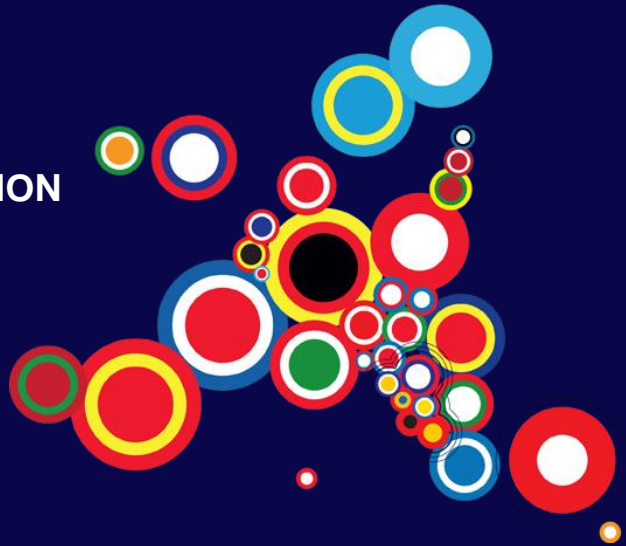




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

MONTENEGRO

STRENGTHENING THE COMPETITIVENESS AND INNOVATION SECTOR OF MONTENEGRO



Action summary

The overall objective of the Action is to strengthen the competitiveness and innovation sector of Montenegro.

This Action will support the private sector development, business modernization and improvement of the national administrative capacity for coordination and implementation in the field of competitiveness and innovation.

It aims to develop the private sector and improve its competitiveness, to further develop the knowledge economy sector and to make its capacities stronger and more coordinated.

Action Identification	
Action Programme Title	Annual Action Programme for Montenegro for 2016
Action Title	
Action ID	IPA/2016/37896/02/ME/Competitiveness and Innovation
Sector Information	
IPA II Sector	Competitiveness and Innovation
DAC Sector	25010
Budget	
Total cost	EUR 7,721,000
EU contribution	EUR 6,948,900
Budget line(s)	
Management and Implementation	
Management mode	Indirect management
<i>Indirect management:</i> National authority or other entrusted entity	Central Finance and Contracting Unit in Montenegro
Implementation responsibilities	
Location	
Zone benefiting from the action	Montenegro
Specific implementation area(s)	Ministry of Economy
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by 31 December 2017
Final date for concluding delegation agreements under indirect management	NA
Final date for concluding procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation
Final date for operational implementation	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement

Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

The present Action Document will support Montenegro to improve its economic competitiveness and innovation capacity in order to ensure sustainable economic growth. In the context of the EU integration process, Montenegro needs to increase competitiveness and innovation, as well as economic growth. The main obstacles to growth are identified in the *Montenegro's Economic Reform Programme (ERP)*, firstly prepared for the 2015-2017 period. ERP is an annual exercise, prepared and lately updated for the period 2016-2018. The obstacles are, among others: (i) relatively high participation in the informal economy; (ii) inflexibility and high costs of labour market; (iii) insufficient match between required education results and skills with the labour market needs; (iv) insufficiently developed physical infrastructure; (v) low efficiency of state administration; (vi) restricted access of SMEs to financing as well as insufficient education and awareness of entrepreneurs; (vii) low level of added value in manufacturing and insufficiently diversified exports; (viii) incomplete use of international standards of doing business; (ix) insufficient efficiency of contract execution and necessity of further enhancement of overall business environment.

The majority of obstacles/problems have been outlined in the 2016-2020 Regional Development Operational Programme prepared by Montenegro for IPA II planning purposes in the areas of Transport, Environment and Competitiveness and Innovation (C&I). In this respect, this Action Document addresses the following three key issues:

- 1) Insufficient level of private sector competitiveness. The *Indicative Strategy Paper for Montenegro (ISP) (2014-2020)* specifically mentions that Montenegro needs to make further efforts to improve in this area, in particular regarding access to finance, business licensing and permits. The *Montenegro 2015 Report* also mentions the necessity of strengthening the non-financial and financial public-sector support for SMEs.
- 2) Insufficient level of private sector innovation. Innovation understood as the capacity of increasing the Montenegrin competitiveness through the establishment of an interconnected system between research, technology and economy. As the *ISP* underlines, Montenegro needs to “*increase the competitiveness of the country...improving the quality and efficiency of the research and innovation policy, and strengthening its links with business.*” The *Montenegro 2015 Report* outlines that the country should in particular: “*-enhance efforts to increase investment in research, in particular through stimulating investment by the private sector and –increase and focus efforts on participation in the EU Programme ‘HORIZON 2020’.*”
- 3) Insufficient administrative capacity and level of alignment to the EU *acquis* in the field of Competitiveness and Innovation. The *ISP* concludes that Montenegro lacks administrative capacity – mainly due to the fragmentation of institutions involved in the implementation of different strategies – that affect negatively competitiveness. The *Montenegro 2015 Report* recognises also that in the coming year the country should adopt a new Public Administration Reform Strategy (PAR) for 2016-2020 in order, among other objectives, to fully prepare and harmonize national legislation with the EU *acquis*.

The difficulty faced by Montenegrin companies regarding **access to finance** represents a long standing challenge in the sector. With around 23,000 small, 200 medium-sized and 100 large companies, contributing to around 60% of GDP, Montenegro's SMEs need to be supported in this specific issue. As the EC notices the access to finance remains a particular challenge for SMEs (*Montenegro 2015 Report* and *ISP 2014-2020*). In the same sense, the *Small Business Act (SBA) 2015 for Montenegro* recognises the access to financing and delivery of business services as barriers for growth and development of SMEs. Without finance or with a poor financial system, the companies do not have one of the basic elements for developing projects and hence to improve competitiveness. The development of the private sector requires a suitable financial framework, which provides SMEs with favourable access to available funding models, creating new models in accordance with their needs, which can be summarised as follows: although there exist financial assistance to SMEs through several credit lines (e.g. for direct financing of investment projects, short-term funding, support aimed at young entrepreneurs, etc.) and also factoring facilities, the interest rates in both the traditional banking system and in the microfinance lending facilities in Montenegro generally

remain higher than in the neighbouring countries. Incentives such as interest rate subsidies are not available. Business angels' funding and venture capital funding are practically non-existent. Loans arising from the few microfinance-lending facilities are scarce and expensive. The use of equity financing for innovative start-ups and SMEs is at starting point and readiness of companies in using this financial instruments is not recognized and implemented.

Supporting the establishment of **new companies** is a question that involves a number of services and adequate infrastructure. It is essential to establish the institutional infrastructure necessary to promote the emergence of these companies and support them in the process of creation and consolidation.

Enterprises also need support through specialized **non-financial services**. The last *SME Policy Report Index: Western Balkans and Turkey 2016*, OECD, recognises that Montenegro has adopted strategies to stimulate private business support services funded from both budgetary and donor contribution. Websites provide information about private business support, but they are not comprehensive or regularly updated. In this sense, offering business-consulting service, information and trainings are key tools for stimulating the competitiveness of their business. These services, information and trainings, at present, are not accessible throughout the entire territory of Montenegro and also are not at the same quality and scope. That is the reason why such an activity is included in this Action Document.

Delivery of business services and promoting cooperation and business connectivity among SMEs through **clustering** and networking can facilitate adoption of innovative standards, increase their competitiveness and also facilitating access to international markets. The newly established Regional Business Centre and Incubator in Berane (IPA 2011) and activities of the Enterprise Europe Network-EEN Montenegro (COSME 2014-2020) will play a relevant role in this field.

Internationalisation has become increasingly important to the competitiveness of enterprises of all sizes. In today's environment, SMEs that start with a global strategy can move quickly to take advantage of cross-border activities, which provide opportunities not only for revenue growth but also the exchange of knowledge and the enhancement of capabilities, thereby strengthening the long-term competitiveness of the firm. Despite the common understanding of the importance of internationalisation, there are still many internal and external barriers that impede the internationalisation of SMEs. Increasing the capacities of local SMEs for value added generation, economic diversification, exports and employment creation through industrial upgrading and modernization would be of central importance for tackling those limitations.

Implementation of **Competitiveness Support Grant Scheme** is also planned for the coming period in order to continue with activities that have already started (IPA 2014: Designing the Competitiveness Support Grant Scheme) aiming to improve financing for innovative enterprises and in general improve competitiveness of the private sector.

