESI and the EU Delegation to Montenegro. Under this project, the new Education Sector Strategy 2025-35 will be developed. | Moderate |
| Strengthen evaluation and assessment policies across the system | The comprehensive analysis of the education system mentioned above aims to strengthen the knowledge base and to support the government and other relevant stakeholders in policy making. It advocates generating greater effectiveness of the education system through stimulating policy debate, suggesting recommendations to improve the effectiveness of the education system, and through identifying neglected areas that deserve further analysis.<br>The Education System Digitalisation Strategy (2022-27) has as one of its main objectives improvement of the education information system. | Limited |
| Finalise the development of the national assessment and set targets for improving student learning outcomes | There was no progress in developing a national standardised assessment. However, the Education Sector Analysis concluded that a bigger focus should be placed on improving the quality of education through the introduction, support and monitoring of the implementation of formative assessment at all levels and in all subjects. | None |

## The way forward for education policy

Considering the level of the previous recommendations' implementation, there are still areas in which Montenegro could enhance its education policy framework. As such, policy makers may wish to:

- **Sustain ongoing efforts to develop and implement a comprehensive, long-term education strategy that covers all levels of education in Montenegro.** The MESI should continue co-operating with the EU Delegation to Montenegro and UNICEF to finalise this strategy in a timely manner and ensure its swift implementation. Montenegro should ensure that the strategy incorporates the results and recommendations of the Education Sector Analysis to the maximum extent possible, prioritising inclusivity, equitable access, and quality education for all learners. The new strategy should also include mechanisms for regular review and updates to ensure relevance and effectiveness.
- **Finalise the development of the national assessment and set targets for improving student learning outcomes.** Many WB6 education systems have – or are developing – national standardised assessment systems to help monitor the implementation of curricula and focus actors across the system on improving student learning outcomes. Developing a national assessment instrument would allow Montenegro to collect valuable information to monitor national education goals.
- **Implement targeted recruitment efforts and alternative pathways into the teaching profession to attract a diverse pool of talented educators.** Specifically, Montenegro should prioritise the development of incentives and support systems to encourage individuals from various backgrounds to pursue teaching careers (Box 8.1). This not only expands the pool of potential educators, particularly in areas where there may be shortages, but also can encourage diversity and innovation in the education system.

### Box 8.1. Alternative pathways: Australia's High Achieving Teachers Program

Launched in 2022, the Australian Government's High Achieving Teachers Program seeks to offer, through two different providers, two alternative pathways into the teaching profession for high-performing individuals. The pathways are delivered by Teach for Australia and La Trobe University, and the overarching objective of the initiative is to improve students' access to quality teaching and education.

These pathways select high-achieving university graduates who possess the necessary knowledge, skills and experiences that are in demand in school systems. Participants are then given teaching positions in disadvantaged secondary schools throughout the country. They benefit from extensive training and support to facilitate this transition. At the same time they are completing an initial teacher education course, with a view to becoming fully accredited teachers.

An interim evaluation of the High Achieving Teachers Program revealed high satisfaction among participating secondary schools with the teaching candidates provided through the programme. Furthermore, preliminary evidence suggests that both pathways – but particularly the one managed by Teach for Australia – are effective in producing quality teachers, highlighting the value of these alternative routes into the profession.

Source: Government of Australia (2023[10]).

- **Reform teacher standards so as to confer expanded responsibilities to more experienced teachers.** Currently, all teachers in Montenegro – regardless of their title or years of experience – are subject to the same professional standards. As such, the existing standards should be revised to link promotions with increased responsibilities or advanced competencies. Such a reform not only can serve as an effective mechanism for recognising experienced teachers' expertise, but also can promote continuous professional development and lifelong learning within the teaching profession.
- **Develop a targeted strategy for the development of green skills that addresses the growing demand for sustainability-related competencies in various sectors, including renewable energy.** Namely, Montenegro should introduce training programmes and qualifications standards that specifically target occupations and skills needed for the green economy. Additionally, the MESI should collaborate with relevant institutions and stakeholders to ensure that education and training systems align with the needs of emerging green industries.

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## Notes

[1] These data come from the CO 2024 quantitative questionnaire.

[2] These standards are outlined in the document, “Competence Standards for Teachers and Principals in Educational Institutions.”

[3] More about the SELFIE survey in Montenegro can be found here: https://openspace.etf.europa.eu/sites/default/files/2021-06/03%20SELFIE%20WBL%20Montenegro.pdf.

# 9 Employment policy

Effective employment policies are crucial for forging a strong economy and fostering economic development and social inclusion. This chapter aims to assess the regulatory framework and policies governing employment, as well as the institutional capacity for implementation. The first sub-dimension focuses on inclusive labour market governance, specifically looking at the employment regulatory and policy framework, labour inspectorates, social dialogue and inclusive employment policies. The second sub-dimension, social protection and activation policies, analyses the public employment services, mutual obligations framework and active labour market programmes. The third sub-dimension, skills for adaptable labour markets, assesses the skills mismatches in the labour market and initiatives for developing digital and green skills. The fourth sub-dimension, expanding the skills pool, focuses on attracting highly skilled migrants and diaspora.

# Key findings

Montenegro's overall score has increased since the previous Competitiveness Outlook, remaining well above the regional average (Table 9.1). The economy made significant strides in strengthening its inclusive labour market governance, particularly in terms of its regulatory framework, tripartism and social dialogue. Conversely, Montenegro's efforts to expand its skills pool through maximising the use of foreign talents and attracting diaspora skills are limited, representing its weakest area of performance.

### Table 9.1. Montenegro's scores for employment policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Employment | 8.1: Inclusive labour market governance | | | 3.6 | 3.2 |
| | 8.2: Social protection and activation policies | | | 3.5 | 3.1 |
| | 8.3: Skills for adaptable labour markets | | | 3.5 | 2.6 |
| | 8.4: Expanding the skills pool | | | 2.5 | 2.4 |
| **Montenegro's overall score** | | **2.1** | **3.0** | **3.4** | **2.9** |

The **key findings** are:

- Informal work remains highly prevalent, constituting 26-31% of national GDP. This challenge underscores the importance of finalising the strategy for combating informal employment for a comprehensive approach, and further strengthening monitoring and advisory mechanisms through labour inspectorates.
- The labour force participation rate of women in Montenegro remains around 19 percentage points lower than the EU average (48.7% versus 67.7%, respectively). Implementation of the National Strategy for Gender Equality 2021-25 and further scaling up impactful initiatives, such "Activating Women", would be crucial to reduce the gender gap in the labour market.
- The publication of the new General Collective Agreement in December 2022 represents a major stride toward enhancing workers' rights in Montenegro and further aligning the economy's employment legislation with the EU *acquis*.
- Despite Montenegro's notably high unemployment rate of 14.4% in 2023 – the highest in the region and more than double the EU average of 6.0% – only 23% of jobseekers receive unemployment benefits. Online registration for jobseekers and employers has been introduced, yet the utilisation of these digital services is limited.
- While the economy boasts fairly comprehensive social protection and activation policies, their efficacy remains limited by inadequate funding, impacting both the public employment service's staffing and training capabilities and the financing of active labour market programmes. Ensuring sufficient resources for the Employment Agency of Montenegro will be vital for enhancing jobseekers' outcomes and fostering labour market efficiency.
- Little progress has been achieved in supporting digital skills development, particularly among adults already in the labour force. Although some strategies touch upon the importance of cultivating digital skills, there are no measures in place to encourage employers to upskill their workers or to address shortages of digital skills.
- Additional efforts are needed to strengthen Montenegro's expansion of its skill base, particularly by attracting diaspora skills. Despite the existence of a dedicated institution for diaspora engagement, the strategic framework remains limited in scope, with no indication of progress toward developing a new comprehensive National Diaspora Strategy.

## State of play and key developments

In recent years, both the activity and employment rate in Montenegro have steadily risen, demonstrating the economy's steady recovery from the effects of the COVID-19 pandemic. In 2022, the economy reported an activity rate of 67.7% among the population aged 15-64, which represented a five percentage-point increase from 2019 and positioned the rate as the third highest of the Western Balkan economies (MONSTAT, 2023[1]). Similarly, Montenegro's employment rate was 57.5% in 2022, which represented around a two percentage-point increase from 2019. Despite this progress, the economy's activity and employment rates remain largely below EU levels, which were 74.5% and 69.8%, respectively.[1]

### *Sub-dimension 8.1: Inclusive labour market governance*

Since the last assessment cycle, no changes to the **legal framework for employment** have been observed, although there are ongoing efforts to further align this framework with the EU *acquis*. Montenegro's labour legislation encompasses both standard and non-standard forms of employment, including fixed-term or part-time employment contracts as well as temporary agency work. Moreover, the framework ensures that all non-standard workers – ranging from self-employed individuals to temporary employees to platform and gig workers – benefit from social protections, such as health and accident insurance and access to labour market programmes. Such securities are crucial, as temporary employment was quite widespread in Montenegro, accounting for 30.7% of the total employed population in 2021 (Vienna Institute for International Economic Studies, 2024[2]). However, while a monitoring system comprising key employment indicators is in place, systematic data collection on all non-standard employment is underdeveloped.

The economy's primary labour regulations and laws establish minimum standards for paid holidays and health and safety conditions. Namely, the Laws on Health and Safety at Work apply universally, covering all entities and workers, including seconded workers if the regulations of the receiving economy provide less favourable occupational health and safety measures than those outlined in this law.[2] There are several efforts under way to further strengthen the legal framework governing working conditions in Montenegro, particularly given that the existing framework does not address working hours. For example, there is a working group for drafting amendments to the Labour Law, which is the main piece of legislation outlining the rights, obligations, and provisions of employees; this group is currently working to align the law with the EU's Work-Life Balance Directive.[3] Moreover, to evaluate the impact of existing labour regulations, studies have been conducted on social security coverage, health and employment participation, and companies' hiring practices.

Montenegro's **policy framework for employment** has been strengthened due to the recent adoption of the Strategy for Improving Health and Safety at Work 2022-27 and ongoing development of the Action Plan for Implementation for 2024 by the government. Under this strategy, employers have the obligation to designate health and safety specialists, either from their existing staff (if necessary training has been provided) or by engaging an external expert.[4] While limited information is available regarding the implementation of this requirement, the new strategy highlights efforts to promote a proactive approach to addressing health and safety concerns in the workplace. Although no specific programmes exist to support employers in the field of occupational health and safety, the Ministry of Labour and Social Welfare undertakes prevention and promotion activities in this domain. For instance, under the proposed 2024 Action Plan, the Ministry will carry out awareness-raising activities to help employers prevent work-related injuries and occupational diseases.

Other key strategies addressing the employment framework include the new National Employment and Human Resources Strategy 2021-25 and annual employment Action Plans. However, a crucial aspect of Montenegro's employment legislation lies in its efforts to address informality in the labour market, which accounts for an estimated 26-31% of national GDP (European Commission, 2021[3]). The economy is

currently in the process of developing a strategy to combat informal employment. Previously, the government relied on multi-annual action plans, with the most recent, titled "Action Plan for the Suppression of the Grey Economy", covering the period 2020-22.

The operations of **labour inspectorates** in Montenegro benefit from clear and measurable policy goals as well as activities co-ordinated with other relevant institutions. The primary objectives of the Department of Labour Inspection, which falls under the purview of the Administration for Inspection Affairs of Montenegro, are to detect and combat informal employment, ensure the proper payment of wages, and guarantee the fulfilment of other rights associated with employment. As such, labour inspectorates dedicate most of their efforts toward inspecting workplaces and pursuing infringement procedures, with less attention paid to implementing informational or prevention activities.

Despite the important role that these entities play in ensuring effective and inclusive labour regulation, no measures have been taken to augment the capacities of labour inspectorates in Montenegro since the last assessment cycle. Funding is not determined by labour inspectorates, but by the national government. The labour inspectorates' inputs and outcomes undergo annual monitoring, with the latest assessment conducted through a public audit at the conclusion of 2022. While these audits have the potential to engender wage increases for staff, the 2022 evaluation concluded that the entity can effectively fulfil its duties with its existing capacity, and therefore no such adjustments were deemed necessary.

**Collective bargaining** primarily occurs at the sector and national level, with agreements primarily regulating employees' salaries and working hours. Workers' coverage by collective agreements remains relatively high in Montenegro.[5] Indeed, while specific statistics regarding this coverage are somewhat outdated,[6] it is estimated that more than half of Montenegrin workers benefit from collective bargaining coverage (ILO, 2019[4]). Tripartite collective bargaining, which involves the government with various social partners, covers numerous policy fields, including the determination of minimum wages,[7] issues related to new forms of work (e.g. the platform economy), legislation on working hours, and pension policies.

Since 2021, collective bargaining and **tripartism** have undergone several changes aimed at improving the labour market, namely through supporting improved working conditions and augmented wages. Over the past few years, collective agreements and consultations were concluded or amended in numerous sectors, ranging from education and culture to tourism and construction. One of the most notable developments was the signature of a new General Collective Agreement in December 2022. The agreement included revised coefficients used to calculate wages, an increase in base hourly salary for work on Sundays, and the introduction of a maximum allowed number of annual overtime hours (250). Such novelties not only reinforce employees' rights, but also lay the foundation for additional initiatives aimed at securing further rights for the labour force.

However, despite these recent advances, there is still scope to further improve the legal and institutional frameworks governing this social dialogue. Currently, the government of Montenegro does not conduct any impact assessment for collective bargaining or tripartism. Moreover, there has been no analysis of those sectors or groups of low-wage workers, nor has there been a study on the wage differences between companies covered by a collective agreement and those that are not. Such assessments are crucial for understanding how collective agreements impact the labour market, thereby providing valuable information for informed policy making.

Montenegro has made substantial strides in instituting more **inclusive labour market policies**. There is an array of strategic documents aiming to ensure equal opportunities and inclusion for vulnerable groups, including Roma and Egyptian minorities and individuals with disabilities. Notably, several demographics are excluded from employment policies: for instance, no specific actions exist to combat child labour or victims of violence. Most of these programmes are funded by the government of Montenegro, although some select few are financed through the EU's Instrument for Pre-Accession Assistance.

While the economy has introduced several measures to support vulnerable groups, most efforts have been devoted to augmenting labour market inclusiveness through promoting women's employment. This aim is important given the low employment rate of women in Montenegro compared to EU levels (48.7% versus 67.7% in 2021, respectively) (Eurostat, 2023[5]). Moreover, within the economy, the labour force participation rate among females was more than 14 percentage points lower than males in 2023 (World Bank, 2024[6]). To address this gap, the government approved a National Strategy for Gender Equality 2021-25 accompanied by two-year Action Plans in addition to a separate strategy supporting the development of female entrepreneurship. Additionally, the Employment Agency of Montenegro (EAM), in co-operation with the International Labour Organization (ILO), launched a pilot project titled "Activating Women". Intended to last from 2021 to 2023, the initiative aims to activate women who are 25-49 years old, have preschool-aged children, and lost their jobs during the COVID-19 pandemic. Furthermore, career guidance is available to young women to encourage them to pursue technical and vocational education and training (TVET) and university education in science, technology, engineering, and mathematics (STEM) fields. These programmes are financed through a system for gender budgeting, although there is no co-ordinating body for gender equality.

### *Sub-dimension 8.2: Social protection and activation policies*

The **public employment service** (PES) offers a comprehensive array of services, which in turn contributes to its widespread use by jobseekers. Indeed, in 2022, there were over 46 000 jobseekers registered with the PES, although this figure is larger than the number of unemployed individuals reported in the 2022 Labour Force Survey (43 200) (MONSTAT, 2023[1]). EAM activities range from those more administrative, such as registering jobseekers and vacancies, to liaising between unemployed people and employers through the organisation of job fairs or the use of an information technology (IT)-based matching system to pair jobseekers with open posts. However, counselling services remain one of the agency's central responsibilities. This involves offering professional assistance in job selection, search, and acceptance, as well as introducing methods for active job hunting, supporting career management skills development, and researching knowledge and skills necessary for increased employability and professional advancement. Counselling is conducted through individual sessions and various group activities such as workshops and seminars, encompassing areas like entrepreneurial knowledge, competency development, and self-directed professional growth.

Due to the high share of long-term unemployed individuals, the caseload of PES counsellors is relatively high, with an average of 159 jobseekers assigned to each counsellor. While this is notably higher than the goal threshold of 100 cases or fewer, the average is still lower than those of the other Western Balkan economies. Due to budget restrictions, the PES is unable to hire additional staff or independently finance the necessary training for its existing counsellors. However, there are plans to provide greater support to employees in regional units through the design and implementation of training measures to enhance their competencies.

The digitalisation of PES services and processes has seen only limited progress in recent years. Since the start of the COVID-19 pandemic, online registration was introduced for first-time jobseekers submitting their application as well as for employers who wish to register a vacancy. However, the download of digital PES services remains limited, as some groups of jobseekers do not possess sufficient digital skills or do not have access to the Internet. Moreover, the preference for face-to-face contact is prevalent among most employers, further limiting the uptake of digital services.

Montenegro's **unemployment benefit system** is one of the most advanced in the region, although few updates have been made since the previous assessment cycle. The legal framework is harmonised with the ILO standards on social security,[8] illustrating a commitment to international standards and promoting fairness and equity in social protections. Moreover, the framework includes workers who are under non-standard forms of employment, namely part-time work. Unemployment benefits are determined at a

fixed rate in relation to the minimum wage. Unemployed individuals can generally receive benefits for a period of 3 to 12 months, depending on the duration of previous job experience.[9] To receive these benefits, individuals must provide proof that they are actively searching for employment (and allow this process to be monitored) and must accept any suitable job offer – or face sanctions for failing to fulfil either condition. While a small share of registered jobseekers (23%) receives unemployment benefits, this figure is much higher than in other Western Balkan economies.

Furthermore, most registered unemployed people do not receive social assistance. Like those receiving unemployment benefits, individuals of working age who benefit from social assistance must show proof of their job search and accept any suitable offer. Moreover, there is an agreement between the EAM and centres for social work that aims to improve the position of vulnerable unemployed persons by providing integrated services from both systems. This entails the creation of an individual employment plan by the PES and an individual activation plan by the social work centres. Through the latter, beneficiaries can receive referrals to support programmes aimed at boosting their employability and facilitating their access to the labour market. However, it is vital to note that individuals cannot benefit from social assistance and/or unemployment benefits while earning any income through employment. Such a restriction was designed to ensure that those in need receive adequate financial support while simultaneously limiting the potential abuse of the economy's social safety net.

Despite these efforts, Montenegro reports the highest unemployment rate in the Western Balkans (14.4% in 2023) (World Bank, 2024[7]). This figure is more than double that of the EU average of 6.0% (Eurostat, 2024[8]). Moreover, a high share of unemployed individuals (69.8%) were experiencing long-term unemployment, although this proportion has been decreasing in recent years (Vienna Institute for International Economic Studies, 2024[2]). Youth unemployment was also notably high, registering 27.1% in 2023 – or more than 10 percentage points above the EU average of 14.5% (Eurostat, 2024[9]; World Bank, 2024[10]).

**Active labour market programmes** (ALMPs) in Montenegro are relatively well developed, underpinned by a clear strategic framework and regular impact assessments and evaluation. The target groups of these programmes include youths, specific groups of women, persons with disabilities, and those who are long-term unemployed. While this represents an impressive breadth of intended beneficiaries, other important groups, such as older unemployed workers, ethnic minorities and immigrants, do not benefit from such tailored efforts. ALMPs are outlined in the new National Employment Strategy 2021-25 and its accompanying Action Plan. Moreover, the recently introduced "Entrepreneurship Incentives" programme provides both financial and non-financial assistance to unemployed individuals who launch their own entrepreneurial pursuit. By mitigating obstacles predominantly faced by new businesses, the initiative aims to promote entrepreneurship and self-employment. While these programmes are supported by an allocated budget, they receive a much smaller proportion of funding (0.064% of national GDP) than ALMPs in EU Member States (0.39%) (European Commission, 2024[11]).

In 2021, the Regional Cooperation Council (RCC) carried out an evaluation of Montenegro's ALMPs (RCC, 2021[12]). The assessment found that these programmes did not sufficiently meet the needs of unemployed individuals. One issue cited was the complicated and time-consuming public tender process, which is launched by the EAM once a year. Additionally, the low remuneration of some programmes is not competitive enough to induce unemployed people to participate. Given these challenges, the RCC concluded that the PES in Montenegro did not suitably engage the individuals that are furthest from the labour market, underscoring the need to improve the design of the ALMPs.

### *Sub-dimension 8.3: Skills for adaptable labour markets*

Montenegro's employment landscape is characterised by a stark contrast among workers with different skill levels. The employment rate for low-skilled workers was notably low at 17% – a figure far below the rates reported for medium-skilled (49.4%) or highly skilled workers (74.6%).[10] Moreover, unemployment

rates varied, with low-skilled workers facing the highest rate at 28%, compared to 17.4% of medium-skilled workers and 12.3% of high-skilled workers. It is important to note that the majority of low-skilled individuals in the working-age population did not participate in the labour market at all (Vienna Institute for International Economic Studies, 2024[2]).

Montenegro boasts a robust institutional and policy framework to address **skills mismatch** within the economy. Strategies and action plans for promoting adult learning are well established, and both an apprenticeship system and a dual vocational training system – two key features for promoting work-based learning – are in place. There is also consultation between the government and employers, trade unions, sector associations and social partners for the amendment of existing curricula and the introduction of new ones. Career guidance is available to both students and adults. To analyse skills gaps and mismatches, the government utilises several tools, including sectoral analysis and skills-forecasting studies as well as an employer needs survey. While the results of these assessments are not publicly available, they will be crucial for better anticipating the current and future needs of the economy's labour market, and subsequently incorporating these findings into the design of employment policies.

However, progress can still be made in reducing the skills imbalance, particularly for adult learning. The Adult Education Strategy of Montenegro 2021-25 encompasses adult learning, but it does not explicitly focus on addressing the needs of low-skilled individuals, who are more prone to experiencing a vertical mismatch (possessing a lower level of education than required for roles) (RCC, 2021[12]). Initiatives such as the Adult Learning and Training Programme are perceived to be beneficial, although most participants did not secure employment upon completion, suggesting a need to further align such programmes with the workforce's needs.

In terms of **skills for the digital transition**, Montenegro has taken some preliminary steps toward promoting the development of digital skills at all levels of expertise. There are several policy frameworks that touch upon the importance of digital skills in the labour market (Box 9.1). However, the economy lacks specific policies, programmes, and action plans that encourage employers to upgrade their workers' digital skills as well as programmes for developing digital skills in adults. Furthermore, there are no surveys on employees' participation in continuous training and education to improve their digital skills, nor are there impact assessments for promoting digital skills at all levels of knowledge.

The nascent policy framework has led to a comparatively higher prevalence of basic digital skills among Montenegrin citizens. In fact, Montenegro leads the WB6 economies with this measure, surpassing the regional average by over 12 percentage points, though it remains below the EU average (Table 9.2). In 2021, approximately 47% of Montenegrin individuals possessed at least basic digital skills, surpassing the 36.3% observed in the Western Balkans.[11] Nevertheless, this still fell short of EU levels, which stood at 53.9%.

### Box 9.1. Montenegro's policy framework for digital skills

While Montenegro does not have a dedicated strategy outlining the priorities and objectives for promoting skills for the digital transition, there are several policy documents that indicate the economy's commitment to ensuring that its workforce acquires the digital skills demanded by both the current and future labour market. These policies include:

- *The National Employment Strategy of Montenegro 2021-25* – This strategy includes the goal of creating knowledge and competencies for the labour market in the digital era. This aim is supported by two measures on providing IT education and training to all individuals and improving the quality of vocational and higher education.

- *The Digital Transformation Strategy 2022-27* – This strategy has an objective centred on the development and improvement of digital knowledge and skills among the population of Montenegro. It particularly highlights the importance of increasing female IT experts and strengthening the skills of civil servants who provide digital services.
- *The Programme for Improving the Competitiveness of the Montenegrin Economy* – This document promotes the development of soft digital and creative skills in its entrepreneurship and employment programmes.

Source: UNDP (2023[13]).

### Table 9.2. Individuals with basic or above-basic overall digital skills (2021)

Percentage of all individuals

| | MNE | WB6 | EU |
|---|---|---|---|
| Individuals with basic or above basic overall digital skills | 47.2 | 34.8 | 53.9 |

Note: Kosovo data (used to calculate the WB6 average) were from the latest available year (2019).
Sources: Eurostat (2023[14]; 2020[15]).

Policies and programmes supporting the development of the workforce's **skills for the green transition** are limited in both depth and scope. Notably, there is no dedicated strategy for mitigating the negative effects on employment of downsizing polluting industries, such as coal mining. Phasing out fossil fuels will likely result in job losses and other social challenges that necessitate proactive management (OECD, 2022[16]). A working group was recently formed to help mitigate these adverse employment and social consequences, although its nascent establishment means that it has not yet engendered substantial advances. Indeed, the most relevant strategy is the economy's circular transition strategy, which tangentially addresses the issue of skills for the green transition but does not exclusively focus on them.

The Chamber of Commerce has initiated certain preliminary activities, including forecasting the impact of the green transition on employment and identifying and categorising jobs related to the green transition. While the government has introduced incentives to promote employment and entrepreneurship in the green economy, details about potential beneficiaries and the types of incentives provided are limited. Also despite these initiatives, the government's efforts to foster employment have yet to be accompanied by concrete measures for training and adapting skills among both employed and unemployed individuals to meet the demands of the green transition. As such, there is substantial scope for the government of Montenegro to strengthen its efforts to bolster its population's acquisition and advancement of skills for the green transition through more targeted policies and expanded training and career guidance for both new and longer-term jobseekers.

### *Sub-dimension 8.4: Expanding the skills pool*

Montenegro is actively seeking to **make the most of foreign talent** through its migration policies, such as the 2021-25 Strategy on Migration and Reintegration of Returnees, which builds on earlier strategies (Government of Montenegro, 2021[17]). As elaborated in this policy document, Montenegro aims to ensure a sustainable and functional mixed migration management system that provides full access to rights, complies with the relevant international agreements and protocols, and improves readmission and return mechanisms for Montenegrin and foreign citizens. The latest Action Plan 2023-24, aligned with the 2021-25 Strategy, addresses persistent challenges as well as unimplemented actions from the previous 2021-22 plan. Additionally, it incorporates findings and recommendations from international reports. From May

to October 2025, external experts will evaluate the 2021-25 Strategy to assess its success in meeting its objectives and to inform the development of a new strategy.

Despite the presence of an Interdepartmental Working Group consisting of representatives from government bodies, NGOs, and international organisations to supervise the Strategy's implementation, a permanent co-ordination body has not yet been established in order to ensure a co-ordinated and coherent migration policy approach (OECD, 2022[18]). Nevertheless, implementation progress has been largely positive. Between 2021 and 2022, of the 100 planned activities, 65 were fully implemented, 36 were partially implemented and only 8 were not implemented at all.

In recent years, legal labour migration to Montenegro has continued to increase. Seasonal labour migrants, mainly from neighbouring Western Balkan economies, work primarily in the tourism and construction sectors. In 2022, 29 319 temporary residence and work permits for foreigners were issued, a 40% increase compared with 2021.

In terms of labour market access, no major legislative changes occurred since the last assessment cycle. However, it is notable that the Law on Foreigners, effective since March 2018, was amended in July 2022 to define the concept of digital nomads and introduced temporary residence permits for that category of persons. Ongoing efforts aim to further align the law with EU directives and ensure equal work conditions and tax exemptions for EU migrant workers. Due to administrative and technical capacity issues, the government postponed the application of procedures for handling foreigners' requests for temporary residence and seasonal employment permits until EU accession.

The economy is actively co-ordinating social security systems through bilateral agreements and ongoing negotiations. The introduction of the European Health Insurance Card post-EU accession has seen no significant progress beyond agreements with five EU Member States. Furthermore, Montenegro maintains satisfactory alignment with the EU *acquis* on the mutual recognition of professional qualifications. In April 2023, the parliament passed a law confirming the Agreement on the Recognition of Professional Qualifications for doctors of medicine, dentists, and architects under the Central European Free Trade Agreement (CEFTA) (European Commission, 2023[19]). However, further efforts are required to align with the minimum training requirements of all sectoral professions for professional qualifications recognition. Montenegro's progress in joining the European Employment Services (EURES) network has been limited due to delays in launching technical assistance projects.

On the other hand, one-third of Montenegro's population is recognised as living outside the economy, although accurate data are not available. The lack of recent official statistics on the diaspora from the Statistical Office of Montenegro (MONSTAT) may be attributed to persistently insufficient financial and human resources, coupled with a lack of relevant expertise.[12] While MONSTAT collects data on demographic indicators and internal migration, it does not publish information on international migration.

Thus, to engage with its diaspora, Montenegro has a Department for Co-operation with Diaspora and Emigrants within the Ministry of Foreign Affairs, a dedicated structure responsible for relations with the diaspora. The department comprises representatives from the diaspora, national government bodies, municipalities and other associations. A strategy for diaspora engagement, specifically the Strategy for Cooperation with Diaspora (2020-23), was in place but it was relatively limited in scope.[13] While the Strategy addressed co-operation with the diaspora in business, culture, sports and in diaspora networks, it lacked a comprehensive policy framework to effectively facilitate diaspora engagement. Moreover, the Strategy expired in 2023, although the creation of a new strategy is planned for 2024. However, until it is adopted, the sole legislative framework guiding the Montenegrin Government is the Law on Co-operation of Montenegro with the Diaspora – Expatriates.

Montenegro has introduced several initiatives to **attract diaspora skills**. Under the Strategy for Cooperation with Diaspora (2020-23), programmes included: the formation of new diaspora associations and cultural centres; research and publications on Montenegrin culture, traditions and history; roundtable

discussions; the establishment of the Luxembourg-Tivat-Luxembourg air route through the diaspora association; and business forums to inform diaspora members about investment opportunities in Montenegro. The government has also created several online platforms – including the "Upiši se" web application for registering diaspora members, and the "Scientific Network" portal for Montenegrin academics globally – although it faces challenges with data precision and timely updates. Furthermore, the International Organization for Migration (IOM) Diaspora Engagement Programme, undertaken in partnership with the Ministry of Foreign Affairs and Department for Co-operation with Diaspora and Emigrants, aims at enhancing co-operation between Montenegrin institutions and expatriates, adjusting policy approaches through diaspora mapping and developing new strategies for engagement (IOM, 2023[20]). The programme encompasses awareness-raising activities, support for local businesses, and a tailored fellowship plan to encourage diaspora knowledge transfer, ultimately benefiting local and national institutions.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro has made moderate progress in the areas of social dialogue, adult learning, combating informal employment, reducing gender inequalities, and the implementation of employment policies for vulnerable groups. Conversely, Montenegro has made little or no progress in increasing capacities of labour inspectorates, analysing the wage structure, or training instructors delivering adult education (Table 9.3).

### Table 9.3. Montenegro's progress on past recommendations for employment policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Continue to improve working conditions, aligning with EU *acquis* and ILO standards | In December 2022, the Ministry of Labour and Social Welfare signed several branch collective agreements as well as the General Collective Agreement through social dialogue with trade unions and employers' associations. | Moderate |
| Continue to increase the capacities of labour inspectorates in terms of number of staff, training and equipment | There has been no evidence of progress. | None |
| Implement the activities to upskill adult learning and introduce incentives for employers and workers to participate in continuous training | Some progress has been made in the co-operation with employers and education institutions. A system for certification of skills is evolving. Adult learning is promoted through Active Labour Market Programmes, although budget allocations for this have been fluctuating. | Moderate |
| Use the skills anticipation system for guiding young people, adult workers and the unemployed into retraining and upskilling activities | There has been no evidence of progress. | None |
| Conduct a thorough analysis of wage development and the wage structure as well as of non-wage labour costs | There has been no evidence of progress. | None |
| Update the assessment of the scope, structure and reasons for informality | An Action Plan to combat the informal economy has been in place. However, a formalised strategy is absent, although the government is currently working to develop such a strategy. Additionally, some evidence indicates satisfaction with the programme "Stop the Grey Economy". | Moderate |
| Reduce labour market barriers for women | The National Strategy for Gender Equality 2021-25 has been adopted along with two-year Action Plans.<br>A strategy for the development of female entrepreneurship 2021-24 has been put in place. There is a measure aimed at empowering young women to enroll in undergraduate, master's and doctoral studies in STEM, but the activities within this initiative have not been implemented. Hence, this measure has been transferred to the new Action Plan 2023-24. | Moderate |

| | | |
|---|---|---|
| Increase efforts to bring vulnerable groups, e.g. Roma and Egyptian communities, into education, training and work | Improvements have been made in co-ordinating social and employment services. | Moderate |
| Assess the volume of seasonal, temporary and permanent emigration to the EU and other regions, and develop strategies to mitigate the negative effects of migration and to consolidate the benefits | There has been no evidence of progress. | None |

## The way forward for employment policy

To continue progress made in the employment dimension and address key challenges for employment policies, Montenegro should consider the following recommendations:

- **Continue to increase the capacity of labour inspectorates to detect informal employment and to address bad working conditions.** Labour inspectorates should expand implementation of preventive measures. It is recommended to develop a comprehensive and publicly available monitoring system on working conditions. Monitoring results of implementing the planned strategy for combating informal employment would pave the way to improvements.
- **Conduct regular analyses of earning structures disaggregated by gender, sectors, and educational level and occupation.** Additionally, attention should be given to non-wage labour costs (like social security contributions), the share of recipients of minimum wages, and the development of the low-wage sector by gender. Monitoring of labour market data should be improved, with a specific focus on incorporating information regarding in-work poverty. It is also recommended to assess the impact of the minimum wage on both poverty reduction and informal employment.
- **Sustain efforts to combat gender inequalities** by challenging and reducing gender stereotypes, starting from early childhood education and continuing throughout the educational journey and into professional life. This should contribute to enhancing female participation in the workforce, particularly in sectors where they might be traditionally underrepresented (Box 9.2). Labour market barriers for women should be reduced by promoting access to childcare and out-of-school care for school-age children, and by promoting part-time and flexible working time with the objective of easing reconciliation of family and working life. Moreover, vocational guidance needs to improve at primary and secondary schools to foster gender sensitivity and broaden occupational choices for both men and women.

