

**MONTENEGRO**





## Summary

The activities of the Government of Montenegro in 2000 were aimed at transformation and privatisation of the economy and the establishment of the structural preconditions for a functioning market economy. The basic objectives for the year 2001 continue and foster the processes begun last year, notably,

*Developing the legislative and institutional frameworks for privatisation.* New regulations have been adopted that should help to accelerate and improve the transparency of the process, enabling the mass voucher privatisations to take place and first steps taken in international tender-based sales. These advances will be accompanied by information initiatives to raise public awareness and understanding of the privatisation process.

*Implementing legislative reforms in the banking & financial sector.* New laws on central bank and on commercial banks have been adopted through which significant improvement in the functioning of the banking system are anticipated. Legislation was also recently adopted in area of trade in securities, and two new institutions were created – the Central Depository Agency and Commission for Securities.

*Clarifying the fiscal and accounting regime and harmonising them with EU norms.* Policy action in these two areas centres on bringing the systems into line with EU standards. Specific initiatives include: introduction of indirect taxation, improvement of the tax administration process, and introduction of a range of measures designed to modernise the accountancy system, notably adoption of a new Accountancy Law.

*Attracting foreign investment.* A law on foreign investments, passed last year, guarantees treatment to foreign investors. Efforts will now focus on developing an FDI promotion strategy and necessary information/marketing materials, particularly in the tourism sector.

*Building a policy for SMEs.* Key initiatives in this field include: setting up an functioning institution to support SME development (the National Agency for SME Development), ensuring co-ordination of SME-related activities within the Government and reviewing existing legislation and its impact on the SME sector. In addition, a number of targeted SME support programmes supported by international donors) are being established and there are plans to set up regional/local business support centres.

*Strengthening commercial laws and expanding foreign trading relations.* A major legislative effort is being undertaken in 2001 to enact legislation setting out the framework for commercial activity in the internal market and with respect to external trade. At the same time, the customs and foreign trade regime is being liberalised by reduction of customs tariffs and the introduction of new regulations.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES</b>					
<b>To establish the basic legal and institutional framework for FDI</b>	Preparation of a comprehensive Law on Foreign Investments	Law adopted by the Parliament	Main goal of the law: creation of more liberal conditions for FDI <ul style="list-style-type: none"> <li>• Equal treatment</li> <li>• Freedom in transfer and reinvestment of profit</li> <li>• Stability of contracts</li> </ul>	Privatisation Council and Agency for Foreign Investments	November 1, 2000
	Reorganisation of the Agency for Foreign Investments	Preparatory phase in progress, including organisation of staff training programmes	Agency will take an active role in investment promotion in Montenegro	Agency for Foreign Investments	July 1, 2001
<b>To define key strategies for attracting FDI</b>	Formulation of a general FDI strategy	Initial process of defining FDI priorities and identifying key policy programmes underway		Agency for Foreign Investments	July 1, 2001
	Elaboration of an FDI promotion strategy	Initial process of defining basic principles of FDI promotion and training needs of personnel underway		Agency for Foreign Investments	July 1, 2001
	Definition of special promotion strategy for diaspora populations	Initial preparatory phase underway		Agency for Foreign Investments	July 1, 2001
<b>To develop investment promotion materials for potential investors in Montenegro</b>	Preparation of a guide to cover:	Both sections currently in final phase of preparation	Guide will be distributed to all interested parties <ul style="list-style-type: none"> <li>• potential investors</li> <li>• government institutions</li> <li>• NGOs</li> </ul>	Agency for Foreign Investments	March 2001
	1) legal aspects of investing in Montenegro 2) investment opportunities and projects				April 2001

