



**MFIC** | Montenegrin Foreign  
Investors Council

# WHITE BOOK

The Investment Climate in  
Montenegro for **2023**





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Investors Council

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Dear Reader,

It is our pleasure to welcome you to the thirteenth edition of "The White Book – Montenegro Investment Climate 2023". This edition holds a particular significance as it coincides with the 15th anniversary of the Montenegrin Foreign Investors Council. The foundation of MFIC was driven by a vision to build a strong connection between foreign investors and decision-makers. Since then, we have played a pivotal role in positioning Montenegro as an attractive investment destination, transforming the labor market and business environment in the country.

Throughout our journey, The White Book has served as a trusted roadmap, offering insights into the necessary steps informed by comprehensive analysis of market trends, opportunities, and challenges encountered by our member companies. For this edition, in order to improve the efficiency of The White Book, we have refined our data collection and analysis methodologies. Alongside an overall assessment, we have introduced evaluations of specific indices, delving deeper into the factors influencing the ease of doing business within each primary sector. Furthermore, we have identified over five crucial development areas, as defined in the new MFIC Strategy. Another novelty to our methodology is the assessment of investor engagement in the decision-making process, which directly influences the business landscape. Therefore, in this edition of The White Book, MFIC members stated specific challenges within each sectoral index, thereby offering additional context to their recommendations and conclusions.

# INTRODUCTION

While our research reveals that the ease of doing business has declined for the second consecutive year, our recent engagements with decision-makers have been encouraging. These interactions indicate a growing recognition of the potential impact of the MFIC. Furthermore, alongside its Mediterranean neighbors, Montenegro is swiftly rebounding from recent geopolitical challenges. With a stable macroeconomic backdrop and notable progress towards EU accession, Montenegro is positioned as an attractive destination for foreign investments. Accordingly, in this edition of The White Book we aim to highlight strategies that leverage these positive trends and advantages, thus contributing to the broader prosperity of Montenegro's economy.

At MFIC, we have always emphasized the significance of an intensive dialogue with governments and relevant ministries as a way to improve the business environment. Today, more than ever, building strong partnerships with decision-makers is of vital importance. Consequently, The White Book serves as a tool for fostering partnerships, offering well-founded analyses, recommendations, and guidelines that will result in meaningful change and progress.

Lastly, we extend our heartfelt gratitude to the founders of the MFIC, our esteemed member companies, and the representatives of the institutions with whom we have collaborated over the years. Through our active membership and participation, I am convinced of our capacity to bring innovative solutions that will pave the way towards a more stable, transparent, and predictable business environment.

With warm regards,

**Tamás Kamarási**

President of the  
Montenegrin Foreign Investors Council





# 1. EXECUTIVE SUMMARY

The Council of Montenegrin Foreign Investors released its annual edition of the "The White Book - The Investment Climate in Montenegro for 2023", for the thirteenth year in a row. Following the established practice, it summarizes the results of the structured response-based questionnaire on the ease of doing business in Montenegro, indicating a trend in the business climate, and identifies and outlines the most significant regulations, procedures, and challenges in business development. The foreign investors in Montenegro - the MFIC members - responded to the questionnaire based on their experiences and perceptions. Compared to the previous years, the 2023 report offers a more thorough overview of the opinions and perceptions of business professionals regarding the ease of doing business in Montenegro with the objective to improve the index calculation methodology from this year.

Furthermore, the modification of the research methodology follows the structural changes within the Council of Foreign Investors in Montenegro. According to the amendments to the Statute, the Council's activities focus on five priorities: talent and human capital, the rule of law and equal opportunities, economic and infrastructural development, tax system, and green economy. As a result of the amendments mentioned above, the 2023 report is extended to include the rating of these strategic priorities, laying the groundwork for a thorough, long-term analysis of these priority areas in next editions of the White Book.

Montenegro's ease of doing business index for 2023 continues to reflect the stability of the business environment. However, issues and challenges still need to be tackled and overcome to promote a business environment that will spur economic development and further attract sustainable foreign investments. Inclu-

ding the year of evaluation, the decline in the index does not surprise, considering that political instability, unpredictability of the business environment, frequent changes to the legislation unaccompanied by clear economic impact assessment and consultations, and so forth marked the evaluation period (by November 2023).

The MFIC index for 2023 is 6.4<sup>1</sup>. Council members downrated the ease of doing business in Montenegro by 0.3 points compared to 2022, which is a cause for concern as it signifies the first time of the MFIC index recording negative ratings for two consecutive years since its establishment.

Similarly to the MFIC index, most sectoral indices recorded negative ratings. In 2023, the banking sector was the only one to record a positive trend. The overall rating for this sector is 6.7, which represents an increase of 0.4 compared to 2022. However, the banks evaluated the ease of doing business in 2023 negatively. The telecommunications sector maintained the same rating, indicating stagnation, while all other sectors recorded negative ratings. The most notable declines in ratings occurred in the production-energy and transportation-logistics sectors, which saw declines of 0.7 and 0.6, respectively.

## 1.1. TALENT AND HUMAN CAPITAL

Talent and human capital segment stands out as one of the key priorities for fostering economic growth and establishing a favorable business and investment environment in Montenegro. The 2023 research demonstrated a significant decline in human capital in Montenegro, with this index dropping by 0.8 to a rating of 5.5. The result indicates a substantial challenge for Montenegro's overall business and investment climate, affecting the potential

<sup>1</sup> Scale from 1 to 10, whereas 1 is the worst rating and 10 is the best.

for its more dynamic economic development. On the other hand, when asked to assess the development of the talent and human capital segment in Montenegro, respondents gave an average score of 4.7, indicating considerable room for growth. Business professionals and investors attribute this situation to a persistent mismatch between the education system and market needs. They also highlight insufficient investment in infrastructure to better connect the education system with the economy and emphasize the need for specific skills to enhance competitiveness, particularly among the youth. Council members consistently demonstrated a keen focus on this domain, diligently implementing a range of significant programs aimed at developing talent, a commitment that remains one of their priorities. To address these challenges, a detailed analysis of market needs and the formulation of a comprehensive plan for education reform and adjustments are necessary in the coming period.

## **1.2. RULE OF LAW AND EQUAL OPPORTUNITIES**

The fundamental condition for creating a favorable business environment in any society lies in the presence and adherence to the rule of law. Montenegro, as an EU aspiring country, would need to improve this segment. Decision-makers commitment to the non-selective application of legal regulations that ensures equal judicial practices for all and focus on creating a fully functional system of the rule of law that guarantees equality and safety for business professionals are of high importance. The rule of law is recognized as one of the key factors that remains insufficiently reformed, consequently imposing an additional burden. Based on the current analysis in the priority areas, business professionals assigned a score of 3.91 to the compliance of this business environment index with international standards and practices. On the other hand, the ease of doing business index in this segment is rated 5, as in 2022. Without a clearly defined and practically applicable rule of law and equal opportunities for all, the prospect of economic development and the foundation for growth are compromised.

## **1.3. TAX SYSTEM**

Tax policy is one of the key segments of the business environment that shapes and determines economic development. It includes both tax rate levels and legal regulations that need to accompany and stimulate business community development. Montenegro's administrative issue in the tax policy segment remained, primarily concerning efficiency and number of employees and nontransparent tax rate changes having an adverse impact on business operations. Ultimately, it is commonly believed that even well-drafted legislation falls short if its implementation by public administration lacks consistency. The Tax Administration's capacities are constrained by a shortage of workforce that also needs to be empowered with the necessary know-how and skills to effectively perform their duties. Therefore, it is necessary to continue efforts on public administration reform and develop capacities in Montenegro to achieve the efficient and non-selective application of legal regulations. Furthermore, offering additional online services would accelerate and promote economic development in Montenegro. The compliance of the tax system with international rules and standards is given an average score of 5.6 while the ease of doing business is rated 4.6. The factors contributing to this rating include frequent legislative amendments affecting business operations, the perceived inefficiency of public administration, and a lack of transparency and communication between decision-makers and those concerned, economy, and business association.

## **1.4. ECONOMIC AND INFRASTRUCTURAL DEVELOPMENT**

Well-defined strategies and legislation that promote economic growth are prerequisites for sustainable economic development. One of the key factors facilitating such economic growth is infrastructural development. In this regard, Montenegro has much potential for improvement, especially concerning road infrastructure. Additionally, prioritizing further advancements in digital infrastructure, enhancing air and roadway connectivity, and strengthening institu-

tional capacity to facilitate faster movement of goods, services, and people are deemed as priorities for the period ahead. When assessing the compliance of economic and infrastructural development with international standards and practices, respondents assigned an average score of 4.3, signaling that there is still much room for improvement. It is recommended to continue collaborative efforts between the business community and decision-makers in strategic planning and managing economic development through intensive cooperation and partnership. In this process, further infrastructure investments will ensure the improvement of the business environment and pave the way for new investment opportunities.

## 1.5. GREEN ECONOMY TRANSITION

Over the last couple of years, decision-makers and business professionals in Montenegro have largely advocated the green transition, but the results still need to be satisfactory.

Further alignment of the legislation is necessary to stimulate and promote the green transition through support and relief measures that can accelerate the entire process. The implementation of best practices would benefit both governmental bodies and the economy. The current compliance of this segment with international standards and regulations is rated at 3.6. Business professionals recognized the necessity to further aligning the legislation, introducing education and awareness programs, and considering specialized credit lines to facilitate financing for the green transition.





## 2. MONTENEGRO IN FIGURES

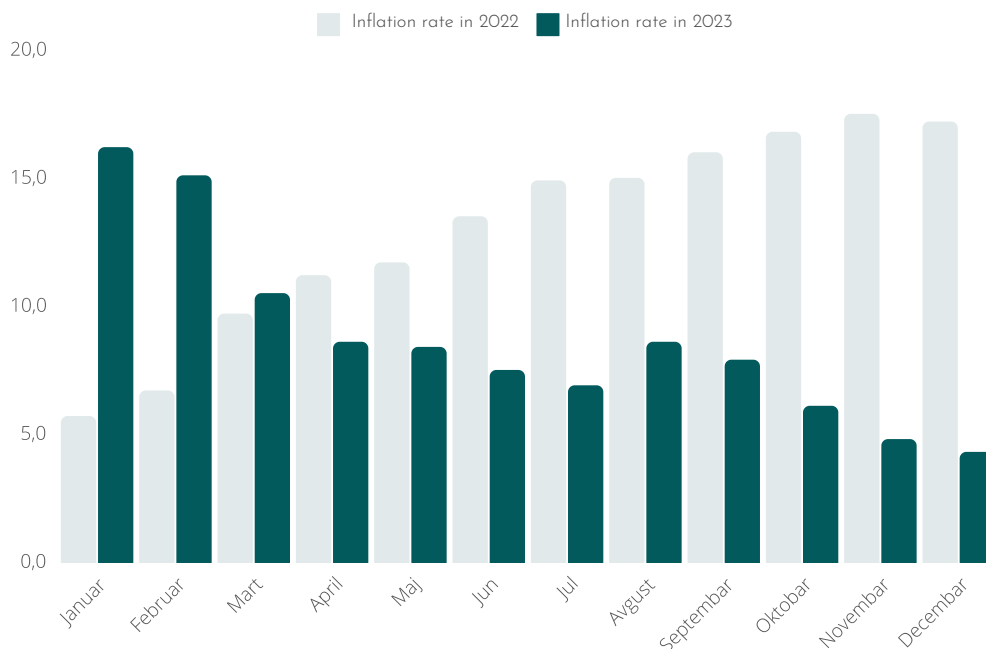
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*INTRODUCTORY NOTE: To provide a comprehensive overview of the business environment, this chapter of the White Book presents main insights from the key document – Economic Reform Program 2023-2025 (ERP). The data do not reflect the views of Council members or the official positions of the Council as an organization, i.e., the data were not the subject of our research in the format presented herein.*

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In recent years, Montenegro has recorded positive results in the statistics on economic trends in the country, but on the other hand, various international impacts have accelerated specific processes. At present, it is very challenging to compare statistical data since many indicators recorded strong growth while additional economic value did not have the most credit for that growth. The reason must be sought in the impact of inflation and a significant number of foreign citizens who have immigrated to Montenegro. Resultantly, Montenegro recorded positive trends, notably in public finance and particularly in relation to VAT collection, as a direct effect of the increased number of inhabitants and inflation rate.

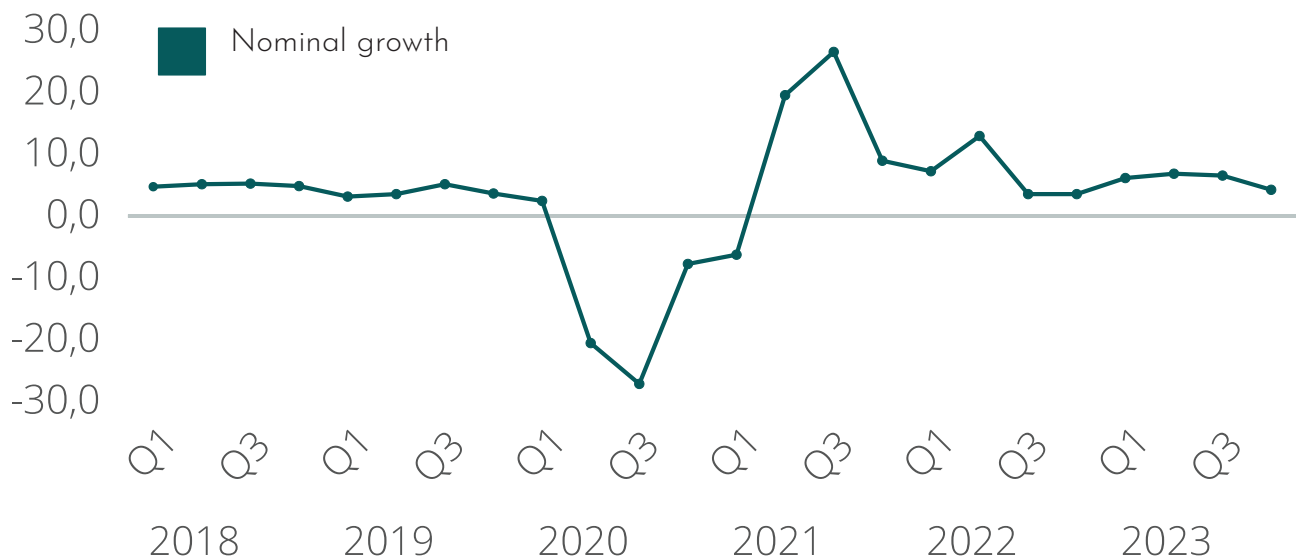
### Annual inflation rate 2022-2023



Throughout 2022 and 2023, Montenegro was one of the countries with the highest inflation rate, resulting in a significant rise in all business expenses. It is important to highlight that the inflation rate was impacted by the absence of an anti-inflation support package, similar to measures taken in the EU and regional countries. This situation led to a substantial increase in current public expenditure, while capital projects remained consistent with the initial plan, albeit their implementation levels were low.



## Gross domestic product - rate of growth/decline



The analysis of Montenegro's GDP growth rate indicates a recovery after the strong impact of the coronavirus pandemic. The recovery of the tourism sector conditioned real GDP growth; however, it was predominantly influenced by the increased household and the economy spending due to wage raising in both the public and private sectors. We should point out, as identified in the research, that precisely the increase in wages and significant employment in the public sector created a negative environment for business professionals in Montenegro. It made the major long-standing issue of Montenegro's economy - the shortage of workforce - even more prominent. Due to the promotion of the public sector, which has been of considerable size for decades and is now growing even more, the attractiveness of employment in the private sector is declining. This way of economic development management can only bring negative consequences in the future.

According to the Economic Reform Program 2023-2025, after the deep recession Montenegro faced in 2020 due to the coronavirus pandemic, which strongly affected the tourism-reliant economy, Montenegro's economy started to recover in 2021 with a growth rate of 13% and in 2022 with an estimated growth rate of 7.7%. The economy is expected to return to its pre-pandemic level. However, in addition to the consequences caused by the pandemic, Montenegro is facing the negative impacts of the war in Ukraine and the tightening of financing conditions on the international market. Adverse global developments and, to a limited extent, increase in personal consumption due to strong fiscal stimulus have caused a double-digit inflation rate, further affecting the country's fiscal position. The medium-term fiscal scenario for the period from 2023 to 2025 projects an average annual public finance deficit of over 6% of GDP and an upward trajectory of public debt. The reason behind this is the significant increase in mandatory expenditures of the social protection system, i.e., financing the healthcare and pension system and the gross salary fund. The existing situation creates high borrowing needs with the main fiscal aggregates outside the limits established by the rules on fiscal responsibility under the Law on Budget and Fiscal Responsibility. Therefore, in the coming medium-term, in order to create conditions for the long-term sustainability of public finance, it will be necessary to implement fiscal consolidation measures aimed at the consumption optimization and more efficient revenue generation. For the period from 2023 to 2025, the ERP projected an average rate of real economic growth of about 4%, prompted by personal consumption, investments, specific structural reforms that will enable higher competitiveness of the national economy, reduction of the informal economy, and more

significant activity in the labor market.

It is underlined in the PER that a lack of transparency and insufficient information provided to all stakeholders by decision-makers poses an issue. There is still an absence of a clearly defined plan for announced reforms, insufficient information on the implementation of specific reforms, and a lack of economic analysis on how the additional burden will impact business professionals. Thus, the trend of an underdeveloped investment environment continues, lacking in certainty and the possibility of medium and long-term planning within the companies.

Considering the forecasts outlined in the mentioned document, Montenegro will record slower economic growth in the next two years compared to the period from 2021 to 2023. According to these forecasts, Montenegro's national debt will increase year-over-year, but a stable debt share as % of GDP will be maintained.

