Final report


Prepared by UNDP with contributions from UNESCO and UN Women

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UNDP partners with people at all levels of society to help build nations that can withstand crises, and drive and sustain the kind of growth that improves the quality of life for everyone. On the ground in 177 countries and territories, we offer a global perspective and local insight to help empower lives and build resilient nations.

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I. GOALS OF THE ASSESSMENT

The Economic Impact Assessment and Growth Prospects Report analyses the impact of COVID-19 on micro, small, and medium enterprises, and entrepreneurs (MSME&Es) in Montenegro. It provides recommendations to the government, the business sector, and other relevant stakeholders in Montenegro on how to effectively overcome the negative impact of COVID-19 on its economy.

The objective of this report is threefold. Firstly, it gauges the negative impacts of COVID-19 on MSME&Es to facilitate dialogue about adequate mitigation measures to overcome the shock, the extent and depth of which is being only gradually revealed and understood. Vulnerable market structures, such as women entrepreneurs and micro businesses whose income depends solely on sectors that are currently not operational will encounter the greatest problems. Thus, it is important to assess the state of the economy before and during the COVID-19 outbreak, as well as the post-COVID-19 crisis expectations, particularly focusing on women, young people, and other vulnerable population groups. One of the expected economic consequences is that the tourist industry will be severely hit in all countries.

Secondly, it identifies the bottlenecks caused by COVID-19, the MSME investment needs and gaps in critical sectors that will contribute to the resilience of the economy and its ability to cope with the current and any future crisis. Thirdly, the Report aims to identify opportunities to accelerate structural systemic reforms, the green transition, and reliance on new technologies as the basis for the future development agenda.

MSME&Es are the backbone of the economy; according to MONSTAT, in 2018 a total of 33,812 business entities were operating in Montenegro, 99% of them small- or medium-sized. The largest share is concentrated in the sectors of trade (31.4%), accommodation and hospitality (12.3%), and construction (10.9%). A substantial number of entrepreneurs under 35 years of age are active in Montenegro, a particularly vulnerable category at the time of the crisis; additionally, and 9,000 small businesses report having one employee only. The 2009 crisis brought an economic downturn of 5.8%, and the prolonged European crisis also brought a new recession in 2012 with negative growth of 2.5%. However, a relatively fast recovery was achieved after both downturns. In the case of the first decline, this was achieved thanks to the strong fiscal position, public debt being around 30% at the beginning of the financial crisis, a budget surplus being recorded for the third year in a row at the time, and ensuing savings in excess of €200 million. That was able to be used as a liquidity injection. Apart from the actions of the government, the SME sector, which showed a considerable level of flexibility and resilience, was the one that made the economic recovery possible. Although operating within a substandard business environment, with excessive administrative barriers and a high tax burden, this sector in the economy showed essential soundness for our circumstances.

Today, however, it is the SMEs that are at the greatest risk of failing and passing the virus onto the banking sector, which should be avoided in order to prevent the recovery being long and painstaking.

It is inevitable for the first effects of the crisis to lead to dwindling production and service provision, a loss of jobs, the thriving of the informal economy, an increase in social benefits and a reduction in salaries in both the public and the private sectors. For that reason, it is important to have a rapid insight into specific industries to devise and apply the measures and recommendations for economic recovery against relevant criteria. Numerous structural challenges still persist, such as the youth unemployment rate of 22.3% (15–29 years of age), the 43.6% share of women in work, and a substantial informal economy restricting the country’s growth and resources. The issue of the informal economy is quite persistent, and is mostly reflected in the labour market as

1 Here we should bear in mind the declaration of the state of emergency on the account of a natural disaster which, in economic terms, reduced the year by one month.

2 Over the last 10 years this share significantly reduced thanks to the economic growth and the intern employment programme, designed in 2012 and applied as of 2013. At the time when the programme was first designed, the youth unemployment rate was as high as 40%. Lukisic and Petricic: The transition from education to employment: Montenegrin case. Labour: Human Capital, ejournal, SSRN Vol. 11, March 2019.

informal employment and under-declared wages. The Statistical Office (MONSTAT), in line with its methodology, is increasing the nominal GDP by 3%–4% to include a certain share of the so-called uncaptured economy, but this share fails to include all forms of informality in the labour market. UNDP devoted its 2016 National Human Development Report⁴ to the issues of informal work. The survey done for that purpose revealed very high informal employment rates ranging between 25% and 37%, but also a declining trend for the given indicator. Nevertheless, as shown by this assessment, the problem still perseveres, and the risk of further deterioration in the aftermath of the pandemic and with the application of social distancing is still considerable. It should not be overlooked that the Montenegrin economy was already slowing down in 2019, partly due to the slowing down of the EU economy, but also through the gradual loss of public investment effects; thus, the World Bank estimated GDP growth in 2019 at 3%, and then in 2020 at 2.8%⁵. Given the new circumstances, depending on the effects of the tourist season, the World Bank estimates the economic downturn in the range between −5.6% and −8.9% for the worst case scenario, with up to 75% of jobs potentially affected by social distancing measures⁶.

The present assessment highlights two key accelerators: the green transition (de-carbonization) and digital transformation, to be in the focus of the post-crisis efforts to boost economic development and build its resilience to future shocks. The recommendations, arranged in three sets: for the short term – up to 6 months; the medium term – 6-18 months; and the long-term – up to 4 years, go towards effective assistance to companies facing dwindling demand and deteriorating liquidity to recognise the opportunities offered by sustainable development, effective risk management, and cooperation with the government, businesses, and other partners to jointly explore the business opportunities to ensure future growth and development. Additionally, the recommendations address certain issues that have a major indirect impact, such as the quality of the administration, certain public finance and education issues. At the same time, the recommendations are not prescriptive, but rather food for thought about the issues.

II. METHODOLOGICAL FRAMEWORK

The starting point for assessing the social and economic impact of the pandemic and identifying the recovery needs was the response models in line with the experience of the UN, the World Bank, and the EU in the application of the 2018 Joint Declaration on Post-Crisis Assessment and Recovery Planning. Since 2008 this tripartite activity assisted 70 countries in their post-disaster assessment and recovery efforts (using the Post-Disaster Needs Assessment (PDNA) framework) and the post-conflict crisis (using the Recovery and Peace Building Assessments (RPBA) methodology)⁷. The approach implies several steps, and the present report will operate with a modified and reduced form given the limitation and focus on micro, small, and medium businesses.

**Step 1:** Identification of the pre-COVID-19 context, primarily through understanding the economic trends over the past decade, characteristic of the period between the two crises. Given the report structure, the pre-crisis context is elaborated through several sections of the document.

**Step 2:** Recognition of the impact of COVID-19, carried out by means of two surveys on the impact on MSMEs, the results of which are summed up and analysed, as well as through understanding the measures introduced by the Montenegrin government to mitigate the impact.

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⁵ World Bank Group, Western Balkans Regular Economic Report No. 16, Autumn 2019 under the prophetic title ‘Rising Uncertainties’.
Step 3: Identification of the social and economic impacts (by making comparisons with baseline data) is key for understanding and setting priorities regarding the recovery needs. It would include an analysis of the interim macroeconomic imbalances: the balance of payment, import, export, GDP growth, tax revenues and expenditures, and the fiscal deficit, caused due to fiscal strains during the outbreak containment efforts, but also during the recovery period due to fiscal policy limitations. Given the early stage in developing the present document regarding the impact of COVID-19 on the economic system, a large number of exact indicators are currently unavailable, and only assumptions are used.

Step 4: Identification of the recommendations that lead to sustainable recovery with the aim of establishing a more balanced economic environment in the long run. The key recommendation refers to the need to develop an economic repositioning strategy for Montenegro towards building a more resilient society and a more resilient economy as proposed by the JRC.8

The modified Post-Disaster Needs Assessment (PDNA) methodology used in the Report formulation consisted of the following:

- **Desk review** includes a brief overview of the structure of the economy, including an overview of the informal economy, the measures implemented by the EU and countries in the region and in Montenegro, as well as an overview of the policies related to green business incentives and the role of digital transformation in the recovery processes. The report is substantiated by the data received from the Tax Administration of Montenegro and the Investment and Development Fund, the Ministry of the Economy and various documents produced by UN agencies, such as: UNDP and UN Women’s research on the ‘Care Economy and Women Empowerment’; the ILO’s ‘Covid-19 and the World of Work: Rapid Assessment of the Employment Impacts and Policy Responses’ prepared in cooperation with the Montenegrin Employers Federation; UN’s Rapid Social Impact Assessment; and UNESCO’s ‘Socio-Economic Impact Assessment of Covid-19 on the Cultural Sector in Montenegro’, with all of them offering additional aspects of the impact on the economy, social welfare and assistance, employment, cultural institutions, etc. The IMF’s and World Bank’s recently published reports and other independent analyses are also taken into consideration.

- **Quantitative data**: the Report’s analysis was informed by the results of the primary data collection through the MSME&E survey conducted in May and an additional one in September on a representative sample of over 300 companies, and additional data gathered on a boosted sample of an additional 141 companies conducted in June. This boosted sample has been defined with the support of the Chamber of Economy and includes companies from the most vulnerable sectors: tourism and related activities (hotels, restaurants and bars, travel agencies and tour operators, etc.), the processing industry with a special focus on food processing and on retail businesses. The representative sample included companies from the most important sectors of the economy to assess:
  - the impact of the crisis on the business activity of economic entities;
  - the measures taken by economic entities in response to the crisis;
  - the effectiveness of the currently available economic policy support; and
  - economic development and growth opportunities.

- **Qualitative data** collection through 10 in-depth interviews to identify the needs of MSMEs in the most vulnerable industries.

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III. INTRODUCTION

The novel coronavirus first appeared in the Chinese city of Wuhan in late 2019 and spread around the world from the second half of January onwards. The spreading of the novel coronavirus over the last several months had adverse multiplying effects on both social and economic aspects of life. However, the crisis developed during a time characterized by a high level of digitalization that supports decision making regarding the response, but also for adaptation to the new circumstances both by the government and businesses, and also by ordinary citizens. The virus that has shattered the whole world, public health, human lives, and business operations, and could boost the creation of new business models, a new business culture, and digital transformation.

In late 2019 approximately half of the world population had an internet connection – which came only 30 years after the invention of the World Wide Web (www). As was the case at some point with water, coal, and electrical power, now information technology, or more precisely the digital revolution, is shaping the world at the time of COVID-19. Many companies were already dealing with challenges stemming from digitalization, primarily because they wanted to join the current global business operation models, and some because they were simply forced to. Although it might sound elitist and innovative, digital transformation is in no way reserved for the top management only. On the contrary, even middle management and line managers will have to undergo such a transformation. Consumers have not been particularly digitally literate until now, either, although the new models provide maybe even more comfort than the traditional ones. Vast business premises will be replaced by smaller ones, and an increasing number of businesses will adapt to the new conditions of work, where no physical contact is needed any longer, thanks to digitalization. In other words, working from home may become the new normal (office of the future). By extension, this will result in fewer cars on the roads, less pollution, and all put together, could help tackle some of the topical issues humanity is facing. According to the Human Development Report, 71.5% people in Montenegro have internet access, either at home or outside their homes, which is considerably higher than the global average of 53.6%. The same research shows that computers are almost universally present in Montenegrin companies, since as many as 98.5% businesses use computers in their day-to-day business, while 99.2% of these have internet access.9 Hence, a good basis for digital transformation is already in place.

COVID-19 clearly highlighted the need for digital transformation. How do Montenegrin businesses stand in that respect? Which path will be chosen by Montenegro: the path of green transformation and digitalization or something else? The recommendations from a bulk of recent body of research produced by UNCTAD, UNDP, WB, and EC,10 both global and country-specific, are heading in this very direction. This survey partly aims to recognize the opportunities that Montenegro currently has, but also to issue pertinent recommendations that may be of help for decision makers.

a) The COVID-19 outbreak

The first COVID-19 case in Montenegro was officially confirmed on 17 March 2020.11 The pandemic had been declared six days prior to that12, and the economic consequences of the health-economic crisis could only be vaguely anticipated. Most countries implemented social distancing measures. The response of the Montenegrin authorities to COVID-19 was both timely and comprehensive. Numerous activities were suspended, and schools were closed.13 In early June, Montenegro was a...
country with no active cases, with the borders gradually opening for citizens of countries that have less than 25 active cases per 100,000 inhabitants. In that way, the health system was not faced with the risk of overexertion. Nevertheless, new cases started emerging from mid-June only to see large local transmission and a sharp rise in the number of registered cases and deaths due to somewhat larger interactions during the summer months and various forms of political gatherings ahead of and after the elections held in late August. Certain restrictive measures have been reinstated, although these are limited to specific municipalities with the worst outcomes. During the second wave the pressure on the health system increased considerably.

Unfortunately, as a result of preventive measures, many employers have encountered difficulties in their operations that may generate adverse impacts. Companies are clearly facing declining productivity due to lower demand, a lack of financial resources, and a lack of employees. Some were forced to suspend their operations altogether and maintain liquidity using reserves. The global economic disturbances have appeared both on the supply and the demand side.

The economic crisis has already got its own name – the Great Lockdown – as a clear association with the Great Depression which started with the US stock market crash in 1929, but also the 2008–09 Economic Crisis. As regards Montenegro, there is no need to go one hundred years back to draw conclusions about the possible consequences. It would suffice, although the context was completely different compared to today’s, to see what happened in 1992–93 when international sanctions were imposed on the then FRY (forcing Montenegro at the time to experience economic lockdown) and the situation as of 10 years ago. In the first case, Montenegrin economy shrank by over 30% \(^{14}\). At the same time, the breakdown of socialism meant the beginning of economic transition and a long period of catching up with the loss sustained, which came as a result of political instabilities in the region (long-lasting sanctions and NATO air strikes in 1999), followed by the insecurities caused by the issue of Montenegrin independence which ended in 2006. This experience has shown how painful any economic “lockdown” is and what disturbances it causes. During the global financial and economic crisis, following several years of vigorous economic growth and budget surplus, in 2009, and to a somewhat lesser degree in 2012, Montenegrin economy suffered due to the decline in the newly created value. These years saw the contraction of banking activities, but the SME sector preserved its vitality.

COVID-19 and the uncertainties it brings about, both as regards the duration of the second wave \(^{15}\), the time horizon for getting a vaccine or effective medication, and given the physical distancing measures, in social and economic terms impose challenges and the need to adapt to new socio-economic models. Nevertheless, globally this health crisis is bringing about an expected decrease in noxious emissions of 8%, which is considerably more than during the last financial crisis, when we saw an annual decrease of up to 1%. However, it is only the sustained annual reduction of 7.6% with measures to reduce the presence of such gases in the atmosphere that can mitigate climate change. This is particularly important, given that any lifting of restrictive measures may mean returning to the previous GHG emission effects \(^{16}\).

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\(^{14}\) It is noteworthy that due to the beginning of transition and until 1992, GDP gradually worsened, and experienced a sharp decline with the imposition of sanctions. The economic growth started in 1995, and fell again in 1999 due to the air strikes against FRY in 1999. Montenegro Economic Trends, ISSP, November 2004

\(^{15}\) Montenegro was the first COVID-19 free destination in Europe between 25 May and 14 June, when the first imported case was registered, marking the beginning of the second wave and subsequent re-declaration of the outbreak on 21 July 2020.

COVID-19 has indubitably shown that neither the national governments nor the international organizations were prepared for an immediate and effective response to the deadly pandemic. With the exception of a few countries, many governments failed to contain the virus, and Iran and Italy are the weakest examples as regards their early response. The later examples of the USA, Brazil, Russia, and other countries show numerous omissions in the response to the virus. In addition to the inadequate response of some European countries, such as Italy and Spain, the response of international organizations, such as the World Health Organization (WHO) and others, as well as the European Union (EU) have also sustained criticism. Measured by its consequences, this crisis is much worse than the ones caused by SARS, avian influenza, Ebola, cholera, malaria, and other viral infections over that last several decades, and it is already becoming obvious that its economic consequences will be much more far-reaching, complex and damaging for the world economy than the financial crisis that hit the world in 2008. The world is facing the challenges difficult to respond to with the required speed, particularly in the case of countries with poor infrastructure and with scarce medical supplies or disease prevention and control tools.

Still, with the aim of helping businesses and citizens, the governments of all countries were forced to impose measures to protect their economies but also the social status of their citizens. In doing so, each country adapted to its own possibilities. Although criticized, international organizations and the EU came up with their assistance packages for the affected countries.

i. **Macroeconomic circumstances before the COVID-19 crisis**

Following its independence in 2006, Montenegro set out on the path of building a market economy based on the rule of law and stable institutions. The Association and Stabilization process with the EU further solidified the political stability and put in place the prerequisites for it to increase its economic activity. All of the above led to vibrant economic growth and greater competitiveness of the national economy.

Over the last few years Montenegro had been recording positive growth rates with certain fluctuations, due to the sensitivity of a small market economy, and the overall trend continued until the COVID-19 outbreak.

Graph 1. Pre-COVID-19 GDP growth rates
Looking at the pre-COVID-19 macroeconomic indicators, in Montenegro the trend of real GDP growth from 2018 of 5.1% did not continue in 2019, and MONSTAT data indicates that this was 4.1%, primarily due to lower domestic demand (Graph 1). Nevertheless, in 2019 approximately €288 million more added value was generated than in 2018, while the inflation rate was 1.5%. The lower inflation rate in 2019 came as a result of a decrease in the prices of clothes, alcohol, and tobacco. However, in March and April 2020 the COVID-19 pandemic additionally decreased the global prices of goods, further reducing inflationary pressure. After falling by 2.5% in 2018, real wages rose by 0.4% in 2019, while private consumption continued to be the backbone of growth in 2019, although with a share of GDP 2 percentage points (pp) lower. However, a slowdown in gross investments was recorded, in part due to insufficient highway cost outlays, with the GDP share 1.9 pp lower compared to the previous year.

