

Government of Montenegro

Ministry of Economy

Questionnaire

Information requested by the European Commission to the Government of Montenegro for the preparation of the Opinion on the application of Montenegro for membership of the European Union

– ADDITIONAL QUESTIONS –

20 Enterprise and industrial policy

Minister:

Branko Vujovic

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CHAPTERS OF THE ACQUIS – ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

20: Enterprise and industrial policy

I. ENTERPRISE AND INDUSTRIAL POLICY PRINCIPLES

Industrial Policies and Competitiveness

1. (Ref to Q. 6):

- Please provide more details on Council's reporting mechanisms for sustainable development strategy implementation and consideration of its opinion in legal framework development.

In compliance with the National Strategy for Sustainable Development, the Office for Sustainable Development **coordinates the process of monitoring** the implementation of the National Sustainable Development Strategy, while corresponding ministries and other structures (public institutions, local self-governments, NGOs, etc.) are concretely in charge of the implementation of the Strategy itself, in the domain which falls under their competences. The Office is also responsible for drafting annual reports on the implementation of the Strategy, which is the only document that contains the sustainable development assessment of Montenegro, that is, it defines positive and negative development trends at national level. Following the preparation of the Draft Report, which consists of annexes received by corresponding departments, the annual reports are submitted for consideration to the Council, which ensures the involvement of a greater number of institutions, organizations and representatives of the civil society in formulating an assessment of Montenegro's progress in terms of implementation of the Strategy itself, including the level of fulfilment of the set out sustainable development objectives, at national level. When the Council finishes the consideration of the Draft Report, it provides suggestions for amendments to the draft annual reports. After final approval by the Council, in the form of proposal, the annual reports are submitted to the Government for adoption.

The National Council has a key role in the audit process of the Action Plan for the National Sustainable Development Strategy, which began in February 2010, as defined in the text of the Strategy. A Working Group has been established within the Council, mandated together with the Office for Sustainable Development to lead the audit process and ensure that the views and opinions of the social structures outside the Government are represented in the right way and reflected in the audit report.

The main mission of the Council is to give **recommendations** to the Government of Montenegro with regard to the Sustainable Development Policy. So far, the Council has discussed the strategies and sectoral policies which had an inter-ministerial and a long-term development character, relying in its approach on the three pillars of sustainable development defined in the National Strategy for Sustainable Development adopted in 2007. The Council, inter alia, has also been actively engaged in supporting programs of preservation and protection of cultural and natural heritage, promoting economic development based on sustainable use of natural and human resources as well as introducing the theme of sustainable development into educational programs.

Some of the most important strategic documents considered at the Council are as follows: Energy Development Strategy until 2020, the National Strategy for Integrated Coastal Zone Management, Spatial Plan of Montenegro until 2025, the National Forest and Forest Land Management Policy and the like. Out of these, the Spatial Plan, which is the law-level document, is one of considered documents, which directly makes part of the legal corpus of Montenegro. However, in this year already, following the advancement of capacities and the work efficiency of the Council, by establishing the working groups on certain fields, the Council will be involved in provision of opinions on law proposals, which will in the future period include even the following law proposals: the proposal to the law on energy efficiency, combined transport, regional development, Eco Funds and the sea property. Therefore, the role of the Council will be strengthened when it comes to drafting the state legal framework and establishing the mechanism which will ensure introduction of sustainable development principles into the state legal system.

- Please elaborate more on the composition and functioning of the Council for sustainable development. How often does the Council meet? Who are the members?

The National Council for Sustainable Development was established in 2002, as the Government advisory body on issues of sustainable development, which is chaired by the Prime Minister, and consists of representatives of different social structures. The Council is aimed at promoting concept of sustainable development for the purpose of its full implementation in Montenegro, through mechanisms of the legislative power and continuous communication with citizens, as important actors in the process of implementation of the sustainable development principles in Montenegro. Following the reform of the Council conducted in 2008 on the basis of the Report of the United Nations Development Programme (UNDP) and the Government of Montenegro on the role, results and procedures of the National Council for Sustainable Development and the Office for Sustainable Development, as well as the consultation with national structures and international bodies, the Government adopted two sets of rules that regulate the activities of the Council:

- The decision on establishing the National Council for Sustainable Development,¹ which defines the structure of the new Council and its mission / goals and
- A decision on the appointment of members of the National Council for Sustainable Development, which defines the number of members and the names of new members of the Council.

These acts prescribe that the Council shall consist of 23 members (with the 3-year term of office, and the possibility to be re-elected). The category of independent members/experts in the field of sustainable development was introduced, while the organization of the Council's work was reformed in terms of both introduction of working groups and local councils for sustainable development, which establishing is in progress. Apart from the representatives of the Government (5), Head of Office for Sustainable Development, covering the function of a Secretary of the Council, the members are representatives of the following structures: local self-government (3), Academy (2), business sector (4), NGOs (4) and independent persons / experts in the field of sustainable development (4). The names of the members are given in the table below:

The new session of the National Council for Sustainable Development	Social structure
President: Milo Djukanovic , the Prime Minister of Montenegro	Government
Deputy President: Branimir Gvozdenovic , Minister of Physical Planning and Environment	
Secretary of the Council: Ljubisa Perovic , Head of Office for Sustainable Development	
Predrag Nenezic , Minister of Tourism	
Milutin Simovic , Minister of Agriculture, Forestry and Water Management	
Andrija Lompar , Minister of Transport, Maritime Affairs and Telecommunications	
Gzim Hajdinaga , Mayor of Ulcinj	Local self-government
Veselin Bakic , Mayor of Andrijevica	
Tarzan Milosevic , Mayor of Bijelo Polje	
Mihailo Buric , Professor; Ph.D., a representative of the University of Montenegro	Academy
Janko Radulovic , Professor; Ph.D., Rector of the Mediterranean University	
Velimir Mijuskovic , President of the Chamber of Economy of Montenegro	Business Sector

¹ Decision on establishing the National Council for Sustainable Development, Official Gazette of Montenegro, No.47/08

Zoran Masonicic , Acting Secretary-General of the Trade Unions of Montenegro	
Dragiša Boričić , Vice President of the Union of Employers	
Darko Konjevic , Executive Director of the Montenegro Business Alliance	
Biljana Gligoric , President of NGO "Expeditio"	Non-governmental organizations
Pajević Darko , President of NGO "Green Home"	
Jovo Radulovic , President of NGO "The production of healthy food"	
Zoran Jovovic , Professor; Ph.D., President of the NGO "Association of Young Environmentalists"	
Prince Nikola Petrovic , the former chief of Presidency of Montenegro in Paris, the founder of the Cetinje's "Biennale" and the initiator of significant activities related to physical planning and architecture in Montenegro	Independent experts in the field of sustainable development
Branko Lukovac , the first Head of Office for Sustainable Development	
Miodrag Burzan , architect, former Minister of Environment in the Government of Montenegro	
Duško Vukovic , a long-time journalist and until recently Director of the Institute for Media	

The tasks of the National Council for Sustainable Development are:

- 1) Monitoring the implementation of the National Strategy for Sustainable Development of Montenegro, as well as the implementation of tasks defined in the document "Directions of Development of Montenegro as an Ecological State", as basic strategic documents;
- 2) Considering the strategic development policy documents, as well as the priority investment programs, from the standpoint of compliance with the Strategy for Sustainable Development of Montenegro;
- 3) Supporting the inclusion of civil society, local self-governments, scientific and professional institutions, business sector, along with the state authorities in the process of establishing and implementing policies and strategies for sustainable development of Montenegro;
- 4) Encouraging cooperation between Montenegro and the relevant parties in the international community in defining and implementing policies and programs for sustainable development and the objectives of the ecological state;
- 5) Assisting the Government in the:
 - implementation of the policy of the United Nations Commission on Sustainable Development, documents on sustainable development adopted at the United Nations Conferences, as well as the EU policy, global agreements and conventions;
 - development and implementation of legislation, policies, measures and indicators of sustainable development, aligned with the European and world standards;
 - international engagement in the implementation of the sustainable development policy;
 - provision a broader understanding of sustainable development within the society and its importance for the future of Montenegro.

According to the Rules of Procedure, the Council shall meet at least three times a year. For 2010, four plenary sessions are planned, however, the activities of working groups ensure that the Council operates and meets continuously throughout the year. The working groups have been established (Article 18 of the Rules of Procedure of the Council) in order to provide effective work of the Council, as well as a more professional access to discussions on important issues by means

of inclusion of a wider number of experts to improve the overall work of the Council and ensure the quality of opinion in relation to certain issues. Article 18 of the Rules of Procedure defines the following guidelines:

- The proposal for establishing the Working Group on Consideration of Issues under the competences of the Council may be submitted by each member of the Council;
- A coordinator of the Working Group shall be determined among the members of the Council, taking into account the requirements for this person to have professional references in the field for which the Working Group is established;
- The Working Group may decide to involve in its work as external associates representatives of national and international organizations and institutions, with their seat in Montenegro, as well as domestic and foreign experts, if it estimates that this would improve the efficiency of the Working Group.

The Office for Sustainable Development supports the activities of working groups, in a form of the Secretary of the WGs, while the position of coordinators within WGs is covered by members of the Council who are not representatives of the Government. Thus, through their active involvement, the advisory function of the Council is fully ensured. When selecting members of a working group, in addition to their references, the equal representation of different social structures presented in the Council is taken into account. In the course of 2010, in the work framework of the Council, four working groups are established and put into operation:

- WG for the Revision of the National Sustainable Development Strategy Action Plan and core sustainable development indicators contained in the Strategy;
- WG for the Communication with the Public;
- WG for the topic of Space as the greatest challenge of future development of Montenegro;
- WG on the Strategic Environmental Impact Assessment Report for detailed spatial plan for Hydropower Plants on the Moraca River.

2. (Ref to Q. 9): Please specify whether commissioned studies on the competitive position of MN economy and/or main industrial sectors available to the third parties?

The document entitled *Foreign Direct Investment Promotion Strategy* is public and available to third parties on the website of the Government of Montenegro: www.gov.me. Also, the document entitled *Montenegro's Agriculture and the EU – Food Production and Rural Development Strategy* is available on the website of the Ministry of Agriculture, Forestry and Water Management: www.minpolj.gov.me.

More detailed information on the above mentioned studies are available in direct communication of relevant institutions and interested third parties.

As for the project the *Competitive position of the most important products of the Montenegrin economy at domestic market 2006 and 2009*, the results of the study are available to third parties as follows:

- Presentation in the media after publishing of the study;
- Delivering the results to the companies that participated in the research by the Directorate for Development of Small and Medium-sized Enterprises, including business associations - the Union of Employers of Montenegro, Montenegro Business Alliance and the Chamber of Economy of Montenegro for the purpose of distribution to their members;
- Print version of the study is available in the premises of the Directorate, but it can also be delivered electronically at the request of an individual company or representatives of different institutions / organizations, etc;
- They are placed on the web site of the Directorate (www.nasme.me).

Privatisation and Restructuring

3. (Ref to Q. 11): Please provide a copy of the 2009 (the annexe is missing in the previous sending) and 2010 Privatisation Plans.

The Privatization Plan for 2009 was distributed even earlier on CD under number 13 in the Chapter V Economic and Structural Development and Reforms. Please find enclosed the required Privatization Plan for 2009 and Privatization Plan for 2010.

4. (Ref to Q. 12): Please provide details of special program (process and schedule) envisaged for the privatisation of public utilities at local level (public communal companies).

Apart from the activities referring to the process of privatization of companies from the field of Public Utilities, as described in the previous answer, the Government of Montenegro at its session held on 17 December 2009, passed a Decision on Privatization Plan for 2010 (No. of the Act: 03-13118), in compliance with Article 3 of the Law on Privatization (Official Gazette of RoM, No. 23/96, 6/99, 59/00, 42/04), which stipulates an obligation to enact annual privatization plans.