Taking into account that technologies used in Montenegro's industry are mainly obsolete, over-exploited, labour-intensive, low value-added processing stages, it has been recognized the need for improving the existing investment framework for industrial modernization. In line with this, modernization of the sectors with potential for growth and development by taking into account principles of smart specialization which are key elements that have a significant role in the process of development and adoption of new technologies, creation of new industrial products, improvement of export potential and thus contributes to the strengthening of industrial competitiveness. Introducing modern technologies and their application within priority sectors of industry is needed to increase efficiency of investments and stimulate movement of production towards higher value processing stages.

Innovation is gaining a rather important place in all types of economic activities of Montenegro as one of the main drivers of economic growth and the basis for economic transformation and modernization of the country. Montenegro has recognized the need to create a well interconnected system of innovation where investing in human resources, their knowledge and skills, combined with developed infrastructure for innovation, contributes to high level of creativity which yields specific results in terms of increasing productivity, expanding the production base and creating new sources of competitive advantages. Montenegro continues to have very few enterprises that base their activities on innovation, knowledge and modern technologies. In the context of incentives for entrepreneurial potential based on innovation, the institutional framework will be brought about by establishing the first Scientific and Technological Park- in Montenegro (STP)-Innovative and Entrepreneurial Centre "Technopolis", Nikšić. The First Scientific and

Technological Park is designed as a networked structure that will be headquartered in Podgorica with three decentralized units – impulse centres in Nikšić (above mentioned “Technopolis”), Bar, and Pljevlja, which will create a strong link with local and regional business centres, incubators and clusters, and it will enable commercialization of innovative ideas into new products and services, which could be placed on the market. Construction of the ‘Technopolis’ centre was completed in July 2016 and the selection of entrepreneur tenants is now finalised; the centre was formally opened in September 2016. The tender for equipping the facility with office furniture was published on 20 May, 2016 and the items were delivered before the official opening of the centre on 19 September 2016. “Technopolis”, which was created as a limited liability innovative entrepreneurial centre (Montenegro Government session of 27 June 2013), is an innovative organization that provides specialized infrastructure and services, information/ infrastructure, professional and consulting services, support for cooperation with potential partners for participation in national and international programmes, projects and funds from certain scientific fields, to the users, scientific research institutions, institutions of higher education and other innovative organizations and companies, and for the economic development of the region and Nikšić. In accordance with article 10, paragraph 1 of its Statutes, the potential profit shall be reinvested in further development and performance of activities of the centre.

Taking into account its planned activities, Technopolis will contribute to: linking science and business sectors; improving the competitiveness of SMEs and promoting entrepreneurship; and support for new companies. It will have a space for the development of small, medium and micro enterprises and new companies, and for the laboratory of biochemical and phytosanitary research, laboratory to industrial design (electro mechanical), ICT data centre, meeting rooms, a multimedia room and internet cafe.

In terms of financing, in the 2016 budget the Technopolis in 2016 is implemented in accordance with the Law on Budget of Montenegro for 2016 as follows: in the Capital Budget approved for funding earlier Army House in Nikšić, for the purposes of accommodation Technopolis € 805,000.00 and within the Ministry of Science, Technopolis Programme-approved financing for Technopolis work in the amount of € 66,049.00.

Project “Technopolis” is implemented by the Ministry of Science in cooperation with following ministries/institutions: Ministry of Agriculture and Rural Development, Ministry for Information Society and Telecommunication, Municipality of Nikšić, Investment/Development Fund and Directorate of Public Works.

Scientific and Technological Park is the new instrument included into Strategy of Scientific-Research Activity of Montenegro 2012-2016 as an instrument for achieving the third objective of the Strategy, namely strengthening linkage between academy and industry. The Strategic plan for Establishing Science and Technological Parks (2013-2018) was adopted in 2012. Laboratories should be equipped through this Action.

In the upcoming period it is also necessary to further **strengthen administrative capacities** as well as to enhance technical competencies of the institutions within the sector in order to implement the relevant laws, **finalize the harmonization of laws with EU Acquis** and implement policies and programmes related to SMEs. As the European Commission underlined in the 2015 Montenegro Report: “*Montenegro should in particular: -ensure that adopted measures to rationalise public administration are implemented, while ensuring the necessary capacity and skills for European integration.*” Montenegro is committed to undertake a wide public administration reform (PAR); such reforms are outlined in the *PAR Strategy 2016-2020* and its related Action Plan, which are expected to be shortly adopted in 2016. The most important expected result of this reform is the creation of service-oriented public administration that should contribute to the economic stability and quality of standard of living of all citizens and companies in Montenegro.

This Action addresses a number of priorities within the Accession Partnership and represents continuation of ongoing activities and support to relevant negotiation chapters such as:

Chapter 1. Free movement of goods;

Chapter 3. Right of establishment and freedom to provide services;

Chapter 6. Company Law;

Chapter 7. Intellectual property law;

Chapter 8. Competition policy;

Chapter 9. Financial services;

Chapter 20. Enterprise and industrial policy;
Chapter 25. Science and research;
Chapter 28. Consumer and Health Protection.

The lead institution for the coordination of this Action is the Ministry of Economy. The key stakeholders affected by the problems in this sector, which will benefit from this Action, are the Ministry of Economy, the Ministry of Science, the Ministry of Sustainable Development and Tourism, the Ministry of Transport, the Directorate for Development of Small and Medium Enterprises as well as the Intellectual Property Office of Montenegro (IPOM), the Investment Development Fund, the Accreditation Body of Montenegro, Administration for Inspection Affairs, Agency for Protection of Competition, the Ministry of Finance, the Ministry of Foreign Affairs, Bureau of Metrology, Institute for Standardization of Montenegro, Agency for medicine and medical devices, the Chamber of Commerce of Montenegro, Union of Employers of Montenegro and the Montenegrin Investment Promotion Agency. In addition, SMEs are targeted by this Action since strengthening capacities for coordination and implementation of key policies in the area of competitiveness shall directly influence their development. Local self-government units, civil society organisations and universities will also benefit from this Action.

The Ministry of the Interior is responsible for coordination and management of the upcoming Public Administration Reform Strategy 2016-20, which includes horizontal functional and organisational review of the public administration. The General Secretariat of the Government (GSG) is responsible for steering and coordinating policy development, and for assessing the quality of policy contents and for ensuring coherence between sector strategies among themselves and with the Government central planning policies. Finally the Human Resources Management Authority (HRMA) is responsible for training and professional development initiatives across the public administration.

OUTLINE OF IPA II ASSISTANCE

This action will contribute to the **increase of the private sector competitiveness and innovation capacity, with a focus on SMEs**. In addition, it support the increase of **administrative capacity and level of alignment to the EU *acquis* in the field of Competitiveness and Innovation**

As regards private sector competitiveness, the action will focus on improving access to finance of private sector for competitiveness and innovation by developing new Financial Instruments and grants; supporting business development through the provision of advanced advisory service for private sector; as well as promoting the internationalization of the national economy.

Concerning innovation, the action will improve the research and innovation infrastructure available to SMEs in order to support their development in this regard.

As regards, administrative capacity development, IPA support will be used for the provision of horizontal assistance for the capacity development of the relevant institutions involved in competitiveness and innovation management, as well for the alignment of national legislation and strategies with EU *acquis* for the chapters included in C&I Sector.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

The Action falls under the scope of Sector 5 - Competitiveness and Innovation of the *Indicative Strategy Paper for Montenegro (2014-2020)* (ISP), which outlines the IPA funding priorities for the period 2014-2020. According to the *ISP*, Montenegro has developed a set of sectoral strategies but the lack of administrative capacity and fragmentation still impede the policy implementation at times, thus negatively affecting competitiveness, including the implementation of the *acquis*. In this sense, Montenegro is expected to adopt the new Strategy 2016-20 on Public Administration Reform which will include a number of horizontal measures including reforms to improve the policy development and coordination system, to build capacities across the public administration and to improve the monitoring and reporting system in line ministries and in the Centre of government institutions (General Secretariat of the Government, Secretariat for Legislation, Ministry of Finance and Ministry of Foreign Affairs and European Integration).

Section 5.1 of the *ISP* outlines that Montenegro is in the process of developing a comprehensive industrial competitiveness strategy in line with *Europe 2020* and the EU's integrated industrial policy. It is also stated that: "Montenegro needs to make further efforts to improve in this area, in particular as regards access to

finance, business licensing and permits.” Montenegro needs also to improve the business environment by developing access to information infrastructure to reduce both the digital divide within the country and the gap with the EU. Regarding financial services *ISP* outlines “National legislation aligned with the EU *acquis* in the financial sector, including financial supervision”.

Furthermore: “Another important mechanism to increase the competitiveness of the economy of the country includes improving the quality and efficiency of the research and innovation policy, and strengthening its links with business”. Additionally, in the section 5.2 of the *ISP*, one of the main results to be achieved under the Sector 5 - Competitiveness and Innovation with this Action supported through the IPA 2016 is related to the *Comprehensive Industrial Competitiveness Strategy* prepared and implementation well on track and *Small Business Act recommendations* (SME Policy Index) regularly followed up and implemented”.