### Table 1. Macroeconomic indicators

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (constant market prices)</td>
<td>4.7</td>
<td>5.1</td>
<td>3.6</td>
<td>−12.4</td>
<td>6.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>3.9</td>
<td>4.6</td>
<td>2.9</td>
<td>−12.5</td>
<td>7.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>−1.4</td>
<td>6.3</td>
<td>2.1</td>
<td>6.6</td>
<td>−3.2</td>
<td>−0.6</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment</td>
<td>18.7</td>
<td>14.7</td>
<td>−1.5</td>
<td>−21</td>
<td>8</td>
<td>−3.9</td>
</tr>
<tr>
<td>Exports, Goods and Services</td>
<td>1.8</td>
<td>6.9</td>
<td>6.4</td>
<td>−45</td>
<td>55</td>
<td>9.5</td>
</tr>
<tr>
<td>Imports, Goods and Services</td>
<td>8.4</td>
<td>9.2</td>
<td>2.2</td>
<td>−32</td>
<td>27.5</td>
<td>9.5</td>
</tr>
<tr>
<td>Real GDP growth, at constant factor prices</td>
<td>4.7</td>
<td>5.1</td>
<td>3.6</td>
<td>−12.4</td>
<td>6.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>−3.1</td>
<td>3.3</td>
<td>2.3</td>
<td>−1</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Industry</td>
<td>9.7</td>
<td>15.3</td>
<td>0.2</td>
<td>−9</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Services</td>
<td>4.3</td>
<td>2.2</td>
<td>4.9</td>
<td>−14.8</td>
<td>8.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Inflation (Consumer price index)</td>
<td>2.4</td>
<td>2.6</td>
<td>0.4</td>
<td>−0.2</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Current Account Balance (% GDP)</td>
<td>−16.1</td>
<td>−17.1</td>
<td>−15.2</td>
<td>−16.8</td>
<td>−13.8</td>
<td>−11</td>
</tr>
<tr>
<td>Net Foreign Direct Investment (% GDP)</td>
<td>11.3</td>
<td>6.9</td>
<td>7</td>
<td>4.5</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Fiscal Balance (% GDP)</td>
<td>−5.7</td>
<td>−4.6</td>
<td>−3</td>
<td>−11.7</td>
<td>−5.2</td>
<td>−1.6</td>
</tr>
<tr>
<td>Debt (% GDP)</td>
<td>64.2</td>
<td>70.1</td>
<td>77.2</td>
<td>92.9</td>
<td>94.3</td>
<td>89.7</td>
</tr>
<tr>
<td>Primary balance (% GDP)</td>
<td>−3.3</td>
<td>−2.4</td>
<td>−0.8</td>
<td>−9.2</td>
<td>−2.4</td>
<td>0.9</td>
</tr>
</tbody>
</table>


Montenegro entered the COVID-19 crisis with historically the lowest number of unemployed of 35,429 or 15.34% based on the data from the National Employment Office. In 2019, employment increased by 2.6%, mainly in construction, tourism, and retail, and the participation and employment rates reached record-breaking levels of 57.4% and 48.7%, respectively.

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17 The data is subject to significant changes given that these are only forecasts that will largely depend on GDP trends, i.e. economic activity.
According to the 2019 Labour Force Survey, the average unemployment rate reached 15.1%, i.e. a total of 37,176 unemployed, and is slightly lower than the previous year’s rate (by 0.1 pp), but the unemployment rate’s downward trend continued for each year. Comparing the LFS data, an upward trend for the employment data is visible over the last 10 years. Hence, an upward trend in the number of employed persons until 2020 is visible. Curiously enough, the breakdown of the employed is almost identical.

Table 2. Employment breakdown – 2008 vs. 2019 comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment rate</th>
<th>Total employed</th>
<th>With employers</th>
<th>Self-employed</th>
<th>Family work</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>43.2</td>
<td>221,100</td>
<td>79.8%</td>
<td>17.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>2019</td>
<td>48.7</td>
<td>243,800</td>
<td>79.4%</td>
<td>18%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Source: MONSTAT (www.monstat.org).

In 2019 the banking sector recorded continued positive trends. Total deposits, which amounted to €3,452.4 million, increased by 1.0% on an annual basis, while lending increased by 4.5% y-o-y. mainly to households. As two banks were liquidated at the beginning of the last year, deposits recovered, rising by 0.5% in 2019. In December 2019, non-performing loans fell to 5.1% of total loans and their share in the total decreased by 1.2 pp on an annual basis. Out of the total of 73,735 business entities, the total of 18,306 accounts were blocked or 24.8%, which is an increase of
3.7% on annual basis. In January 2020 the total debt in reference to the frozen accounts amounted to €637.1 million and was reduced by 6.0% compared to the same month in the previous year. The uneven distribution of profit reveals the vulnerabilities of several smaller banks. Although the decreasing asset quality reduces profitability, the financial sector may play an important role in mitigating the economic impact of the crisis.

Looking at the balance of trade, according to the Ministry of Finance data, exports of goods are on an upward trend and in January 2020 amounted to €31.3 million, which is the highest value achieved over the last seven years, while the trade deficit amounted to 6.9% due to the high share of imports in the overall balance of trade. Imports of oil and oil derivatives for the domestic market’s needs increased by €3.4 million (37.7%). On the other hand, the trade in the power market saw a surplus due to the decline in imports by €2.9 million and a slight increase in exports of €0.5 million. In December 2019, foreign reserves covered 6.3 months of imports of goods.

In January 2020 budget revenues amounted to €94.3 million or 1.9% of GDP, and exceeded the plan by 0.2%, while they were 12.1% lower than in the same month in 2019, anticipating already at the beginning of the year the slowing down of the economy even without the impact of the COVID-19 crisis. In January 2020 budget deficit amounted to €34.0 million or 0.7% of the estimated GDP immediately preceding the outbreak. Montenegro is also recording a public debt of more than 70%.

It is noteworthy that the Montenegrin economy is traditionally seen through the lenses of regional disparities, and as such is divided into the coastal or southern, central, and northern regions. Although under the European standards, or the NUTS classification, Montenegro is treated as a single region, the differences within the country are huge. Thus, the development index of, for example, Andrijevica in the northern region is 37.92, and for the industrial town of Pljevlja it is 70.74, while for the central region, for Podgorica it amounts to 141.13 and for Nikšić 95.03, while all the coastal municipalities, with the exception of Ulcinj (75.44), have a value above 130 – in the case of Budva it is as high as 331.73. Such regional disparities indicate that any research into socio-economic situations must factor in such disparities.

In its original forecasts, the World Bank estimated the decline in GDP in 2020 at 1.3%, due to the uncertainties around COVID-19, only to worsen the forecasts significantly later on. Likewise, the updated spring report on economic prospects for Europe and Central Asia forecast it at 3.6% for the coming year, and 3.2% for 2022.

Table 3. GDP growth scenarios

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>5.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>3.5</td>
<td>3.1</td>
<td>3.6</td>
<td>3.6</td>
<td>3.1</td>
</tr>
<tr>
<td>2020</td>
<td>3.4</td>
<td>1.4</td>
<td>−12.0</td>
<td>−12.4</td>
<td>−5.9</td>
</tr>
<tr>
<td>2021</td>
<td>2.8</td>
<td>1.5</td>
<td>5.5</td>
<td>6.9</td>
<td>4.4</td>
</tr>
</tbody>
</table>

21 www.imf.org, October country update.
24 The fall of 8% is because half of the tourist season is expected to be affected by the COVID-19 pandemic. (EBRD, Regional Economic Prospect Report, April 2020); given the significantly poorer outcome of the tourist season, an even steeper downturn is to be expected. https://www.ebrd.com/cs/Satellite?c=Content&id=1395290493496&d=&pagename=EBRD%2FContent%2FDownloadDocument.
According to the World Bank’s pessimistic scenario for Montenegro, it envisages negative growth of as much as −12.4% in 2020. In its Spring Report, the European Commission forecast −5.9% for 2020, and expected growth of 4.4% in the coming year. IMF also forecast a downturn of as much as −9% this year, and up to 6.5% growth the following year. Given the outcome of the tourist season, an even worse performance than the forecast downturn could be expected. The 2.7% growth in the first quarter was followed by a 20.2% downturn, which is among the highest in Europe.

**ii. Country response to COVID-19**

In early March 2020, the Western Balkan countries, like the majority of other countries around the world, were forced to severely restrict economic life in order to be able to contain the outbreak. Although it was the last country in Europe with registered cases, Montenegro started the lockdown in both economic and social terms. As is the case with other countries where tourism plays a major role, Montenegro can expect substantial economic difficulties given that tourism revenues account for more than 20% of its GDP. The unavailability of monetary policy measures in the country, limited fiscal space, a high level of public debt exacerbate the vulnerabilities of the Montenegrin economy in the case of an economic shock, such as the current one. The COVID-19 crisis has shown once again that the preservation of macroeconomic and financial stability, alongside fiscal cushions for such circumstances, are key for increasing resilience to economic shocks, and that such stability is a necessary precondition for high growth rates in the medium term, something that was recognized over the previous period as an important policy.

**Montenegro...**

The government has adopted three packages of measures to help mitigate the economic and social impacts. These measures followed the general recommendations of international financial organizations such as the IMF. The recommendations are to ensure additional liquidity and the continued flow of loans to the real sector with a certain relaxing of the financial terms by trying to maintain a balance between financial stability, support to the economy, and soundness of the banking sector. Fiscal policy is expected to provide substantial support to companies and citizens to bridge the period during the outbreak, with the recommendation for further coordination of efforts at the global and regional levels. On two occasions, the Government of Montenegro supported the economy with three packages with a set of financial, tax, and other measures. As was the case with most countries, the measures were introduced to “put out fires”. The measures are aimed at helping to preserve jobs and putting in place the prerequisites for a faster recovery of the economy and of the living standards of individuals and their families. The measures are expected to benefit over 100,000 employees and several thousands of entrepreneurs, MSMEs, the registered unemployed, beneficiaries of family cash allowances and pensioners with lowest benefits.

25 For the purpose of budget financing in 2020, the government entered into the following arrangements: with a banking syndicate (OTP, Credit Suisse, Crnogorska komercijalna banka and Societe Generale), with the €250 million World Bank guarantee; with the International Monetary Fund IMF of an amount of €60.5 million HDR, or €74.3 million, through the Rapid Financing Instrument (RFI); with the European Commission €60 million within the framework of its macro-financial assistance to Montenegro, with the first installment of €30 million already received; with Erste banka Podgorica €5 million. In 2020 for the Smokovac–Mateševo priority section of the Bar–Boljare motorway the amount of $21.6 million, or €18.34 million was withdrawn by the end of August 2020 from the credit granted by the Chinese Exim bank. For other infrastructure and development projects concerning construction of roads, water supply, energy efficiency, social housing and agriculture development the total amount of €43.41 million was withdrawn in 2020. In addition, the following long-term credit arrangements with domestic banks were concluded in 2020 for financing capital projects managed by the Public Works Administration: with the NLB bank in the amount of €10 million, Komercijalna banka A.D. Podgorica €5 million, and Erste banka Podgorica €25 million.


28 The entities that settled their tax liabilities in 2019 and that did not violate the orders issued by the Ministry of Health to contain COVID-19 were eligible for the support. Entities incorporated during 2020, up to 15 March 2020, are also eligible.

29 On 31 March 2020, a total of 35,632 persons were registered as unemployed.
Table 4. Policies and measures introduced to support business to resume production amid the COVID-19 outbreak

<table>
<thead>
<tr>
<th>Policy category</th>
<th>Main content</th>
<th>Key points (measures)</th>
</tr>
</thead>
</table>
| 1. Financial Support                                          | Encourage relevant entities to provide preferential loans, approve loan extensions, and lower interest rates                                                                                              | • Deferred repayment of loans to individuals and businesses with all banks, microcredit institutions, and the IDF for 90 days, all types of loans, including cash loans (secured and unsecured)  
• Creating a new line of credits by the IDF for MSMEs  
• Subsidies (for closed sectors; for the tourist industry; for affected industries – entrepreneurs and MSMEs in industries that were not suspended, but saw a reduced volume of activity because of the measures imposed by the Ministry of Health were aimed at containing the outbreak; for new employment) |
| 2. Taxes, custom duties                                       | Reduction and deferral for payroll taxes                                                                                                                                                                    | • Postpone payment of taxes and contributions on salaries for 90 days, linking further on to the second package of measures and industry subsidies  
• Reduction of the VAT refund deadline and extension of the customs guarantee exposure limit period for deferred payment of customs debt |
| 3. Preferential Social Insurance Policies to Support the Resumption of Work and Production | Social measures                                                                                                                                                                                           | • Subsidies for earnings of employees on paid leave  
• Subsidies for earnings of employees who are quarantined or in isolation  
• Suspension of enforcement, for the purpose of socio-economic protection of entities whose operation is suspended by the NCB’s decisions  
• One-off financial assistance of €50 for registered unemployed persons |
| 4. Services and support                                       | Support to domestic producers and specific industries                                                                                                                                                      | • Support for media outlets  
• Special measures to support agriculture and fisheries  
• New IDF credit lines for agricultural producers and fishers  
• One-off assistance for farmers and fishers  
• According to the decision of the Chamber of Economy’s Assembly, companies and entrepreneurs which had to suspend their operations due to the Ministry of Health’s COVID-19-related decree or whose operations were severely constricted due to the outbreak were granted a temporary waiver from 1 April until 30 June 2020 from payment of membership fees |
| 5. Bill reduction                                              | Electricity bill reduction                                                                                                                                                                                | • National Electric Power Company EPCG – exemption from the fixed part of the electricity bill for the months of April, May, and June – which will not be charged to users in suspended activities |

The first package of measures\(^{31}\) to help the economy and citizens, which the government estimated at €100 million (mostly a new IDF credit line), was adopted in mid-March, primarily related to liquidity support. Under this package, affected companies and entrepreneurs were provided with a three-month deferral of the payment of personal income tax and contributions for compulsory social insurance. Also, credit support to companies was provided through the Investment and Development Fund (IDF), as well as the introduction of a three-month moratorium on the repayment of loans of citizens and businesses held with commercial banks. The first package also included additional one-off direct financial assistance for low-income pensioners and beneficiaries of family cash allowance. Over 20,000 citizens and their families received this help. In addition to the above, certain measures to reduce budget expenditures were also adopted.

\(^{31}\) Assessments based on statements by government officials.
The second package of measures was adopted on 24 April and involves four sets of measures: subsidies; support to agriculture; economic and social measures; and a special regime for electricity bills for the tourist industry. The total fiscal effect of the measures from this package was estimated to be worth €75 million gross. Its net worth is €46 million for a period of three months. One of the key measures included in this package is subsidies for employees in suspended operations (hospitality, services, transport, and tourism) to whom 100% of the gross minimum wage will be paid. They will receive a monthly salary of €222 in April and May, and they will be covered by taxes and contributions in full, which is €143 for the minimum wage. The proposed measures include subsidies for vulnerable operations (entrepreneurs, micro, small, and medium enterprises with up to 250 employees) for April and May, amounting to 50% of the gross minimum wage for each registered employee. The amount of this subsidy is €111 for net salaries and €71.50 for taxes and contributions. Unemployed people who are not beneficiaries of unemployment benefits or any cash allowances received a one-off allowance of €50. All companies whose operation was suspended due to government measures to contain the virus will be exempted from paying electricity bills in April, May, and June. At the same time, the National Electric Power Company (EPCG) has doubled subsidies for socially vulnerable households while the measures are in progress. As a part of the second package of state aid for agriculture and fisheries, allocations worth €17 million are planned.

All countries, Montenegro included, have been undertaking in continuity the measures aimed to mitigate the impact of the current circumstances to business performance. Subsidies for employee earnings was one of the most frequently used measures both in the Western Balkans and in other European countries. Thus, for instance, Denmark is subsidizing three-quarters of the monthly earnings of private-sector employees, while employers are undertaking not to dismiss employees on the account of the economic losses sustained due to the COVID-19 pandemic; Luxembourg will allocate €500 million a month for financing 15,000 companies and 100,000 employees and will cover 80% of the salaries for affected workers; the Netherlands is also subsidizing up to 90% of worker earnings, with the aim of preventing huge losses, while the UK government will pay 80% of salaries for the staff retained by the employer and will cover salaries with to £2,500 a month in the coming three months (March, April, and May).

The third package of socio-economic measures was adopted by the Government of Montenegro on 23 July 2020. This package included both short-term and medium-to-long-term measures.

**Short-term measures**

- Measure 1: Support for tourist businesses
- Measure 2: Favourable credit lines
- Measure 3: Support for industry
- Measure 4: Subsidies for employee earnings
- Measure 5: Grants for businesses
- Measure 6: Defined investment breakdown and schedule by sector
- Measure 7: One-off support for vulnerable groups
- Measure 8: Creating additional fiscal space

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32 The total fiscal effect of the third package of measures, involving direct support to businesses, investments from the budget and state-owned companies, as well as the favourable credit arrangements secured with the IDF and commercial banks intermediated by the government for the period 2020–2024, is estimated at €1.2 billion, provided that to a large extent it contains already planned public investments with the aim of maintaining investment spending, and thus restoring GDP growth.
Medium-to-long-term measures

- Reinforcing IT businesses
- Support for the tourist industry
- The concept of quick breakthroughs in agriculture and fisheries
- Economic measures for recovery and development
- Support for the transport industry

The short-term measures are intended to secure: support for the tourist industry of an amount of €83.5 million; incentives for investments in agriculture and fisheries of a total amount of €89.4 million; improved competitiveness through 17 programme lines and providing €10 million in grants in 2020 alone; support for industry by providing subsidies for employee earnings, including the tourist industry, of a total amount of €16.2 million; support for the most vulnerable groups in society of an amount of €1.8 million. Likewise, this package has included loan rescheduling and a VAT rate reduction from 21% to 7% on preparing and serving food and non-alcoholic beverages in all hospitality establishments for one year. In addition, the most vulnerable groups of people will receive a one-off allowance of €200, while the lowest pension benefits will increase by 13%, retrospectively from 1 January 2020. The third package of measures includes also: additional 10% cuts of current non-investment spending for all budget users and state funds; downsizing the public administration fleet of vehicles, limiting the number of persons entitled to the use of official cars, and the sale of a share of the existing fleet; and salary reduction in state-owned companies. Through a budget revision to support industry with the third package of measures, the government secured €70 million with the Council of Europe Development Bank (CEB) to be provided directly to commercial banks, as well as guarantees for arrangements between the European Investment Bank (EIB) and commercial banks in the amount of €50 million. The banks are supposed to match the amount with their loan portfolios, i.e. approximately €120 million, thus making a total of some €240 million available to businesses.

EU assistance and measures introduced by other countries in the region...

Following the criticism of its slow reaction, the European Union (EU) approved an assistance package worth over €410 million for the Western Balkan countries to combat COVID-19. Bosnia and Herzegovina, North Macedonia, Serbia, Montenegro, Kosovo, and Albania will receive €37 million worth of direct assistance to purchase ventilators, tests, and protective equipment, while €374 million is allocated for social and economic recovery. The above package is a direct response by the EU to the COVID-19 pandemic in these countries.