### Box 9.2. Austria's Women in Craft and Technics programme

In Austria, the Women in Craft and Technics programme was established by the PES in 2006. It has since served as a good practice for combating gender stereotypes and occupational segregation while also addressing labour shortages of qualified workers in crafts and mechanical professions. The programme offers female participants vocational guidance and financial support for enrolling in technical vocational training, which is typically male-dominated.

The programme comprises three stages. The first is a 10-week orientation phase, during which participants learn about artisan and mechanical occupations. By the conclusion of this stage, they have participated in some practical training and have developed a career plan. The next step is a 12-week vocational preparation phase, during which the women attend a course and receive some technical training for their selected occupation. Finally, participants have the chance to complete a maximum of three years of vocational training, benefiting from financial assistance from the PES.

An evaluation of the programme found that nearly two-thirds of the women who successfully completed the training found a job in the related fields, and they reported significantly higher workplace satisfaction than their counterparts in more traditional professions. As such, the Women in Craft and Technics programme is an illustrative example of how governments can address gender inequalities in the labour market, particularly in sectors in which they are underrepresented.

Source: Bergmann et al. (2022[21]).

- **Utilise the budget for ALMPs to activate more unemployed individuals.** The government of Montenegro should continue to assess and evaluate the design and implementation of ALMPs and adapt activities and processes accordingly. It also should prioritise ongoing improvement of the monitoring of outcomes of programme participation in ALMPs.
- **Facilitate co-ordination of various actors to adapt and modernise education and training systems,** focusing on high levels of both hard and soft skills, while also assessing the quality of training and education. Furthermore, opportunities for upskilling and reskilling the workforce should be provided, including through internships. Moreover, the government should ensure that both employed and unemployed individuals benefit from programmes for digital skills development. There should also be concerted efforts to support women in entering and remaining in the IT sector, with a view to bolstering the labour supply of individuals proficient in digital skills. A potential measure for mitigating skills mismatches could be the implementation of vocational guidance in a life cycle perspective, starting at secondary school.
- **Develop a strategy for skills development and skills adaptation of adults to align with the needs of the green transition.** In this regard, generating labour market intelligence pertaining to skills required for the green transition should be a first step. As such, the Montenegrin government should develop strategies to mitigate negative employment effects of downsizing coal mining. It also should explore the potential for promoting renewable energies, which are labour-intensive sectors, in mining regions with the goal of facilitating economic diversification and sustainable employment opportunities (European Commission, 2023[22]; Commission, 2021[23]).
- **Strengthen connections with the diaspora by formulating and adopting a new, comprehensive National Diaspora Strategy to encourage and facilitate diaspora engagement in Montenegro.** This entails enhancing understanding of the diaspora, increasing institutional capacities, and launching new initiatives while strengthening existing efforts to foster diaspora engagement.

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## Notes

[1] The Eurostat database can be accessed here: https://ec.europa.eu/eurostat/databrowser/view/tipslm60/default/table?lang=en.

[2] *Official Gazette of Montenegro*, Nos. 34/14 and 44/18.

[3] The EU Directive on Work-Life Balance can be found here: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019L1158.

[4] A specialist in occupational health and safety is a person who has a university degree in technical and/or technical-technological and other appropriate fields, has one year of work experience in the profession and has passed a professional exam in occupational health and safety in the relevant industry.

[5] In 2019, there were 21 collective agreements, with eight targeting the public sector. For more, see: https://www.ilo.org/wcmsp5/groups/public/---ed_mas/---program/documents/genericdocument/wcms_679155.pdf.

[6] The most recent available statistic is from the International Labour Organization, which stated that 75% of workers were covered by collective bargaining agreements in 2008. See: https://montenegro.un.org/sites/default/files/2020-04/20190226_MontenegroDWCP_ENG_ONLINE.pdf.

[7] The minimum wage is set by the Labour Law, in the amount of EUR 450 in 2023.

[8] ILO Convention No. 102 on social security.

[9] There are several specific circumstances for enjoying unemployment benefits longer than 12 months. For example, an unemployed individual who has more than 35 years of job experience is entitled to receive monetary compensation until they are re-employed or certain stipulated conditions for termination are met. Moreover, unemployed workers who have more than 25 years' experience and have a child with a disability are eligible for benefits until they are re-employed or certain stipulated conditions for termination are met.

[10] To determine skill level, the International Standard Classification of Education (ISCED) is used. Low-skilled workers fall between ISCED 0 and 2, obtaining a maximum of lower secondary education. Medium-skilled workers constitute those with a level of either ISCED 3 (upper secondary education) or ISCED 4 (post-secondary non-tertiary education). Finally, high-skilled workers must have completed either a short-cycle tertiary education (ISCED 5) or a bachelor's degree or above. See: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_Standard_Classification_of_Education_(ISCED)#Implementation_of_ISCED_2011_.28levels_of_education.29.

[11] This average excludes Kosovo.

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# 10 Science, technology and innovation

An effective institutional and policy context for science, technology and innovation (STI) is essential to boost the knowledge economy. This chapter, along three sub-dimensions, analyses the overall STI trends and performance in the region, the development of sustainable and impactful STI policies and processes. The first sub-dimension, STI system, assesses the STI regulatory framework and strategies, including smart specialisation strategies and the institutional framework for STI policy. The second sub-dimension, public research systems, analyses the governance of the public scientific research sector, funding approaches and human resource capacity to foster academic research excellence. The third sub-dimension, knowledge exchange and co-creation, assesses policies that support integration between scientific research and the private sector, which is critical for technology transfer, as well as policies and initiatives to promote European and regional collaboration in STI.

# Key findings

Montenegro has improved its performance in the science, technology and innovation (STI) dimension since the previous Competitiveness Outlook assessment and scores above the regional average (Table 10.1). Given its progress, Montenegro has overtaken North Macedonia and is now the second-best performer in the region following Serbia, which still outranks its regional peers significantly. Notable progress has been made with regard to the STI system, as Montenegro has fully operationalised its Innovation Fund. However, overall STI performance remains below the economy's potential. Further efforts are needed to consolidate recent policy changes and generate real long-term impact, including via increased funding availability for STI, and with a view to stimulating business-academia collaboration.

### Table 10.1. Montenegro's scores for science, technology and innovation

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Science, technology and innovation | 9.1: STI system | | | 3.8 | 2.9 |
| | 9.2: Public research system | | | 2.7 | 2.5 |
| | 9.3: Knowledge exchange and co-creation | | | 2.2 | 2.0 |
| **Montenegro's overall score** | | **1.8** | **2.4** | **2.9** | **2.5** |

The **key findings** are:

- Montenegro significantly increased government financial support to STI, allocating EUR 10 million in 2023, up from EUR 4.08 million in 2022. Moreover, the government established a dedicated and professionally managed Innovation Fund in 2021, strengthening the institutional framework for STI policy implementation. The Fund has been active and has launched eight programmes since 2022, focusing on innovation in small and medium-sized enterprises (SMEs) and start-up support, and is planning to introduce support to innovations in energy efficiency.
- With the expiration of the economy's innovation and research strategies, the Smart Specialisation Strategy (S3) has become Montenegro's key strategic framework document for science, technology and innovation policy. The current S3 is set to expire in 2024, and work is under way to develop a successor S3, with the adoption of a Roadmap for the new S3's development in March 2023 showing commitment to the S3 process.
- Montenegro has maintained good momentum in participating in international and regional STI collaboration initiatives. The economy has significantly improved its participation rate in Horizon Europe in recent years, receiving over EUR 3.8 million in EU contributions for 28 projects since 2021, compared to EUR 4.6 million for the entire Horizon 2020 period (2014-20).
- Incentives for business-academia collaboration remain low, despite initial encouraging initiatives launched under the Innovation Fund. Private sector participation in research and development has significant room for improvement. In terms of infrastructure, the creation of the flagship science and technology park (STP) in Podgorica has been delayed, further impeding the implementation of the government's plans for a four-pillar STP network based on the Podgorica, Plevlja, Nikšić and Bar STPs, as currently only the Nikšić STP is operational.

## State of play and key developments

Science, technology and innovation (STI) capacity in Montenegro continues to increase and important measures have been taken since the previous Competitiveness Outlook. However, according to the European Innovation Scoreboard (EIS), in which Montenegro participated in 2020 for the first time, the economy is an emerging innovator in 2023 with a performance at 47% of the EU average (EIS, 2023[1]). Compared to the previous assessment, the gap between Montenegro and the EU average is widening as the possible impact of recent policies has yet to materialise. Overall research and innovation capacity remains low in Montenegro. Investments in R&D remain nascent and, in the absence of reliable data on gross expenditure on research and development (GERD), challenging to monitor. In addition, the number of scientific research projects remains stagnant and to date, Montenegro has only submitted one successful patent application to the European Patent Office, suggesting shortcomings particularly about the quality of scientific research.

### *Sub-dimension 9.1: STI system*

Montenegro is currently in the process of renewing its **STI policy framework**, following the expiration of both the Strategy on Scientific Research Activities (2017-21) and the Strategy on Innovation (2016-20). A working group has drafted a new scientific research strategy for the period 2024-28, and following consultation with the research community, adoption is planned for the second quarter of 2024. At the same time, Montenegro has adopted a two-phased Programme for Innovation for the periods 2021-24 and 2023-27, aimed at creating a single space for implementation of all innovation support programmes. In the absence of a strategic framework, this programme is an important mechanism to maintain momentum gained in recent years in advancing Montenegro's STI framework.

In the current absence of dedicated research and innovation strategies, the **Smart Specialisation Strategy** (2019-24) has emerged as Montenegro's key STI policy document. Its priorities include, among others, information and communication technologies (ICT), energy efficiency and renewables, sustainable agriculture and health tourism. As it is the first such strategy in the Western Balkan region which was launched in 2017 and adopted in 2019, the economy has invested EUR 70 million in the period 2019-22 with around 60% support from the national budget, demonstrating the economy's commitment to the S3 process. While the overall implementation progress has been slower than planned, the strategy's implementation has accelerated more recently in line with the currently ongoing third Action Plan (2023-24). In March 2024, the Government Council for Innovation and Smart Specialisation (ISS) adopted a Roadmap for the development of a new Smart Specialisation Strategy to ensure continuity and commitment to the process.

The **institutional framework** for STI policy has been strengthened since the last Competitiveness Outlook. The Ministry of Education, Science and Innovation is responsible for the economy's STI policy framework, while the ISS, initially set up in 2019 with the support of the United Nations Development Programme (UNDP), advises and co-ordinates STI policy across ministries. Moreover, in line with the European Commission's Joint Research Centre (JRC) recommendations, the ISS Council became an integral body of the S3 implementation framework adopted in 2021. Following a further reshuffle in 2022 to preside under the Ministry of Science, the ISS Council is now mandated to oversee budget allocations for STI activity and implement the S3 Action Plans, supported by a number of S3 working groups and a dedicated monitoring support unit within the Ministry. The Council for Scientific and Research Activities, established in 2015, complements the institutional STI setup, advising the government on policies specifically related to academic research.

Since the previous Competitiveness Outlook assessment, Montenegro established an Innovation Fund in 2021, which is now fully operational. With capacity-building support provided by the World Bank with funding from the EU, UNDP and Norway, the Innovation Fund is on track to become Montenegro's key

vehicle for innovation policy implementation. Following the launch of two pilot programmes in 2022, the Fund launched an additional six different schemes in 2023 in line with the adopted work plan and adequate budgetary support.

There are some mechanisms for internal monitoring and evaluation of STI policy in place. In 2021, an evaluation of the expired Innovation Strategy found that clearer and more tangible performance targets and objectives would be required to ensure a sustainable impact of innovation policy. The Smart Specialisation Strategy, in line with good practice, does entail such SMART key performance indicators,[1] which are regularly reviewed. The implementation of the S3 was externally evaluated and an evaluation report was published in October 2023. It found that the S3's objectives continue to be relevant and that the strategy's implementation resulted in tangible impacts, but that additional understanding of the S3 process' importance is needed from several sectors, including parts of the public sector responsible for implementation. While this evaluation represents a positive step in ensuring continuous monitoring and evaluation of STI policies, it did not go deeper into the results or the impact of the realised activities. Montenegro's continuous participation in the European Innovation Scoreboard since 2021 and improving data availability are expected to contribute to more evidence-based policy making in the medium term.

### *Sub-dimension 9.2: Public research system*

The expired Strategy for Scientific Research Activities (2017-22), together with the new planned strategy in this area, promotes **public research excellence** in Montenegro. In addition, the economy has undertaken several regulatory reforms to strengthen scientific research outputs. In 2020, the government adopted a new Law on Incentive Measures for Research and Innovation Development – the legal basis for establishing the Innovation Fund – and a number of important implementation acts have been introduced in 2023 to implement the Law on Scientific Research Activities fully. These include provisions for measuring scientific performance and conditions for licensing scientific research institutions, thereby constituting important steps towards establishing credible, integrated and high-quality research.

Investments into research and development (R&D) have decreased according to latest available data, to 0.36% of GDP in 2019 compared to 0.5% in 2018 (World Bank, 2024[2]). However, these data do not reflect efforts made in recent years, as budgetary support has increased to assist Montenegro's economic recovery, including STI activities. In 2023, the authorities reported to have allocated nearly EUR 10 million to implement STI-related activities, a sharp increase compared to the allocated EUR 4.08 million in 2022 and allocations in previous years. Public scientific research remains largely based on institutional block funding and geared towards education, although in line with good practice a new performance-based financial contracting model to complement institutional funding was piloted in 2018 for the University of Montenegro. Under the new model, project-based funding schemes were introduced via the Ministry of Science and Technological Development and in 2023, a call for co-financing national scientific research projects with total funds amounting to EUR 2.3 million was published.

After becoming fully operational, in 2022 the Innovation Fund launched two finance schemes totalling EUR 770 000 and added an additional six programmes to its portfolio in 2023, amounting to EUR 1.65 million (Box 10.1). While these budgets are relatively small, they constitute significant developments and send an important signal to the local STI ecosystem. Lastly, a EUR 1 million programme related to energy efficiency measures in industry has been adopted and the call for applicants published in September 2023. The programme, which will be implemented by the Innovation Fund, aims to promote innovation related to energy efficiency by incentivising companies to invest in efficient equipment and smart digital technologies. It also envisages the establishment of an energy management system to stimulate the use of renewable energy sources by companies in alignment with the objectives of the S3 strategy. The operationalisation of the Innovation Fund and the availability of financial support to incentivise research on strategic priorities such as the digital and green transition is a significant positive development.

However, this assistance primarily targets innovative SMEs and start-ups, leaving scope to make similar funding available to encourage broader scientific research.

### Box 10.1. Programme portfolio of the Innovation Fund of Montenegro

Since its inauguration in 2021, the Innovation Fund of Montenegro has become an organisation with substantial institutional capacity, comprising seven full-time employees as well as independent experts. The Fund has benefited from capacity-building support from a number of international donors, including UNDP and the Norwegian Government, and is on track to becoming Montenegro's main policy tool to implement the economy's innovation and knowledge economy vision – in particular for the Smart Specialisation framework. Since 2022, it has launched eight financial support schemes with national budget support of EUR 2.4 million, and is covering a broad scope of innovation and start-up support activities, including:

- *Innovation vouchers* aimed at incentivising micro, small and medium-sized enterprises (MSMEs) to co-operate with research and development institutions to test the commercialisation potential or further development of prototypes via research, with a total budget support of EUR 100 000.
- *Proof of innovation concept* aimed at SMEs to help introduce process innovations or develop new or improved market-oriented products, services or technologies, with a total budget support of EUR 1 million.
- *Pre-acceleration for start-ups*, consisting of a training programme for potential entrepreneurs to support them in validating their innovative ideas on the market and further improving start-up projects, with a total budget support of EUR 1 million.
- *Vouchers for the protection of invention* to support SMEs in filing a patent application or further testing ahead of application, with a total budget support of EUR 20 000.
- *Programme for strengthening the innovation of newly established or existing SMEs*, designed to support start-up teams in validating their business ideas by confirming their proposed problem-solution fit, and demonstrating the future usefulness of their new product, service, process or technology through development of a first prototype or a minimum viable product (MVP). The total programme budget is EUR 100 000.
- *Programme for encouraging innovations related to energy efficiency,* aimed at encouraging private firms to introduce energy efficiency measures by co-financing investments into energy efficiency or smart technology in the total amount of EUR 1 million (first call not yet published).

Lastly, the Innovation Fund also conducts awareness-raising activities in line with Montenegro's Smart Specialisation Strategy to foster and showcase a holistic innovation culture.

Source: Innovation Fund of Montenegro (2024[3]).

Available data on the number of researchers have not been updated since 2019 and remain low at 734 researchers per 1 million inhabitants (World Bank, 2024[4]). Nevertheless, several measures are in place to strengthen Montenegro's capacity of **human resources for research and innovation**. Notably, the 2020 Law on Incentive Measures for Research and Innovation envisages tax incentives for scientific research and innovation projects that employ qualified researchers. Similarly, the national Council for Scientific and Research Activities provides scholarships to doctoral candidates as well as mobility opportunities, although on an irregular basis. Meanwhile placements of scholars in private sector entities is also encouraged via an ongoing EU-funded project aimed at promoting the potential of scientific research for innovation and stimulating the historically low participation in such opportunities. Since the last

assessment, participation in the Marie Skłodowska-Curie Action (MSCA) has also increased. Other support measures to foster human research capacity include training on proposal writing and financial support to participate in international networks, such as Horizon Europe. There is also a financial support programme for patent applications for SMEs and individuals in place, run by the Innovation Fund. Despite this large number of measures to support young researchers in particular, there is scope to improve engagement with Montenegro's diaspora to strengthen the economy's scientific research capacity.

**International and regional collaboration** in the area of STI remains strong and Montenegro participates in various European and global innovation networks. It has significantly improved its participation rate in Horizon Europe in recent years, receiving over EUR 3.8 million in EU contributions for 28 projects under Horizon Europe since 2021, compared to EUR 4.6 million under the entire Horizon 2020 framework (2014-20) (Horizon Europe, 2023[5]). The Ministry of Science and Technological Development provides additional co-financing for successful projects. While the economy's improved participation is encouraging, the vast majority of projects remain small in size, with nearly 50% of funds going to one research institution (Horizon Europe, 2023[5]). Montenegro also actively participates in the European Strategy Forum on Research Infrastructure (ESFRI) and is currently updating its research infrastructure roadmap. Lastly, the economy continues to successfully host the regional South East European International Institute for Sustainable Technologies (SEEIIST).

### *Sub-dimension 9.3: Knowledge exchange and co-creation*

While the promotion of connections between science and economic activity is one of the priorities of the forthcoming Strategy for Scientific Research Activities as well as the existing S3 framework, **incentives for business-academia collaboration** are overall limited. To date, only a few targeted measures exist and private sector investments into R&D activities remain chronically low. However, recent efforts include the launch of two pilot programmes in 2022 by the Innovation Fund. EUR 100 000 was allocated to an innovation voucher scheme, which supported 10 SMEs with up to EUR 8 000 for engaging with R&D institutions or laboratories on small-scale research projects. Meanwhile EUR 670 000 was provided in the context of a collaborative grants for innovation (CGI) programme, awarding up to EUR 100 000 for joint research programmes between SMEs and public scientific research institutes. In total, seven projects were supported under the CGI, promoting joint research in priority areas such as ICT, energy and resource efficiency, and sustainable tourism. In 2023, the programme was officially certified for the Plug-In scheme within the European Innovation Council (EIC) Accelerator, which enables awarded projects to be directly submitted for funding consideration under the EIC Accelerator programme.[2] Implementation of the innovation voucher scheme continued into 2023 and the Innovation Fund plans to continue implementing the CGI in 2024.

In addition to these financial incentives, Montenegro adopted a new Intellectual Property (IP) strategy in 2023, aimed at strengthening enforcement capacity and improving Montenegro's low track record on investigations, prosecution and judicial follow-up of IP infringement. In combination with the Innovation Fund's support for patent application, the new framework may increase patent applications and commercialisation of research in the medium term; however, it does not involve tailored incentives to stimulate academia-private sector STI co-operation.

Some progress has been made in upgrading the research and innovation (R&I) **infrastructure for business-academia collaboration**. The Innovation and Entrepreneurship Centre Tehnopolis in Nikšić remains the only fully operational pillar of Montenegro's first science and technology park (STP), which envisages a networked structure with a central base in Podgorica and three decentralised impulse centres in Nikšić, Bar and Pljevlja. As such, Tehnopolis continues to provide Montenegro's main institutional support structure to foster innovation and R&D through a variety of support programmes, including business incubation services, a biotechnological laboratory, a tech lab and data centre, as well as through close collaboration with a number of higher education institutions (HEIs). Against this background, further

expansion of the centre is currently under way, including a stronger focus on digital transformation and pre-acceleration support for start-ups. In contrast, Montenegro's flagship project, the central STP Montenegro in Podgorica, has been delayed and has yet to become fully operational, but preparations for selecting its first tenants have started in 2023. The establishment of a Technology Transfer Office (TTO) is also planned. There are currently no concrete plans in place to construct the remaining two centres in Bar and Pljevlija and complete the STP's planned four-institution structure.

The Smart Specialisation framework envisages further measures to establish R&I infrastructure, including the establishment of a network of centres of excellence. Since the last assessment, FoodHub, a centre of excellence for digitalisation in the field of food safety and authenticity, has opened at the University of Donja Gorica with governmental support, while Montenegro also successfully bid to host a Regional Centre for Cybersecurity Capacity Building (WB3C) in 2022, supported by France and Slovenia. The development and capacity building of the centre is included as a priority in the government programme in 2023 and the legal foundations for establishing the centre have been completed. Initially, it will provide training facilities for civil servants of all Western Balkan economies to increase awareness about cybersecurity threats.

Lastly, initial steps have been taken to enhance **open science** principles and improve the accessibility of publicly funded research. The forthcoming strategy on scientific research specifically mentions open science, while Montenegro's finance scheme to support co-financing of national scientific research projects requires publishing in open access journals. Moreover, a programme to implement open science principles was adopted together with an action plan in 2020, while in 2021 a feasibility study for establishing a national open science repository was completed. However, no concrete actions have been taken to date to enable open access to publicly funded scientific research.

## Overview of implementation of Competitivenss Outlook 2021 recommendations

All Recommendations set forth in the CO 2021 have been addressed or implementation is in progress (Table 10.2). Most notably, the Innovation Fund, established and fully operationalised since the last assessment, provides multiple large-scale programmes to stimulate R&D among enterprises. As a result, government funding for STI-related activities has increased, although the allocation towards fostering research excellence in public scientific research activities remains unclear and statistical evidence for R&D investments remains outdated. While some steps have been taken to strengthen the institutional support structure for business-academia collaboration, further efforts are required to stimulate knowledge exchange and co-creation.

### Table 10.2. Montenegro's progress on past recommendations for science, technology and innovation

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Ensure swift operationalisation of the new Innovation Fund | The Innovation Fund has become fully operational, including through capacity building support from the World Bank, and has adequate staff resources. | Strong |
| Invest in the scientific research system | Reliable data on gross domestic R&D expenditure (GERD) remain unavailable. More recent absolute figures have increased, but lack detailed information, including on whether these funds are geared towards scientific research or entrepreneurial innovation activities. | Moderate |
| Continue increasing Montenegro's participation in international research programmes such as Horizon 2020 | Montenegro has significantly improved its participation rate in Horizon Europe. | Strong |
| Continue building a national and regional research infrastructure | While the operationalisation of Montenegro's flagship science and technology park (STP) is delayed, another pillar of its STP is being expanded. | Moderate |

| | | |
|---|---|---|
| | Montenegro has opened a centre of excellence and has successfully applied for the establishment of a regional Centre for Cybersecurity Capacity Building. | |

## The way forward for science, technology and innovation

Montenegro has taken important steps further to enhance its performance in science, technology and innovation. As the existing policy framework is due to expire, it will be important to maintain momentum and prioritise the completion of outstanding policy measures to create a sustainable, long-term foundation for the economy's future STI-related activities. Going forward, Montenegro should focus on the following:

- **Continue implementation of the Smart Specialisation Strategy.** S3 implementation has improved in recent years but it is crucial to sustain this progress moving forward. The mid-term evaluation findings, once finalised, will provide important insights for adjustments and re-prioritisation as the S3 reaches its final implementation phase. Efforts should be accelerated to ensure that a strategic framework, based on monitoring and evaluation findings, is in place beyond 2024.
- **Swiftly adopt the new Strategy for Scientific Research Activities.** The new strategy will provide the framework for stimulating strategically relevant, high-quality research with commercialisation potential. Long-term adequate budget allocation to upgrade the public research system will further underline the authority's commitment to research excellence, and is expected to increase further Montenegro's active participation in European and global research programmes and collaboration with private sector players. As such, improved data collection to better monitor R&D activities will be critical.
- **Consolidate the programme portfolio of the Innovation Fund.** As operations of the Innovation Fund begin to mature, an independent review of programme impacts should be considered to ensure the efficiency and effectiveness of measures. This would also help to prioritise efforts and align programme targets with the overall STI policy framework and the S3 strategic vision, including a stronger focus on incentivising energy efficiency and renewables as well as smart technology.
- **Implement and expand planned measures to stimulate business-academia collaboration.** As the STP in Podgorica becomes operational, efforts should be made to ensure that available services go beyond business incubation and entail targeted measures to stimulate research collaboration between academia and the private sector. For example, establishing the Technology Transfer Office (TTO), including adequate human resources and implementing an action plan to raise awareness about the TTO's services, would be an important signal to both the academic and business communities. Furthermore, up-to-date information on GERD would help determine and monitor the private sector's share in R&D investments to support evidence-based policy making.

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## Notes

[1] Indicators to understand whether policies meet their set-out objectives should be SMART: specific, measurable, attainable, real and time-based.

[2] The European Innovation Council Accelerator Programme is a funding programme under Horizon Europe that offers grant support, equity investments, coaching, mentoring and networking opportunities to individuals, SMEs and MidCaps (i.e. companies with a mid-sized market capitalisation) with innovative ideas that have the potential to create new markets or disrupt existing ones. More information can be found here: https://eic.ec.europa.eu/eic-funding-opportunities/eic-accelerator_en.

# 11 Digital society

Digital transformation, driving efficiency and productivity through the adoption of digital technologies and data utilisation, holds promise for fostering economic activity and competitiveness. This chapter, across four sub-dimensions, assesses the scope and quality of the policy framework and strategies and the implementation and adoption by Montenegro. The first sub-dimension, access, explores government policies and initiatives to enable network infrastructure investment and broadband services take-up and increase data accessibility. The second, use, delves into the government's plan to implement programmes to develop a user-centric digital government and help businesses achieve a digital transformation. The third, society, assesses whether governments have planned and implemented programmes to reduce the digital divide and create an inclusive society through green digital technologies. The fourth, trust, examines the economies' frameworks and how they are being implemented to protect data and privacy, build trust in e-commerce and ensure cybersecurity through effective digital risk management systems.

# Key findings

Montenegro's performance in the digital society policy dimension has seen a slight decline since the last assessment.[1] Montenegro made notable progress in enhancing its policies and their implementation in areas such as broadband infrastructure and digital business development, privacy and data protection and consumer protection in e-commerce. Conversely, it stagnated or even slowed in other areas, including the communications regulatory framework, data accessibility, digital government development and cybersecurity. However, despite these setbacks Montenegro's overall performance is in line with the regional average for digital society policy in the Western Balkans (Table 11.1).

### Table 11.1. Montenegro's scores for digital society

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Digital society | 10.1: Access | | | 3.0 | 2.9 |
| | 10.2: Use | | | 2.3 | 2.3 |
| | 10.3: Society | | | 1.8 | 1.7 |
| | 10.4: Trust | | | 2.8 | 2.7 |
| **Montenegro's overall score** | | **2.4** | **2.7** | **2.5** | **2.5** |

The **key findings** are:

- The overarching Digital Transformation Strategy 2022-26 emphasises the importance of ubiquitous high-speed broadband access, yet delays persist in adopting a national broadband development plan. The government granted three 5G licences before adopting the Strategy for 5G Development in August 2023, and the first commercial 5G services are already available in urban locations. However, a framework for 5G cybersecurity requirements remains pending.
- Open data reuse is in its early development phase in Montenegro, with limited private sector engagement in data innovation initiatives. The current legal framework has yet to align with relevant EU data legislation. Factors such as limited awareness of the benefits of data reuse, insufficient data skills within the public sector, technical challenges, and data quality inconsistencies hinder progress in the data economy and diminish the potential for meaningful data-driven innovation.
- Despite the government's adoption of renewed policies for digital government development, such as the Public Administration Reform Strategy 2022-26 and the Digital Transformation Strategy 2022-26, policy implementation advanced slowly in the current assessment period. While the legal framework on interoperability and e-identification aligns with the EU *acquis*, technical issues in the government data exchange system and delays in connecting public registers create bottlenecks, impeding the digitalisation process and limiting the quality, appeal, and sophistication of e-government services.
- Montenegro has taken steps to ensure full operationalisation of the Personal Data Protection Agency, appointing new members to its Council in 2022. However, the adoption of the new law on Personal Data Protection, aimed at improving the alignment with the EU's General Data Protection Regulation (GDPR), is still pending. Despite limited resources, the Agency conducts awareness-raising and capacity-building activities to enhance stakeholders' understanding of personal data protection processes and promote greater respect for the Agency's opinions and decisions.

- Montenegro adopted a results-oriented Cybersecurity Strategy for the period 2022-26 to address the shortcomings of the previous strategy, concluded in 2021. However, as of early 2024, the government has yet to adopt the draft law on information security, mandating the establishment of the National Cybersecurity Agency. Inadequate allocation of human and financial resources in cybersecurity presents challenges for institutions such as the National Computer Emergency Response Team (CERT) and weakens Montenegro's response to cybercrime.

## State of play and key developments

In 2022, Montenegro witnessed a slowdown in the pace of digital transformation reforms, built up in previous years. This slowdown can be attributed to prolonged political uncertainty, continuous government structure changes, and substantial cyberattacks on the state's digital infrastructure in the second half of 2022. These cyberattacks prompted the government to prioritise cybersecurity in its reform agenda, focusing on mitigating impacts and restoring the operation of IT systems and affected infrastructure.

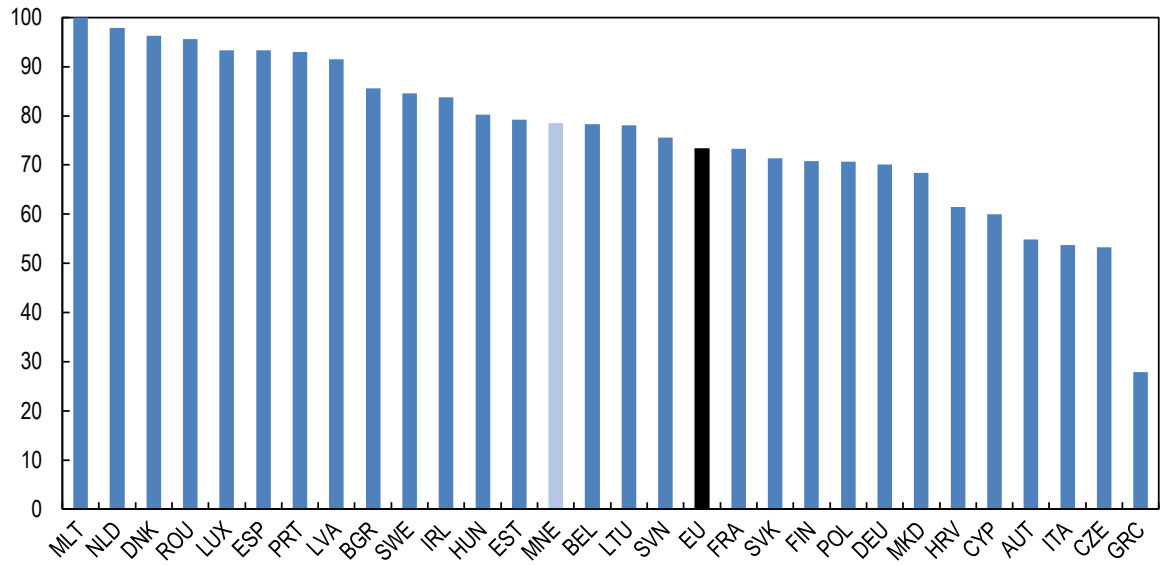
Montenegro has emerged as a leader in digital literacy among Western Balkan economies, with 52.0% of citizens declaring they have basic or above-basic digital skills in 2023, just below the EU average of 55.3% (Eurostat, 2024[1]). Despite suffering from a shortage of information and communication technology (ICT) professionals, the government aims to increase the number of ICT graduates from all available academic programmes. In 2022, 11% of the total number of graduates from all universities were students from study programmes related to information technology (IT), up from 8% in 2021 (MPA, 2023[2]). The ICT sector has also shown steady growth in Montenegro, accounting for 4.4% of GDP in 2022, up from 3.5% in 2021 (MONSTAT, 2023[3]). Additionally, in 2022 1 358 active ICT companies were employing 5 343 individuals, which marks an increase from the initial values of 970 companies and 4 441 employees set for the implementation of the Strategy for Digital Transformation (MPA, 2023[2]).