<b>To assess potential for FDI in the tourism sector</b>	Preparation of a review of possible foreign investment opportunities in tourism-related industries	A Project Team has been established and its principal tasks defined	Project team is formed from representatives of Ministry of Tourism and US firm Burbon	Agency for Foreign Investments, Ministry of Tourism and Republic Secretariat of Development	July 1, 2001
	Organisation of a conference on tourism investment				
<b>To assess potential for FDI in the agricultural sector</b>	Elaboration of a Master Plan for the development of the tourism sector	A Project Team has been set up by the German partner		Ministry of Tourism	January 2001
		Deliberations of the PT are in their final phase and the group will present its recommendations			
<b>To assess potential for FDI in the agricultural sector</b>	Presentation of agricultural resources and assessment of possibilities for investments	Compilation of agricultural assets is in final phase	Web site will be created Promotion campaign Publication on agricultural resources	Ministry of Agriculture, Agency for Foreign Investments and Republic Secretariat of Development	April 2001

## 2. SME SUPPORT STRUCTURES AND POLICIES

<b>To set up functioning institution to support SME development</b>		Proposal to establish institution for SME development approved by the Government	Programme of work of the agency set out	Republic Secretariat of Development	End 2000
			Operating rules of the agency, organisational structure and financing established	Government of Montenegro	
<b>To ensure co-ordination of SME-related activities</b>	Clarification of institutional roles and a mechanism for co-ordination of Agency with other state authorities and institutions		This will involve creating a network of institutions working in the field of SME promotion with precisely defined roles and with the Agency co-ordinating activities	Agency for SME Development Other state authorities and institutions	February 1, 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To organise decentralised (local and regional level) institutional supports</b>	Definition of the legal basis for founding regional (local) business centres and identification of an organisational model	Contacts with Slovenian experts have been established and preliminary information-gathering process is underway	To be undertaken in co-operation with the Slovenian Centre for Small Business Development	Agency for SME Development Legal Secretariat	June 2001
	Organisation of a Pilot Project: establishment of a business centre in local community	The key elements of the pilot project have been identified	This project will involve an international call for tender and selection of a contractor to implement the project in the chosen region	Agency for SME Development	December 1, 2001
<b>To adapt existing state regulations to favour SME development</b>	Preparation of a proposal for amendment of existing laws and regulations as they relate to SMEs and recommendations on new legislation that will be required	Analysis of existing regulations required for registering business companies has been completed	Definition of next steps is currently in progress. This project is being undertaken in co-operation with Slovenian Centre for Small Business Development	Agency for SME Development	December 2001
	Preparation of implementation of procedure in municipalities and competent institutions on education, information system establishment and linkages between government and local level		Defining future activities in progress	Agency for SME Development	December 31, 2002
<b>To refine/improve statistical monitoring of SMEs</b>	Reorganisation of the Republic Statistics Bureau's SME statistic gathering and preparation of follow-up regulations/legislation as required	Co-operation with Slovenia established in field of expertise	The key objective of the restructuring is to introduce EU standards and norms into the process of generating statistics on SMEs	Agency for SME development Republic Statistics Bureau	December 15, 2001

**To develop and implement special programmes**

<b>1. Technology Pool</b>	Formation of a "Technology Pool" involving co-operation with specialised institutions abroad	Assessment of legal procedures required to establish technology pool completed. Identification of international partners underway	This project will involve an international call for tender for the implementation phase	Agency for SME Development in co-operation with other state institutions	December 2001
<b>2. International co-operation among SMEs</b>	Establishment of co-operative arrangements between SMEs from Montenegro and SMEs from other countries	Process of designing training programmes for SMEs in progress		Agency for SME Development Ministry of Education	September 2001
<b>3. Promotion of entrepreneurship</b>	Realisation of the training project: <i>Development of SMEs and entrepreneurship in Montenegro</i>	Preliminary identification of training needs and planning of courses completed	Undertaken in co-operation with the Slovenian Centre for Small Business Development	SMEs Development Agency	January 2003
	Realisation of the training project <i>Support to SMEs Development in Montenegro</i>	Ten courses on strategic development and consulting of SME's have been planned for a total of 45 participants	Undertaken with support from Germany. The courses will be organized in Montenegro and Germany  Three courses have been held already in Podgorica	Agency for SME Development in co-operation with German partner	December 2002
	Implementation of the project <i>SME Personnel Development in the field of Agriculture, Civil Engineering and Tourism</i>	The identification and design of training programmes is underway	Project undertaken in co-operation with European Training Foundation in Turin	Agency for SME Development in co-operation with European Training Foundation	December 31, 2002