Item 6 of the mentioned Decision refers to the privatization of companies from the field of public utilities and it says the following:

"The initiative for amendments to legislation on privatization of economy shall be launched in order to determine modes of restructuring companies in the field of public utilities. The Privatization Council shall appoint the Tender Commission for the privatization of a company referred to in paragraph 1 of this item."

The Privatization Council, as the body responsible to carry out the process of privatization, at its session held on 2 February 2010, brought a Conclusion on development of the Strategy for the privatization of business organizations in the field of Utilities, which will be, after the completion of the tender procedure, prepared by certain reference institution. The Project task for the development of the Strategy, which will be prepared by the Ministry for Spatial Planning and Environment and the Ministry of Economy, shall define the main elements of the Strategy, which should give answers related to moduls and deadlines for the privatization of companies in the public utility sector.

5. (Ref to Q. 13): Please elaborate on the arrangement for the existing post-privatisation corporate governance for the companies such as KAP, Niksic steel mill etc.

The adoption of the Law on Amendments to the Business Organization Law (Official Gazette of ME, No. 80/08), even after the privatization of large economic entities in Montenegro (KAP, Ironworks Nikšić, Bauxite Mines Niksic, etc.), may be regarded to have formally completed the legal and institutional framework of the corporate governance process in Montenegro. This particularly improved the legal framework of the corporate governance in the areas of the shareholders' rights, by means of an introduction of new legal institutes (special rights of the disagreeing shareholders), expansion of powers of the joint-stock company assembly (having disposal over the high value property), reduction of the percentage of ownership as a precondition for exercising certain shareholders rights, introduction of the institute of the shareholders' agreement on voting, the precise regulations of the shareholders' claims, in terms of timeline in which claims may be submitted, regulation of the liability of auditors in certain cases, supplementing the principles referring to the work of the Board of Directors.

Particularly important fact for sharing good practices of corporate governance is that the private sector (SMEs) increasingly recognizes its importance and potential benefits for business in areas such as the availability and the cost of capital, increasing the efficiency of business operations, business strategy improvement through the high quality activities of the Board, strengthening the reputation and trust of the interest groups, etc.

Also, the change of ownership and entry of companies from the EU countries (FDI, Joint Venture), with the developed corporate governance mechanisms, resulted in changes in the shareholder culture, and thus the advancement of the corporate governance in Montenegro as a whole, which therefore became comparable to the corporate governance in countries with a market economy, which in this regard have developed and extensive practice and experience.

In Montenegro, a set of laws regulating the field of corporate governance has been adopted, which is in fact comparable with comparative legal systems, and which are fully implemented in practice, such as: Business Organization Law (2002), Law on Amendments to the Business Organization Law (2007), Law on Accounting and Auditing (2008), Business Organization Insolvency Law (2002 and 2008), Law on Securities (2001), Obligations Act (2008), Instructions on the work of the Central Registry (2002), Law on Voluntary Insurance Funds; Code on Corporate Governance (Montenegro Stock Exchange, 2009), etc. The specified set of laws, in terms of the achieved quality of the corporate governance should be observed in close connection even with a number of institutions that operate and in the wider sense of the term refer to the above mentioned process, such as: Montenegro Stock Exchange Central Bank of Montenegro, NEX Stock Exchange, the Commission for Stock Exchange Listing, Securities Commission of Montenegro, Central Depository Agency of Montenegro, the Commercial Court and the like.

It is important to remind that the above mentioned set of laws is the subject matter of the competent institutions for the purpose of their harmonization with international standards in this field. Therefore, the Law on Amendments to the Business Organization Law (Official Gazette of ME, No. 80/08) introduced novelties related to protection of the minority shareholder rights, especially regarding the right of convening the Assembly, simplifying the process, increasing the level of transparency, increasing levels of liability of the Board of Directors, *emphasized role* of the audit authority, where the key innovation is the switch from the two-tier system (Deutsch) to the unicameral system (one-tier system - Anglo-Saxon). Thus, by accepting these novelties, we are actually introducing the so-called Anglo-Saxon system of joint-stock company management, which implies the existence of only one board, board of directors, which governs the joint-stock company, and whose members are appointed by the shareholders assembly. The Board of Directors for the operational management of the company business chooses one or more executive directors (management, board of executive directors, and executive board of directors). The control over the work of management is conducted by the external, independent director, but this system does not exclude internal control by the special commissions or internal auditor.

Therefore, it can be concluded that a comprehensive infrastructural environment for functioning of the corporate governance quality system has been established, particularly with regard to the development of an appropriate legal framework, in compliance with best practices in the countries that use market economy.

The process, that is, the corporate governance system is acknowledged through the implementation of the existing legislation in the privatized enterprises in Montenegro. In this regard, everything that happens related to the implementation of certain laws, it is to a greater extent the result of inconsistencies in their application, other than it was a matter of the quality of existing legislation.

In this regard, we should bear in mind that in such a short period of time, it wouldn't be realistic to expect that the so-called stakeholder concept would be fully operational, which implies a clear role of owners, managers, board of directors, the state, etc. In addition, the "institute of audit" hasn't found its consistent application yet, although it was fully stipulated by the law, due to the fact that both the owners and managers pay insufficient attention to these reports.

The second and particularly outlined problem that hinders the high-quality operation and the application of the existing legislation are the requirements expressed in various forms of social pressure on the Government by companies with poor financial standings, where the existing (legal) owners do not carry out their role, but instead the requirements of their employees direct towards the Government, which is for example the case with KAP, Bauxite Mines, Ironworks, etc.

The third group of problems are or can be identified in those privatized enterprises, where buyers of shares do not meet the obligations stipulated in the sales contract, which again isn't provoked by the legislation. In this regard, the Government has launched a project that will examine the quality and the contents of the privatization contracts and propose adequate solutions.

Furthermore, one of the reasons for still insufficiently effective corporate governance is the role of the Trade Union, which has not managed yet to go beyond the way of thinking from the period prior to privatization, putting constant pressure on the state authorities to interfere in the internal relations between the employers and the Trade Union.

Thus, this doesn't bring into question the current system of corporate governance, but objectively, there is a dilemma for the Government, whether to implement fully the Business Organization Insolvency Law, or to try, through additional investments (purchase of stocks, etc.), to alleviate current difficulties and recover a company in the long run. It is a combination of what we recognize from the perspective of economics as a "second best solution," but adhering to regulations at the same time.

In the end, the process of upgrading the corporate governance system is still focused on problems imposed by practice, especially where it is in "touch" with other laws, which again in turn has a feedback on functioning of corporate governance and integrating the system as a whole.

Enterprise and SMEs

6. (Ref to Q. 17): Please provide info on the share of micro, small and medium size companies in terms of export.

Although, the total exports at the state level, and therefore the total exports of micro, small and medium-sized enterprises recorded a decline, the share of micro, small and medium-sized enterprises in the total export of Montenegro is growing year by year, and recorded an increase from 24.85% in 2006 to 31% in 2008.

The share of micro, small and medium-sized enterprises in the export of Montenegro:

Classification	2006	Share in the total exports	2007	Share in the total exports	2008	Share in the total exports
TOTAL EXPORTS IN ME	629,653,671	100%	490,192,564	100%	433,430,042	100%
Total number of MSMEs	156,452,321	24.85%	144,764,558	29.53%	134,350,895	31.00%
Micro enterprises	50,510,927	8.02%	49,878,836	10.18%	36,097,401	8.33%
Small enterprises	59,972,480	9.52%	48,823,660	9.96%	40,852,762	9.43%
Medium-sized enterprises	45,968,914	7.30%	46,062,062	9.40%	57,400,732	13.24%

Source: Monstat

7. (Ref to Q. 20): Please provide more details on consultation mechanisms in the design of SME policy and in monitoring of its implementation.

Conducting the Small and Medium-sized Enterprise Development Policy falls under the competences of the Ministry of Economy, while the Directorate for the Development of Small and Medium Enterprises is in charge of its implementation.

The Directorate for the Development of Small and Medium Enterprises, in coordination with the Ministry of Economy and the assistance of consultants from the German Organisation for

Technical Cooperation (GTZ) and the European Agency for Reconstruction prepared the Strategy for the Development of Small and Medium-Sized Enterprises 2007-2010, as a document which creates the development policy for small and medium-sized enterprises.

The development of the Strategy involved a great number of institutions from both public and private sectors in those segments of the SMEs policy implementation that fall under the competences of these institutions.

From the public sector, the information necessary for the analysis of the current situation and recommendations for further development were provided by the competent ministries, Development Fund, Employment Agency, Tax Administration, Pension and Disability Insurance Fund, Health Insurance Fund, Monstat, Centre for Vocational Education and so on.

Furthermore, the private sector was significantly involved in the structuring of the Strategy for the Development of Small and Medium-Sized Enterprises 2007-2010, so the information from their scope of work were submitted by the following institutions: Chamber of Economy of Montenegro, Union of Employers of Montenegro, Centre for Entrepreneurship and Economic Development-CEED, Montenegro Business Alliance - MBA, banks ...

The European Agency for Reconstruction and the German Organisation for Technical Cooperation (GTZ) have been particularly involved in providing recommendations for defining the strategic goals and measures for the period 2007 – 2010, but also in all other segments of the Strategy.

After processing the information by the Directorate for the Development of Small and Medium Enterprises, the Working Draft Version of the Strategy for the Development of Small and Medium-Sized Enterprises 2007-2010 was prepared. In addition, the Action Plan, which implies sharing of the activities and the implementation of tasks by the competent institutions from the public and private sectors, was produced. The Strategy together with the Action Plan has been forwarded to all participants in its drafting to give additional suggestions and recommendations.

In compliance with the Rules of Procedure of the Government of Montenegro, the public discussions and roundtables were organized, which were attended by representatives of the Montenegrin state institutions, foreign institutions and organizations in Montenegro, local governments, the private sector, banks and media.

The Strategy for the Development of SMEs 2007-2010 includes even the monitoring of implementation of activities, that is, conducting regular progress checks (annually), as well as the qualitative and quantitative implementation and effects achieved in terms of defined goals.

The implementation of the activities from the Action Plan of the Strategy for the Development of Small and Medium-Sized Enterprises 2007-2010 is followed through regular annual reports on the work of the Directorate for the Development of Small and Medium Enterprises, Montenegro Progress Report, European Charter for Small Enterprises, the Economic Policy of Montenegro.

Also, the results of measures of support to small and medium-sized enterprises are presented in the project *Business climate index for small and medium enterprises*, developed by the Directorate for the Development of SMEs with the support of GTZ.

The objectives of the Report, which was for the first time prepared in Montenegro, are as follows:

- 1) Assessment of business opportunities and obstacles to the development of SMEs, collecting information on economic trends, as well as the data on the results of the policy support measures to the SMEs sector.
- 2) Measuring the activities of small and medium-sized enterprises and according to their results, ensuring improvement of the existing and introduction of new services, rendered by institutions assisting this sector in Montenegro.

8. (Ref to Q. 21): Please elaborate on the operation and functioning of the lending programme managed by the employment office, SMEDA and the Development fund.

Employment Agency

Ever since 1999, the Employment Agency has continuously provided a financial support to the development small businesses, first through the self-employment program, which was implemented in the period February 1999 - August 2008 and then through the Innovative self-employment program, which has been undergoing from September 2008 and it is still in progress.

The implementation methodology of the Innovative self-employment program for the unemployed:

- 1) In order to include unemployed persons in the Program, it is necessary for them to talk with their advisor for registration and advocacy in the organizational unit of the Agency - bureau or office and express their interest in obtaining the loan. The unemployed persons, who express their wish to start up business, possess the knowledge and meet the requirements for inclusion in the Innovative self-employment program, are referred to training in entrepreneurship.
- 2) Education in entrepreneurship includes two segments:

Encouraging self-employment is aimed, first of all, at selecting persons who have predispositions towards doing business successfully, and share experiences and ideas with other participants, motivating people who hesitate whether to engage in business, introducing the entrepreneurial way of thinking, learning about the process of starting up their own business. The segment is composed of 7 thematic workshops tailored to the needs of entrepreneurs.