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33 The financial resources available under this heading are bound to be even greater, given the additional support to be based on the so-called “traffic light” methodology where the outbreak trends are measured at the municipal level and classified according to the cumulative incidence, and depending on any suspension of business activity additional subsidies will be allocated. 

34 Commercial banks offered interest rates ranging from 1.99% to 7% for loans to businesses. According to the Information Brief adopted by the government on 20 August, 11 banks submitted offers (CKB, Podgorička, Hipotekarna, Erste, Lovćen, Prva, Adiko, Adriatik, Univerzal, Zapad and Komercijalna), while at the time it was still unknown whether NLB and Zirat banka would give their offers. The actual facility to be provided by each bank will be known once the Ministry of Finance has approved the final list. The banks are supposed to repay the money provided by the government within 7 years, with a 2-year grace period.
Table 5. EU assistance for the Western Balkan countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Assistance for healthcare systems (in €)</th>
<th>Support for social and economic recovery (in €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montenegro</td>
<td>3,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Serbia</td>
<td>15,000,000</td>
<td>78,400,000</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>7,000,000</td>
<td>73,500,000</td>
</tr>
<tr>
<td>Kosovo</td>
<td>5,000,000</td>
<td>63,000,000</td>
</tr>
<tr>
<td>Albania</td>
<td>4,000,000</td>
<td>46,700,000</td>
</tr>
<tr>
<td>North Macedonia</td>
<td>4,000,000</td>
<td>62,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>38,000,000</strong></td>
<td><strong>374,000,000</strong></td>
</tr>
</tbody>
</table>


The European Investment Bank (EIB) Group prepared an urgent support package worth €5.2 billion for non-EU countries, and, according to the first assessments, out of the total amount, €700 million is intended for the Western Balkan countries, and the exact amount will be known following consultations with EIB officials.

In response to the COVID-19 crisis, each of the Western Balkan countries has introduced measures to support citizens and businesses with allocations from their own budgets, which will be followed by budget revisions before the end of the year. Serbia had the largest allocation of €5.1 billion, and Bosnia and Herzegovina the lowest, as follows: Federation of Bosnia and Herzegovina - €15 million, and Republika Srpska - €26 million, while Brčko District appropriated €500,000. Following the first package in which, in addition to the moratorium and tax deferral, the single most significant item was a new IDF credit line for liquidity worth €100 million, the Government of Montenegro adopted the second package amounting to €71 million with taxes and contributions, as already mentioned.

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35 On 16 September 2020 Ursula von der Leyen announced a new package of assistance for the Western Balkans.
Table 6. Regional governments’ policies and measures to support MSMEs to cope with the COVID-19 crisis

<table>
<thead>
<tr>
<th>Country</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Serbia</strong></td>
<td>• The Chamber of Economy ensured direct assistance to MSMEs amounting to three monthly minimum wages with no obligation for repayment</td>
</tr>
<tr>
<td></td>
<td>• Moratorium on loan repayment and leasing</td>
</tr>
<tr>
<td></td>
<td>• Loans for liquidity and working capital for sole traders, SMEs, farms, and cooperatives properly registered, provided through Serbia’s Development Fund</td>
</tr>
<tr>
<td></td>
<td>• Guarantee scheme to support the economy during the COVID-19 crisis for the liquidity and working capital loans for MSMEs and agricultural holdings distributed through commercial banks</td>
</tr>
<tr>
<td></td>
<td>• Deferral of deadlines for tax returns, tax payment, including advance payment, free of default interest</td>
</tr>
<tr>
<td></td>
<td>• No enforced collection during the state of emergency</td>
</tr>
<tr>
<td></td>
<td>• Reduced monthly tax advance payments (corporate income tax; local taxes)</td>
</tr>
<tr>
<td></td>
<td>• Introducing the concept of interim tax returns – taxpayers would be allowed one to three months’ time upon the abolition of the state of emergency to file their final returns.</td>
</tr>
<tr>
<td></td>
<td>• Tax audit deferral/suspension</td>
</tr>
<tr>
<td><strong>Croatia</strong></td>
<td>• Introduction of the (state) Agreement on Debt Dormancy, e.g. all enforcement procedures for collecting all claims for all debtors are suspended for a period of three months; working capital and liquidity loans with a repayment period of three years</td>
</tr>
<tr>
<td></td>
<td>• Suspension of loan repayments; new liquidity loans are approved to business entities for current operational needs, such as salaries, overheads, and other operational costs; increased coverage of the guarantee fund for export insurance, extended to include the tourist industry</td>
</tr>
<tr>
<td><strong>Slovenia</strong></td>
<td>• Loan repayment moratorium</td>
</tr>
<tr>
<td></td>
<td>• Taxpayers have the possibility to defer paying taxes for no longer than 24 months, i.e. to repay tax debt in 24 interest-free monthly instalments</td>
</tr>
<tr>
<td></td>
<td>• Measures aimed at improving liquidity</td>
</tr>
<tr>
<td></td>
<td>• State guarantees: €6 million for affected businesses</td>
</tr>
<tr>
<td></td>
<td>• Support for businesses for going international</td>
</tr>
<tr>
<td></td>
<td>• State subsidies for employee earnings: 40% of labour costs are covered by the state for employees sent home on “stand-by”, and 100% for quarantined employees. In both cases, the employees are entitled to 80% of their salary. The aim is for affected companies to retain at least 50% of their employees.</td>
</tr>
<tr>
<td><strong>Bosnia and Herzegovina</strong></td>
<td>• Setting up a guarantee fund to preserve and improve business liquidity</td>
</tr>
<tr>
<td></td>
<td>• The Federation of Bosnia and Herzegovina Development Bank is to draft a decision to set up a credit line for improving liquidity of affected businesses</td>
</tr>
<tr>
<td></td>
<td>• Banks and individuals will be granted a moratorium on loan repayments, i.e. suspension of loan repayments for a period of at least three months</td>
</tr>
<tr>
<td></td>
<td>• An intended World Bank loan of US$20 million to support response efforts to the COVID-19 crisis</td>
</tr>
<tr>
<td></td>
<td>• 60% lump-sum taxation on the overall income of small businesses with one or two employees (Republika Srpska)</td>
</tr>
</tbody>
</table>
### North Macedonia
- The North Macedonia Development Bank gave direct financial assistance in the form of interest-free loans for MSMEs ranging from €3,000 to €30,000.
- Interest-free loans to business entities totalling €5.7 million, plus €6 million (22 March).
- Subsidies for compulsory social insurance contributions on salaries of the employees in tourism, transport, hospitality sectors, and other companies affected by the COVID-19 crisis in April, May, and June 2020. The subsidy for compulsory social contributions amounted to 50% of the average salary paid in 2019.
- The Central Bank’s base interest rate was reduced to 1.75%.
- The statutory interest rates will be reduced to 5% (from 10%) and 4% (from 8%).
- Salary cuts for civil servants and public employees in April and May 2020 down to the minimum wage which currently stands at MKD 14,500 (€235). Local councillors and the members of management and supervisory boards of public institutions will not be reimbursed for their work.
- The application of the Law on Enforcement Procedure will be suspended until the end of June. Bailiffs will be obliged to suspend all pending enforcement procedures.
- Loan repayment moratorium: loan-holders are entitled to suspend loan repayments in the coming three months.
- Companies will be protected against bankruptcy proceedings being initiated during the crisis.

### Albania
- Loan repayment moratorium for individuals and businesses for a period of three months.
- US$25 million appropriated to the Ministry of Health for purchasing medical supplies and equipment, i.e. as assistance to health workers; US$100 million appropriated for companies struggling to pay salaries to their employees.
- US$65 million appropriated for most immediate needs: destitute individuals, small businesses, possible unemployment; US$20 million made available to the Ministry of Defence in case of a need for a humanitarian campaign; US$10 million made available to the Council of Ministers as a reserve fund for contingencies.
- A tax measure to be applied as of the second half of 2020 onwards which includes rescheduling of tax liabilities on the basis of corporate income tax for all business entities whose total turnover ranges between US$2 million and US$14 million (€15,500–€100,000), i.e. tax liabilities of US$20,000–US$140,000.

Based on the comparative analysis, it is obvious that most countries in the region have adopted similar support measures. These are a combination of short-term measures for mitigating the crisis impact, such as providing access to loans for businesses, tax facilities and loan repayment moratoriums, but also subsidies for employee earnings in affected companies to avoid large-scale dismissals. Trade restriction measures are mostly designed to ban exports of medical supplies or food products. Although some trade measures can actually exacerbate the impact of the crisis, the obligations to maintain markets for basic products may help avoid large price fluctuations; import bans should, nevertheless, be thought through carefully to avoid unnecessary trade barriers and disturbance of global supply chains. Moreover, all the countries temporarily increased social benefits for affected households, often also for pensioners. As measures to contain the outbreak are gradually lifted, the second phase of crisis mitigation measures starts. Governments will have to see how to guarantee the health safety of individuals, and gradually open up their economies, but also provide new support for aggregate demand to ensure a fast and fair recovery.

As is evident from the above, most measures introduced so far in the region focus on sustaining cash flows for businesses to avoid bankruptcies and protect jobs in the coming few months, while the restrictions imposed due to the COVID-19 outbreak are being relaxed. The uncertainties regarding the crisis duration are creating critical compromises in designing response policies. Short-term

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mitigation measures to bridge the liquidity gap for the affected companies may be very effective in preserving income in the first several months of the crisis, but these are costly and may become unsustainable and ineffective if the crisis lasts longer, and solid liquidity becomes a limitation to solvency. Exhausting fiscal space would ultimately require that the government limit its support, thus forcing the businesses they are supporting to wind up or dismiss workers, which would mean high opportunity costs for using such resources that could rather be used for long-term programmes or economic incentives in the recovery stage. As is the case with most market economies in transition, the Western Balkan countries, particularly those with limited fiscal space, must carefully weigh up these compromises. To ensure sustainable economic recovery in the medium-term, some countries in the region will have to make their economies more resilient to shocks, while all the countries have to continue implementing structural reforms in order to increase productivity.

IV. IMPACT ASSESSMENT AND KEY FINDINGS – SUMMARY AND ANALYSIS OF THE DATA GATHERED THROUGH THE SURVEY ON COVID-19’S IMPACT ON MSMES

As can be intuitively guessed, MSMEs were the most severely hit by the COVID-19 crisis. As mentioned above, and as was the case with other countries, in Montenegro the government, in collaboration with the Central Bank, first resorted to measures to support liquidity by deferring the payment of loan and tax liabilities, followed by subsidies for employee earnings, as shown above. In addition, credit lines to support liquidity were envisaged, also mentioned above. The third package has also envisaged some long-term measures, primarily through greater credit support.

Nevertheless, particular insight into the situation brought about by the COVID-19 outbreak for MSMEs is achieved through quantitative research and gathering of data directly from participants of economic development. Thus, two surveys were conducted (in May and September) with the aim of assessing the following four aspects:

- The impact on business performance;
- The measures taken by businesses to counteract the effects of the crisis;
- The effectiveness of the currently available economic policy support; and
- Business growth prospects.

The survey findings indicate various specificities in how businesses have responded to the crisis. Interestingly, the respondent companies are mostly using local markets – over 66%, followed by 27% of respondents that are covering the market of the whole of Montenegro, that is an increase up from 54% and a decrease down from 34%, respectively, compared to the first survey. This specific finding indicates that small and medium-sized businesses are mostly engaging in trade and services. Only 7% of them are focusing on foreign markets, which is a decrease from the already low share of 12% from the first survey, primarily because of their focus on tourist demand. Additionally, 77% of the products marketed are imported. There is clearly room for rebalancing the economy in the long run towards small- and medium-sized businesses that could focus on the markets outside Montenegro, where their area of business could be services, but also processing industries. This issue is directly linked with their competitiveness and human capital.

During the first month of the outbreak containment measures, no impact on employment was recorded. However, while two out of five employees were put on paid leave, one-fifth worked short hours, with an additional one-fifth continuing to work without any changes. Somewhat less than one

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37 The survey was conducted from 7 to 20 May 2020, and from 9 to 23 September. The sample included 319 and 321 businesses, respectively, and is quota-based, defined by the region, number of employees, and the type of activity, as registered in the Central Register of Business Entities (CRPS). The post-stratification was done by region, number of employees, and the type of activity. During the first survey, in collaboration with Montenegro’s Chamber of Economy, the sample was additionally boosted by 141 questionnaires for deepening the findings with a focus on particularly affected activities. Given the development surrounding COVID-19 (lifting of restrictions, economic policy support measures, etc.), the survey is a snapshot of the situation at the given moment.

38 In 2019, the Ministry of the Economy supported MSMEs with €1,640,000 through 10 programme lines to boost the competitiveness of the Montenegrin economy.
in five were put on unpaid leave without benefits, which led to reduced income for them, although they formally remained in employment. In the area of trade, employees were significantly more likely to have reduced salaries, wages, or benefits and to work short hours, while the employees in the services industry and in the central region were more likely to be put on paid leave. Seventeen percent of respondents put their employees on unpaid leave or cut their salaries and other benefits. Moreover, persons employed until 15 March in the manufacturing industry, in medium-size enterprises, in companies in the northern and southern regions were significantly more likely to see no changes in their work regime. After 1 June, the business situation stabilized somewhat, since there have been no changes to the working regime of two-thirds of employees (particularly in manufacturing businesses, and regionally for companies in the northern region), while 14% of respondents are working short hours. There is a significant decrease in the number of employees on paid leave (8%, down from 39%). Interestingly, the employees with a changed working regime now more often, compared to the first survey, are working short hours (41% compared to 28%) or have a reduced salary, wage or benefits (an increase from 19% to 34%). Obviously, the prolonged crisis is shrinking the latitude for employers, who are still reluctant to lay off employees, but are striving to reduce labour costs. This inevitably reflects on the purchasing power of employees and households. In addition, while in July and August 2019 34% of companies hired seasonal workers, this year only 15% did so.

Graph 3. Impact of COVID-19 on the working regime on 15 March (in %)

Graph 4. Impact of COVID-19 on the working regime on 1 June (in %)

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020, commissioned by UNDP.

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP
The impact of the crisis is further reflected in falling sales and rising losses. Specifically, among the companies that had lower sales compared to the same period in 2019, more than half of them have over 75% lower sales compared to the same period a year ago, while four out of 10 companies have a 100% reduction in sales. Losses of over 75% are mostly present in service companies. Additionally, the survey has shown that 85% of companies are recording lower sales, with one out of four having a decrease of more than 75%, while 41% report a decrease in the range of 26–50%. The sharpest decrease is recorded in the service industry and among companies in the southern region, which is quite understandable given the developments in tourism.

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020 and September 2020, commissioned by UNDP
In May, more than one-third of companies state that they can meet over 75% of their short-term liabilities, while in September this share increased to 47% for short-term, and 45% for long-term debts and financial liabilities. Likewise, while in May 29% report that they either cannot meet any of their liabilities or can meet only up to 25% of them, now the share is 22%\(^{39}\). During the lockdown, almost one-third of them estimated that they would be able to work for another four weeks, while one-quarter stated a period of between one and three months, while in September 43% reported no impediments to their operation or that they could see no obstacles arising in the coming 48 weeks (15%). Re-introduction of measures would again bring 55% of companies into the situation where they could work for up to one or three months under such circumstances.

\(^{39}\) During the first survey companies from the southern region were significantly more likely to state that they were unable to pay their financial liabilities and debts, and almost 66% of them estimated that they could work for a maximum of 12 weeks under the then prevailing circumstances, suggesting serious liquidity issues further aggravated by the poor tourist season.
A large share – as many as 86% – of respondents reported reduced business revenues during the first survey. Then 59% reported that sales had reduced by 75%, and 40% reported a complete reduction of 100%. This basically means that for a substantial share of companies, this year will have 10 instead of 12 months, or even less, given that the circumstances did not go back to the old normal level. At the same time, all the liabilities are still there for the full 12 months. The trend of lower sales continued in the coming three months, with 59% of respondents reporting a reduction in sales of up to 50%, and 18% of them a reduction of up to 25%. One out of four recorded a decline in sales in the range of 51-75%. Among those companies that had sales reduced by over 75%, 38% are companies from the southern region.

This is quite certainly indicative of a serious liquidity issue which exists and which may spill over to other segments of the economic system, and significantly increase the share of non-performing loans (NPLs) on bank portfolios and, by extension, lead to adjustments in balances and fewer loan facilities in the immediate future. This, in turn, is indicative of the need to generate certain partnership schemes between the government and banks with the goal of supporting small and medium-sized businesses. During the survey conducted in May, over a half (59%) of companies reported reduced demand as the greatest challenge in the market, while around one-quarter reported blocked sales channels (27%), collection of receivables (26%) and financing issues (23%). The situation changed during the summer months, and thus in September 75% of companies stated reduced demand as an issue and 34% collection of receivables. Reduced demand in the first wave was a direct consequence of the inability of consumers to assert demand, but as we move forward the prolonged decline in demand may be related to lower household incomes, reduced visitor arrivals, or lower remittance incomes. Lower liquidity is the logical direct result, also leading to an increasing problem of collection of receivables.

Additionally, manufacturing companies are significantly more likely to state the procurement of raw materials and resources as the biggest challenge. When assessing the top 10 challenges associated with the pandemic, apart from dwindling demand, labour costs are reported by 26% of respondents. This hides the risk of a further increase in unemployment, or a possible shift of unemployment into the informal economy or salary reduction. Disturbed supply chains and the interrupted delivery or purchase of semi-products or of services needed for production or of products for resale are significantly more likely to be reported by those companies engaging in trade. In addition, while during the first wave companies in the northern region were significantly more likely to report reduced cash flow as the most significant challenge during the COVID-19 crisis, and COVID-19 prevention and response costs were more often reported by companies in the central region, now companies from the north are singling out meeting their tax liabilities and utility costs as being challenging. This suggests that the already reduced purchasing power in this region is shrinking further, increasing the risk of poverty.