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To design specific financing and credit systems for SMEs</b>	Undertaking of a comprehensive review of the current financing mechanisms for SMEs and recommendations on what additional initiatives need to be designed	Activities on designing new financial program adjusted to needs of SME's have been started	The review covers: analysis of SMEs needs, outcomes from previous financial, networking of financing institutions in Montenegro and abroad, creation of information mechanisms for SMEs, and so on	Agency for SME Development in co-operation with other institutions	March 2001
<b>To stimulate big companies to create co-operative arrangements between themselves and local SMEs</b>	Preparation of a report to define practical forms of co-operation between SMEs and large companies, including major state-owned enterprises			Agency for SME Development in co-operation with Ministry of Economy	June 2001
	Preparation of a Pilot Project <i>Creating SMEs</i> which aims to assess the potential for SME development by means of large firm-small firm interaction	Elaboration of the project outline in final stages	The project will be based on the choice of one large company to act as an example. Implementation will involve an international call for tender	Agency for SME Development in co-operation with Ministry of Economy	September 1, 2001
<b>3. PRIVATISATION</b>					
<b>To establish the institutional and legal framework for privatisation</b>	Preparation of Central Register of citizens who have right to obtain vouchers	Software for Central Register completed. Central Register now operational	Updating Central register	Privatisation Council	April 2001

<b>To launch mass voucher privatisation</b>	Implementation of MVP process	Central register formed		Privatisation Council	December 2001
		Activities on MVP started	Activities will include:		
			Informing citizens on MVP		
			Public campaign		
			Mandate ZOP to open privatisation accounts for citizens and privatisation funds		
			Public call for vouchers		
			Public call for exchange vouchers for shares		
			Post MVP activities		
	Formation and implementation of Central Depository Agency (CDA)	Database completed	CDA is a register of all existing shares issued by economic actors in Montenegro	Privatisation Council	December 2000
	Amendment of the Regulation on privatisation funds	Regulation adopted by the Government	Objective is to define rules for operations of privatisation funds and to secure citizens rights	Privatisation Council	September 2000
<b>To take steps to raise public awareness of privatisation programmes</b>	Preparation of public information and education campaigns	Publicity campaigns in final stages of preparation		Agency for economic restructuring and foreign investments	July 2000

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To make progress on public tender privatisations</b>	Election of the international councils for companies planned to be sold through public tenders (agriculture and tourism)		Management team for tourist companies has been elected	Privatisation Council	December 2000
<b>4. FISCAL REFORM AND TAXES</b>					
<b>To prepare and implement system of VAT</b>	Approval of legal basis for introducing VAT and definition of regulations referring VAT Law  Preparation of structures and mechanisms for implementation/management of VAT	Preliminary evaluation being completed. Detailed preparations in progress	Current preparatory activities include: preparing manuals for employees in the Public Income Directorate with instructions for applying VAT law, other forms of training for tax officials and preparation of forms for data processing	Ministry of Finance	December 2003
<b>To increase government revenues by enhancing tax administration system</b>	Introduction of a range of measures designed to improve the efficiency of tax collection in key areas	Public campaign on increasing tax revenues has started	These measures include establishment of <ul style="list-style-type: none"> <li>• A new tax system for motor vehicles</li> <li>• A new tax system for excise goods</li> <li>• A body for taxpayer registration</li> <li>• An auditing body for big companies</li> </ul>	Ministry of Finance	December 2001