## National and Public Debt Trend for 2022-2025 - Baseline Scenario

	2022	2023	2024	2025
<b>GDP</b>	5,700.00	6,174.60	6,549.20	6,890.50
<b>Internal debt</b>	511.64	568.64	574.64	624.94
<b>External debt</b>	3,756.28	3,902.78	4,248.28	4,455.78
<b>Total national debt</b>	<b>4,267.92</b>	<b>4,471.42</b>	<b>4,822.92</b>	<b>5,080.72</b>
<b>Total national debt % GDP</b>	<b>74.88</b>	<b>72.42</b>	<b>73.64</b>	<b>73.74</b>
<b>Debt of local self-governance*</b>	72.80	72.80	72.80	72.80
<b>Total public debt**</b>	<b>4,340.72</b>	<b>4,544.22</b>	<b>4,895.72</b>	<b>5,153.52</b>
<b>Total public debt % GDP</b>	76.15	73.60	74.75	74.79

\*Debt of local self-governance according to the projections of the Ministry of Finance

\*\*Debt does not include deposits of the Ministry of Finance and debts of the local self-governance

The Program identified the key three structural challenges for improving the competitiveness of Montenegro's economy over the medium-term and fostering more sustainable growth. These challenges, based on the European Commission's analysis and the Government of Montenegro's previous PER, include: (i) Increasing employment, especially of women and youth, and resolving long-term unemployment; (ii) Strengthening the regulatory environment; and (iii) Reducing informality in the economy.

However, the period from 2021 to 2023 highlighted the necessity of establishing a stable political environment to initiate reforms. The lack of such stability during this period adversely affected Montenegro's entire economy, particularly its ability to attract foreign investments. In light of these challenges, and with a primary focus on political stability, decision-makers would need to prioritize the rule of law, enhance dialogue with the economy, advance the European integration process, and lead the transformation and reform of Montenegrin society.





# 3. MONTENEGRO OVERVIEW BY PROMINENT INTERNATIONAL ORGANIZATIONS

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*INTRODUCTORY NOTE: To provide a comprehensive overview of the business environment, this chapter of the White Book incorporates data sourced from publicly available national and international reports, which may offer valuable insights to the readers of this current issue. These data do not reflect the opinions of Council members or the official positions of the Council as an organization. They were not the subject of our research in the format presented here. We extend our gratitude to the organizations that provided the data.*

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## THE EUROPEAN COMMISSION PERSPECTIVE OF THE ACCESSION NEGOTIATIONS

Accession negotiations with Montenegro were opened in June 2012. To date, 33 negotiating chapters have been opened, of which three have been provisionally closed. At the intergovernmental conference held on 22 June 2021, Montenegro accepted the revised enlargement methodology focusing on fundamental reforms, stronger political steer, increased dynamism, and predictability of the process. Montenegro also continued to broadly implement the Stabilization and Association Agreement (SAA).

Overall progress in the accession negotiations depends on progress in the area of the rule of law. Progress towards meeting the interim benchmarks set in the rule of law in Chapters 23 and 24 will be key to achieving further progress in the negotiations overall. No further chapters will be provisionally closed before this milestone is reached.

The political commitment of the Montenegrin authorities to the strategic goal of European integration has been consistently stated as the key priority for the country. However, progress on EU accession reforms has largely stalled as Montenegro suffered from deep polarization and political instability. The country was ruled by a caretaker government while the Parliament was unable to assemble a consistent majority. The absence of a functional Constitutional Court created uncertainties and legal discrepancies, including on the electoral processes. The presidential election run-off and parliamentary elections took place in April and June, respectively. The constitution of the new parliament and the new government took place at the end of October 2023. Local elections took place in 14 municipalities.

The EU continued to provide essential and unparalleled technical and financial support. To address the energy crisis provoked by Russia's war of aggression against Ukraine, Montenegro and the Commission prepared an Energy Support Package consisting of a focused national energy action plan and an immediate budget support program providing 30 million euro of grant financing to Montenegro. The EU also made 500 million euro available to the region under the Western Balkans Investment Framework to respond to the crisis in the medium term.

## THE EUROPEAN COMMISSION MONTENEGRO REPORT FOR 2023

Montenegro is moderately prepared in the area of public administration reform. Overall, limited progress was made. New Public Finance Management Reform Program was adopted, and its implementation was started. By contrast, amendments to the civil service legislation, introducing relaxed qualification requirements and ample discretion of appointing authorities to dismiss heads of administrative authorities, remained in place. Furthermore, the Parliament adopted amendments to the Law on Local Self-Government to harmonize it with the Law on Civil Service, disregarding the European Commission recommendation. The relaxed requirements introduced by these amendments are a source of continuing concern for merit-based recruitment, competence, and independence of civil servants. Continued staff changes in the public administration led to further loss of know-how on matters related to the EU accession process and an overall slowing of the pace of reforms. The Parliament has yet to adopt amendments to the Law on Access to Information. Effective lines of accountability within the administration are still to be set up. Montenegro remains moderately prepared to apply the EU acquis and European standards in the area of judiciary and fundamental rights and has made limited progress overall. No progress was achieved on justice reform, which, to date, is the most challenging area of the rule of law. The judicial system continued to face a deep institutional crisis, which resulted in weak leadership and management, a lack of strategic vision, and poor planning, affecting the country's ability to deliver justice. Besides that, the system remains affected by issues of accountability, among other weaknesses. Montenegro continues to meet its obligations on fundamental rights under international human rights instruments and legislation. The Law on Judicial Council and Judges and the Law on State Prosecution Service remains to be aligned with the EU acquis and European standards. Full and effective protection of journalists and other media workers continues to improve, yet tangible results on old cases of

attacks have yet to be achieved.

Montenegro has achieved some level of preparation in the fight against corruption. Limited progress was achieved. Corruption, including high-level corruption, remains an issue of concern and is prevalent in many areas, including in state structures. Montenegro has not sufficiently upgraded its legislative and strategic framework for the prevention of and fight against corruption in line with the EU acquis, European and international standards. Several high-profile cases of corruption are under investigation. Montenegro needs to demonstrate a stringent and unambiguous criminal justice response to this. Limited progress was achieved in preventing corruption, and the results of the Anti-Corruption Agency (ACA) improved in quantitative terms. However, the ACA's independence, accountability, impartiality, and proactiveness should be further ensured. The anti-corruption law should be improved.

On the economic criteria, Montenegro has made limited progress and is moderately prepared to develop a functioning market economy. The economic expansion continued at a robust pace in 2022, supported by private consumption and strong growth in tourism. Headwinds came from inflationary pressures on the back of higher global commodity prices. The current account deficit increased as both exports and imports expanded rapidly. An expansionary fiscal policy fueled domestic demand and contributed to very high net wage growth. The budget deficit increased significantly, and a comprehensive medium-term consolidation plan to address mounting fiscal challenges has not been developed. The labor market situation improved, but structural issues persist, including large regional disparities and gender gaps, informality, and high youth and long-term unemployment. The banking sector remained well-capitalized and liquid. The number of new businesses increased, but efforts to improve the business environment and the governance of state-owned enterprises slowed down due to political uncertainty.

Montenegro has made some progress and is moderately prepared to cope with competitive pressure and market forces within the EU. The education system faces numerous challenges,

as shown by the results of international tests. Although public financing for research and development remains modest, some progress was made in attracting private investors. Efforts to advance a green and digital transition have continued, but large infrastructure gaps persist, as the administrative and financial capacity to identify, prioritize and implement major public investments remains limited, hampering the use of EU support. Despite some progress in the metallurgy sector and the good performance of tourism, efforts are needed to diversify Montenegro's narrow production base. The low value added of domestic products, the small size of local companies, and their low level of participation in exports represent obstacles to increasing the productivity and competitiveness of local companies.

## **EBRD TRANSITION REPORT 2023-2024**

As customary each year, the EBRD report highlights the major events shaping Montenegro's economy and anticipates forthcoming challenges. Presented below are excerpts from the report.

Highlights:

- Economic growth has remained strong in 2023. The economy continued its robust expansion in the first half of year, and the tourism sector is on course to exceed pre-pandemic levels in 2023.
- Tax changes aimed at boosting revenues have been adopted. The amendments introduce the progressive taxation of real estate sales, higher corporate income taxes for offshore companies, and an increase in excise duties on sweets, single-use plastic, tobacco, and on-line gaming.
- The state-owned company, National Energy Company of Montenegro (EPCG), is undertaking its first renewable energy investment. A new 55 MW onshore wind farm near the village of Gvozd in the Municipality of Nikšić will help the company to accelerate its decarbonization plan and the country with its broader energy transition.

Key priorities for 2024:

- Systemic measures are needed to support medium-term fiscal sustainability. Adopting a medium-term fiscal framework and establishing the fiscal council would help govern a much-needed return to fiscal consolidation in an environment of elevated borrowing costs.
- Enhancing the business environment would encourage investment. A more efficient public administration system – to streamline, particularly, the burden stemming from local administration and para-fiscal charges – and more transparent and cohesive economic policymaking are needed to improve investor confidence in uncertain times.
- The country would benefit from accelerating the pace of green transition. The National Energy and Climate Plan (NECP) set to govern Montenegro's energy transition and the country's first law on renewable energy have not yet been adopted.

## **WORLD BANK, WESTERN BALKANS, REGULAR ECONOMIC REPORT, TOWARD SUSTAINABLE GROWTH: MONTENEGRO**

- Montenegro's growth remains strong and is estimated at 4.8 percent for 2023, driven by private consumption and service exports.
- The fiscal performance has been better than planned, largely owing to one-off revenues and capital budget under-execution.
- As Montenegro approaches large debt repayments during 2024-2027, it requires very prudent fiscal and debt management with well-designed policies affecting the fiscal position.

## RECENT ECONOMIC DEVELOPMENTS

The economy made a very strong start in 2023. GDP expanded by 6.6 percent in H1, driven by personal consumption, underpinned by an increase in public sector wages, employment gains, and household borrowing. In the first seven months of 2023, total international tourism overnight stays increased by 50 percent, outpacing the levels observed in the same period of 2019 by nearly a third. Surging tourism, along with rising employment and an increase in wages, supported retail trade, which expanded by 10.4 percent in real terms over the same period. Despite declining manufacturing due to a halt in aluminum production, industrial production increased by 5.4 percent in the first seven months of 2023 due to favorable hydrometeorological conditions earlier in the year that affected electricity generation. While construction declined by 3.4 percent in H1 2023, an increase in the number of building permits issued points to a likely resumption of construction activity in the near term.

Strong employment gains of 2022 continued into 2023, reflecting the year's strong start. The Workforce Survey shows that average employment increased by 10.7 percent in H1 2023. The youth unemployment rate also declined to its lowest ever at 17 percent in Q2 2022 from 26.7 percent.

Administrative data suggest that employment also increased in early Q3 2023. In July, total registered employment increased by 9.6 percent to reach a record high of 258,024 employed.

Inflation has eased but remains elevated. While annual inflation moderated to 10.1 percent over the first eight months of 2023, monthly inflation remains elevated, led by food prices.

The financial sector maintains strong capital and liquidity buffers. In August 2023, outstanding loans were up by 8.9 percent, driven by lending to households and non-residents. At the same time, overall deposits were up by 13.6 percent, led by the corporate and household sectors.

The external imbalances have narrowed slightly in H1 2023. The current account deficit narrowed slightly, as export growth of 26.7 percent outpaced import growth of 15.1 percent.

During 2023, the fiscal performance has been much better than expected. By July, the central government achieved a fiscal surplus of 2.3 percent of GDP, due to strong revenues and capital budget under-execution.

Despite public debt falling as a share of GDP, it still presents a vulnerability. Montenegro's public debt declined from 69.3 percent of GDP in 2022 to an estimated 61.3 percent of GDP in June 2023, owing to a larger nominal GDP, negative net borrowing, and a much better than planned fiscal performance.

Montenegro's political setting remains fragile. Since a major political change in 2020, Montenegro's political and institutional landscape has been complex and fragile, resulting in a vote of no-confidence in two governments in one year.

## OUTLOOK AND RISKS

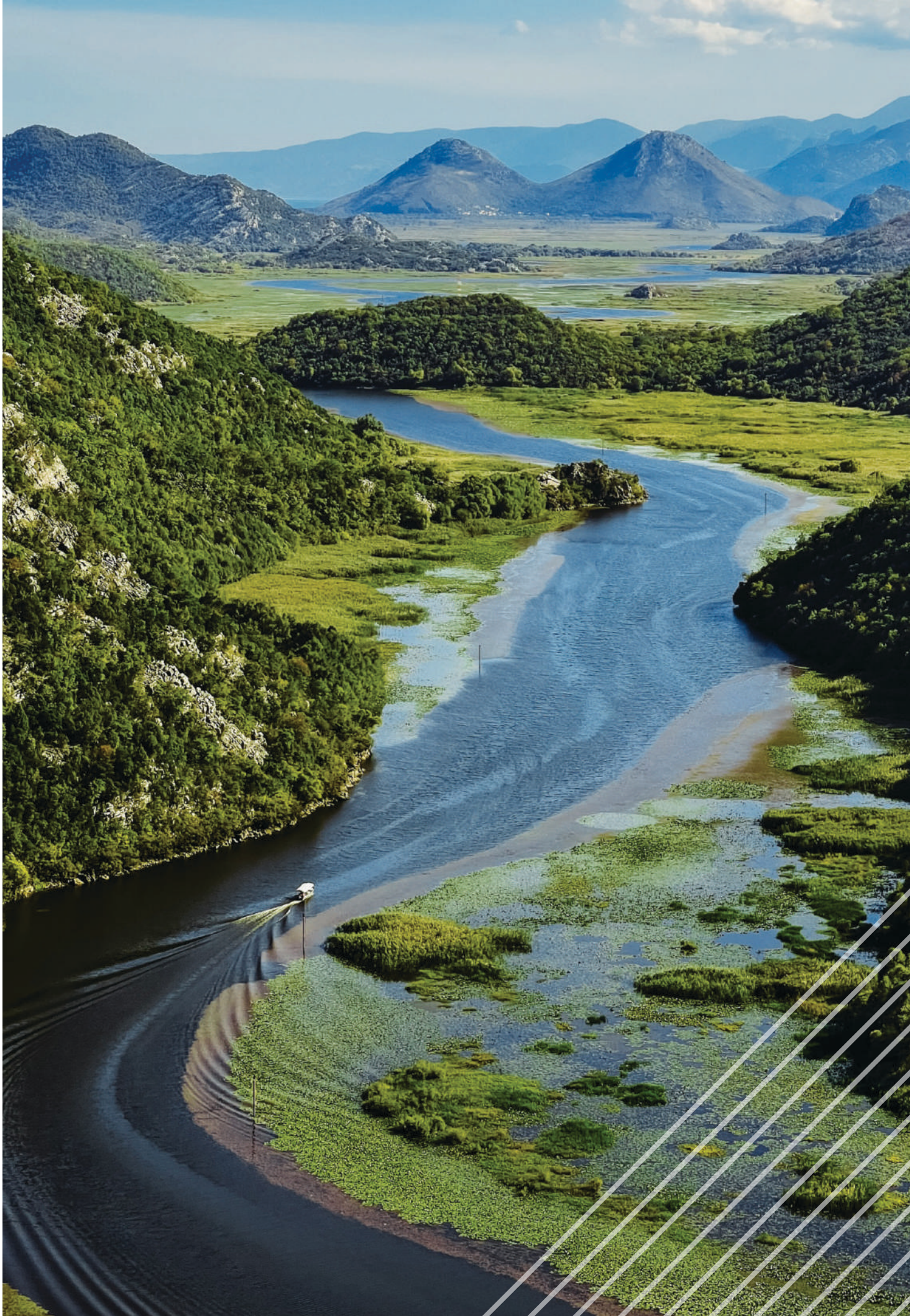
Montenegro's growth is expected to remain strong at 4.8 percent in 2023, underpinned by private consumption and service exports, while investments remain subdued. However, the slowing of the global economy is weighing down on Montenegro's outlook. Over 2024-2025, declining private consumption growth is expected to result in a slower average growth of 3.1 percent.

In the medium term, the fiscal deficit is expected to remain elevated. While one-off revenues will result in the lower-than-planned fiscal deficit of 2 percent of GDP in 2023, the fiscal deficit is expected at 3.9 and 3.6 percent of GDP in 2024 and 2025, respectively.

Significant debt repayments are due in 2024-2025. Montenegro's debt amortization in 2024 and 2025 is at an estimated 7.1 and 11.7 percent of GDP, respectively.

The outlook is characterized by downside risks. High geopolitical uncertainties may weaken growth prospects in Montenegro's major trading partners. Monetary tightening is rapidly increasing the cost of external financing.