As regards national strategies, the sector “Competitiveness and Innovation” is recognized as one of the key priorities at the national level. The sub-sector strategies and policies are firmly linked with the *Accession Programme of Montenegro 2015-2018* which includes the objectives and plans related to harmonization of legislation, strengthening institutional/administrative capacities, efficient implementation and raising public awareness. In essence, they are focused on meeting the criteria for full membership.

Concerning **Montenegro’s Economic Reform Programme (ERP) 2015-2017**, this strategic document should be considered as one of the most comprehensive from the point of view of the criteria and framework on the Competitiveness and Innovation Sector. The second part of the ERP is dedicated to the Sectoral Structural Reforms to Promote Competitiveness and Growth. Activities described in this Action are aligned with the following ERP priority measures:

- no. 9: Construction of Innovation-Entrepreneur Centre “Technopolis“;
- no. 10: Financial support to the SME sector;
- no. 11: Enhancement of institutional and administrative capacities for SMEs support;
- no. 15: Online availability of public services and implementation of the information system for exchange of data from the registers of state authorities;

The measures included in the ERP 2015-2017 have been updated and revised in the framework of the **Montenegro Economic Reform Programme 2016-2018**, which includes the following priority reform measures in line, directly or indirectly, with this Action:

- no. 14: Improving financial support to the sector of small and medium sized enterprises;
- no. 15: Construction of innovative entrepreneurship centre “Technopolis” in Nikšić;
- no. 16: Increasing competitiveness of companies through harmonization with the requirements of international quality standards;¹

Montenegro has adopted its *Industrial Policy until 2020* with accompanying multiannual Action plan in June 2016. The industrial policy of Montenegro will create conditions for modernization of industry based on knowledge and innovation and it will provide better integration into international market, through further improving the business environment, supporting enterprises and entrepreneurship, and stimulating the use of modern technologies with a view to creating new, and better quality jobs. Implementation of activities regarding industrial modernisation provided in this Action will significantly contribute to achieving all four strategic objectives of Industrial policy defined as follows: Competitiveness of industry, Investment and finance for the modernisation of industry, Innovations and entrepreneurship as well as Market access.

Montenegro is currently implementing the *2012-2016 Strategy for Sustainable Economic Growth of Montenegro through Introduction of Business Clusters*. The main strategic objective is to contribute to a more balanced regional socio-economic development by enhancing the competitiveness and employment capacities of SMEs particularly in less advanced municipalities of Montenegro. Proposed project in this

¹ Annex 2 Montenegro's Economic Reform Programme 2015-2017 (ERP) and ERP 2016-2018

Action will build on already implemented IPA 2011 project “Enhancing the Competitiveness of Local SMEs in Montenegro through Cluster Development”

The link between this Action and *Montenegro Tourism Development Strategy to 2020* is reflected through objective 1 - Create the required tourism and accompanying infrastructure to attain the strategic goal – MEASURE 1.5. Enhance quality of service in tourism; Objective 2: Montenegro, one product, one USP (Unique Selling Point) – MEASURE 2.2. Promote regional clusters to strengthen the tourism potential in all regions and sub regions in Montenegro; and objective 3. Montenegro known and recognised as an all-year-round destination – MEASURE 3.1 – Diversification.

The *Strategy for Development of SMEs 2011-2015* has been addressed in Strategic objective 2 - Strengthening financial support - and Strategic objective 3 - Strengthening competitiveness of SMEs and entrepreneurial promotion. Strategy within the framework of Second Strategic Objective is defined through following relevant operational goals: Enhancement of approach and availability of loans and strengthening SME capacities for financial management; Strategy within the framework of Third Strategic Objective defines the following relevant operational goals: Rounding up of necessary institutional support to SME development; Educational and advisory service for SMEs; Incitement of SME export;

The link between the Action and *Montenegro Development Directions 2015-2018* is reflected through the measures in the Smart growth framework: usage of land potential in a more efficient way, which will contribute to lowering of import dependability; raising export and lowering trade payment deficit; and developing of entrepreneurial, innovative and research infrastructure.

The Action relates also to the *National Intellectual Property Strategy 2012-2015* in the goal related to “improving Government competence and modernizing systems“. The link between the Action and *Development Strategy of the Manufacturing Industry in the Montenegro 2014-2018* can be recognised in terms of: „increasing competitiveness and GDP growth“.

Strategy for Scientific Research Activity of Montenegro (2012-2016) specifies three strategic goals of the Ministry of Science which will contribute, not only to the development of the scientific research community of Montenegro, but also to development of entire Montenegrin economy. One of them is related to strengthening of cooperation between academy and industry sector. Under this goal, certain number of activities is in progress. One of them is establishment of the first Scientific and Technological Park in Montenegro which first phase is establishment of the first Innovation-entrepreneurial centre „Technopolis“ in Nikšić. Through IPA 2014 „Enhancement of Business Environment and Competitiveness of Private Sector“ first phase of equipping Technopolis should start Activities in this Action document are continuation of previous and relating to the procurement of equipment for laboratories. The Strategy on Innovation Activities was adopted in July 2016. The Strategy includes three strategic objectives. One of the priorities within the first strategic objective (Strategic Objective I: Increasing the capacity for innovation and technological development of Montenegro) refers to the Improvement of infrastructure in order to support innovation and technological development. This priority includes the project on establishing the first STP in Montenegro as well as activities on establishment of Innovative entrepreneurial centre "Technopolis centre in Niksic. *Strategy for Development of national brand of Montenegro 2017-2022*, whose adoption is expected in the 4th quarter of 2016, will be a good basis for future development of all crucial aspects of Montenegro`s economy. The strategy will be focused on attracting foreign direct investments, raising of domestic production, better competitiveness of domestic producers and companies in general, higher quality of domestic products and services. A stronger nation brand will contribute to better promotion and greater sales of domestic products abroad which will have a positive impact on the entire Montenegrin economy. The domestic producers will have an opportunity to apply for obtaining license for use a nation brand mark, which could contribute to better promotion and greater competitiveness of Montenegro`s products.

The link between the Action and *Draft of Strategy for attraction Foreign Direct Investment 2016-2020* is reflected through “Direct and complete access to all administrative and analytical information necessary to potential investors and SMEs should be provided at one place”. Under sub-category priority 1. Improvement of the investment environment, is recognized one of the goals – “Strengthening the investment potential of small and medium-sized enterprises” and “Measures and activities under this priority will be implemented in cooperation with all institutions at local and national level, dealing with the promotion of investment opportunities, economic resources and development projects in Montenegro”

A number of strategies and action plans explicitly dealing with the *acquis* have been prepared and adopted, among which the following:

In October 2014, Montenegro adopted the *2014-2018 Strategy of Montenegro for implementation of the *acquis** in the area of free movement of goods and a five-year *Action Plan* for its implementation. The Government of Montenegro adopted updated Strategy and Action Plan for its implementation in June 2016, while the *National Strategy for Managing Chemicals* and the accompanying Action Plan for the period 2015-2018 were adopted in January 2015.

Furthermore other relevant strategies include: the *Strategy for Development of Standardisation 2015-2018*;; *Strategy for Development of Accreditation 2015-2018*; *The National Consumer Protection Programme 2015-2018*, *The Strategy of Metrology Development in Montenegro for period 2016-2018*, *Strategy for Development of Information Society 2012-2016*.

Relevance with the relevant regional strategies:

The Action relates also to the regional strategy *South East Europe 2020* which focuses on achieving Integrated Growth, Dimension A: Free Trade Area and Dimension B: Competitive Economic Environment; Smart Growth, Dimension E: R&D and Innovation, Dimension F: Digital Society, Dimension G: Cultural and Creative sectors; Sustainable Growth, Dimension K: Competitiveness; Inclusive Growth, Dimension L: Employment and Dimension M: Health; Governance for Growth, Dimension N: Effective Public Services.

From the most comprehensive strategies like the Economic Reform Programme 2015-2017 or the Strategy for Regional Development of Montenegro 2014-2020 to the most specific ones, concerning SMEs development, tourism or industry, all of them are consistent with SEE 2020.

The *Strategy for the Danube Region* is composed of four pillars: 1) Connect the region; 2) Protecting the Environment; 3) Strengthening the Region; and 4) Building Prosperity. Activities planned within this Sector are in line with all four pillars of Strategy for the Danube Region but especially with fourth pillar by developing the knowledge society through research, education and information technologies, supporting the competitiveness of enterprises, including cluster development and investing in people and skills.