### *Sub-dimension 10.1: Access*

Montenegro's **broadband infrastructure** has made significant strides over the past three years, particularly in fixed broadband and 5G network development, driven by market investments. Montenegro's Gigabit Society targets are outlined in key strategic documents, such as the Strategy of Digital Transformation of Montenegro 2022-26 and the Strategy for the Development of 5G Mobile Communication Networks 2023-27. These targets include achieving 86.4% household coverage by 2026 through fixed broadband connections exceeding 100 Mbps (megabits per second) speeds and covering 75% of the total population with 5G by the end of 2030, also at speeds exceeding 100 Mbps. In early 2023, the government awarded 5G licences to three commercial operators in the 700 MHz (megahertz) and 3.6 GHz (gigahertz) frequency bands, leading to the availability of the first commercial 5G services in large urban centres by April 2023. According to International Telecommunication Union (ITU) statistics, Montenegro boasted the highest fixed broadband penetration rate in the WB6 region in 2022, at 30.3%, followed by Serbia (29.3%) and Bosnia and Herzegovina (27.1%) (ITU, 2024[4]). By the end of December 2023, Very High-Capacity Networks (VHCN) delivering speeds above 100 Mbps accounted for 63.11% of available broadband connectivity, with 48.69% being fibre connections (to the home, FTTH/to the building, FTTB) (EKIP, 2023[5]). Additionally, by the end of 2022, households with access to fixed VHCN reached 78.5%, only slightly below the EU average of 79.20% (Figure 11.1), while household coverage with fibre technology stood at approximately 71% (EKIP, 2023[6]).

## Figure 11.1. Very High-Capacity Network household coverage in Montenegro and EU Member States (2022)

Percentage of total population




Sources: For Montenegro: European Commission (2023[7]); for EU Member States: European Commission (2023[8]).

StatLink https://stat.link/u4kqvs

While statistical data indicate significant investment activity and demand for high-speed broadband Internet connections, very high-speed networks are primarily concentrated around urban centres. Unfortunately, rural broadband development has lagged behind, widening the connectivity gap between urban and rural populations. Montenegro's National Broadband Development Plan (NBDP) was intended to address this issue by outlining a set of measures for financing and constructing broadband infrastructure across the entire territory, including areas without commercial interest (white areas). This initiative aimed to connect all households, businesses, educational institutions and health facilities with fast and secure Internet to support Montenegro's digital transformation. However, the preparation of the NBDP was contingent upon an EU-funded technical assistance project aimed at improving broadband infrastructure development in Montenegro. This project experienced significant delays and was launched in March 2023, pushing back the expected completion of the NBDP to the end of 2024. Depending on subsequent interest from private sector investors, Montenegro can access close to EUR 64 million in Western Balkans Investment Framework (WBIF) grants and European Bank for Reconstruction and Development (EBRD) loans to co-finance rural broadband infrastructure development. Meanwhile, Montenegro still needs to adapt existing legislation to align with the 2023 revised EU Guidelines on State Aid for broadband networks.[2] These guidelines align the threshold for public support to fixed networks according to the latest technological and market developments; introduce a new assessment framework for the deployment of mobile networks (including 5G); and establish simplified rules and compatibility criteria to incentivise the adoption of broadband services.

Montenegro has consistently continued implementation of its **communication's regulatory framework** during the current assessment period. However, the adoption of the draft new Law on Electronic Communications, aimed at aligning with the European Electronic Communications Code,[3] was still pending in February 2024. Furthermore, while Montenegro enacted the law on the use of physical infrastructure for the installation of high-speed electronic communication networks in January 2022, which partially

implements the EU Broadband Cost Reduction (BCR) Directive,[4] full alignment hinges on the adoption of the new Law on Electronic Communications. The new Law transfers part of the BCR Directive into Montenegro's national legislation, crucial for encouraging private sector investments in high-speed communication networks, particularly in anticipation of the upcoming implementation of the NBDP. The new Law is also going to strengthen the independence of the Agency for Electronic Communications and Postal Services (EKIP). This independence was challenged in 2023 when the parliament passed amendments to the existing Law on Electronic Communications without prior public consultation, to dismiss existing Council members and executive director of the Agency before the end of their mandate (European Commission, 2023[7]). Moreover, despite granting 5G licences in early 2023, EKIP has yet to adopt a permit-exempt deployment regime for small-area wireless access points, in alignment with relevant European Commission (EC) regulations.[5] Such a regime would streamline the deployment of 5G networks, delivering high capacity, increased coverage and advanced connection speeds.

Montenegro's implementation of the **data accessibility** framework has stagnated over the past three years, despite significant updates to relevant policies. Key strategic documents[6] integrate measures to improve access to public sector data, increase usage of the open data portal and promote the application of data-driven solutions in both the public and private sectors. The overarching Digital Transformation Strategy 2022-26 advocates for data-driven innovation by increasing the number of institutions actively publishing data on the open data portal, and enhancing the availability of high-value datasets. However, despite the adoption of an enabling policy framework, the cyberattacks of August 2022 disrupted momentum in pursuing data accessibility. All efforts were channelled into restoring existing systems and containing the damage until mid-2023. The existing open data portal, which hosted 197 datasets by 14 institutions in 12 thematic fields, ceased to function after the attacks until June 2023, when it was partially restored without complete functionality. Since then, no new datasets can be uploaded. In July 2023, the government decided to create a new Open Data portal,[7] which is not yet complete.

These adversities prompted a new revision of the Law on Access to Public Sector Information, seeking alignment not only with the Open Data Directive[8] but also with the EU Data Governance Act.[9] The new Law is proposed by the government for adoption within 2024. The government was also forced to postpone activities planned for 2022-23, such as enhancing guidelines for publishing datasets, conducting hackathons for data-driven innovative solutions, and promoting inspiring examples of data innovation practices. Additionally, the public sector continues to face challenges due to a lack of open data skills for collecting, sharing and publishing data. Limited awareness of the benefits of data reuse and officials' hesitancy to change the data culture in the public sector, alongside technical issues, hinder advancements in developing a data-driven economy in Montenegro. Responding to the recognised deficit in digitalisation skills, the Public Administration Reform Strategy foresees training sessions for content administrators of the open data portal on how to prepare data in open formats. It is crucial that similar capacity-building activities are extended to ensure that public sector skills exist to support data partnerships with the private sector for the creation of new services.

### *Sub-dimension 10.2: Use*

The development of **digital government** in Montenegro is facing significant delays, particularly following the cyberattacks on the economy's digital infrastructure in the third quarter of 2022. Despite having a policy framework in place that promotes the digital transformation of government services – aiming for higher quality, appeal, and interoperability of e-services[10] – its implementation is stagnating. By the end of 2022 only 54% of the activities scheduled under the Action Plan of the Digital Transformation Strategy had been implemented due to financial constraints, capacity limitations, and organisational changes in public administration (MPA, 2023[2]). The Coordinating Body for Digital Transformation, established by the government to enhance policy co-ordination, has yet to demonstrate its impact in accelerating digitalisation. However, legal reforms since 2021 have facilitated digital government development and improved alignment with the EU *acquis*. The newly enacted electronic document law in December 2022 is

poised to accelerate the digitalisation process by aligning more closely with the EU eIDAS[11] regulation on digital identity and trust services, although the alignment is not yet complete. The law extends the definition of electronic signatures, introduces the electronic stamp, and equates digitalised documents with electronic documents, thereby eliminating barriers to acceptance by public institutions.

Despite integrating various government systems and portals into a centralised e-government portal,[12] there has been no noticeable improvement in the quality or sophistication of e-services as of the end of 2023. Although the national e-identification system, based on an eID card system, and an e-payment system for administrative fees are integrated into the new e-government portal, the lack of interoperability persists as a major hindrance for developing fully transactional e-services. Despite government efforts to improve it, the Unified System of Electronic Data Exchange (JSERP), aimed at ensuring interoperability in public administration, remains underutilised. Integrating all public registers and public institutions into the JSERP is not yet complete (37 registers connected in 2022 out of at least 300 targeted). Moreover, awareness about the availability and use of e-services is unsatisfactory, with 53.1% of citizens and 59.4% of businesses being informed in 2022 (MPA, 2023[2]). Notably, the Ministry of Public Administration (MPA) developed an annual Communication Plan for 2023 to raise awareness of the importance of digitalisation and conducted a sizeable public campaign in 2022 to increase uptake of the eID card system. Following the cyberattacks, the number of services on the e-government portal at the end of 2022 decreased to 382 from over 400. Only 73 of these were electronic services, while the rest were purely informative. Available services comprised 254 services for businesses, 109 for citizens, and 19 for public administration (MPA, 2023[9]). Persisting challenges, such as insufficient capacities for digitalisation in the public sector and limited digital awareness of the Montenegrin society, are slowing down the digital transformation process. In response to these challenges, the Ministry of Public Administration has launched the Digital Academy, which provides civil servants and citizens with both virtual and physical learning spaces to acquire digitalisation skills (Box 11.1).

### Box 11.1. The Digital Academy in Montenegro

The Digital Academy is one of the first strategically designed projects in Montenegro that aim to accelerate the process of digital transformation and improve the services provided by public administration bodies. The Digital Academy, operating as both an online platform and a physical learning space, provides an opportunity for civil servants and the general public, including students, pupils and vulnerable groups, to enhance their knowledge of digitalisation and acquire digital skills free of charge. As a precondition for the successful digitalisation of the society and economy, the government's goal is to systematically strengthen professional, leadership and digital skills in public administration and to increase digital literacy among the population, particularly within vulnerable groups.

The government of Montenegro has drawn on the experience of international experts and support from the private sector to develop the Digital Academy training programmes. In March 2023, the Minister of Public Administration signed an agreement with the telecom operator M:tel, with the aim of organising training programmes on the premises of the "M:tel Digital Factory", which hosts start-up academies, workshops, lectures, info sessions and entrepreneurship-related trainings.

Digital Academy programmes include topics like "Transformational leadership and change management", "Cyber Security culture and data protection", "Introduction to human-centred design", "The future of digitalization: Application of artificial intelligence and machine learning", "ChatGPT: Applications, challenges and ethical issues", and others.

Source: Government of Montenegro (2024[10]).

**Digital business** development in Montenegro has received enhanced institutional support over the past three years, further accelerated by the COVID-19 pandemic. Key strategic documents[13] recognise the pivotal role of companies' digital transformation across sectors in enhancing competitiveness and economic growth. The increased usage of ICTs in micro SMEs is emphasised in the newly adopted Strategy for the Development of MSMEs 2023-26, which outlines measures focusing on increasing e-commerce take-up. Moreover, annual programmes have been implemented to increase SMEs' competitiveness through digitalisation. In 2022, a total of 353 SMEs were supported, 131 of which were women-owned. With a total allocated amount at the level of EUR 2.04 million, 324 companies received financial support, while 29 accessed mentoring services (MERT, 2023[11]). However, with similar annual allocated funding, the overall number of beneficiaries for digitalisation remains modest. Additionally, although a dedicated portal[14] exists for accessing these financial support programmes, awareness among SMEs across sectors is insufficient. According to an analysis of the business environment conducted by the Montenegrin Chamber of Commerce in 2023, little more than one-third of surveyed companies were familiar with the government's competitiveness programmes, running since 2021 (KOMORA, 2023[12]). Nevertheless, in 2023, 100% of enterprises in Montenegro used the Internet, with 98.8% using fixed broadband connectivity for their access and 49.1% connecting with speeds above 100 Mbps (MONSTAT, 2023[13]). Additionally, 85.4% of all companies have a website, primarily used for product catalogues or price lists (75.8%) and links to their social media profiles (66.1%).

The government has also established a comprehensive framework for strengthening the domestic ICT sector, which is currently less competitive compared to other economies in the WB6 region. Its growth is primarily supported by the Digital Transformation Strategy, which recognises the digital skills deficit in the workforce and the shortage of IT professionals as major barriers. The strategy integrates measures for financing ICT innovation projects, promoting the internationalisation of IT products and incentivising digital nomads and ICT professionals from abroad to work in Montenegro. Additionally, ICT start-ups receive support from the Innovation Fund of Montenegro. Since September 2021, the Innovation Fund has supported 85 projects with EUR 2.68 million.[15] The volume of applications received during the same period (288) underscores the considerable demand for similar initiatives. In 2023, ICT companies were awarded seven out of eight new projects supported by the Innovation Fund, with nearly EUR 1 million.[16]

Montenegro has not yet formulated policies governing the development and use of **emerging digital technologies** such as artificial intelligence (AI), blockchain, or the Internet of Things (IoT). While no legislation is currently in place to ensure the safe and responsible use of these technologies, the Law on Innovation Activities and subsequent bylaws anticipate their application for creating innovative products and services. Furthermore, the 5G Development Strategy includes measures aimed at promoting the proactive involvement of the 5G ecosystem in introducing new concepts and applications for state institutions and local governments based on emerging technologies, such as Big Data, AI, IoT and cloud computing. An AI ecosystem is gradually taking shape, albeit without institutional support at this time, prompting discussions and collaborations among stakeholders and experts at the initiative of the Montenegrin AI Association (MAIA). The Association actively promotes the development of artificial intelligence by supporting or participating in research projects, fostering co-operation activities with domestic and international entities, and organising relevant seminars, workshops and training sessions.

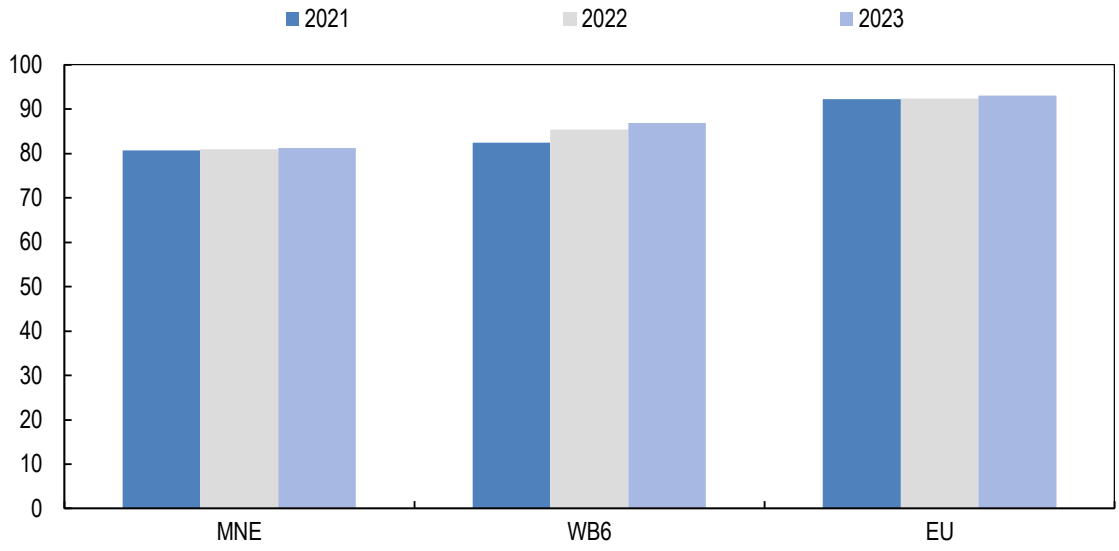
### *Sub-dimension 10.3: Society*

Montenegro has enhanced its policy framework on **digital inclusion** in the current assessment period. Since adopting the Digital Transformation Strategy in 2022, measures have been put in place to promote digital skills development for vulnerable groups of the population, including the elderly, people with disabilities, and Roma and Egyptian populations, alongside awareness raising on the societal benefits of digitalisation. However, implementation of policy measures, particularly those focused on digitally underprivileged groups and person with disabilities, has lagged behind. In 2022, only 91 citizens from vulnerable groups attended ICT training at adult education organisers (MPA, 2023[2]). Moreover, while the

newly established Digital Academy promises to enhance citizens' digital literacy and knowledge about emerging digital technologies, during its initial operation period since March 2023 the Academy's training programmes have yet to integrate digital learning opportunities for vulnerable groups. Additionally, in 2022, planned subsidies for the purchase of computer equipment for the socially disadvantaged and students and pupils were not implemented. Statistical data show that the digital divide in Montenegro is evident in Internet usage discrepancies among different geographical regions and between rural and urban populations. In 2023, Internet usage in households across Montenegro differed significantly from the overall 81.28% and the EU average of 93.08%, 2023 (Eurostat, 2024[14]) with the lowest usage in the North region (74.8%), and the highest in the South (93.0%) (Figure 11.2). Furthermore, Internet usage in rural areas is only 71.9%, compared to 85.9% in urban locations (MONSTAT, 2023[15]).

### Figure 11.2. Internet usage in households in Montenegro, the Western Balkans and the European Union (2021-23)

Percentage of total population




Source: Eurostat (2024[14]).

StatLink https://stat.link/u7ym6b

Despite legal obligations for e-accessibility to be integrated into the Law on e-Government (2019) and adopted rulebooks on e-accessibility standards for websites, e-documents, e-services and procurement of ICT products and services since 2020, practical implementation lags behind. While the new central government portal (GOV.ME) meets international e-accessibility standards, this is not the case for other public institution websites and online information sources, including the e-government portal (euprava.me). Website redesign initiatives for public sector bodies like news agencies, educational institutions and local self-government authorities are pending, and accessibility requirements are yet to be applied in public procurements for ICT products and services. Moreover, digital inclusion indicators face poor monitoring and data collection, hindering policies and programmes' impact assessment.

Montenegro has yet to adopt specific policy measures to ensure development of **green digital technologies**. Although the Smart Specialisation Strategy 2019-24 recognises the potential of Green ICT for economic growth through emission reductions and energy savings, it lacks specificity in terms of activities and budget allocation. Additionally, existing digital society policies overlook the environmental

impact of the ICT sector and the growing use of digital technologies on climate change. Notably, science and technological development programmes, along with Innovation Fund initiatives, support students and start-ups in creating innovations focusing on energy efficiency across diverse industry sectors. These innovations often contribute to the valorisation of digital advancements employed to achieve eco-friendly outcomes. Furthermore, waste electrical and electronic equipment (e-waste) management is addressed in the Law on Waste Management. Under the current Law, extended producer responsibility (EPR) applies to companies that manufacture, import or sell electrical and electronic equipment, among others. EPR ensures that manufacturers consider the full life cycle of their products, from the design phase to the end of the product's life, promoting sustainability and environmental responsibility. In 2023, a new draft Law on Waste Management was prepared, aiming to align with relevant EU legislation with a particular focus on provisions for the Extended Producer Responsibility Programme.

### *Sub-dimension 10.4: Trust*

Implementation of the **privacy and personal data protection** framework has shown slight advancement in Montenegro since 2022. Law enforcement and stakeholders' understanding of personal data protection issues has improved since the previous assessment periods. However, Montenegro has yet to align its national legislation with the GDPR[17] and the e-Privacy Directive.[18] In view of Montenegro's EU accession process, the EC has emphasised the importance of alignment with both of these complementary legal acts (European Commission, 2023[7]). Alignment with the e-Privacy Directive will establish a common set of rules with EU Member States regarding direct marketing communications (including cookies and similar identifiers) and electronic communications service providers. In 2020, to address the shortcomings of the existing framework and improve its alignment with the EU *acquis*, the Agency for Personal Data Protection and Free Access to Information (AZLP) initiated preparations for a new law on personal data protection, aligning with EU legislation. However, its adoption is still pending. The draft law also aims to secure the Agency's operational and financial independence, which has been repeatedly challenged. For instance, in December 2021 the parliament dismissed two members of the Agency's Council, leading to a temporary operational halt until August 2022 when the Council became operational again.

Operating with limited personnel and financial resources, including 29 staff members out of an optimal 47, and a total budget of EUR 636 000 in 2022, the Agency received 215 initiatives (i.e. requests) for the protection of rights from natural and legal persons and conducted 127 inspections. In 114 extraordinary inspections, irregularities were found in 82 cases. At the end of 2022, the Agency reported that domestic personal data collection operators have shown improved understanding of personal data protection processes and an increased willingness to comply with its non-binding decisions and opinions. In 2022, six opinions were issued for the application of the personal data protection law (AZLP, 2023[16]). Despite its limitations, the Agency actively engages in awareness campaigns and capacity-building initiatives for data practitioners in both the public and private sectors. However, since the current legislation does not mandate the appointment of a personal data protection officer, only a small number of data operators have appointed one, one of the critical issues addressed by the new draft law.

Montenegro has made significant progress in enhancing its framework for **consumer protection in e-commerce**. It has consistently implemented its Consumer Protection (CP) Programme 2022-24, aimed at better alignment with the EU *acquis*, strengthening law enforcement, particularly for consumers in the digital realm, and increasing awareness among consumers and traders regarding their rights and obligations. Although the existing law on consumer protection aligns with the EU Consumer Rights Directive[19] and the EU Directive on consumer Alternative Dispute Resolution[20] since December 2021, it does not fully incorporate the modernised EU-wide consumer protection rules currently in force.[21] While the government has prepared a new law for consumer protection, prescribing new rules for trade processes in the digital world in line with EU legislation (Official Journal of the European Union, 2019[17]), its adoption, along with other pertinent legislation, is still pending.

The Directorate for Inspection Affairs, the central point of the Consumer Protection System in Montenegro, is responsible for the management of complaints and consumer issues. The Directorate strengthened its administrative capacities by hiring 11 inspectors for consumer protection in 2022. This led to an increase in inspections, including in the e-commerce domain, such as systemic website checks ("sweeps") of 62 companies engaged in online sales (EC, 2022[17]). These checks, mirroring EU Member practices, aim to encourage higher compliance of online traders in Montenegro with consumer protection legislation. Similarly, the Consumer Protection Department of the Ministry of Economic Development, which oversees the CP Programme's implementation and monitoring, recognised that despite its efforts, awareness-raising activities on consumer protection remained insufficient. To address this gap, the Ministry collaborated with non-governmental organisations (NGOs) in 2023, financing six projects with a total of EUR 37 000 to augment consumer awareness. However positive, these initiatives have limited impact on online consumers, as only a fraction of these funds targets e-commerce activities. Consumer awareness is increasingly critical due to the significant uptake of e-commerce in Montenegro. In 2023, 51.6% of individuals used the Internet to buy products or services, while 32.5% made their last purchase within the past 12 months (MONSTAT, 2023[15]), which still lags behind the EU average of 69.39% (Eurostat, 2024[18]).

Montenegro maintained its **cybersecurity** performance, increasing efforts to strengthen its cybersecurity capacities in 2023 following the massive cyberattacks in August 2022. However, despite these endeavours, the government's ability to combat cybercrime remains weak, primarily due to a shortage of cybersecurity talent and persisting challenges in hiring and retaining expert staff, exacerbated by pay disparities between the public and private sectors (Vujovic, 2023[19]). The cyberattacks on the government's digital infrastructure underscored the urgent need for comprehensive action in cybersecurity, necessitating increased allocation of financial, technical and human resources. These attacks disrupted online government information platforms and posed threats to critical infrastructure, including banking, water, and electricity systems. The government was compelled to go offline, shutting down portals, including the central government portal. Some of the government's e-services remained non-operational for several months. Moreover, the attacks underscored the need to refine criteria for identifying critical information infrastructure per sector and enhance protective measures. In response, in December 2022, the Ministry of Public Administration established a new Directorate for Information Security, also known as the government Computer Incident Response Team (CIRT), consisting of nine staff members. The GOV-CIRT is going to collaborate closely with the National CIRT22 (CS/NCIRT), which stands as Montenegro's central focal point for cybersecurity incident management and international collaboration. Unfortunately, the National CERT also struggles with inadequate human resources (seven staff members) and financial constraints.

The ongoing implementation of the cybersecurity strategy 2022-26, aims to enhance the legal framework and address deficiencies identified in the previous strategy by the end of 2021. According to the strategy's final implementation report, 39% of performance indicators were not met, with a lack of funding and insufficient cybersecurity awareness at the top management levels identified as the primary hindrances to achieving strategic objectives. While the framework is currently aligned with the Networks and Information Security (NIS) EU Directive,[23] a new law on information security has been drafted to align with the updated EU legislation (NIS 2 Directive[24]), enforced in 2023. This draft law, anticipated for adoption in 2024, delineates the responsibilities of the forthcoming National Cybersecurity Agency and proposes expanding the capacities of the National CIRT to include 39 employees. However, Montenegro has yet to establish security requirements for 5G mobile networks, despite recent licensing of 5G operators. It is crucial for these operators to proactively assess risks posed by suppliers and mitigate dependency on a single vendor. Furthermore, reforms are still pending to introduce a system for the cybersecurity certification of ICT products, services and processes, harmonised with EU Member States, in accordance with the Cybersecurity Act.[25]

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro's progress on implementing CO 2021 Recommendations has been mixed. The economy has made strong advances in supporting SMEs' digitalisation, and the adoption of a policy that incorporates measures fostering ICT sector growth is also an improvement. Conversely, progress has stagnated in domains such as digital inclusion and open data reuse. Table 11.2 shows the economy's progress in implementing past recommendations for developing a digital society.

### Table 11.2. Montenegro's progress on past recommendations for digital society policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Invest in activities that promote the reuse of open data and stimulate the creation of public-private partnerships on data innovation | Public-private partnerships with data-sharing platforms have yet to be established. The Open Data portal remained underdeveloped and was shut down after the cyberattacks of August 2022. The portal was only partially restored in mid-2023, while a new portal is under way. In the meantime, all activities promoting data-driven innovation were halted. The new law on data reuse is still pending adoption. | Limited |
| Develop support programmes for SMEs to boost the adoption of e-business and e-commerce | It is positive that Montenegro adopted a strategy for the development of micro SMEs aiming to boost SMEs' competitiveness through ICT adoption, digital transformation and e-commerce. Support to SMEs is also provided by the annual Competitiveness Programmes. A dedicated portal (https://biznis.gov.me) provides access to financial support instruments for digitalisation. Nevertheless, awareness among companies about these programmes and the number of beneficiaries is still unsatisfactory. | Moderate |
| Develop a common digital competence framework for ICT professionals to meet the needs of the labour market | There is no ICT professionals' competence framework in place. Positively, the newly established Digital Academy (DA) aims to create fast-track programmes to enhance skills for digital transformation and competencies for increasing the digital competitiveness of the ICT sector. In 2023, the DA implemented six educational programmes in IT and soft skills, while the DA eLearning platform will be launched in 2024. | Limited |
| Adopt an ICT sector promotion policy or programme to strengthen the domestic industry so that it can act as an enabler of economic growth | The Digital Transformation Strategy aims to support the ICT sector's growth by addressing the workforce's skills deficit and the shortage of IT professionals. Support measures include increasing the number of IT university graduates, providing training through the Digital Academy, financing ICT innovation projects, promoting the internationalisation of IT products, and creating incentives for digital nomads and ICT professionals from abroad to work in Montenegro. The Innovation Fund of Montenegro supports ICT start-ups. | Strong |
| Establish or appoint a state body to oversee and co-ordinate digital inclusion activities and institutions implementing digital society policies | No state body is tasked with monitoring digital inclusion indicators and horizontally co-ordinating policy initiatives and programmes for digital inclusion. The Coordination Body for the Digital Transformation process was established in 2023, but there is no evidence yet of its impact. | Limited |

## The way forward for digital society

Considering the level of the previous recommendations' implementation, areas remain in which Montenegro could enhance its digital society policy framework, thus further improving aspects of access to electronic communications and public data, the digitalisation of government and businesses, the inclusiveness of the digital society and overall trust in digital technologies. As such, policy makers may wish to:

- **Prioritise the adoption of the new Law on Electronic Communications and ensure regulatory facilitation of fixed and mobile ultra high-speed infrastructure development**. The government needs to complete the alignment process with the European Electronic Communications Code, proceed with complementary regulations to abolish roaming charges with EU Member States,[26] and update relevant product and service markets within the electronic communications sector. In light of the forthcoming national broadband development plan, Montenegro should consider modernising its state aid rules for the development of broadband infrastructure and improve networks' resilience against natural disasters and other risks.
- **Update the legal framework on open data reuse and promote the development of data-driven innovation based on domestic high-value datasets**. The government should prioritise adoption of the new law on data reuse to enhance alignment with the EU Open Data Directive and the EU Data Governance Act.[27] It is critical to swiftly launch the new Open Data Portal, identifying and publishing domestic high-value datasets for reuse, and carefully assessing demand and potential for reuse in creating new services. Montenegro should ensure that public sector institutions publish high-quality, reusable data, implement automated data publishing, and invest in data certification systems[28] to foster and stimulate private sector-led data partnerships and innovation (Box 11.2).

### Box 11.2. Setting up data task forces: Etalab and Open Data France

France established Etalab in 2019, an open data task force in the prime minister's office, with the primary mandate of promoting open data initiatives across ministries and assisting them in the data publication process. Etalab's responsibilities extend to co-ordinating efforts with the association of local authorities to encourage the opening of local government data.

One of Etalab's key roles is to manage the policy for opening and sharing public data, including overseeing the implementation and operation of the "Public Service of Data". This service is addressed to companies and administrations for which the availability of high-quality data is critical. Etalab has curated a list of datasets deemed to have significant economic and social impact, prioritising their publication as open data. These datasets, sourced from the Public Data Service, serve as reference data essential for numerous applications, both public and private.

Etalab has also established an open data network spanning all central ministries in France. This network holds monthly meetings to co-ordinate interministerial open data efforts and objectives. Within each ministry, a chief data officer (CDO) is appointed to oversee data policy implementation. Etalab takes the lead in supporting these CDOs in executing their mission, which includes opening and circulating data within their respective ministries. Additionally, each ministry designated an Open Data Officer (ODO) responsible for fostering an open data culture within the ministry and some interministerial services. The ODO's duties involve identifying high-value databases, serving as a liaison between Etalab and ministry divisions, and relaying needs and feedback to ensure effective data management and utilisation.

Sources: OECD (2018[20]) European Commission; (2020[21]); French Government (2024[22]; 2024[23]).

- **Redesign existing and create new user-centric e-government services implementing the life-event approach within public administration.** Integrating public services into life events is an approach[29] designed to enhance government services, making them more accessible, user-friendly, and personalised to meet the needs of individuals at different stages of their lives. The government should accelerate seamless connection of all public registers and public institutions to the JSERP system, facilitating the development of high-quality, fully transactional e-government services. Montenegro should explore opportunities to modernise the national eID

scheme (e.g. through mobile eID) to improve user convenience and ensure interoperability with EU Member States to create cross-border services.

- **Ensure the adoption of the new law on personal data protection and increase resources in personal data protection.** The new law aims to align the framework in personal data protection with the EU *acquis*, embedding in Montenegro the same high standards enforced in EU Member States. The government should ensure that the Agency for Personal Data Protection and Free Access to Information (AZLP) has adequate human and financial resources to perform significant awareness-raising and capacity-building activities and staff training vital for implementing the new law. Montenegro should also prepare legislation on e-Privacy aligning with relevant EU legislation to ensure comprehensive protection of privacy rights.
- **Accelerate the creation of the National Cybersecurity Agency and strengthen cybersecurity capacities.** The government needs to accelerate the adoption of the new law on information security and ensure the swift establishment of the anticipated National Cybersecurity Agency. The government should expedite personnel hiring processes to make the Agency operational before the end of 2024. Montenegro must allocate an adequate budget for comprehensive staff training and international knowledge transfer to enhance its cybersecurity capacity in addressing the growing challenges in this field. Having already licensed three 5G operators, it is crucial to strengthen security requirements for 5G mobile networks and ensure infrastructure resilience, aligning with the EU Toolbox for 5G Cybersecurity[30] (Box 11.3).

### Box 11.3. Achieving cybersecurity resilience of public sector IT systems and services

Ireland recognised the critical importance of cybersecurity across the public sector. Thus, the National Cyber Security Strategy (NCSS) outlined the creation of a Common Cyber Security Baseline Standard for all public sector bodies and establishing the “CORE Network” to facilitate sharing of best practices in cybersecurity across the government. The Government Cyber Security Coordination and Response (CORE) Network comprises senior cybersecurity and ICT professionals from various public service entities. This network aims to foster collaboration and information sharing on cybersecurity issues and to ensure a unified cyber response to cyber incidents. The key innovative aspect of this initiative was the extensive collaboration that occurred among stakeholders. Rather than developing the Standard independently, a whole-of-government approach was adopted, bringing together 13 government departments and agencies. This collaborative effort ensured that the framework addressed the specific needs of each entity and remained compatible with the complexities of safeguarding public ICT systems. This work aligns with the Irish Civil Service Renewal 2030 Strategy, delivering evidence-informed policy and services and thereby harnessing digital technology and innovation.

Source: OECD Observatory of Public Sector Innovation (2024[24]).

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## Notes

[1] Decreased scores in the Use and Society sub-dimensions in the current assessment (CO 2024), compared with scores in the CO 2021 assessment, are mainly attributed to the incorporation of two new, forward-looking qualitative indicators in the current digital society assessment framework. Scores for these new indicators, namely emerging digital technologies and green digital technologies, are relatively low since they are still in the early stages of development in the Western Balkan region. Furthermore, the scores from the CO 2018 assessment are not directly comparable with current scores due to a significant restructuring of the digital society assessment framework.