# 4. THE MFIC INDEX 2023

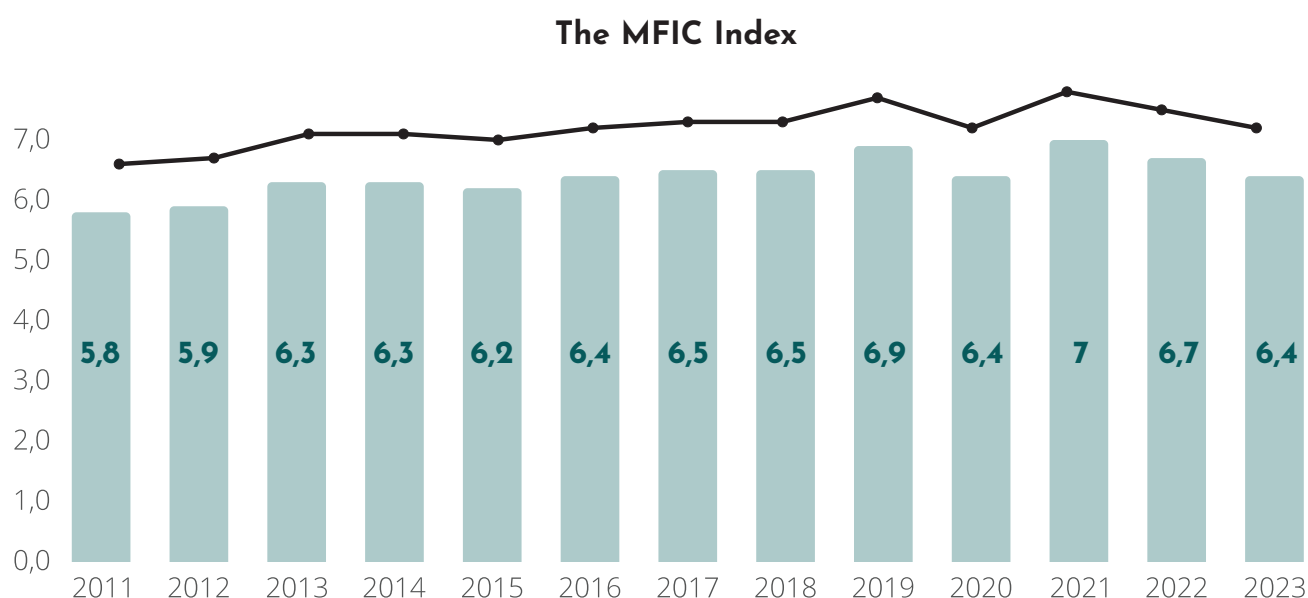


## 2023: THE YEAR IN REVIEW



## 4.1. MFIC INDEX FOR 2023

The MFIC index, denoting the evaluation by MFIC members regarding the ease of doing business in Montenegro, has been systematically calculated and released for the thirteenth consecutive year. Following established protocols, the index relies on the evaluations provided by MFIC members, who annually assess Montenegro's business landscape through a structured questionnaire-based feedback process. A fundamental segment of the evaluation form within the questionnaire has remained consistent since 2011, facilitating the tracking of upward or downward trends. In 2023, the Council opted to retain the aforementioned methodology while incorporating specific inquiries aimed at elucidating the reasons behind investors' satisfaction or dissatisfaction. Consequently, new indices have been introduced this year. It is noteworthy that these additional indices are not factored into the overall index calculation. Nevertheless, they contribute supplementary insights to all investor ratings. This methodology for index calculation enables continuous monitoring and evaluation of the business environment. The overarching objective is to exert influence collaboratively with decision-makers in order to enhance the business environment, fostering transparency, predictability, and efficiency for all stakeholders.



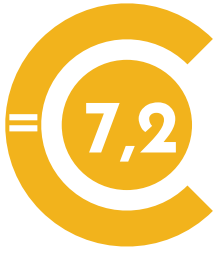
Noticeably, the index still indicates stability in the business environment. However, for the second consecutive year and for the first time since the inception of measuring the index, business professionals negatively evaluated the business environment, i.e., ease of doing business in Montenegro. The MFIC index 2023 is 6.4 (on a scale of 1 to 10, with 1 representing the worst and 10 representing the best score).

In contrast to the ratings observed in 2022, Council members in 2023 assigned a lower score to the ease of doing business in Montenegro, reflecting a decline of 0.3 points. This signifies a concerning negative trajectory in the index value, experiencing a cumulative decrease of 0.6 points over the course of two years. Notably, this marks the first instance since its inception that the index has recorded consecutive negative trends. The recorded decline reflects the perceptions of Council members, business professionals, and investors, summarizing their responses to all reforms implemented throughout the year 2023.

The MFIC members rated individual business sectors by applying the prescribed methodology.







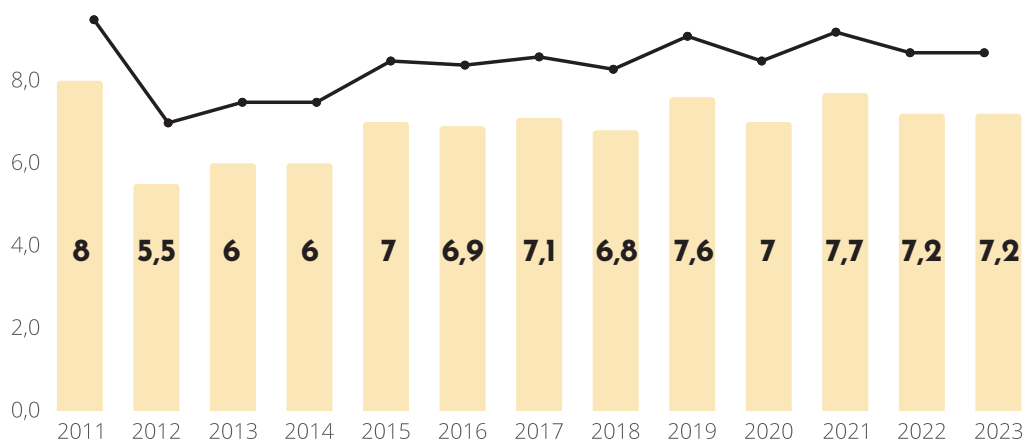
## 4.1.1. TELECOMMUNICATIONS AND ICT



In line with previous research findings, the telecommunications and ICT sector maintained the highest rating. This index has consistently recorded positive trends year after year, starting from 2012 until 2021 when the second-highest value since the inception of the index was recorded. After 2021 when our members recognized substantial prog-

ress in this area reflected in the index value of 7.7, which was followed by a decline, and subsequently stagnation. In 2023, the ease of doing business was rated at 7.2, which is the same rating as in the previous research. This indicates the sector's stability, yet there is still much potential for further improvement.

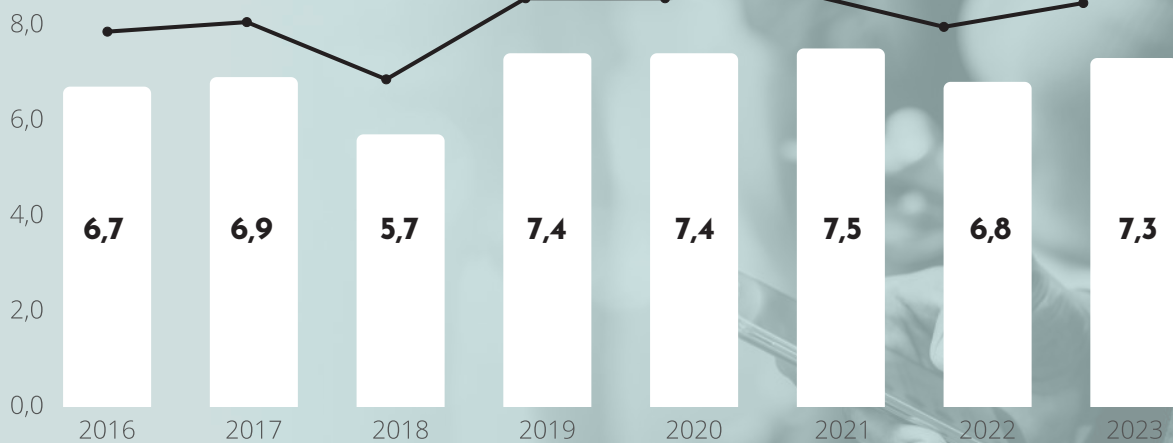
**TELECOMMUNICATIONS AND ICT**



Interestingly, companies operating within the telecommunications and ICT sector more positively rated the ease of doing business in

Montenegro in 2023 with an average score of 7.3, indicating an increase of 0.5 compared to 2022.

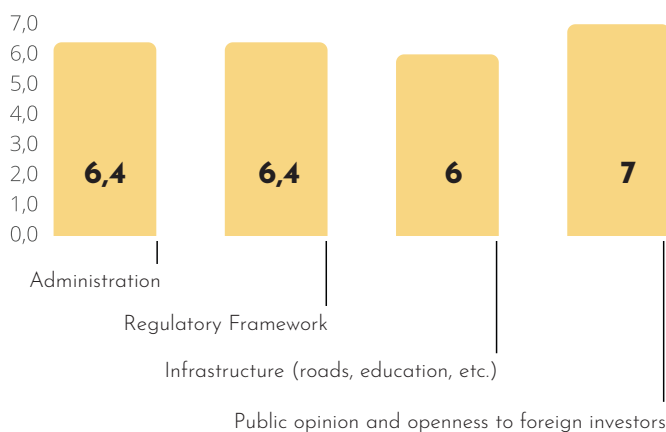
### ICT ABOUT ICT AND TELECOMMUNICATIONS



When examining the factors influencing the average sectoral rating, it becomes evident that members assigned the lowest score of

6 to infrastructure<sup>2</sup>, while public opinion and openness to foreign investors was assigned the highest score of 7.

### Operational Trends of the ICT Sector in 2023



In addition to other influences on the business environment in this sector in 2023, investors highlighted inadequately developed legislation related to digitalization, particularly in client interaction, and the absence of standardized QR payment codes. Additionally, companies within the sector raised concerns about the fee levels for ICT providers. Conversely, businesses from different sectors identified the cost of roaming services as a challenge in the development of the telecommunications sector.

<sup>2</sup> Depending on the sector, responses are interpreted differently.

- Administration denotes the promptness of administration, length of time it takes to resolve cases, and similar, across all sectors.
- Regulatory framework denotes a legal framework that fosters sectoral development.
- Infrastructure has varying interpretations depending on the sector. For instance, in telecommunications, it pertains to connectivity and coverage; in banking, it involves digital infrastructure and bank accessibility; in trade, transportation, and logistics, it relates to road networks and connectivity; and in tourism, it includes roadways and air transportation networks.
- Public opinion denotes the views of the broader public concerning a specific sector or investors.

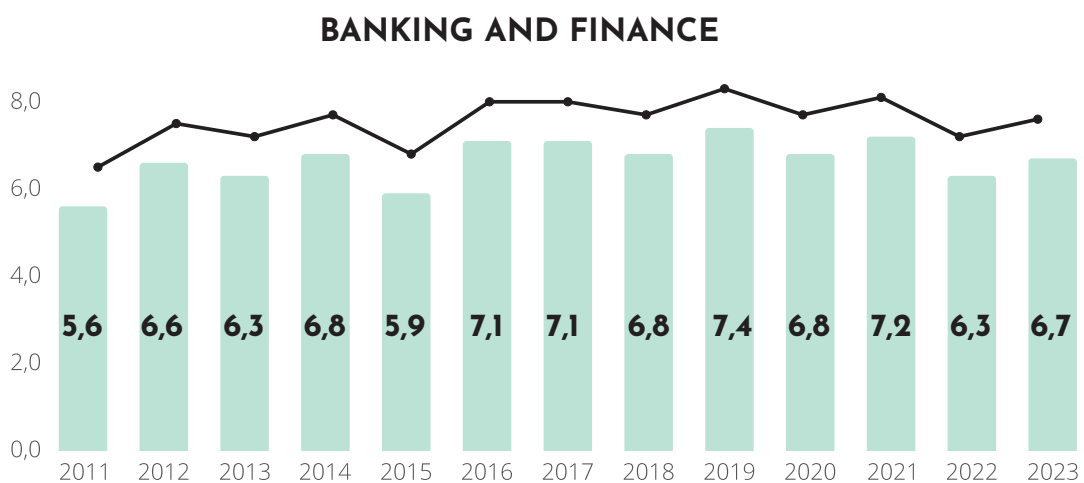


## 4.1.2. BANKING AND FINANCE



The ease of doing business in the banking sector for 2023 is rated at 6.7. This rating follows a notable downturn in the index value by 0.9 points in 2022 compared to the preceding year, 2021. The banking sector is the sole industry to register improvement this

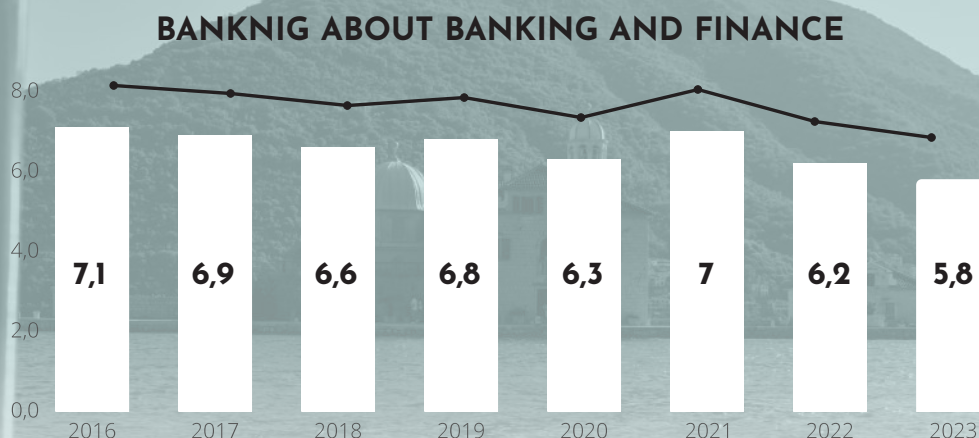
year, with an increase of 0.4 points. Nevertheless, it needs to be noted that the index value, while displaying an improvement, remains suboptimal. It stands as the second-lowest value recorded for this index since 2015.





While all Council members expressed positive evaluations regarding the ease of doing business trends in the banking sector, a distinctive perspective emerges from members actively engaged within the sector. Members operating in the banking and finance industry gave negative evaluation of the ease of doing business in 2023. The rating assigned by banks and financial institutions for the ease of doing business in 2023 is 5,8, reflecting a decrease of 0,4 compared to the preceding year.

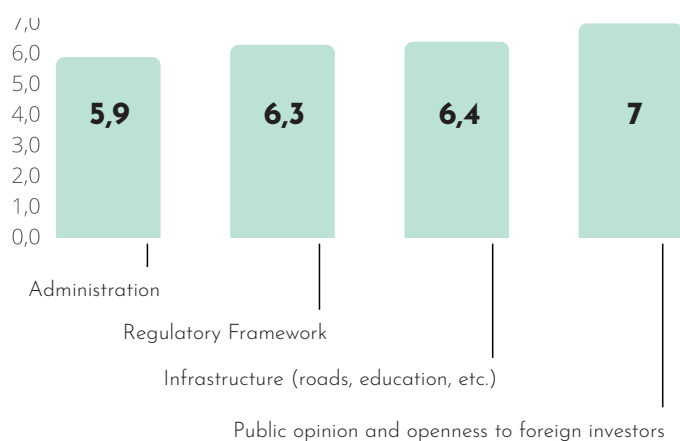
The difference of 0,9 between the overall rating and that of the business professionals from this sector indicates that issues burden the banking sector. In the opinion of business professionals from other sectors, banking is very affordable. The primary concerns articulated by all business professionals within this sector for 2023 include taxation, transparency, law enforcement, and inspections.



Examining the components of this rating, respondents assigned the lowest score of 5,9 to administration<sup>3</sup>, followed by a rating of 6,3 for the regulatory framework and 6,4

for infrastructure. Similar to the telecommunications and ICT sector, the highest rating is attributed to public opinion and openness to foreign investors.

#### Operational Trends of the Banking Sector in 2023



Among the factors contributing to the adverse ease of doing business index in the banking sector, Council members acknowledge the deficiency in transparency within the government's decision-making process. This practice detrimentally affects the sector, often resulting in increased costs and operational challenges. Specific aspects of the tax legislation, particularly those recently implemented, received highly unfavorable ratings for their significant negative impact on company operations. Emphasis was placed on the inadequacy of bylaws in other domains, which, when misaligned with the needs of the banking sector, exert adverse effects on the entire industry. Besides regulatory shortcomings and existence of digital solutions, digital wallet payments, online account opening, e-signature use, and similar further impeded the banking sector development in Montenegro.

<sup>3</sup> Administration refers to the effectiveness and operations of governmental bodies in carrying out tasks. Additionally, it pertains to the efficiency of administrative processes within the banking sector. Infrastructure denotes the potential for enhanced operational capabilities within the banking sector facilitated by online services and digital products.

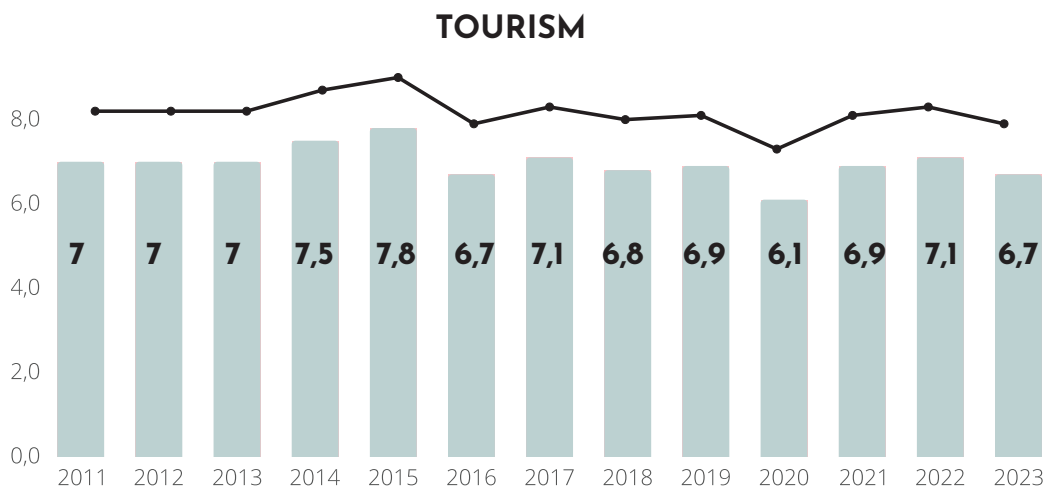


## 4.1.3. TOURISM



Tourism is the third rated sector and stands as one of the most pivotal strategic sectors in Montenegro's economy. The tourism sector received a rating of 6.7 in 2023. Following a two-year upward trend in the index value following a significant decline attributed to the impact of the coronavirus pandemic, business

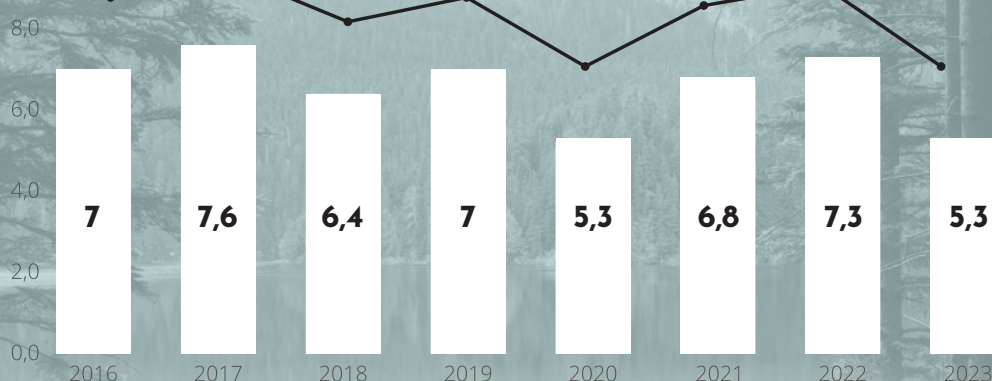
professionals assigned it a rating 0.4 points lower in 2023 compared to 2022. This stands as the lowest rating since 2016, excluding the pandemic year, underlining the imperative need for focused strategic management in this sector.