While during the first wave, due to the restrictions caused by the coronavirus pandemic, a move to working short hours was the first decision made by more than one in four companies (28%), and one in five (22%) reported the complete suspension of their operations because of the decisions of the National Coordination Body for Communicable Diseases, during the second survey working short hours is reported by 27% of respondents, salary reduction by 17%, and contract cancellation by 17%. It is clear that now the economic reasoning is predominantly leaving less space for business decision making.
Graph 10. The first decision that companies made or the actions taken in response to the COVID-19 crisis (in %)

<table>
<thead>
<tr>
<th>Decision</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working shorter hours</td>
<td>28%</td>
</tr>
<tr>
<td>Complete suspension of operations by the NCB</td>
<td>22%</td>
</tr>
<tr>
<td>Cancellation of agreed deals</td>
<td>15%</td>
</tr>
<tr>
<td>Salary reduction</td>
<td>9%</td>
</tr>
<tr>
<td>Cessation of payment of additional health insurance</td>
<td>5%</td>
</tr>
<tr>
<td>Cessation of payment of additional pension insurance</td>
<td>5%</td>
</tr>
<tr>
<td>Observance of measures (OSH, disinfection...)</td>
<td>5%</td>
</tr>
<tr>
<td>Working from home, i.e. distance working</td>
<td>3%</td>
</tr>
<tr>
<td>Cancellation of rented premises</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>None</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020, commissioned by UNDP.

Graph 11. Decisions that companies made, or the actions taken in response to the COVID-19 crisis over the period March–August 2020

<table>
<thead>
<tr>
<th>Decision</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working short hours</td>
<td>27%</td>
</tr>
<tr>
<td>Salary reduction</td>
<td>17%</td>
</tr>
<tr>
<td>Cancellation of agreed deals</td>
<td>17%</td>
</tr>
<tr>
<td>Cessation of payment of additional health insurance</td>
<td>10%</td>
</tr>
<tr>
<td>Cessation of payment of additional pension insurance</td>
<td>9%</td>
</tr>
<tr>
<td>Complete suspension of operations by the NCB</td>
<td>3%</td>
</tr>
<tr>
<td>Cancellation of rented premises</td>
<td>3%</td>
</tr>
<tr>
<td>Working from home i.e. distance working</td>
<td>2%</td>
</tr>
<tr>
<td>Employee downsizing</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>None</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

On the other hand, over one-quarter of companies (27%) made no decision in response to the COVID-19 crisis over the previous period, and this figure was 40% more recently. Additionally, when it comes to the measures to adapt operations, 39% resorted to negotiating deferred payments compared to 32% in May; 26% reduced their purchases compared to 21% before, and 23% cancelled their orders, as opposed to 19% during the first survey. A very small share opted again to seek alternative suppliers or join sales platforms, which is indicative of certain entrenched business patterns. When it comes to relations with consumers, following the first period that was predominantly passive, there are now more interactions. The share of companies that approached their consumers and sought joint solutions went down from 32% to 25% in the second survey, but the share of those that reduced their service prices increased from 17% to 31%. Reducing prices is particularly characteristic of companies in the south. The focus of businesses on local markets is also visible here. When it comes to changing business models, in the second survey there is also a high share (34%, but this is a decrease from 45%) of companies that simply suspended their
operations; 60% decided to postpone investments, which is an increase compared to 42% before, while the number of companies that scaled down their businesses increased from 58% to as much as 77%.

While previously almost half of the respondents believed that the immediate effect of the COVID-19 crisis would be the deferment of any growth plans, now 60% of respondents report this, while the number of those considering introducing business innovations is increasing (from 16% to 25%). A few (4%, i.e. 6%) are even considering withdrawing from the market.

Most companies are not currently using digital platforms, and it is clear that this is a huge opportunity for digital transformation. Encouragingly, this share is more favourable in the second survey (65% compared to 73% previously). The second survey recorded a significant increase in the number of companies with up to 20% sales over external digital platforms (an increase from 22% to 42%), indicative of the recognition of existing opportunities. While approximately the same share of companies reported no change in the share of sales via digital platforms, now 27% (compared to 11% before) are reporting increased sales over this channel. Half of the companies that normally use these platforms currently have no online sales. Nonetheless, again a large share of respondents (89%) had no investments in equipment or digital solutions.

Most believe that the pandemic will have far-reaching adverse impacts on all the world economies, Montenegro’s included, since it is considerably geared towards tourism and the hospitality industry. In this regard, it is expected to see deteriorated liquidity, lower purchasing power, but also less money in circulation, leading to price reductions. Approximately one-quarter of companies (27%) are planning development projects with the anticipated IDF support (47%) or relying on their own sources (36%). A total of 21% see bank loans as an important means, while 18% are also expecting

*Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020 and September 2020, commissioned by UNDP*
government subsidies. Interestingly, 49% of companies are satisfied with their cooperation with banks, while 23% have no definite views on the matter.

The informal economy

The survey commissioned by the UNDP (a qualitative survey conducted by means of in-depth interviews) showed that a large share of businesspeople see the informal economy as being on the increase in Montenegro. Among the positive characteristics of the business environment, they mention freedom of operations, good opportunities for development, a small market conducive to business development, while agriculture and tourism are recognized as having the best prospects. But they also mention shortcomings characteristic of the informal economy such as unequal treatment, the existence of monopolies, great dependence on foreign investments, illiquidity, and difficulties in collecting receivables, but also a lack of market regulations, and by extension, no safeguards for domestic products. Still, the presence of the informal economy, particularly informal employment, varies and depends on the type of activity and the size of business entities. Half of the respondents see poor performance and small turnover as the main reasons for informality, while the other half believe the wish for extra profits to be the cause of informality. The owners of hospitality establishments, shops, forwarding companies, and agricultural holdings believe informal employment to be very present in their line of business, while companies offering programming, accommodation (hotels), and passenger transportation services report that this is not a frequent occurrence in their line of business. Additionally, one of the factors that affects the perception of the prevalence of informal employment is the size of the business entity; thus, it is more associated with micro companies with a small income. Also, some respondents believe that illegal employment (undeclared workers, but also performing unregistered activities) are more prevalent among sole proprietorship businesses. Some respondents stress that business novices tend to resort to informality because the costs associated with formal operations are too much of a burden for them. When it comes to measures the government could take to curb informal employment, most respondents advocate for stimulative policies, such as reduced payroll tax burden, while they believe that a more strict policy would not bring any significant results. On the other hand, some respondents, mostly representatives of well-performing companies, advocate for a more robust punitive policy against companies operating in the informal economy.

The justification of economic policy support measures is further proven by trends in filing relevant tax returns.40

Table 8: Breakdown of salaries by the level of income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 250</td>
<td>59,753</td>
<td>64,441</td>
<td>44,818</td>
<td>50,559</td>
</tr>
<tr>
<td>251–400</td>
<td>33,920</td>
<td>34,954</td>
<td>24,746</td>
<td>29,653</td>
</tr>
<tr>
<td>401–500</td>
<td>19,254</td>
<td>20,588</td>
<td>9,364</td>
<td>13,254</td>
</tr>
<tr>
<td>501–700</td>
<td>27,285</td>
<td>31,082</td>
<td>13,199</td>
<td>21,019</td>
</tr>
<tr>
<td>701–1,000</td>
<td>13,557</td>
<td>13,726</td>
<td>7,116</td>
<td>11,206</td>
</tr>
<tr>
<td>Over 1,000</td>
<td>10,112</td>
<td>9,140</td>
<td>5,166</td>
<td>7,568</td>
</tr>
<tr>
<td>TOTAL</td>
<td>163,881</td>
<td>173,931</td>
<td>104,409</td>
<td>133,259</td>
</tr>
</tbody>
</table>


40 Source: Montenegro’s Tax Administration.
Two indicative, although not final (due to methodological problems, for instance, because the data on salaries under €250 includes part-time work), conclusions can be drawn. Firstly, looking at the structure of reported salaries in the different periods, it becomes evident that 60% are constantly under €400, and 40% above that limit. While the average salary, according to the MONSTAT data, stands at more than €500, the actual income distribution seen from tax returns indicates the median salary to be under €400. The data on the median salary, in addition to the data on average salary, and separately for the public and the private sectors, would be valuable for economic policy makers, both for tax policy and for social policy, and for designing solutions that would go towards curbing the informal economy. In addition, information on the median household income would be of great practical value. While the increase in the minimum wage (in July 2019 it increased from €196 to €222) affects the average salary amount, it has no impact on the median salary. At the same time, it is quite possible, given the presence of informal employment, i.e. an undeclared share of salary, that both the average and the median salaries are larger than is captured by the official data.

The second conclusion can be drawn from the differences in the number of employees for which monthly tax returns are filed compared to the number of employees according to administrative sources, i.e. data obtained through unemployment surveys. It is noteworthy that these refer to different methodologies and that IOPPD cannot be used as an indicator for assessing total employment, inter alia, because state authorities submit one IOPPD form irrespective of the number of employees, which complicates the comparison of data and overall analysis, but also makes economic policy-making difficult. While, for example, in April last year, the relevant tax returns were filed and salaries calculated for 173,931 employees, it is considerably lower than the data from administrative sources of 200,595 employees in April 2019. Additionally, according to the 2019 LFS, the estimated number of employed people was 243,800, while the average employment recorded the same year from administrative sources was slightly above 203,500. At the same time, the share of self-employed and family workers traditionally ranges between 21% and 22%, or 50,000 people registered as employed under the LFS methodology. Considering the number of tax returns filed, it can be concluded that various forms of informality might be hidden among those categories, which implies the need to perform additional analyses and possibly adjust the economic policy.

Moreover, according to the monthly MONSTAT reports, if we compare the number of employees in March, April and July 2019 with the same months in 2020, a considerable decline is evident. Thus, the decline in March 2020 compared to March 2019 was 5%, and comparing the data for April 2019 and April 2020 the decline is close to 8%, while in July it stands at around 18% compared to August 2019.

Table 9: Employment trends

<table>
<thead>
<tr>
<th>Period</th>
<th>Employees</th>
<th>Period</th>
<th>Employees</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2019</td>
<td>197,594</td>
<td>March 2020</td>
<td>187,251</td>
<td>5.23%</td>
</tr>
<tr>
<td>April 2019</td>
<td>200,595</td>
<td>April 2020</td>
<td>184,607</td>
<td>7.97%</td>
</tr>
<tr>
<td>July 2019</td>
<td>215,181</td>
<td>July 2020</td>
<td>174,170</td>
<td>19.1%</td>
</tr>
<tr>
<td>August 2019</td>
<td>210,456</td>
<td>August 2020</td>
<td>172,154</td>
<td>18.2%</td>
</tr>
</tbody>
</table>

Source: MONSTAT (www.monstat.org).

At the same time, from the moment of the COVID-19 outbreak until 30 April, according to National Employment Office data, the number of unemployed increased to 40,361, and had increased further to 43,383 by 30 September, or 0.7% higher than in August. According to the monthly report

41 The median is a value separating the higher half from the lower half of a data sample. In the case of the average salary, under the methodology applied by MONSTAT, the total volume of salaries is divided by the number of recipients.

42 The so-called IOPPD form submitted to the Tax Administration for the given period, is not necessarily fully up-to-date, so the Tax Administration records all filings at the end of the business year, in this case for the month of April.
provided by the National Employment Office, the unemployment rate increased from 18.56% to 18.7%, while last September it stood at 14.5%. At the end of September of last year there were 33,647 registered unemployed, or 9,736 fewer than in the same month this year. Moreover, out of the close to 5,000 people that registered as unemployed during the month of April, close to 3,000, or 60%, were women; an additional almost 5,000 people registered as unemployed in the following months. The LFS data for the second quarter of 2020 compared with the second quarter of 2019 shows a considerable increase in inactivity levels, involving 22,000 people (of which 6,000 are women, and 16,000 men, but women overall remain considerably more inactive with 135,000 of them inactive compared to 99,000 men). While in the second quarter of 2019 slightly more than 211,000 people were inactive, in the second quarter of 2020 this figure increased to more than 233,000, indicative of a significantly higher implicit unemployment.

Apart from the direct impact of the COVID-19 crisis, such data is also indicative of the continuing high prevalence of informality in the labour market. However, cross-referencing the data about the median salary, and the breakdown of employees, from two different sources possibly suggests a strong impact of COVID-19 on the labour market, and a possible increase in poverty levels as its direct consequence. Of particular interest is the data from tax returns filed, which are monitored by the Tax Administration, and which show a substantial increase in the number of returns filed with the introduction of subsidies for employee earnings, since this was one of the eligibility criteria. Within a matter of several weeks, the number of filings increased by close to 30,000. Given that filings for a certain month are possible until the end of the given year, at this stage it is not possible to compare the data for April of this year with that for last April.

### Economic indicators

Apart from quarterly GDP data showing a 20.2% decline in the second quarter, MONSTAT, in its monthly report for August, presents a number of data values indicative of the economic impact of the crisis. Industrial production varied quite considerably, with a decrease in April 2020 compared to April 2019 with an index of 63.2, followed by a gradual increase, which in July was 102.6 compared to July 2019, while in August it was 94.4. Visitor arrivals and nights, however, plummeted compared to 2019, with the index for arrivals being 22.1 for the first eight months, and 19.1 for nights (but for foreign arrivals it is as low as 12.9). Quite expectedly, the financial results will be even lower given the reduced prices. The modest tourist season also has an effect on foreign trade. While exports recorded an index of 87.7 and in absolute terms a decrease of some €32 million, imports had an index of 80.2, but in absolute terms a decline of as much as €342 million. In March retail sales increased and had an index of 106.9 compared to March 2019, probably as a result of stocktaking in the second half of the month, followed by a decrease without exceeding an index of 80 in current prices compared to the previous year, and this went as low as 67.6 in July. The construction industry retained the same levels as last year, with an increase in new contracts for the construction of buildings and a decrease in other types of construction recorded. Nonetheless, the question raised here is whether this industry already has peaked, which could make the future recovery more difficult. The index for the purchase and sale of agricultural produce was 94.7 for the first eight months. In August a vista deposits were €45 million lower than in January, while time deposits fell by some €35 million. It should, however, be noted that over the last three years a vista deposits in August were on average €70–75 million higher, suggesting that this August such deposits are some €120 million lower than in a normal year. Time deposits are on a steady path of decline (January 2017: €595 million, August 2020: €478 million), which, taken together, suggest the economic recovery might be slower and take longer. MONSTAT (www.monstat.org)

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Data from the National Employment Office for 9 October 2020.
The fact that a number of citizens are in a quite difficult situation is further confirmed by the survey conducted by the UN in Montenegro during the month of April on the social consequences of the COVID-19 crisis. According to this data, in April 60% of the population expected to see a decrease in their income, and close to 40% of these believed that the decrease would be roughly 30%. In June, the expectations were somewhat more positive, with 42% of the population expecting to see a decrease in their income, 25% of them anticipating a decrease of 30%. Going back to the structure of the actual paid salaries, such an expectation means the possibility that income that is already below the median salary will be pushed further down to the level of the minimum wage or slightly above it, i.e. the undeclared share of the salary, if the employee used to receive it, may be cut or abolished altogether. Any of the above scenarios, should they actually happen, would have a major adverse impact on the living standards of the affected households.

Graph 14. The perception of the impact of the COVID-19 crisis on financial standing in April

| Income will increase by 10% | 2 |
| Income will increase by 20% | 1 |
| Income will increase by 30% or more | 1 |
| Income will increase (SUM+) | 4 |
| **NO IMPACT** | 30 |
| **INCOME WILL DECREASE (SUM-)** | 60 |
| Income will decrease by 10% | 9 |
| Income will decrease by 20% | 13 |
| Income will decrease by 30% or more | 38 |
| Don’t know / Refuses to answer | 7 |

Source: The Rapid Social Impact Assessment of the COVID-19 Outbreak in Montenegro, UN.

Graph 15. Perceptions about the financial situation in June

| Income will increase by 10% | 3 |
| Income will increase by 20% | 2 |
| Income will increase by 30% or more | 2 |
| INCOME WILL INCREASE (SUM+) | 7 |
| **NO IMPACT** | 42 |
| **INCOME WILL DECREASE (SUM-)** | 42 |
| Income will decrease by 10% | 7 |
| Income will decrease by 20% | 9 |
| Income will decrease by 30% or more | 25 |
| Don’t know / Refuses to answer | 10 |

Source: Ipsos – Rapid Social Impact Assessment, June 2020, commissioned by UN

Also, 15% of respondents in April and 18% in June pointed to lower regular income from salaries, while 25% of respondents in April reported lower other work-related income. This can immediately be associated with a decrease in future demand, since it refers to a decrease in informal income. Additionally, 52% of respondents report having money at their disposal for relevant household needs for a period ranging between two weeks and a month. After adding those with a shorter horizon, the aggregate figure is as high as 70%. **About 70% of households can see themselves through for up to one month.**

Graph 16. Financial sustainability of households (in %)

| Source: Ipsos – Rapid Social Impact Assessment, June 2020, commissioned by UN |

The risk of poverty is considerable given some announcements from previous surveys saying that after the first 10%, an additional nearly 20% of companies are considering downsizing. Already during the outbreak, 20% of respondents reported either not receiving a salary or losing their job, while 22% of those reporting incomes from work were not socially insured. The World Bank estimates that the crisis could push the poverty rate up by between 1.5 and 3 percentage points, depending on how long it will last, and thus revert back to the levels from 2015 or even 2013.**45**. This percentage could go up for the duration of the crisis, and particularly given that undeclared workers are not eligible for subsidies, the social consequences will be even graver, as illustrated by the threefold increase in the number of applications for assistance, and that comes from the southern region, which is particularly interesting. On top of this, a considerable share of respondents report a lower ability to pay regular household costs, such as overheads (20 pp less), due loan repayments (26 pp less), education expenses (16 pp less), and rent (10 pp less).

**Impact of COVID-19 on the economic empowerment of women**

It is estimated that in Montenegro, prior to the COVID-19 pandemic, 45% of the population was active in the labour market (27% in the private sector, and 18% in the public sector), and given the employment status of women, 40% of women were employed. Of all the employed women before the COVID-19 pandemic, 25% worked in the private sector, and 15% in the public sector. In September, women accounted for 38% of total employment, one-quarter of them working in retail, 21% in administrative jobs, and 20% in the public sector. During the pandemic almost all women entrepreneurs saw some restrictions to their operations, apart from entrepreneurs in tourism and administration who had the opportunity of working from home, but with a reduced volume of work. In addition, women working in the health sector were very active, but highlighted improper working conditions.

When it comes to the changes that employed women experienced at work during the COVID-19 crisis, slightly more than one-third of them (35%) were put on paid leave, 31% worked short hours, while slightly under 25% had salary cuts. On the other hand, 10% of employed women had a 10% pay rise. Moreover, 82% of currently employed women or women who were employed before the pandemic, as well as 79% of currently employed women who have had some change in their employment status during the crisis, had social and pension insurance during COVID-19. Almost half of the respondents (47%) reported that the pandemic did affect their personal sources of income, gains from property, investment or savings. Two out of five women in Montenegro faced financial difficulties, such as the payment of rent and utility costs, while 38% of women reported challenges in terms of reduced financial capacity to cover basic living costs such as food or hygiene supplies.