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[21] Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules (Text with EEA relevance), http://data.europa.eu/eli/dir/2019/2161/oj.

[22] The new temporary website of the National CERT (CS/NCIRT): https://www.gov.me/cirt.

[23] Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union, http://data.europa.eu/eli/dir/2016/1148/oj.

[24] Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No. 910/2014 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148 (NIS 2 Directive) (Text with EEA relevance), http://data.europa.eu/eli/dir/2022/2555/oj.

[25] Regulation (EU) 2019/881 of the European Parliament and of the Council of 17 April 2019 on ENISA (the European Union Agency for Cybersecurity) and on information and communications technology cybersecurity certification and repealing Regulation (EU) No. 526/2013 (Cybersecurity Act) (Text with EEA relevance), http://data.europa.eu/eli/reg/2019/881/oj.

[26] Commission Delegated Regulation (EU) 2021/654 of 18 December 2020 supplementing Directive (EU) 2018/1972 of the European Parliament and of the Council by setting a single maximum Union-wide mobile voice termination rate and a single maximum Union-wide fixed voice termination rate (Text with EEA relevance), http://data.europa.eu/eli/reg_del/2021/654/oj.

[27] Regulation (EU) 2022/868 of the European Parliament and of the Council of 30 May 2022 on European data governance and amending Regulation (EU) 2018/1724 (Data Governance Act) (Text with EEA relevance), http://data.europa.eu/eli/reg/2022/868/oj.

[28] Public-private partnerships on data-sharing platforms with certification systems seek to create a collaborative environment where data can be shared transparently, efficiently, and securely, while also ensuring the integrity and credibility of the shared information through certification mechanisms. The term "certification systems" in this context implies the establishment of frameworks or standards, including setting criteria and guidelines that data must meet to be considered accurate, reliable, secure and compliant with relevant regulations.

[29] The life-event approach in the context of digital public services delivery refers to a user-centric approach that organises and delivers government services based on major life events or significant milestones in an individual's life.

[30] The EU toolbox for 5G security is a set of robust and comprehensive measures for an EU co-ordinated approach to secure 5G networks. Following the Commission Recommendation of March 2019 for a concerted approach towards 5G networks' cybersecurity, EU Member States are required to strengthen security requirements for mobile network operators, assess the risk profile of suppliers, apply relevant restrictions for suppliers considered to be high risk, and ensure that each operator has an appropriate multi-vendor strategy to avoid or limit supplier dependencies. The toolbox provides guidance on objective criteria, including technical and non-technical risk factors, to assess the risk profile of suppliers (i.e. risk of interference by a non-EU country, ability to supply, and cybersecurity practices) and guidance on the sensitivity of network elements and functions: https://digital-strategy.ec.europa.eu/en/library/cybersecurity-5g-networks-eu-toolbox-risk-mitigating-measures.

# 12 Transport policy

Through the development of a modern, sustainable, efficient, interoperable and integrated transport network, a sound transport policy can promote closer co-operation with neighbouring economies and be a key driver of competitiveness, both for an economy as well as for the region. The first sub-dimension, planning and management, measures the extent to which an orderly, coherent, consistent and transparent process is in place for developing transport policy and implementing infrastructure projects. The second sub-dimension, regulation and connectivity, determines how well transport modes and networks are regulated and operated, as well as how they are leveraged to promote regional connectivity. The third sub-dimension, sustainability, measures progress towards resource efficiency, environmental protection, reducing health impacts and increasing safety as well as social inclusion.

# Key findings

Since the last *Competitiveness Outlook* (CO) assessment (2021), Montenegro has maintained steady progress in improving its performance in transport policy (Table 12.1). The most significant progress is observed in planning and management, which can be attributed to the updates reported on project selection and procurement processes. Montenegro has also continued efforts to advance the implementation of action plans on rail, road and transport facilitation, and actively pursued efforts to improve the sustainability of the transport sector.

### Table 12.1. Montenegro's scores for transport policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Transport | 11.1: Planning and management | | | 2.8 | 2.6 |
| | 11.2: Regulation and connectivity | | | 2.3 | 1.9 |
| | 11.3: Sustainability | | | 2.3 | 2.1 |
| **Montenegro's overall score** | | **1.6** | **2.1** | **2.5** | **2.2** |

The **key findings** are:

- Montenegro has experienced delays in implementing its Transport Development Strategy 2019-35, as no action plan has been developed since 2022. Moreover, monitoring and evaluation of the strategy and its action plans show a lack of consistency, as the most recent monitoring report was published in 2020.
- Cost-benefit analysis (CBA) of transport projects is not being conducted for all projects; it is only being done for projects financed through the capital budget and included in Montenegro's single project pipeline. Moreover, Montenegro is reliant on international CBA guidelines as it has not developed its own methodology, which would be tailored to its context and needs.
- Progress is being made on integrating sustainability objectives into the policy framework for transport. Measures to make transport more sustainable, such as supporting electric vehicle uptake and improving the energy efficiency of ports, are being implemented, but need to be scaled up. Montenegro is developing a Low Carbon Development Strategy and is planning to integrate greening objectives into its transport strategy, which has the potential to increase the level of ambition of these measures and ensure effective implementation.
- Montenegro maintained good momentum in strengthening regional connectivity by continuing bilateral cooperation with Serbia, Bosnia and Herzegovina, and Albania to improve connectivity through the establishment and modernisation of several key rail and road border crossing points.
- There is significant room for improvement in efforts to enhance road safety. Road fatalities have increased by over 50% since the last CO assessment and were over double the EU average in 2022 (118 per million inhabitants compared to 46). To address this concerning trend, a new road safety strategy covering the period until 2030 has been developed, and plans to establish a Road Safety Agency are under way.

## State of play and key developments

### *Sub-dimension 11.1: Planning and management*

Montenegro has continued efforts to improve the planning and management of the transport sector since the last assessment cycle. The economy has a robust policy framework guiding the development of the transport sector, although its implementation and monitoring have experienced delays. Namely, the Transport Development Strategy (TDS) for 2019-35, which was adopted in 2019, continues to set out Montenegro's long-term **transport vision**. It covers all transport modes and contains clear and measurable objectives, budgets for measures, and defined roles and responsibilities for its implementation (Ministry of Transport and Maritime Affairs, 2019[1]). The strategy development process involved the utilisation of a transport model to forecast growth in transport demand. The implementation plan of the TDS is segmented into two phases, spanning from 2019 to 2027 and from 2028 to 2035. Action Plans are formulated for biennial periods; the strategy was supported by a detailed Action Plan for 2019/20 and followed by an Action Plan for 2021/22, whose adoption was slightly delayed. However, no new action plan has been drafted since the 2021/22 plan, showing a lack of consistency in implementation.

Oversight of the TDS is conducted by the co-ordinating body of the Ministry of Transport and Maritime Affairs (MTMA), in accordance with the TDS guidelines. In order for the transport vision to evolve with the dynamic nature of the sector, periodic revision of the strategy, informed by systematic updates derived from monitoring reports and impact assessments, is planned. Yet so far, only one monitoring report has been published for the 2019-20 period, showing room for improvement in the consistency of monitoring.

Montenegro has strengthened its **transport project selection** processes since the last CO assessment. The Single Project Pipeline (SPP) has existed in the economy since 2015 and is incorporated into Montenegro's Transport Development Strategy for 2019-35. For the transport sector, it includes fourteen projects collectively worth EUR 3.7 billion that are part of the indicative extension of the TEN-T network to the Western Balkans, and was last updated in 2021. Cost-benefit analysis (CBA) is applied to projects seeking funding from the capital budget, which includes projects exceeding EUR 5 million and those listed in the SPP. Consequently, the financial returns on other projects funded by the national budget remain undisclosed. Moreover, in practice, CBA is not consistently applied, as it is mainly used for internationally funded projects, and its findings are not always taken into account. National CBA guidelines, containing benchmarks and discount rates that are adapted to Montenegro's context and needs, have not yet been developed.

In 2023, the Ministry of Finance released a Decision on the Preparation of the Capital Budget and Specification of Evaluation Criteria for the Selection of Capital Projects (Ministry of Finance, 2023[2]). This decision expands the scope of the existing project prioritisation tool and adds new evaluation criteria that must be applied to capital projects in the economy. These criteria include contributions to regional and economic development, public service enhancement, and citizens' quality of life. Projects must also address health, safety, and property risks, contribute positively to the environment, encourage employment, address demographic challenges, improve energy efficiency, and contribute to constructing facilities for safety enhancement, among others.

The **procurement** process for all transport infrastructure projects adheres to the regulations outlined in the National Public Procurement Law (2019), which governs all infrastructure projects in the economy. In February 2023, the government approved a report on executing the 2021-25 strategy aimed at improving public procurement and public-private partnership policies in Montenegro (European Commission, 2023[3]). The adoption of a corresponding Action Plan for the year 2023 accompanied this decision. These developments provide the groundwork for the deployment of alternative procurement methods, which could allow Montenegro to enhance efficiency, foster innovation, optimise costs, encourage private sector participation and ultimately achieve better outcomes in the implementation of its transport infrastructure

projects. However, Montenegro has not yet implemented any transport public-private partnership (PPP) projects despite initiating the prequalification process in 2019 for awarding a concession contract for Podgorica and Tivat airports, which was subsequently suspended. In early 2024, the government instructed the transport ministry to resume discussions with the International Finance Corporation (IFC), the private sector lending arm of the World Bank Group. The aim is to proceed with the second tender phase for a 30-year concession contract to operate the two international airports (See News, 2024[4]).

**Asset management** systems for different modes of transport are currently absent in the economy. Montenegro took a significant step towards addressing this gap by securing a grant from the European Bank for Reconstruction and Development (EBRD) to develop a Road Asset Management System (RAMS). At the end of 2021, an agreement was reached to establish the RAMS for highways and trunk and regional roads as part of this initiative (Transport Community, 2022[5]). Besides RAMS, the current four-year contract for maintaining Montenegro's entire state road network concludes in December 2023. According to the new Law on Roads, there is a stipulation to formulate a Medium-term Plan encompassing construction, reconstruction, and road network maintenance for the upcoming four-year period (2024-27) (Transport Community, 2023[6]). The ongoing development of this Medium-term Plan is anticipated to be completed shortly.

### *Sub-dimension 11.2: Regulation and connectivity*

Montenegro has advanced significantly in updating and aligning its **rail regulations** more closely with the EU's Rail Action Plan. In November 2021, the government approved a new national programme outlining the rehabilitation and maintenance plan for railway infrastructure from 2021 to 2023 (European Commission, 2023[3]). Monitoring of its implementation is planned but has not yet been conducted. The government is working on a new three-year National Programme for Railway Infrastructure 2024-26, whose adoption is expected soon. The Network Statement for the Port of Bar is being published, and a new Railway Law is being drafted. Regarding the opening of the rail market, Montenegro has had a liberalised rail market since 2016. Despite this, potential participants have shown a lack of interest until recently, as 2023 marked the commencement of operations for the first private railway undertaking in the market for freight (Transport Community, 2023[6]). Currently, there are two privately-owned companies for rail freight transport in the market.

Progress has also been observed in the regulation of **road transport**. The government has approved a four-year programme (2022-26) focused on the development and deployment of Intelligent Transport Systems (ITS) in road transport (European Commission, 2023[3]). Additionally, in December 2022, the parliament passed amendments to the Law on Roads, enabling the collection of charges for road and road land usage. The implementation of intelligent transport system solutions commenced on the Bar-Boljare road, encompassing the Sozina tunnel and a newly opened highway section in 2022 (European Commission, 2023[3]).

Montenegro's rail and road network utilisation is presented in Table 12.2. A downward trend has been noticed in passenger railway transport, and network utilisation is low compared to the EU average. While freight rail network utilisation has increased over the period 2019-22, it is still lower than the EU average, pointing to a continued need for increased efforts for a more efficient use of resources and infrastructure for transporting goods. Even though road network use is far below the EU average, the road network utilisation for freight has still increased, with possible negative impacts on air pollution and climate change. Adhering to EU strategies for shifting freight from road to intermodal transport could have a positive influence on air pollution and climate change – as well as on reliability, given the increasingly congested roads in the economy.

### Table 12.2. Trends in rail and road transport in Montenegro and the EU (2019-22)

| | Change 2019-22 (in %) | 2022 | EU average (2021) |
|---|---|---|---|
| **Rail network utilisation** | | | |
| Passengers (passenger-kilometres/km of track) | -22 | 0.21 | 0.99 |
| Freight (tonne-kilometres/km of track) | 45 | 0.75 | 2.02 |
| **Road network utilisation** | | | |
| Passengers (passenger-kilometres/road network) | -55 | 0.006 | 1.24 |
| Freight (tonne-kilometres/road network) | 39 | 0.013 | 0.60 |

Sources: European Commission (2023[7]); MONSTAT (2023[8]).

Since the last CO assessment, regulatory reforms have continued strongly in the field of **aviation reforms.** Numerous implementing acts on air safety and air traffic operations were enacted. After establishing the new national airline "To Montenegro" in January 2021, the government progressively increased its founding capital (Vijesti, 2021[9]). In April 2023, the parliament also ratified amendments to the European Common Aviation Area Agreement and its Annex I, focusing on regulations for civil aviation (European Commission, 2023[3]).

The concession tender for the operation of international airports in Podgorica and Tivat was first initiated in October 2019 and was put on hold in 2020. With its reactivation in 2024, the process shows Montenegro's dedication to adhering to EU standards regarding equitable and transparent public procurement and state aid regulations. Certification for Podgorica airport was completed in May 2023, while the process for Tivat airport is still ongoing (Montenegro Business, 2023[10]). This certification confirms that the airport infrastructure and operational procedures conform with international and national regulations. Throughout 2023, the adoption of several implementing laws further aligned Montenegro with common rules in civil aviation, air safety, and air traffic operations (European Commission, 2023[3]).

Before the last CO assessment, the Single European Sky (SES) I and II packages had already been fully integrated into Montenegro's legal framework. While Montenegro is not a member of any Functional Airspace Block (FAB), it operates similarly through the partnership with Serbia in the form of Serbia and Montenegro Air Traffic Services (SMATSA). This collaboration is designed to mitigate the impact of different regulatory approaches on safety, capacity, and costs (SMATSA, 2023[11]).

As a coastal economy, Montenegro has actively advanced towards aligning its systems with the EU **maritime** *acquis* and reported regularly on the progress. The Law on Ratification of an International Convention on Oil Pollution Preparedness, Response and Co-operation was adopted in May 2021. Montenegro has implemented Directive 2009/16/EC on port state control. It has also partially implemented several other directives and regulations, including Directive 98/41/EC on the registration of persons travelling on passenger ships, Directive 2009/45/EC on safety rules and standards for passenger ships, Directive 2002/59/EC on community vessel traffic monitoring, Regulation (EU) No. 530/2012 on oil tankers, and Directive 2008/106/EC on the minimum level of training of seafarers (Transport Community, 2022[5]).

In 2022, Montenegro commenced the implementation of the National Maritime Single Window (NMSW) and launched enhancements and expansions to the vessel traffic monitoring and information system. NMSW serves as an electronic platform facilitating stakeholders in maritime transport to exchange standardised information through a unified entry point, ensuring compliance with all essential reporting requirements. The economy is still in the process of harmonising with the EU *acquis* on ports and has yet to enact legislation to align with the Port Services Regulation. In 2023, Montenegro marked a significant achievement by securing complete membership in the Paris Memorandum of Understanding (MoU) for Port State Control, a pact involving 27 participating maritime administrations. It facilitates the inspection and oversight of foreign ships, ensuring their adherence to international safety, security, and environmental standards (See News, 2023[12]).

Since the last CO assessment, Montenegro has co-operated well with the neighbouring economies to enhance **regional connectivity**. The Agreement on border control of rail traffic between Serbia and Montenegro has been in effect since 2010. To fully implement the Agreement, a prerequisite is that all border authorities must be situated at the common border station, Bijelo Polje. Montenegro is actively working to ensure the operational effectiveness of the Bijelo Polje station as a joint border facility. The adaptation and reconstruction of this joint rail station in Montenegro was successfully finished and inaugurated in May 2023 (WBIF, 2023[13]), but protocols on border crossing operations have yet to be agreed. The revamped rail station will bring significant enhancements, enabling quicker dispatching of trains in the border zone. Further improvements will be achieved through consolidated controls conducted by the railway companies and state border authorities in a unified location (Transport Community, 2023[6]).

Progress has also been observed on road border crossings with multiple neighbouring economies. Activities involving electrification, land acquisition, equipment installation, implementation of IT systems, and other associated tasks at the Joint Border Crossing Point (JBCP) Zatrijebacka Cijevna-Grabon, situated between Montenegro and Albania, have been completed. Operations at this crossing point commenced in July 2021 (Transport Community, 2022[5]). The two economies are also advancing on the bilateral border crossing agreement at the BCP Hani I Hotit/Bozaj, which will result in the control of vehicles being carried out only at the entrance (one stop) in each direction. However, an official agreement has not been reached yet. The governments of Albania and Montenegro signed an agreement to construct an interstate bridge over the Buna/Bojana river, which can also help improve connectivity between the coastal regions of the two economies.

Montenegro has successfully advanced the modernisation of BCP infrastructure by inaugurating the renovated BCP Ranče with Serbia in 2023. This reconstruction aligns with Schengen standards and best practices, significantly reducing the distance between facilities at the BCPs from 1 km to 250 m (Transport Community, 2023[6]). Montenegro is making progress in implementing the Agreement on Joint Border Crossing Points with Bosnia and Herzegovina as well. Specifically, at BCP Scepan Polje, a designated area has been identified for the future joint border crossing point, and its construction will align with the building of the Tara River Bridge. Additionally, Montenegro has co-ordinated with Bosnian authorities to secure approval for installing optical cables in the road zone at the Klobuk and Zupci border crossing points (Transport Community, 2023[6]).

The Transport Development Strategy (TDS) for 2019-35 has provisions to support the development of **combined transport**. The strategy recognised the underdeveloped intermodal transport system as a shortcoming and envisaged elaboration of the Study on the Development of Intermodal Transport. One of the strategy's objectives is the creation of intermodal stations along the rail corridor in Podgorica and Bijelo Polje, which would facilitate rail transportation of containers from the Port of Bar to the inland parts of the country and reduce road freight traffic (Ministry of Transport and Maritime Affairs, 2019[1]). However, no progress has been made on these activities yet.

Continued efforts are observed in Montenegro to support the development of **smart transport** systems. In 2022, the government adopted the Programme for the Development and Introduction of Intelligent Transport Systems in Road Transport for 2022-26, which constitutes Montenegro's ITS Strategy. As part of the same project, a set of guidelines known as the Rulebook has been formulated to specify detailed conditions, technical requirements, specific terms, and interoperability components of the electronic toll collection system. Tolls are exclusively applied to the Sozina tunnel, which connects Podgorica to the coast. Furthermore, the implementation of a tolling system is under way for the initial segment of the Bar-Boljare highway (Transport Community, 2023[6]). With support from the EBRD, Montenegro is looking to develop a Traffic Data Collection System, which would strengthen data collection on traffic flows in road transport and allow for better planning, management and safety.

During the Connectivity Summit 2023, which took place on 15-16 May in Budva, Montenegro, the Ministers of Transport from WB6 economies approved the Joint CEFTA-Transport Community Declaration titled

"Taking Forward the Green Lanes" (CEFTA, 2023[14]). An essential component of this declaration involves the trial and implementation of digital transport corridors.

### *Sub-dimension 11.3: Sustainability*

Montenegro has taken steps to advance towards an **environmentally sustainable transport** system. The economy is currently formulating its National Plan of Adaptation to Climate Change (NAP) to align with the relevant EU *acquis*. Complying with the Law on Protection against the Negative Impacts of Climate Change, the economy is developing a Strategy for Low Carbon Development along with an Action Plan, supported by the World Bank (Transport Community, 2023[6]). In 2024, Montenegro's Transport Development Strategy is set to undergo an update incorporating sustainability elements, which would be a positive sign of adaptation of the policy framework to international and European standards. However, it remains to be seen to what extent this update will contain a comprehensive set of measures aiming to support the greening of the transport sector and the full alignment with the Green Agenda for the Western Balkans and the Smart and Sustainable Mobility Strategy.

The Ministry of Capital Investments has launched efforts to develop a Strategy, Feasibility Study, and Environmental Impact Assessment on the use of alternative fuels. This initiative aims to provide suitable recommendations for transposing relevant directives; these activities are anticipated to commence in 2024. Additionally, under CONNECTA, a Technical Assistance initiative for the strategic framework regarding the deployment of e-charging stations on TEN-T Core and Comprehensive Network was completed in August 2023. The initiative identified 14 priority locations for the deployment of electric vehicle charging stations (EVCS) in Montenegro (Transport Community, 2023[15]).

Montenegro has also introduced incentives to encourage the introduction of low- and zero-emission vehicles. Two tenders were issued in 2021 and 2022, each with a grant fund of EUR 100 000, allocating EUR 50 000 for electric vehicles and EUR 50 000 for hybrid vehicles. Subsidies of EUR 5 000 for electric vehicles and EUR 2 500 for hybrid vehicles were granted. Individuals could receive subsidies for one vehicle, while legal entities and entrepreneurs were eligible for up to two vehicles. Through these tenders, the Eco-Fund has already subsidised the purchase of 42 hybrid vehicles and 20 electric vehicles. The Eco-Fund plans to provide investment incentives for charging infrastructure, contingent on availability (Transport Community, 2023[15]). While these initiatives are encouraging, their presently small scale prevents them from significantly contributing to reducing transport sector emissions in Montenegro.

The Port of Bar in Montenegro was very active during the assessment period, participating in various EU-funded projects aimed at improving the port community system and the greening of ports. As part of the SMARTPORT project, the port installed 73 LED (light emitting diode) luminaires on terminals, contributing to energy efficiency (SMARTPORT, 2021[16]). Additionally, the port is modernising its fleet by acquiring hybrid buses, aligning with the Green Plan of the Port of Bar. These hybrid buses will replace multiple private cars for transportation within the port area (SteelGuru, 2022[17]). Furthermore, the port has finalised contracts for upgrading the Port Community System through the EFINTIS and LASTING projects, connecting with Customs Information Systems and introducing radio-frequency identification (RFID) cards for enhanced security and compliance with the International Ship and Port Facility Security (ISPS) code (Transport Community, 2023[15]). Concurrently, efforts are being made to establish liquefied natural gas (LNG) terminals, particularly in the vicinity of the Port of Bar (Construction Briefing, 2023[18]). Going forward, the port plans to allocate EUR 1.88 million obtained through 6 INTERREG projects to the installation of solar panels, improving monitoring of the port's environmental impact and introducing mitigating measures, as well as infrastructure upgrades in other areas. These efforts reflect the Port of Bar's commitment to greening and technological advancements.

Road fatalities in Montenegro have increased between 2021 and 2022, as shown in Table 12.3. Montenegro will require substantial additional endeavours to achieve the revised "Vision Zero" target of zero deaths by 2050, which includes an interim objective of reducing road fatalities by 50% between 2020

and 2030.The number of road fatalities per million inhabitants in the economy was 118 in 2022, 157% higher than the EU average of 46 (Table 12.3). There is a pressing need for immediate action to improve road safety, given the concerning increase in road fatalities and the significant deviation from the EU average. Montenegro has implemented measures to strengthen institutional structures, enhance road safety data, invest in infrastructure safety, and align with the EU *acquis*. It was the second-best regional performer in 2022 in terms of progress in aligning with the EU *acquis* on road safety (Transport Community, 2023[6]) but intensified efforts are needed to enhance road safety on the ground.

The Ministry of the Interior developed the Road Traffic Safety Improvement Strategy (2023-30) and a corresponding two-year Action Plan (2023-24), which are pending adoption by the government. A working group has been established, and expertise has been provided through the project "Technical Assistance for Capacity Support to the Transport Sector and EU *acquis* Alignment in Montenegro". This initiative also involves a study to analyse Montenegro's current institutional structure and road safety management. The expected outcome is developing a model for the future Road Traffic Safety Agency, aiming to enhance road safety co-ordination and monitoring.

The alignment and transposition of legislation with the EU Directive 2008/96/EC on Road Infrastructure Safety Management have been completed. Montenegro conducted a public call to enhance 15 school zone locations on the main road network. The Road Safety Inspections for 100 km on the state roads network and Road Safety Audits for four tunnels longer than 500 metres on the state roads network have been completed (Transport Community, 2023[6]).

### Table 12.3. Road safety trends in Montenegro and the EU (2012-22)

| | Change 2012-22 (in%) | Change 2019-22 (in%) | 2022 |
|---|---|---|---|
| Change in the number of road fatalities (MNE) | 57 | 55 | |
| Change in the number of road fatalities (EU) | -22 | -9 | |
| Number of fatalities per million inhabitants (MNE) | | | 118 |
| Number of fatalities per million inhabitants (EU) | | | 46 |

Sources: European Commission (2023[19]); Montenegro data – Information provided by the government for the *Competitiveness Outlook* assessment.

Montenegro has also taken steps to meet the safety objectives for other modes of transport. The economy will fully establish the institutional framework for railway safety once the Railway Law is adopted, empowering bodies such as the National Safety Authority (NSA) and the Regulatory Body for Railways (RRA).

A **just and fair** transport system is not currently addressed in any strategic document in Montenegro. Nevertheless, legal provisions regarding the rights and protections of persons with disabilities are in place, and are defined in the legal frameworks for road transport and public transport. The planned adoption of the Railway Law is expected to strengthen the legal framework for passenger rights in rail transport.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro has made progress in following up on the Recommendations of the CO Assessment 2021 (Table 12.4). Since 2021, Montenegro has demonstrated significant progress in its transport sector, focusing on planning, project selection, and governance. The Transport Development Strategy (TDS) for 2019-35, though slightly delayed in its 2021/22 Action Plan, remains a key guiding document, integrating the Single Project Pipeline (SPP) and cost-benefit analysis for transparent decision making. Governance reforms include aligning rail regulations with the EU, liberalising the railway market, and establishing a comprehensive institutional framework. The aviation sector underwent regulatory reforms, and maritime alignment efforts resulted in full membership in the Paris Memorandum of Understanding. Sustainability initiatives involve adapting to climate change, alternative fuels, and incentives for low-emission vehicles. Despite increasing road fatalities, Montenegro has prioritised road safety, introducing a new strategy and action plan that need to be adopted by the government. These developments showcase a holistic approach to modernising the transport sector while addressing environmental sustainability and safety concerns.

### Table 12.4. Montenegro's progress on past recommendations for transport policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Develop sound asset management practices that are in line with the national inventory system | Montenegro is establishing the Road Asset Management System (RAMS) with an EBRD grant. The ongoing development of a Medium-term Plan for 2024-27 also demonstrates a commitment to strategic road network planning. However, despite this encouraging development, the economy currently lacks asset management systems for all modes of the transport sector. | Limited |
| Develop and tailor cost-benefit analysis (CBA) guidelines specific to Montenegro | The economy has not developed or tailored cost-benefit analysis guidelines in accordance with this recommendation. | None |
| Ensure that transport facilitation remains a priority | Montenegro has continued to co-operate well with the neighbouring economies to enhance regional connectivity by improving rail and road transport facilitation. | Strong |
| Develop a combined transport strategy to promote sustainable transport | Montenegro aims to implement combined transport, with goals outlined in the Transport Development Strategy, emphasising intermodal stations for efficient rail container transportation and reduced road freight traffic. However, no progress has been made towards these goals. | Limited |
| Develop an Integrated Environmental and Transport Action Plan | Montenegro has not developed an Integrated Environmental and Transport Action Plan but has formulated plans such as the National Plan of Adaptation to Climate Change (NAP) and the Strategy for Low Carbon Development, along with an Action Plan that aims to advance the economy towards environmentally sustainable transport. Montenegro also plans to update its TDS to include sustainability objectives. Moreover, the economy is implementing several concrete measures to improve the environmental sustainability of the transport sector, although their level of ambition and scale could be increased. | Moderate |

## The way forward for transport policy

Montenegro has made notable achievements that include the Transport Development Strategy and the ongoing establishment of the Road Asset Management System. In the future, addressing road safety is crucial, urging the creation of a dedicated Road Safety Agency and collecting key performance indicators (KPIs) recommended by the EU. Commitment to sustainability is evident through e-charging stations and incentives for low-emission vehicles, yet a comprehensive policy framework is essential. Montenegro should prioritise developing domestic cost-benefit analysis guidelines, fostering well-functioning combined

transport, and ensuring a holistic approach for a sustainable transport future. Going forward, policy makers could:

- **Develop domestic CBA guidelines for all transport modes**. Montenegro needs to develop its own CBA guidelines with accompanying technical instructions. The guidance should be updated often, at least every two years**.** Developing a benchmark for all technical and economic parameters is necessary to ensure consistency in the discount rates used for similar projects in the same economy, including the financial and economic discount rates in the state guidance documents. This benchmark must be consistently applied in project appraisal at the state level.
- **Ensure the development of a comprehensive policy framework for greening the transport sector**. Progress is being made on developing the National Plan of Adaptation to Climate Change (NAP) and the Strategy for Low Carbon Development, and the government plans to update the TDS to include sustainability objectives. These developments present an opportunity to ensure that Montenegro is equipped with policies that can support the development of a more sustainable and environmentally friendly transport sector through measures that are comprehensive and co-ordinated. Such a framework should integrate existing indicators and develop new ones. Measures and indicators should be applied in the relevant strategies and be monitored by relevant bodies. Policy decisions for greening transport are made within the context of available budgets and competing priorities. Hence it is crucial to consider the substantial additional investment required for scaling up existing initiatives, such as incentivising the uptake of electric vehicles, developing charging infrastructure for electric vehicles, promoting alternative fuels, providing adequate clean public transport and electrification of railways.
- **Enhance efforts to develop well-functioning combined transport.** Combined transport is the most cost-efficient transport mode, reducing environmental pollution and increasing co-operation between the freight forwarding network companies. Achieving well-functioning logistical chains and establishing an international corridor approach and intermodal solutions could promote high competitiveness in Montenegro's transport market. While the Transport Development Strategy has provisions to support the development of combined transport, Montenegro should accelerate the adoption of an implementation programme so that actions can begin. Particular attention should be given to the development of efficient intermodal freight infrastructure, which can have important benefits in terms of efficiency of goods transport as well as decarbonisation (Box 12.1).

### Box 12.1. The importance and benefits of developing multimodal freight infrastructure

The development of efficient and well-functioning combined transport can have substantial benefits for an economy's competitiveness by facilitating and enhancing the efficiency of the logistics chain, as well as supporting the decarbonisation of the transport sector.

Intermodal terminals serve as nodes in the logistics chain where freight is transferred from one mode to another (e.g. from road to rail or from rail to maritime). Their efficient functioning depends on several factors, including capacity, costs, reliability and connectedness within the overall transport network.

Beyond simply developing this hard infrastructure, policies also need to ensure that informational and regulatory aspects are used to make the most of the infrastructure's potential. For instance, the flow of information can be facilitated through ICT systems and exchange of data, making the freight forwarding process more efficient and predictable.

In the case of Montenegro, particular attention should also be focused on the connectedness of maritime infrastructure (such as the Port of Bar) with the hinterland. For example, in Spain, a rail-focused strategy for the development of the hinterland helped the Port of Barcelona increase the

amount of twenty-foot equivalent units (TEUs) moved by rail from/to the port sixfold. These impressive results were enabled by the improvement of portside terminals and inland dry ports in Iberia.

Source: Adapted from ITF (2021[20]).

- **Continue efforts to improve road safety**. To enhance road safety in Montenegro, it is strongly advised to urgently adopt the new road safety strategy and establish a dedicated Road Safety Agency. This agency should be modelled to align seamlessly with the existing institutional structure. Additionally, Montenegro should focus on adopting a safe system approach and collecting key performance indicators the European Union recommends (Box 12.2). These indicators cover various aspects such as speed, seat belt usage, alcohol consumption, helmet usage, distraction, vehicle safety, infrastructure quality, and post-crash care. Collaboration with the TCT Secretariat is crucial to facilitating the integration of Montenegro into European road safety initiatives. Efforts to implement "Joining EU CARE" should be continued, thereby ensuring the country's commitment to advancing road safety standards in line with European benchmarks.

### Box 12.2. Adopting the Safe System Approach and safety performance indicators for improved road safety

In the past decade, the International Transport Forum (ITF) has promoted the adoption of the Safe System Approach to road safety. This approach can drastically reduce road fatalities and is endorsed by the United Nations General Assembly. It now forms the basis for the new Global Plan for the Decade of Action on Road Safety 2021-30. The Safe System Approach is a proactive approach to road safety; it is preventive and predicated on the notion that people make mistakes and that these errors can result in traffic crashes. It seeks to identify and proactively address vulnerabilities in the transportation system in a holistic manner. Adopting the Safe System Approach is a concrete step that the WB6 economies can take to improve road safety outcomes.

The Safe System Approach requires road safety authorities to collect, analyse, and use accurate road safety data and develop safety performance indicators (SPIs). The European Commission developed a list of SPIs with the correspondent methodology in the Baseline project. These safety performance indicators are related to driving behaviours, such as following speed limits, drunk driving, and seat belt usage. Indicators related to vehicles, infrastructure and trauma are also important. Road safety improvement can be further accelerated by identifying distinct at-risk user groups – or vulnerable user groups – and implementing safety performance indicators to improve road safety outcomes. The ITF report recommends SPIs, tailored for vulnerable road users such as pedestrians, cyclists, and motorcyclists. Implementing SPIs that are specific to these groups can help the WB6 economies advance on the Road Safety Action Plan goal of protecting vulnerable road users.