A notable concern arises from the fact that members operating within the tourism sector assigned the same rating for the ease of doing business as in the pandemic year (5.3), representing a 2-point decrease compared to 2022. This serves as a clear indica-

tion that the tourism professionals are dissatisfied with the current situation, emphasizing the necessity for further efforts in refining regulations and enhancing infrastructure to improve the overall situation.

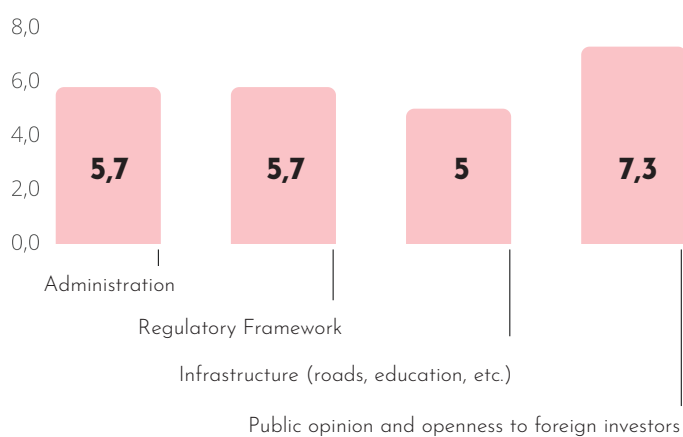
### TOURISM ABOUT TOURSIM



Upon analyzing the segments of the tourism sector rating, the infrastructure, encompassing factors such as roads, accessibility, and connectivity of destinations, received the lowest score of 5. Slightly higher scores of 5.7

were assigned to administration, reflecting the efficiency of obtaining work permits and handling applications and the regulatory framework.

### Operational Trends of the Tourism Sector in 2023



In addition to the previously mentioned factors, all business professionals emphasized that inadequate air connectivity, characterized by a limited number of airlines, exerted a negative impact on the ease of doing business in the tourism sector. Furthermore, members identified challenges related to insufficient capacities and disorganization at airports during the peak season as significant issues. These issues not only create an unfavorable image of Montenegro's tourism, deterring tourists, but also discourage potential investors from capitalizing in the sector.

A longstanding challenge for Montenegro's tourism is the informal economy, which considerably hampers the sector and diminishes its appeal. Members identified the lack of strategic and coordinated management to address this issue and enhance the overall tourism offering in Montenegro. Among other detrimental factors, business professionals highlighted the imposition of substantial parafiscal levies in the form of residence and other taxes, as well as deficiencies in utility infrastructure. Additionally, participants in the research unanimously identified the availability of a workforce as the most pressing issue, particularly in recent years, increasing the need for hiring foreign workforce which poses another significant challenge due to existing regulations.

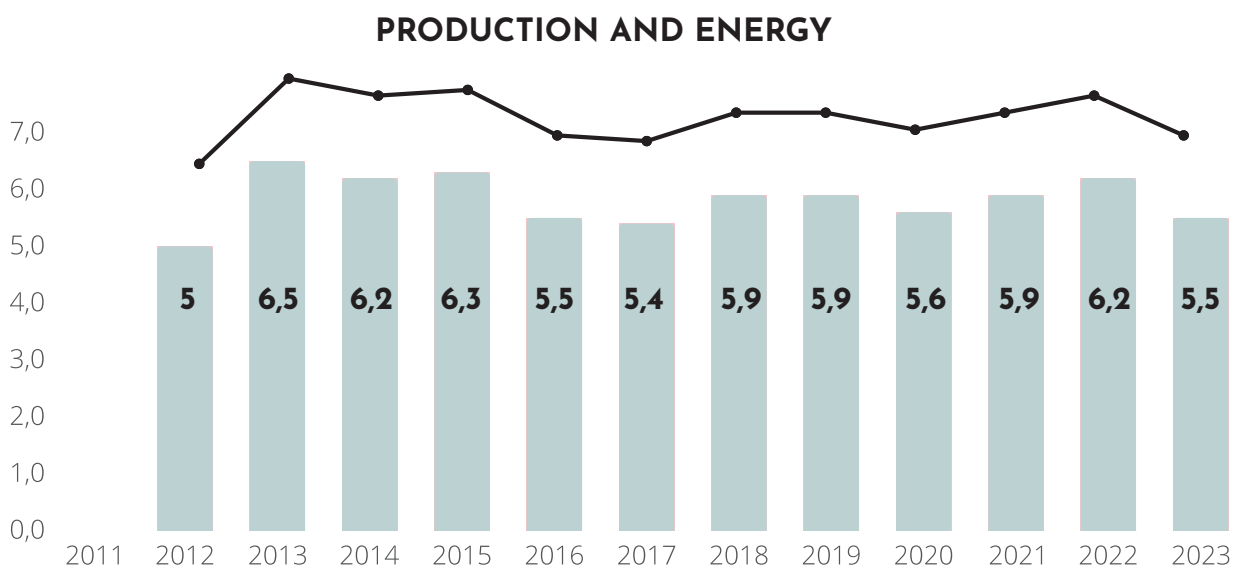


## 4.1.4. PRODUCTION AND ENERGY



In 2023, the production and energy sector was assigned a score of 5.5. Notably, this sectoral index recorded a pronounced decline of 0.7 following consecutive growth in 2021 and 2022, signaling potential issues that warrant further examination.

The graph illustrates a persistent trend of consistently low ratings for the production and energy sector since the initiation of the calculation. The highest score was recorded in 2012, and the current rating for the year is the third lowest since the inception of the calculation.



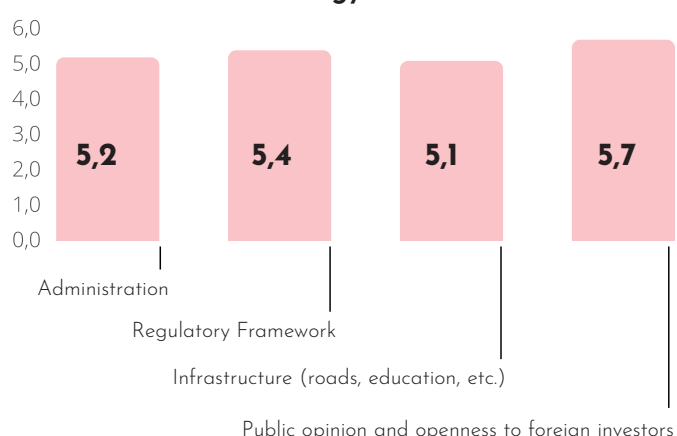


Examining the contributing factors to this low rating, business professionals assigned the lowest score of 5.1 to infrastructure-related aspects such as roads, traffic connections etc. Additionally, a score of 5.2 was given for administration, encompassing the function-

ing of state authorities, permit issuance, and law enforcement. The regulatory framework received a low score of 5.4. Public opinion and openness to foreign investors were rated at 5.7, which, when compared to other measured index, is notably low.



**Operational Trends of the Production and Energy Sector in 2023**



Other factors identified by business professionals that adversely affect the business environment in the production and energy sector, diminishing its attractiveness, primarily include an underdeveloped market and limited competition due to a small number of businesses. Additionally, inadequate adaptation to state-of-the-art technologies, in line with international standards, is seen as a significant challenge for companies within the sector. Furthermore, business professionals highlight the lack of available credit lines, grant schemes, tax incentives, and other supportive measures as substantial impediments to the sector's further development. They perceive these shortcomings as significant barriers hindering progress. In conclusion, business professionals emphasize the need for greater recognition of the production and energy sector. They contend that the current attitude toward investors at all stages of investment is not at an optimal level and needs to be improved for the sector's sustained growth.

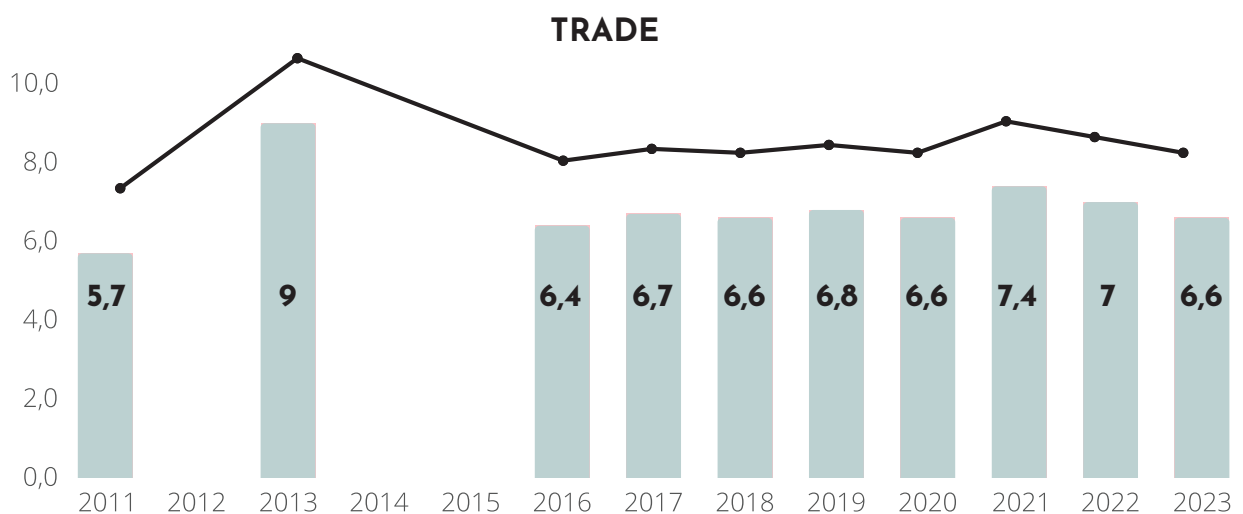


## 4.1.5. TRADE



The ease of doing business in the trade sector for 2023 is rated at 6.6. Despite being one of the most developed sectors in Montenegro, the trade sector still does not command high ratings. The 2023 rating for the trade sector experienced a decline of

0.4 points. Although it exhibited the highest growth among sectors during the pandemic year, the perception has once again shifted negatively, resulting in the same rating as in 2020.

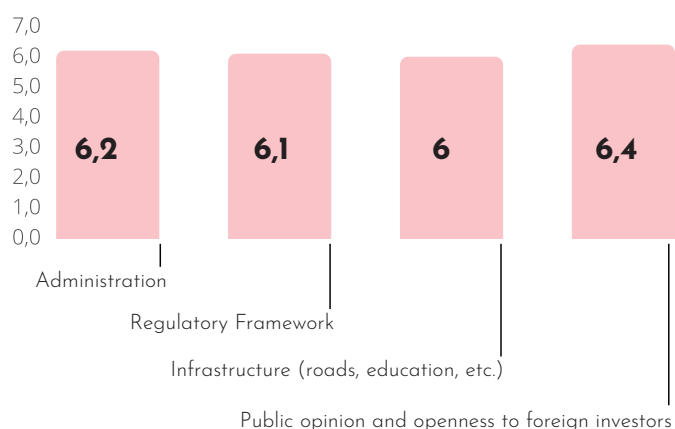


When assessing the current situation, respondents assigned the lowest score of 6 to infrastructure, which includes aspects such as connectivity, transport infrastructure,

and accessibility. Following closely, the regulatory framework received a rating of 6.1. The highest rating of 6.4 was attributed to public opinion and openness to foreign investors.



### Operational Trends of the Trade Sector in 2023



As other factors that affected the ease of doing business for this sector in 2023, the investors highlighted low consumer trust and underdeveloped digital solutions. Identified shortcomings impede sectoral development and are further burdened by the public's attitude toward this sector, marked by the negative perception of monopoly and pricing. A substantial issue in better positioning this sector is excessive imports and a lack of domestic supply, which could lead to price cuts. As in most sectors, the informal economy poses a substantial barrier to developing the trade sector.



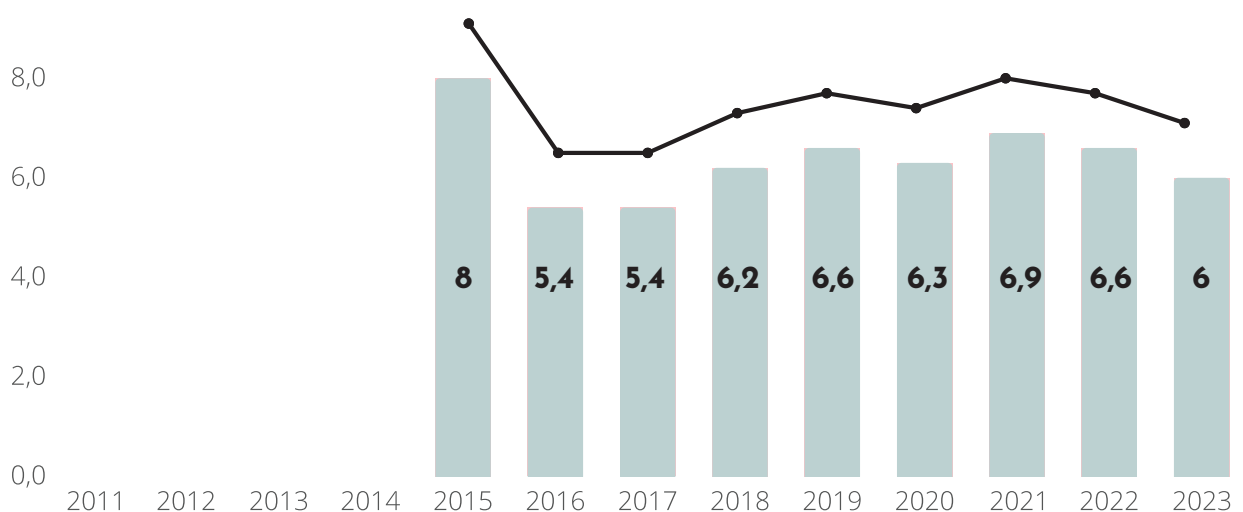
## 4.1.6. TRANSPORTATION AND LOGISTICS



The ease of doing business index for the transportation and logistics sector in 2023 is recorded at 6. For the second consecutive year, this index recorded a decline of 0.6.

Since 2016 and 2017, the 2023 rating is the lowest calculated for the transportation and logistics sector within this research.

### TRANSPORTATION AND LOGISTICS

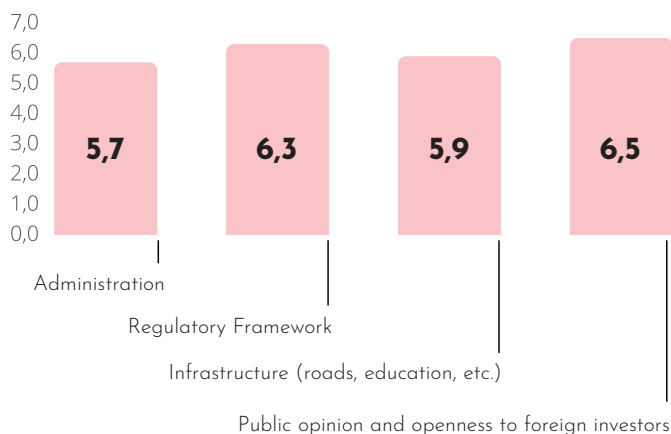


The factors influencing this rating reveal that administration, assessed in terms of obtaining permits, the ease of working with administration, and efficiency during controls, received the lowest score of 5.7. Infrastructure, primarily referring to roads and connectivity between cities and other countries, was rated at 5.9. The regulatory framework received a

somewhat better rating of 6.3, while public opinion and openness to foreign investors received a score of 6.5. Nevertheless, the trend of this index suggests substantial potential for improvement in addressing numerous deficiencies that contribute to the current state of the sector, with limited progress in addressing these challenges.



### Operational Trends of the Transportation and Logistics Sector in 2023



Throughout the research, nearly all business professionals in this sector identified tax procedures as complicated, lengthy, and expensive, especially concerning import/export procedures, aggravating their businesses both financially and administratively. Additionally, the underdeveloped infrastructure and inefficient and rather slow border control is limiting factor to the development and progress of this sector.