Providing basic knowledge of entrepreneurship represents provision of knowledge in the classical method of teaching the subject (Manual for entrepreneurs – the Innovative self-employment program, Employment Agency of Montenegro, February 2009, 4th Revised and Amended Edition):

- The rights and obligations under the self-employment program;
 - How to register a business;
 - Basic concepts of accounting;
 - Labour relations;
 - Commercial Contracts;
 - Development and evaluation of business plans;
 - The basic prerequisites for a successful start up of a small business.
- 3) Persons who, at the discretion of the expert team, have successfully passed the education are referred to the loan advisor for consulting and obtaining the necessary application forms to apply for a loan.
 - 4) The unemployed persons submit a business plan and supporting documents set out by the competition. In order to provide the high quality project documentation, facilitate and simplify the activities of potential borrowers, the Employment Agency has entered into a licensing agreement with about 170 people - project managers who possess professional qualifications and references in the field of development and business plan evaluation. The Employment Agency bears the costs of business plan development.
 - 5) In accordance with the organizational structure of the Employment Agency, seven regional commissions were established. The task of regional commissions is, by the terrain inspection, to determine the accuracy of information presented by the applicants for the loan and to give their assessment of the feasibility of investing into the implementation of these business ideas. The projects are submitted to the Central Service of the Agency.
 - 6) The Central Service of the Employment Agency is the link between regional commissions and the Employment Agency Managing Board, which decides upon the allocation of loans.

The Service brings together, processes and forwards the materials received from regional commissions to the Employment Agency Managing Board.

- 7) The loan applications positively evaluated by the regional commissions are discussed by the Managing Board, which decides upon the allocation of credit funds.
- 8) The realization of approved loans is carried out through a consortium of banks. It's an open type of consortium, and thus ensures, under the same conditions, access to all interested banks. The Commission Agreement between the Employment Agency of Montenegro and the Consortium members regulates their mutual obligations.
- 9) The Employment Agency of Montenegro, through regional commissions, controls the dedicated use of approved loans. The methodology of implementation of the Innovative self-employment programs for legal persons and entrepreneurs, in relation to the unemployed persons, differs in the fact that these categories do not apply items 1 and 2.

Directorate for Development of Small and Medium Enterprises

The Directorate for Development of Small and Medium Enterprises implements the loan programs for SMEs: "Encouraging Entrepreneurship" in 2006; "Encouraging Competitiveness and Export" in 2007; as well as the "Program of State Aid and Support to Small and Medium Sized Enterprises for 2008 and 2009. Program "Encouraging Entrepreneurship" was adopted by the Government of the Republic of Montenegro on 16.02.2006, which was implemented in the course of 2006; Program "Encouraging Competitiveness and Export promotion" was adopted by the Government of Montenegro on 29.03.2007 and implemented in the course of 2007.

Programs of State Aid and Support to Small and Medium Sized Enterprises for 2008 and 2009 are adjusted to the Law on State Aid Control (Official Gazette of RM, No. 26/07), on which basis the Decree (Official Gazette of Montenegro, No. 13/08) was brought, regulating detailed criteria, purpose and terms of state aid allocation, and which was abolished when the Law on State Aid Control (Official Gazette of Montenegro, No. 74/09) came into force. These programs were approved by the Ministry of Finance- State Aid Control Commission and adopted by the Government of Montenegro.

The goal of these programs is to provide a set of support to newly established companies, the existing companies that have the potential to grow and develop, the entrepreneurship development that will affect creation of a competitive sector of small and medium-sized enterprises, and the support to export-oriented companies.

The Directorate for Development of Small and Medium Sized Enterprises in the framework of the **loan support program** provided credit lines for beginners in business, through the following programmes: Encouraging the Beginners in Business-Start up and for existing companies "Encouraging Entrepreneurship"; Encouraging Competitiveness and Export;

Encouraging Entrepreneurship

Encouraging the Beginners in Business-Start up included beginners in business (individuals), entrepreneurs who have experience and want to start up new production or services, as well as SMEs, which are operational up to one year to the date of submitting an application.

Loans were offered by the following conditions:

- Maximum loan amount up to € 50,000
- Repayment period up to 8 years
- The annual interest rate of 3%
- Grace period of up to 24 months.

The loans are 70% of the Budget, while 30% of funds are provided by the bank.

The procedure for the implementation of the credit lines of "Encouraging the Beginners in Business-Start up" is as follows:

- 1) Following the adoption of the Program by the Government of Montenegro, the Directorate for Development of Small and Medium Enterprises announces the public invitation, which defines conditions and criteria for submission of business ideas.

The conditions for participation in the Public invitation were:

- For beginners - registration of a business with the Commercial Court
- For the existing SMEs, which operate up to one year to the day of submission an application - to regularly pay tax.

The criteria for evaluation were:

- quality and feasibility of business ideas,
 - economic and financial indicators,
 - possession of prerequisites for the realization of business,
 - market analysis,
 - entrepreneurial and professional qualifications of candidates,
 - underdeveloped areas.
- 2) Following the submission of a business idea and the necessary Clients' status documents about the company and paid taxes, the members of the Commission formed by the Directorate for Development of Small and Medium Enterprises, and representatives of business centres visited each candidate to determine through talks whether the submitted business idea has a development component, whether the candidate possesses the necessary knowledge and experience of its implementation, does a candidate possess the necessary premise for business, and so on.
 - 3) After that, the Commission has proposed candidates who have qualified for further procedure and are referred to a compulsory training in order to be skilled for creating a business plan and acquiring basic knowledge necessary for the implementation of a business idea.
 - 4) The Commission was guided by **the Rules on the methodology of presenting the criteria in the appropriate number of points, the manner and process of evaluation and comparison of applications**, which regulates the maximum score to be 100, while the minimum limit that a business idea must meet in order to be nominated for further procedure is 60 points. The Commission has ranked the submitted business ideas by established criteria.
 - 5) Holders of business ideas who met the established criteria were required to attend planned training cycles, which implementation was supported by the German Organisation for Technical Cooperation (GTZ) through CEFE program, since this was a precondition for the entry into the further procedure of a business plan development.
 - 6) After the completion of training, the business idea holders were required, in case they applied as natural persons (individuals), as such to submit a business plan made by the prescribed methodology with the filled in Request - Questionnaire and supporting documents (invoices and preliminary estimates, list of authorized signatories from a commercial bank). Candidates whose business plan is evaluated positively by the Directorate's Commission, had an obligation to register as an entrepreneur / company within 10 days and submit a proof of registration to the Directorate with the accompanying documents in order to be referred for further procedure together with the business plan to the business bank. Candidates who have applied as entrepreneurs / companies, and whose business plans were also positively evaluated, with the accompanying documentation (Clients' status documents, invoices and preliminary estimates of investments, list of authorized signatories from a commercial bank, the balance of the company) were referred to the commercial bank.

- 7) The final decision on approval of the loan was made by the bank, and the candidates had an opportunity to select themselves the bank through which they want to pursue their credit request.
- 8) The bank and the client sign the loan agreement. In cases when the interest rate, due to market trends, exceeds 3% as prescribed in the public call, the bank and the client shall regulate this issue via the Contract. The interest rate to 70% of the Directorate's funds equals 0%.
- 9) The bank bears the risk of repayment of 100% of funds (70% of the budget and 30% of personal funds) and follows the implementation of the loan.

Encouraging Entrepreneurship, and Encouraging Competitiveness and Export promotion are programs intended for the existing enterprises, and enterprises that are export oriented. The loans are 50% of the budget funds, while 50% of funds provides by the bank.

The credit conditions are more favourable than commercial and they vary depending on the credit line:

- The maximum loan amount is up to 100,000.00 to 200,000.00€,
- Repayment period up to 6 - 7 years,
- Grace period from 12 - 18 months
- The annual interest rate of 3.5% - 5%.

The procedure for the implementation of credit lines is the following:

- 1) Following the adoption of the Program by the Government of Montenegro, the Directorate for Development of Small and Medium Enterprises announces the public invitation, which defines conditions and criteria for participation in the Program. The registered small and medium-sized enterprises had conditions for participation in the public invitation in accordance with the Business Organization Law (Official Gazette of RoM, No. 06/02) (entrepreneurs, micro, small and medium enterprises) implying that:
 - have their seat on the territory of Montenegro,
 - 100% private ownership;
 - regularly pay taxes and contributions,
 - didn't face losses in business operations in the last financial year,
 - have completely closed the financial structure of the investment project-done by the prescribed methodology,
 - program implies job creation.

The criteria for evaluation were:

- quality and feasibility of the project,
- economic and financial indicators of the project,
- personal involvement,
- previous experience of investors and achieved results,
- credit worthiness
- number of newly employed workers
- developing character of the project,
- underdevelopment of the area,
- environmental protection.

- 2) The Investment projects submitted with the supporting documentation (the Client's company status, invoices and preliminary estimates of investments, list of authorized signatures from a commercial bank, the company's balance sheet, certificate of regular tax and fee payments) are assessed by the Commission in the Directorate for Development of Small and Medium Enterprises according to defined conditions and criteria.
- 3) Positively evaluated credit requests are submitted to commercial banks that make final decision on the allocation of credit funds and provision of loans in line with their business procedures, as defined in the Contract on business cooperation between the Directorate and the bank.
- 4) The bank and the client sign the loan agreement. In cases when the interest rate, due to market trends, exceeds 5% of the interest rate prescribed by the public call, the bank and the client regulate this issue with a contract. The interest rate on 50% of the Directorate's funds ranges from 0.5% to 2%.
- 5) The bank bears the risk of repayment 100% of funds (50% of the budget and 50% of its own funds) and follows the implementation of the loan.

The monitoring of the credit funds use is conducted by the Directorate's Commission and the bank, after the expiration of the grace period.

Development Fund

The Credit Line of the Development Fund was implemented through and with the guarantees of commercial banks in Montenegro.

At the beginning of each financial year the Management Board of the Development Fund of Montenegro adopts the Program of general conditions for financial support. This kind of program defines more closely the end users of the Fund's loans, the loan terms and conditions, the lending activities, and the documentation basis for loans.

Following the adoption of the project by the Credit Board of the Bank, it is submitted to the Development Fund and discussed at the meeting of the Management Board of the Development Fund. When the Management Board of the Development Fund brings the decision to approve loans through and with the guarantees of the Bank, it follows the procedure of funds transfer Fund-Bank-Investor.

The credit investments of the Fund that are directed towards the SMEs sector have the revolving character with levels of collection over 95%. These loans have been approved under the following terms: repayment period - up to 5 years, grace period - up to 2 years and the interest rate - up to 6%. The Credit Policy of the Fund included the incentives for projects that were implemented in the Northern and underdeveloped municipalities in Montenegro, reflected in the reduction of interest rates to 1.5% and extension of loan repayment period up to 1 year.

Current Credit Guarantee Scheme between the investor-Bank-Fund, so far has proved to be an effective mechanism of providing credit support, which enables placement of funds under conditions more favourable than the market ones, and on the other hand the risk of such placements is reduced to minimum.

In the period 2006-2009, the Development Fund of Montenegro provided an active contribution to the development of entrepreneurship in Montenegro, through the implementation of the total number of **299 projects for small and medium-sized enterprises**. The participation of the Fund in the implementation of these loans amounted to **31.10 million €**. The realization of credits approved in this way created the conditions for opening an additional approximately **1360 jobs**.

In the forthcoming period, in accordance with the Law on the Investment and Development Fund of Montenegro, there will be set up the Investment and Development Fund that will assume the role of lending to SMEs, but which will include the capital / deposits of the Development Fund and the Directorate for Development of Small and Medium Enterprises (see the answer to Question 17-link Question 51).