Sources: ITF (2023[21]; 2022[22]).

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# 13 Energy policy

The competitiveness of any economy is heavily influenced by its energy policies. This chapter investigates the energy policies in place to ensure that energy markets are well-regulated, sustainable and competitive. The first sub-dimension, governance and regulation, focuses on how the energy markets are governed and whether policy is conducive for establishing efficient and competitive energy markets. The second, energy security, explores measures taken to make the energy sector more resilient, including through the diversification of energy supply. The third sub-dimension, sustainability, focuses on the energy sector decarbonisation, including through the promotion of renewable energy and energy efficiency policies. The fourth sub-dimension, energy markets, analyses how energy markets are operated, whether competition is used to promote efficient allocation of energy resources, and the degree of regional integration.

# Key findings

Energy markets in Montenegro have advanced, mostly due to the fact that Montenegro has launched a day-ahead market in 2023. Advancements took place in the area of energy efficiency but those were outweighed by low performance in the areas of decarbonisation and energy poverty (Table 13.1). Montenegro is missing a comprehensive policy framework towards decarbonisation, and its continued reliance on thermal power plants puts into question the credibility of commitments made aimed at fossil fuel phaseouts. Policies in the area of energy poverty do not tackle root causes of this problem, and no fully fledged definition of energy poverty exists.

### Table 13.1. Montenegro's scores for energy policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Energy | 12.1: Governance and regulation | | | 3.8 | 3.3 |
| | 12.2: Energy Security | | | 1.3 | 2.5 |
| | 12.3: Sustainability | | | 2.4 | 2.8 |
| | 12.4: Energy markets | | | 3.3 | 3.3 |
| **Montenegro's overall score** | | **2.1** | **3.0** | **2.7** | **3.0** |

The **key findings** are:

- Montenegro's energy policy framework is outdated, based on the Energy Policy from 2011, and while work is under way to develop the National Energy and Climate Plan (NECP), until this document is adopted Montenegro remains without a policy framework guiding key energy policy areas such as decarbonisation and diversification.
- The policy frameworks for improving crisis response and the resilience of the energy system to external shocks are underdeveloped. While the legal framework foresees the development of emergency plans, their actual development has not been conducted. Some positive steps have been taken in this regard, such as the creation of a National Council for Analysis and Monitoring of the Security of Supply of Energy and Energy Products, and plans to update the legal framework to strengthen the security of oil supply, yet it remains to be seen to what extent these developments can effectively address the issue of energy security.
- Montenegro launched its first day-ahead electricity market in April 2023. Around 10% of total electricity consumption is traded on the Montenegrin Power Exchange. Entry procedures for market participants were further streamlined during the assessment cycle, and there are plans to introduce an intraday market, which is a key step for a robust electricity market and further regional integration.
- In recent years, despite being possible under the current legal framework, no new auctions took place to assign renewable generation capacity, raising questions about the adequacy of incentives and competitive mechanisms for the deployment of renewables. Montenegro is working on a new Law on Renewable Energy Sources that can potentially address this issue.
- The scope and meaningfulness of *ex officio* investigations launched by the energy regulator could be undermined depending on the outcome of a pending court case to determine whether the regulator is authorised to initiate misdemeanour proceedings. The outcome of this case could have implications requiring new amendments to the Law on Energy to strengthen regulatory independence.

## State of play and key developments

### *Sub-dimension 12.1: Governance and regulation*

Within energy policy's **legal and institutional framework,** the original Energy Policy, adopted in 2011, remains the overarching policy,[1] which highlights the pressing need to replace it with new strategic documents in a timely manner. A central component of this update is Montenegro's National Energy and Climate Plan (NECP), which aims to serve as the strategic planning cornerstone in the energy sector until 2030. Finalisation of the NECP is still ongoing, and the final version is expected to be submitted to the Energy Community Secretariat by June 2024.

A new Law on Renewable Energy Sources (RES) is in preparation, and a new Climate Law, which aims to transpose the Governance Regulation, was anticipated to be adopted by the end of 2023, but adoption is delayed until 2024. Overall, transposition of the Third Energy Package is quite advanced, but transposition of the Clean Energy Package is lagging behind.

Working groups have been established to facilitate the outstanding transposition processes and drafting of additional laws. The division of responsibilities between different ministries and insufficient alignment between the ministries within Montenegro during the assessment process could be indicative of poor inter-institutional co-ordination, which is a concerning factor in the effective implementation and evaluation of future energy policies.

The Law on Energy establishes the **Energy Regulator** in Montenegro as an autonomous, nonprofit body that is legally and functionally independent from state authorities and energy and water utilities. This independence is critical for impartial regulation. The Energy and Water Regulatory Agency's (REGAGEN) funding comes from various charges and fees detailed in the Law on Energy.

REGAGEN's role has been expanded by the Law on Surveillance of Wholesale Electricity and Gas Markets. This Law introduced new competencies related to market monitoring and increased penalties for breaches, although the regulator must rely on courts to impose these penalties. Additionally, the Law on amendments to the Law on Energy transferred certain responsibilities, like issuing guarantees of origin, to the Electricity Market Operator (COTEE).

Staffing within REGAGEN faces challenges. Salaries are lower compared to the industry. This situation could affect REGAGEN's ability to maintain its capabilities and perform its duties effectively. Another concern that needs to be highlighted is a pending court case that assesses whether REGAGEN is authorised to initiate misdemeanour proceedings. Depending on the outcome of this case, amendments to the Law on Energy will be needed to strengthen regulatory independence, as without such amendments REGAGEN's capacity for *ex officio* investigations would be undermined.

Despite these challenges, the agency is committed to continuous capacity building, and regularly sends employees to various training sessions. An internal audit office has been established to improve planning and measure the outcomes of REGAGEN's work. The regulator's staff actively participates in international bodies to co-ordinate actions, harmonise practices, and prevent conflict. Notably, together with North Macedonia's regulator, REGAGEN is the only national regulatory body from the Western Balkans to have access to the Agency for the Cooperation of Energy Regulators' (ACER) working groups in electricity and gas, highlighting its role as a frontrunner in regional co-operation. This effective co-ordination and active participation in regional and international forums are vital for the agency's success and the overall advancement of the energy sector (Box 13.1).

### Box 13.1. Observer status at the Agency for the Cooperation of Energy Regulators (ACER) as a basis for good institutional co-operation

An observer of ACER has a unique role in the European energy landscape. ACER is an EU agency that collaborates with national energy regulators to promote the integration and functioning of the European energy market. Observers gain access to valuable information related to developing and implementing energy regulations, policies, and market rules within the European Union. This information can be crucial for staying informed about the energy sector's dynamics and regulatory changes.

Furthermore, observers can attend meetings, workshops, and consultations organised by ACER. They can actively engage in discussions, share expertise, and provide input on various energy-related matters. While they cannot vote, their insights can influence decision-making processes indirectly.

ACER recognises the importance of involving a diverse range of stakeholders in its activities and observers represent a broad spectrum of interests, including energy companies, consumer groups, environmental organisations, and academics. Their involvement ensures that ACER's decisions consider a wide range of perspectives.

In summary, being an observer to ACER provides a platform for engagement, influence, and information sharing in the European energy market. Observers' participation is essential for fostering co-operation and ensuring that energy regulation and policy decisions are well informed and inclusive.

Source: ACER (2024[1]).

### *Sub-dimension 12.2: Energy security*

The energy sector in Montenegro currently only has a rudimentarily developed approach to **crisis response and resilience**. Existing provisions and policies entail various measures and tools aimed at ensuring supply security and responding to crises or threats, but it is not clear to what extent those measures are being used. Furthermore, existing plans are somewhat outdated, and obligations to establish crisis mechanisms and plans have not been fully implemented.

A general policy framework is described in the Law on Energy. Additionally, a framework addressing the resilience of the oil sector is being formulated under a draft Law on the Supply of Petroleum Products in case of supply disruptions. This Law, however, has not been adopted yet. The ministry responsible for energy is required to prepare and submit an annual report on the security of energy supply and expected energy demand, but no such report currently exists. The government is now working on transposing Regulation 2019/941 on Risk-Preparedness in the Electricity Sector, which would reinforce Montenegro's legal framework for preparing for and managing power crises.

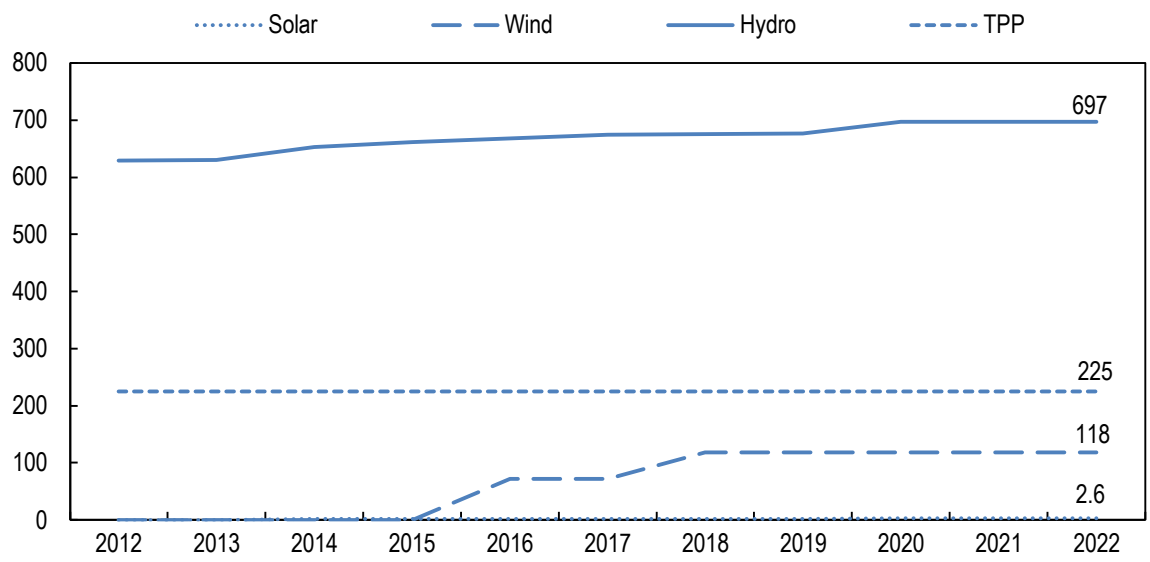
A positive development is that the government of Montenegro established the National Council for the analysis and monitoring of the security of supply of energy and energy products. The Council is tasked with co-ordinating activities for monitoring the state of energy production, consumption and reserves, as well as proposing measures for uninterrupted supply and recommendations for reducing electricity consumption across various sectors. The establishment of this Council offers an opportunity for improved co-ordination and continuous evaluation, although it is uncertain how effectively this evaluation will be carried out.

Regarding the financing of infrastructure projects, the Montenegro Electric Transmission System (CGES) has access to diverse financing sources, including loans and grants, and receives support from international organisations for its infrastructure projects. The availability of various financing sources and tools presents a robust access to capital, which is essential for financing infrastructure projects in the energy sector. This diversified financial support is crucial for advancing infrastructure development and enhancing energy resilience.

In Montenegro, the current situation regarding **diversification of energy supply** is marked by the absence of a comprehensive policy framework. There is no specific policy to diversify the oil supply, and the economy has not developed a natural gas market, lacking the necessary infrastructure. Although the Law on Energy includes provisions for natural gas and oil derivatives, strategies for diversification are almost entirely missing from the nation's policy framework. The Energy Policy from 2011 only incidentally mentions supply diversification as part of the broader security of supply concept but fails to establish a clear vision for diversification. Insufficient diversification endangers supply security and enhances energy dependency. A sufficient degree of diversification can positively affect economic stability and social well-being within an economy. Diversification away from fossil fuels would also come with additional positive environmental effects. Diversifying renewable energy sources is particularly important as Montenegro's reliance on hydropower makes it dependent on hydrology conditions (Figure 13.1).

### Figure 13.1. Installed generation capacity by energy sources in Montenegro (2012-22)

In Megawatts (MW)




Note: Data labels relate to the year 2022.
Source: Information provided by national authorities for the *Competitiveness Outlook* assessment.

StatLink https://stat.link/5isv0h

There is, however, some progress in the pipeline. The Law on the Supply of Petroleum Products in case of supply disruptions is expected to be adopted soon. While this Law is not a diversification strategy *per se*, it could alleviate concerns related to the security of supply and would contribute to better alignment with the Energy Community (EnC) and EU *acquis* as it is in line with the Directive on Minimum Stocks of Crude Oil and/or Petroleum Products.

Looking to the future, Montenegro is involved in the Adriatic-Ionian Gas Pipeline (IAP) project, which could be an option for diversifying its energy supply. The IAP project aims to facilitate the gasification of Albania, Montenegro, southern Croatia, and Bosnia and Herzegovina, offering a more diversified and reliable supply of natural gas. Preliminary studies and designs have been performed and the ministry responsible for energy plans to revise the existing documentation soon and then proceed with the development of the main project, for which EU funding support will be needed. Completing these steps will provide a clear vision concerning the establishment of a gas market, thereby also enabling the assessment of related policy implications.

### *Sub-dimension 12.3: Sustainability*

In recent times, Montenegro has demonstrated efforts pertaining to **energy sector decarbonisation**. The Governance Regulation has been partially transposed. The main focus over the past months has been the drafting of the new Law on Climate Change, which was expected to be adopted by the end of 2023, but whose adoption was delayed. Additionally, the National Energy and Climate Plan (NECP) is set to be adopted in 2024, establishing targets for decarbonisation until 2030. The NECP is currently, however, still in the drafting process. To support these decarbonisation efforts, a National Strategy and Action Plan for Low-Carbon Development will be developed with the assistance of World Bank funds. However, in the absence of the NECP, a comprehensive decarbonisation policy for Montenegro's energy sector is not yet clearly defined.

Montenegro had previously committed to phasing out coal by 2035. However, these plans have been put into question and the government plans to clarify its coal phaseout target date in the NECP. An ongoing infringement case related to the breach of the opt-out regime under the Large Combustion Plants Directive for TPP Pljevlja highlights some challenges and casts doubts over the overall phaseout plans.

The national greenhouse gas (GHG) inventory is updated biannually, with the last report being the Third Bi-annual Update Report from December 2021. Montenegro received financial support from the World Bank to develop a Readiness Support Plan for carbon pricing. This initiative has already commenced, aiming to establish a stable national carbon pricing system in line with EU policy requirements. In January 2023, the government of Montenegro established a commission to implement a public auction system for emission credits. The sale of these credits will be allocated to the Environmental Protection Fund (Eco-fund). Such carbon pricing, however, is not yet at a price level that is comparable to the EU standards.

There seems to be no mechanism in place for ensuring inter-institutional co-ordination for achieving energy sector decarbonisation. Progress is tracked through Nationally Determined Contributions, National Bi-annual reports, and reports on the implementation of the Climate Change Strategy. It remains to be seen whether the NECP can counter these shortcomings.

Montenegro is actively working on its **renewable energy policy** framework. The economy is preparing a Renewable Energy Sources (RES) Law, which is a much-needed step toward further progress and could serve as a basis for transposing the Clean Energy Package and a comprehensive establishment of market-based support schemes. In this regard, it needs to be highlighted that the Decree on the Manner of Realisation and Amount of Incentive Prices for Electricity Produced from Renewable Energy Sources has been repealed. This led to the cessation of the existing Feed-in Tariff (FiT) system. While the discontinuation of the FiT scheme is seen as a positive step,[2] it raises questions about whether the current framework provides sufficient incentives to enhance renewable energy development. The RES Law does anticipate competitive auctions for RES projects, but as of now, no such auctions have taken place.

Regarding the evaluation and performance assessment of these policies, it is not entirely clear how evaluation and co-ordination are being institutionalised. There seems to be a certain level of continuous evaluation, evidenced by the regular drafting and submission of Progress Reports on the promotion and use of energy from renewable sources. These reports indicate ongoing efforts to monitor and assess the

effectiveness of the renewable energy policies. However, the extent and institutionalisation of this evaluation process remain somewhat ambiguous, suggesting a need for more structured and transparent assessment mechanisms to ensure the effective implementation and adaptation of renewable energy policies in Montenegro.

Progress has been made in the legislative framework surrounding **energy efficiency**. Montenegro has achieved a high level of transposition of EU directives in this area, primarily through the enactment of the Law on Efficient Use of Energy and a vast number of accompanying bylaws. Such efforts demonstrate Montenegro's commitment to aligning with the European Union's directives, particularly the first Energy Efficiency Directive, which has been further reinforced by amendments made in 2022. These amendments introduce elements such as additional requirements and methodologies for the certification of buildings, defining new energy efficiency targets, setting mandatory energy savings and establishing obligations for energy audits and energy management systems. Additional legal acts in the area of energy labelling have also been adopted. Looking ahead, the introduction of the Long-Term Buildings Renovation Strategy is expected by mid-2024, and the revision of rulebooks concerning energy performance of buildings is nearly complete.

To promote energy efficiency, Montenegro has implemented various incentives and awareness-raising programmes. These include training sessions for energy managers, organised by the Ministry of Capital Investments in collaboration with the University of Montenegro, and a new cycle of training for energy audits of buildings. The “Energy Efficient Home” programme is a notable initiative offering interest-free loans to households for installing modern biomass heating systems and improving building energy performance. Additionally, financial support for energy efficiency projects is available through the Environmental Protection Fund/Eco-Fund. A broad political and societal dialogue surrounding energy efficiency seems to be well established in Montenegro, with programmes in place to support private investments in this area.

In Montenegro, the issue of **energy poverty** is yet to be addressed through a structured framework. Currently, there is no comprehensive policy specifically targeting energy poverty. However, existing support measures impact energy poverty by supporting vulnerable customers. The Law on Energy and the Regulation on the Supply of Vulnerable Customers provide the legal basis for this support. According to the regulation, vulnerable customers are entitled to a subsidy amounting to 50% of their monthly electricity bill for consumption up to 600 kWh. If a vulnerable customer's monthly consumption exceeds 600 kWh, the subsidy applies to 50% of the bill for consumption up to this threshold. There are established criteria to classify customers as vulnerable, ensuring that these individuals receive both financial support and protection against disconnections. As part of the Energy Support Package, provided to Montenegro by the EU in 2023, the government is expected to develop more comprehensive policies to address the issue of energy poverty.

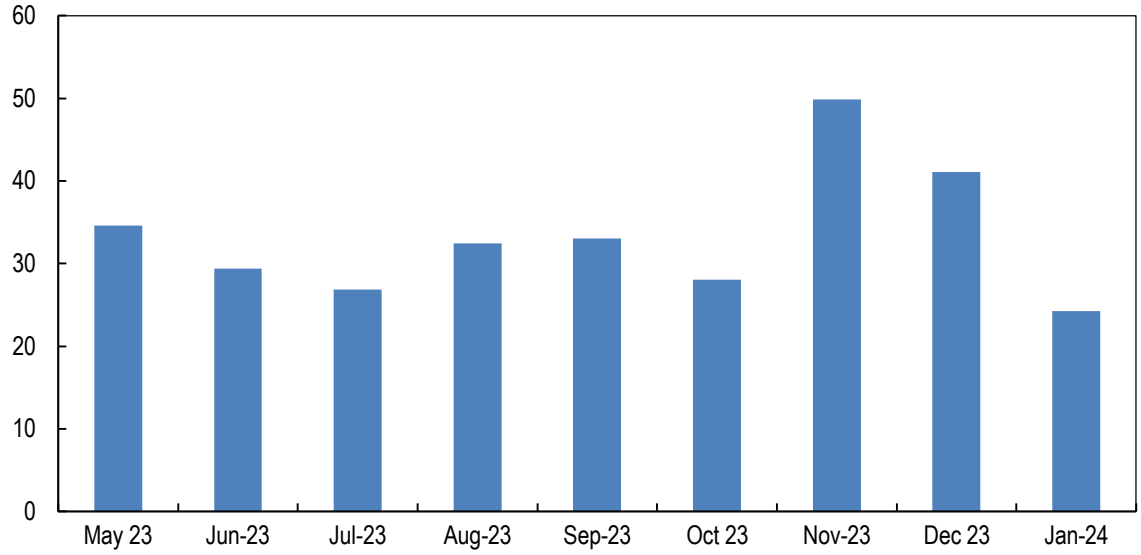
A Supplier of Last Resort is responsible for supplying households and small customers who are not classified as vulnerable but choose to use the services of a last resort supplier. This also includes supplying vulnerable customers. The supplier issues monthly invoices for these services, which are paid by the Ministry of Capital Investments directly. This system ensures a safety net for consumers who might otherwise struggle to secure energy supply.

### *Sub-dimension 12.4: Energy markets*

Montenegro's energy sector has seen advancements in the area of **market operation**, particularly in electricity trading. The organised marketplace for day-ahead electricity auctions (Montenegrin Power Exchange, MEPX) is operational since the end of April 2023, complete with corresponding market rules. Monthly volumes at MEPX varied slightly since operation, but neither a structural decrease nor increase is apparent in Figure 13.2. Volumes traded at the day-ahead market (DAM) make up around 10% of total electricity consumption.

**Figure 13.2. Monthly volumes traded at Montenegrin Power Exchange (May 2023-January 2024)**

In megawatts (MW)




Source: MEPX (2024[2]).

StatLink https://stat.link/7y3jno

The market participation requirements have been published and adopted, partially implementing the EU target model. However, the designation of a Nominated Electricity Market Operator (NEMO) remains incomplete, and the Capacity Allocation and Congestion Management (CACM) regulation has not been fully implemented. Despite this, the successful launch of the DAM is a notable achievement and there are also plans to launch an Intra-Day Market in the future.

Regarding the market environment and surveillance, the market participation requirements are non-discriminatory, not overly burdensome, and do not necessitate a presence in Montenegro. The admission procedure for new market participants has been streamlined and improved. Additionally, a significant change was made to the VAT law in December 2022, to enable a VAT reverse charge mechanism. This change aims to enhance market functioning and remove business barriers. Transparency in the market has been boosted with the ENTSO-E transparency platform now reporting DAM results, complemented by the mandatory daily and monthly reporting by the Montenegrin Power Exchange on their website. The Transparency Regulation has been fully transposed and implemented, and fundamental data are being submitted to the central data platform.

Montenegro remains very advanced in the area of **unbundling**, in line with the requirements of the Third Energy Package. A legal framework for unbundling in line with EU and Energy Community *acquis* is in place, and within the electricity sector both the transmission system operator (CGES) and the distribution system operator (CEDIS) are duly unbundled. Compliance officers have been nominated and a compliance report has also been published. In the gas sector, however, additional steps are needed as the designated future transmission system operator remains to be unbundled.

Regarding **third-party access rules**, Montenegro has established clear rules, technical requirements and costs, which are published for all grid levels. There are distinct access and usage tariffs set for each voltage or pressure level, ensuring transparency and fairness in grid usage. However, there are areas where further development is needed. Currently, trade licences are not mutually recognised within the Energy

Community, which can create barriers to trade and co-operation. Addressing this gap will be crucial for enhancing the overall efficiency and integration of the energy market in the region.

In the area of **regional market integration**, CGES is actively involved in the AIMS (Albania, Italy, Montenegro, Serbia) initiative, which focuses on electricity market coupling among these economies. The launch of the DAM was a needed step forward in progressing with these coupling initiatives. Montenegro is also actively participating in regional initiatives, such as the South East European Coordinated Auction Office (SEECAO). This participation highlights Montenegro's commitment to regional energy co-operation. However, there is no institutionalised exchange with market participants that provides a common forum to discuss the continuous improvement of congestion and reliability management or the further development of market rules. Such a platform would be instrumental in fostering collaborative efforts for optimising market operations and addressing shared challenges.

Furthermore, the designation of a Nominated Electricity Market Operator (NEMO) remains incomplete, which is a critical step in ensuring effective market operations and compliance with EU standards. Additionally, the adoption of all Network Codes is necessary to further enhance regional integration. Addressing these issues will be crucial for Montenegro to fully capitalise on the potential for regional co-operation and to strengthen its role in the regional energy landscape.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro has made great progress in the completion of the transposition of the Third Energy Package and the creation of markets though the launch of the power exchange. Room for improvement remains, however, in the area of decarbonisation and energy efficiency. In the field of RES auctions insufficient progress was achieved as is apparent from the overview below (Table 13.2). This impacts security of supply considerations, as additional renewable capacities would also increase supply security and decrease risks associated with single sources of electricity.

### Table 13.2. Montenegro's progress on past recommendations for energy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Complete the transposition of the Third Energy Package | Transposition of the Third Energy Package has been largely completed. However, efforts to transpose the Clean Energy Package need to be stepped up. | Strong |
| Finalise the operational deployment of the power exchange | The power exchange has been established and is operational since the 26 April 2023. With an average traded monthly volume of 34.4 GWh in 2023, liquidity remains limited. Still, the launch is a key step towards stronger and more connected energy markets in the region. | Strong |
| Promote competition in the market so as to harness competitive forces and provide the best value to the economy | Launch of the power exchange is the basis for moving forward with existing coupling initiatives, which will further strengthen regional integration and competition. | Moderate |
| Design and implement a decarbonisation strategy and phase out coal | No decarbonisation strategy exists. While a phaseout date for coal was set for 2035, no comprehensive plan taking socio-economic effects into account and devising mitigation measures exists. It remains to be seen to what extent the NECP can address this issue. | Limited |
| Take steps to encourage the development and growth of renewables | No competitive auctions have been implemented so far. It seems that reaching the 2020 RES target is discouraging the authorities from taking additional measures to further incentivise the uptake of RES projects. | Limited |
| Focus on energy efficiency, including developing a long-term vision and financial support mechanisms – especially outside the public building sector | Insufficient progress towards the development of long-term low-emission strategies. Programmes to support private investments into energy efficiency are in place. | Moderate |

## The way forward for energy

Although Montenegro has advanced in various sectors since the previous Competitiveness Outlook, further actions are necessary to address current shortcomings and enhance alignment with the EU and Energy Community *acquis*. The subsequent recommendations present insights into principal areas which, if properly addressed, could result in substantial progress in Montenegro's energy sector and its endeavours to meet the relevant *acquis* standards.

- **Speed up the drafting of the NECP.** Completing the NECP should be a top priority, given the central role that this document plays in providing a comprehensive policy approach towards diversification and decarbonisation. In preparing the NECP, the government should pay particular attention to these two policy objectives as they are currently insufficiently defined in Montenegro's energy policy framework. Through the NECP, the government should ideally also ensure to properly update its outdated policy framework that is still based on the 2011 Energy Policy and the 2015 Energy Development Strategy. Depending on the comprehensiveness of the NECP, additional documents could also be adopted to provide more comprehensive policy guidance in areas such as decarbonisation and crisis response and resilience. Interim targets should be defined and implementation should be properly monitored to allow for corrective efforts in the case of delays or other challenges.
- **Transpose the remaining elements from the Clean Energy Package.** Montenegro should transpose the remaining elements in the areas of renewable energy and energy efficiency, with a particular focus on drafting and adopting a Long-term Building Renovation Strategy. Transposition into national law should also entail the Electricity Integration Package with all Network Codes for the electricity sector, in order to enhance the legal framework as needed for additional regional integration. Attention should also be given to creating appropriate and sufficiently competitive market-based support schemes for RES production and permitting.
- **Ensure that regulatory independence is not weakened.** The outcome of the currently pending court case to determine whether REGAGEN is authorised to initiate misdemeanour proceedings should be monitored closely, and depending on the outcome needed legal changes should be implemented in order to uphold REGAGEN's independence.
- **Nominate a NEMO.** This would be the basis for enhancing co-operation to further strengthen regional market integration, using the momentum from the launch of the day-ahead market.
- **Rectify the ongoing infringement case of non-compliance with the Large Combustion Plants Directive.**[3] The shortcomings that are the basis for the ongoing infringement case with the Energy Community Secretariat on the closure of TPP Pljevlja should be rectified. Setting a date for the shutdown of TPP Pljevlja would strengthen Montenegro's commitment to and the credibility of its coal phaseout plans.

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MEPX (2024), *Reports*, https://belen-spot.me/en/izvjestaji/ (accessed on 28 May 2024). [2]

## Notes

[1] In 2015 the Energy Development Strategy was adopted. This strategy recognises the 2011 Energy Policy and its key strategic commitments, and is aligned with them. Thus, in the remainder of the chapter reference will be made to the underlying 2011 Policy.

[2] Feed-in tariffs were the dominant form of financial support for renewables within the EU at the beginning of the 21st century. In this system, power plant operators receive a fixed payment for each unit of electricity generated independent of the electricity market price. Feed-in tariff schemes offer several advantages, but mainly they insulate new market entrants from market price risks, which lowers their capital costs and enables private investment. The simplicity of feed-in tariffs makes them suitable for markets with a large number of non-commercial participants such as households or local community-based initiatives. However, feed-in tariff schemes exclude producers from actively participating in the market, which hinders efforts to develop large, flexible and liquid electricity markets as the share of renewable energy grows. This limits growth to certain technologies and sizes of installations, and creates difficulties in setting and adjusting appropriate tariff levels. The latter has been a problem especially as costs of renewable generators have fallen rapidly in recent years. (See European Commission (2013[3]) (2017[5]); (Council of European Energy Regulators, 2018[4]))

[3] For more information, see the summary of the case by the Energy Community here: www.energy-community.org/legal/cases/2021/case1521MN.html.

# 14 Environment policy

A healthy and sustainable environment is crucial for economic competitiveness as it supports resource efficiency, enhances resilience to climate-related risks, fosters innovation, and attracts investments while mitigating environmental degradation and associated costs. The chapter analyses the robustness and comprehensiveness of environment policies across four sub-dimensions. The first sub-dimension, climate action, assesses strategies aimed at both mitigating and adapting to climate change. The second sub-dimension, circular economy, focuses on policies promoting waste minimisation, resource efficiency, as well as sustainable production and consumption. The third sub-dimension, protection of ecosystems, explores challenges in managing freshwater, biodiversity and forestry, as well as land-use. The fourth sub-dimension, depollution, analyses policies related to air quality, water supply and sanitation, and industrial risk management, paramount for enhancing competitiveness while ensuring environmental sustainability.

# Key findings

Montenegro's score for environment policy remains similar to that in the last Competitiveness Outlook (Table 14.1). While progress has been achieved in enhancing climate action and circular economy policies, further efforts are needed to improve the ecosystem protection framework. Nonetheless, Montenegro remains the second-best performing economy for environment policy in the Western Balkans.

### Table 14.1. Montenegro's scores for environment policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Environment | 13.1: Climate action | | | 3.0 | 2.5 |
| | 13.2: Circular economy | | | 2.3 | 2.2 |
| | 13.3: Protection of ecosystems | | | 2.0 | 2.1 |
| | 13.4: Depollution | | | 2.5 | 2.3 |
| **Montenegro's overall score** | | **1.8** | **2.4** | **2.4** | **2.3** |

The **key findings** are:

- Montenegro's climate change framework has advanced since the last assessment, in line with obligations under the Paris Agreement and EU directives. Mitigation targets and projections have been set and climate risks have been assessed, with relevant policies under development. Montenegro is also the only Western Balkan economy to have introduced a national Emissions Trading System as a cap-and-trade scheme for major carbon dioxide ($CO_2$) emitters, despite challenges in the initial design and implementation of the scheme.
- Montenegro has made significant strides towards a circular economy by adopting the Circular Economy Strategy and an associated Action Plan, making it one of the most advanced economies in the region. Despite this progress, effective waste management remains a significant challenge. The National Waste Management Plan, which expired in 2020, has been revised but is still awaiting adoption, and the targets for waste reduction, recycling, and recovery have not been achieved within the evaluated timeframe.
- While relevant legislative and policy frameworks remain to be adopted, ongoing efforts are under way to enhance ecosystems' protection, focusing on river basin management, improvement of water monitoring and additional management plans for protected areas. Land use management remains underdeveloped and limited progress was achieved to develop the related frameworks further.
- Measures have been taken to combat pollution in Montenegro, with notable investments planned for wastewater treatment and enhanced management of chemicals. The air quality policy framework has yet to be adopted and efforts to reduce air pollution remain to be scaled up.

## State of play and key developments

### *Sub-dimension 13.1: Climate action*

Over the past decade, Montenegro witnessed a net decline in greenhouse gas emissions, achieving a 13.1% reduction from 2011 levels by 2020 (Eurostat, 2023[1]). In 2021, the energy sector was the primary source of Montenegro's emissions, contributing 75.8%, largely due to coal-powered electricity production. This was followed by waste management (10%), industrial processes (7.8%), and agriculture (6.5%) (Government of Montenegro, 2023[2]). Montenegro is facing increased climate risks, including more frequent floods, droughts, erosion, and sea level rise (UNDP, 2024[3]). Historical climate data indicate a significant warming trend, particularly notable in summer temperatures. Projections meanwhile suggest a continued rise in temperatures, with an expected increase of the mean annual temperature by 3°C by 2070, and a shift in precipitation patterns, leading to reduced summer rainfall and decreased snowfall, particularly affecting the north and central regions (Government of Montenegro, 2021[4]).