Additionally, the link between the Competitiveness and Innovation Sector and the *Strategy for the Adriatic and Ionian Region* has been addressed in general objective of the Strategy related to promotion of “sustainable economic and social prosperity in the Region through growth and jobs creation, and by improving its attractiveness, competitiveness and connectivity, while preserving the environment and ensuring healthy and balanced marine and coastal ecosystems.”

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

The need for further capacity building and the lack of coordination and communication among previous projects have resulted in overlapping of activities in several cases and missed opportunities for synergies and higher impact. Therefore, planning and programming of IPA assistance could be enhanced by (i) improving communication and coordination among projects (ii) increasing administrative and monitoring capacity (iii) better linking EU assistance to national sector strategies and action plans and Montenegrin economy. As a general objective, this Action Document will contribute to overcome these issues.

Also, implementation of projects requires that institutions have adequate staff capacities available for working on activities during the lifetime of the project.

Experiences in programming and implementation of previous projects in the Competitiveness and Innovation sector as well as in the Human Resources Development OP for Montenegro 2012-2013 specially concerning the support granted to youth and women employment, will be taken into account, particularly in order to avoid possible overlaps and also to ensure that mistakes identified during the programming and/or implementation of previous projects will not be repeated.

In the field of access to finance, mainly for SMEs, it is important to take into consideration the experience and lessons learnt from the **Investment and Development Fund of Montenegro (IDF)** and its different financial instruments which, in general terms and as the Small Business Act for Europe (SBA) 2015 Fact Sheet states that, although IDF offers different credit lines and factoring facilities, carried out in cooperation

with commercial banks, the interest rates remain higher than in the neighbouring countries. The SBA concludes that “*government financing schemes need to be strengthened, and support provided to SMEs to increase their absorption capacity*”. It is also important to mention that the European Investment Bank (EIB) has approved a new loan facility to IDF in the amount of 70 million euro. At the end of 2015 IDF became the member of ENIF – Enterprise Innovation Fund as part of the WB EDIF Program.

The **Western Balkans Enterprise Development and Innovation Facility (WB EDIF)** is funded by the EU and managed by the European Investment Fund (EIF), which aim at improving access to finance for small and medium-sized enterprises in the Western Balkans. This Facility consists of four different pillars, which are implemented in the Western Balkans countries through financial intermediaries, mainly commercial banks:

- Enterprise Innovation Fund (ENIF);
- Enterprise Expansion Fund (ENEF);
- Western Balkans EDIF Guarantee Facility;
- Support Service Facility.

In Montenegro, CKB (Crnogorska Komercijalna Banka) and EIF signed a First Loss Portfolio Guarantee (FLPG) Agreement in October 2014. On November 2015 the CKB and the EIF also signed the first COSME agreement consisting in a loan guarantee for the Competitiveness of Enterprises and Small and Medium-sized Enterprises which provide 30 million euros of loans to SMEs over the next three years. In this sense, increase the collaboration with this institution in order to reinforce the financial possibilities for SMEs, must be one of the main purpose of the Competitiveness and Innovation axis.

In the forthcoming period, the improved access to financing for SMEs will be provided through implementation of updated lending schemes through and with the guarantees of commercial banks, as well as through direct lending and implementation of factoring facilities, which will be implemented by IDF. Envisaged reforms also include innovation in the segment of introducing equity financing under the ENIF Fund and lending-guarantee facility under the COSME program. Moreover, strengthening capacities of SMEs and financial intermediaries by conducting trainings for investment readiness will improve use of equity financial instrument as an alternative source of financing specifically for innovative SMEs.

When talking about first financial perspective, there are a couple of projects related to this Action which should be mentioned: “*Enhancing the Competitiveness of Local SMEs in Montenegro through Cluster Development*”, which objective is to strengthen the competitiveness and market access of selected clusters and networks in Montenegro, with a special emphasis on the more disadvantaged Northern region as well as on less developed municipalities, and “*Approximation of the legislation with EU Acquis on free movement of services and competition protection*”, which objective is to align Montenegro’s legislation on the protection of competition and the freedom to provide services with the EU *acquis*.

During the implementation of IPA 2011 project “Enhancing the Competitiveness of Local SMEs in Montenegro through Cluster Development” (2014-2016) an evaluation on cluster level was done. Based on the evaluations undertaken, the project contributed to better networking of SMEs from same cluster but also from different clusters (clusters twinning). All companies saw benefits in undertaking sales events together, development of joint promotional materials, joint dialogue with Government, and joint training and product development.

Through experience acquired during the project implementation, the main challenges SMEs are facing can be summarized as follows: 1) Inadequate and inequitable market governance; 2) Underdeveloped value chain infrastructure which enhances the marginalization of SMEs; 3) Transaction costs associated with sourcing and transporting/shipping products are high; 4) Emerging agri-businesses have only limited access to capital, relevant information and know-how to produce, pack, brand, promote and market their products. Consequently a cluster approach, combined with a strong market-access element, has been identified as the best solution to support local SMEs to gain the necessary competitive position to sustain their business, thereby create more job opportunities, especially in the rural areas and more impoverished part of Montenegro. Additionally, further effort and support needs to be invested in the roll-out phase of the cluster development policy in Montenegro. This is specifically visible when it comes to the everyday functioning of

clusters, designing initiatives and their presentation to responsible authorities, drafting project proposals and applying for national and international funds, such as COSME. Furthermore, newly established clusters need additional support and attention. Special emphasis should be on better communication with the research and innovation sector.

Approximation of the legislation with EU *Acquis* on free movement of services and competition protection (ALA) (2014-2016) was a project co-financed by the European Union and BMZ, implemented by GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), with the Ministry of Economy as the main beneficiary. This project started in February 2014 and ran until end July 2016. ALA, inter alia, served as a basis for establishment of the Point of Single Contact (PSC). Some of the results of this project related to the PSC are as follows:

- completed mapping of the Montenegrin legislation in terms of services, which resulted in mapping 291 services covered by 65 laws and 98 other regulations. The data are updated by the line institutions and ready for the upload to PSC;
- the project developed a Business Mapping Analysis with Functional and Technical Specifications, which shows the current situation in Montenegro and recommendations for upgrading it to the level that would enable establishment of PSC;
- one of the results to be achieved through implementation of this project is adoption of the Law on Services, as well as the Decree on Point of Single Contact on Services.

The IPA 2014 Action Document "*Enhancement of Business Environment and Competitiveness of Private Sector*" has as main objective is to enhance the business environment and competitiveness of the private sector in Montenegro, as well as to strengthen administrative capacities and framework for coordination, planning and implementation within Competitiveness and Innovation sector through targeted support for development, research and innovation. One of the activities is the elaboration of a study on identification of the main areas for implementation of grant schemes for SMEs and clusters (e.g. quality standards, innovations), as well as implementation of pilot competitiveness grant schemes is planned to be realized through IPA 2014 Action Document. Based on the results of the study and the pilot competitiveness grant scheme, the present AD will implement a grant scheme for SMEs and clusters as a continuation of IPA 2014 AD. Also through IPA 2014, funds are committed to technical assistance for Technopolis staff and stakeholder's representative training and technical assistance for provision of detailed technical specifications for equipment to be installed in the three laboratories. The activities outlined in this Action document are a continuation of those under IPA 2014 and relate to the procurement of equipment for the laboratories.

In order to ensure better implementation of industrial policy and the accompanying action plans, further support to industrial modernisation has also been envisaged. In accordance with the aforementioned, implementation of a programme for supporting industry modernisation has been planned. Realization of this activity depends on preparation of Study on technological modernisation as well as designing Pilot Programme for supporting industry modernisation envisaged through IPA 2014. Use of modern technologies within priority sectors will increase efficiency of investments, stimulate movement of production towards higher value processing stages, and promote greater application of research and innovation. Moreover the assessment of Intellectual Property Office of Montenegro (IPOM) IT system and development and installation of the TM (trade mark) software will be realized through IPA 2014 and continuation will be realized through development of EDMS, (Electronic Document Management System).