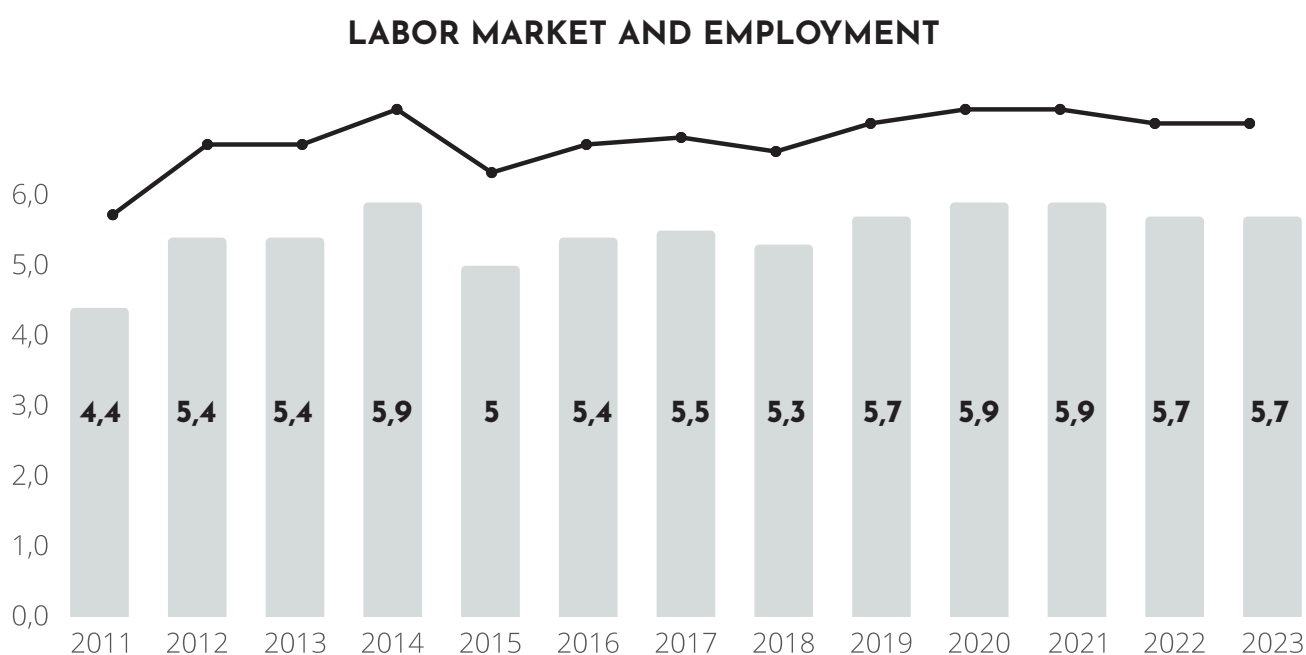


## 4.2. INDIVIDUAL SIGNIFICANT CATEGORIES

Besides measuring the overall ease of doing business index in Montenegro, the research included other categories deemed essential for business environment.

The first index in this chapter refers to labor market and employment. This index includes regulations pertaining to the labor market, especially those on severance pay, sick leave, fixed-term contracts, etc.

In the labor market and employment segment, the average rating of business professionals for 2023 is 5.7, at the same level as in 2022.



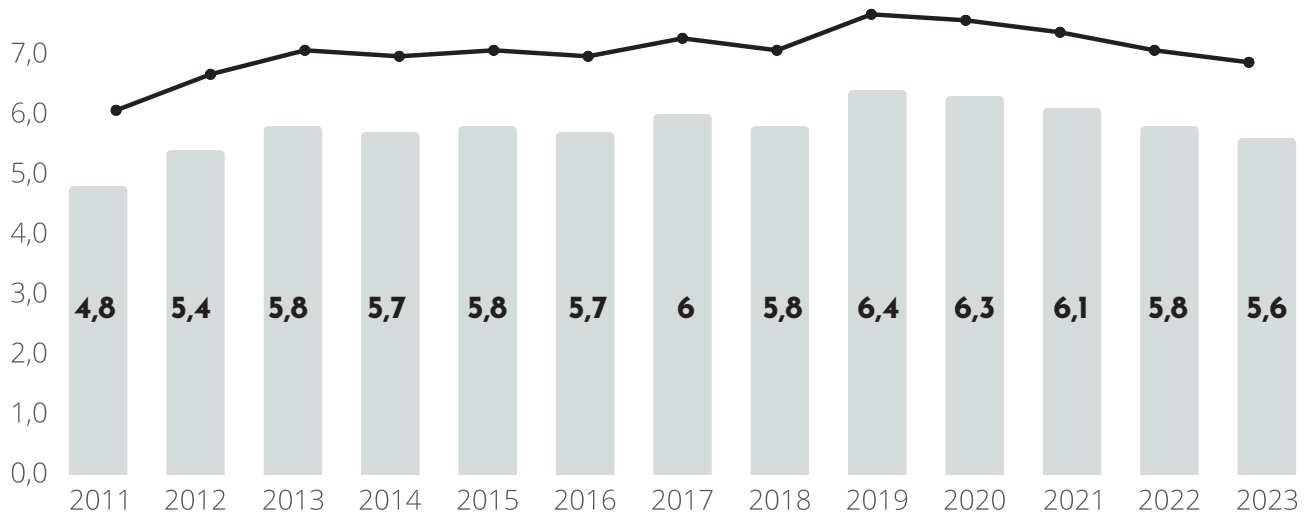
By analyzing individual factors that impacted the rating, we noted that business professionals rated sick leave at 5.2 and severance pay at 5.5 with the lowest scores. A slightly higher score of 5.9 was assigned to employment contracts on indefinite term. Business professionals have identified various factors influencing the rating, such as permits for foreigners, remote work, programs for skills enhancement, judicial processes, particularly regarding better protection for employees against employers, market migrations, minimum wage, and institutional performance.



The second index refers to real estate development and includes building permits, registration, cadaster, execution of mortgage agreements, etc.

Since 2019, this index has recorded a decline. Thus, from an average score of 6.4 in 2019, it fell to an average score of 5.6 in 2023.

### REAL ESTATE DEVELOPMENT

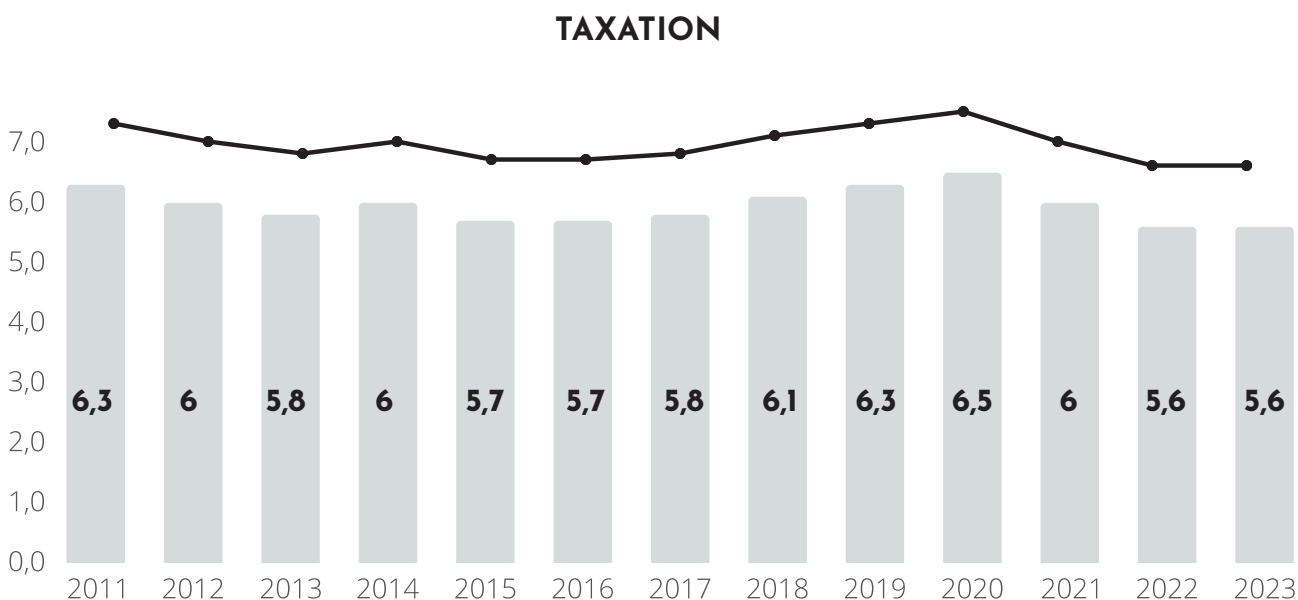


Such rating resulted from a very low score of 4.4 for cadaster and a score of 4.7 for the process and efficiency of issuing building permits. As additional challenges and factors affecting the real estate market development respondents identified: the lack of publicly accessible data, administration, high prices, inconsistent procedures for different operations, corruption, state detailed plans, prolonged procedures, and a lack of digitalization.



Taxation is one of the indices with very low scores, encompassing evaluations of diverse duties, taxes, levies, and the overall compliance and transparency in tax payment/avoidance.

Following consistent expansion from 2017 to 2020, this index is seeing a decline. In 2023, the average rating stands at 5.6 and is at the same level as in 2022, which also marks the lowest rating recorded in the past 11 years since the inception of this index.



Respondents attribute the low index rating to several factors, including an average score of 4.8 for tax inspection efficacy, 5.2 for diverse taxes, 5.5 for the level of tax rates, and 5.3 for other levies at both state and local levels. Additionally, they highlight other determinants such as the absence of tax incentives for business expansion, non-transparent enactment of laws, inconsistencies in legal regulations and by-laws, inadequate administrative capabilities, double taxation, implementation of new taxes lacking legal foundation, digitalization, substantial local taxes (parafiscal), etc.



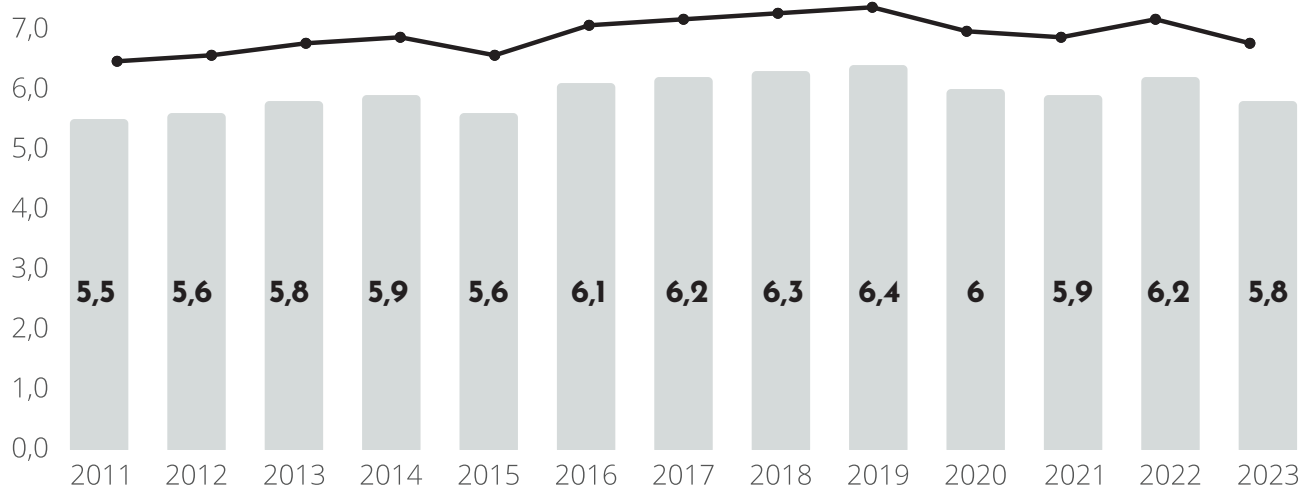


The next index assessed within research was the corporate governance index.

This index encompassed areas concerning financial statements, bankruptcy regulations, and the alignment of Value Added Tax (VAT) with audit and European Union (EU) practices.

Following increase in 2022, the index recorded a decline of 0.4, with the calculated value for 2023 standing at 5.8. In 2023, this index has recorded its lowest value since 2015.

### CORPORATE GOVERNANCE



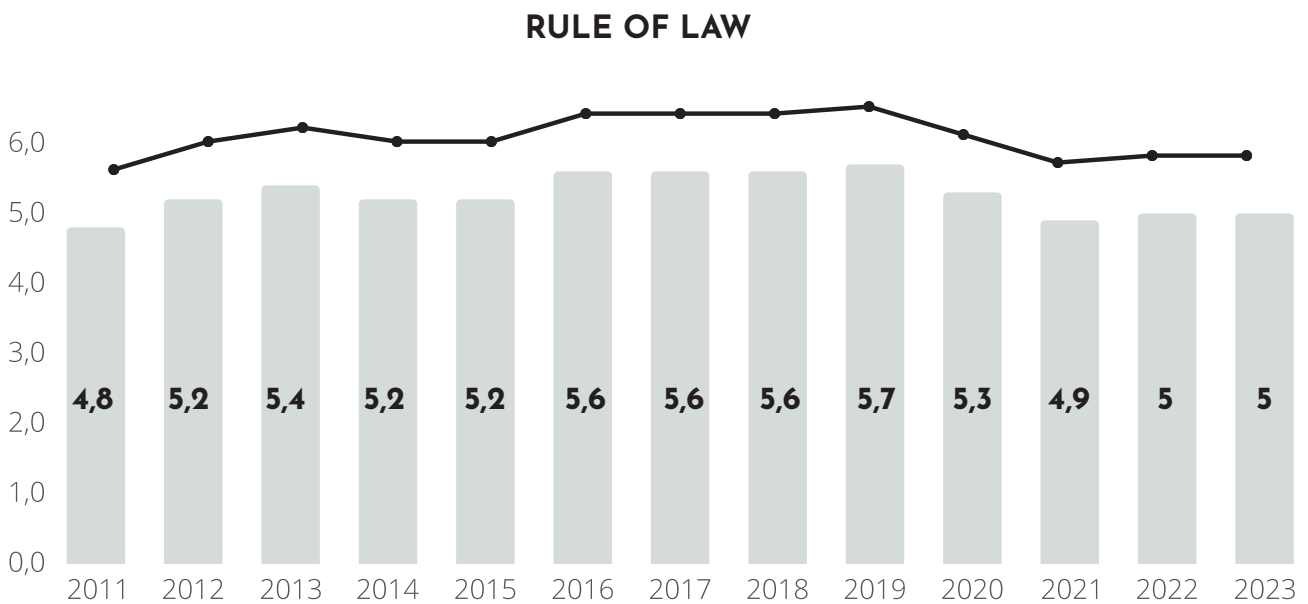
According to respondents, the rating was primarily influenced by the following areas: bankruptcy regulations, scoring 5.8, and the alignment of Value Added Tax (VAT) with audit and European Union (EU) practices. Other factors include Environmental, Social, and Governance (ESG) management and consulting, varied interpretation of VAT regulations by local administrations, administrative practices, and inconsistencies in the application of comprehensive legislation.



The rule of law index encompasses factors such as the duration of commercial disputes and court cases, the issuance of permits and licenses, including residence and work permits, etc.

The rule of law index continues to receive the lowest rating in this chapter of the report. The average score remains unchanged at 5 in 2023, remaining at the same level as the preceding year.

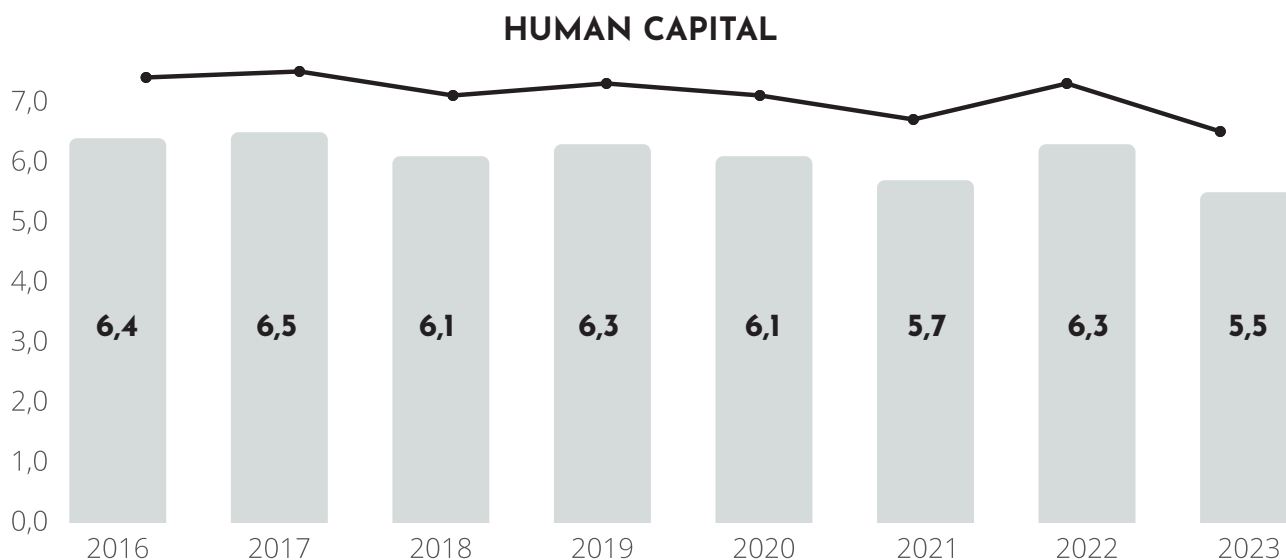
The factor with the lowest score influencing this index is the duration of commercial disputes and court cases, recorded at 3.2. This is the lowest score attributed to any index in this year's research. The process of issuing permits and licenses received a score of 4.4, while the issuance of residence and work permits scored 5.5.