9. (Ref to Q. 23): Please provide more information on the timetable for preparing strategy for SME 2011-2015 and its action plan.

The holder of activities related to the development of the Strategy for the Development of SMEs 2011-2015 is the Directorate for Development of SMEs in coordination with the Ministry of Economy.

The Work Programme of the Government for 2010 envisages the adoption of the above mentioned Strategy in the fourth quarter.

The preparatory activities on the design and development of the Strategy for the Development of Small and Medium-Sized Enterprises 2011-2015, have already started with the consulting and support of the German Organization for Technical Cooperation (GTZ).

In the course of February 2010, the Action Plan was prepared, which included the activities that need to be undertaken and the deadlines for their implementation.

The first step is the establishing of the governing body (Steering Group), which will be in charge of coordinating the entire process, as well as of defining the strategic directions and objectives. The governing body shall consist of representatives from the Ministry of Economy, Directorate for Development of SMEs, private sector representatives - Union of Employers, MBA, the Chamber of Economy of Montenegro, the Centre for Entrepreneurship and Economic Development, as well as international partners such as: GTZ, the European Commission and UNDP.

For the purpose of more comprehensive preparation for the work on the Strategy for Development of Small and Medium-Sized Enterprises 2011-2015, first of all the of the previous Strategy and the Action Plan is anticipated, evaluation of achieved results and the identification of problems and limitations that were present in its implementation in the previous period. In addition, the review of all relevant documents referring to the development of entrepreneurship and SMEs and the European Charter for Small Enterprises will be conducted.

Furthermore, in order to ensure the high quality analysis of the current situation in the sector of SMEs in terms of their number, employment and business performance of the sector, competitiveness, potential and needs for their development, the project task "Sectoral Analysis of Small and Medium-sized Enterprises" was made. The objective of this project is to analyze the situation and aspects of the small and medium enterprises business performance through the process of research, analyzing the existing reports and documents and collecting data on the basis of a survey done on of the sampled SME enterprise.

The research which will be conducted at the regional and municipal level will result in a sectoral analysis of small and medium-sized enterprises that need to define the directions of further development of this sector.

During 2010, the project / research "Business climate index for small and medium-sized enterprises", will be conducted for the second year in row, and the results of this research will also be used to define the strategic directions and objectives in the future period. The project is being implemented in cooperation of the Directorate for Development of Small and Medium Enterprises and GTZ.

In order to get a better insight into the current situation of the sector of small and medium-sized enterprises in Montenegro, the use and analysis of statistical data bases of relevant institutions, such as: the Statistics Institute of Montenegro-Monstat, Tax Administration, the Pension and Health Insurance Funds is intended. This will provide the quantitative indicators of changes in the number of small and medium-sized enterprises in total and by municipalities, activities, share of SMEs in exports and employment in SMEs sector.

The Action Plan envisages that Draft Strategy for Development of Small and Medium Enterprises 2011-2015 to be prepared by the end of August 2010.

The Working Draft is distributed to all participants in its drafting, to give suggestions and opinions, and then there is a legal obligation to hold the public discussion, which would be open for suggestions and comments of all interested parties.

The final version of the Strategy for Development of Small and Medium Enterprises 2011-2015, with a plan of its implementation, should be sent to the Government of Montenegro for approval and adoption by the end of November 2010.

Action Plan - Strategy for Development of Small and Medium Enterprises 2011-2015

Month	Jan	Feb	March	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Phase 1: Research and defining tasks												
Establishing the Governing team												
Revision of the previous Strategy and related documents												
Research of changes in the business environment and sectoral analysis												
Analysis of the data base of state institutions												
Draft Working version of the Strategy												
Phase 2: Elaboration of the draft versions												
Internal elaboration of participants in the strategy development												
Public discussion												
Correction of the Draft version in accordance with the received comments and suggestions												
The final version of the Strategy with the implementation plan												
Submission to the Government for approval and adoption												

10. (Ref to Q. 27): How many social councils are effectively in place and functioning at the local level?

According to Article 3 of the Law on Social Council (Official Gazette of Montenegro, No. 16/07), the Social Council shall be established for the territory of Montenegro, it can also be established for the region by municipalities. The area of two or more municipalities may establish only one Social Council.

The Social Councils are established by the Union of Employers and the Trade Unions of Montenegro at the local level in the following municipalities: Budva, Danilovgrad, Nikšić, Mojkovac, Berane, Cetinje, Tivat, Bijelo Polje, Kolašin, Herceg Novi, Bar, Plužine, Šavnik, Plav, Rozaje, while the establishing of the Social Council in Ulcinj is in the phase of preparation.

According to official data, the Social Council of the Municipality of Bijelo Polje exists and operates efficiently, maintaining regular communication with the Social Council of Montenegro.

In the course of 2010, the Social Council is planning to establish a network of local social councils and to strengthen mutual cooperation (inter-municipal) and cooperation with the Social Council at the national level.

11. (Ref to Q. 28): Please elaborate on the organisation and activities of the IT incubator of Podgorica since its establishment and the plans to maintain it sustainability.

In December 2008, the Directorate for Development of Small and Medium Sized Enterprises, together with the Capital City of Podgorica, established the first business incubator in the field of information technologies (IT) in Montenegro, under the name of *d.o.o. Inventivnost* (LLC Inventiveness), based on the Decision of the Government of Montenegro dated June 21, 2007 and the Decision of the Municipal Assembly of the Capital City of Podgorica, dated November 4, 2008.

The official opening of the incubator took place on March 13, 2009.

The project is implemented also through the support of the European Commission and the Dutch Government, assisted by the organization SPARK, through the program of support to the Balkan region (central region).

The partner in the project is also *Narodna Tehnika*, which provided an area of 120m², where the companies are located, while the Capital City of Podgorica ensured an area of 50m², where the administration of the company is placed. Both premises are fully equipped with the office and computer equipment.

After announcing the public invitation, based on the quality of submitted business ideas, the conducted testing and interviews with candidates, also taking into consideration the space limitations, 4 teams of incubator tenants were selected. This number has been growing as of the early establishment of incubators, and currently there are 6 companies in the incubator that successfully work on the IT development.

The interest for the participation in the incubator activities is growing, and therefore the project entitled "Virtual Incubation" was prepared, which assumes participation in the business incubator project of as many small companies as possible, of those which already have their offices and wish to use other forms of support.

The tenants of the incubator entitled *Inventiveness* have the right to use the office space up to 4 years. The subsidies for the use of the office space are 100% in the first year, in the second year 75%, the third 50% and in the fourth 25%. It is possible for a "tenant" to remain in the incubator maximum one year after the specified period, in case of specific nature of rendered services, but then this tenant pays 100% of the market rental value.

Each team within the project received the support for carrying out technical and administrative tasks (accounting services, business secretary services, meeting premises, shared web site, joint presentation at trade fairs and exhibitions), consulting assistance, as well as additional education and trainings.

When it comes to trainings, the candidates are provided with two types:

- basic business education (starting your own business, writing a business plan, company registration, legal regulations, etc.), and
- vocational education (development of web presentation software, publishing of the information technology magazines, providing outsourcing services, encryption / data protection, economics of information technology, etc.).

The Incubator has already demonstrated some results of its operations, through the activities related to education and expanding the network of potential associates.

As for the promotion of the incubator itself, the web site was designed, and all the tenants were involved in its creation. www.inventivnost.me

Within the SMEs week, held in Podgorica in May 2009, in the organization of the Directorate for Development of Small and Medium Enterprises, the incubator *Inventiveness* was presented to the public.

At the end of April 2009, the business Incubator Ltd. "Inventiveness" organized the conference on the development of incubators in Podgorica, which brought together, apart from the project partners, local companies from the field of information technology, and representatives from the IT incubators from the region. The aim of the conference was a review of opportunities for cooperation and networking with similar incubators, as well as attracting new partners. This conference was also attended by the experts from the European Union, relevant national institutions and local IT companies.

The business incubator *Inventiveness* and the Ministry for Information Society have organized a round table discussion on the *Models of the information society promotion in the process of education*, in the framework of the e-Skills Week promotion. The roundtable participants included representatives of the Ministry for Information Society, Ministry of Education and Science, the Chamber of Economy of Montenegro, state institutions, business incubator *Inventiveness*, University of Montenegro, high schools, ICT companies and others. The main aim of the roundtable was the recognition of knowledge as the most important resource of social development, in which the results of promotion will be the new intellectual, innovative products and services. The round table provided the participants with the possibility to review the prospects of future development in the field of information and communication technologies through a discussion on the topics of the meeting.

In cooperation and with support of GTZ, the representatives of incubator attended the Conference on incubators held in Timisoara, Romania, and supported by SPARK, they visited the incubators in Kragujevac, Neum, Skopje, and Rotterdam - the Netherlands, while with the support and at the invitation of the European Commission, the Director of the incubator attended the conference on the development of incubators in Brussels.

During these visits, business cooperation was established with incubators from the region (Technology Park of Belgrade, Business Incubator Yes from Skopje, Technology Park of Murska Sobota, Slovenia), as well as the Business Start Up Center from Bar.

In order to exchange experiences, knowledge and ideas in the field of business and operations of incubators and technology parks themselves, it is expected the representatives of the business Incubator *Inventiveness* and the representatives of ICT companies to improve cooperation in the future period with the incubators from the region, which will result in mutual cooperation and implementation of new joint projects with the EU and thus contribute to its sustainability. In the course of 2009, the business incubator "Inventiveness" applied for 2 projects under the IPA program and 3 projects within the South-East Europe Transnational Cooperation Programme:

- 1) **IPA Adriatic Cross-border Cooperation Programme 2007-2013: „Supply Chain management optimization system“**
- 2) **Cross- border programme Serbia-Montenegro: Youth in action: „Place for Active Citizens &Active Entrepreneurs“**

3) South East Europe –Transnational Cooperation Programme:

- Expression of interest Science and Technology Network of Innovation and Excellence in SEE
- Making Young Innovators: Promoting Innovation-Based Youth Entrepreneurship in SEE
- Experience based approach and pedagogy for building innovation culture and sustainable transnational innovation system

As for the financial support from the project partners, SPARK has provided funding for the work of incubators by the end of 2010, when their engagement in this projects finishes. The founders of the incubator, the Capital City of Podgorica and the Directorate for Development of Small and Medium Enterprises will continue even in the future to financially support the work of incubators in accordance with the available budget funds.

12. (Ref to Q. 37): Please elaborate on the coverage and indicate how representative Montenegro Chamber of Trades and Entrepreneurship, Montenegrin Association of Trades, Small and Medium-Sized Enterprises (both mentioned in answer to Q5) are.

The Arts and Crafts Law of Montenegro regulates the establishing of the **Montenegro Chamber of Skilled Crafts and Entrepreneurship**. The Arts and Crafts Law of Montenegro was passed in August 2009 (Official Gazette of Montenegro, No. 54/09). The establishing of the crafts chamber is planned for the mid-2010. The preparatory activities for its foundation will be carried out by the Ministry of Economy, which will also provide funds necessary to put this Chamber into operation. Presently, there are several organizations and associations in Montenegro that bring together craftsmen, as follows:

Montenegro Chamber of Skilled Crafts and Entrepreneurship

The Montenegro Chamber of Skilled Crafts and Entrepreneurship is a nongovernmental organization, established in compliance with the Law on NGOs. The craftsmen in Montenegro have started to operate in an organized way since 2004 in the form of professional associations. In June 2007, the roof organization Montenegro *Chamber of Skilled Crafts and Entrepreneurship* was established to represent the professional, economic and social interests of the entrepreneurial middle class of Montenegro.