Finally, administrative and professional capacities for transposition of *acquis* as well as the quality of legislation need to be strengthened. Since these requirements are relevant for all sectors covered by the *acquis*, it shall be addressed horizontally and across the whole public administration. In addition such requirements must be balanced with the requirements to contain the public debt. For this purpose, Montenegro has committed to an organisational and functional review of public institutions as well as to a general reinforcement of professional capacities of the public service, which will be taken into consideration when implementing this Action Document.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	
To strengthen the economic competitiveness and innovation capacity of Montenegro.	Doing Business – Distance to frontier (score)	World Bank - Doing Business Reports	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
To support the development of the private sector and of a knowledge-based economy in Montenegro, in line with the EU acquis.	Number of new businesses registered	Department of Public Revenues	Full commitment and support to the development of the process by the responsible institutions/stakeholders and the Government on the competitiveness and innovation strategy.
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
R1: Private sector competitiveness increased with a focus on SMEs.	Number of SMEs and entrepreneurs integrated in clusters Number of SMEs received support for the modernisation of industry through grants	Annual Progress Report on Ministries activities Project Monitoring reports	Developed services are corresponding to enterprises' needs National stakeholders are committed to ensure sustainability of the facilities and services
R2: Private sector innovation capacity increased with a focus on SMEs	Number of service contracts concluded with enterprises, notably SMEs, whose fulfilment required the use of the equipment	Annual Montenegro report towards EU accession	Sufficient number of staff involved in the activities of the Action Adequate coordination of the institutions and stakeholders involved
R3: Administrative capacity and level of alignment to the EU acquis in the field of Competitiveness and Innovation increased.	Number of institutions staff trained to implement competitiveness and innovation policy		Successful implementation of Action Documents 2014 projects (Alignment and implementation of the EU Internal Market acquis; Enhancement of Business Environment and Competitiveness of the Private Sector and Support to Regulation of Financial Services).

DESCRIPTION OF ACTIVITIES

Result 1 – Private sector competitiveness increased, with a focus on SMEs.

The achievement of this result is foreseen by the partial implementation of the following priority measures from **ERP 2015-2017**: *no. 10 Financial support to SME sector; no. 11: Enhancement of institutional and administrative capacities for SMEs support; no. 15: Online availability of public services and implementation of the information system for exchange of data from registers of state authorities; and no. 14 from ERP 2016-2018: Improving financial support to the sector of small and medium-sized enterprises.*

In order to reach this result three key activities have been developed as explained below:

A. 1.1 Improving access to finance of private sector for competitiveness and innovation

This Activity aims to improve and, in some case, to create the access to financing for enterprises overcoming the traditional difficulties they face regarding the lack of adequate financing. Studies show that the SME Innovation Management capacities are at a low level and further assistance is needed in accessing financial sources to upgrade the current situation. In order to achieve this result, following sub-activities will be performed:

- Analysis of existing financial market failure, suboptimal situation and investment needs (ex-ante evaluation) where an overall market research will be performed in order to gather information, analyse data and pinpoint parts of the system that are not performing in full-capacity. Continuously, after identifying specific weaknesses, certain set of mitigation procedures will be put in motion in order to overcome those difficulties. A thorough analysis of both demand and the supply side ought to be performed which will lead to quantifying the investment gap i.e. the imbalance between supply and demand for investment in the market segment under consideration.
- Based on the previous sub-activity, introduction and promotion of new Financial Instruments to business society in cooperation with public and private financial institutions. Financial instruments, which should be in line with the outputs of this study and with the OECD SME Policy Index, which indicate the necessity of examining financial instruments such as – microfinance, -credit, guarantee schemes and –venture capital. The last one for younger companies and start-ups, which generally lack of credit histories and operate in a rapidly changing business environment.
- Implementation of the Competitiveness Support Grant Scheme for SMEs and clusters - Creation of study on identification of the main areas for implementation of grant schemes and implementation of pilot competitiveness grant schemes as well as development of Programme for supporting introduction of modern technologies in priority sector are planned to be implemented through IPA 2014 “Enhancement of Business Environment and Competitiveness of the Private sector”. However, based on relevant strategic documents and defined priorities and goals within them for the Sector Competitiveness and Innovation, implementation of different support grant schemes is also planned for the coming period in order to continue with already started activities aiming to improve financing for SMEs and clusters i.e. general improvement competitiveness of the private sector (through introducing standards, innovation, industrial modernization, improvement of industrial value chains etc.) Economic empowerment of women by supporting their entrepreneurial potential will be addressed too. The grant scheme will be implemented in accordance with the programme developed by the IPA 2014 project. Economic empowerment of women and youth entrepreneurial potential will be addressed taking into consideration the experience of the Human Resources Development Operational Programme for Montenegro 2012-2013 (IPA Component IV).
- Identified gaps in financial market specifically for venture capital and equity financing should be overcome by increasing ability of innovative SMEs to access and efficiently use equity based investment by promoting role of such financing and organising promotional campaign. More specifically, the program for investment readiness will be created for training SMEs in order to increase awareness and recognise possibilities for investment activities in SMEs for their business

development. The program will conduct analyses of existing investment readiness programs, design, implementation (organisation of specific workshops and training of SMEs and financial intermediaries e.g. IDF) and impact evaluation of IR.

A. 1.2 Supporting business development through advanced advisory services for private sector

Through this activity, the SMEs in Montenegro that will benefit from reinforced advisory services, defined as “a set of non-financial services that enable companies to enhance their competitiveness and improve their performance across a wide range of activities” (OECD); the other institutions providing assistance and advice as, for instance, the EBRD, will be taken into consideration in order to avoid overlapping. In any case, advanced services will be focused on information, consultation, training and clusters activities rather than in the financial field. A handful of sub-activities will be put into force.

- Establishment of the Point of single contact (PSC) - Develop software solution for establishing PSC. Establishment of Points of Single Contact (PSCs) as e-government portals (www.euprava.me) will allow future entrepreneurs and existing businesses to easily obtain online all relevant information relating to their activities. The legal grounds for PSC establishment are in the Service Directive 2006/123/EC (Article 6). Strengthening administrative capacities of the competent bodies in charge of implementation of PSC and promotional activities related to the Point of Single Contact are also part of this activity.
- Establishment of the Product contact point (PCP) - Develop software solution for establishing PSC. Establishment of Product contact point (PCPs) as e-government portals will allow future entrepreneurs and existing businesses to easily obtain online all relevant information regarding product legislations i.e. technical rules that applies to the specific product, contacts of all relevant authorities as well as inspection authorities, etc). The legal grounds for PCP establishment are in the Regulation 764/2008 (Article 9). Strengthening administrative capacities of the competent body/ies in charge of implementation of PCP is part of this activity.
- Development and implementation of the Business Consulting Support Strategy Service for SMEs/Mentoring service. An overall analysis of SME development level is needed with special emphasis to specific phases of development. Key problems would be defined and actions for solving those problems would be made. Going into details, business consulting activities will be undertaken in the areas of standardization, IPR, market research and legal regulations, in each phase of business processes. In this sense, the relevant stakeholders, public –Ministries, GDs, - and private –Chambers of Commerce, SMEs associations, etc.- will be involved in the designed and, in some cases, implementation of these actions.
- Clusters are recognized as a highly effective means of fostering SMEs competitiveness, innovation capacities and market access. Further development of clusters will be accomplished through a handful of actions and sub-activities which include, but are not limited to: development/update of cluster diagnostic studies, regular support on developing joint actions and formalization of cluster governance structures, training of potential future cluster managers for sustainability, brainstorming roundtables between cluster producers and tour operators, hotels, restaurants etc., integration of additional agro-food clusters under the Delicious Montenegro (DM) brand, regular thematic cluster training on improved agro-technical and agricultural practices, development of branding and marketing strategies for selected clusters and development of projects for EU funding (e.g. joint sales shop in a tourist frequented area). In this sense, the experience of the project “*Enhancing the Competitiveness of SMEs through Cluster Development*” will be taken into consideration as well as the inclusion of their clusters in the activities to be implemented under this Action Document.

A. 1.3 Promoting the internationalisation of Montenegrin economy, with a focus on SMEs

The main aim of this activity is to establish the best possible conditions for increasing the internationalisation processes of Montenegrin SMEs with respect to its’ geographical position and potential of the sector itself.

There are significant problems that need to be addressed such as lack of resources for developing and implementing projects towards connecting SMEs from Montenegro with SMEs from the EU; these include low levels of cooperation between the two entities and low involvement of parties.

- The expansion of acquiring knowledge is recognised as a priority. This problem will be tackled by organizing business conferences and forums aiming to connect potential investors with companies in Montenegro. In addition, direct and complete access to all administrative and analytical information will require to be developed for potential investors and SMEs at a single point of contact. Moreover, educational seminars and business consultations will be organized for domestic SMEs where they would have the chance to view and learn first-hand from eminent experts from the EU.
- Identification of market niches where Montenegrin producers could be competitive abroad given the low scale of production.
- Lastly, the development and awareness of the national brand of Montenegro will be supported through research on perception of the brand itself on domestic and international markets, through data collection (surveys, focus groups etc.), preparation of database and study visits to EU member states in order to exchange knowledge and experience in the process of nation branding, but also for establishing good system for database usage and update among different institutions. Conducting study on Montenegro international image will be supported.

Result 2 – Private sector innovation capacity increased, with a focus on SMEs.