As additional factors of influence in this area, respondents highlight the inconsistency of judicial practices, corruption, discrimination, and the question of transparency in decision-making process, among others.



To conduct a comprehensive assessment of the business environment and the ease of doing business, the final set of indices – evaluated since 2016 – encompasses the rating of human capital, the informal economy and inspections, regulations on public-private partnerships, public procurement, digitalization of public services, and regulations on the protection of personal data. This year’s findings revealed that only in the digitalization of public services was there an improvement in the index, while other areas exhibited negative trends.



The first index in this chapter refers to human capital in Montenegro.

The human capital index assesses the existing workforce potential from the employer’s viewpoint. On the other hand, the Labor Market Index offers an assessment of the legislative and institutional framework for human capital development by business professionals.

Despite persistently low ratings in the human capital domain over the years, an average score in 2023 stands at 5.5, marking the lowest rating recorded since 2016.

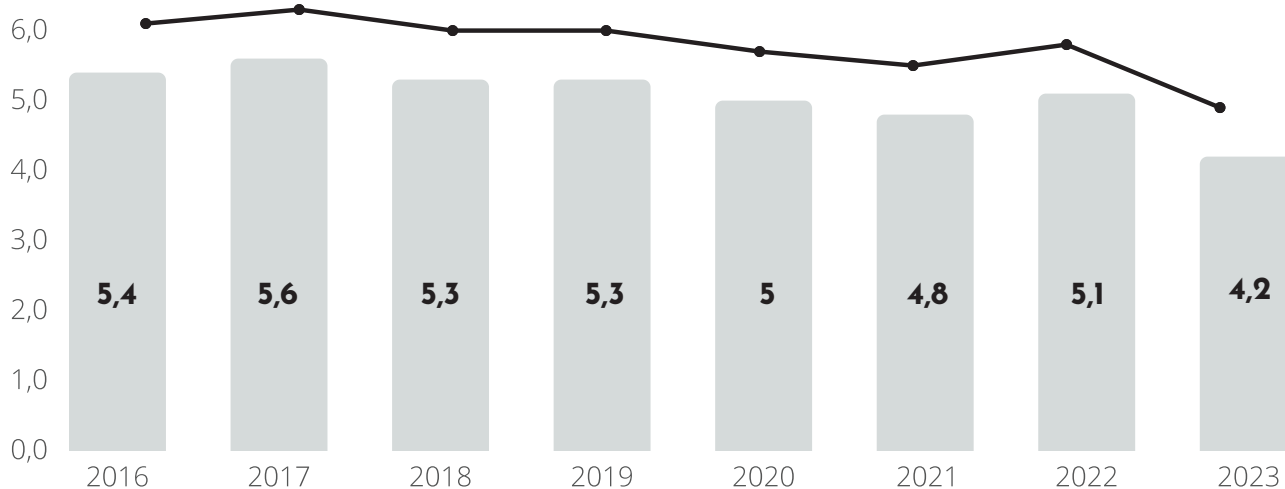


Business professionals pinpointed several significant issues in the human capital domain, whereby most of them refer to the shortage of workforce and the inadequate alignment of the education system with market demands. The key challenges identified include:

- Shortage of qualified workforce with specific skills, especially for large businesses, posing a significant barrier to establishing continuous business process;
- Underdeveloped education system with outdated programs that do not adapt to market dynamics, and a lack of systematic analysis that would offer solutions and address emerging skills demands in sync with technological advancements;
- Insufficient investment in the education system and lack of educational infrastructure, leading to brain drain, which represents one of the main challenges, particularly concerning talents sought after in the IT market and similar sectors;
- Increased competition from the public administration due to public policies attracting and hiring a large number of people. In this part, we are primarily referring to a significant rise in employee wage costs that has not occurred through an increase in economic values, negatively impacting an economy still not sufficiently developed to keep pace with such trends. Moreover, the state addresses these escalating costs by imposing further burdens on the economy, thereby hindering the growth of the real economy;
- Workforce migration, particularly noticeable in the tourism sector, increasing costs, disrupting continuous operations, and creating an unstable environment for strategic planning.

The informal economy and inspections recorded the lowest score, standing at only 4.2. Although this index has been ranked as the lowest for years, this year's result is particularly concerning as it marks the lowest score recorded since the inception of the index measurement.

## INFORMAL ECONOMY AND INSPECTIONS

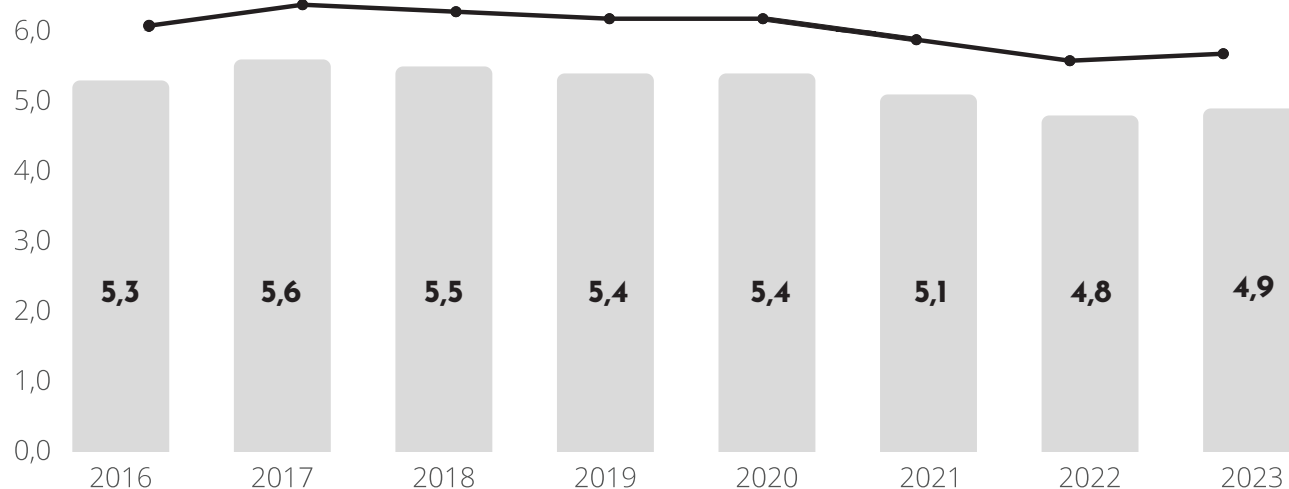


As one of the areas recording the lowest rating, the informal economy and inspections pose a significant barrier to market development and impose additional burden on businesses. Business professionals identified the following key challenges:

- Administrative capacities of tax institutions, especially inspections, which are not sufficiently prepared and capacitated to control businesses. This results in selective application of legal regulations and prolonged, ineffective controls due to a limited number of inspectors;
- Montenegro lacks concrete measures to combat the informal economy and unfair competition. Despite extensive discussion, there is still no adequate response from the state to this issue that negatively affects Montenegro's economy and public finance;
- Similar to other areas, inconsistent interpretation of legislation and selective application are the root causes for the emergence of the informal economy.
- Too high taxes and other costs, including parafiscal levies and others, drive segments of the economy into the informal economy. When combined with non-observance of legal regulations, this creates an environment where operating within the informal sector appears more profitable.

Despite remaining at a very low rating, the digitization of public services is the sole index showing improvement in 2023. This year's score stands at 4.9, highlighting the need to persist in the development of this sector given its immense significance for facilitating business operations and addressing numerous challenges.

## DIGITALIZATION OF PUBLIC SERVICES



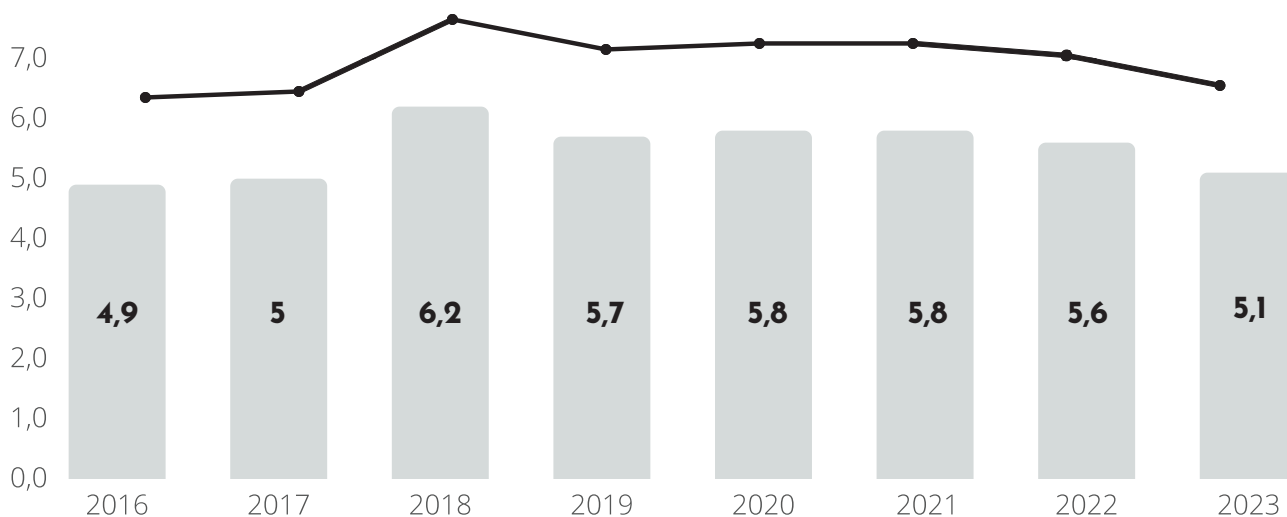
Business professionals identify several main shortcomings and barriers in the digitization of public services:

- Inadequate infrastructure, cybersecurity issues, and the necessity for comprehensive digitalization strategies to improve the availability and efficiency of public services;
- A limited number of digital services accessible for businesses, which slows down business operations and creates additional inefficiency within public administration;
- The majority of public services remain undigitized. Primarily, legislation needs to be more open to digital service providers. The main objective of digitalization is to accelerate access to public services, but the current legal framework slows down the processes and makes them quite challenging to manage;
- A limited choice of digital services: the administration, both local and state, is still reluctant to embrace new technologies and software solutions. There is no coherence among digital services provided by certification institutions;
- The absence of digital access to relevant registers further slows down the entire business;
- Manual measurement of tourist number persists; it is necessary to introduce an information system similar to Croatia's e-visitor system for adequate tourist monitoring, tourist tax collection, etc.



Business professionals rated the index referring to regulations on public-private partnerships with a score of 5.1, which is a decline of 0.5 compared to the rating in 2022.

## REGULATIONS ON PUBLIC AND PRIVATE PARTNERSHIP



Business professionals highlight the following barriers to drafting and implementing the regulations on public-private partnerships:

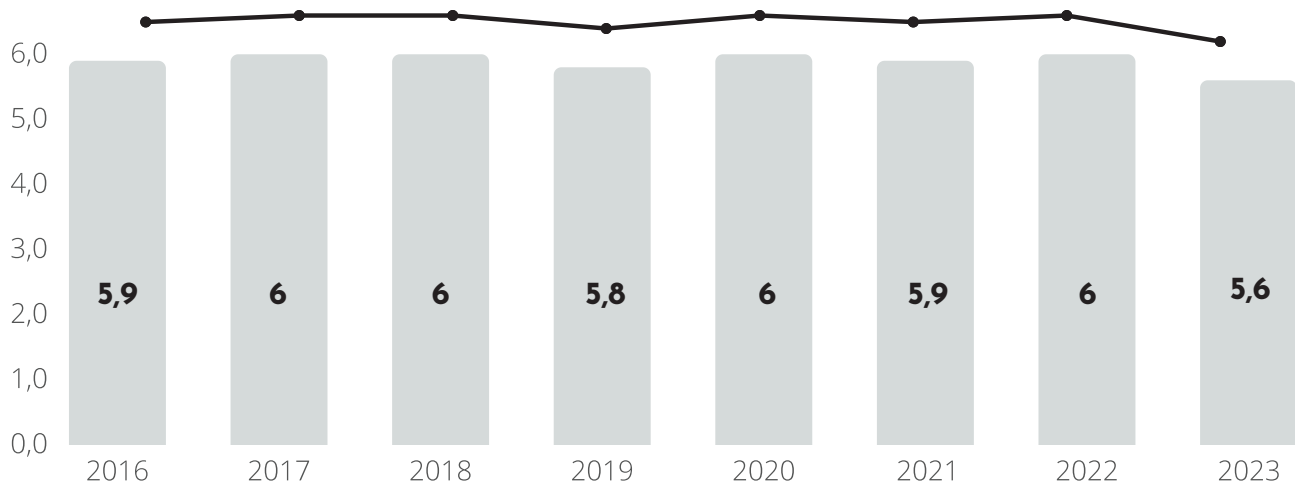
- Complex regulatory frameworks, unclear guidelines, and the need for simplified processes to encourage private sector participation in public projects;
- Corruption and insufficient transparency in all processes negatively affect all economic activities, which makes business operations difficult and reduces the possibility of development.
- The procedures for public-private partnerships are quite burdensome. Regulations and procedures need to be simplified.
- The limited number of calls for engagement, along with a recent trend of public authorities failing to fulfil their obligations, indicating a passive approach that undermines the effectiveness of public-private partnership initiatives.





The index referring to regulations on the protection of personal data recorded a decline in 2023, registering a rating of 5.6. This represents a decrease of 0.4 compared to 2022 and marks the lowest value since the inception of the measurement of this index in 2016.

## REGULATIONS ON PERSONAL DATA PROTECTION



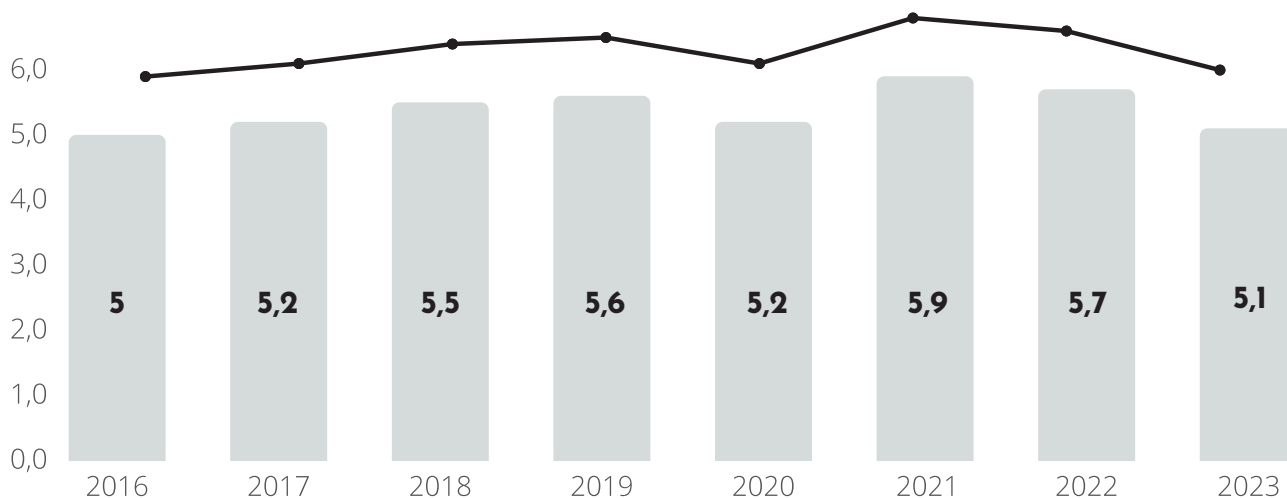
Employers have identified several key reasons for the rating given on regulations pertaining to the protection of personal data, with legislation standing out as the primary concern. The main barriers highlighted include:

- Poor compliance with international standards, particularly the lack of alignment with EU General Data Protection Regulation (GDPR), significantly hinders the development of this area. This results in the absence of established practices and the perpetuation of unresolved issues, creating a cycle of delay.
- Inadequate administrative capacities in data protection control, coupled with a lack of awareness regarding rights and obligations in this domain.
- The low level of development in digitalization and a scarcity of online services further impede progress in this area, posing significant challenges to enhancing data protection practices.



The last index of this chapter refers to the perception of public procurement in Montenegro. In 2023, business professionals rated this index 0.6 lower, with an average score of 5.1.

## PUBLIC PROCUREMENT



The public procurement is identified as one of the underdeveloped segments in Montenegro, with business professionals stating several main reasons for that:

- Very complex procedures concerning the implementation of the Law on Public Procurement, which frequently lead to delays in procurement processes, deters investors, and consequently impede the overall economic development;
- Underdeveloped services for digitally implementing the entire public procurement process hinder transparency and prolong procedures. Improving digital services in this regard would undoubtedly enhance transparency and expedite processes.
- Emphasizing the price as the primary criterion in public procurement poses an issue considering that, in the end, the cheapest product or service is obtained, but the quality is ignored;
- Insufficient transparency throughout the public procurement process often gives rise to complaints and favors specific businesses, undermining the perception of fairness and deterring business professionals from participating;
- Administrative capacities and procedures are overly complex and slow, which is in many cases the primary reason for not applying for tenders. Consequently, quality business professionals are deterred, and the quality of services offered suffers as a result.