Nearly 20% of women reported that they had asked friends and family for financial support in order to overcome financial difficulties. During the pandemic 36% of women reported a reduction in or complete absence of access to health services.

Graph 17. Salary reduction for the total employed populations due to the COVID-19 pandemic (in %)

Source: Ipsos – Consequences of COVID-19 on women’s and men’s economic empowerment, May 2020 and September 2020, commissioned by UNDP and UN Women

During the pandemic, 10% of the overall employed population experienced salary cuts, of which most work in the private sector. One-third had a salary reduction of between 21% and 40%, while almost 15% did not have any income. Fifteen percent of employees were on unpaid leave.

Graph 18. Salary received by the total population before and during COVID-19 (in %)

Source: Ipsos – Consequences of COVID-19 on women’s and men’s economic empowerment, May 2020 and September 2020, commissioned by UNDP and UN Women

It is noteworthy that among the employees who experienced salary cuts of between 41% and 60%, there is quite a high share of women. Also, it has been noted that in the sectors of tourism, services, and transport salaries were more frequently not paid during the observed period.
The qualitative part of the ‘Care Economy and Women Empowerment’ survey indicated the specific challenges that women entrepreneurs are facing, depending on the economic sector in which they operate and confirmed the need to focus specific attention to such sectors when designing the next set of economic response measures. Thus, for instance, women entrepreneurs in the sphere of tourism and education have faced significantly reduced business and therefore irreparable losses that have caused reduced liquidity, an inability to service commitments including the renting of business premises. Bearing in mind that entrepreneurial activity in the spheres of tourism and education is highly conditioned by cyclical business developments, economic measures need to be adjusted to those dynamics and entrepreneurial needs. Women entrepreneurs report that reduced salaries in this period confirm the practice of introducing the “minimum wage approach” for workers by default, which requires special attention in the long run and adequate social and economic measures to retain the employees and preserve the right to decent work. At the same time, the qualitative part of the survey indicates that a certain level of women’s economic activities survived during the pandemic, such as financial and legal services, or other services, such as beauticians. Women entrepreneurs in these sectors report a significant reduction in income and the fact that they have not managed to regain the pre-COVID-19 level of income. Hence, the economic policy measures should take into account the specificities of such businesses in order to ensure the same economic conditions in the long run.

### Budget support measures and IDF support

The Programme of Measures has achieved the following results: the new e-service “Subsidy Allocation Programme” at the Tax Administrations web portal https://eprijave.tax.gov.me/TaxisPortal for submitting applications was launched on 1 May 2020; subsidies have been paid for over 64,000 workers at a gross amount of €33.2 million by the end of July. The announced extension of subsidy payment depending on the epidemiological situation in specific municipalities, according to the “traffic light” methodology, is bound to make this amount considerably bigger. In addition, by 30 June 2020, the IDF had approved 397 loans (1,109 applications in total, regardless of their validity or eligibility) loans worth in total €73.4 million and defined 836 moratoriums on previously approved loans worth €160.7 million. Thus, the support from these two sources, before the third package was introduced, was at a level of about 2.5% of GDP excluding the IDF moratorium and, with the anticipated support to the agriculture sector and with additional subsidies for affected sectors, these sources combined would result in support of about 4% of GDP. At the same time, payroll taxes for almost 10,000 employees, amounting to over €45.1 million, were deferred.

According to the survey conducted by UNDP Montenegro, 96% of companies have heard of and 61% applied for some form of support introduced by the government. In general, the measures introduced were positively assessed by the companies, with the subsidies for employee earnings being most positively appraised. It was perceived as very effective by half of all businesses in Montenegro (52%) during the first survey, and in the second survey by as many as 89% of companies, while fiscal facilities, i.e. tax deferrals, were perceived as very effective by 27% of respondents in the first survey, and by 8% in the second. In general, the share of those who perceive subsidies for employee earnings as very effective decreased from 52% to 38%, probably as a result of higher expectations regarding the subsidy amount; similarly, fiscal facilities were...
perceived as effective by 63% of respondents in the first survey, and by 53% in the second; tax
deferrals were seen as effective by 58% of respondents in the first survey, and by 48% in the
second, caused by the expiry of the moratorium; while loans with subsidized interest rates are
seen as an effective solution by 51% of respondents now, compared to the previous survey
when it stood at 60%.

Graph 19. – The type of measures companies applied for or are currently using (in %)

<table>
<thead>
<tr>
<th>Measure</th>
<th>First Survey</th>
<th>Second Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage subsidies</td>
<td>89%</td>
<td>80%</td>
</tr>
<tr>
<td>Deferral of credit payments, suspension of interest payments, or rollover of debt</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Fiscal exemptions of reductions</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Tax deferral</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Access to new loans</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Loans with subsidized interest rates</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Deferral of rent, mortgage, or utilities</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

Graph 20. Expected stronger support in the upcoming period (in %)

<table>
<thead>
<tr>
<th>Measure</th>
<th>First Survey</th>
<th>Second Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest-free loans with favourable grace periods</td>
<td>53%</td>
<td>45%</td>
</tr>
<tr>
<td>VAT rate reduction</td>
<td>45%</td>
<td>35%</td>
</tr>
<tr>
<td>Reduction of pay-roll taxes</td>
<td>43%</td>
<td>35%</td>
</tr>
<tr>
<td>Wage subsidies</td>
<td>38%</td>
<td>30%</td>
</tr>
<tr>
<td>Fiscal exemptions or reductions</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>Loans with subsidized interest rates</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Deferral of credit payments, suspension of interest payments, or rollover of debt</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Tax deferral</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Access to new loans</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Deferral of rent, mortgage, or utilities</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Cash transfers</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>None</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP.

On the other hand, according to the survey carried out by the Montenegrin Employers’ Federation
in partnership with the ILO and EBRD in May, 45% of businesses believe that the announced
economic policy measures partly meet their most urgent needs, while 35% believe this is not
the case. On the other hand, 13% businesses believe that the announced measures do meet
their most urgent needs (5% responding affirmatively, and 8% to a significant degree). A total
of 7% of respondents are not familiar with the economic policy measures, which is interesting
considering that the topic was very much in the public eye.49

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49 It should be borne in mind that the timing of the survey was before the subsidies for employee earnings but following the measures to foster liquidity. By all means, it would be helpful to do a similar survey after a while; nevertheless, the data, as it is, already indicates great expectations for continuing with the measures to support liquidity, as well as solvency.
More than half of the companies believe in their future development, while 73% are either not convinced (33%) or do not have a clear view (40%) regarding the future development of the macroeconomic environment. There is a significant decrease, however, in the share of those who are convinced in the future development of the macroeconomic environment (down to 27% from 38% in the previous survey). The share of companies that expect to see a reduction in their income in the coming three months, compared to the same period in 2019, also increased, from 68% to 78%. Moreover, 16% of companies expect a decrease in the number of full-time employees, which is more than in the first survey (7%). The number of those anticipating a decrease in investment also rose from 34% to 50%. Should such trends persist, they suggest a slower recovery than was initially expected.

Graph 21. Anticipated reduction in revenues in the coming three months compared to the same period last year (in %)

Graph 22. Expected change in the number of employees in the coming 3 months compared to the same period last year (in %)

Graph 23. Expected change in investment levels in the coming 3 months compared to the same period last year (in %)

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

Companies from the southern region are more likely to report uncertainties about both their own future development and the development of the macroeconomic environment. In addition, they are significantly more likely to anticipate a decrease in their income and investments, and the downsizing of staff. Asked what could be done about the long-term development, more than three out of five
companies suggest that cooperation with financial institutions that would provide companies with grants, concessionary loans, and special credit lines for MSMEs, while companies from the north are significantly more likely to propose a social policy that would support employment and the resumption of work and production.

Graph 24. Proposals for long-term development (in %)

Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP.

Additional liquidity support and measures to aid the collection of receivables are obviously needed, regardless of whether they take the form of a guarantee fund, a robust factoring scheme, more tax reliefs or other models designed together with commercial banks. Given the nature of all the government measures, they primarily target companies in the formal economy and declared workers. Given that many workers are not declared and not covered by social assistance programmes targeting the current poor, they will also be in need of support. These specificities of the local labour market should be taken into account when applying measures in response to the crisis and setting the eligibility criteria.
MEF survey with the support of the ILO and in partnership with the EBRD

It is worth mentioning, however, that the Montenegrin Employer Federation (MEF), in cooperation with the International Labour Organization (ILO) and the European Bank for Reconstruction and Development (EBRD), also conducted a survey during the month of April that yields interesting data. The survey dealt with the impact of the COVID-19 crisis on businesses’ operations, financial situation, and labour relations. Generally speaking, the most commonly reported problems faced by the respondent businesses include a lack of turnover (50%), adversities faced by business partners which prevent them from operating smoothly (47%), the demand for products or services (40%), and suspension of operations as a result of the measures imposed by the National Coordination Body (40%).

Smaller businesses saw the suspension of operations as a particular problem, while bigger companies suffered due to the drop in demand and turnover. COVID-19 had a substantial impact on their operations, since 77% of companies either suspended their operations fully or had difficulties maintaining operations. Less than one-quarter, or 23%, of companies were fully operational, and 13% of them organized working from home, which is illustrative of their resilience to shocks of this kind. The experiences of such companies may be valuable in the context of a deeper change in business practices in Montenegro. In the case of companies with up to 10 employees, in 53% of cases they had to suspend their operations, while the same is true for 31% of companies employing between 11 and 100 workers. Companies with more than 100 workers had less difficulty in adapting to the new circumstances; thus, the survey shows that 14% of them had to suspend their operations, while 29% were able to arrange for distance working. The data for companies with more than 250 workers is somewhat more favourable. When asked about the ability to sustain their operations in case of prolonged restrictions, 29% reported that their business could survive for up to two months, while 28% report between two and three months. At the same time, 33% of micro companies believe they can survive for up to two months, while, interestingly, companies with a workforce of between 101 and 250 employees believe they can survive for between two and three months. It is only big companies which believe that they can survive for a considerably longer period. Another interesting finding is that 58% of companies implemented certain changes in response to the COVID-19 outbreak, where over 70% is accounted for by companies with more than 100 workers or more than 250 workers. Among micro business, 51% made no changes. When it comes to business continuity, all big companies with more than 250 workers have continuity plans in place. Surprisingly, though, 77% of companies with 11 to 100 workers, and 79% of companies with 100 to 250 workers have no such plans; thus, this could be an area for further improvement of their operations with the aim of developing resilience to emergences and crises.

Thirty percent of respondents reported that they would need between one and three months to resume their operations, while close to one-quarter assess they would need between three and six months or more than six months to do so. The total of 4% of respondents are considering the temporary or permanent winding up of their business. Another important issue to consider while assessing the possibilities for the recovery of the SME sector is the availability financing options. Over 50% respondents reported not having such options available, while 16% reported having cash available. Ten percent of businesses downsized their staff due to the COVID-19 crisis; by sector, the largest share of dismissals was present in retail (16%), tourism (15%), and hospitality businesses (11%). It should be mentioned that this question in the questionnaire actually referred to the non-extension of time-bound contracts. What is disconcerting, however, is that 19% of respondents plan to downsize in the coming period, primarily businesses with up to 10 and up to 100 workers, represented by 17% and 23%, respectively.
The most frequent measures taken by businesses in response to the COVID-19 crisis which concern labour include the introduction of working from home (32%), working short hours (26%), and the use of paid annual leave (21%). The percentage of businesses that introduced distant working was proportional to their size in terms of the workforce. Thus, it was least present among micro companies (28%), and most prevalent among big businesses (80%). The second most common response measure (working short hours), shows the same pattern: it was least present among micro businesses (18%), and most present among big companies (47%). In the case of bigger companies, a substantial share of workers used their paid annual leave, as follows: 48% in businesses with more than 100 workers, and 60% in companies with more than 250 workers.

**Employers’ expectations**

As regards the findings of the UNDP survey concerning employers’ expectations, some changes were recorded from one survey to the next. During the first survey as many as 47% reported that they expected to see continued subsidies for employee earnings, 27% expected continued fiscal relief and reductions, 26% expected access to new loans, and 21% access to new loans with subsidized interest rates; while in the second survey 53% expected interest-free loans, 45% expected a reduced VAT rate and 43% expected reduced payroll taxes. Such findings are quite to be expected, with the shift from short-term relief towards medium-to-long-term interventions. Generally, businesses are tending to be pessimistic about their operations over the coming 2 years, which is not necessarily a bad thing, since a certain improvement might return optimism faster and enable a faster recovery. Interestingly, the expectations are mostly focused on the government (grants, etc.) or the financial sector, whereas there are no measures expected from the business community, which is precisely where the space for economic growth and development should be seen.

**Survey on the impact of COVID-19 on the culture sector**

The business activities of companies and individuals in the culture sector account for 4.62% of GDP in Montenegro, which shows that culture makes a substantial contribution to the economy. The culture and creative sectors have developed rapidly over the last decade. In Montenegro in 2017, a total of 4.4% of employment was linked with culture (compared to 5.4% of the global workforce). According to the respondents, culture institutions have not yet been forced to downsize staff (1,122), by opting to adapt to the new circumstances by modifying the staff functions to suit the current needs. Thus, even those with time-bound contracts (109) and volunteers (43) have remained hired. However, they have sustained a loss of income due to lost revenues from admission fees, souvenir shops, cafés, and other services. Conversely, the culture and creative industries were severely hit. Among the most threatened are those that depend on live performances and, to a large extent, on culture tourism, that are heavily affected by movement restrictions, the limited possibility for travel, and the travel and tourism industry coming to a halt. A large share of respondents’ income comes from the film industry (60%), publishing (20%), design (17%), the music industry (9%), the media (9%), and architecture (7%). Most of them have seen a reduced volume of activity, resulting in less income. However, only 14% have had to dismiss employees. This may be linked with the fact that over 40% of businesses have one employee only (self-employed).

The COVID-19 pandemic, however, has spurred the digitalization of cultural content, often without prior preparations. Almost 65% of respondents report adapting to the new circumstances by going online: they offered culture content online in the form of recordings (theatre plays, performances) and digitalized material (libraries, archives), virtual tours (museums), as well as live performances (concerts, book readings).

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Although the survey across the economy does not show any trend of increased use of digital platforms, this finding probably differs from one sector to another. The sector of culture is naturally inclined towards creativity. The Ministry of Culture, in cooperation with UNDP, launched the “Let’s Live Culture” platform in June 2019, and at the time of the COVID-19 outbreak they launched the Let’s Live Culture #stayathome campaign aimed at offering to Montenegrin citizens, during the days of social isolation, cultural and arts contents using communication channels which are accessible at home. Thus, since 23 March, the citizens of Montenegro have had the opportunity every evening from 20:00 till midnight to watch on TVCG productions by Montenegrin institutions in a form adapted for being aired on TV. Viewers, thus, were able to watch the best plays produced by the Montenegrin National Theatre and the Zetski dom, a selection of full-length features produced by Montenegrin authors, archive films and documentaries from the collection of the Montenegrin Film Archives, concerts by the Montenegrin Symphonic Orchestra, virtual tours through the displays at the Centre of Contemporary Arts, numerous feature stories and recordings from culture events, interviews, discussions, etc. Within the above platform available at www.culture.co.me, the Ministry of Culture, in cooperation with the Fine Arts Association, launched the Online Art Market enabling artists in classical and applied arts, as well as other creative industry stakeholders, better visibility and a simple channel for marketing their products and works of art, as well as an online purchase and payment system.

The downturn in tourism will, however, have a strong bearing on the culture sector, primarily on heritage, museums, events and cultural productions, particularly in terms of turnover. This will probably have a strong impact on their revenues from admission fees, souvenir shops, cafés, and other services. Therefore, this sector of the economy should also receive targeted support, and could in turn generate GDP growth if properly tapped into. Opening up the international film production market, for instance, is one of the ways to boost economic growth of several industries in one go.

It is a similar story with the Montenegrin Employers’ Federation survey. It revealed some attitudes among respondents, such as the necessity of speeding up the collection of receivables for completed transactions; companies whose operations are partially made possible, but whose drop in income is huge, are to be treated as companies from closed industries when applying for subsidies; also making those companies that are defaulting on their taxes and contribution payments eligible for liquidity loans. All the measures have to be aimed at maintaining business liquidity; provide “cheap” money and the companies will survive with lesser consequences with minimal or no downsizing of the workforce; all measures should have a long-term perspective, given the nature of the tourist season; VAT payment upon collecting invoices.

**Key observations**

By analysing the data obtained through the surveys it may be concluded that the consequences of limiting economic activity with the aim of containing the spread of the novel coronavirus have been significant, both in economic and in social terms. It is clear that government support is anticipated. Such support is properly structured with liquidity support measures in the first instance, then followed by support to maintain business operations through subsidies, which is quite considerable given the growing trends of informality and unemployment that the survey refers to, while the third package of economic policy measures should focus on economic activity in the longer run, i.e. business solvency. It should also include areas not directly related to the current consequences on SME operations, but which could build their resilience to similar shocks in the long run. Nonetheless, the fact that the support measures are now perceived as less effective than in the first survey reflects the concerns of SMEs about their medium-term business prospects.
It is evident that it is not so much the structure of the support measures, but rather their scope and timing that are the subject of varying perceptions. The newly unemployed registered with the National Employment Office, and the worsening in the number and structure of employee earnings registered by the Tax Administration, then the plan for a further decrease in employment may all significantly delay recovery. In the short term, apart from the dwindling aggregate demand, businesses report the problems of reduced demand and collecting receivables as some of the key issues. Thus, apart from increasing demand, specific measures should also go towards creating a more predictable business environment, which requires setting a sustainable guarantee scheme in cooperation with commercial banks, as well as fostering factoring, which can help with the collection of receivables. The exacerbation of economic difficulties due to a worse-performing tourist season may emphasize the need to seek alternative and temporary forms of liquidity (new models of payment, specific types of bonds relying on experiences with old foreign currency deposits or debt to pensioners, even digital currency). A large number of households are fully dependent on receiving salaries regularly, while a large share of employed people have not been formally declared. Nevertheless, the flexibility of a small economy is an asset, but only if the system is efficient. Thus, if the European and global economy gets back on track and starts operating as usual, this could significantly assist a gradual economic recovery, starting as early as next year.