So far, there are 9 national and 3 local branch associations, such as: Building Trades Association of Montenegro; Association of Importers and Distributors of Motor Vehicles; Montenegro Hotel Association; Association of Photographers; Association of Goldsmiths of Montenegro, Association of Arts and Craftsmen; Pastry Association; Association of Bakers of Montenegro; Hairdressers Club of Podgorica, the Unisex Hair Studio Zoran, Ulcinj Business Association; and the Association of Women Entrepreneurship of Montenegro.

The above listed associations count about 3000 formal members. The joint office in Podgorica offers to these companies through the registered associations the following services: information, counselling, education, trainings, specializations, networking, lobbying, market exit, more favourable procurements, public relations, events, fairs, electronic marketing, export support service and the establishment of existence.

The Montenegro Chamber of Skilled Crafts and Entrepreneurship as an umbrella organization advocates the middle class entrepreneurial position in society, education policy, new technologies and regional and the European market. In this regard, the Strategy for the development of crafts was adopted, and includes 130 craft occupations and craft related services. The aim of the Strategy is to establish a stable framework of crafts education and training and build a comparable occupational standards and market-oriented way of qualifications. The Montenegrin craftsmen closely cooperate with similar organizations from 10 countries of the South Eastern Europe and the European Union.

The Montenegro Chamber of Skilled Crafts and Entrepreneurship and its 12 professional associations are founders and members of the following international organizations: Middle-class Bureau- regional network of organizations of the middle-class economy, with its seat in Sofia, European Association of Craft, Small and Medium-Sized Enterprises, Association of Balkan hairdressers and beauticians, Balkan Association of Goldsmiths, Balkan Association of Entrepreneurs, Balkan Alliance of Hotel Associations, International Hotel and Restaurant Association and Euro-Mediterranean Restaurants Federation. The Chamber itself is financed solely by membership fees and services.

Montenegrin Association of Craft, Small and Medium Enterprises (MACMSE) is a collective member of the Union of Employers of Montenegro. It is an association of craftsmen of various activities, established by the Union of Employers of Montenegro, and which Union of Employers of Montenegro supported in the event of establishing by providing strong personnel and technical support. This association has 110 members.

The Union of Employers of Montenegro is an independent, non-governmental, non-political and non-profit organization, based on voluntary membership and established with the support of the International Organization of Employers (IOE) and the International Labour Organization (ILO), in order to represent and advocate the employer's interests in a social dialogue.

The mission of the Union of Employers of Montenegro is to establish and develop social dialogue in compliance with the conventions and recommendations of the International Labour Organization, following the principle that an adequate social dialogue based on tripartite negotiations, with an active participation of employers, members of trade unions and the Government, represents the precondition for an intensive economic development, the rule of law and improvement of the society.

The members of the Union of Employers are small and medium-sized enterprises, large economic systems, including local and branch associations, with a share of 85% in the total GDP of Montenegro.

13. (Ref to Q. 42): Please explain how automatic registration to the Chamber of Commerce is managed, namely the calculation of the membership fee and the moment of payment.

In Montenegro, there is only one – Chamber of Economy of Montenegro. The Chamber membership is automatically obtained, as soon as a business organization is registered in the Central Registry of the Commercial Court; accordingly, all business organizations, banks and other financial institutions, insurance companies, and entrepreneurs conducting their business activity in the territory of Montenegro are admitted to the membership of the Chamber.

The data on its members, the Chamber of Economy of Montenegro receive, upon request, from the Commercial Court, that is, its Central Registry.

The amount of the membership fee, that is, the fee calculation basis, for each year is determined at the Assembly of the Chamber of Economy of Montenegro at the proposal of the Managing Board of the Chamber. The members of all Chamber bodies are exclusively business organizations, neither one representative of national government or local self government. Therefore, the amount of the membership fee is determined by those who pay for it.

In 2009, the base rate for the calculation of the membership fee amounted to 0.30% of the gross income of employees and it's paid on the salary payment date. In comparison to 2007, it was reduced from 0.32%.

The activities of the Chamber are funded from membership fees, in addition to the revenues collected from the provision of services that made up to 30% of the total Chambers budget, pursuant to the Law on the Chamber of Economy of Montenegro.

The Chamber of Economy of Montenegro has no income from the state budget or the budget of local self-governments.

14. (Ref to Q. 44): Please provide information on the measures ensuring the effective survival of start-ups and not the measures supporting the establishment of start-ups.

To ensure the successful "survival" of start-ups, the following measures have been undertaken:

1) "Soft" forms of financial support

"Soft" forms of financial support include stimulating credit lines of the Directorate for Development of Small and Medium Enterprises and the Employment Agency of Montenegro, which are reflected in lower interest rates, grace period and repayment periods.

As one of "soft" forms of support to beginners in business, the Directorate for Development of Small and Medium-Sized Enterprises has implemented the credit line "Encouraging beginners in business- start up."

This credit line ensured more favourable credit conditions than those in force in the market and supported start-up companies to start their own business and "survive" in the first years of operation. The interest rate amounted to 3% (the average market interest rate was 9,23% in the fourth month of 2008, when the implementation of this project started), with a grace period of 18 to 24 months and the repayment period of up to 8 years.

As for the support of the Employment Agency of Montenegro for beginners in business, the interest rate amounted to 3% - 4% depending on the underdevelopment of the municipality in which it is implemented, and whether it comes to women. The repayment period was 3 years, and grace period 1 year.

2) Business incubators

Through business incubators the logistics support is ensured for the beginners in business, which implies that newly established private small and medium-sized enterprises get a running start through access to micro-credits, free registration and 100 hours of free consulting services. Presently, there are two business incubators: *Inventivnost* (Inventiveness) Podgorica and the Business incubator of Bar. They are provided to use, under favourable conditions, the business premises (up to 5 years), equipment, additional instructions and trainings (financial management of European funds, leadership, accounting and tax obligations of business organizations, the internal auditor of the ISO 9001:2008 quality system, the Internet in support of business, business communication, techniques and web design tools, PR and media relations, local business opportunities, legal and tax frameworks, marketing, financial management, e-business, market research, project management, corporate communication, agency business, small hotel management, negotiation skills, time management, sales and sales management, pricing, etc.), as well as the consultancy support which includes expert advice, research data and all the necessary logistics.

The subsidies for the use of business premises amounts to 100% in the first year, 75% in the second, 50% in the third and 25% in the fourth year.

3) Advisory / consulting services

Through the network of 11 regional/local business centres, the Directorate for Development of Small and Medium Enterprises developed a system of support to beginners in business, aiming to provide all the necessary information relating to company foundation, support in access to banks, as well as other relevant and practical information and advice related to doing business in the first years after foundation of a company, including certain forms of monitoring.

The activities of regional/local business centres include the following: provision of free of charge advisory and consulting services; free of charge information on projects and programs in the field of entrepreneurship; provision of information to local media; assistance in organizing seminars for entrepreneurs; coordination of entrepreneurial activities within the local community, and other services. On average, 2000 entrepreneurs use a professional help through regional/local business centres per year.

The Centre for Entrepreneurship and Economic Development provides advisory services to entrepreneurs and small and medium-sized enterprises in Montenegro, in all stages of

development – from the company registration, engaging staff, market research, to finding partners and implementation of investments. For the purpose of more successful survival of beginners in business, CEED renders these services in a form of mentorship to the newly-registered companies. For example CEED provides support during the first year of operations to companies for which business plans are developed when applying for start-up loans. They provide support in the implementation of previously approved business plan, as well as in the part referring to finding clients.

BSC Bar provides the tenants of its business incubator in Bar with "vouchers" for the use of consulting services worth €2,500, upon entering the incubator. On the basis of the free of charge analysis of the company needs, it is determined which type advisory services are the most needed to the tenants of the incubator (e.g., accounting services, market research, finding partners for distribution, etc.).

4) Education

In terms of education for beginning entrepreneurs, in Montenegro there are institutions that conduct trainings in cooperation with local partners, the municipal offices of the Employment Agency, Centres for Entrepreneurship and the like.

The Directorate for Small and Medium Enterprises in order to educate beginners in business organized the training cycles that are related to practical examples from the field of marketing, finance and enterprise management.

5) Tax exemptions

At the state level for small and medium enterprises that start doing business, a special regime of taxation is not prescribed by law, except that the Law on Tax on Profit of Legal Persons (Official Gazette of RoM, No. 65/01 and 80/04 and the Official Gazette of Montenegro, No. 40/08) regulates tax reliefs for newly established companies that do business in the under-developed municipalities, and under the condition to do the production. The tax exemption is applicable for a period of three years from the company foundation.

At the local level for beginners in business, there are tax reliefs and the following table contains the information on the exemption from taxes, surtaxes, fees, etc, for the newly established companies by municipalities:

LOCAL GOVERNMENT	TYPE OF TAX EXEMPTION	REGULATION
Andrijevica	corporate income tax exemption: for the first business year– newly established companies and entrepreneurs; for the first two business years – for the crafts in short supply	- Article 8 of the Decision on company sign or name tax (Official Gazette of Montenegro - municipal regulations 21/08)
Bar	exemption from the company sign tax for the first business year	
Berane	exemption from the company sign tax for the first business year	- Article 6 of the Decision on company sign or name tax (Official Gazette of Montenegro - municipal regulations 6/08)
Bijelo Polje	exemption from the company sign or name tax for the first business year	- Article 6 of the Decision on company sign or name tax (Official Gazette of Montenegro / municipal regulations 7/08 and 20/08)
Budva	exemption from the company sign or name tax for the first business year	Decision on company sign or name tax
Danilovgrad	exemption from the company sign or name tax for the first business year Surtax exemption for new employees	- Article 6 of the Decision on company sign or name tax (Official Gazette of Montenegro / municipal regulations 08/08 and 12/09) - Decision on personal income surtax (Official Gazette of Montenegro, municipal regulations 02/04), according to the Law on Personal Income Tax
Zabljak	Surtax exemption for new employees	- Article 6 of the Decision on company sign or name tax (Official Gazette of Montenegro, municipality regulations 25/08)
Kolasin	Surtax exemption for new employees	- Article 6 of the Decision on company sign or name tax (Official Gazette of Montenegro, municipal regulations 14/08)
Kotor		
Mojkovac	exemption from the company sign or name tax for the first business year	- Article 6 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 12/08 and 26/08)
Niksic	Exemption from the company sign or name tax for the first business year	- Article 6 of the Decision on company sign or name tax (Official Gazette of Montenegro, municipal regulations 6/08)
Plav	Exemption from the company sign or name tax for the first business year	- Article 9 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 1/04, 10/04, 29/04, 5/05 and 18/08)
Pluzine	Exemption from the company sign	- Article 6 of the Decision on the company sign or name tax (Official Gazette of

	or name tax for the first business year	Montenegro, municipal regulations 12/08)
Pljevlja	Exemption from the company sign or name tax for the first business year	- Article 4 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 6/08)
Podgorica	Exemption from the company sign or name tax for the first business year	- Article 7 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 23/08)
Rozaje	Exemption on the company sign or name tax for the first business year	- Article 6 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 9/08)
Tivat	Exemption on the company sign or name tax for the first business year	- Article 3 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 26/08)
Ulcinj	Exemption on the company sign or name tax for the first business year	- Article 6 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 12/08)
Herceg Novi		
Cetinje	Exemption on the company sign or name tax for the first business year	- Article 6 of the Decision on the company sign or name tax (Official Gazette of Montenegro, municipal regulations 8/08)
Savnik		

15. (Ref to Q. 47): Please elaborate on the situation in relation to SMEs' access to finance through banks.

In Montenegro, it has been created such an institutional framework, which by no means prevents the right of any natural or legal person to access the finance through banks, while banks independently assess the credit worthiness of a borrower.