The achievement of this result is foreseen by the implementation of the priority measure no. 9 from **ERP 2015-2017**, namely *Construction of the Innovation-Entrepreneurship Centre “Technopolis“*, repeated in **ERP 2016-2018** (no. 15: *Construction of the Innovation-Entrepreneurship Centre “Technopolis” in Nikšić*).

Certain activities have also to be developed in order to tackle defined problems and eventually reach this result. These activities will be implemented under the Action Document *“Enhancement of Business Environment and Competitiveness of Private Sector of Montenegro”* (IPA 2014), like “Strengthening HR component for staff of the Innovative-Entrepreneurship Centre „Technopolis“ Nikšić, as well as staff of the Ministry of Science directly engaged for activities of mentioned Centre. Based on this, training for staff of the “Technopolis” and assistance for the preparation of technical specifications for Technopolis are needed. The present activity will be the continuation of a previous one from IPA 2014.

A. 2.1 Improvement of R&I related infrastructures that can be used in support for the SMEs development

The focal point of this activity will be the R&I infrastructure which is considered to be generally weak. Main goal is to support development of the Science Technological Park with its distributed structure (centre is in Podgorica with 3 impulse centres in Nikšić „Technopolis“, Bar and Pljevlja).

Improving equipment and services of **Scientific and Technological Park** (STP) is of essence as well as enhancing aforementioned collaboration through joint projects and organizations (e.g. High Tech incubators) where the subjects would reach efficient and quality levels of doing business in respective industry branches.

Result 3 – Administrative capacity and level of alignment to the EU acquis in the field of Competitiveness and Innovation increased.

The achievement of this result is foreseen by the implementation of the following priority measures from **ERP 2015-2017**: no. 15: *Online availability of public services and implementation of the information system for exchange of data from registers of state authorities*; and: no. 16: *Increasing competitiveness of business organizations through harmonization with the requirements of international quality standards* from **ERP 2016-2018**.

In respect to this result, two key activities have been devised and will be implemented through following sub-activities, as follows:

A. 3.1 Provision of horizontal assistance for increasing the capacity of relevant Institutions involved on Competitiveness and Innovation Management

This activity is the most important one. It covers significant number of problems related to strengthening administrative and technical competencies, improvement of existing schemes, communication and IT infrastructure as well as raising awareness of national authorities in respect to accreditation, intellectual property rights, market inspection affairs, metrology, standardization, medicine and medical devices etc.

Within this activity the administrative and technical competences of the Accreditation Body and the Administration for Inspection Affairs (AIA) will be strengthened. The AIA is a significant actor in the EU integration process and directly responsible for implementation and control of number of requirements and in this regard, it is essential to ensure financial assistance in certain fields of inspection control (capacity of inspection staff, logistic and equipment).²

In addition, strengthening administrative and investigative capacity of the Agency for Protection of Competition (APC) as well as the capacity of judiciary. In this regard, improving expertise, capability and capacity of the APC in case handling, to conduct an investigation and issue decisions based on sound market analysis (using the most appropriate economic / econometric methods) and improving knowledge of the appellate courts (e.g. Administrative and Misdemeanour court judges) on the value of direct and circumstantial evidence in cases involving competition protection, with the aim of further improving/strengthening enforcement record in competition protection legislation and reinforce APC capacities to implement competition policy and law; Procurement of IT Forensic software and respective training of case handlers should be done. IT Forensic software is required for conducting inspections on spot during investigation procedure of the Agency, aiming at finding evidence relevant for the proceedings and determining existence of the infringement of competition law.

Additionally, equipping of laboratories of Bureau of Metrology: Laboratory for Mass, Laboratory for Length, Laboratory for Temperature, Laboratory for Electrical Quantities, Laboratory for Pressure, Laboratory for Volume and Flow, Laboratory for Acoustics, Laboratory for Verification Aerometers, Laboratory for Verification Evidential Breath Analysers, Laboratory for Verification Exhaust Gas Analysers, laboratory for Metrology in Chemistry and Technical assistance for Bureau of Metrology (BoM).

Development of a framework for quality management (Service and Quality System Montenegro - SQSM) according to international standards. All stakeholders from tourism industry (SMEs especially in the field of hospitality and tourism, Local or Regional Tourism Organisations, NGOs, museums, etc.) are relevant in different phases of the project implementation, as well as administrative and educational institutions (Ministry of Sustainable Development and Tourism, National Tourism Organisation, tourism related faculties, associations, etc.).

Strengthening administrative and technical competences of ISME in order to implement relevant legislation and to improve effectiveness and efficiency of its performance.

Development of Electronic Document Management System - EDMS (creation and installation) for Intellectual Property Office of Montenegro, which means; connecting all the users in the whole central system (EDMS), networking and fully control of all users and working areas, input/output documents all control and linking all applications platforms (patent, trademark and design) as one system, ability of the

² . Concerning the car lot, which has not been renewed since the establishment of the Administration in June 2012, the AIA possesses 158 vehicles with an average of 10.26 years. Most of them (92 vehicles) are in poor condition, whereas 18 vehicles need to be repaired and require huge investments to be put into use. In relation with the ICT equipment, over 70% of ICT equipment have more than five years and, consequently, need to be renovated.

statistics with all application platforms and divisions (patent, trademark, design, front office) as well, maintenance of the patent database in period of time one year (additionally 2 years of the maintenance).

Increased internal capacities of Agency for Medicine and Medical Devices for successful realisation of competences of the Agency in line with the EU *acquis*, particularly in the area of: assessing quality/safety and efficacy of human and veterinary medicines; GMP/GDP inspection; clinical trials of medicines; pharmacovigilance; vigilance of medical devices;

Equipment of the workforce ought to be completed as well as buying resources that will enable to all institutions active in the sector of C&I to implement relevant legislation and work more efficiently and effectively. Subsequently, cycles of workshops and seminars will be held in order to raise expertise, capabilities, capacities and overall knowledge of respective procedures. This can be done by engagement experience experts and by using experience of EU countries and institutions.

There is need for improving the Data Centre (DC) of the CBCG in order to increase the reliability and availability of the information system such as to create conditions for smooth functioning of IT system infrastructure in accordance with applicable standards and best international practice. Activities to achieve this include: needs assessment and preparation of specifications, procurement of equipment and software for the Data Centre, and education of staff. Indicators: IT equipment and software procured and operational, staff trained.

A. 3.2 Alignment of National Legislation and Strategies with EU *Acquis*, for chapter included in C&I Sector

This activity will tackle the problem of insufficient levels of legal harmonization by Montenegro to EU. In this sense an update of the Montenegro's Programme of Accession to the European Union (2014-2018) and the Strategy of Montenegro for the implementation of the *Acquis* in the field of Free Movement of Goods (2014-2018) will be realized. According to an updated Strategy and AP, transposition and implementation of relevant EU legislation in different areas should be done. The transposition of the remaining EU directives/regulations is needed to be implemented in the area of medical devices. Key action in this regard will be organizing expert missions of EU representatives to Montenegrin Agency as well as Ministry of Health in order to prepare or enhance laws/acts/bylaws. Consultation with the relevant external stakeholders and analysis of the potential impacts of new policy and legislative proposals are crucial for the quality of legislation.

The revised Action Plan on Chapter 1 –*Free Movement of Goods*- foresees the alignment with wide list of *acquis* chapters. Further straightening of all relevant stakeholders is essential for proper transposition and implementation of new *acquis* (authorities responsible for transposition and for implementation of legislation as well as market surveillance authorities). In all areas within Chapter 1 is also to see how it applies to real market conditions. In particular, it is necessary to obtain information on conformity assessment and market surveillance. This section is only possible apply when you see the actual conditions in the common market.

Implementation of regulations in area of construction products should be realized. Key action in this regard would be organizing expert missions of EU representatives to Ministry of Sustainable Development and Tourism in order to analyse or enhance the laws and regulations then training, seminars and workshops with eminent experts from the EU in order to strengthen capacities for the implementation of these regulations.

Regarding motor vehicles, four basic Directives (2007/46/EC, 2002/24/EC, 2003/37/EC and 97/68) need to be transposed into national legislation. Key action in this regard should be: training, workshops and consultancy services supplied by renowned experts from the EU, mainly coming from the type-approval authorities of EU Member States. The main objective will be to support Montenegro in fully aligning and applying the EU *acquis* on motor vehicles, including the building up of the necessary administrative capacity for this alignment and implementation.