As a Non-Annex I signatory[1] to the United Nations Framework Convention on Climate Change (UNFCCC), Montenegro has committed to reach net-zero emissions by mid-century, in line with the Green Agenda for the Western Balkans. While further alignment of Montenegro's Law on Protection against Adverse Impacts of Climate Change (2019) with the EU *acquis* is necessary,[2] the National Climate Change Strategy (2015-30) is being continuously implemented (98% of measures planned for the period 2018-21 were introduced) (Government of Montenegro, 2022[5]). Moreover, Montenegro submitted its revised Nationally Determined Contribution (NDC) in 2021, raising its economy-wide emissions reduction target to 35% below 1990 levels by 2030 (compared to the 30% set out in its initial NDC). To monitor the progress and implementation of the NDC, Montenegro developed the NDC Implementation Roadmap, which delineates responsibilities, timeframes and funding sources, and includes monitoring and evaluation. Co-ordination among all institutions involved in climate change matters is ensured through the Directorate for Climate Change, led by the Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development, although there is a need to strengthen administrative capacities (European Commission, 2023[6]).

Montenegro aims to strengthen its **climate change mitigation** framework with the development, albeit delayed, of the National Strategy and Action Plan for Low-Carbon Development, as foreseen under the Law on Protection from the Negative Impacts of Climate Change. The strategy foresees the methodology, technical descriptions and data, methods, policies and measures, as well as scenarios for greenhouse gas (GHG) emissions reduction, for the period from 2030 to 2050. In parallel, projections for achieving a 55% GHG emissions reduction by 2050 are being prepared as part of the development of the Integrated National Energy and Climate Plan (NECP), scheduled to be adopted in June 2024. A GHG inventory covering the period until 2019 is available as part of Montenegro's Third Biennial Update Report (2020), with the subsequent period expected for 2025. High-carbon activities in the energy and industry sectors are meant to be discouraged with the national Emissions Trading System – ETS, introduced in 2020 as a cap-and-trade scheme for major carbon dioxide ($CO_2$) emitters.[3] Funds raised from the scheme are to be transferred into the Environmental Protection Fund and used for renewable energy sources (in the amount of EUR 4.1 million), the protection of the environment (EUR 2.67 million) and to promote innovation in accordance with the Smart Specialisation Strategy (EUR 1.1 million). The first auction awarding emission credits and allocating the collected funds was announced in 2023. Nevertheless, there are identified issues with the conception of the ETS scheme. These include the slow reduction in the cap until 2030, lack of clear rules for the end of free allowances, and insufficient fines for non-compliance[4] (CEE Bankwatch Network, 2022[7]). Relevant legislation should be revised, and a monitoring mechanism should be established to address these issues.

In addition to **climate change adaptation** measures envisaged in Montenegro's NDC,[5] the National Adaptation Plan (NAP) is under preparation with the support of the UNDP and the Green Climate Fund (GCF), and planned to be adopted in the second half of 2024. Enhanced resilience will be targeted in the four identified sectors most vulnerable to climate change: water, health, tourism and agriculture. Montenegro's ability to manage risks from disasters was strengthened with the preparation of the Disaster Risk Assessment of Montenegro at the end of 2021, which includes an analysis of nine risk groups and the technical, administrative and financial capacities of the state in responding to such disasters, as envisaged in the Strategy for Disaster Risk Reduction (2018-23). The Assessment aims at improving disaster risk reduction locally, facilitating the integration of risk reduction in policies, strengthening and increasing early warning capacities, and preventing new risks. This should provide impetus to strengthen early warning systems, in particular targeting droughts by enhancing capacities of the Inter-Sectoral Drought Advisory Board, which have not yet been established despite envisaged as part of Montenegro's National Drought Plan. Municipalities and policy makers in charge of implementing adaptation measures have received capacity building and training on the topics of resilient infrastructure (2021), urban adaptation (2021) and the risk of flash flooding and forest fires (2022).

Data collection and sharing have been strengthened in the assessed period. Enhanced climate risk data and projections have been provided by the Institute for Hydrometeorology and Seismology (IHMS), with precipitation and stream-gauging networks extended to measure real-time data for transboundary flood forecasting, through the upgrade of 10 stations. Moreover, historical data on disaster damages from municipalities, damage assessment commissions and ministries have been consolidated as part of a project implemented by the Directorate for Protection and Rescue (DPR) since 2021. The DPR is also working on an application that will contain data on climate risks identified as part of the Disaster Risk Assessment.

### *Sub-dimension 13.2: Circular economy*

Transitioning to a circular economy requires measures that encompass the entire life cycle of products, spanning from design and manufacturing to consumption, repair, reuse, recycling, and bringing resources back into the economy. As one of the first Western Balkan economies to develop a circular economy framework, Montenegro's policies covering **sustainable resource use, consumption and production** are well developed and co-ordinated.[6] Further to the development of the Roadmap towards a Circular Economy, developed by UNDP and the Chamber of Economy in 2022, the National Strategy for Circular Transition until 2030 was adopted in December 2022 with an Action Plan for the period 2023-24. The strategy aims at boosting the circular transition through four identified priority sectors (agriculture, forestry, construction and tourism), and crosscutting areas (technological development and innovation; energy efficiency; green public procurement; education and promotion). The Action Plan has over 60 activities and 23 stakeholders on board, and focuses on promotion of the use of secondary materials and productions and programmes offering financial incentives and instruments to increase business circular initiatives, and non-financial instruments to increase business opportunities in green and innovative technologies.[7] While the financial sustainability of these measures is foreseen with the development of a detailed financial analysis, efficient co-ordination among all actors will need to be ensured. Awareness raising on circular economy concepts for citizens and public authorities is being strengthened, with the first roundtable organised focusing on resource efficiency at the production phase. Programmes have been implemented by the Ministry of Economic Development to promote circularity among businesses, namely through the Programme for the Improvement of Competitiveness.[8]

While waste generation in Montenegro has increased in the past decade, **waste management** remains a challenge in the economy, where the majority of municipal waste is disposed of in often unsanitary landfills (93% in 2021, compared to 23% in the EU) and only 6.9% is recycled (Eurostat, 2021[8]). Efforts have been undertaken to strengthen the legal waste framework with the new Law on Waste Management, adopted by the parliament in April 2024, further aligning with EU directives.[9] Main developments of the law include

the establishment of extended producer responsibility schemes for different waste streams,[10] more rigorous sanctions for polluters, and the formation of a state inspection to control the implementation of local municipal waste management plans. The law includes a prohibition on the use of lightweight plastic bags, acknowledging the challenges posed by plastic pollution and the issue of marine litter in Montenegro's environment. Some of these measures are planned to be implemented as part of the National Strategy for Circular Transition. Nevertheless, the National Waste Management Plan, which expired in 2020, has not been revised in 2022 as planned, thus impeding proper enforcement of measures. Namely, waste recycling targets for 2020 (50% of total collected waste, 53% of packaging waste, 20% of plastics waste and 46% of paper and cardboard waste) have not been attained in the assessed period and the construction of planed regional landfills did not start, despite the urgent need to remedy illegal waste disposal and subsequent risks for the ecosystem and human health. While pilot projects for separation at source have been introduced in five municipalities in 2020, these have not been conducive to uptake of the practice. Suboptimal implementation in this regard is mainly due to the lack of human and financial capacities among responsible institutions and the lack of financial incentives for citizens and businesses, as waste fees are not based on volume.

### *Sub-dimension 13.3: Protection of ecosystems*

Montenegro is a water-rich economy with numerous rivers, lakes, and springs, contributing to its overall water wealth. Its underground potential is estimated at 14 000 litres/second and its average runoff at 44 litres/second/km$^2$ (compared to the world average of 6.9 litres/second/km$^2$) (Environmental Protection Agency of Montenegro, 2023[9]). Management and conservation of freshwater resources are hence crucial, particularly in light of rising challenges posed by pollution and the impacts of climate change.

The **freshwater management** legislation framework is not yet fully aligned with the EU *acquis*, and further efforts are needed to step up the process (European Commission, 2023[10]). The Laws on Water (2018), the Provision of Sanitary Water for Human Use (2017) and Freshwater Fishery and Aquaculture (2019) nevertheless regulate basic provisions for the protection of water bodies, prevention of pollution at source, and water quality. Long-term planning of water resources and their sustainable management are envisaged as part of the Water Management Strategy (2017-35) and other sectoral strategic documents (agriculture, tourism, industry). To ensure efficient implementation of the legal and policy frameworks, administrative capacities of relevant public authorities have been strengthened, with additional personnel hired at the Water Directorate of the Ministry of Agriculture, Forestry and Water Management and at the Directorate for Inspection Affairs, in charge of the supervision of watercourses. Moreover, stronger emphasis on the preservation of river basin management has been ensured with the adoption of two new River Basin Management Plans in 2022 – one for the Danube Basin and one for the Adriatic River Basin, both containing analyses of main pressures and risks to water bodies as well as concrete measures to achieve environmental targets. Further advancements were made in enhancing flood preparedness with the development of hazards maps and flood risk maps in 2022, and proposals for flood risk management plans for the Danube and Adriatic basins are in progress and expected to be adopted at the end of 2024. Moreover, regional co-operation on flood risks has been enhanced with the Flood Risk Management Plan Updates, adopted in 2022, under the Montenegrin presidency of the International Commission for the Protection of the Danube River.

A few activities were conducted to strengthen further awareness of water protection, including a public call to support NGOs' projects on identifying sources of water pollution[11] and a video campaign on countering water shortage. Improvement of the water monitoring framework is under way, following adoption of the programme for monitoring surface and groundwater in 2024, which will lead to establishing a national water information system compiling nationwide data on water quality, quantity, and allocation regimes. This will facilitate cross-institutional co-ordination and data sharing to ensure informed policy decisions about competitive water use and tradeoffs across sectors.

Limited progress has been made in advancing the legal and policy frameworks for **biodiversity and forestry management** to meet EU and international best practices. While the Law on Nature Protection has been extensively revised to further align with the EU *acquis* and the UN Convention on Biological Diversity, its adoption has been pending since 2020. The revised law aims to preserve and improve the status of biodiversity in Montenegro, through increased monitoring of natural assets, harmonised management plans and the sustainable use of non-renewable natural resources. Following extensive consultations conducted in 2023, the draft law will undergo further revision to incorporate feedback and suggestions received during the process. While the National Biodiversity Strategy has also not been revised since it expired in 2020, preparations of the National Biodiversity Strategy and the Strategy for the Protection of the Marine Environment have begun. Implementation has advanced in the assessed period, driven by enhanced personnel capacity in the Directorate for Nature Protection of the Ministry. Activities continued to identify protected areas and species, with a total of eight management plans adopted despite delays (three for marine protected areas and five for national parks[12]) and the first red list[13] for birds introduced in 2022. The share of territorial protected areas remains similar to that in 2020 (13.2% in 2023), while the share of marine protected areas grew considerably (from 0% in 2020 to 1.8% in 2023), despite falling short of international targets (the Aichi targets for 2020 aimed to achieve 17% coverage for terrestrial protected areas and 10% for marine protected areas (UN Convention on Biological Diversity, 2020[11])). Moreover, some awareness-raising activities have been organised to protect biodiversity in different sectors, such as tourism, agriculture and forestry.[14] While biodiversity monitoring is increasing with additional management plans and conservation instruments, coverage still remains insufficient to allow for a systematic assessment of conservation efforts and identification of risks. Some progress can nevertheless be reported with the development of the first database on marine monitoring on the basis of the geographic information system.[15]

Montenegro hosts rich diversity as forests cover 61.5% of its territory in 2021, a much higher share than the EU average (39.9%) (World Bank, 2023[12]). While forests can be key to ensuring resilience in light of the increasingly changing climate, human pressures cause important risks to forestry resources (in particular illegal tree logging, tourism, forest fires and construction). To ensure the preservation of forests, Montenegro started working on amending the Law on Forests to prohibit the use of burned forestland for a period of 30 years after the date of the fire, thereby providing a legal instrument for discouraging investor fires and benefiting forest restoration programmes. The amendments also foresee the reorganisation of concessions to ensure proper management of forestry resources. Sustainable management of forests should also be enhanced with the revised Forestry Development Strategy, which is in the drafting process. A forest inventory exists, easing data collection for forest management plans, and more detailed data on the conditions of forests – and the impacts of air pollution in particular – are also collected in 49 forest plots as part of the ICP Forests project.[16] Nevertheless, monitoring only covers public forests, despite private ones representing 49% of total forest areas (FAO, 2020[13]).

**Land use management** in Montenegro remains underdeveloped and limited progress was achieved to further develop relevant legal and policy frameworks. Institutional co-ordination on all economic, environmental and social aspects of land use remains limited, although the recently established Department for Air, Water and Soil at the Ministry of Environment could boost activities related to land use management. A comprehensive land use policy document has not been developed at the national or local levels, despite a 2016 study highlighting relevant policy instruments to ensure coherence between agricultural, fiscal, real estate investment, urban and environment policy. The framework covering agricultural lands was nevertheless strengthened, with the adoption of the Strategy of Agriculture and Rural Areas Development (2023-28), which defines the long-term management of agricultural resources, with a focus on food security and rural areas. A commission on the valorisation of state-owned agricultural land, active since 2017, also ensures the protection, use and development of these areas.[17] So far, no measures to combat soil erosion, restore degraded land, or limit urban sprawl into green areas have been conducted, although some measures on sustainable food production and soil organic carbon shall be integrated into

a project under the Western Balkans Soil Partnership. Data sharing on soil management is also planned to be strengthened at the regional level, with the establishment of the Western Balkan soil map. Currently, data on land use remain limited and are not georeferenced or harmonised across government bodies.

### *Sub-dimension 13.4: Depollution*

**Air quality** remains an important environmental challenge in Montenegro, with annual average concentrations of fine particulate matter ($PM_{2.5}$) reaching 17.3 micrograms per cubic metre air (µg/m$^3$) in 2021, more than three times higher than WHO recommended levels of 5 µg/m$^3$, mostly resulting from the combustion of solid fuels (wood and coal) and traffic emissions (EEA, 2023[14]). Pljevlja, where Montenegro's lignite power plant is situated, experiences the highest levels of pollution (Government of Montenegro, 2023[15]). The new Air Quality Strategy until 2029 has been prepared in 2020; however, its adoption has faced several years of delays. This delay undermines the progress achieved in implementing over three-quarters of the measures outlined in the preceding strategy (2013-20). Under the draft strategy, three new air quality plans covering municipalities where air pollution exceeds limits are planned to be developed, tailored to local sources or air pollutants. In 2021, a new regulation setting emission limit values for combustion plants and multiple fuel types was adopted. This regulation mandates regular inspections, bringing it into closer alignment with EU directives.[18] The ecological reconstruction of the thermal power plant Pljevlja aimed at reducing its emissions (main emitting source of sulphur oxide [SOx] and nitrogen oxide [NOx]) is advancing with some delays, although core polluting issues are not addressed (for instance, ecological restoration will have no effect on $CO_2$ emissions) and economic alternatives for communities affected most by the coal phaseout remain to be tackled (UNDP, 2023[16]). Air quality monitoring has not changed since the last assessment and consists of 10 automatic all-day stations. However, data collection and management capacities at both the national and local levels are planned to be enhanced, facilitated by donor funding.[19]

Montenegro is endowed with substantial water resources; however, it faces escalating pollution challenges, mainly stemming from untreated wastewater (in 2022, only 55% of domestic wastewater is safely treated, in contrast to over 90% in the EU). The **water supply and sanitation** regulatory framework has seen improvement since the last assessment with the development of the new Law on Water Services (planned to be adopted in 2025), which will regulate water supply services such as the delivery of drinking water and municipal wastewater management while only partially aligning with the EU Water Framework Directive. Despite water tariffs remaining low and insufficient to cover infrastructure investments, there are plans to gradually address the needs of the most vulnerable groups in society. Notably, amendments to the Law on Communal Activities, approved in December 2022, now allow for the subsidisation of specific users of communal services. Implementation of the Municipal Wastewater Management Plan 2020-35 is under way with international support, marked by the commissioning of two new municipal wastewater treatment plants in 2023 (Andrijevica and Petnjica).[20] Moreover, funding has been secured for the construction of additional plants and sewerage networks.[21]

The legal and policy framework for **industrial risk management** has seen moderate improvements since the last assessment. General policies for industrial risks have been incorporated into the National Disaster Risk Assessment prepared in 2021. Additionally, the establishment of the Pollutant Release and Transfer Register (PRTR) is in progress and planned for the end of 2024; it will aim to enhance transparent reporting of industrial pollution.[22] Notable strides have been made to strengthen the regulatory framework for chemicals, with the adoption of a new rulebook in 2023 for the preparation of safety data sheets for chemicals, in line with the EU Regulation on the registration, evaluation, authorisation and restriction of chemicals (REACH) (European Commission, 2024[17]). On the policy side, the National Chemicals Management Strategy 2024-26 was adopted, containing 25 measures to reduce the risks of hazardous chemicals for better protection of human health and the environment. Nevertheless, a soil management programme is lacking and no permanent solutions for hazardous waste disposal are in place. Several contaminated industrial sites have nonetheless been identified and remediated with the support of

international co-operation partners.[23] Most notably, around 640 tonnes of hazardous manufacturing waste and equipment have been identified and 475 tonnes permanently disposed of in 2022; two slag and tailings ponds were remediated; and around 14 500 tonnes of contaminated soils were exported in 2023.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro's progress on implementing past CO Recommendations for environment policy has been mixed: below, Table 14.2 shows the economy's progress.

### Table 14.2. Montenegro's progress on past recommendations for environment policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Ensure that measures for municipal waste management are accompanied by appropriate educational activities, and step up actions to raise awareness of waste prevention, waste separation, waste reduction and recycling | Implementation of waste separation at source has remained limited in the assessed period. While planned as part of the Waste Management Plan, no awareness-raising activities have been conducted. The new Proposal Law on Waste Management and Circular Economy Strategy contain measures for waste prevention and recycling. | Limited |
| Direct more investment into improving wastewater systems and treating more wastewater | The Municipal Wastewater Management Plan 2020-35 was adopted in October 2019. It maps the construction of wastewater treatment plants (WWTPs) in 37 agglomerations. Construction of and investments in WWTPs are ongoing, with two new WWTPs built in two municipalities in 2023, and funds have been secured for the construction of three additional WWTP and sewerage networks in three municipalities. | Moderate |
| Introduce a comprehensive policy framework for identifying, characterising and remediating contaminated sites | As part of the project "Industrial Waste Management and Cleaning (2014-20)", several activities were conducted to reduce the contamination of natural resources and minimise public health risks of exposure to selected industrial waste disposal sites. Nevertheless, a comprehensive policy framework to manage contaminated sites has not been introduced. | Limited |

## The way forward for environment policy

While Montenegro has strengthened its regulatory and policy frameworks in several areas of environment policy, overall implementation could be further improved. Some of the priorities are as follows:

- **Adopt the revised waste management strategy and ensure proper enforcement of its measures,** in particular regarding extended producer responsibility schemes. The revised National Waste Management Plan, which expired in 2020, needs to be adopted without further delay. The strategy should include well-defined objectives and recycling, recovery and reduction targets for different waste streams. To ensure proper collection and recycling of waste and shift end-of-life management costs of products from the public sector to producers and consumers, the strategy should also include specific requirements for the enforcement of extended producer responsibility schemes, which are proposed in the draft Waste Management Law for four waste streams. To do so, Montenegro can follow the guiding principles laid out in Box 14.1.

### Box 14.1. Guidance on implementing extended producer responsibility take-back schemes

**OECD EPR Guidance**

To effectively implement extended producer responsibility (EPR) take-back schemes to shift end-of-life management costs of products from the public sector to producers and consumers, and to increase the collection and recycling rates of these waste streams, economies should ensure application of the following principles (a selection of principles based on the OECD EPR Guidance):

- *Clear legal framework* – The legislation needs to be clear on the definitions and responsibilities of all actors involved in EPR. There needs to be a legal framework for producer responsibility organisations to operate. The EPR targets need to be periodically reviewed.
- *Transparency* – The governance of EPR systems needs to be transparent to provide more effective means for assessing the performance of the actors involved and holding them accountable for their activities. This will require collecting both technical and financial data and setting up registers of producers, accreditation of producer responsibility organisations, and appropriate sanctions.
- *Sufficient existing waste management capacity* – For EPRs to work effectively, adequate waste infrastructure needs to be in place across the country, including infrastructure for waste separation at source, collection and treatment (ideally recycling).
- *Administrative oversight capacity for better enforcement* – This concerns enforcement capacity to prevent unauthorised facilities and collection points from operating. This should also minimise freeriding and noncompliance.
- *Stakeholder engagement* – Platforms for dialogue among stakeholders need to be established.

**Prevent Waste Alliance EPR Toolbox**

To facilitate the adoption of general good practices and OECD guidance on EPR, authorities and other relevant actors could make use of the EPR Toolbox developed by the Prevent Waste Alliance, to consult other international practices and participate in knowledge exchange in order to enhance the functioning of the domestic EPR system. The EPR Toolbox contains three modules that span more general aspects of an EPR, including the monitoring of financial flows, but also focus on concrete actions, such as the integration of the informal sector or the creation of a market for recycled plastics.

**Data collection and processing for EPR schemes, example of the Czech Republic**

While certain technical requirements must be met, the first step towards ensuring transparency of EPR schemes is effective co-ordination and compliance with reporting obligations under applicable legislation. The Czech Republic's electronic registry for waste is an exemplary model for a successful national waste information database. Recently rated as the best European system for waste data management and evaluation by the European Topic Centre for Circular, it employs two distinct systems. One handles the mandatory data reported by entities subject to relevant legal acts (Information System for Reporting Obligations), while the other manages the subsequent verification, processing and evaluation of the reported data (Information System for Waste Management). This streamlined process is further enhanced by extending verification authority to municipal and regional authorities, with the Environmental Information Agency functioning as the central data hub. By engaging a diverse array of stakeholders, including the statistical office, the information system becomes a catalyst for the development and implementation of evidence-based waste management policies.

Sources: OECD (2016[18]); Prevent Waste Alliance (2023[19]); Tuscano et al. (2022[20]).

- **Mainstream biodiversity considerations into all relevant strategic documents and elevate the commitment to safeguarding natural heritage by significantly expanding the coverage of protected areas.** It is crucial for Montenegro to revise its National Biodiversity Strategy, which

expired in 2020, in order to establish a comprehensive long-term national vision for biodiversity, with well-defined targets and indicators. A global vision for 2050 already exists under the Convention on Biological Diversity, which Montenegro can adopt or tailor to its national circumstances. Montenegro should also ensure that biodiversity is mainstreamed across relevant strategies and programmes (e.g. national economic plans, national budgets, climate change and low-emission development strategies, agriculture, etc.) and strengthen inter-institutional co-ordination by setting clear roles and responsibilities. In particular, biodiversity loss and climate change must be addressed together, given Montenegro's vulnerability to climate-related hazards.

In order to ensure efficient enforcement of biodiversity measures, Montenegro needs to significantly expand the coverage of protected area, which currently remains below international targets. Costa Rica's Payment for Environmental Services programme stands out as a successful model for expanding protected areas. Through this initiative, landowners receive financial incentives for maintaining or restoring ecosystems on their land, effectively discouraging deforestation. This approach has not only expanded protected areas but also fostered biodiversity conservation by creating biological corridors and engaging local communities in sustainable land management practices. The programme's success is attributed to a robust institutional framework, effective governance, and collaboration between the government, non-governmental organisations, and communities. Currently, Costa Rica has expanded its officially protected areas to cover 25% of land and 30% of marine areas, well above the respective OECD averages (OECD, 2023[21]).

- **Develop an all-inclusive land use policy framework and strengthen institutional co-ordination among different ministries responsible for land use issues** related to climate, biodiversity, agriculture, and industrial risks, both horizontally (at national level) and vertically (between different levels of government) to achieve a more holistic governance of land use. The land use nexus involves multiple issues and affects multiple actors from both the public and private sectors, and requires a whole-of-government approach to co-ordinate policies across all relevant stakeholders, which Montenegro currently lacks. One good practice example that provides such co-ordination is the Austrian Conference on Spatial Planning (Box 14.2).

### Box 14.2. Enhancing land use co-ordination with the Austrian Conference on Spatial Planning

The Austrian Conference on Spatial Planning (ÖROK, Österreichische Raumordnungskonferenz) is an organisation dedicated to co-ordinating spatial planning policies among the three levels of government in Austria (the national level, the states and the municipalities). Its decision-making body is chaired by the federal chancellor and its members include all federal ministers, the heads of all federated states, and representatives of associations of local governments. Furthermore, business and labour organisations are represented on the body as consulting members. The work of the decision-making body is supported by a permanent secretariat with a staff of approximately 25-30.

One of the central tasks of the ÖROK is the preparation of the Austrian Spatial Development Concept (ÖREK, Österreichisches Raumentwicklungskonzept). The current Austrian Spatial Development Concept ("ÖREK 2030") was published in 2021 and covers a planning period of around ten years. Guided by the key theme of "Need for Transformation", it is a strategic instrument for overall spatial development in Austria. Beyond the preparation of the Spatial Development Concept, the ÖROK also monitors spatial development across Austria. It has developed an online tool that provides a mapping function of a variety of important indicators at the municipal and regional level, and releases a report on the state of spatial development every three years.

The ÖROK is also the co-ordinating body for structural funds provided by the European Union. It manages the integration of structural funds into broader spatial strategies and was directly responsible for the programming work related to 1 of the 11 Thematic Objectives of the programming period 2014-20. The ÖROK also serves as National Contact Point within the framework of European Territorial Cooperation.

Sources: OECD (2017[22]); ÖROK (2024[23]).

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## Notes

[1] Annex I countries in the context of the UNFCCC are often referred to as developed or industrialised nations, whereas Non-Annex I countries include a diverse group of nations, primarily developing countries, with varying levels of industrialisation and economic development. These countries are not bound by the same mandatory emission reduction targets as Annex I countries. Instead, they are encouraged to take voluntary actions to address climate change and may receive support, including financial assistance and technology transfer, from Annex I countries.

[2] Considerable work is still required to align national legislation with the EU *acquis*, such as incorporating the remaining aspects of the EU Emissions Trading System (ETS), the Effort Sharing Regulation and the Governance Regulation (European Central Bank, 2023[24]).

[3] Free emissions allowances were granted to three plants: Pljevlja coal plant, KAP aluminium plant, and Tosčelik steel mill.

[4] Other issues include the potential for surplus credits due to the Pljevlja plant's modernisation and the questionability of the allocation of free credits to KAP given its bankruptcy status.

[5] Montenegro's revised NDC includes adaptation and resilience measures in the following areas: water, infrastructure, transportation, agriculture, forestry, tourism and health.

[6] Circular economy matters are co-ordinated by the Directorate for Improving the Competitiveness of the Economy of the Ministry of Economic Development and the Working Group for the Promotion of Green Transition as part of the Secretariat to the Competitiveness Council of Montenegro.

[7] Non-financial tools include a toolkit for businesses on the circular economy, eco-labels, green certifications and an EU Eco-Management and Audit Scheme (EMAS).

[8] The Ministry of Economic Development is currently executing the Programme for the Improvement of Competitiveness, which allocated EUR 3 million in 2023. Within this programme, companies are offered special support for financing and assistance in transitioning towards "green" initiatives through the Programme Line for the Promotion of the Circular Economy. As part of the programme's commitment to empowering women and youth, specific financial and non-financial support measures are being implemented and directed towards these target groups. Furthermore, additional support is extended to business entities registered and operating in local self-government units (LGUs) with a development index of up to 100%.

[9] Namely the Waste Framework Directive (Directive 2008/98/EC) and the Landfill Directive (Directive 1999/31/EC).

[10] EPR schemes include packaging, electrical and electronic devices, waste batteries and tyres and single-use plastic products (bags and fishing equipment containing plastic).

[11] Seven projects were supported in the amount of EUR 50 000 in 2023.

[12] The marine protected areas concerned by the adoption of management plans concern Platamuni, Stari Ulcinj, and Katič, and the five management plans for national parks relate to Biogradska gora, Durmitor, Lovćen, Skadarsko jezero and Prokletije.

[13] A red list is a rich compendium of information on the threats to species, their ecological requirements, where they live, and information on conservation actions that can be taken to reduce their risk of extinction.

[14] Awareness raising on the preservation of biodiversity and forests has been enhanced through projects like "Biodiversity Mainstreaming", funded by the Green Environment Facility. Led by the Ministry of Tourism with UNDP support, the project integrates biodiversity into sectoral policies, focusing on tourism, agriculture, and forestry. It sets standards for biodiversity-friendly forestry practices, supports private forest owners, and promotes biodiversity-positive entrepreneurship. The initiative also targets landscape preservation and habitat protection, and safeguards High-Conservation Value forests. In December 2023, the Ministry invited bids for the "Forest Area Development Plan" and guidelines on new forest planning methodologies. Collaborative events with NGOs have also been organised, with the aim of improving forest management in protected areas, preventing further ecosystem degradation.

[15] A geographic information system (GIS) is a computer system that analyses and displays geographically referenced information.

[16] The International Co-operative Programme on Assessment and Monitoring of Air Pollution Effects on Forests (ICP Forests) was launched in 1985 under the Convention on Long-range Transboundary Air Pollution (Air Convention, formerly CLRTAP) of the United Nations Economic Commission for Europe (UNECE). ICP Forests monitors forest conditions at two monitoring intensity levels in 42 countries in Europe and beyond.

[17] In 2020, for example, this commission denied a multi-year lease of state-owned agricultural land to a private company because of illegal construction and usurpation of state property.

[18] Relevant directives include the Industrial Emissions Directive (2010/75/EU), which covers a range of industrial activities including combustion plants, and the Medium Combustion Plant Directive (2015/2193/EU), which addresses the emissions from medium combustion plants with a thermal input between 1 MW and 50 MW.

[19] UNICEF & SwEPA: Improved air quality in the Western Balkans (2022-26) programme.

[20] These wastewater treatment plants have been financed half by national funds and half through a bilateral agreement with Slovenia.

[21] Funds have been secured for the construction of wastewater treatment plants (WWTPs) in Bijelo Polje, Kolašin, Rožaje and Mojkovac as well as sewerage networks in Kolašin, Rožaje and Mojkovac. The total value of investments for these projects stands at EUR 46.5 million and is covered through the Western Balkans Investment Framework and European Investment Bank loans.

[22] A final draft on the project terms of reference for the establishment of the PRTR Register in Montenegro was prepared in December 2022. The interconnection of six subsystems will make up the future PRTR system, which is expected by the end of 2024.

[23] Two projects have been undertaken: 1) ‘’Comprehensive Environmentally Friendly Management of PCB Waste in Montenegro’’ was implemented by UNDP in co-operation with the government of Montenegro and the Green Environment Facility in December 2022, and 2) “Industrial Waste Management and Cleaning (2014-20)" received funding from the World Bank through a loan.

# 15 Agriculture policy

Agricultural development remains a priority for all economies, not only in response to the essential resource needs of a growing population but also due to its substantial contributions to total employment and GDP. The chapter analyses the performance and trends of agriculture policies across three sub-dimensions. The first sub-dimension, rural development and infrastructure, assesses strategies and programs related to rural infrastructure, livelihood support, and irrigation systems. The second sub-dimension, agricultural support systems, covers the policy, governance and instruments in the agricultural sector. The third sub-dimension, food safety and quality, focuses on the policy framework regulating food safety and on the food quality legislation and agencies, which are key tools in an economy's path towards productive and sustainable agriculture.

# Key findings

Montenegro's overall agriculture policy score has slightly decreased since the previous Competitiveness Outlook (Table 15.1), primarily due to the limited progress observed in enhancing its rural infrastructure and irrigation policy frameworks. However, the economy made some notable advances in improving its food safety and quality policies, positioning it as the top performer in the region in this sub-dimension.

### Table 15.1. Montenegro's scores for agriculture policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Agriculture | 14.1: Rural development and infrastructure | | | 2.7 | 3.2 |
| | 14.2: Agriculture support system | | | 3.0 | 3.3 |
| | 14.3: Food safety and quality | | | 4.3 | 3.4 |
| **Montenegro's overall score** | | **2.4** | **3.4** | **3.2** | **3.3** |

The **key findings** are:

- Despite substantial funding allocated to rural infrastructure from both the government of Montenegro – now totalling EUR 4 million annually – and external donors, this augmented financial support has not yet engendered a significant improvement in rural or irrigation infrastructure. Consequently, Montenegro's rural areas continue to grapple with challenges arising from poorly developed road networks, limited electricity and Internet coverage, and inadequate access to irrigation.
- While Montenegro has a relatively well-developed agricultural policy framework, little progress has been achieved in harmonising its priorities with those of the EU Common Agricultural Policy. Strengthening alignment with the EU *acquis* is crucial not only for Montenegro's EU accession journey, but also for reinforcing the effectiveness and competitiveness of these policies.
- Since the last assessment cycle, Montenegro has improved its producer support instruments, largely bolstered by a 42% increase in the national agriculture budget between 2022 and 2023. As such, the economy exhibits the highest levels of support in the region at EUR 171/hectare, nearing the EU target of EUR 200/hectare.
- Limited efforts were made to strengthen the economy's performance in agricultural research, innovation, technology transfer and digitalisation (RITTD), as Montenegro still lacks a national policy framework and government programmes supporting RITTD. Given the economy's vulnerability to climate change, there is a pressing need to promote the adoption of knowledge and innovations for climate change mitigation and adaptation.
- There is room to bolster government capacities regarding the provision of extension and advisory services. In recent years, the Directorates for Advisory Services have increasingly struggled with personnel shortages and an unfavourable employee structure, which have hindered the effective transfer of professional knowledge and advice.
- Montenegro stands out as a regional leader in food safety, plant and animal health due to its strong alignment with EU regulations. Moreover, the economy has continued to update and harmonise its legal bases with the EU *acquis*, as seen through working groups and amendments to existing laws. However, this same level of harmonisation has yet to be achieved in food quality policies.