In August 2009², in order to mitigate the effects of the global financial crisis, the Council of the Central Bank of Montenegro adopted a set of temporary measures³ that will provide favourable conditions for restructuring of loans, classification of assets and lower billing of reserves for credit losses. The aim of the adopted measures is to improve the position of banks and their borrowers, as well as to preserve the stability and security of the banking system. A decision on temporary measures for credit risk management in banks was brought, enabling the banks, under certain conditions, to classify the restructured loans from 1st of January 2009 in a more favourable classification group, in case this will not negatively affect the liquidity of banks, but instead ensure orderly restructuring of debt in the future period. Also, this decision significantly facilitates the position of a borrower- a legal and natural person, who is facing the delay in payments, due the global financial crisis.

Furthermore, this decision, under certain circumstances, enables the banks to carry out more favourable loan classifications, ensured by collateral in a form of residential and commercial real estate.

² Source: CBCG

³ Official Gazette of Montenegro, No. 64/09

The aim of these decisions was to prevent, that is, to mitigate the decline of the assets, enhance credit activities and stimulate banks to more actively work on attracting new and previously withdrawn deposits.

At the end of December 2009, the Central Bank of Montenegro amended the Decision on temporary measures for credit risk management⁴, assuming certain incentives for banks, with the aim of launching credit activities. The new measures have reduced the reservations for certain classification groups. Also, it is envisaged that banks when assessing the credit worthiness of a borrower may exempt business indicators for 2009. In addition, banks were enabled to conduct the classification of loans approved for investing into development projects through analysis of the project profitability, rather than assessing the creditworthiness of a borrower. A novelty is the fact that the incentives for restructuring of loans can apply to loans that are late with payments of up to 180 days (instead of 90 days as it used to be).

On the basis of the Quarterly Report of the Chief Economist of the Central Bank of Montenegro - Third quarter of 2009⁵ - the situation in the banking sector was as follows:

The first three quarters of 2009 were characterised by a downward trend of deposits and loans in the banking sector, but the stabilization was recorded in the third quarter. Also, the first three quarters of 2009 were characterized by the increased participation of non-performing assets and loans, increase of reserves for potential credit losses, as well as loans that are late with payment.

Loans to the sector of economy amounted to € 1502.6 million at the end of September 2009. The decline in nine months equalled 9.3%, and 10.9% in a year, while the average monthly decline in nine months this year amounted to 1.1%. In the same period last year, the loans to this sector grew on the average by 2.4% per month. Out of the amount of total loans at the end of September, 58.4% referred to the sector of economy.

The increase in interest rates on loans to legal entities in Montenegro began in the third quarter of 2007. This tendency was intensified in the end of 2008, and was particularly stressed with regard to interest rates on short-term loans. The increase in interest rates was caused by an increase in the costs of domestic resources, lower availability and higher costs of foreign assets, an increase in the risk premium of the cost of acquiring foreign assets of domestic banks, as well as the efforts of banks to create reserves for future potential losses by increasing the banks' interest rate margin.

Observed by industry, in September 2009 the highest rate was recorded on loans granted to mining industry (9.88%), then to the energy sector (9.31%), and to the administration and other public services (9.30), while at the same time the lowest recorded value of the interest rate was on loans to agriculture, hunting and fishing (6.63%).

Active weighted average effective interest rate on total loans granted to legal entities amounted to 9.38% at the end of 2009. Observed by maturity, the interest rate on short-term loans to legal entities at the end of 2009 amounted to 10.30%, while rates on long-term loans amounted to 9, 29%.

16. (Ref to Q. 49): Please elaborate on the requirement for eligibility to small loans/ micro-credit for businesses and people wanting to set up a business.

Small loans (micro-loans) for natural persons and enterprises that want to initiate a business are made available through the Employment Agency, as well as state and Microcredit Institutions on the part of the private sector.

⁴ Official Gazette of Montenegro, No. 87/09

⁵ http://www.cb-cg.org/slike_i_fajlovi/fajlovi/publikacije/kvartalni_izv_gl_ekonom/iii_kv_2009/monetarna_kretanja.pdf

1) Employment Agency

By means of the Innovative self-employment program, the Employment Agency allocates the loans under favourable conditions to encourage the development of entrepreneurship of the unemployed persons and stimulate the development of existing small businesses and entrepreneurs.

The right to apply for a loan shall have:

- Unemployed persons registered with the Employment Agency of Montenegro;
- legal entities with the capacity of small enterprises;
- businessmen registered in compliance with the Law on Business Organizations;

To come to the realization of the loan, apart from the high quality, economically justifiable business idea developed within a business plan, it is necessary for the applicant to:

- have its own share of at least 30% of the total preliminary calculated value of the project. Personal share may be expressed in the form of things, rights and money;
- must have a refund guarantee:
 - Unemployed persons and entrepreneurs:
 - for loans up to € 5.000 - two creditworthy entities - guarantors whose salary is not below three minimum wages;
 - for loans over € 5.000 - two creditworthy guarantors whose income is not below three minimum wages and a fiduciary transfer of property rights to the provider of a loan whose value is at least double the amount of the approved loan.

For unemployed persons interested in loans from the field of agriculture, instead of real estate (fiduciary transfer of property rights) or a guarantor, the means of providing loan guarantees could be – bill of exchange authorisation from the company that buys (processing) agricultural products (agro industry) to pay off their debt .

- Legal entities with the status of small businesses:
 - fiduciary transfer of property rights to the loan provider, whose value is at least double the amount of the approved loan;
 - bill of exchange authorisation (issued by commercial banks).

Conditions under which loans are granted through the Innovative self-employment program are more favourable than the market conditions:

- credit amount per a new job is 5000 EUR with a maximum loan amount of EUR 15.000 for 3 new jobs;
- the interest rate is:
 - 3% for projects led by women;
 - 3% for the projects implemented in the municipalities of: Pljevlja, Žabljak, Bijelo Polje, Mojkovac, Berane, Andrijevica, Rožaje, Plav, Nikšić, Šavnik, Plužine, Kolašin and Cetinje,
 - 4% for the projects implemented in the municipalities of: Podgorica, Danilovgrad, Herceg Novi, Kotor, Tivat, Bar, Budva and Ulcinj;
 - the repayment period is 3 years for the unemployed, while the 2 years for small businesses and entrepreneurs;
 - loans are returned in the semi-annual annuities;
 - grace period of one year.

2) Micro-credit institutions

Micro-credit institutions in granting micro-credits to individuals and companies apply their own credit policy⁶, which determines the conditions for approval of a certain amount and the type of loan.

In the procedure of obtaining a loan, a credit analysis of a client is very important, implying the procedure for determining likelihood of debt payment by the client. Based on this analysis, the credit board with the assistance of the loan officer makes the evaluation of the financial standing of a client, or its liquidity, profitability and ability of borrowing, on which basis the maximum amount that the client can bear is determined. During the assessment of the credit worthiness, the client's character is taken into consideration as a moral factor, capacity of payment based on an assessment of financial capability of a client, the size of the capital, collateral as security for the debt and conditions of business operations that are adjusted to the client's ability to carry out undertaken obligations.

The procedure for obtaining a loan is as follows:

- Potential clients submit a request for a loan on which occasion they receive a credit application documents with instructions for its filling and completion,
- When a potential client brings duly filled in and made up a credit application, the request is sent to a credit board
- If the loan is approved, the client - guarantor and provider of the credit sign the contract
- The request for payment of a loan, a client brings to the branch office of the Montenegrin Commercial Bank
- When the loan is paid, the client is monitored in order to ensure regular repayment of the loan.

As security instruments the loan guarantors, mortgage, pledge of movable property, bills of exchange are used.

The access to loans of the microfinance institution **Alter Modus access** is ensured to all entrepreneurs who already run a particular economic activity, or have ideas for starting a particular economic activity. There are no other requirements and all clients are equally supported, no matter whether they are natural or legal persons, live in urban or rural areas, belong to any resident group (refugees and displaced persons, domiciled person, etc.), if they want to engage in any kind of economic activity - agriculture, cattle breeding, services, trade, production, etc.

As far as **frameworks for financing** are concerned, they are set by the Decision of the Central Bank on MFI (Official Gazette of RoM, No. 01/03) (Articles 8 and 16 define the purpose and financial limits).

As for **the costs of financing**, all loans are subject to 1% commission and monthly interest rate ranging from 0.99% to 1.45% calculated on a flat basis (depending on a funding cycle). Loans are granted for a maximum **period** of 36 months.

At the end of 2007⁷, weighted average nominal interest rate (PPNKS) on the total MFI loans amounted to 14.06% and the weighted average effective interest rate (PPEKS) was 27, 84%.

At the end of 2008, weighted average nominal interest rate (PPNKS) on the total MFI loans amounted to 13.99% and the weighted average effective interest rate (PPEKS) was 26.81%.

At the end of 2009, weighted average nominal interest rate (PPNKS) on the total MFI loans amounted to 17.71% and the weighted average effective interest rate (PPEKS) was 27.47%. In comparison to end of 2008, PPNKS was higher by 3.7 pp, while PPEKS increased by 0.66 pp.

⁶ Source: MFI's Ozment Credit Policy

⁷ Source: CBCG

At the end of 2009⁸, PPEKS on **total** short-term loans amounted to 34.94%, while on long-term loans it amounted to 27.14%⁹.

On loans granted to **legal entities**, PPNKS amounted to 16.23% while PPEKS was 26.80%. PPEKS on short-term loans to legal entities amounted to 33.62% and 26.33% on the long term loans.

On loans granted to **individuals**, PPNKS amounted to 17.73%, while PPEKS was 27.47%. For short-term loans PPEKS amounted to 34.96% and 27.15% for long-term ones.

Interest rates of banks and MFI for the approved loans are significantly different.

Namely, the weighted average effective interest rate of banks at the end of 2007 amounted to 9, 29%, while the same ones of MFI amounted to 27, 84%.

At the end of 2008, the weighted average effective interest rates of banks amounted to 9.33%, while the same of MFI amounted to 26.81%.

At the end of 2009, the weighted average nominal interest rate amounted to 8, 85% and the effective interest rates 9, 38%, while the same rate of MFIs amounted to 17.71% and 27.47%.

Banks have approved short-term loans (PPEKS) by 10.03% and MFI by 34.94%. PPEKS for long-term loans of banks amounted to 9.29% and 27.14% of MFI.

Table: Interest rates of banks and MFI at the end of 2009

		Short-term		Long-term		Total	
		Banks	MFI	Banks	MFI	Banks	MFI
Natural persons	PPNKS	11.99	22.62	9.79	17.51	9.82	17.73
	PPEKS	14.48	34.96	10.49	27.15	10.53	27.47
Legal persons	PPNKS	8.93	16.25	8.12	16.23	8.24	16.23
	PPEKS	10.12	33.62	8.42	26.33	8.66	26.80
Total loans	PPNKS	9.06	22.52	8.82	17.50	8.85	17.71
	PPEKS	10.30	34.94	9.29	27.14	9.38	27.47

17. (Ref to Q. 51): Please elaborate the impact of the latest government decision on reorganisation of the development fund and establishment of Investment Development fund. How is credit guarantee scheme covered under the newly adopted law on investment development fund?

The Decision of the Government of Montenegro as of 3rd of December 2009, established the Proposal to the Law on Investment – Development Fund of Montenegro, and at the end of December 2009, the Parliament of Montenegro adopted the Law on Investment Development Fund of Montenegro (Official Gazette of Montenegro, No. 88/09).

This legal decision defines establishing the joint-stock company with the following mission:

"The Fund is established to encourage and accelerate the economic development of Montenegro through: completion of the privatization process by means of the sale of capital gained in the process of property transformation, support to micro, small and medium-sized enterprises, support to infrastructure projects, water supply and waste water treatment projects and environmental protection as well as funding of projects of local, regional and national importance."

⁸ Source: CBCG

⁹ Table: Interest rates of banks and MFI at the end of 2009

The field of action of the Investment – Development Fund of Montenegro will largely rely on the activities of the previous Development Fund. For this reason, the Development Fund will be transformed into the joint stock company.