Thus, it is necessary to additionally consider certain measures in the coming six months, given the financially modest tourist season and the level of revenues to be generated. The impact of the COVID-19 crisis is prolonged and will affect the economy in the subsequent quarters as well. The key is to start early on preparations for the coming summer tourist season, where a predictable border opening policy will play a critical role. The experience with opening borders for passengers who have proof of not being infected with COVID-19 may be precious as we move forward to make the coming season much more successful.

The employment support measures could consider support for the tourist industry to meet health and hygiene requirements, but also other types of measures, such as afforestation, which have an overall positive social impact while mitigating the increase in poverty. Alongside the short-term measures aimed at resuming business activities and curbing the adverse economic trends seen in the increasing unemployment and poverty rates, different medium- and long-term measures should also be pursued towards changing patterns of behaviour, relying on a green transition and digital transformation, with the aim of building sustained resilience of the Montenegrin economy. It is worrying that a relatively small share of companies have resorted to digital innovations over this period, and that a relatively small share of companies plan to invest in and redefine their business models in that direction. This is also an area for action that should be used, thus raising the profile of the intended Digital Transformation Strategy. These measures should not only include ones that directly affect companies. The improvement of the macroeconomic framework, such as a stable public finance environment (the regular performance of budget outlays in exigent circumstances is paramount, hence the need to come up with models that provide reserve funds), a better administrative environment, reducing the tax burden or building stabilizers into the system that could absorb the shock of similar situations in the future would be the cornerstones of such a policy.

It is vital to understand the contribution of areas such as education. Thus, programmes focusing on further skill-building for teachers and further elaboration of digital forms of instruction are significant for making a gradual transition towards new business practices, which will boost productivity in the long run. This would foster the process of further restructuring and diversification of the economy. Each crisis comes with uncertainties about current and future operations, and thus affects future investment plans. Support for business development planning, the definition of various tools for accessing finance, and deepening the financial system (stock exchange reform) could be of help here. At the same time, they need to be seen against the backdrop of modern European trends of a green transition and digital transformation, to be further elaborated below, as possibilities for rebalancing Montenegro’s economy.
The possibilities offered by improved regional cooperation should not be overlooked. This does not only mean the free flow of goods, but also the possibilities for countries to rationalize the procurement of medical equipment and supplies, but also to resolve the issue of strategic reserves of certain commodities.

V. A GREEN TRANSITION (DECARBONIZATION) AND DIGITAL TRANSFORMATION AS THE BASIS FOR FUTURE SUSTAINABLE ECONOMIC GROWTH AND DEVELOPMENT

As already pointed out, since restoring its independence Montenegro has clearly articulated its aspirations: building a modern political system based on the rule of law and EU and NATO membership, with regional cooperation and participation in numerous international organizations, are the political goals being pursued. The long-term economic goal, following the transition from the socialist economic and social system, is to shape a competitive system with the potential for long-term sustainable development. The COVID-19 pandemic has brought the second transition based on decarbonization and a green transition to the fore. This process, supported by and interlinked with digital transformation, may prove to be the basis for long-term sustainable growth and development. At the same time, it may be conducive to building resilience to external economic shocks.

Since accession to the EU is Montenegro’s strategic aspiration, the EU’s newly defined strategic framework, presented by the European Commission in December 2019 as the European Green Deal, should be factored in. This plan sets higher climate action ambitions, calls for increased shares of clean energy and proper availability and promotion of energy efficiency in construction and equipment, stressing at the same time the need to develop clean industries and foster a circular economy, smart mobility, and sustainable agriculture, preserve biodiversity, and aim for zero pollution. The deal also envisages the need for additional financing in the region of 1.5% GDP and so-called transition support mechanisms for economies further away from the goal. In addition, national budgets are in need of “greening”, the tax policy needs to be adjusted, additional research and innovation fostered, and education and training provided.52

In order to analyse to what extent today’s economic policy is underpinned by a green transition and digital transformation, the structure of the Montenegrin economy needs to be understood, together with the main development documents that set out the key goals and priority measures. Our attention is focused on several selected documents: the Smart Specialization Strategy 2019–2024, the Economic Reform Programme 2020–2022, the Industrial Policy 2019–2024, the Agriculture Development Strategy 2015–2020, etc.

As stated in the draft Economic Reform Programme 2020–2022, Montenegro is a NATO member and a country well advanced in the negotiations for EU accession. So far, a total of 32 out of 33 negotiation chapters have been opened, and three have been provisionally closed. Numerous activities are ongoing in line with the EU Accession Programme, updated annually. Montenegro is playing a very active role in fostering regional cooperation, which was reconfirmed in the early days of the COVID-19 crisis. Regional cooperation embodied in the Berlin Process, as an important accompaniment to the EU accession negotiations, through the implementation of the Connectivity Agenda and the Multi-Annual Action Plan (MAP) for a Regional Economic Area (REA) in the Western Balkans Six (WB) in the CEFTA legal framework, is contributing to the economic development of the region. Also, Montenegro as a member of the World Trade Organization (WTO) is regularly meeting its commitments undertaken under the multilateral trade system and the WTO agreements stemming from the multilateral trade system and agreements within the WTO with the aim of facilitating trade and increasing overall competitiveness.

Montenegro’s strategic development goal articulated in the Economic Reform Programme is sustainable and inclusive growth that will help bridge the development gap with the EU average and increase the quality of life of its citizens. As highlighted in the document, the above goal may be accomplished through economic policy measures aimed at reinforcing the country’s macroeconomic stability, particularly public finance consolidation and increasing the stability of the financial sector. At the same time, it is vital to have economic policy measures aimed at addressing structural issues in the economy, i.e. removing key obstacles for improving competitiveness and increasing potential economic growth in the medium and long run. This is even more important in the case of Montenegro as a small euroized economy in which fiscal policy is the key instrument of its economic policy.

After the Great Recession in 2009, which was followed by the slowing down of the European economy and recession in 2012 (double dip), the Montenegrin economy recorded solid growth rates reaching as high as 5.1% in 2018 as shown in Graph 1. In both cases of recession, in 2009 and in 2012, where the contraction of the economy was −5.8% and 2.5% respectively, GDP recovered relatively quickly. In the first case, it took two years, and in the latter case, the GDP growth had already made up for the lost amounts in 2013. It is important to stress in both cases the resilience of SMEs that managed, together with the FDI inflow, to sustain economic growth, while the banking sector was taking time to consolidate. Nevertheless, despite the solid growth rates, it should be noted that the level of GDP is still only 50% of the EU average based on purchasing power, while according to the standard of actual consumption expressed in terms of purchasing power, it is 60% of the EU average. This indicates that the process of catching up with income levels has been relatively slow. Even the relatively small growth of the EU average level of GDP, albeit from a higher basis, leaves this income gap quite sizeable.

If we analyse the newly created value of the Montenegrin economy in constant prices and compare the items with the more pronounced impact between 2008 and 2019, the result is as follows:

Table 10. Gross added value in constant prices

<table>
<thead>
<tr>
<th>Activity classification</th>
<th>2008</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>7.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Processing industry</td>
<td>4.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Construction</td>
<td>6.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Trade</td>
<td>13.6</td>
<td>12.6</td>
</tr>
<tr>
<td>Board and lodging</td>
<td>4.2</td>
<td>7.7</td>
</tr>
<tr>
<td>Transport and warehousing</td>
<td>3.7</td>
<td>4.2</td>
</tr>
<tr>
<td>Information and communication</td>
<td>5.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Property market</td>
<td>6.9</td>
<td>5.6</td>
</tr>
<tr>
<td>State administration</td>
<td>7.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Education</td>
<td>3.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Health and social protection</td>
<td>3</td>
<td>3.5</td>
</tr>
<tr>
<td>Art, entertainment, leisure</td>
<td>0.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Taxes minus subsidies</td>
<td>20.5</td>
<td>18.1</td>
</tr>
</tbody>
</table>

Source: MONSTAT (www.monstat.org).

54 For more details please refer to the MONSTAT website (www.monstat.org).
56 Industrial production is presented here solely through the processing industry. Several positions together increase the overall sector, but the intention was to observe the trends of key individual items.
Or broken down by the final consumption items:

Table 11. GDP breakdown – consumption method (in constant prices)

<table>
<thead>
<tr>
<th>Consumption categories</th>
<th>2008</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal household consumption</td>
<td>89.9</td>
<td>72.7</td>
</tr>
<tr>
<td>Gross investments in fixed assets</td>
<td>39.2</td>
<td>27.6</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>39.5</td>
<td>43.4</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>92.8</td>
<td>65.7</td>
</tr>
</tbody>
</table>

Source: MONSTAT (www.monstat.org).

Although the structure of the newly produced value shows a similar distribution, certain interesting tendencies are also noticeable. Trade still makes up the greatest individual share of the economy with 12.6%. However, it is noticeable that over a 10-year period tourism and hospitality saw a significant increase. Such growth pushed up this sector’s share from 4.2% to 7.7%, which ranks it second in terms of its GDP share. At the same time, agriculture saw a decline from 7.5% to 6.3%, the property market from 6.9% to 5.6%, and construction down from 6.7% to 6.2%. There is an evident increase in education and in health and social protection, increasing cumulatively from 6.2% to 7.2% while the share of the state administration decreased from 7.1% to 6.6%. The decline in information and communication from 5.4% down to 3.7% is quite interesting, though, but also growth concerning arts, entertainment and leisure from 0.6% to 1.6%, which may have to do with tourism’s increased share, but also with greater interest in fitness centres.

Looking at the trends in employment from administrative sources, according to official MONSTAT data, interestingly enough, over the previous 10 years from 2010 to 2019 the number of employed people increased by some 40,000, but the growth is uneven. While in 2010 there were on average 161,742 employed people, in 2019 the average figure was 203,545; the breakdown by sector, however, shows that, for example, in agriculture and the processing industry the overall number of workers reduced by 4,500, while an increase is evident in the construction industry of over 6,000, in tourism and hospitality of over 7,000, and in administrative and ancillary services there is a rise of almost 10,000. In addition, the state administration, education, and health and social protection, as the bulk of the public sector, increased by approximately 7,000.

Such a distribution hides, however, a high indirect share of tourism in generated demand, and accordingly an increase in employment in the sectors closely linked with tourism (construction and reconstruction of new capacities and a number of services). Although the increase up to 7.7% of GDP is significant in itself, numerous other activities are directly linked with this sector, because the last 10 years have seen a substantial increase in the number of foreign arrivals, which essentially pushes the exports of goods and services up (e.g. taxi services or agricultural produce offered to foreign clients). Thus, it is estimated that tourism accounts from more than 20% of GDP, as mentioned earlier. Moreover, regardless of the rebalancing of GDP in terms of consumption, personal household consumption is still very high at 72.7%.

All of the above indicates that the impact of the COVID-19 crisis on the economic system will be considerable. At the same time, given the main sectors that personal household consumption depends on, the disturbances may have a substantial impact in terms of increased unemployment or poverty rates of particularly affected groups.

58 Obviously, this also pushes imports up, because the whole generated demand cannot be satisfied locally. While the balance of trade in goods in 2014 was at the level of €2 billion, in 2018 it reached the level of €3 billion, with the trade balance increasing from €1.45 billion to €2.15 billion. Such a large disbalance is covered by the positive balance in services, as well as the FDI inflows, remittances, etc. Statistical Yearbook 2019, www.monstat.org.
The pandemic and social distancing may leave an impact on not only the economic aspect, but also the cultural and political aspects. The overall development model, not of this country only, may be brought into question and will be a matter of public debate. Something that used to be a proper development formula in the past may not be so any longer. The specificity of this crisis is its impact on both sides of the market - on supply and demand. Both sides are bound to recover slowly, because on one hand, people will have less money and will be more cautious regarding long-term investments, while the supply side will face problems, since many businesses will not survive, and some time will be required for their substitution.

As explained and analysed earlier in this report, the government launched some support mechanisms. However, the constrained fiscal space through an expected decline in tax revenues and, as a consequence, the increase of public debt at the end of 2020, should be borne in mind, since it will weigh the subsequent support programmes down.

Going back to the 2020–2022 Economic Reform Programme (ERP) presented in January 2020, immediately before the pandemic was declared, this document features base and lower-growth scenarios. Both scenarios reflect a gradual cooling off of the economy. According to the base scenario, economic growth would reach 3.4% this year, and 2.8% in 2021. From 2021, the state budget would move to a slight surplus, which would happen even in the lower-growth scenario, where the growth rates in 2020 and 2021 would be 1.4% and 1.5% respectively. In the coming years the public debt would decrease from the expected 72.3% at the end of 2020 to gradually reach the level of 60% of GDP. The expected employment growth in 2020 was projected at 1.2%, or 0.4% according to the more pessimistic scenario. Obviously, new estimates are in order, given the expected decline of GDP in 2020 and the increase in the budget deficit and in the public debt. In addition the 2021–2023 ERP exercise is an excellent opportunity to set the path of recovery based on the principles of a green economy and digital transformation, as the new mainstay of the development model, making linkages at the same time with sustainable development goals (SDGs) and the Smart Specialization Strategy (S3), discussed below.

A development model which combines, in a sustainable manner, social, economic, and environmental resources is not something that can be achieved overnight, but some strategic guidelines can be set already now. Let us not forget that human civilization is currently in the midst of two crises: the climate crisis that has already been present for a while, and the current public health crisis, which is anything but unexpected, because a possible pandemic was identified as one of the future challenges. Montenegro is already experiencing the consequences of the increase in global temperatures, and our life and socio-economic models may suffer.

Is a return to the old normal possible and in what timeframe? Have social distancing and new technologies already pushed future development towards an accelerated green transition and digital transformation? Practically ever since World War II, developed economies have grown by boosting credit growth. In the period preceding the crisis in late 2012, while borrowing by the private sector from the domestic banking system was at the level of 54% of GDP, the same indicator stood significantly above 200% for EU member states, such as the Netherlands, Spain, and Ireland. Moreover, at the end of 2012, loans to households and industry reached 63% of the level that they had been in late 2008, which was a dramatic decrease somewhat set off by the increase in public debt. It is beyond doubt that restoring credit support and opening new credit lines will be present in the post-crisis recovery of the lost new value, but it is a reasonable question whether this would be an adequate modus vivendi for the Montenegrin economy as we move forward, for instance until 2030, and if so, whether SDGs should play a more prominent role in programming actions. To that effect, the mapping of key value chains in reference to SDGs and the definition of new business indicators whose achievement should be both supported and monitored are only some of the

activities that could be carried out moving forward. At the same time, it would be an opportunity to
develop innovative financing programmes for such projects. FDI has been and will continue to be an
important driver of economic development, but the key to sustained recovery will be the inclination
of Montenegrin society to innovations!

Additionally, this is one of the key challenges if Montenegro wishes to avoid falling into the so-called
middle-income trap. Preparing a report on this issue, the chief economist at the EBRD identified eight
questions that decision makers should address to avoid long-term lagging behind. The COVID-19
crisis only adds to the significance of all of them.

- The “middle-income trap” is about rethinking a country’s economic development model
  rather than getting beyond a particular level of income. This puts innovation to the fore. This
  approach is underpinned by social optimism determining economic and social dynamics in
  a society.
- Successful middle-income transitions, such as South Korea’s, are relatively rare, but they are
  far more geographically diverse than commonly thought.
- Investment remains the key ingredient. In turn, productive investment requires good
  governance, strong skills, and quality infrastructure.
- In the past, middle-income transitions were possible without due attention to building social
  safety nets. In the future, this will change.
- Investment in infrastructure helps to improve the equality of opportunities.
- Firms in middle-income economies are less productive than their advanced economy
  counterparts. However, the relative productivity gap is greater for small firms than for large
  enterprises.
- Middle-income economies are high polluters, a reflection of the distorted incentives that
  firms often face; thus, a green transition becomes an opportunity for accelerated growth.
- Financial system diversification plays a major role, because relying on the banking sector
  alone favours traditional solutions and less risk, while stock market development means
  the development of other modalities of project financing, which is conducive to green jobs,
  digital transformation, and the like.

i. **Smart specialization and digital transformation**

Given the above, as well as the expectation that a green transition through decarbonization and
digital transformation could be the levers of the development model, it is worthwhile checking the
responses offered by the Smart Specialization Strategy 2019–2024. The document is based on the
European Commission’s document National/Regional Innovation Strategies for Smart Specialization
(RIS3) – Cohesion Policy 2014–2020. The strategic development vision, as propounded by the
Strategy, will be based on the increased competitiveness of the economy through smart, sustainable,
and inclusive growth.

A modernized and competitive state is based on **three key strategic directions**, as follows:

**A healthy Montenegro** is a centre of bio-medical development through new technologies,
production of medication, medicinal herbs, and organic food and with the provision of specialized
healthcare services (such as innovative and standard therapeutic and rehabilitation programmes)
as a final product, with a view to attracting a special group of patients and researchers from the
region and beyond.

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60 EBRD, 8 things you should know about middle-income transitions, 2019.
**A sustainable Montenegro** implies an ecologically aware and efficient economy from the point of view of resource use and preservation and inter-generational prosperity. As the most important resource of the country, space has to be utilized in a manner that will prevent its devastation. Development of the transport infrastructure and remediation of environmental “hotspots” have to rely on innovative solutions and new technologies.

**A digitalized Montenegro** and the development and use of ICT are decisive for economic development. This is underpinned by a better infrastructure, a digital economy, and information security. ICT is defined as a cross-cutting sector that provides information and technology support to other priority sectors.

The priorities stemming from such goals are as follows:

- renewable energy and energy efficiency;
- sustainable agriculture and food value chain;
- new materials and sustainable technologies;
- sustainable and health-related tourism; and
- ICT, as a cross-cutting sector, since it provides business and technological support to other priority sectors.

The Strategy also identifies the following main joint goals of development policies, determined by the interests linked with research and innovation:

1) Strengthening cooperation between academia and the private sector;
2) Enhancing access to international centres of knowledge;
3) Building human resources in research and innovation;
4) Strengthening the public research system;
5) Support for innovative activities in the private sector.

Given the above, the Smart Specialization Strategy in a way set the path for actions in the long run; hence, its consistent application could remove the middle-income trap, and rebalance the current Montenegrin development model. It is noteworthy that in designing the third package of measures intended for the industries affected by the pandemic, the government singled out this strategy as an important starting point for future efforts in striving for sustainable economic growth.

The value chains encompassing the strategic orientation towards implementing and fostering green transition and digital transformation have been selected. The concept of a healthy Montenegro and the link with health tourism become even more prominent in the context of the current pandemic and the severe blow that travel and tourism will sustain. Additionally, it is important that the strategy sees digital transformation not only as a prospective development opportunity for one sector, but more importantly as a basis for the success of other industries.