There is a need to harmonize *acquis* in the negotiation chapter 9 – Financial Services with drafting of the Law on the supplementary supervision of financial conglomerates, including the drafting of the Rulebook on capital adequacy of financial conglomerates. According to the Montenegro Accession Programme 2016-2018, new Law on the supplementary supervision of financial conglomerates will be adopted by the end of

2017, and the Rulebook on capital adequacy of financial conglomerates will be adopted by the end of third quarter of 2018. Activities to achieve this include: analysis of the existing situation, drafting of the Law on the supplementary supervision of financial conglomerates, including the drafting of the Rulebook on capital adequacy of financial conglomerates, and education for the development of methodologies and practices for making plans for recovery of the banks as well as the methodology for the evaluation of those plans by the CBCG as resolution authority.

Also further transposition of potential legislation will be needed in all chapters related to C&I: *Chapter 1. Free movement of goods; Chapter 3. Right of establishment and freedom to provide services; Chapter 5. Public procurement; Chapter 6. Company Law; Chapter 7. Intellectual property law; Chapter 8. Competition policy; Chapter 9. Financial services; Chapter 10. Information society and media; Chapter 20. Enterprise and industrial policy; Chapter 25. Science and research; Chapter 28. Consumer and Health Protection;*

RISKS

During the entire process of activities of the Action, certain risks may occur and concrete actions may be needed in order to mitigate possible negative outcomes. Along the following lines, risks with higher level of occurrence and risks with the highest impact are presented:

- Issues of Competitiveness and Innovation falls under the responsibilities of various ministries and agencies and the coordination and policy steering capacities in this area are weak;
- Wide fragmentation of strategies adopted and; lacking of calculation of costs of implementation and performance indicators to measure progress against objectives;
- Limited administrative capacity for the implementation of strategies;
- External shocks and developments in the international economy;
- Lack of human resources and administrative capacity for strategic planning as well as project preparation and implementation.

MITIGATION

- Better structured coordination with concrete and defined responsibilities within the Working Group for Competitiveness and Innovation;
- Policy dialogue on public administration reform and coordination with the Ministry of Interior;
- Technical assistance to increase the capacity for strategic planning and project preparation and implementation.

CONDITIONS FOR IMPLEMENTATION

This action comes to support Montenegro in the process of developing its economic competitiveness and implementing its Economic Reform Programme. Montenegro will also undertake to ensure that the conditions underlying the action are fully met throughout its implementation, as well as after its completion:

- Effective cooperation among the Ministries and local authorities responsible for various aspects of Competitiveness and Innovation;
- Implementation of the assistance under IPA 2014 initiated and the results used in the inception of the activities under this AD;
- Adoption of policy documents related to this sector (Strategy, Action plan, Feasibility study, Strategic (business) Plan) which are based on reliable data, duly costed and consulted with the relevant internal and external stakeholders;
- Successful continuation and realization of planned activities and commitment of all involved (Ministry and other stakeholders) to actively participate in the project;
- Montenegro remains committed to undertake horizontal public administration reforms;
- Costs of maintenance and operation for new institutions and equipment, as well as salaries of new staff are envisaged and ensured.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

In the process of completion of listed activities the following institutions will have the key role in implementing this Action. Subsequently, they are also the main beneficiaries and are listed as follows: Ministry of Economy, Ministry of Science, Ministry of Sustainable Development and Tourism, Montenegrin Investment Promotion Agency (MIPA), Accreditation Body of Montenegro (ATCG), Intellectual Property Office of Montenegro (ATCG), Administration for Inspection Affairs, Agency for Protection of Competition, Bureau of Metrology, Institute for Standardization (ISME) and Agency for medicines and medical devices. The lead institution in this action is the Ministry of Economy.

Continuously, Directorate for Finance and Contracting of the EU Assistance Funds (CFCU), being the Implementing Agency under IPA structure, bears the sole responsibility for the exact and proper implementation of all contracts in question and in line with the relevant contractual provisions and the requirements governing the indirect management of EU assistance. Support will be provided by the Project Implementation Unit (PIU) of the Ministry of Economy and will serve in ensuring the proper technical implementation of the contractual activities. In this regard, the CFCU and the PIU will closely cooperate throughout the entire implementation process of contracts.

Implementation monitoring will be performed in order to obtain information on achieved progress and to collect required data for preparation of relevant reports for the National IPA Coordinator (NIPAC) Office and the CFCU, providing advices in tackling of any issues and possible mistakes which could endanger the successful completion of the process. Major tools that the PIU has for performing monitoring are: monitoring visits, participation in the Steering committees meetings, review of regular progress reports and participation in on-the-spot-checks which are carried out by the CFCU.

A Steering Committee (SC) will be established to review the Action progress, comprising of representatives of PIU of the Ministry of Economy, beneficiary institutions, CFCU, NIPAC Office. The EU Delegation to Montenegro will attend as Observer. The SC will invite any other interested stakeholder, in particular social and economic partners and civil society organisations, where they may bring added value to the discussion, direction and outcomes of the Action. Representatives of the other key stakeholders may also be invited to participate.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The activities will be achieved through service, supply, grant and twinning contracts. Total funds of projected activities amount to EUR 7,721,000 (EU contribution EUR 6,948,900 and national contribution EUR 772,100). The Action will be implemented through indirect management. The national co-financing will be jointly provided with the EU funds from the budget of the Ministries (Economy, Health, Sustainable Development and Tourism), Quality infrastructure institutions (Accreditation body, Bureau of Metrology, ISME), Administration for Inspection Affairs, Agency for Protection of Competition and Agency for medicines and medical devices.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

In line with the IPA II Implementing Regulation 447/2014, an IPA II beneficiary who has been entrusted budget implementation tasks of IPA II assistance shall be responsible for conducting evaluations of the programmes it manages.

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In

addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

Monitoring and evaluation of the implementation of this Action will be conducted in accordance with the rules of indirect management and in respect to the requirements and provisions of IPA II regulations and those that will be laid down in Framework Agreement as well as Financing Agreement. Progress and achieving of the Action results will be regularly monitored by the acting national implementing body and National IPA Coordinator (NIPAC).

Implementation of this Action will be subjected to special attention of the Sectorial Monitoring Committee and IPA Monitoring Committee. They will be in charge of progress measurement in relation to achievement of the objectives of the actions as well as their expected outputs, results and impact by means of indicators related to a baseline situation. Additionally, they will be in charge of the progress monitoring in regards to the financial execution. Sectorial Monitoring Committee will provide reports to the IPA Monitoring Committee and will make proposals on any potential corrective action that may occur, in order to ensure the achievement of the Action objectives and enhance its' efficiency, effectiveness, sustainability and impact.

Consequently, in accordance with the Article 8 of the Commission Implementing Regulation (EU), No. 447/2014, NIPAC shall take measures to ensure that the objectives set out in the Action are appropriately addressed during the implementation of the EU assistance. Procedures for implementation of monitoring activities will be given out in the revised Manuals of Procedures (MoPs) aligned with new IPA II regulations. Best practices from previous actions and recommendations given by the external monitoring bodies in this sector will also be taken into close consideration and discussion.

This Action shall be subjected to evaluations and in accordance with Article 30(4) of Regulation (EU, EURATOM) No. 966/2012 and with Article 22 of Commission Implementing Regulation (EU) No. 447/2014. The results and outcomes of evaluations will be taken into account by the IPA Monitoring Committee and the Sectorial Monitoring Committee.

INDICATOR MEASUREMENT

Indicator	Baseline (2010)	Target 2020	Final Target (2022)	Source of information
CSP indicator (impact/outcome): Doing business distance to frontier ³	63,21	73-75		World Bank – Doing Business
OUTCOME INDICATOR:				
Number of new businesses registered	3581	4063 (=3581+482)	4063	Department of Public Revenues
INDICATORS FOR RESULT 1:				
Number of SMEs and entrepreneurs integrated in clusters	0	100	130	Annual Progress Report on Ministries activities Project Monitoring Report
Number of SMEs received support for the modernisation of industry through grants	0	20	30	Annual Progress Report on Ministries activities Project Monitoring Report
INDICATORS FOR RESULT 2:				
Number of service contracts concluded with enterprises, notably SMEs, whose fulfilment required the use of the equipment	0	3	5	Annual Progress Report on Ministries activities Project Monitoring Report
INDICATORS FOR RESULT 3:				
Number of institution whose staff will be trained to implement competitiveness and innovation policy ⁴	0	3	11	Annual Progress Report on Ministries activities Project Monitoring Report

³ The ease of doing business index ranks economies from 1 to 189. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the 10 topics included in the index in Doing Business 2014: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The employing workers indicators are not included in this year's aggregate ease of doing business ranking

⁴ Following institution will be empowered to implement competitiveness and innovation policy: Ministry of Economy, Administration for Inspection Affairs, Accreditation Body, Agency for Protection of Competition, Bureau of Metrology, Ministry of Sustainable Development and Tourism, Institute for Standardization of Montenegro, Intellectual Property Office of Montenegro, Agency for Medicine and Medical Devices, Ministry of Health, Ministry of Transport and Maritime Affairs;

5. SECTOR APPROACH ASSESSMENT

Competitiveness and Innovation Sector is recognised as one of the key priorities at the national level. Therefore, Montenegro has developed a host of strategies, policies, master plans and implementation plans related to the C&I Sector. Over the last year a Sector Planning Document has been prepared, which represent the first C&I sector document. Based on this document, an Operational Programme for Regional Development is prepared, and based on it, this Action Document is elaborated. Other relevant strategies have been already described in previous pages.