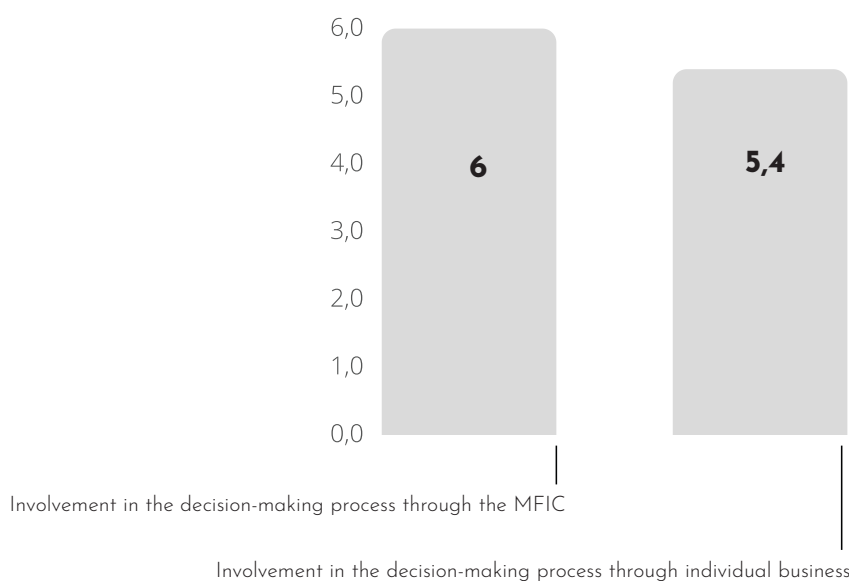


### 4.3. BUSINESSES INVOLVEMENT IN DECISION-MAKING PROCESS

In the 2023 report, the MFIC introduced a new index to measure the economy's involvement in decision-making, which is essential for ensuring transparency and quality in decision-making. Therefore, it necessitated a dedicated chapter within the report.

According to the Report on Private Sector Participation in the Law-Making Process for 2023, the Competitiveness Council provides the following insights: Through an analysis of responses from business associations, it was found that they were involved in the drafting process of 35 out of 93 laws analyzed, representing a participation rate of 37.6%. Notably, any form of involvement by business associations in the law-making process was considered as their overall involvement. Specifically, out of the total laws analyzed: business associations were involved in initial consultations for 31.2% of the laws, their involvement during public debates amounted to 29% of the laws, while Participation in the work of steering groups was observed in 16.1% of the cases. Additionally, regarding the creation of Regulatory Impact Assessment (RIA) forms, business associations reported their involvement in creating 8.6% of RIA<sup>4</sup> forms<sup>5</sup>.

On the other hand, in 2023, business professionals assigned an average score of 6 for involvement in the decision-making process through the Council of Foreign Investors, whereas involvement through individual businesses received a rating of 5.4. It is recommended to revise the existing practice to enhance the transparency and inclusivity of the entire decision-making process. Such revisions are believed to be more favorable for business professionals affected by the decisions.



Since this index was not measured in the previous period, business professionals were asked to rate it on a scale of 1 to 10, where 1 represents a much worse situation, 5 indicates no change, and 10 signifies a much better situation. They were invited to express whether they perceived the situation in 2023 to be better or worse compared to 2022. According to the results, the decision-making process through the MFIC was rated 5.7, while the improvement of involvement in the decision-making process through individual businesses was rated 5.2. Consequently, the findings suggest that the situation in 2023 is almost identical to that of 2022 and that minimal changes have occurred.

<sup>4</sup> RIA - Regulatory Impact Assessment

<sup>5</sup> Competitiveness Council, Report on Private Sector Participation in the Law-Making Process for 2023, Podgorica, December 2023

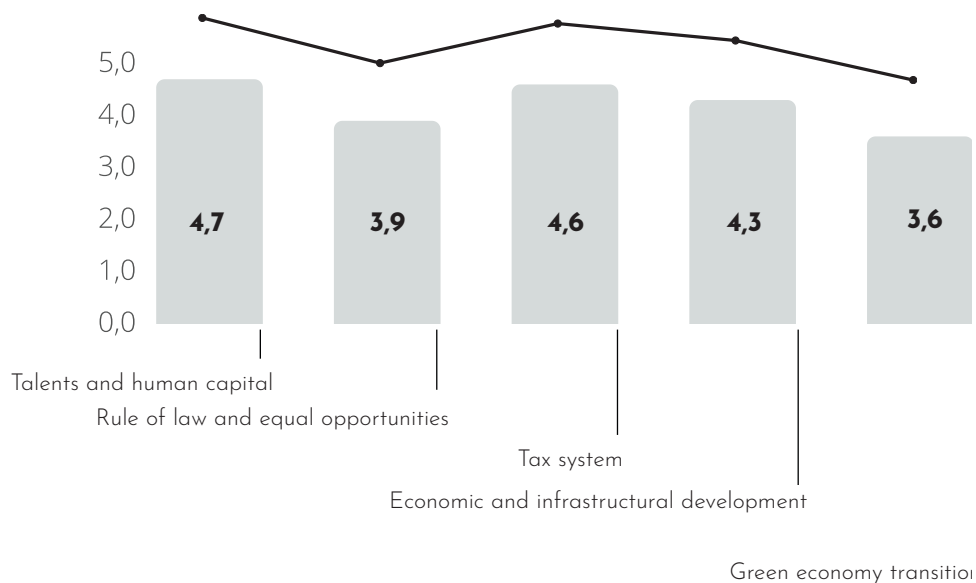


## 5. ANALYSIS OF REGULATORY LANDSCAPE IN MONTENEGRO REGARDING PRIORITY AREAS IDENTIFIED BY THE MFIC

The 2023 report introduces indices regarding the priority areas outlined in the Strategy of the Foreign Investors Council in Montenegro: talent and human capital, the rule of law and equal opportunities, tax system, economic and infrastructural development, and green economy transition. The purpose is to follow progress in these areas over time and establish effective mechanisms to achieve the necessary results.

A research initiative was undertaken to establish the perception of business professionals regarding the current situation in these areas. Business professionals were asked to provide their perspectives on a scale ranging from 1 to 10, where 1 indicates a significant need for improvement, 5 signifies a requirement for additional enhancements, and 10 aligns with the best standards. This approach aimed to gather insights directly from professionals beyond the scope of legislative changes alone.

### Analysis of Priority Areas Outlined in the Strategy



According to the findings, all priority areas fall below the average score of 5, indicating the need for further improvement. The current investment climate, conducive to the ease of doing business, is considered suboptimal. While all categories received below-average scores, three segments stood out with scores over 4: talent and human capital (4.7), tax system (4.6), and economic and infrastructural development (4.3). The green economy transition received the lowest score (3.6), followed by the rule of law and equal opportunities (3.9).

The table below outlines the challenges and recommendations provided by business professionals for each priority area. These recommendations serve as actionable insights for the government to address in the coming period. The recommendations are categorized based on the strategic areas outlined by the Council. The table also includes the implementation status of recommendations from previous years.

## 5.1. TALENT AND HUMAN CAPITAL

The first segment of this chapter includes recommendations and challenges pertaining to human capital in Montenegro. The research underlined that this area stands as a significant impediment to the development of Montenegro's business and investment environment. The prevalent mismatch between the education system and market needs frequently discourages the workforce from remaining in Montenegro. Consequently, many individuals opt to initiate or continue their professional journey elsewhere. This dynamic, coupled with various challenges, creates an environment where business professionals encounter difficulties in strategizing for their enterprises and contemplating long-term development. On the other hand, these constraints limit the possibilities for further research, development, and innovation within Montenegro.




Certain steps have been taken, but the process is still ongoing.





Necessary activities have not been undertaken.

TALENT AND HUMAN CAPITAL			
CHALLENGE	RECOMMENDATION	YEAR	
Underdeveloped curricula and programs at all educational levels and a notable disparity between supply and demand in the market.	It is advisable to conduct a comprehensive analysis of the curriculum and the market and develop recommendation-based programs to meet the market demand and adapt to the its changing needs.	2024	
Significant "brain drain," particularly those with specialized know-how, due to insufficient investment in educational infrastructure.	It is necessary to keep pace with global trends and make strategic investments in educational infrastructure in order to provide young people with opportunities to develop their ideas in Montenegro.	2024	
<p>It is necessary to amend paragraph 4, Article 70 of the Law on Foreigners, which reads as follows:</p> <p>Within 24 hours from the date of issuance of the temporary residence and work permit, the employer is obliged to finalize an employment contract with the foreigner and register them for compulsory social insurance, in accordance with labor regulations.</p>	<p>When collecting a work permit, it happens that the collection date and the date indicated on the permit as the issuance date do not align due to the issuance date often being earlier. This situation puts the employer in a challenging position, particularly considering the obligation to finalize an employment contract with the foreign worker within 24 hours from the permit's issuance date, and especially taking into account the provision referred to in paragraph 5 of the same Article of the Law on Foreigners, which reads as follows:</p> <p>If the foreigner does not start working within the period referred to in paragraph 4 of this Article, the employer shall inform the Ministry thereof, no later than three days, to cancel the residence and work permit.</p> <p>Suggestion: Instead of "24 hours", set a longer period, e.g., "8 days".</p>	2024	



<p>There remains a considerable burden on wages and complete legislation, which significantly slows down the employment of foreigners, diminishing the prospects of securing suitable staff.</p>	<p>To encourage additional reductions in wage costs, and undertake comprehensive legislative reform in order to facilitate the process for obtaining work permits, particularly for the foreign workforce.</p>	<p>2024</p>	
<p>PREVIOUS PERIOD</p>			
<p>THE MFIC RECOMMENDATION/ COMMENT:</p>	<p>RESPONSE FROM THE LINE MINISTRY</p>		
<p>Non-compliance and a time gap exist between the date of issuance of work and residence permits for foreigners and their registration in the Tax Administration. Regional units of the Tax Administration in Montenegro prescribe different rules on this matter, which creates a climate of insecurity and uncertainty. Our assessment highlights the necessity for certain amendments to the existing legislation, the establishment of clear deadlines, and the clarification of required documentation for the registration of foreign employees within the Tax Administration.</p>	<p style="text-align: center;"><b>MINISTRY OF THE INTERIOR</b></p> <p>The Work Program of the Government of Montenegro for the third quarter of 2023 outlines the drafting of the Law on Changes and Amendments to the Law on Foreigners. Further to that, the draft law was prepared and submitted for the public hearing, commencing on 1 June and concluding after a 40-day period on 10 July 2023.</p> <p>The next task entails compiling a report based on the feedback received during the public hearing. The enactment of this law is necessary for enhancing the existing normative framework, particularly in aligning our legislative framework with the EU acquis.</p> <p>Primarily, amendments to the Law on Foreigners are necessary to ensure full compliance with Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services, Directive (EE) 2018/957 of the European Parliament and of the Council of 28 June 2018 amending Directive 96/71/EC concerning the posting of workers in the framework of the provision of services and Directive 2014/67 of the European Parliament and of the Council of 15 May 2014 implementing Directive 96/71/EC concerning the posting of workers in the framework of the provision of services. Anticipated revisions aim to eliminate shortcomings that have arisen in practice during the implementation of the current and facilitate the procedure for issuing/ renewing temporary residence and work permits.</p> <p>During the public hearing, a recommendation from the White Book for 2022 was submitted, leading to the reformulation of 5, Article 79 of the current law, which reads as follows:</p>	<p>2023</p>	

	<p>The Ministry shall issue a certificate upon receiving an application for temporary residence and work permit, specifying the deadline for permit collection by the applicant, which corresponds to the deadline for issuing temporary residence and work permit.</p> <p>This means that the permit will contain the issuance date indicated on the certificate that specifies the permit collection deadline by the applicant.</p>		
<p>All prior recommendations originating from the White Book concerning the Labor Law are under consideration.</p>	<p>There have been no amendments to the law; hence, all previous challenges and recommendations remained. A steering group for amending the Labor Law was formed at the end of 2023, with anticipated amendments in 2024 primarily aimed at harmonizing current regulations with the EU regulation.</p>	2020 - 2023	
<p>Article 15 of the Law on Strike defines the location and the manner of conducting the strike, specifying that : "The strike is manifested by a peaceful gathering of employees either at the workplace or within the employer's business premises. The strike may also be manifested by the absence of employees at work." We believe that the provision stating that a strike is manifested "within the employer's business premises" does not leave room for an employer performing the activities of public interest to be able to take part in the determination of the gathering location for striking employees, without any intention of limiting the right to strike.</p>	<p style="text-align: center;"><b>MINISTRY OF LABOUR AND SOCIAL WELFARE</b></p> <p>As a component of the new Decent Work Country Program, a collaborative initiative involving the Government of Montenegro, social partners, and the International Labor Organization (ILO), one of the planned activities entails the review of the Law on Strike. In pursuit of this objective, the Government has sought expert guidance from the International Labor Organization. The Decent Work Country Program is anticipated to be signed for a duration of five years, the precise annual quarter earmarked for the revision of the law remains undefined at present.</p>	2023	






## 5.2. THE RULE OF LAW, TAX POLICY, AND PUBLIC ADMINISTRATION

The cornerstone for establishing a favorable business environment in any society lies in the presence and adherence to the rule of law. As a country aspiring to join the European Union, Montenegro needs to enhance this aspect, with decision-makers committing to the impartial application of legal regulations and ensuring equal judicial practices, contributing to the establishment of a fully functional rule of law system that guarantees equality and safety for business professionals. This challenge is acknowledged as a key area not sufficiently reformed, imposing an additional burden. Concurrently, tax policy emerges as a pivotal determinant in shaping and influencing economic development. This encompasses tax rate levels and accompanying legislation that needs to promote the development of the business community. In Montenegro, challenges persist in the tax policy administration, with frequent and nontransparent changes in tax rates, which adversely affects business operations. Ultimately, even well-drafted legislation falls short if its implementation by public administration lacks consistency. Therefore, there is a need for additional efforts in the public administration reform and capacity development to ensure the efficient and non-selective application of legal regulations and to offer additional online services which would accelerate and promote Montenegro's economic development.

RULE OF LAW AND EQUAL OPPORTUNITIES			
CHALLENGE	RECOMMENDATION	YEAR	
Consistent rule of law. In order to ensure consistent application of the rule of law it is essential to create a stable business environment.	Continued efforts to enhance the judicial independence, fostering reliable contract enforcement and addressing perceived disparities can contribute significantly to the establishment of a more stable and predictable legal framework.	2024	
	Enhance the rule of law by eliminating obstacles such as costs and bureaucratic complexities. Promote transparency and accountability in legal and judicial processes.	2024	
It is necessary to work on raising the capacity of the administration and persons in charge of implementing the rule of law in Montenegro.	Promote the education and specialization of judges to avoid inconsistency in case law.	2024	
Ensure equal opportunities. Very slow court proceedings, which are often not the same for everyone. Addressing these challenges requires a political commitment to resolution.	Establish competent authorities to oversee law enforcement, ensuring consistency in the interpretation of legal provisions in line with EU directives, and instituting oversight mechanisms for court decision procedures, particularly concerning quality and timeliness.	2024	
TAX SYSTEM			
CHALLENGE	RECOMMENDATION	YEAR	
Insufficient involvement of business associations and the business community in the decision-making process, particularly regarding changes in tax rates.	Business associations and affiliated companies need to be adequately informed and involved during the planning phase.	2024	

<p>Frequent changes to legislation without economic impact assessment and announcement, create unfavorable and non-transparent business environment.</p>	<p>A comprehensive strategic analysis needs to be conducted before implementing any additional changes to the taxation system. In this process, it is especially important to include the inputs from the business community.</p>	<p>2024</p>	
<p>Making short-term decisions that have long-term negative effects on both the business community and public finances.</p>			
<p>High tax rates and a lack of subsidies, particularly for economic development and green transition.</p>	<p>Simplify tax regulations to improve clarity and facilitate implementation. Improve the transparency of tax policies and administration. Consider tax incentives to encourage observance and stimulate economic growth.</p>	<p>2024</p>	
<p>Inconsistent and selective application of legal regulations. Very slow administration and challenges in interpreting legal regulations.</p>	<p>Ensure the consistent and equitable implementation of tax regulations, strengthen the capacities and efficacy of employees in institutions implementing tax policy and undertake measures to combat tax evasion.</p>	<p>2024</p>	
<p>Insufficient regulation at the bylaw level regarding taxation leads to challenges in practice. Hence, it is necessary to consider not only the alignment of laws but also the adoption of clear and comprehensive bylaws to facilitate effective implementation in practice. Moreover, a broader legal uncertainty arises from the fact that the Tax Administration is not obliged to adhere to the opinions of the Ministry of Finance resulting in contradictory actions.</p>	<p>Conduct a comprehensive analysis of laws and bylaws to ensure harmonization and establish an environment where these legal instruments are uniformly applied to all.</p>	<p>2024</p>	
<p>Although it is prescribed by law that the Tax Administration provides opinions on open questions in the field of tax policy, businessmen often encounter the silence of the administration.</p>	<p>Enhance capacities and expertise and improve the efficiency of tax inspectors and administration, with a focus on control mechanisms for large businesses.</p>	<p>2024</p>	

<p>Inadequate administrative capacity for the effective control of taxpayers. The Tax Administration does not have enough capacity to perform regular controls. With fewer than 10 inspectors tasked with controlling over 200 large taxpayers, the duration of these controls often exceeds six months with repeated procedures extending even further. In the oversight of large taxpayers, the involvement of only one inspector undermines the principle of dual scrutiny, potentially leading to abuses of authority. Furthermore, the lengthy duration of controls, sometimes spanning up to ten years from the previous inspection, proves ineffective, while the assessment of control outcomes can take months to conclude.</p>			
PREVIOUS PERIOD			
THE MFIC RECOMMENDATION/ COMMENT:	RESPONSE FROM THE LINE MINISTRY		
<p>The Law on Tax on Turnover of Used Motor Vehicles, Vessels, Airplanes and Aircraft imposes unjustifiably high tax rates.</p>	<p style="text-align: center;"><b>MINISTRY OF FINANCE</b></p> <p>Pursuant to Article 5 of the Law on Tax on Turnover of Used Motor Vehicles, Vessels, Airplanes and Aircraft (published in "Official Gazette of the Republic of Montenegro", No. 55/03 and "Official Gazette of Montenegro", No. 73/10... 70/17), the tax rate on turnover of passenger and other used motor vehicles is set at a proportional rate of 5%.</p> <p>The Ministry of Finance considers that this single tax rate of 5% is optimal when compared to other indirect tax burdens. Consequently, the Ministry maintains that reducing this rate is not justified.</p>	2023	