The digital transformation can indubitably additionally humanize the relation between a human being and his/her job, which in Montenegro’s case would mean the introduction of flexible working hours and working from home, and prove to be particularly important, given the lower labour activity of women and the additional options for the employment of women. People should be in a position to do as many jobs as possible in the least stressful conditions possible, and the size of Montenegro makes this possible, and in turn, this makes the labour market more flexible\(^6^2\). To a certain degree, this implies the adoption of new concepts and possibly the revision of labour legislation.

The COVID-19 pandemic has brought to the fore many aspects which are currently being underused. It is not necessary to be physically present at a meeting for it to have a satisfactory outcome; not

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every paper needs to be printed in order for someone to look at it, give comments, and approve; it is not necessary to go to a bank or a post office to make a payment. It is not even necessary to go to a shop to buy something, you can have it delivered to your doorstep.

The response to the pandemic has also shown that in near future overcrowded schools could be somewhat relieved in some places by introducing e-learning even in ordinary circumstances, and reposition the health system in the long run by improving the management of the resources it has at its disposal. The uncertainty regarding further development in the context of the COVID-19 pandemic imposes the need to improve the digital skills of teachers to respond more readily in the case of new problems with the delivery of teaching.

Digitalization in the time of COVID-19

a) Education

With the concept of distance learning #UciDoma that was introduced due to the epidemiological situation, the Ministry of Education actually put in place a system which, with certain modifications, can function even post-crisis. #UciDoma is a concept of distance learning which involved making recordings of a large number of lessons following the curriculum (over 500 lessons in 14 subject areas were recorded).

According to the survey conducted in late March by Ipsos with the support of UNICEF, more than two-thirds of respondents watched the distance learning TV channel “Uči doma” at least once in the first week of broadcasting, and most of them were satisfied with the quality. According to the same survey, one in two parents believe that the provision of teaching content online and on television should continue even after the crisis. This is all illustrative of the success of the distance learning #UčiDoma project, and in addition most parents are not worried that their children might lose their studying routine because of the lockdown of schools and preschools. Such findings and the fact that the distance learning initiative was quite successfully implemented in a very short period of time speak of the huge potential of the education system in Montenegro for a rapid transformation into an even more modern high-quality learning system for the digital age. In addition, all universities in Montenegro adapted to the new circumstances, making different platforms available, and replacing lectures in university rooms with virtual classrooms.

b) Public services

During the COVID-19 pandemic, Montenegro faced the “new reality”, changing rapidly the predominant habits of its citizens towards the increased use of e-Government services and digitalization, as proven by numerous studies, as well as certain services used in the public sector, i.e. in healthcare. The public administration data shows a 20% increase in the use of e-Government services. The Ministry for Public Administration data also shows a 25% increase in the number of applications sent by email for those services unavailable on the e-Government portal. Against the backdrop of the crisis, digitalization proved its usability even for those who prefer traditional methods of communication and work. Many processes have now become fully electronic. The COVID-19 crisis confirmed that prior digitalization efforts in Montenegro had put in place a sound and sustainable framework, both in legal terms, and in terms of infrastructure and applicability. It has also been confirmed that the Montenegrin public administration has usable good-quality e-services available, although members of the public failed to recognize them as useful and important before. This all testifies that digitalization is one of the most appropriate and best tools for economic restructuring and that it can accelerate the recovery.
The Smart Specialization Strategy also highlights the technological solutions whose use is on an upward trend. This increases transparency and efficiency, and reduces administrative barriers. A professional and effective public administration goes hand-in-hand with the rule of law, i.e. a rule-of-law culture is developed as the basis for economic and social development. To be able to achieve this goal, efforts should go into the digital upskilling of civil servants, in very much the same way as they have with teaching staff.

Blockchain is a technological solution which may prove to be the basis for numerous activities, from the land registry, notarization, to trading in shares and other securities. This is conducive to better access to capital for SMEs and to a new reviving of the stock exchange, which may be a realistic alternative to the banking sector in the green and innovative transition. Artificial intelligence, with the support of drones, may improve spatial planning or help increase yields in agriculture, and by extension make our produce more competitive. According to the forecasts up until 2030, the share of automation in agriculture, by replacing the jobs currently performed by people, could go up to 36%, while in tourism and hospitality services it could go up to 51%, or one in two jobs. A country that has identified these value chains as priorities must intensify the introduction of new technologies. It is necessary, however, to make use of blockchain technologies as soon as possible through proper legislative changes, based on comparative examples. In addition, accelerated implementation of the recently adopted Innovations Law and the Law on Incentives for Research and Innovations, together with the establishment of the Innovations Fund will further promote such orientations.

Tapping into resources further in an appropriate manner is critical. Spatial plans that preserve the land and the quality of life better are at the heart of long-term sustained development. It is only a high-quality tourist product and high margins that can spur GDP growth in the long run. The same goes for energy and transport, but also many other production and service sectors, such as the international film-making market with the aim of attracting international productions in the context of streaming services starting to generate enormous revenues. This is conducive to the concept of Sustainable Montenegro and the selected value chains, whereas in all instances and cases decarbonization remains the key task.

Numerous solutions will be possible; it will become even necessary to follow the public-private partnership (PPP) model, particularly in the context of a constrained budget and high levels of public debt, in many areas, including investment in infrastructure to ensure a high-speed internet connection to each and every village. In order for people to be motivated to carry out a significant proportion of their activities from rural areas, i.e. spend a substantial amount of time there, they will have to be able to work from there and not miss certain amenities which make up an integral part of the quality of life today. Thus, one of the solutions involves partnerships with telecom companies to put in place the preconditions for a 5G network. Additionally, Montenegro should not shy away from – on the contrary, it should take the lead, possibly even as a test environment for – innovative solutions, ranging from autonomous vehicles to, for instance, the application of 3D printers in various areas.

For low- and middle-income countries, support for rural areas is another important aspect, while it is believed that pure investment in research and development is less important, which is debatable. It is evident that governments are opting for different recovery policies in line with their priorities, but research shows that investing in a green transition brings larger benefits in the long run. Such a future orientation is fully aligned with the European Green Deal that the EU is already transposing to the Western Balkans. The recently promoted Economic and Investment Plan for the Western

64 UNDP, Human Development Report 2020, Robots are coming. Is Montenegro ready? draft - one of the recommendations is the necessity of more intensive investments in digital infrastructure.
Balkans\textsuperscript{66} allocates €9 billion for investments in the region under the IPA III framework, which is part of the new EU multi-annual budget. It is noteworthy that the funds are allocated to 10 flagship areas which, in addition to road and rail infrastructure, also include clean energy, energy efficiency, decarbonization and further digital transformation of the region. In addition, a guarantee mechanism is being developed which is expected to mobilize an additional €20 billion worth of projects, as well as a youth-related guarantee, whereby the whole programme encompasses all the key elements of sustainable development. These investments should be accompanied by further work on establishing the regional market through continued regional cooperation and strengthening the rule of law.

Given the smart specialization priority value chains, a brief presentation of the industrial, energy, and agricultural policies is in order, but also of tourism as a priority industry.

\section*{Industrial policy}

Further development of industry is one of the ways of diversifying the newly created value. The previous period, particularly transition, was characterized by deindustrialization (in 1990 industrial production accounted for 30\% of Montenegrin GDP, while in 2018 it accounted for 10\% of newly created value or 12.4\% of gross created value)\textsuperscript{67}. The sector of industry is composed of power generation, processing industries, ore and stone extraction, and water supply (according to the MONSTAT breakdown), while heavy industries, such as steel and aluminium production have undergone demanding restructuring to keep their production. Their share in exports of goods, where the processing industry accounts for 70\%, is still predominant. On the other hand, the fluctuations in the level of industrial production are a result of excessive dependence on power generation, so it is reasonable to expect efforts towards its further diversification. It is also noteworthy that, according to the 2015 data, the energy sector accounted for over 70\% of greenhouse gas (GHG) emissions\textsuperscript{68}. A specific segment well aligned both with the Smart Specialization Strategy and with green transition and decarbonization is the circular economy, or a processing industry based on circularity and assisted by digital transformation, which should be in the focus going forward.

Montenegro’s Industrial Policy 2019–2024, stemming from the Agenda 2030 SDGs, smart specialization, decarbonization, and the digital agenda, highlights the circular economy and the usage of modern technologies. It operates with four strategic goals:

\begin{itemize}
  \item An improved infrastructure and business environment for efficient industrial development;
  \item Improved financial instruments and investments in modernization;
  \item Fostering innovation, technology transfer, and entrepreneurship;
  \item Better market access.
\end{itemize}

It highlights that the added value of Montenegro’s development policy should be fast adaptation to changes, good policy coordination, setting and designing priorities to ensure consistency between the industrial policy and other complementary policies, relying on lessons learned and expanding the development framework to include an environment conducive to innovations, the digital economy, and the gradual introduction of a circular economy. Improving industrial production based on digital technologies and relying on comparative experiences should also be explored. The SWOT analysis done identifies the size and geographical location as the main strengths of the Montenegrin economy, while energy-inefficient equipment, obsolete technologies, lack of linkages with research centres, and an excessive dependency on imports are some of the main weaknesses. It is clear that


\textsuperscript{67} The Industrial Policy of Montenegro 2019–2024, the Ministry of the Economy, October 2019.

\textsuperscript{68} UNDP, Inception Report, Study and Roadmap for Green Business in Montenegro, 23 April 2020, draft.
any recommendations for the industrial policy should be aligned with smart specialization priority goals and value chains.

- **Energy policy**

Given the potentials, particularly regarding renewables, the energy policy is seen as one of the cornerstones of the development policy. At the same time, the energy policy is closely linked with the climate policy, and thus Montenegro is expected to draft the National Energy and Climate Plan by 2035 in line with the Energy Community guidelines.

Through its international commitments, Montenegro undertook to reduce its GHG emissions by at least 1,572 kt CO$_2$ eq, down to the level of 3,667 kt CO$_2$ eq or less by 2030, or by 30% compared to the base year 1990$^{69}$ (Paris Accord ratification, NDC). The updated GHG Inventory contains the new GHG inventories for 2016 and 2017, the recalculation of the earlier time series since 1990 and a general description of the measures that Montenegro formulated, approved, and implemented with the aim of the management and reduction of GHG emissions. As regards the energy sector, between 2017 and 2030 it is intended that GHG emissions will continue to be reduced through (i) energy efficiency measures, (ii) increasing shares of energy from renewables, (iii) modernization of power generation and distribution, and (iv) energy labelling and eco-design, without jeopardizing economic growth.

It should be borne in mind that the power generation breakdown is quite favourable since in 2018 the share of power generated from renewable sources amounted to 61.43%. The estimated share for 2019 was 56.67%, while the plan for 2020 was to have 61.87% power generated from renewable sources. In absolute terms, total power generated from renewables amounted to 2,300 GWh (8,280.00 TJ), the planned output for 2019 was 1,988.23 GWh (7,157.63 TJ) while the plan for 2020 was 2,137 GWh (7,693.20 TJ). With the putting into operation of the undersea interconnection cable between Montenegro and Italy, and the wind power plant (Možura) going on-grid, the structure was greatly enhanced. The share of solar power is still quite modest in Montenegro’s energy balance, which indicates the possibility for its increase in the future. Overall, the energy balance was quite balanced over the previous years. In 2019 the deficit was only 26.07 GWh, as a result of commissioning new generation plants, favourable hydrological conditions, and source diversification.$^{70}$ It is clear from the above that the energy policy is an important basis for a green transition, still largely untapped.

- **Sustainable agriculture**

Agriculture as a sector plays a very important role in social and economic development in Montenegro.$^{71}$ Its economic relevance is seen in its high contribution to GDP (over 7%, while in the EU it stands at below 2%). The contribution of agriculture to employment is even bigger, given that close to one-quarter of the total employment is accounted for by agricultural workers. In addition, agriculture has other important roles: it is a basis for the whole food value chain (the food industry and related sectors); it contributes to the development of tourism; it boosts the development of a number of other sectors (manufacturing equipment and machines), and is conducive to sustainable development and mitigating depopulation of rural areas; it helps combat poverty in rural areas and is important for preserving traditions and the overall cultural heritage of Montenegrin villages. The Smart Specialization Strategy has also identified many development opportunities offered by agriculture and the related value chain$^{72}$:

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69 2013 GHG Inventory: Total emissions without sinks in the base year 1990 were initially estimated at 5,238.52 Gg CO$_2$eq, thus by 2013 almost 40% of the emissions reduction had already been achieved. However, the revised baseline data refers to 6,685.19 CO$_2$eq, and thus by 2017 the total reduction stood at 27.5% and additional reduction of GHG emissions is needed by 2030. In the projections by 2030 the relative share of energy in total emissions is increasing. UNDP Financing Mechanism (PBP scheme) - Design and Implementation of Performance-Based Payment Schemes (PBPS) INTEGRAL REPORT, May 2020 Podgorica.

70 Montenegro Energy Balance for 2020 (Official Gazette of Montenegro 79/16).


72 The Ministry of Science, The Smart Specialization Strategy 2019–2024.
• job generation for various professionals;
• huge scope for embracing new knowledge and technologies in the whole food value chain;
• safe potential for growth and new value generation through sustainable use of local inputs;
• a wide range of local produce to improve the tourist offer;
• conditions conducive to organic production justify Montenegro's orientation towards the concept of an ecological state;
• a link between traditional production and innovative technologies;
• generation of by-products used as inputs for power generation;
• conservation of the environment, biodiversity, and landscapes.

The focus on sustainable agriculture could be one of the paths to be taken by Montenegro to mitigate the impact of COVID-19. Investing in sustainable agriculture through a green transition supported by digital transformation would constitute a reasonable investment, primarily because, in synergy with other sectors, it brings about social benefits (intangible and immeasurable services to the ecosystem). Agriculture is highly compatible with other priority sectors, particularly with tourism, as the driver of all forms of agro-tourism and health tourism, by offering traditional cuisine.\(^73\) Sustainable development of the sector mitigates adverse demographic trends, is conducive to balanced regional development, enables the inclusion of various groups and contributes to climate change mitigation. Given the natural resources available, the opportunities for organic production are excellent (a low level of fertilizer is used – up to 10 times less than the EU average), alongside the possibility of linking traditional with new technologies and intensifying production by applying modern and innovative technologies, which is in line with Montenegro’s orientations and its priorities set in the Smart Specialization Strategy. At the same time, care should be taken to avoid having higher GHG emissions with more investments in agriculture and food production.

\(\text{Tourism}\)

The Smart Specialization Strategy singled out tourism as a horizontal priority sector, while the Tourism Development Strategy recognizes numerous assets and opportunities in terms of tourist development.\(^74\) Some of the more significant ones include: a favourable climate and geographical location; a diverse offer in a small area; natural assets and beauty; cultural and historical heritage; hospitality of the local population; authentic food and drinks; an environment conducive to investments; political stability and good relations with neighbours; an appealing new destination close to major European capitals; growing international demand for nature-based tourism and new (underused) areas.\(^75\) All of the features stated above have made tourism increasingly important in Montenegro’s economic development. This is best illustrated through its share in GDP. According to MONSTAT, tourism and hospitality accounted for 4.2% of GDP in 2008, 7.1% in 2016, and 7.6% in 2018. As already emphasized, tourism accounts for a major share of Montenegro’s economy, but at the same time it is difficult to quantify in terms of its overall impact given its connection with all aspects of society, making its indirect contribution far greater.\(^76\) In any case, it is indisputable that tourism contributes to Montenegro’s overall economy much more than its direct share in GDP, particularly as there is still scope to calculate the uncaptured economy in this sector, although some progress in curbing informality in several sectors, tourism included, has been made over the last few years.

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\(^74\) The Ministry of Science, the Smart Specialization Strategy 2019–2024 with the accompanying Action Plan; July 2019.
\(^75\) The Ministry of Sustainable Development and Tourism, Montenegro’s Tourism Development Strategy until 2020.
\(^76\) Capturing the overall economic impacts of tourism can be achieved using the tourism satellite accounts (TSA) as a set of definitions and classifications integrated into tables. Given the significance of tourism to the overall economy and as a strategic priority, the TSA Pilot Compilation with 2009 data was carried out for the government. According to those calculations, the contribution of travel and tourism to GDP amounted to some 10% in 2009 compared to 6.2% from official statistics.
Montenegro is increasingly becoming a popular tourist destination, as confirmed by MONSTAT’s data about arrivals and overnight stays. Thus, in 2015 the total arrivals amounted to 1,713,109, which almost doubled in 2019 to 2,645,217, with overnight stays for those years of 11,054,947 and 14,455,920, respectively.\(^77\) In recent years tourist figures have seen two-digit annual growth rates, with the growth in 2019 compared to 2018 being as high as 20%. As regards the breakdown of arrivals, approximately 95% are international, and the rest are domestic visitors. On top of this, direct employment in tourism accounts for 7.6% of the total employment, and taking into account direct, indirect, and induced employment, it accounts for over 19% of the total employment in Montenegro.\(^78\)

In order to minimize impediments to the faster development of tourism, the ERP recognized the need for diversification of the tourist offer, as a continuation of the activities commenced over the previous period. This measure also works towards implementing the sixth recommendation by the EC, since it puts in place the assumptions for increasing participation in the labour market, particularly by young people, women, and low-skilled workers.\(^79\) The actions within this reform measure are implemented over a number of years within the framework of the following projects:

- Hiking and Biking;
- Panoramic Roads of Montenegro;
- All the Wonders of Montenegro; and
- Programme of Incentives (containing a number of sub-programmes).\(^80\)

The strategy for the development of agriculture and rural areas highlights the multifaceted link between agriculture and tourism. Reference is made to differentiation of the tourist offer to tap into other tourist niches, such as nature-based tourism, rural tourism, and culture tourism, while reducing the seasonality of Montenegro’s tourist sector.

In the context of GHG emission reduction policies, in the business-as-usual scenario in 2020 the baseline values from 1990 will increase by 40% in the tourist sector. As a result, the Montenegrin government decided to rein in the emissions from the sector and continue with low-carbon development. UNDP and the Ministry of Sustainable Development and Tourism implemented an innovative Low-Carbon Tourism project, funded by the GEF\(^81\). The project was aimed at helping to reduce noxious emissions (primarily CO\(_2\)) in tourism and considerably reducing the adverse impact on the environment. A total of 32 investment projects received support within the framework of this project, focusing on energy efficiency that relies on renewables, while 30 hotels received green certificates for contributing to a reduction in CO\(_2\) emissions, raising at the same time public awareness about nature conservation and climate change. The project helped the establishment of the Eco Fund which supports the implementation of sustainable projects, and operates on the polluter-pays principle.\(^82\)

All of the above is illustrative of the major role played by tourism in overall economic activity, a sector bound to be particularly hard hit by the COVID-19 crisis, primarily because of its multifaceted nature, not only in Montenegro, but also globally. Possible scenarios and estimates for the plummet in tourism range from 60% to 80% fewer arrivals in 2020 compared to the previous year\(^83\), translated into a loss of revenues ranging between €840 billion and €1,100 billion globally.