<b>To take steps to improve compliance</b>	Introduction measures to improve compliance with tax laws	In some extent the measures have already caused increase in revenues	These measures include <ul style="list-style-type: none"> <li>• increasing authority given to financial police, and</li> <li>• forming supervisory bodies for the informal economy, unpaid debts, and tax avoidance</li> </ul>	Ministry of Finance	December 2001
<b>To reform the budget</b>	Preparation of new Budget Law which will increase transparency of state budget	The Government has approved the draft law, which is now in Parliamentary procedure		Ministry of Finance	June 2001
<b>To prepare law on tax on minimum capital</b>				Ministry of Finance	July 2002
<b>To reorganise the Ministry of Finance</b>	Restructuring of the Ministry of Finance in order to unite inflows (tax and customs revenues) and outflows in single Ministry		This initiative will also involve staff training programmes	Ministry of Finance	December 2002

#### 5. BRIBERY AND CORRUPTION

<b>To set up legal framework and institutions to address issues of corruption</b>	Establishment of special independent Anti-Corruption Agency	Law establishing an Agency and regulating its powers has been passed and the Agency is now in operation		Ministry of Justice	February 1, 2001
	Preparation of Law on Public Procurements	Draft of law is finished		Anti-corruption body, Republic Secretariat for Legislature and Ministry of Justice	March 1, 2001
	Preparation of Law on Money Laundering	A bureau to investigate capital gained through criminal activities has been planned	Law is in preparation stage	Ministry of Finance	June 2002

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To define overall policy and objectives in the field of bribery and corruption</b>	Preparation of a report to define basic principles in the fight against criminal activities and identification of training and other programme needs	Activities are ongoing	Identification of problems and areas in which corruption is highest. Definition of measures to combat corruption and bribery	Anti-corruption body	March 1, 2001
<b>6. FINANCIAL SECTOR DEVELOPMENT</b>					
<b>To take legal steps to establish and/or reform financial institutions</b>	Establishment of a legal framework for work of Central Bank	A Law governing the activities of the Montenegrin Central Bank passed by the Parliament	Central bank is independent institution in charged for monetary policy in Montenegro and regulation of banking sector	Ministry of Finance, Republic Secretariat for Privatisation Council	November 1, 2000
	Drafting of legislation to reform the banking sector	A Banking Law was passed by the Parliament	Banking sector is to be reformed according to new rules established by this law	Ministry of Finance, Republic Secretariat for Privatisation Council	November 1, 2000
	Transformation of the institutions involved in the payments system		Payments and Settlements office (ZOP) will be reorganised and all payments between economic actors will be through commercial banks	Institute for Accounting and Payment Operations and Central Bank	December 31, 2002
<b>To improve the confidence of private citizens in financial institutions</b>	Formation of a Deposit Insurance Agency	The Agency has now been founded and is operational		Privatisation Council	October 1, 2000

	Implementation of a programme for the return of old foreign currency savings	Implementation of the programme in progress	Significant amount of old savings is returned to citizens (deposits amounting to 5000 DEM)	Government of Montenegro and commercial banks	
<b>To develop a functioning securities market</b>	Formation of a functioning Central Depository Agency	Legal instruments for establishing the Agency have been approved and the Agency has been set up	Process of MVP should be an initial for development of securities market	Ministry of Finance and Privatisation Council	November 1, 2000
	Formation of a functioning Securities Commission	Legal instruments for establishing the Agency have been approved and the Agency is in the process of being established		Ministry of Finance and Privatisation Council	May 1, 2001
	Introduction of a Law governing the securities market	Draft Law prepared		Privatisation Council	March 1, 2001
	Preparation of a regulation on securities dematerialization (person does not have to have a paper to prove the ownership over security, he just has to be registered as a owner in Register-CDA) and privatisation vouchers	Regulation adopted by the Government		Privatisation Council	October 1, 2000