The equity of the Fund makes the entire capital of the Development Fund of the Republic of Montenegro, as follows: financial assets of the Development Fund, shares and ownership stakes in companies, claims on the basis of previously extended loans, receivables on bonds, real estate and equipment owned by the Fund. The equity of the Fund are also the funds that were directed to the Directorate for Development of Small and Medium Enterprises intended for financing of small and medium enterprises.

The activities of the Fund are:

- 1) Granting loans and issuing guarantees that:
 - a) encourage establishing and development of small and medium-sized enterprises;
 - b) provides support to infrastructure projects, water supply and waste water treatment projects, environmental protection projects, financing projects of local, regional and national importance;
 - c) encourage export;
 - d) promote employment;
- 2) Activities related to the sale of the Fund's equity portfolio
- 3) Other activities that support the economic development, in compliance with this law. Fund approves loans directly or indirectly, through banks.

The Fund is obliged to reduce to minimum the differences in conducting the activities of credit transactions and issuing the guarantees, guided by the principles of prudent banking. Report on credit operations and operations of issuing the guarantees by the Fund, the Fund itself delivers to the Central Bank of Montenegro in compliance with regulations of the Central Bank of Montenegro. The law defines 31st of March 2010 as the deadline for the beginning of work of the Investment-Development Fund.

Innovation Policy

18. (Ref to Q. 62): Please clarify and provide information on the role of the different state actors in the area of innovation, research and development, as well as the main programmes/tools/finance effectively in place.

As for the role of the Directorate for Development of Small and Medium Enterprises in the field of innovation, presently in Montenegro there are the following programs and instruments relating to the field of innovation, research and development:

- **Business incubators**

Presently, there are two business incubators: "Inventiveness" Ltd Podgorica and Business Incubator Bar. The Business Incubator "Inventiveness" Ltd envisages in its framework the support to young people in the field of information technology who will work on the development of business solutions in the field of software engineering and e-business. In addition, IT incubator contributes to linking the University and the market in the field of research and development, as well as the networking through incubators in the region and abroad.

- **European Information & Innovation Centre**

At the end of 2007, the Directorate for Small and Medium Enterprises established the consortium with the Chamber of Economy of Montenegro, Faculty of Civil Engineering and the Business Start-up Centre from Bar and after a positive assessment of the proposed project by the European

Commission, the *European Information and Innovation Centre Montenegro –(EIICM)* began its work in November 2008. EIICM is the member of the Enterprise Europe Network.

The target groups for services of EIICM are: small and medium enterprises, research and development institutions, innovators, government agencies, professional and branch organizations, educational institutions. The Work Plan of the EIICM in addition includes the following support services:

Services of innovations, knowledge and technology transfer

An important contribution to reducing the "innovation gap", creating new jobs, growth and sustainable development are expected from:

- distribution of information that increase the level of knowledge about policies relating to innovations, legislation and programs of support,
- distribution and utilization of research results
- provision of intermediary services for the transfer of technology and knowledge and building partnerships between all those parties involved in the innovation field
- encouraging the business capacities to innovate.

Services that encourage participation of SMEs in the Community Framework Programme for Research and Technological Development

- raising the level of knowledge of SMEs on the Community Framework Programmes for RTD
- supporting SMEs to identify their RTD needs and find relevant partners
- assisting SMEs in preparing and coordinating the project proposals for the participation in the Community Framework Programmes for RTD

At this moment, initiatives are launched in Montenegro in the plan of forming clusters and technology centres, since there are currently no business plans for forming scientific parks. During 2010, the Ministry of Education and Science will propose drafting the feasibility study for establishing these support mechanisms for innovations through one of the disposable international funds.

In January 2008, Montenegro joined **the Seventh Framework Programme for Research and Technological Development, FP7 (2007-2013)**, which is simultaneously the European Union's main instrument for funding scientific and research activities in Europe. The **Ministry of Education and Science** is the coordinator of this program in Montenegro.

Support to this programme has been provided through the training activities, promotions and counselling, as well as the financial stimuli for the project proposers and project participants.

The Ministry of Education and Science have established a network of national contact persons (NCP), who are in charge of specific thematic areas in the Seventh Framework Programme, in order to disseminate information and support the researchers when applying for the Calls for Project Proposals.

The **Ministry of Education and Science** as a state administrative body in charge of issues from the field of science conducts the monitoring in the field of scientific research activities in Montenegro, pursuant to the **Law on Scientific-Research Activities** (Official Gazette of RoM, No. 71/05) and **the Decree on organization and the manner of work of the state administration** (Official Gazette of Montenegro, No. 59/09).

Article 8 of the Decree stipulates that the Ministry of Education and Science is in charge of tasks that in addition to administrative tasks related to the education system refer to the system of science, including:

- supervision over the legality of work of institutions in the field of education and science;

- development of scientific-research activities;
- development of scientific and research organizations and agencies,
- development of science and implementation of scientific achievements in certain areas;
- technological development activities;
- system of financing the institutions, organizations and services in the field of science;
- administrative supervision in the areas that fall under the competences of the Ministry;
- as well as other activities within its competencies.

The Chapter 25, Science and Research, offers broader information on the competences of the Department for Science, Research and Technological Development within the Ministry of Education and Science.

For the purpose of implementation of the scientific and research policy, the **Ministry of Education and Science**, on the basis of Article 39 of the Law on Scientific-Research Activities (Official Gazette of RoM, No. 71/05), announces a competition for co-financing of the scientific-research activities from the state budget. The competition is announced on regular basis for the following purposes:

- research and scientific projects (national, bilateral and participation in the multilateral projects),
- training of researchers in the country and abroad and
- procurement of scientific equipment.
- incentives for participation in the Seventh EU Framework Programme for Research and Technological Development.

19. (Ref to Q. 63): Please provide further detail on the process of preparation (including consultations) of the development document "Montenegro in the 21st century". In which manner is it supporting Innovation policy?

Montenegro in the XXI Century is a document aimed at recognition of new knowledge as a key factor for innovations and hence the competitiveness of Montenegro. In this regard, themes such as education, functioning of the state, economic development, science and technology, demography, environment and sustainable development, systems of values are explored - as essential issues for the further development of Montenegro. The document should indicate the impact of these issues on the competitiveness of Montenegro. The objectives are defined as short, medium and long term. The team engaged in the project consists of 130 scientists, experts and other associates, mainly from Montenegro.

The document is planned to be completed in October 2010, through the book of statements related to the current situation, threats and suggested activities for each topic addressed by the project. The book of statements will be accompanied by 10 collections, each of them referring to one sub-project of which the process of development of the document was composed.

The sub-project *Science and technology* implied the implementation of *Foresight methodology*: an analysis of the existing data by the Monstat and the Ministry of Education and Science, the analysis of the literature - studies and reports of international organizations, the organization of the international conference Science and society (September 2009), large number of interviews with key actors of these on-line consultations through 5 different questionnaires directed to the research and business community in both the country and Diaspora (Delphi).

III. SECTOR POLICIES

20. (Ref to Q. 67): Please provide information on the financing mechanisms of the described sector specific development support programmes.

In the past period, the Ministry of Tourism provided support to the tourism sector through the promotion programs aimed at creating more favourable overall ambient for enhancing the tourism development, as well as improving the quality of tourism offer, creating new jobs, extending the tourist season and raising the level of citizens' awareness of the benefits and opportunities arising from the development of tourism in Montenegro, as the strategic development branch.

The support to the tourism sector was carried out through the following activities:

- Subsidizing the interest rates on commercial bank loans for investment projects in tourism sector.
- Drafting and conducting expert assessments of business plans for small and medium-sized enterprises in tourism sector,
- Creating info memorandum and the feasibility study of new investments.
- Conducting promotional activities aimed at attracting investors.
- Implementing incentive measures in the field of organized tourist traffic.
- Supporting implementation of projects in the NGO sector,
- Supporting the preparation of a season, the organization of tourist, entertainment and cultural events.
- Joint presentation of the private accommodation rentals.
- Reviving the entrepreneurial spirit and creating the new tourism offer and
- Education and training of staff.

These activities are financed from the budget, on the basis of reports by Commissions for the evaluation of subject matter projects. The aforementioned financing was completed prior to adoption of legislative acts which define the detailed criteria, purpose and terms of allocation of public support and assistance.

21. (Ref to Q. 70): Please provide information on the execution of 2008 and 2009 Privatisation plan.

In accordance with the Annual Plan of Privatization, the activities in the field of privatization in 2008 and 2009 were aimed at increasing the competitiveness and efficiency of business organization functioning, encouraging foreign investments and entrepreneurship in all areas, increasing employment and improving living standards. Privatization was carried out by applying the model of selling shares and assets through public tenders, public auctions, on the capital market and selling the assets of insolvent companies in the course of the bankruptcy procedure.

In the course of 2008, the implementation of the Privatization Plan was carried out through the following activities:

- Activities related to preparing and announcing the public tenders for privatization of the following companies were carried out: Institute Dr. Simo Milosevic, Adriatic Shipyard AD Bijela, Electrical Industry *Obod a.d. Cetinje*, Dairy *Zora* AD Berane, Newspaper-publishing and graphics company *Pobjeda* AD Podgorica, and *Duvankomerc* Podgorica, and the privatization of the company *Polimka* AD Berane was completed.
- The activities on the implementation of a public tender for the sale of majority stake in the company "Montepranzo-Bokaprodukt" AD Tivat are continued, with the planned implementation of the green field project for the development of "Golf resort" complex.

- The activities on preparation of the tender for sale of five small hydropower plants owned by Electric Power Industry of Montenegro and the company AD "Marina" Bar are initiated.
- The activities on preparation of the tender for sale of part of shares and capital increase of the national company in the energy sector "Electric Power Industry of Montenegro AD Niksic is initiated.
- The process of privatization of the largest insurance company in Montenegro- *Lovcen Osiguranje AD* is continued by the sale of the state-owned minority stake and state funds in the stock market.
- The activities on preparation and creation of the development concept with the definition of investment guidelines for potential investors, for the following exclusive tourist locations are initiated: Buljarica, Jaz and Ada Bojana, Velika Plaža, Valdanos and Ostrvo cvijeća (Island of flowers), Kumbor, Trašte and Bigovo. In this field, the activities on preparation and announcing of public tenders for the sites "Mediteran", Zabljak, Bigovo - Trašte ", Kotor and Valdanos – Ulcinj are completed. The tenders for the sites: Mediteran, Zabljak, Bigovo - Trašte, Kotor are declared unsuccessful.
- Preparing the process of restructuring and privatization of the complex economic entities in the field of transport has also been intensified in 2008. According to the adopted strategies, the activities on preparation of restructuring and privatization process were carried out in the companies of the transport sector, *Railways of Montenegro AD Podgorica*, and the *Port of Bar AD Bar*. The activities on the implementation of the strategy for restructuring the national airway company "Montenegro Airlines" doo Podgorica are completed as well.
- In 2009, the following activities on the implementation of the privatization plan were carried out:
- The activities on the privatization of the following companies through the public tender were continued: *Adriatic Shipyard AD Bijela*, Newspaper-publishing and graphics company *Pobjeda AD Podgorica*, *Montepranzo-Bokaprodukt AD Tivat*, the *Institute Dr Simo Milosevic AD Igalo* and *Zora AD Berane*. The tenders for privatization of the *Adriatic Shipyard*, *Pobjeda* and the *Institute Dr Simo Milosevic AD Igalo* were declared unsuccessful, while the activities on the privatization of the company *AD Marina Bar* have been successfully completed.
- The activities on the preparation of a public tender for the privatization of the following companies were conducted: *Duvanski kombinat (Tobacco) AD Podgorica*, *Barska plovdba AD Bar*, *HTP Budvanska rivijera AD Budva*, *HTP Ulcinjska rivijera AD Ulcinj*, *Institut crne metalurgije AD Nikšić* (Institute for ferrous metallurgy), *Barska plovdba Bar*, *DOO Montenegro bonus Cetinje*. In addition, the preparation of a public tender for the sale of five small hydropower plants owned by the Electric Power Industry of Montenegro AD Niksic is also in the preparatory phase. Tenders for privatization of *HTP Ulcinjska rivijera AD* and the *Institute of ferrous metallurgy AD Niksic* are declared unsuccessful.
- The activities on the implementation of a public tender for the acquisition of 11,457,357 existing shares owned by the state of Montenegro and the right to registration of 11,457,357 newly issued shares of the "Electric Power Industry AD Niksic are successfully implemented.
- The process of privatization of the largest insurance company in Montenegro - *Lovcen osiguranje AD Podgorica* was continued and successfully finished, with the sale of the minority stake, after the method of privatization was changed, through the public tender.
- The initiated activities on the preparation of the privatization process, in accordance with the approved programs for restructuring, are continued in the companies *Port of Bar AD Bar*, *Railways of Montenegro Podgorica*, *Montenegro Airlines AD Podgorica* and *Montenegro Post DOO Podgorica*. Based on the process of restructuring, the business system Port of Bar is divided into four companies as follows: AD Container terminal and

general cargo, Maritime Operations, Security and Information Technologies. The activities on preparation and announcing a public tender for the privatization of AD Container terminal and general cargo are finished. Based on restructuring, the business system *Railways of Montenegro AD Podgorica* is divided into the company Railway infrastructure of Montenegro AD Podgorica and the Railway transport of Montenegro AD Podgorica. The activities on the preparation and announcing a public tender for the privatization of the Railway transport of Montenegro Podgorica, as well as the activities on the preparation of the tender for privatization of Railway infrastructure of Montenegro AD Podgorica were completed.