The activities necessary to conduct a proper programming and implementation depend, of course, on the administrative capacity to carry out these tasks. In this regard, the support and cooperation of the European Commission will be a key element, from the point of view of timing and quality implementation. On the other hand, the Montenegrin administration is conscious of the need to improve its administrative capacity, hence the importance of an effective programming process in relation to the available budget support. The Ministry of Economy is commissioned to establish adequate coordination mechanisms with all ministries and stakeholders involved in this process (on level of Governmental Council) that should be accompanied with reinforcement of number and quality staff. Such an inter-ministerial coordination shall also involve the General Secretariat of the Government, which is in charge of steering policy development and ensuring consistency between sector policies and with the Government priorities as well as to assess the quality of policy proposals.

In the context of preparation IPA II 2014-2020, the sector approach has been applied. The **Ministry of Economy** is the lead Ministry, which coordinates the work of the **Sector Working Group Competitiveness and Innovation**, the activities among partners and stakeholders and defines the time frame for the implementation of certain activities. The Sector Working Group consists of members from ministries, government bodies and institutions, non-governmental and business associations that cooperate closely and that are collectively involved in dealing with sector issues. SPOs and PIUs in the ministry are nominated and established and directly or closely involved in the activities related to the sector. Mandate and tasks of SWG are, among others:

- participation in preparation and revision of strategic and programming documents;
- determination of priorities for support of IPA II resources in accordance with corresponding sectorial strategies and needs of negotiation processes with EU;
- securing constant information flow with negotiating structures;
- nomination of actions to include in yearly/multiyear national IPA action programme;
- preparation of proposals of action documents for actions suggested to be financed by IPA;
- preparation of evidence-based and duly consulted sectorial planning document;
- preparation of operational programme; etc.

There is also a coordination mechanisms between the government and non-state actors through the work of the following bodies: the **Coordination Team for Creation and Implementation of SME** policy and the **Council for Promotion of Competitiveness at Micro Level**, the **Partnership Council for Regional Development**, the **Council for Regulatory Reform and Improvement of Business Environment**, the **National Partnership for Lifelong Learning** and the participation of NGOs in the work of Governmental bodies, committees, working groups, etc. The coordination is effective and inclusive, but it needs to be improved.

No specific sector donor coordination meetings are organized for competitiveness. However, bilateral sessions take place with IFIs such as EBRD, World Bank, **UNDP**, **GIZ** or **ADA**. As for other sectors, the **General Directorate for Economic Diplomacy and Cultural Cooperation of the MFAEI** manages donor coordination in this sector at central level. Therefore, existing and functioning SWG will contribute to the effective donor coordination within this sector.

6. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

The Montenegrin Constitution guarantees equal treatment of men and women. Activities financed under this Action will thus be implemented by complying with the principles of preventing all forms of discrimination, and promoting gender equality. Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. In line with this, all planned activities will respect the principles of equal treatment and opportunities for both, men and woman. Institutions benefiting from the planned activities are equal opportunity employers. At this time is in process of approval in parliament the Law Amending the **Law on Gender Equality**, which will be taken into consideration for Action implementation.

Regarding differences between male and female entrepreneurs from AD perspective, we can say next: owning an enterprise is a key step towards social and economic equality of women and men. In the same time, participation of women in decision making process from the aspect of business operations represents a true empowerment.

Official figures show that participation of women in the overall unemployment rate is 46.91% (while among those who are unemployed with a university degree, 60% women). Another indicator that shows greater vulnerability of women is the difference in wages between men and women, according to official figures income women are at the level of 86% compared to male income. The low percentage of women ownership of business entities (only 9.6%) is one of the best indicators of gender inequality when it comes to women's economic. In the previous period, fragmentation of approaches in strengthening female entrepreneurship through various strategic documents was noticed, but the Action Plan for Achieving Gender Equality in Montenegro 2013-2017 envisages development of **Women's Entrepreneurship Strategy**. By creating this strategic document in Montenegro emphasis was put on the need for an integrated approach to strengthening women's entrepreneurship, based on the gender sensitivity of all the actors of the political, economic and social life.

EQUAL OPPORTUNITIES

All project results and activities will be designed, monitored and evaluated to ensure equal access and participation of women and men as well as other disabled people. Respective Ministry will ensure that a gender perspective is reflected into the proposed project. Special attention could be given to women entrepreneurs, and to vulnerable groups of entrepreneurs.

MINORITIES AND VULNERABLE GROUPS

This Action deals with Competitiveness and Innovation and hence with aspects related to financial access, incubators, but also to business opportunities and eliminating barriers, which must equally benefit the most vulnerable and needy groups such as business woman, young entrepreneurs and/or business promoter with disabilities. In this sense, the activities under this Action will take into consideration these beneficiary groups that are, very often, the most dynamic and successful. Recently (June 2015), the government of Montenegro endorsed the proposal for the **Law on Prohibition of Discrimination of Persons with Disabilities**, which will be considered in developing this Action. Also, **Strategy for Improving Quality of life of LGBT Persons 2013-2018** will be considered.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

In order to facilitate the dialogue and cooperation with Civil Society in Montenegro, two strategic documents have been adopted: **Strategy for the development of NGO 2014-2016** along with its Action plan as well as **Strategy for cooperation between Government of Montenegro and non-governmental organizations**. Two decrees that legally regulate Civil Society Organisations (CSO) participation in decision-making process have been adopted. CSOs representatives are members of working groups as part of accession negotiations with the EU and also members of sector's working group. This indicates that legal and institutional improvements have been made, but further effort is

needed in order to make this more efficient in practice. Representatives of non-governmental organizations and civil society are involved in IPA programming and they will be involved in implementation processes.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

Activities and measures proposed under this Action should not negatively affect the environment. Actually some of the activities regarding clusters shall be the development of proposals for joint cluster waste management concepts.

Additionally, exhaust gas analysers of motor vehicles, like one of the measuring instruments that belongs to the harmonizing area, have a special role in protecting the environment, since these measuring instruments control the amount of exhaust gases that produce engines for liquid fuels. Laboratory for Verification of exhaust gas analysers will be established in 2016, and procurement of appropriate equipment through this Action would enable the continuous work of laboratory.

Also, in the field of legal metrology, the Bureau of Metrology envisages the establishment of Laboratory for acoustics in the framework of the upcoming verification of measuring noise (sound level meters). Measuring instruments for protection from noise (sound level meters) are used for protection of property, environment and natural resources, safety at work, and protection against accidents.

During the design and implementation phase, the production of printed material will be kept to the strictest minimum and therefore have positive influence on environment.

7. SUSTAINABILITY

Montenegro has a responsibility to ensure the outputs of this action are fully used and allocates the necessary resources to ensure the sustainability of the action. This will be reflected by the further increased strength by the administrative capacity of the beneficiary institutions, as well as policy documents which should continue to be used after ending the IPA support and that trained staff could continue to disseminate knowledge.

The beneficiary institutions will create the necessary conditions to ensure that acquired expertise and skills of the staff and increased capability will be continued to be used for further alignment with European standards and best international practice after the action has finished. The development and practical use of these skills during the action will also ensure sustainability in the future operations of the beneficiaries.

Horizontal reforms of public administration will promote rationality of public institutions and better quality of policy and legislative proposals and will facilitate sustainability of capacity building initiatives.

As regards equipment and developed IT infrastructure, the sustainability of the investment is guaranteed by the beneficiary institutions, which will ensure the technical and financial capacity oof for its operation and maintenance.

8. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed.

The contractor shall use the appropriate stationery in letterheads or fax headers sheets and report presentation format, but should add the phrase *“This Action/programme is funded by the European*

Union” as well as the EU flag when relevant. Elements of the communication strategy may include: press release, press conferences, leaflets and/or brochures, newsletters, web pages, vehicle panels, promotional items, reports, audio-visual productions. Any supplies or equipment delivered under an EU-funded Action must be clearly identified and must visibly carry the EU logo and the mention “*Provided by the support of the EU*” in the operational language of the EU programme and in the local language.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.