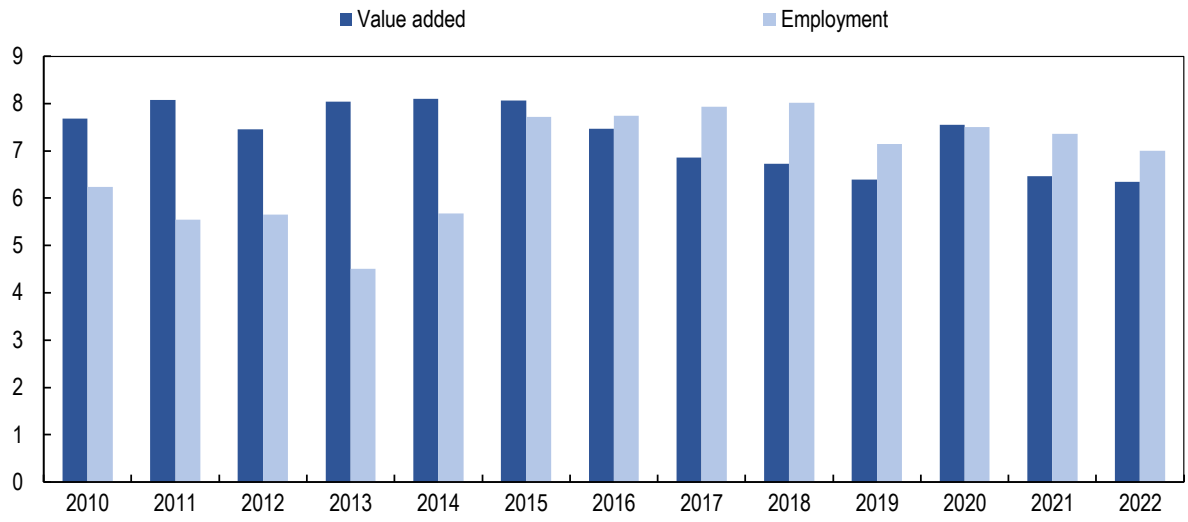
## State of play and key developments

While the agricultural sector in Montenegro plays a relatively smaller role than its Western Balkans counterparts, it remains a significant component of the economy. Specifically, the agricultural sector contributed 6.3% to the national GDP in 2022. However, this figure has been steadily declining since 2015, except for 2020 when it rebounded to 7.6% (Figure 15.1). Between 2021 and 2022, the sector's value added to GDP experienced a further slight decrease, primarily attributed to increased production costs resulting from the adverse consequences of Russia's war of aggression against Ukraine.

Meanwhile, employment in the agricultural sector as a proportion of total employment experienced a notable uptick around 2015 and has since oscillated between 7.5% and 8.0% (Figure 15.1). Despite these variations, this figure remains one of the lowest in the Western Balkans, falling far below the regional average of 13.5% of employment.[1]

### Figure 15.1. Agriculture's contribution to gross domestic product and total employment in Montenegro (2010-22)

Agriculture's share in value added and employment are denoted in percentages



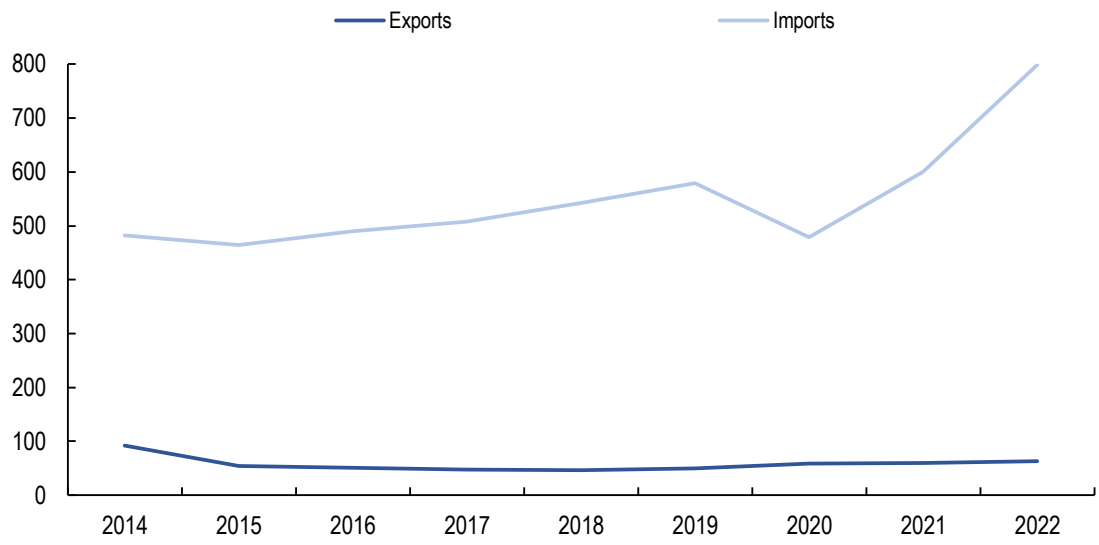

Source: World Bank (2024[1]).

StatLink https://stat.link/8eqkia

In terms of international trade, Montenegro's export of agrifood products increased by a mere 7% in the period between 2020-21 and 2022, while imports grew by 48% in the same period, contributing to a 53% growth in the trade deficit (Figure 15.2). This trend underscores the economy's increasing dependence on food imports. Furthermore, despite a stable proportion of agrifood imports to total imports over the years, the weight of agrifood exports to total exports has decreased over the past decade.

## Figure 15.2. Montenegro's international trade of agrifood products (2014-22)

Millions of EUR




Source: SWG (2023[2]).

StatLink https://stat.link/n1rva8

Although agriculture's decreasing contribution to national GDP and relatively low employment levels in Montenegro might suggest limited significance, it is crucial to recognise that its importance varies by region. Namely, it holds notable significance for the populations of rural areas, as an estimated 70% of their income originates from agricultural activities (FAO, 2023[3]).

### *Sub-dimension 14.1: Rural development and infrastructure*

**Rural infrastructure** in Montenegro remains relatively limited and underdeveloped, particularly when contrasted against the economy's urban centres. In fact, rural areas constitute most of Montenegro's territory: according to the OECD's methodology of defining rural areas – areas where the population density is less than 150 inhabitants per km$^2$ – the entire economy could be classified as "rural." However, it is also possible to further disaggregate this classification into predominantly rural areas (more than 50% of the population lives in rural local communities), transitional regions (15-50% of the population lives in rural local communities), and predominantly urban regions (less than 15% of the population lives in rural local communities). According to this system, the economy's Northern region is predominantly rural, while the Coastal and Central regions are considered to be transitional regions. Thus, given the prevalence of rural areas, ensuring robust, well-connected rural infrastructure is vital.

Road networks are poorly developed in many rural areas; data collected by the Statistical Office of Montenegro found that around 13.5% of the total road network in the economy was characterised as "dirt or uncategorised roads", underscoring the widespread nature of the challenge. Inadequate development of the road infrastructure limits the functional connectivity both within the economy and with the neighbouring regions. This in turn can complicate the delivery and access to markets and essential services for farmers and agricultural producers. Key obstacles to further developing the transport infrastructure include unfavourable topography, limited budget resources, and pronounced seasonal fluctuations in road usage.

Similarly, Internet infrastructure reveals a significant disparity between rural and urban areas in Montenegro. This digital divide is evident in Internet access rates, with 84.9% of urban households in Montenegro having access to Internet compared to only 70.9% of those in rural areas. This more limited coverage in rural areas can restrict farmers' ability to access information on line as well as rural populations' access to digitalised public services. The gap is less pronounced for electricity infrastructure, although some rural parts of Montenegro still do not receive sufficient coverage by the power grid.

To combat these challenges, the Ministry of Agriculture, Forestry and Water Management (MAFWM), the primary body tasked with overseeing Montenegro's agricultural policy, allocates nearly EUR 4 million in the annual agriculture budget to enhance rural infrastructure.[2] This support focuses on the construction, adaptation, and rehabilitation of road networks to better connect rural households and katuns (seasonal pastoral settlements or small mountain villages), the development of electrical networks, and operational support for machine rings (or ensuring that farmers engaged in collaborative arrangements have access to shared machinery or equipment).

The government has also initiated more well-defined projects aimed at improving infrastructure. For instance, in collaboration with electric power companies, Montenegro is currently working to develop its electricity infrastructure through the construction of new power lines and transformer stations, alongside maintaining the existing network. Additionally, support for the procurement of solar panels through the Instrument for Pre-Accession Assistance for Rural Development (IPARD) programme extends benefits beyond remote areas to include processing facilities with grid access, providing environmental sustainability, and economic advantages through on-site electricity generation. This support is funded by both the national budget and the IPARD III programme.

Several donors have offered financial support to further strengthen Montenegro's rural infrastructure. One prominent example is through the United Nations' International Fund for Agricultural Development (IFAD), which funds the Rural Clustering and Transformation Project in Montenegro. This project was implemented across seven municipalities – Nikšić, Šavnik, Žabljak, Mojkovac, Bijelo Polje, Berane and Petnjica – and had the primary objective of improving smallholder producers' access to water and road infrastructure. By the conclusion of the project in 2023, 121 sections of road, totalling nearly 50 km in length, were asphalted, with the support of EUR 2.96 million in funding from the United Nations. Another donor has been the European Union, which provided a EUR 525 000 grant in March 2023 to Montenegro through the Western Balkans Infrastructure Framework to support the new Broadband Infrastructure Development Technical Assistance Project (WBIF, 2023[4]).

Currently, there is scope to enhance the robustness of the economy's approach to **rural livelihoods**. The Strategy for the Development of Agriculture and Rural Areas, which serves as the national framework for enhancing rural livelihoods, focuses on improving the economic and social conditions of rural areas in Montenegro, particularly through the enhancement of rural infrastructure and services.[3] Such an objective is central to addressing disparities in economic development, infrastructure, and access to services for rural populations. Beyond this national framework, Montenegro has also aligned with several prominent international standards, such as the United Nations' Sustainable Development Goals, providing a broader framework for rural development and poverty reduction.

The government of Montenegro administers several programmes geared toward economic development, tax reduction, social security, rural diversification, and agri-tourism with the explicit objective of bolstering rural livelihoods. Notably, there is an absence of programmes specifically aimed at ameliorating education or health access and quality in rural areas. These initiatives draw financial support from the national agriculture budget under Axis 3, "Measure to improve the quality of life and to expand economic activities in rural areas", as well as from IPARD III's Measure 7 ("Farm diversification and business development"). Currently, there are no local action group (LAG) partnerships operating in Montenegro. However, the government of Montenegro recently proposed an amendment to the Law on Agriculture and Rural Development that would recognise the registration of LAGs. Additionally, the government has been closely

co-operating with EU authorities to establish, fund, and consolidate LAGs to help improve rural areas as a better place for living. Montenegro is eligible for IPARD III funds under the LEADER[4] measure (Measure 5) once it is entrusted with the implementation. This change reduced the population requirement for each LAG area from greater than 10 000 inhabitants to greater than 3 000 inhabitants, allowing the economy to meet the conditions for beginning the formation of such partnerships. However, the full implementation of the LEADER measure will start only after it is entrusted and would benefit from the Montenegro Government funding a similar project from the national agriculture budget to establish a LAG-like group and prepare and adopt a local development strategy.

Montenegro faces challenges with underdeveloped **irrigation infrastructure**, characterised by inadequate coverage and outdated policies, with nearly 35% of its surface area experiencing either a lack of access or limited access to water. Of the 51 000 hectares (ha) of land suitable for irrigation, only 15-17% has been successfully irrigated. The negative effects of this limited irrigation are exacerbated during the summer and persist in arid areas; these repercussions are likely to worsen as climate change increases average temperatures and results in an irregular distribution of precipitation.

The existing and planned irrigation activities in Montenegro emphasise the sustainable use of water, soil erosion and degradation, and drought mitigation measures. Extraction and use of surface and underground water for irrigation of agricultural or other land is carried out in accordance with the conditions established by water permits issued by the Water Administration. Owners or users of irrigation facilities and systems are responsible for paying management and maintenance costs in proportion to their use.

Since the last assessment cycle, some progress has been achieved toward improving the economy's irrigation infrastructure. For example, in 2022, the Water Management Project Incentive Programme for the financing of obligations and needs for water management was allocated EUR 1.2 million: EUR 900 000 toward constructing the water supply systems in rural areas; EUR 80 000 for individual water supplies; and EUR 200 000 toward implementing water management plans in the Danube and Adriatic water basins. However, even that level of funding is considered too limited to allow the government to fully execute its responsibility in this area.[5]

The MAFWM is the entity tasked with overseeing the formulation and implementation of policies guiding the economy's water management. This government body is currently drafting the national Plan of Irrigation Development, which will serve as the foundation (alongside the existing Law on Water[6]) for future developments related to the irrigation system. Policies created by the government are subject to a formal consultation process between national, regional, and local government actors as well as academia and international institutions. However, while co-ordination exists among the different levels of government, there is a lack of horizontal institutional co-ordination in relation to rural irrigation, which can hinder efficiency by preventing effective and quick communication across the relevant entities. Additionally, one key actor that is absent from these consultation processes is water user associations, as they do not exist in Montenegro.

### *Sub-dimension 14.2: Agriculture support system*

The **agricultural policy framework** of Montenegro is guided by two documents: the Law on Agriculture and Rural Development, and the Strategy for Agriculture and Rural Development (2023-28). The Strategy for Agriculture and Rural Development outlines five primary goals for its operational period: increasing resilience and competitiveness; effective management of resources; improving rural population's quality of life; establishing a knowledge network for technology adoption; and ensuring transparent agricultural and rural development policies. The new Strategy for Agriculture and Rural Development (2023-28) was designed to complement and further build upon the goals outlined in previous strategies and those of the EU's Common Agricultural Policy (CAP). Despite these continued efforts, the economy's national policy framework only aligns with three of the ten EU CAP objectives.[7]

Yet, while this framework is not entirely harmonised with the CAP, Montenegro benefits from the Instrument for Pre-Accession Assistance for Rural Development (IPARD), which serves as a valuable tool in supporting Montenegro's efforts to gradually align its agricultural and rural development policies with EU standards. The overarching aim of the IPARD programme is to improve competitiveness, increase the added value of products, create new jobs, improve rural infrastructure, and provide support through agroecological-climatic measures and organic production measures, which all combined can contribute to improving living conditions in rural areas. Under the most recent cycle, IPARD III (2021-27), Montenegro has received entrustment for the budget implementation task of three measures: Measure 1 ("Investments in physical assets of agricultural holdings"), Measure 3 ("Investments in physical assets concerning processing and marketing of agricultural and fishery products"), and Measure 7 ("Farm diversification and business development"). Throughout IPARD III's whole implementation, nearly EUR 82 million of grants will be available to Montenegrin farmers, EUR 63 million of which comes from EU funds (European Commission, 2022[5]).

Agriculture policy is headed by the MAFWM, which not only drafts legislation but also oversees implementation measures. Within MAFWM, there are five relevant directorates: the Directorate for Agriculture; the Rural Development Directorate; the Directorate for Payments; the Department for Economic Analysis and Market; the Department for Extension Services in Plant Production and the Department for Extension Services in Livestock Production.

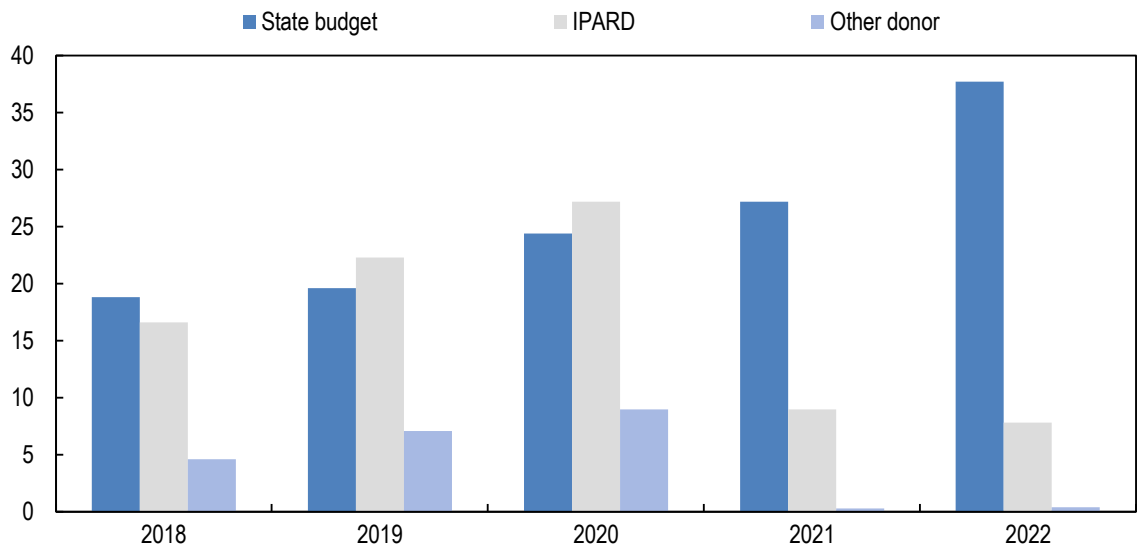
The MAFWM also operates several agricultural information systems within Montenegro. One such example is the Farm Accountancy Data Network (FADN), whose establishment followed the successful conclusion of a project with the Food and Agriculture Organization (FAO) in 2021. This project resulted in a new, state-of-the-art FADN along with the software for data collection for the 32 farms in the system. The Department for Economic Analysis and Market and the Advisory Services for Plant and Livestock Production are the entities responsible for collecting data through the FADN, although collection paused in 2022 due to the cyberattack. Montenegro also has a Land Parcel Identification System (LPIS), which the government has expanded in recent years. In 2022, the system helped to identify 4 988 new plots, covering a total area of 2 257 hectares, bringing the total to 21 461 plots over 11 757 hectares. The Directorate for Payments plans to continue enhancing the methodology, regulations and software used for the LPIS to record new areas and overcome challenges, such as the identification of meadows and pastures. There is also a farm register, which had a total of 17 665 farms registered in December 2022.

Montenegro faces considerable vulnerability to climate change, particularly in its agricultural sector, where effects such as inconsistent precipitation, extreme weather events, and drought directly impact production (Government of Montenegro, 2021[6]). The government's commitment to sustainability is evident in the Strategy for Agriculture and Rural Development (2023-28)'s emphasis on achieving the goals of the Green Agenda. However, despite this policy focus, there has been little else done to promote environmental or sustainability concerns in the agricultural sector through policy measures. Even in Montenegro's 2019 Law on Protection from the Negative Effects of Climate Change,[8] the sole reference to agriculture is the requirement that the MAFWM submit a report on the measures it has implemented every two years to prevent the negative impacts of climate change. Moreover, there are no specific policies related to climate change mitigation, nor are there mitigation targets related to agriculture in policy documents or strategies. In addition, the government has not yet conducted an assessment of climate change's impact on the sector.

**Producer support instruments** are one of the main pillars of Montenegro's budgetary support policies in agriculture. More broadly, the national agriculture budget in Montenegro has been growing in recent years, benefiting from a 42% increase in national funds: in 2023, the budget exceeded EUR 66 million, of which nearly EUR 45 million came from the state budget (Figure 15.3). The remaining EUR 21 million were either donations or loans.

## Figure 15.3. Budgetary support for the agriculture sector by funding source in Montenegro (2018-22)

Millions of EUR




Source: Information provided by national authorities for the *Competitiveness Outlook* assessment.

StatLink https://stat.link/t3pg86

Moreover, when considering support on a per-hectare or per-inhabitant basis, 2022 saw the highest levels of support, with payments averaging EUR 171 per hectare and EUR 70 per inhabitant (Table 15.2). Although this per-hectare payment is the highest among the Western Balkan economies, it falls short of the EU's established threshold of EUR 200 for 2023 (European Commission, 2023[7]).

## Table 15.2. Montenegro's budgetary support for the agricultural sector (2019-22)

EUR

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Budgetary support (per hectare) | 106.3 | 125.6 | 121.3 | 170.6 |
| Budgetary support (per inhabitant) | 43.6 | 52.0 | 49.9 | 70.0 |

Source: SWG (2023[2]).

These support policies are partially aligned with EU CAP policies. Under the last IPARD cycle (IPARD II 2014-20), Montenegro achieved some progress in harmonising its legal compliance and strengthening its institutions in accordance with the EU *acquis*. This improved alignment is seen through the implementation of conditionality requirements outlined under EU CAP: some producer support instruments (namely the direct payments) in Montenegro are linked to compliance with food safety, animal or plant health, or environmental standards. Additionally, the government intends to prepare to align its Strategy for Agriculture and Rural Development with the new EU CAP programme (2023-27) between 2022 and 2025, followed by three years of implementation.

Since the last assessment cycle, many producer support instruments have been updated. Livestock producers now benefit from a simplified criterion, enabling all producers to apply for support regardless of herd size (measured per head). Subsidies for cows, breeding heifers, and pigs also increased, with EUR 6.5 million earmarked for direct payments in livestock. Subsidies for dairy products – namely milk and cheese – experienced a 20% and 25% rise, respectively. Beekeeping received a 45% increase in support, while plant production saw expanded direct payments, including higher base payments and new incentives for unused agricultural land. All these changes were introduced to ensure that producers were able to access a greater number of direct payment schemes and therefore obtain significantly more financial support. This in turn aligned with the government's broader goals of boosting self-sufficiency in food production, increasing the number of hectares of agricultural land used for production, and enhancing the stability of producers' income.

Risk management support in agriculture involves financing a portion of the expenses related to insurance against crop and livestock damage for registered agricultural holdings. Starting from 2021, the assistance for insurance against the damage to agricultural crops or livestock or against fire damage has increased from 50% to 60% of the insurance policy. To qualify for this support, producers must be registered in the Register of Agricultural Farms and adhere to all agrotechnical and animal welfare requirements. In 2022, the MAFWM provided support for 415 insurance contracts, totalling EUR 222 195.

One unique support scheme in Montenegro is the additional assistance offered to young farmers. Since 2021, the support for these farmers rose from EUR 10 to EUR 70 per hectare. Such a scheme clearly reflects the priority conferred by the Strategy for Agriculture and Rural Development to generational renewal, or facilitating the transition of younger generations into farming to ensure the continuity and sustainability of the agricultural sector.

Regarding **agricultural trade policy**, Montenegro does have import tariffs for certain agricultural products, as outlined in several agreements with trading partners, such as the EU, Türkiye, and Ukraine. Additionally, as part of the World Trade Organisation (WTO) accession schedule, Montenegro's ten-year transitional period to reduce import tariff duties concluded – an action reflecting the economy's commitment to fully aligning national legislation with WTO rule. Montenegro does not offer any export subsidies, credit support, or duties for agricultural commodities. Although there have not been any changes to this trade policy since the last assessment cycle, these policies are subject to monthly monitoring and evaluation using benchmarking, and are revised annually.

With respect to the **agricultural tax regime**, Montenegro does not have a specific fiscal policy related to agriculture and rural development, nor are there specific tax provisions for farms, cooperatives, or agriculture-related businesses. Instead, the only provisions are that farmers are exempt from paying sales tax and that beneficiaries of IPARD support are exempt from paying value added tax (VAT) on the EU co-financed IPARD project. The government does not assess the impact of tax policies on small farmers, nor does it evaluate how these policies affect the environment or natural resource use.

Montenegro has significant room to strengthen its agricultural **research, innovation, technology transfer and digitalisation** performance, which is currently underdeveloped. There is no national policy or regulatory framework guiding RITTD, although the government is in the process of drafting legislation and organising stakeholder consultations. An Agriculture Knowledge and Innovation System (AKIS) has not been established to date, but there are ongoing efforts to gather the relevant entities that would eventually serve as the primary actors within an AKIS. Furthermore, there are no government programmes directly contributing to RITTD, including the absence of specific initiatives promoting the adoption of innovations or knowledge transfer by farms or agrifood firms.

However, while there are no programmes directly related to RITTD, the MAFWM offers free public advisory services to farmers to promote their access to technology and knowledge. These services are widely used, with approximately 18 000 farms using them at least once in 2022 (Government of Montenegro, 2023[8]). Advisory services are generally used in several areas, including the registration of agricultural holdings,

the implementation of on-site controls, and the preparation and submission of applications for support through national and international programmes (including MIDAS,[9] IPARD, and the International Fund for Agricultural Development). Both the Department for Extension Services in Plant Production and the Department for Extension Services in Livestock Production support agricultural producers by providing professional assistance through practical demonstrations, workshops, and expert publications.

While the MAFWM's advisory function has been prevalent, recent developments such as the introduction of direct payments and the establishment of the Farm Accountancy Data Network (FADN) have led to reduced knowledge transfer and experience sharing with agricultural producers. Consequently, this lack of knowledge transfer can directly impact the success and sustainability of agricultural production, particularly given the importance of supporting young farmers to ensure generational renewal and the future viability of farming operations. Moreover, the two relevant directorates, the Department for Extension Services in Plant Production and the Department for Extension Services in Livestock Production, face challenges stemming from insufficient staff numbers, an ageing workforce, and an increasing workload. The pressure placed on these government bodies is further exacerbated by the absence of any regulated and institutionalised private agriculture advisory services.

### *Sub-dimension 14.3: Food safety and quality*

Montenegro's national policy framework covering **food safety, animal health and plant health** is advanced and comprehensive, addressing key areas such as hygiene, risk reduction, reliability, and transparency. Moreover, the legal bases for food safety, plant health and protection, and animal health and welfare are fully aligned with the relevant EU legislation. Such success in alignment has been supported by Montenegro's strategy for the transposition and implementation of the EU *acquis* for Chapter 12 (Food Safety, Veterinary and Phytosanitary Policy), which is continuously revised and implemented. The second update of the strategy was adopted in September 2023, and the text is in the final stages of harmonisation with other public authorities. Additionally, as changes to the EU *acquis* are introduced, Montenegro has quickly responded; for example, in September 2022, the government formed a working group to propose and adopt amendments, harmonising national legislation with the updated EU *acquis* concerning official controls.

The Directorate for Food Safety, Veterinary and Phytosanitary Affairs is the sole public administration in Montenegro in charge of sanitary and phytosanitary (SPS) measures. It is composed of three sectors: the Food Safety Sector, the Veterinary Sector, and the Phytosanitary Sector. This Directorate is further supported by the national laboratories that test food safety and animal and plant health. Currently, Montenegro is undertaking the necessary activities to accredit its laboratories in accordance with EU legislation (Box 15.1). However, the designation of national reference laboratories is still pending.

The overarching objective of ensuring food safety and animal and plant health requires a strong implementation of risk-based inspection policies and capacities. The economy has established a well-structured risk assessment framework, aligning its risk assessment and management regulations with SPS rules. This risk approach is enshrined in the three major pieces of legislation in the field: the Law on Food Safety, the Veterinary Law, and the Law on Plant Health Protection. Montenegro uses various methodologies developed by international organisations, including the World Organisation for Animal Health, the World Health Organisation, the FAO, and the European Food Safety Authority. Additionally, recent updates to capacities for risk-based inspection have led to the revision of manuals, checklists, inspector training, and databases.

### Box 15.1. Montenegro's food safety laboratories

At present, there are numerous laboratories operating in Montenegro that conduct testing to ensure and strengthen the economy's food safety. Some of the main laboratories include:

- *The Diagnostic Veterinary Laboratory* – This public laboratory primarily operates in the domains of food safety, animal health, and feed safety. It is accredited to perform microbiological analyses of animal food products, including meat, dairy, and eggs.
- *The Institute of Public Health* – This public laboratory is accredited to conduct microbiological analyses of food products and any items or materials that come in contact with food.
- *The Centre for Eco-toxicological Research* – This public laboratory conducts analyses of residues and contaminants of pesticides on food products. It has accredited 30 methods of testing, and its results are mostly recognised by the EU (apart from equine, milk, rabbit, and wild game).
- *The Biotechnical Faculty of the University of Montenegro* – This institution houses two laboratories: the Laboratory for Seeds (which performs exams, quality checks, and certifications of seed materials) and the Phytosanitary Laboratory (which is primarily tasked with promoting plant health through laboratory examinations of harmful organisms).
- *The Laboratory for Quality and Food Safety* – This laboratory mainly performs analyses of various types of foods, particularly for honey and wine. It is accredited to perform eight methods of honey testing and sixteen methods of wine analysis.

Source: Information provided by national authorities for the *Competitiveness Outlook* assessment.

Maximum residue levels (MRLs) are defined in line with EU legislation in the "Regulation on maximum residue level of pesticides in or on plants, plant products, food or feed".[10] The regulation, amended annually with the latest update in June 2023, prescribes the maximum levels of pesticides to ensure consumer protection and monitor pesticide residue.

While Montenegro has achieved nearly full alignment with the EU *acquis* in the field of food safety, animal and plant health, its **food quality** policies have not reached this same degree of harmonisation. The primary policy framework for food quality is the Strategy for Agriculture and Rural Development, which underscores the importance of enhancing product quality. Another relevant legal base is the Law on Quality Schemes,[11] which outlines the methods and procedures for establishing quality schemes for agricultural and food products and for assessing their conformity with specifications. Furthermore, the Law on the regulation of the market of agricultural products serves as the economy's specific legislation on Common Market Organisations (CMOs).

National food marketing regulations are only partially in line with EU standards, lacking complete alignment with the new quality schemes of the EU. The Law on Quality Schemes outlines legislation on Geographical Indications (GIs), specifying various protection systems. Two ordinances – the Ordinance on designations of guaranteed traditional specialties of agricultural and food products and the Ordinance on registration of designations of origin and geographical indications of agricultural and food products – detail the technical forms for registration. GIs for alcoholic beverages fall under a separate law, the Law on Strong Alcoholic Beverages.

However, achieving total harmonisation in food quality policy is subject to several challenges. A general lack of knowledge or awareness among producers and consumers regarding food quality standards hampers co-ordination and adherence to obligations and good practices. Moreover, the public advisory

services provided by the MAFWM lack sufficient administrative capacity. Thus, even though institutional procedures have been established, no products in the market are registered under any of the voluntary quality schemes.

Regulations on organic foods, as outlined in the Law on Organic Food Production, are only partially aligned with the EU *acquis*. Montenegro has one local organic certification body, Monteorganica, which is accredited by the MAFWM and monitored by the Accreditation Body of Montenegro. Additionally, the MAFWM is currently implementing a pilot scheme to apply for the entrustment of IPARD Measure 4, focusing on "Agri-environment-climate and organic farming," which may be an important source of support for the expansion of organic agriculture in the future (European Commission, 2023[9]). The economy would benefit from this expanded support, considering its limited certified organic area, which amounted to a modest 823 hectares across 473 farms in 2022 (Government of Montenegro, 2023[8]).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Montenegro's progress on implementing past CO Recommendations has largely been limited, with only minor advances made in the areas of rural infrastructure and aligning direct support with the EU *acquis*. Its progress was more substantial in terms of successfully implementing the IPARD II programme. Table 15.3 shows the economy's progress on implementing past recommendations for agriculture policy.

### Table 15.3. Montenegro's progress on past recommendations for agriculture policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Improve rural infrastructure | The Ministry of Agriculture, Forestry and Water Management has been allocating nearly EUR 4 million in the annual agriculture budget to support the construction of new rural infrastructure as well as the reconstruction of existing infrastructure.<br>In addition to the national budget, donor support has strengthened rural infrastructure. One prominent example is the IFAD "Rural Cluster and Transformation Project", which has helped to asphalt 121 sections of road and construct 7 new water supply projects. Further progress will likely be achieved under the IPARD III programme, which includes an explicit measure on improving public rural infrastructure.<br>However, road, electricity, and Internet infrastructure in rural areas remains predominantly underdeveloped and in poor condition. | Limited |
| Revitalise existing systems and gradually install irrigation systems in new areas | Montenegro only has between 15% and 17% of suitable land properly irrigated. Given the adverse consequences of climate change, the need for improved irrigation has only grown. Namely, increasingly extreme temperatures and small, irregular precipitation amounts have significantly reduced agricultural crop yields.<br>The Water Management Project Incentive Programme is intended to support rehabilitating existing systems and constructing new ones, but this plan is still being drafted. | Limited |
| Continue to implement the measures under IPARD II and finalise the preconditions for future measures | Progress was achieved in implementing the IPARD II programme, and the capacity of the IPARD Agency was strengthened. Moreover, the Sectoral Agreement for IPARD III was reached, allowing Montenegro to obtain entrustment for several measures. | Moderate |
| Bring direct support measures into line with EU *acquis* by fully decoupling them from production and linking payments to cross-compliance | There has been limited progress in setting up the integrated administration and control system (IACS). The land parcel identification system (LPIS) is functional, but it does not yet cover the entire territory. Expanding this coverage would require new orthophotos to properly update the system. | Limited |

## The way forward for agriculture policy

Considering the level of the previous recommendations' implementation, there are still areas in which Montenegro could strengthen its rural development and infrastructure or its agriculture support system, or further enhance its food safety and quality policies. As such, policy makers may wish to:

- **Continue prioritising the expansion and modernisation of rural and irrigation infrastructure**. Despite the recent funding from the MAFWM for improving road, electricity, and irrigation networks, additional financial resources are needed to accelerate the pace of progress. One potential avenue could be fostering collaborations with donors such as the European Bank for Reconstruction and Development or the FAO to co-finance projects that might be challenging to fund independently.
- **Hire additional staff in the public advisory services to strengthen government capacities.** To improve the effectiveness of the Directorates for Advisory Services and to enhance their capacity to handle their responsibilities, the government of Montenegro should allocate resources to hiring additional staff members in both animal husbandry and plant production fields. Moreover, given the ageing demographic of the advisors, the Directorate should prioritise hiring younger engineers in order to rejuvenate the department, ensuring the seamless transfer of knowledge and good practices for continued success.
- **Develop policies and assessments to evaluate the impact of climate change on the agricultural sector**. Despite Montenegro's considerable vulnerability to the adverse effects of climate change, there is little policy focus on how these consequences translate to agriculture. Therefore, the government must advocate for and encourage implementing climate-smart agricultural practices and technologies (Box 15.2). This may include promoting drought-resistant crop varieties, water-harvesting techniques, and sustainable land management practices.