<p>Income statement presentation: the current chart of accounts and the model of financial statements issued by the Institute of Certified Accountants of Montenegro do restrict income statement presentation to a single methodology, either by nature or by function. However, this limitation may not always align with the operational requirements of all companies, particularly those involved in real estate development. Therefore, it is recommended to permit both methodologies, allowing flexibility based on the specific nature of the business.</p>	<p style="text-align: center;"><b>MINISTRY OF FINANCE</b></p> <p>The current income statement format aims to provide external users with comprehensive information. The adoption of the existing chart of accounts and financial reporting model was intended to improve data comparability, particularly concerning balance items.</p> <p>Moving forward, the Ministry intends to review the current laws and bylaws governing accounting and financial reporting. This examination may result in potential amendments. Following technical evaluations regarding the submission and publication of financial statements, the Ministry will decide on necessary actions to address identified shortcomings.</p>	<p>2023</p>	
<p>Tax consolidation: The Tax Administration's interpretation of the law, which disallows the inclusion of a newly established related legal entity in tax consolidation for a five-year period following initial approval, hinders the realization of benefits associated with tax consolidation. It is recommended to permit the automatic inclusion of a newly established related legal entity through the submission of written notice, thereby facilitating the utilization of tax consolidation benefits.</p>	<p style="text-align: center;"><b>MINISTRY OF FINANCE</b></p> <p>Provisions of Article 35 of the Law on Corporate Income Tax (published in "Official Gazette of the Republic of Montenegro No. 65/01 and 80/04 and "Official Gazette of Montenegro", No. 40/08, 86/09, 14/12, 61/13 and 55/16) stipulate that parent and subsidiary companies, for the purposes of tax consolidation, constitute a group of related companies if the parent company holds direct or indirect control over at least 75% of the shares or interests of the subsidiary company. Related companies are entitled to tax consolidation, provided that these companies are the residents of Montenegro. The application for tax consolidation is submitted by the parent company to the competent tax authority no later than 31 December of the current tax period. The competent tax authority is obliged to render a decision on tax consolidation approval within 30 days from the application submission.</p>	<p>2023.</p>	



	<p>The provisions of Article 36 of the Law obliges each member of the group of related companies to submit their tax return to the competent tax authority, while the parent company is obliged to file a consolidated tax return for the group of related companies.</p> <p>The provisions of Article 37 of the Law stipulate that once approved, tax consolidation shall be applied for at least five years. However, should the conditions referred to in Article 35 of this Law change or related companies opt for individual taxation within this period, each group member is obliged to pay a proportionate difference in the tax relief utilized.</p> <p>Given the aforementioned legal framework, the Ministry supports the Revenue Administration's stance, which prohibits the inclusion of newly established legal entities after the tax authority's decision to approve tax consolidation for a five-year period. It is worth noting that similar legal regulations are applicable in the Republic of Serbia and the Federation of Bosnia and Herzegovina.</p>		
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### 5.3. ECONOMIC AND INFRASTRUCTURAL DEVELOPMENT

Economic development stands as a priority for any system, aiming for the continuous advancement of society. Well-defined strategies and legislative frameworks that foster economic expansion are indispensable for attaining sustainable growth, particularly from the standpoint of decision-makers. With regard to infrastructure in Montenegro, there is significant potential for improvement, particularly in concerning road infrastructure. Other priorities for the future include advancing digital infrastructure, enhancing air and roadway connectivity, and strengthening institutional capacity to facilitate a faster movement of goods, services, and people.

ECONOMIC AND INFRASTRUCTURAL DEVELOPMENT			
CHALLENGE	RECOMMENDATION	YEAR	
Lengthy procedures for obtaining building permits.	Implement reform of the process and administrative procedures involved in issuing building and other permits.	2024	
Inadequate infrastructure, limited air connectivity, deficient strategic management.	Increase infrastructure investments and devise a capital budget that is feasible while integrating significant infrastructure projects.	2024	
Substantial informal economic activity, notably within the tourism and hospitality sectors, inadequate supervision and combat against the informal economy.	Implement a comprehensive set of measures to combat the informal economy addressing all identified challenges	2024	
Lack of the strategic management of sustainable economic development, insufficient investment in the Northern region.	Create inclusive policies and strategies aimed at fostering economic growth, with a particular emphasis on less developed regions in Montenegro.	2024	
The necessity of amending and supplementing the Law on Copyright and Related Rights.	It is necessary to define that collective organizations, after obtaining a decision approving the performance of activities and protection of certain subject matters of copyright and related rights/licenses by the Ministry of Economic Development, are obliged to submit concluded agreements with rights holders within a shorter period. Also, if they fail to submit signed agreements with the majority of authors within the given deadline, they lose their permission to represent rights holders. The law should stipulate that organizations are required to have concluded agreements with rights holders (with the majority of domestic ones) within a certain reasonable period (which should be precisely defined). If they fail to provide them within the legal deadline, it is considered that they do not meet the conditions for performing the activities for which they obtained the decision, and a decision will be made to revoke their authorization for such activities.	2024	

	<p>For more precise definition, it is necessary to clearly and unambiguously prescribe that the organization is obliged to negotiate tariff determination with individual users. Additionally, it is essential to clearly and precisely define the term "user association." The law needs to provide clearer conditions under which an organization can obtain permission to represent the exercise of rights on subject matters of rights holders who have not assigned the exercise of their rights to the organization. Finally, the law should specify the administrative supervisory measures that can be imposed on collective organizations for violating the provisions of the law, which would include situations where revocation of permission is possible and situations where imposition of such measures is mandatory.</p>		
PREVIOUS PERIOD			
THE MFIC RECOMMENDATION/ COMMENT:	RESPONSE FROM THE LINE MINISTRY		
<p>The new Law on Electronic Communications would need to integrate Directive (EU) 2018/1972 of the European Parliament and of the Council, along with other relevant EU directives, into Montenegro's national legal framework. We believe that this process - besides the transposition of the aforementioned directives - will further contribute to having an adequate legal framework that regulates the activity of electronic communications.</p> <p>This domain experiences constant innovations and substantial technological advancements, necessitating an adaptable legal framework to facilitate the implementation of already established programs and strategies vital for Montenegro's digital advancement.</p> <p>This holds great significance as digitalization and 5G development rank high on the priority list of operators in Montenegro. This necessitates the timely establishment of regulatory prerequisites, investment policies, and a conducive business environment to encourage further investments and business activities in the country.</p>	<p style="text-align: center;"><b>MINISTRY OF ECONOMIC DEVELOPMENT AND TOURISM</b></p> <p>To align the regulatory framework in the electronic communications sector with EU regulations, the Government of Montenegro's 2023 the Work Program outlined several key objectives. These included drafting a new Law on Electronic Communications to incorporate Directive 2018/1972/EU on the European Electronic Communication Code into Montenegro's legal system, harmonization with the Law on Public Administration (published in "Official Gazette of Montenegro", No. 78/18 and 70/21), and the transposition of sections of EU Directive 2014/61 governing the operation of physical infrastructure adapted to high-speed networks.</p> <p>The adoption deadline is set for the fourth quarter of 2023.</p> <p>It is worth noting that a representative from electronic communications operators is a member of the working group responsible for drafting the new Law on Electronic Communications, ensuring the involvement of foreign investors in the group's activities.</p>	2023	

<sup>6</sup> As per the available data, the law has not been adopted.

To further enhance the legal framework governing e-business, there is a need to introduce regulations that provide closer oversight of video identification as a method for verifying the identity of individuals receiving qualified certificates.

In Article 49, paragraph 3, item 4 of the Law on Electronic Identification and Electronic Signature, it is specified that the verification of identity for individuals, legal entities, or public authorities receiving qualified certificates can be conducted using alternative identification methods that, in terms of reliability, offer identity verification security equivalent to physical presence verification. Prior to employing such methods referred to in paragraph 3, item 4 of this Article, qualified providers of electronic trust services is obliged to obtain approval from the Ministry. Currently, there are no bylaws in Montenegro that comprehensively regulate video identification methods and the conditions under which these methods offer equivalent identity verification security compared to physical presence verification. The enactment of such regulations would expedite digital transformation processes in both the economy and society.

### **RESPONSE FROM THE MINISTRY OF PUBLIC ADMINISTRATION**

The Law on Electronic Identification and Electronic Signature (published in "Official Gazette of Montenegro", No. 31/17 and 72/19) is fully aligned with Regulation (EU) No. 910/2014 of 23 July 2014, commonly known as eIDAS Regulation, which governs electronic identification and trust services for electronic transactions in the internal market while repealing Directive 1999/93/EC.




This legislation regulates the use of electronic signature, electronic seal, electronic timestamp, and electronic recommended delivery service in legal transactions, administrative, judicial, and other proceedings, including website authentication certification. Additionally, it outlines procedures for assessing the qualifications of providers of electronic/qualified electronic trust services and establishes an electronic identification system.

Article 49, paragraph 3, item 4 of this Law allows for the adoption of future technological solutions that ensure identity verification security equivalent to physical presence. However, it is important to note that the concept of video identification is not explicitly recognized under this provision, as it may not meet the criteria for high-security identity verification, which necessitates specific evidence such as a photograph or biometric data in certain circumstances.

2023.



<p>In EU countries like Spain, regulations already address this issue, specifying conditions that provider of such solutions must meet for their use in issuing qualified certificates. These regulations distinguish between:</p> <ol style="list-style-type: none"> <li>1. Synchronous verification, as prescribed for banks, entails a real-time video connection between the agent and the user, ensuring all authentication steps, including evidence issuance, occur in a single continuous process with direct communication between the client and the agent.</li> <li>2. Asynchronous verification involves subsequent verification of collected materials by the agent, such as biometric comparison of a photo from the ID document or document verification, before final approval and evidence issuance.</li> </ol>	<p>At the EU level, the eIDAS Regulation is acknowledged as not entirely meeting evolving market requirements. Amendments to this regulation are underway to provide a harmonized approach and prevent fragmentation in the development of digital identity solutions across Member States. The coordinated approach aims to enhance the single market by enabling secure and uniform identification for citizens, residents, and businesses throughout the EU.</p> <p>Currently, video identification is not acknowledged by the eIDAS Regulation, and consequently, it is not included in the provisions of the Law on Electronic Identification and Electronic Signature. Therefore, the introduction of video identification for providers of electronic trust services is not feasible at this time. However, with the adoption of amendments to the EU-wide eIDAS Regulation, the possibility of integrating new elements into the Law on Electronic Identification and Electronic Signature will be considered.</p> <p>Moreover, in light of global security challenges, particularly considering Montenegro's susceptibility to sophisticated cyberattacks, a cautious approach is needed. It is essential to note that matters concerning video identification in sectors such as banking and the prevention of money laundering and terrorist financing are beyond the scope of the Law on Electronic Identification and Electronic Signature. Instead, they are governed by specialized legislation pertaining to those areas.</p>		
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<p>It would be necessary to amend the Law to regulate electronic archival materials, define the obligations of creators and holders of electronic archival materials, and establish protocols for managing electronic documents. It would also be necessary to enact bylaws to regulate procedures and technological solutions for secure electronic document storage. This ensures the full regulation of electronic document storage in accordance with the provisions of the Law on Electronic Document.</p>	<p><b>MINISTRY OF CULTURE AND MEDIA</b></p> <p>The Ministry of Culture and Media, in partnership with the State Archives of Montenegro, has determined that the first phase of amending the Law on Archival Activity involves conducting an analysis of the current legislation. This analysis will precede any proposed changes or amendments. Moreover, special attention will be given to incorporating electronic documents and materials into the legal framework through provisions within the existing Law. Specific activities are scheduled to commence in the coming year after the conclusion of the analysis.</p>	<p>2022-2023</p>	
<p>There are no regulations on the resale of electricity, particularly regarding DC charging stations in Montenegro. The absence of regulatory framework impedes the progress of DC infrastructure development in the country. This directly impacts aspects such as carbon footprint reduction, adherence to green agenda, facilitation of electric vehicle accessibility for tourists, etc.</p>	<p><b>MINISTRY OF CAPITAL INVESTMENTS</b></p> <p>Absence of input from the relevant institution.</p>	<p>2023</p>	
<p>Company's Executive Director: The current regulation stipulates that a foreign national is restricted from holding the position of Executive Director in more than three companies. This does not facilitate the operations for a group of companies, as the case is with one of our members. The Executive Director of the parent company needs to have the ability to serve as the Executive Director across all subsidiaries within the group.</p>	<p><b>MINISTRY OF ECONOMIC DEVELOPMENT AND TOURISM</b></p> <p>Verification with other departments is recommended. Regarding the Ministry's jurisdiction, it is important to note that there are no restrictions concerning the employment of foreigners in the position of Executive Director. According to Article 301 of the Law on Companies, the qualifications required for the Executive Director in a Limited Liability Company (LLC) should be specified in the company's Articles of Association. Similarly, for Joint Stock Companies (JSC), Article 157 of the Law on Companies dictates the same principle.</p>	<p>2023</p>	





## 5.4. GREEN ECONOMY TRANSITION

The concluding section of this chapter pertains to the transition towards a green economy. In recent years, there has been notable advocacy for green transition from both decision-makers and business professionals in Montenegro. Nonetheless, there remains room for improvement. It is advisable to implement legislation that promotes green transition through the introduction of measures and incentives, thereby accelerating the overall process. Additionally, the adoption of best practices is essential for both state authorities and the economy to ensure effective progress towards sustainability goals.

GREEN ECONOMY TRANSITION			
CHALLENGE	RECOMMENDATION	YEAR	
The entire economy, especially the tourism sector, needs better subsidies to facilitate the adoption of green transition initiatives.	It is recommended to establish a subsidy system for entities actively engaged in transitioning to a green economy and implementing measures to mitigate their environmental impact.	2024	
Insufficient focus on sustainability, limited uptake of green practices, and inadequate regulatory frameworks for environmental initiatives.	It is necessary to increase awareness regarding the significance of green transition and allocate more investments towards renewable energy sources and technologies to facilitate the transition to a green economy.	2024	
Lack of legal regulations compliant with international standards on green transition.	Adopt and implement regulations that promote green practices and sustainable business models.	2024	
Considering Montenegro's commitment as a signatory to the Paris Climate Agreement, there is a need to ensure effective coordination at all levels to fulfil the established goals, tasks, and obligations.	Establish partnerships with international organizations to access expertise and resources for green initiatives.	2024	
The industry lacks environmentally sustainable practices. Insufficient involvement of the economy in this process.	Clear communication is necessary to implement the relevant strategies, requiring the cooperation among all established working bodies responsible for drafting and implementing legal and other solutions, including members of the business community.	2024	
Weak regulatory framework that does not define or encourage reporting on green transition initiatives.	Introduce incentive mechanisms to encourage markets to effectively manage their Environmental, Social, and Governance (ESG) performance.	2024	



## 6. BRIEF OVERVIEW

The White Book has been presenting the ease of doing business in Montenegro for over a decade, starting from 2011. This publication not only provides an overview of the current business landscape but also offers guidance and recommendations to decision-makers for fostering a business and investment environment that encourages Montenegro's sustainable economic development. The MFIC serves as a platform for companies to highlight accomplishments in the previous period and voice their opinions on further steps that need to be taken, ensuring that the benefits of economic development are experienced by everyone.

In contrast to previous years, the emphasis in this year's assessment went beyond merely rating individual sectors. The approach included a thorough analysis of the various factors influencing the overall situation. Additionally, aligning with the newly adopted Strategy and Statute of the MFIC, the evaluation concentrated on five strategic priority areas: talent and human capital, the rule of law and equal opportunities, economic and infrastructural development, the tax system, and the green economy transition. This year's research delved into numerous questions directly linked to the assessment of these areas, including the requirements and suggestions put forth by business professionals.

Similar to the previous year, the ease of doing business index in Montenegro registered a decline in 2023, signaling challenges within the country's business environment. This decline is not limited to the overall index but extends to sectoral indices, except for the banking sector, which saw an improved rating compared to 2022. The telecommunications sector maintained its 2022 rating. Other sectoral indices mainly registered a decline. In general, most sectors faced diverse challenges and barriers, with factors such as non-transparency in decision-making, frequent legislative amendments without a comprehensive economic impact assessment, slow administrative processes, political instability, and underdeveloped infrastructure contributing to the perceived difficulties. Council members identified key shortcomings, including a significant informal economy, insufficient transparency in public procurement process, limited availability of digital and online services from the public administration domain, and a substantial shortage of skilled workforce.

We are pleased to note that despite numerous challenges, our members are optimistic about 2024, expecting improved results compared to 2023. Most members plan to expand their workforce and increase investments in the coming year. This positive outlook is encouraging and signals a potential upturn in 2024. Therefore, the Council anticipates stabilizing the business environment, continuing reforms, and establishing a strategic framework for managing public policies in Montenegro.

The MFIC remains committed to highlighting further sectoral developments in the upcoming edition of the White Book. In its daily operations, the MFIC will persist in being a responsible, reliable, and constructive partner for decision-makers. The organization emphasizes the importance of dialogue, shared commitment, and collaborative efforts to create a more favorable investment and business environment, which aligns with the overarching goal of the MFIC, the broader business community, and decision-makers.



**15** year of existence

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**46** member company

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**30%** of GDP they generate members of the Council

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**13** published publications "White book - Investment climate in Montenegro"

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**4** specialized of the committee for important areas

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