#### 7. ACCOUNTING REGIMES AND PRACTICES

<b>To review and reform the accountancy system</b>	Introduction of a range of measures designed to modernise the accountancy system, notably adoption of a new Accountancy Law	Montenegro has joined the SEEPAD initiative	Other measures include: <ul style="list-style-type: none"> <li>• Reorganisation of the Accountants Association;</li> <li>• Review of the profession's practices and provision of training for accountants</li> </ul>	Republic Secretariat for Development Montenegro Accountants Association, Republic Secretariat for Legislation	December 31, 2001
--	---	---	--	---	-------------------

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Establishing co-operation with other countries and using their experience	Project team members have already established contacts with EUROSTAT and with Slovenian Statistics Institute	Expert assistance will be provided by EUROSTAT and by the Slovenian Statistics Institute	Project Council and Project Team	June 2001

## 8. OTHER IMPORTANT POLICY ISSUES

### A. IMPROVEMENT OF MACRO-ECONOMIC AGGREGATES AND INTRODUCTION OF SNA

<b>To reform institutions engaged in statistical work</b>	Reorganisation of data gathering and processing functions within the relevant government Ministries	Preliminary assessment of restructuring and associated training needs underway	This relates mainly to Montenegro Statistics Office, Ministry of Finance and Republic Secretariat for Development	Montenegro Statistics Office and Republic Secretariat for Legislature	December 31, 2001
	Modernisation of Montenegro Statistics Office	Proposal of Statistics Office modernisation prepared as well as IT system scheme	The main features of the modernisation programme include: <ul style="list-style-type: none"> <li>• Staff training;</li> <li>• Recruitment of young people;</li> <li>• Design of a new IT system</li> <li>• Technical training</li> </ul>	Montenegro Statistics Office and Republic Secretariat for Development	December 31, 2001
<b>To initiate work in priority areas</b>	Preparation of a new Law on Statistical Research		This sets out the overall objectives/ methodology of statistical research, and prepares the ground for more independent research (where previously it was conducted by the Federal Statistical Office)	Montenegro Statistics Office and Republic Secretariat for Legislature	December 31, 2001

Preparation of the Statistical Office for the task of updating the business register	So far, the team has been selected, preliminary information on needs has been gathered and education programmes are being designed	This process will involve training programmes for staff involved in data gathering and processing	Montenegro Statistics Office in co-operation with Commercial court, Institute for Accounting and Payment Operations, Republic Secretariat for Development, Public Income Directorate and Central Bank	April 1, 2001
Preparation of Law on Classification of Economic Activities	The Project Team has been selected and has commenced work on identifying priorities and education needs		Montenegro Statistics Office in co-operation with other agencies noted above	December 31, 2001
Evaluation of the informal/grey economy in order to assess its extent and statistical treatment	The Project Team has been selected and is beginning its review of the available literature		Montenegro Statistics Institute in co-operation with other agencies noted above	December 31, 2001
Creation of additional statistical tables	The Project Team has been selected and is beginning its review of the available literature and need for expert assistance		Montenegro Statistics Institute in co-operation with other agencies noted above	December 31, 2001
Development of ongoing educational programmes in key areas, notably in fields related to SNA	The Project Team has been selected and some contacts with international organisations have been established	Contacts with international organizations	Montenegro Statistics Institute in co-operation with other agencies noted above	December 31, 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>B. FOREIGN TRADE AND CUSTOMS SYSTEM REFORM</b>					
<b>To establish Montenegro's foreign trade and customs and internal market regimes</b>	A major legislative effort is being undertaken in 2001 to enact legislation setting out the framework for commercial activity in the internal market and with respect to external trade	In all cases, the legislative acts are in preparation or have been prepared and are expected to be adopted before the end of the year	The principal Laws relate to: <ul style="list-style-type: none"> <li>• Foreign trade</li> <li>• Customs and tariffs (including WTO)</li> <li>• Commodity Reserves</li> <li>• Competition and consumer protection</li> <li>• Product/Technical Standards</li> <li>• Price Controls, and</li> <li>• Market Inspection</li> </ul>	Ministry of Trade in co-operation with relevant Ministries/ Agencies	December 2001