### Box 15.2. Enhancing agricultural resilience through climate change mitigation: Insights from Italy

In recent years, Italy has emerged as a leader in terms of fortifying its agricultural sector against the impact of natural hazards, particularly droughts. Recognising its vulnerability, Italy has successfully implemented governance frameworks encompassing disaster risk management, agricultural risk management, agriculture policy, and water governance – all of which converge to create holistic, overarching guidance both vertically and horizontally across the government.

Additionally, Italy has sought to improve resilience through several innovative good practices focused on preventing or reducing the risk of droughts. Several initiatives that are in place include investments to improve water use efficiency, subsidised insurance policies (for financial mitigation), and new digital tools and support systems. One such tool is the IRRIFRAME software, which provides tailored advice to farmers about irrigation to maximise water productivity. It can develop irrigation schedules that account for the economic costs and returns for several dozen crops, and support the collection and aggregation of water management data.

Source: OECD (2021[10]).

- **Strengthen the alignment of the national agricultural strategy with the EU CAP objectives**. Given that the Strategy for Agriculture and Rural Development (2023-28) only aligns with three of the ten EU CAP objectives, there is significant scope to better harmonise these policy frameworks. A higher degree of alignment can facilitate access to EU funding and technical support for national agricultural development initiatives.
- **Continue to enhance agricultural information systems**. Although Montenegro already boasts fairly advanced platforms, there is still room for improvement. Specifically, the government of Montenegro should explore expanding the coverage of the LPIS, ensuring its implementation across the entire territory. The system itself should be updated with new orthophotographs to enhance the precision of mapping field boundaries and ultimately improve land registration and land use planning.

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## Notes

[1] This average was calculated using data from the World Bank's World Development Indicators for all economies except Kosovo whose data came from Eurostat (found here: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_agriculture,_forestry_and_fisheries_statistics).

[2] This figure is based on the responses provided in the questionnaire conducted in 2022.

[3] The Strategy for the Development of Agriculture and Rural Areas can be accessed at: www.gov.me/dokumenta/1e9c16c3-8814-49ab-ba89-de4f60f796af.

[4] LEADER is a local development method that has been used for 30 years to engage local actors in the design and delivery of strategies, decision making and resource allocation for the development of their rural areas – https://ec.europa.eu/enrd/leader-clld_en.html.

[5] Financial resources were judged to be insufficient by stakeholders in the government of Montenegro, according to the inputs collected in the CO 2024 qualitative questionnaire.

[6] The Law on Water can be accessed at https://leap.unep.org/en/countries/me/national-legislation/water-law.

[7] The three EU CAP objectives are: increasing competitiveness, supporting generational renewal, and ensuring vibrant rural areas.

[8] The Law on Protection from the Negative Effects of Climate Change can be found at: www.gov.me/dokumenta/6cdd3d40-535d-4215-a803-83669fe8ed15.

[9] MIDAS is a Horizon Europe Innovation Action aimed at developing and implementing innovative solutions for growing crops and building sustainable value chains.

[10] This regulation can be accessed at www.fao.org/faolex/results/details/en/c/LEX-FAOC156957.

[11] Law on Quality Schemes (*Official Gazette of Montenegro*, No. 22/2017).

# 16 Tourism policy

Sound and robust frameworks are essential for the tourism sector to drive positive economic development, enhance competitiveness, and strengthen resilience within economies, particularly those heavily reliant on tourism. This chapter assesses the comprehensiveness of the legislative structure and practices governing tourism across three sub-dimensions. The first sub-dimension, governance and enabling conditions, assesses the effectiveness of efforts aimed at strengthening strategic co-ordination and co-operation in tourism across governance, vertical co-operation, public-private dialogue, and data collection. The second sub-dimension centred on accessibility, tourism offer and human resources, examines progress and challenges in addressing the sector's connectivity framework and infrastructure, accommodation capacity and quality, and availability of qualified workforce. The third sub-dimension, sustainable and competitive tourism, explores the impact of tourism branding and marketing strategies, natural and cultural heritage valorisation frameworks, and operations promoting sustainable development.

# Key findings

In the tourism policy dimension, Montenegro ranks first, followed by Serbia and Albania. Montenegro has made significant progress, achieving an overall score of 4.2 in the CO 2024 assessment, which is a considerable improvement compared to the 2021 assessment and also compared to the average score of 2.5 in the rest of WB6 (Table 16.1). These positive developments included tourism governance, vertical co-operation, public-private partnerships, improved data collection, and advancements in tourism marketing. However, room for improvement remains in connectivity, accommodation standards, workforce availability, sustainable tourism promotion, and heritage enhancement.

### Table 16.1. Montenegro's scores for tourism policy

| Dimension | Sub-dimension | 2018 score | 2021 score | 2024 score | 2024 WB6 average |
|---|---|---|---|---|---|
| Tourism | 15.1: Governance and enabling conditions | | | 4.5 | 2.8 |
| | 15.2: Accessibility, tourism offer and human resources | | | 3.7 | 2.7 |
| | 15.3: Sustainable and competitive tourism | | | 4.2 | 1.9 |
| **Montenegro's overall score** | | **2.0** | **3.1** | **4.2** | **2.5** |

The **key findings** are:

- Montenegro continues to lead on tourism development in the region. Tourism is a significant pillar of its economy, accounting for approximately 24.5% of the economy's GDP and accounting for around 22% of total employment in 2022 – the highest in the Western Balkans.
- Montenegro is actively strengthening its strategic policy framework, exemplified by the adoption of a new tourism development strategy for 2022-25 with a sharp focus on promoting tourism through sustainability, innovation, and inclusivity. Although significant progress has been made in implementation, the availability of resources may pose challenges to achieving the plan's objectives satisfactorily.
- Montenegro is paving the way toward sustainable tourism growth and innovation within the region. It has namely adopted the Strategy of Smart Specialisation, which focuses on research and innovation, especially "sustainable and health tourism".
- The National Council for Tourism, established and chaired by the prime minister, represents a step forward in inclusive decision making aimed at addressing key challenges and promoting sustainable development in tourism. This initiative entails navigating complex issues and harmonising the diverse interests of stakeholders to advance on green, smart, responsible, and inclusive practices.
- Montenegro's tourism sector is shaped by a public-private partnership model, as demonstrated by the Incentive Programme. This programme provides for the co-financing of tourism projects with private institutions, with the main aim of diversifying and improving the quality of tourism products.
- While Montenegro has made significant progress in data collection, challenges remain due to funding and stakeholder engagement. The discontinuation of the Tourism Satellite Account (TSA) project data may have a long-term impact on data collection and decision-making processes.
- While there have been some positive steps, there is still scope for enhancing the infrastructure to support a qualified workforce in Montenegro's tourism sector, with ongoing challenges related

to skill sets, training, labour shortages during peak seasons, and language barriers. However, preparations are under way for an updated tourism human resources development strategy.

## State of play and key developments

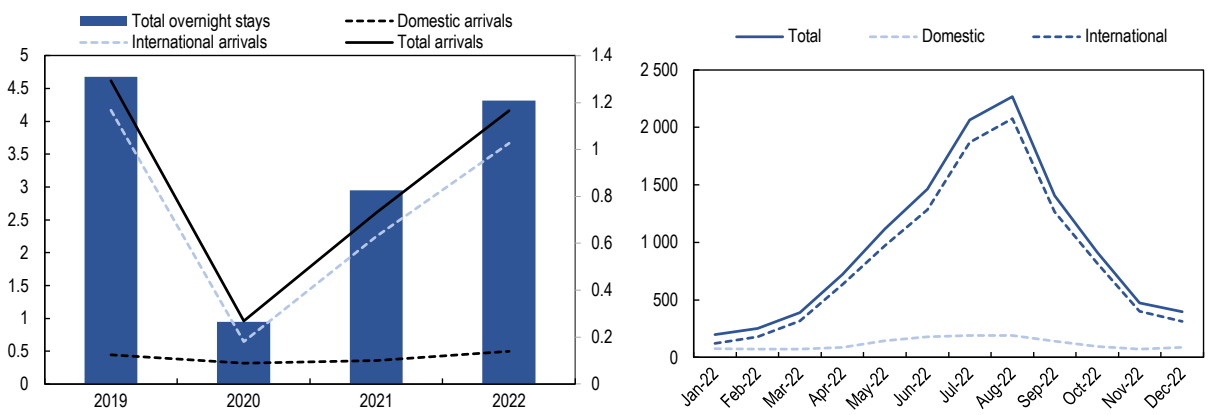
Montenegro's tourism sector plays a vital role in its economy, contributing 24.5% to GDP in 2022, both directly and indirectly. Forecasts for 2023 suggest further growth, with a projected contribution of 26% to GDP, amounting to EUR 1.3 billion. International visitors significantly bolstered the economy, with a total spending of EUR 0.96 billion in 2022, reinforcing the sector's economic vitality. Tourism is a major driver of employment, accounting for 22.7% of total jobs in 2022, including jobs indirectly supported by the industry. Projections for 2023 indicate a further increase to 25.6%, highlighting the sector's role in providing livelihoods (World Travel and Tourism Council Research Hub, 2023[1]).

In 2022, Montenegro's tourism sector saw significant growth, with 2 183 975 arrivals and 12 428 787 overnight stays (collective[1] and individual accommodation), predominantly by foreign tourists. The largest share of overnight stays by foreign tourists came from Serbia (25.5%), followed by Russia (16.4%) and Bosnia and Herzegovina (9.9%). The average number of overnight stays per tourist is 3.7, compared to the next closest economy in the region, Serbia, where the figure is 3.16 overnight stays per tourist (MONSTAT, 2023[2]).

Figure 16.1 also illustrates a pronounced seasonal pattern of arrivals, with a clear focus on the summer months. This concentrated influx of visitors during the summer raises several issues for Montenegro's tourism industry, including concerns related to overcrowding, environmental impact, economic dependence, strain on infrastructure, seasonal employment, and missed opportunities to attract visitors at other times of the year.

### Figure 16.1. Arrivals and overnight stays in accommodation establishments by international and domestic tourists (2019-22) and seasonal distribution of arrivals (2022) in Montenegro

Stays and arrivals are expressed in millions (left); seasonal arrivals are expressed in thousands (right)




Source: MONSTAT (2023[2]).

StatLink https://stat.link/mrnbgu

### *Sub-dimension 15.1: Governance and enabling conditions*

**Tourism governance** in Montenegro is anchored in its 2022-25 Tourism Development Strategy, which was adopted in 2022 under the guidance of an interdepartmental working group, including international partners and the tourism industry. The strategy underscores the importance of sustainable tourism and delineates a roadmap comprising six key objectives. A total budget of EUR 32 million was foreseen for its implementation from 2022 to 2025 in Montenegro. This strategy is also supported by other tourism-related strategies or programmes (Table 16.2).

In 2022, 83% of the activities outlined in the Action Plan for Tourism Development were either fully completed or partially accomplished, involving 16 measures and 76 activities with a defined budget of EUR 27 million. Additionally, an extra EUR 5 million was earmarked for the implementation of the framework plan for the period 2023-25. Despite progress, challenges in resource allocation, stakeholder engagement and bureaucratic hurdles may impede the implementation of remaining activities. Amendments to the budget law significantly reduced funds available for the Action Plan's implementation by 47.75%, while the National Tourism Organisation also faces a 70% budget decrease, highlighting the need for co-ordinated efforts to address tourism development challenges in Montenegro.

### Table 16.2. Montenegro's tourism-related strategies

| Tourism-related strategies or programmes | Main objectives |
|---|---|
| Programme for economic reforms 2023-25 | Sustainable Green Tourism – The measure is proposed with the aim of sustainable tourism valorisation of natural resources/existing and future protected areas. It includes stimulating decarbonisation and the introduction of new environmentally friendly technologies in hospitality facilities through favourable dedicated credit lines - support for green investments. |
| National strategy for sustainable development and investment plan under the European green plan 2021-30 | Greening tourism and improving resource efficiency. |
| Strategy for the development of the energy sector in Montenegro until 2030 | Secure, high-quality and diverse energy supply. |
| Development programme for rural tourism in Montenegro 2022-25 | Enhance human resources, preserve heritage while improving the quality and quantity of tourist offerings, sustainably manage natural resources, increase utilisation of EU funds, and advance digitalisation and promotional efforts. |

Source: Data collected from Montenegro Government for the *Competitiveness Outlook* assessment.

Montenegro has taken the lead in the region in adopting the Smart Specialisation Strategy, which focuses on research and innovation to drive economic and social development, with a particular emphasis on sustainable tourism and green practices. Despite challenges posed by climate change, the country is taking important steps toward innovative approaches in environmental management and marketing, requiring collaboration among stakeholders to effectively mobilise resources and enact meaningful change.

**Vertical co-operation and information sharing** in Montenegro have made significant strides, with mechanisms like the National Council for Tourism and co-ordinating bodies enhancing co-ordination among stakeholders. The government's approval of the National Council for Tourism in December 2022, chaired by the prime minister and comprising representatives from key ministries, institutions, and the Union of Municipalities, aims to address key challenges and promote sustainable development in tourism, emphasising green, smart, responsible, and inclusive tourism. To further enhance tourism development, local tourism organisations established by municipalities focus on strategic development aligned with the vision of eight tourism clusters outlined in Montenegro's tourism development strategy, emphasising the importance of aligning local strategies with the national vision for effective cohesion. Positively, the establishment of destination management organisations planned for the near future is likely to improve co-operation among all tourism organisations in Montenegro and contribute to the implementation of strategic objectives amid bureaucratic challenges (Partale and Partale, 2019[3]).

**Public-private dialogue** in Montenegro's tourism sector reflects a proactive collaboration between government entities and private businesses, with the establishment of co-operation mechanisms showcasing positive steps, although sustaining inclusivity and balance between public and private interests can pose challenges. While an inclusive approach to strategy development is evident through the presentation of the national tourism strategy to the private sector and public debates during its preparation, effectively translating dialogue into action may encounter hurdles. The existing public-private partnership model, such as the Incentives Programme (Box 16.1) which co-finances tourism projects with private entities to enhance product quality and diversify offerings, underscores support for private initiatives, yet ensuring sustainability and expansion may necessitate careful financial planning, particularly in less-visited regions.

### Box 16.1. Public-private partnerships - Incentives Programme

The Incentives Programme, which is implemented by the Ministry of Sustainable Development and Tourism in collaboration with the National Tourism Organisation, is a public-private partnership. This co-operation involves the co-financing of tourism projects carried out by private organisations and entrepreneurs. The programme aims to support projects, especially in the northern part of Montenegro, aimed at diversifying products, promoting activities and improving product quality. In this way, the project actively contributes to achieving the strategic goal of combining all products into a high-quality, year-round tourism offer.

Sources: Information provided by national authorities for the *Competitiveness Outlook* assessment; Government of Montenegro (2023[4]).

In the realm of **data collection**, Montenegro has taken significant steps to establish a comprehensive and standardised mechanism for collecting tourism-related data. The involvement of multiple institutions, including the Ministry of Sustainable Development and Tourism (MSDT), the National Tourism Organisation, local tourism organisations, and the Central Bank reflects a co-ordinated effort to gather relevant information. The commitment to effective use of technological tools and harmonisation of data collection methods with international standards, such as Eurostat, is crucial for improving data accuracy and efficiency, despite ongoing challenges in maintaining accuracy and consistency. Such challenges arise particularly when integrating data from various sources, and are attributed to barriers like lack of staff, insufficient funding, limited information sharing by the private sector, and lack of commitment from stakeholders.

The discontinuation of the Tourism Satellite Account (TSA)[2] (OECD, EU, United Nations, World Tourism, 2010[5]) project challenges maintaining sufficient data-related information and decision-making capabilities due to financial constraints. However, plans are under way for a new tourism expenditure survey in 2023, requiring long-term financial commitments and resources. Additionally, the permanent online portal for tourism statistics presents a positive development for data accessibility, with further improvements in usability and functionality crucial for effective stakeholder engagement. Ultimately there will need to be established a robust monitoring and evaluation mechanism to ensure consistency and reliability of tourism data over time, in line with provisions of the Law on Statistics.

### *Sub-dimension 15.2: Accessibility, tourism offer and human resources*

Concerning a **connectivity framework**, the economy has proactively sought to enhance tourism by temporarily exempting visa requirements for select source markets.[3] However, these efforts have been hindered by the absence of a regional travel strategy, resulting in challenges in streamlining travel processes across the region and the need for durable, consistent strategies in travel planning, rather than seasonal adjustments limited to the summer period. Further evidence points to significant staff shortages in the summer and delays by the government in issuing work visas to foreigners.

Montenegro has made important efforts to promote sustainable and eco-friendly transportation options, such as electric vehicles and cycling infrastructure. Nevertheless, the adoption of these initiatives among tourists and locals may require further incentives and infrastructure development. Box 16.2 showcases steps taken by Albania to overcome similar obstacles.

#### Box 16.2. Joint efforts to improve accessibility and standards: Establishment of the inter-institutional task force

The Albanian Government has established the Inter-institutional Task Force for the 2023 summer tourism season by Decision of Council of Ministers (DCM) No. 20 of 1 March 2023. This task force, which is made up of various institutions, was tasked with implementing the measures envisaged in the Action Plan, including the creation of entry and exit facilities at the national border crossings for tourist groups. The aim of the initiative was to improve the economy's infrastructure and facilitate the smooth entry and exit of tourists in order to create the conditions for a successful summer season.

In the 2023 summer season, Albania recorded a remarkable increase in foreign visitors: in September alone, more than 1.1 million tourists came to Albania - an increase of 30% compared to the previous year. In the entire nine-month period from January to September, over 8.3 million foreign arrivals were recorded, 1.9 million more than in the same period last year. This unprecedented success prompted an inter-institutional meeting where stakeholders discussed the economic contribution of the season and strategies for the sustainable development of year-round tourism. It was pointed out that Albania must continue to make efforts to position itself as a regional tourism centre, e.g. in the areas of infrastructure, safety and cleanliness, and the stakeholders were called upon to focus on tackling these issues together in order to maintain high standards and benefit from recent successes.

Sources: Information provided by national authorities for the *Competitiveness Outlook* assessment; Government of Albania (2023[6]).

In the area of **accommodation capacity and quality**, Montenegro has established a strong framework for ensuring high-quality accommodations, with a detailed rulebook outlining technical conditions and categorisation criteria to meet international standards. Additionally, the government has implemented tourism incentive programmes and is finalising plans to improve energy efficiency in the hotel industry. The unregulated nature of the accommodation-sharing economy in Montenegro poses a major challenge as it affects government revenues and creates an uneven playing field for tourism businesses. The lack of regulation contributes to the rise of informal practices, which can lead to safety concerns and inconsistent guest experiences. Implementing energy efficiency requirements across all accommodations may also pose challenges, and enforcement efforts may require additional resources. The government's active support for energy efficiency and continuous monitoring and evaluation of quality standards through the Tourist Inspection Authority are commendable. However, limited budgets and human resources in this area can hinder the effectiveness of inspections. Montenegro's categorisation process and framework are well established, but it will be crucial to address uncertainties and potential issues arising from unregulated accommodations in the sharing economy.

In terms of the **availability of a qualified workforce**, Montenegro's integration of human resources in the tourism sector is closely linked to the national Tourism Strategy, with the Qualification Council playing a key role in maintaining and updating the Qualification Framework. Montenegro's previous tourism human resources development strategy, spanning from 2007 to 2016, is being succeeded by the preparation of terms of reference for a new strategy in this area. Educational institutions collaboratively oversee quality assurance and accreditation, yet challenges persist in addressing skills gaps, language barriers and labour shortages, particularly evident during the summer when the influx of tourists surpasses the economy's total population. The reliance on basic training solutions appears insufficient to meet peak tourist demands, compounded by visa restrictions and administrative hurdles complicating the recruitment of foreign staff. This underscores the need for further development and attention in vocational education and training and higher education to ensure the effectiveness of human resource development strategies in the tourism sector.

### *Sub-dimension 15.3: Sustainable and competitive tourism*

Montenegro's **tourism branding and marketing** demonstrates a solid foundation with the “Wild Beauty” brand and a well-defined strategy outlined in the National Brand Development Strategy. While efforts to develop communication strategies for online promotion in key markets are commendable, they also highlight the need for swift adoption and implementation of digital tools. Challenges include inadequate digital infrastructure in destinations, the potentially high costs of digital transformation, unequal technology access, and co-ordination issues between local and national levels, though positive co-ordination of marketing activities involving both governmental entities and the private sector is observed. Collaboration with other Balkan economies, especially targeting international markets, presents a promising opportunity for expanding Montenegro's tourism reach. The Central Bank of Montenegro (CBCG) publishes quarterly data on revenue and expenditure in the travel and tourism sector (Statistics - International Economic Relations - Balance of Payments) and the National Tourism Organisation conducted a guest survey in 2017 and is planning a new survey for 2023. Key performance indicators such as visitor satisfaction, spending per visitor, brand awareness and marketing effectiveness can provide valuable insights, but are not consistently monitored in Montenegro to improve marketing performance and decision making.

The **natural and cultural heritage valorisation framework** in Montenegro is covering both cultural and natural heritage aspects. Including specific programmes and national frameworks for the conservation of cultural heritage is a positive step forward, and engaging various stakeholders – including private tourism stakeholders, local communities, academia and NGOs – is a positive approach that ensures broad participation in heritage preservation efforts. The focus on sustainability in the Strategy of Tourism Development aligns with global conservation goals. The government has adopted strategies and frameworks for both cultural and natural heritage, such as the National Programme for Cultural Development 2023-27 and the National Strategy for Sustainable Development until 2030, or the National Strategy for Integrated Coastal Zone Management. Challenges may arise from disparities in funding and staffing levels for managing heritage sites, potentially leading to inadequate resources for comprehensive conservation and preservation needs. Montenegro has actively pursued measures concerning heritage site management and sustainability, particularly through the implementation of monitoring and evaluation mechanisms, which include initiatives aimed at assessing the impact on the natural environment and efficiently managing visitors.

Montenegro’s commitment to the **promotion of sustainable development and operations** is embedded in a comprehensive policy framework in line with Montenegro's recognition as an ecological economy and the National Strategy for Sustainable Development until 2030. The integration of sustainability principles into official tourism documents is in line with global goals and utilises economic instruments, partnerships, incentives and capacity building to promote sustainable practices. Diversification of tourism offer and Montenegro joining the Global Sustainable Tourism Council in 2022 underline the commitment to invest in green energy and infrastructure (Global Sustainable Tourism Council, 2023[7]). Measures taken in 2022

include implementation of the Blue Flag programme, the upgrading of tourist attractions, and the development of a year-round tourism product to reduce seasonality. As part of the project "Upgrading new and underutilised tourist attractions", activities were carried out to upgrade cultural, historical and natural tourist sites in Bijelo Polje – the tomb of Ahmet and Pava, in Pljevlje; the Čehotina meander, in Šavnik; the Crnjak waterfall; and two hiking trails in the Rijeka Crnojevića-Obodska Pećina region. Efforts to promote sustainable destination management include workshops, certifications and networking with international institutions. The promotion of "green" accommodation ensures an improvement in quality in line with environmental standards. However, challenges persist due to the lack of independent assessments and an observatory for sustainable tourism.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Progress on recommendations is solid: the economy has made strong advances in promoting co-operation with local stakeholders to manage tourism development and advancing on sustainable development, while moderate improvements are evidenced in the public-private dialogue and human resource development. On the other hand, progress has stagnated in domains such as data collection since TSA has yet to be implemented. Table 16.3 shows the economy's progress in implementing past recommendations for developing the tourism sector.

### Table 16.3. Montenegro's progress on past recommendations for tourism policy

| Competitiveness Outlook 2021 recommendations | Progress status | Level of progress |
|---|---|---|
| Empower local communities and tourist destinations to manage tourism development | Establishing the National Council for Tourism (NCT) in 2022, chaired by the prime minister, has been a significant step. The NCT also includes representatives from local communities, and its primary task is to find solutions for more efficient and sustainable tourism development.<br>Local communities and regional authorities are fully involved in the development and implementation of the national tourism strategy. This indicates a strong commitment to involving local stakeholders in shaping the strategy. | Strong |
| Further strengthen the dialogue and co-operation with private sector stakeholders, educational institutions and NGOs at national and local levels | Private stakeholders, local communities, and NGOs are members of the co-ordination body, chaired by the minister responsible for tourism, which is responsible for the preparation, implementation, and monitoring of the tourism strategy, as well as the development of legislation and regulations.<br>Notable developments include the continuation of the work of the co-ordinating body for preparing and monitoring the development of tourist seasons.<br>There are mechanisms in place to monitor and evaluate the efficiency of co-operation at the national level between the public and private sectors, NGOs, civic society, and academia. The Ministry of Public Administration's Directorate for Cooperation with Non-Governmental Organizations monitors and improves the enabling environment for NGOs, ensuring continuous co-operation and dialogue. | Moderate |
| Update the human resource development strategy for tourism | The Tourism Development Strategy of Montenegro 2022-25, adopted in March 2022, encompasses measures for addressing workforce availability and quality in the tourism sector. This strategic integration emphasises human resources' importance in achieving Montenegrin tourism's core vision.<br>The Qualification Council regularly updates the Qualifications Framework in the tourism, hospitality, and trade sectors, aligning it with sectoral commissions' initiatives. | Moderate |
| Further improve tourism data collection and sharing by introducing Tourism Satellite Accounts | The TSA for Montenegro was implemented as a pilot project in 2011 but was not continued due to lack of funding. The plan is to conduct a new visitor/tourism expenditure survey in 2023. | Limited |
| Do more to promote sustainable development and business operation | Educational workshops, certification awarding and continuous networking with international institutions/associations in this field have been organised to improve sustainable destination management.<br>As of December 2022, Montenegro is a Global Sustainable Tourism Council | Strong |

| | | |
|---|---|---|
| | (GSTC) member.<br>The government is preparing a programme to support the improvement of energy efficiency in the hotel industry.<br>The MSDT has identified subsidies for circular economy projects, among others, as part of the annually adopted programmes to improve the economy's competitiveness. | |

## The way forward for tourism policy

To ensure further successful development of tourism, policy makers should:

- **Develop tourism expansion and diversification strategies to enhance the sustainability and resilience of the tourism industry** by reducing vulnerability to external shocks and distributing benefits more evenly across communities and regions. Key activities include cultivating niche tourism markets, championing lesser-known destinations, and introducing novel experiences and activities. Such strategies are crucial in crisis situations and maintaining liquidity within the sector's operations while safeguarding jobs. Additionally, alongside remedial measures, it is essential to implement development initiatives to curate a diverse, high-quality, and year-round tourist offering drawing upon the state's existing comparative advantages. Numerous analyses underscore the importance of dispersing tourism activities across multiple markets, particularly during crises, to mitigate the impact of external shocks and declines in traffic from one market by bolstering traffic in others.
- **Embark on a comprehensive digital transformation for tourism marketing.** Digitalisation provides opportunities to use technology to provide solutions for wider sectoral issues such as the green transition and sustainable tourism management (OECD, 2022[8]). Montenegro should introduce digital tools to accelerate digital transformation for marketing. At the same time, the government should overcome the challenges in digital marketing for tourism businesses by investing in training programmes, improving digital infrastructure and removing barriers to implementation. A holistic approach to these measures will strengthen Montenegro's digital marketing capabilities.
- **Enhance strategic development through positioning in the field of sustainable tourism.** Building on its efforts toward sustainability, Montenegro should strengthen its position as a green destination. This includes the expansion of sustainability certifications, promoting environmentally friendly practices, and communicating initiatives to tourists and the travel industry. Montenegro can draw inspiration from successful models for sustainable tourism, such as Swisstainable in Switzerland (Box 16.3). In addition, Montenegro should make considering sustainability criteria mandatory for all investments in tourism infrastructure, supported by public incentives.

### Box 16.3. Swisstainable: Sustainable Tourism in Switzerland

Swisstainable, spearheaded by Switzerland Tourism, stands at the forefront of sustainable tourism initiatives in Switzerland, aiming to elevate the visibility of sustainability efforts within the sector. By integrating existing certifications and sustainability programmes, Swisstainable offers a unified framework without introducing new certifications. The initiative aligns with national objectives such as increasing the visibility of sustainable offerings, fostering future-oriented development, contributing to the SDGs, and providing transparency for guests seeking sustainable experiences.

The programme engages a broad spectrum of tourism stakeholders, including businesses, Destinations Management Organisations (DMOs), and Tourism Organisations (TO). It recognises the diverse nature of the tourism industry and accommodates various business categories. With three participation levels, Swisstainable ensures accessibility for a wide range of businesses, each with distinct requirements and access points.

For tourism industry stakeholders, participating in Swisstainable offers numerous benefits. Businesses can enhance their sustainability practices, gaining a competitive advantage in the growing market of sustainability-conscious travellers. Recognition by tourism organisations and improved attractiveness in the job market are additional advantages. Swisstainable partner businesses enjoy brand utilisation, effective marketing, online recognition, exclusive marketing opportunities, and access to a supportive network. The initiative serves as a model for sustainable tourism, demonstrating Switzerland's commitment to sustainable development and providing a roadmap for stakeholders to contribute effectively to national sustainability goals.

Sources: Swiss Tourism Federation (2024[9]); Switzerland Tourism (2024[10]).

- **Prioritise investment in skills development to ensure availability of a qualified workforce in tourism.** Promoting a well-qualified workforce will be crucial for sustaining and enhancing the tourism industry in the economy. To address this, a comprehensive strategy that includes targeted training, collaboration with educational institutions, flexible staffing models, streamlined visa processes, and integration of technology and digitalisation and retention initiatives is recommended to mitigate the impact of staff shortages during the critical summer period in the Montenegrin tourism sector. Further, the strategy should focus on increasing the attractiveness of tourism studies, developing flexible educational programmes in co-operation with private stakeholders and introducing special training for foreign workers.
- **Develop comprehensive climate change strategies in the tourism sector to minimise greenhouse gas emissions in destinations.** While Montenegro is developing a National Climate Change Adaptation Plan, addressing climate change in tourism remains a challenge that requires integrated adaptation and mitigation strategies. The government has an opportunity to lead the way in the region and should work with international and national partners to formulate and implement comprehensive strategies and action plans on climate change in tourism. In addition, providing a practical tool for tourism organisations and stakeholders, including a step-by-step guide for creating a climate action plan, can support them in their own journey towards achieving zero net emissions.

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## Notes

[1] Collective accommodation facilities include hotels, inns, motels, holiday villages, tourist resorts, hostels, camps and other collective accommodation facilities. Collective accommodation does not include private accommodation (accommodation in houses and rooms for rent, or in tourist apartments).

[2] The Tourism Satellite Account (TSA) is a standard statistical framework and the main tool for the economic measurement of tourism. The TSA allows for the harmonisation and reconciliation of tourism statistics from an economic (National Accounts) perspective. This enables the generation of tourism economic data (such as Tourism Direct GDP) that is comparable with other economic statistics.

[3] In line with the need to gradually adapt visa policy to European Union standards, the economy annually revises the Visa Regulation Decree. In order to meet the needs of the Montenegrin economy, especially relating to tourism, the government usually approves visa exemptions for nationals of certain countries on

a seasonal basis. In 2023, it was decided to temporarily grant a visa-free regime to citizens of the Republic of Kazakhstan, the Republic of Armenia, the Kingdom of Saudi Arabia, the Arab Republic of Egypt and the Republic of Uzbekistan.

Competitiveness and Private Sector Development

# Western Balkans Competitiveness Outlook 2024: Montenegro

Inclusive and sustainable economic growth in the six Western Balkan (WB6) economies depends on greater economic competitiveness. Although the gap is closing gradually, the standards of living in WB6 are well below those of the OECD and EU. Accelerating the rate of socio-economic convergence will require a holistic and growth oriented approach to policy making.

This is the fourth study of the region (formerly under the title 'Competitiveness in South East Europe') and it comprehensively assesses policy reforms in the WB6 economies across 15 policy areas key to strengthening their competitiveness. It enables WB6 economies to compare economic performance against regional peers, as well as EU-OECD good practices and standards, and to design future policies based on rich evidence and actionable policy recommendations.

The regional profile presents assessment findings across five policy clusters crucial to accelerating socio-economic convergence of the WB6 by fostering regional co-operation: business environment, skills, infrastructure and connectivity, digital transformation and greening. Economy-specific profiles complement the regional assessment, offering each WB6 economy an in-depth analysis of their policies supporting competitiveness. They also track the implementation of the previous 2021 study's recommendations and provide additional ones tailored to the economies' evolving challenges. These recommendations aim to inform structural economic reforms and facilitate the region's socio-economic convergence towards the standards of the EU and OECD.

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