- The initiated activities on the realization of public tenders for the evaluation of military and tourist complex in the locality "Valdanos – Ulcinj are continued.
- The public procedure preparatory activities for the selection of investors and the implementation of evaluation projects for the exclusive tourist sites: *Ada Bojana*, *Velika plaža* (Great Beach), *Njivice*, *Utjeha*, *Buljarica* and *Jaz*, as well as the part of the land of the *peninsula Luštica* are continued. In this domain, the activities for announcing the public tender for the development, construction, financing and management of the exclusive tourist complex and the long-term lease of the state-owned land at the site Great beach and Ada Bojana are carried out, while the activities on the implementation of the tender for the evaluation of the part of land on the peninsula Luštica are successfully completed.

I GENERAL QUESTIONS ABOUT INDUSTRY**22. (Ref to Q. 74): Please provide data related to the service sector.****a) Total number of companies in the sectors of production and services**

Name	2006	2007	2008
Mining and Quarrying	29	35	39
Manufacturing	1163	1285	1338
Electricity, Gas and Water Supply	25	30	32
Construction Industry	741	1172	1422
Wholesale and retail; repairs	7027	7882	8426
Hotels and restaurants	1512	1727	1866
Transport, storage and communications	1441	1663	1771
Financial intermediation	88	126	143
Real estate activities	1439	2197	2583
Public administration and defence;	175	180	175
Education	326	340	349
Health and social work	282	300	443
Other community, social and service activities	942	1040	1109

Source: MONSTAT

b) Number of companies by size

CLASS/SECTOR	2006	2007	2008
MICRO			
Mining and Quarrying	22	28	32
Manufacturing	937	1 049	1 098
Electricity, Gas and Water Supply	4	8	10
Construction Industry	616	1034	1281
Wholesale and retail; repairs	6384	7215	7738
Hotels and restaurants	1342	1542	1677
Transport, storage and communications	1329	1532	1630
Financial intermediation	62	98	113
Real estate activities	1294	2032	2414
Public administration and defence;	35	37	30
Education	73	86	94

20 Enterprise and industrial policy

- Additional Questions -

Health and social work	203	220	359
Other community, social and service activities	772	861	928
SMALL			
Mining and Quarrying	3	3	3
Manufacturing	163	171	175
Electricity, Gas and Water Supply	7	8	8
Construction Industry	102	113	116
Wholesale and retail; repairs	571	592	610
Hotels and restaurants	135	147	151
Transport, storage and communications	81	96	104
Financial intermediation	12	14	16
Real estate activities	130	149	153
Public administration and defence;	69	71	72
Education	146	146	147
Health and social work	42	43	47
Other community, social and service activities	128	135	136
MEDIUM			
Mining and Quarrying	1	1	1
Manufacturing	54	56	56
Electricity, Gas and Water Supply	12	12	12
Construction Industry	21	23	23
Wholesale and retail; repairs	64	66	69
Hotels and restaurants	30	33	33
Transport, storage and communications	23	26	26
Financial intermediation	11	11	11
Real estate activities	14	15	15
Public administration and defence;	53	54	55
Education	106	107	107
Health and social work	30	30	30
Other community, social and service activities	38	40	41
LARGE			
Mining and Quarrying	3	3	3

20 Enterprise and industrial policy

- Additional Questions -

Manufacturing	9	9	9
Electricity, Gas and Water Supply	2	2	2
Construction Industry	2	2	2
Wholesale and retail; repairs	8	9	9
Hotels and restaurants	5	5	5
Transport, storage and communications	8	9	11
Financial intermediation	3	3	3
Real estate activities	1	1	1
Public administration and defence;	18	18	18
Education	1	1	1
Health and social work	7	7	7
Other community, social and service activities	4	4	4

Source: MONSTAT

c) Division in public and private sector

TYPE OF PROP./SECTOR	2006	2007	2008
PUBLIC			
Mining and Quarrying	0	0	0
Manufacturing	3	3	3
Electricity, Gas and Water Supply	0	0	0
Construction Industry	16	36	40
Wholesale and retail; repairs	18	25	30
Hotels and restaurants	30	31	34
Transport, storage and communications	24	25	30
Financial intermediation	5	7	43
Real estate activities	24	39	43
Public administration and defence;	72	77	81
Education	10	10	10
Health and social work	1	1	2
Other community, social and service activities	379	398	411
PRIVATE			
Mining and Quarrying	28	34	38
Manufacturing	1 141	1 260	1 311
Electricity, Gas and Water Supply	8	13	15

20 Enterprise and industrial policy

- Additional Questions -

Construction Industry	703	1114	1360
Wholesale and retail; repairs	6992	7839	8378
Hotels and restaurants	1465	1678	1808
Transport, storage and communications	1418	1617	1720
Financial intermediation	69	105	121
Real estate activities	1383	2126	2507
Public administration and defence;	1	1	1
Education	68	81	89
Health and social work	224	241	382
Other community, social and service activities	451	525	580
COMBINED			
Mining and Quarrying	0	0	0
Manufacturing	3	3	3
Electricity, Gas and Water Supply	0	0	0
Construction Industry	2	2	2
Wholesale and retail; repairs	2	2	2
Hotels and restaurants	0	0	0
Transport, storage and communications	0	0	0
Financial intermediation	1	1	1
Real estate activities	6	6	6
Public administration and defence;	0	0	0
Education	0	0	0
Health and social work	0	0	0
Other community, social and service activities	19	20	20
TWO OR MORE TYPES OF PROPERTY			
Mining and Quarrying	1	1	1
Manufacturing	4	4	4
Electricity, Gas and Water Supply	0	0	0
Construction Industry	14	14	14
Wholesale and retail; repairs	11	12	12
Hotels and restaurants	11	11	11
Transport, storage and communications	10	10	12

- Additional Questions -

Financial intermediation	9	9	9
Real estate activities	10	10	10
Public administration and defence;	0	0	0
Education	2	2	3
Health and social work	0	0	0
Other community, social and service activities	3	3	3
STATE-OWNED			
Mining and Quarrying	0	0	0
Manufacturing	15	15	17
Electricity, Gas and Water Supply	17	17	17
Construction Industry	6	3	6
Wholesale and retail; repairs	4	4	4
Hotels and restaurants	6	6	6
Transport, storage and communications	9	9	9
Financial intermediation	4	4	4
Real estate activities	16	16	17
Public administration and defence;	102	102	103
Education	247	247	247
Health and social work	56	57	59
Other community, social and service activities	90	94	95

Source: MONSTAT

23. (Ref to Q. 77): Please provide sources of the provided data.

Activity V (C) – Mining and quarrying include: Extraction of energy sources (coal, oil, etc) and mining of ore and stone, except for energy raw materials (iron ore, non-ferrous metals, non-metal minerals, salt, stone, gravel and sand). It participates in the structure of industrial production with 5.3%, while in the structure of GDP for the overall economy it has a share of 1.1% according to data for 2007.

This activity creates jobs for 10.7% of total workers employed in the industry. The generated investments in 2007 amounted to 16.4% of the amount generated on the level of the entire industry, or 2.0% in comparison to the overall economy.

Activity D (E) - Production and supply of electricity, gas and water includes: production and distribution of electricity, gas, steam and hot water, as well as collecting, purifying and distributing water. In the structure of industrial production it participates with 11.4% and in GDP of the overall economy with 3.0% according to data for 2007.

This activity employs 15.9% of total workers out of the total number of the employed in the industry. The generated investments in 2007 amount to 29.1% in comparison to the total industry, or 3.6% in comparison to the total economy.

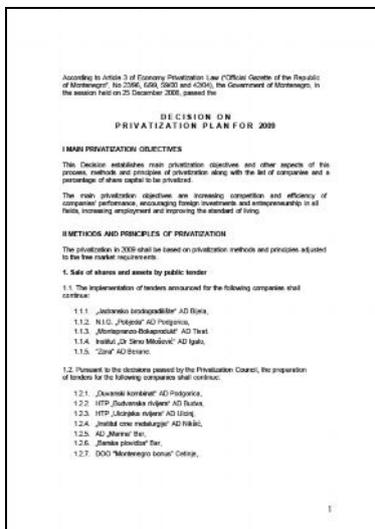
Area G (D) - Manufacturing industry includes 14 sub-activities and in the industrial structure participates with 83.3%, and in GDP of the total economy with 6.9% according to data for 2007.

The manufacturing industry employs 73.4% of the total number of employees in the industry. The generated investments in 2007 for this activity amounted to 54.5% of the total industry and 6.7% in comparison to the overall economy.

The source of these data is MONSTAT.

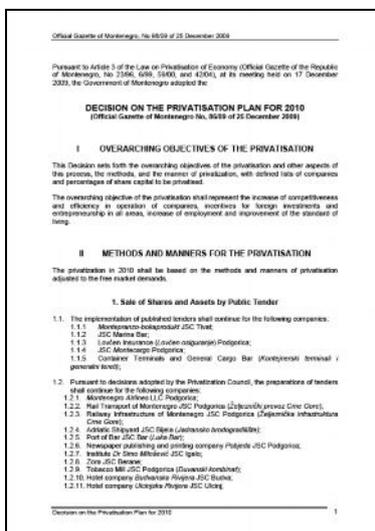
Annex

1. Decision On Privatization Plan For 2009



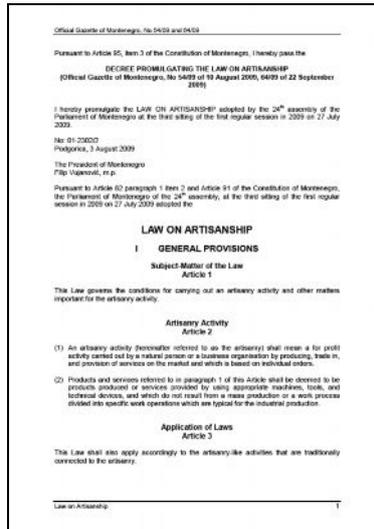
Please double click to open the whole document

2. Decision On The Privatisation Plan For 2010



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3. Law On Artisanship



Please double click to open the whole document

4. Law On Investment And Development Fund Of Montenegro



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