\(^78\) The Ministry of Sustainable Development and Tourism, Rural Tourism Development Programme with the accompanying Action Plan until 2021, 2019.
\(^79\) The Economic Reform Programme 2020–2022.
\(^80\) Ibid.
\(^81\) GEF – Global Environment Facility.
\(^82\) UNDP Montenegro, https://www.me.undp.org/content/montenegro/sr/home.html.
\(^83\) UNCTAD, Committee for the Coordination of Statistical Activities, CSSA, How COVID-19 is changing the world: a statistical perspective, May 2020; based on UNWTO (UN World Tourism Organization) estimates, pp. 28–29.
ii. Structural reforms

This overview needs to have an additional look at the ERP 2020–2022 with its detailed identification of the obstacles to competitiveness and economic growth and Montenegro’s development in the medium term, together with the priority actions to be taken. A set of relevant reform measures to that effect constitute a separate ERP chapter designed, in response to the EC recommendations, to create space for overcoming the bottlenecks, but also to act pre-emptively in the medium and long run.

The ERP states that in 2019 reports from relevant international institutions note an improvement in Montenegro’s competitiveness, but also identify the areas that need to undergo intensive reforms. In its annual report, the EC sees Montenegro as being ready in the sense of the level of development of a functional market economy. Positive trends are observed in the labour market, export dynamics, and in the financial sector (better liquidity and solvency quotients). At the same time, Montenegro has made a certain progress and is moderately ready to cope with the competitive pressures and market forces within the EU. In its reports (following the so-called Article 4 missions), the IMF notes that the potential that Montenegro has in the area of structural reforms can be developed further by striving to meet specific criteria. The limitations that need to be overcome as Montenegro moves forward are migrations and labour shortages in key industries, as well as the low level of activity. Room for further improvement is seen in access to financing for small businesses, which remains difficult, primarily due to the relatively strict terms for obtaining loans. The development of the private sector is still limited due to shortcomings in the business environment, judiciary, and the existence of informality, which is a reflection of the limited implementation capacity in the key state institutions responsible for enforcing the rule of law and market competition.

The World Bank’s 2020 Doing Business report sees the key impediments to improving the ease of doing business, and thus the overall competitiveness of Montenegrin economy, in the areas of: starting a business, getting electricity, paying taxes, and registering property. According to the EBRD’s transition report for 2018–19, Montenegro should particularly focus on further improvement of its competitiveness, on the green economy, and good governance, while the EC formulated three recommendations of particular consideration in 2020 concerning improvement of the business environment, reliable monitoring of the informal economy, and the increased shares in the labour market, particularly for young people and women.

The 2020–2022 ERP defined 18 measures in the area of structural reforms which cover the issues of energy and transport markets, sector-based development, the business environment, the digital economy, employment, education and skills, trade, and social inclusion. This analysis is certainly not the place to elaborate on them individually.

It is clear that numerous areas of structural reforms have been covered. The absence of the issue of pension system sustainability, or the health system that could be strengthened through regional cooperation is quite striking. Education is covered in respect of apprenticeship with employers. The current crisis prompts thinking about additional measures because digital transformation of the education system and the definition of new curricula are directly linked with economic development. In addition, it is evident that certain priority measures are related to selected areas in the Smart Specialization Strategy, such as for instance improving the internet infrastructure, diversification of the tourist offer, or support for food production, but the general impression is that the link with smart specialization could be more pronounced, and in this sense the green transition and digital transformation could be more clearly highlighted. In this regard, new green incentive priority measures could be singled out and further elaborated.

The health and economic crisis caused by the COVID-19 outbreak and spread imposes the need to revise the 2020–2022 ERP in the section on macroeconomic projections. In doing so, it would be
a good opportunity to re-assess the priorities among the reform measures and their linkages with the Smart Specialization Strategy. At the same time, the priority measures could also be assessed against the SDGs and the achievement of the relevant targets. In the words of the UNDP Chief Administrator, the crisis is an opportunity to invest into tomorrow’s economy.  

Therefore, the changes in tax policy aimed at reducing the payroll tax burden should also be taken into account. The above data about the structure of wages in Montenegro indicates that the median salary could be taken as the basis for this revised tax policy, creating at the same time the scope for curbing the informal economy. It is also necessary to take into account the modalities for introducing a carbon tax to create the scope for rebalancing the tax burden, streamlining the tax system, and possibly reducing the public debt. This is possibly the moment when a definition of a kind of Montenegrin green economic package modelled against the EU’s should be considered.

It is clear that given the current crisis it is necessary to revise the 2020–2022 ERP, which is an opportunity, apart from modelling scenarios for the second wave, to redefine the priority measures focusing on the green transition and digital transformation to support priority value chains from the S3 Strategy. Boosting investments through PPPs, and opening up to large production agencies could be an innovative solution that spans across several sectors.

iii. Entrepreneurship

Entrepreneurship, seen both as the initiatives of the business sector itself, and as a separate segment of economic policy, could be viewed from different angles. In the context of the current health and economic crisis, one of the key levers is the Investment and Development Fund (IDF), set up with the adoption of the Law on the Investment and Development Fund of Montenegro (Official Gazette of Montenegro, 88/09). The IDF will approve loans and issue guarantees, perform functions related to sale of capital on its portfolio, and perform other functions ensuring support for economic development. The IDF cannot accept deposits or transfers from the government except initial capital, and thus it depends on attracting funds from multilateral development banks or commercial sources.

In 2020 the IDF has credit lines for: 1. Entrepreneurship; 2. Agriculture; 3. Tourism; 4. Manufacture; 5. Services; 6. Liquidity; 7. Boosting competitiveness; 8. Greenfield; 9. Infrastructure projects; and 10. The EU COSME Investment Support Programme. With the COVID-19 outbreak, the IDF created an urgent credit line to support liquidity as already mentioned. The credit lines are accompanied by a number of incentives defined through favourable interest rates or loan terms.

One of the credit lines refers to the Programme for Financing Environmental Protection, Energy Efficiency and Renewable Energy; as such, this is the most precisely defined form of support for a green transition.

Additionally, looking at the breakdown of IDF funding, a total of 3.4% went on the above programmes. Such support mostly referred to the construction of small hydroelectric power plants, i.e. projects aimed at increasing the share of renewables in the total power generation.

One of the key recommendations from the UNDP Financing Mechanism (PBP scheme) – the design and implementation of performance-based payment schemes (PBPS) is the definition of a special grant scheme that would accompany an enhanced new credit line to support the above goals, focusing on climate change mitigation, that would have a performance-based payment

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84 UN development chief calls for green shift away from ‘irrational’ oil dependence, Climate Home News, 24 April.
85 https://www.irfcg.me/me/o-fondu/opsti-podaci-o-fondu.
mechanism stemming from the reference values given through the EU taxonomy and other reference methodological guides. The PBPS mechanism needs to be clear, applicable, and effective in order to generate interest among beneficiaries. At the same time, it is linked with the Eco Fund, but also with the envisaged Innovations Fund. This would create a strong financial instrument for fostering sustainable low-carbon development in Montenegro, by pursuing both the economic and the environmental goals concerning mitigating adverse climate change impacts\(^8^8\). If positioned well, the IDF could predominantly focus its support on innovative projects.

This, obviously, does not have to be the only form of credit support; it is also possible to use the financial system’s diversification measures, primarily through fostering the development of capital markets, to put into place the preconditions for the development of the bonds market (so-called green bonds) that would aim at boosting the green transition, digital transformation, and innovations.

At the same time, the government alone cannot solve all the problems. MSMEs need to adapt to the new normal, but also show entrepreneurial mobility. This primarily refers to:

- redefinition of the expenditures side and increased productivity;
- digital transformation;
- definition of new revenue options;
- investment in upskilling so that employees are ready to respond to the new environment and are more inclined to innovation;
- increased capital efficiency.

Each of these items should involved an action plan to optimize the business model, simplify business processes to increase productivity and cut costs, widen the consumer base, and improve solvency\(^8^9\).

This brief overview of specific policies and their consistency with the Smart Specialization Strategy reveals enormous potential to define measures that could boost sustainable growth and economic development by recalibrating the economic model on the basis of the “green recovery” and digital transformation. The opportunity to set this medium-term path may be the Economic Reform Programme 2021–2023 aligned with the S3 and the 2030 Agenda. The present report, but also other documents produced by the UN agencies in Montenegro, provide inputs for defining recommendations that decision makers may use in the upcoming period.

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\(^8^8\) UNDP Financing Mechanism (PBP scheme) - Design and Implementation of Performance-Based Payment Schemes (PBPS) INTEGRAL REPORT, May 2020 Podgorica.

VI. BETWEEN SCYLLA AND CHARYBDIS (IN LIEU OF A CONCLUSION)

A pandemic of the magnitude of COVID-19 is a new experience for today’s world which does not remember (except by knowledge of facts and through the accounts of the few survivors) the Spanish Influenza pandemic at the end of World War I, while the HIV pandemic has in the meantime been contained. However, the length of the struggle against HIV and the difficulties in coming up with proper medication/a vaccine give a glimpse into the challenging nature of new viruses. On the other hand, the emergence of the novel coronavirus is nothing if not expected. Its sudden outbreak, however, has left a deep impact on the global economy. Since the times of the 14th-century bubonic plague and the quarantines introduced in Italy as a preventive measure, up to the present day, outbreaks have taken a toll in human lives, but also in dwindling economic activity, leaving also social consequences behind.

The world financial and economic crisis in 2008–2009 pushed decision-makers towards strengthening the banking sector. Today’s crisis will certainly push societies to improve health-sector standards and accelerate the use of digital solutions. Additionally, efforts are needed to build the resilience of societies and economic systems, particularly in countries that are exposed to external shocks that are beyond their control, as is the case of Montenegro and its tourist sector that generates between one-fifth and one-quarter of the country’s GDP. Moreover, in the decade ahead of us, human society will face the consequences of climate change and further mitigation efforts. Montenegro is already experiencing certain aspects of climate change. Given the set of circumstances, in 2020 noxious emissions globally will be significantly lower than the year before, but there is a risk of resuming the previous trend after the pandemic. Steering a course between the two challenges in the future will be a trying task for the whole of humanity.

Montenegro’s choice to set in the Smart Specialization Strategy the goals of achieving a healthy, sustainable, modern, and digitally transformed Montenegro and the related selection of value chains that offer particular opportunities is a roadmap that, as the present assessment shows, should be more strongly incorporated in sector-based policies. On its EU accession path, apart from building a modern political system based on the rule of law, it is vital to have a competitive economy, primarily the MSME sector. In this respect, the European Green Deal can serve as an additional inspiration.

A green transition or decarbonization and digital transformation that pervade all segments of society offer opportunities for sustainable economic growth and development, and more importantly, the increased satisfaction of its citizens, not expressed only by the average GDP-based income, but also other factors that affect the quality of life, such as the use of space, less polluted and congested cities, etc. Investing in green growth and digital transformation brings more benefits in the long run than reverting back to the old ways, and together with diversification of the financial system, strengthening of the education sector, and a reduction of the administrative burden, this is an opportunity for MSMEs, but also a chance for Montenegro to avoid the middle-income trap and reduce dependence on one sector of the economy alone. The COVID-19 crisis has revealed many aspects of our society that are currently being examined. Humankind will overcome this pandemic, but each ordeal leaves some consequences and lessons learned. Montenegro has successfully handled the public health challenge in the 1st phase, and to a lesser extend in the 2nd, but it has to have a proper response when it comes to the sustained use of resources as well. A higher level of proactivity and innovation will be required.

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90 Many publications tackled the issue, for instance The Economist, Megachange – the world in 2050, 2012
VII. RECOMMENDATIONS

Based on the above findings and the analysis, recommendations are put forward from the short-, medium-, and long-term perspectives.

Some of the recommendations highlight the need to develop new alternative scenarios, as it is uncertain how the COVID-19 pandemic will evolve in the next 12 months, within Montenegro, in Europe, and globally.

Some recommendations point to the need to strengthen public finance, while at the same time providing suggestions of how the business sector could be supported further.

A number of recommendations look at different modalities of supporting the development of MSMEs in the context of the green transition.

Other recommendations look towards the public administration, the need to improve its performance and the overall business environment (beyond the immediate support to MSMEs), as these are key for long-term recovery, while setting the economy on a sustainable course.

The ambition of these recommendations is not to prescribe ready-made solutions, but rather to offer food for thought and the basis for dialogue between the relevant stakeholders, policy-makers, and decision-makers, that is required to define the way forward. Also, the ambition was not to define recommendations that will cover all sector-level policies. They rather focus on those measures that will help stabilize economic conditions in the short term as a necessary precondition for the functioning of micro, small, and medium-sized enterprises, while in the medium and long term they emphasize a green transition (decarbonization) and digital transformation as the driving forces of the next development period.

Phase 1 (up to six months): measures to mitigate the adverse impact on the socio-economic environment

Make additional assessments, review existing documents and develop alternative scenarios

R1. It is obvious from the previous analysis that it is necessary to review the budget projections for 2020-2021 and in that context it is recommended to analyse scenarios that would have the quality of the summer tourist season as a variable due to the high seasonality of the economy and the high direct and indirect impacts of tourism on GDP. At the same time, it is recommended to consider an extended second lockdown scenario, should a second wave of COVID-19 materialize in the autumn.

R2. It is also recommended to consider the development of the next Economic Reform Programme 2021-2023 so that it lays the foundation for a green recovery supported by a digital transformation, while making at the same time a clear link to the United Nations Agenda 2030 for Sustainable Development and the Smart Specialization Strategy.

R3. Bearing in mind that the subject of this analysis is the impact of COVID-19 on micro, small, and medium-sized enterprises and individual entrepreneurs, it is recommended to initiate a special analysis of the impact of COVID-19 on the social sectors (health, education, social affairs), especially in terms of their long-term sustainability.

Increase the preparedness of public and private entities to maintain business continuity in the case of a possible second wave of COVID-19

R4. In the light of the ongoing second wave of COVID-19, it is recommended to introduce, implement, and/or improve the existing business continuity plans by all public organizations at the national and local levels, as well as by private and state-owned companies.
R5. At the same time, it is recommended to set a predictable open border policy by the end of 2021 with possible requirement for all arrivals to Montenegro to be conditioned by them having proof of not being infected with COVID-19.

R6. In order to raise the quality of the public administration (in the context of the report, especially with the aim of supporting micro, small, and medium enterprises) and of the education system, it is recommended to systematically deliver digital upskilling training for civil servants at the national and local levels, as well as for teachers. This recommendation is also put forward in the light of the fact that any business continuity plan will entail the substantial transfer and utilization of digital technologies at all organizational levels.

Further support for addressing liquidity problems and launching economic activity

R7. Given the particular sensitivity of businesses run by women and other vulnerable social groups, it is recommended to revisit such support programmes and any additional advantages (prolonged moratorium and fiscal relief).

R8. Modelled against similar examples, it is recommended to consider the possibility of converting part of the credit support for liquidity into a grant if the employer has retained the workers for a sufficiently long period.

R9. In order to mitigate the problem of collection of receivables, it is recommended to consider the temporary introduction of VAT payments on the collected cash and not on the issued invoices. This would significantly improve the liquidity of small and medium enterprises.

R10. Given that the banking sector is crucial for economic recovery, it is recommended to consider developing a sustainable guarantee scheme that will help encourage new lending for the recovery, as many companies are delaying their investments, and to strengthen factoring activities.

R11. Given the severity of the problem with the collection of receivables that companies perceive, and given the tightness of the budget system and Montenegro’s reliance on borrowing on the foreign market, it is recommended to consider the creation of alternative and temporary forms of liquidity (new payment methods, digital currency, a special kind of bonds) in the range of 5% to 10% of GDP, if the worst-case scenario with regards to the tourist season materializes or in case of a new lockdown.

R12. Given the demanding health and sanitary preconditions for the functioning of the tourism and hospitality industry and the increased costs, it is recommended to implement support and employment programmes that contribute to the COVID-19 standard of cleanliness and safety through the National Employment Office.

R13. Furthermore, in case of a severe rise in unemployment, the creation of public works programmes, such as employment programmes on afforestation, waste management and the like, should be considered.

Economic and social dialogue

R14. Given the criticality of engaging all stakeholders, it is necessary to continue consultations with social partners and the business community, and in that sense it is recommended to intensify the economic and social dialogue within the adequate bodies.

Phase 2 measures (6–18 months): medium-term measures for economic recovery

Strengthen the strategic framework for sustainable economic recovery

R15. As identified in the assessment, the Smart Specialization Strategy (S3), along with the National Strategy for Sustainable Development, offers a framework and goals that can be the basis for long-
term sustainable economic growth, recovery and development. It is recommended that all sector-level strategies are aligned with the Smart Specialization Strategy. In that way, numerous sector-level measures, incentives, and action plans would promote the selected S3 economic value chains, namely: renewable energy sources and energy efficiency; sustainable agriculture and the food value chain; new materials and sustainable technologies; sustainable and health tourism; and ICT, as a horizontal sector which provides business and technological support to other priority sectors.

R16. In accordance with the goals of the Smart Specialization Strategy, and as the first next step in its implementation, it is recommended to initiate the process of drafting a new spatial plan of Montenegro in order to affirm the new growth model.

R17. It is recommended to accelerate drafting of the National Energy and Climate Plan until 2035, in line with the guidelines of the Energy Community, in order to further define the framework for encouraging energy transition.


Further reform of the education sector

R19. Discovering the possibilities for distance learning and the pressure that exists on the existing network of schools should lead to further modernization of teaching models. It is recommended to explore additional possibilities for providing higher-quality curricula, incorporating digital skills and tools as a way to improve educational outcomes. It is also recommended not only to continue with the activities on digitalizing textbooks and their replacement with digital content accessible on tablets, but also to invest in smart school infrastructure (such as boards and other digital tools), and ensure their accessibility for all children. These changes should still go hand in hand with the obligation to continuously use notebooks and pens as didactic tools. To drive the change, consider the introduction of distance learning for one school day, as well as defining additional curricula for talented children, as well as children in need of additional support in various fields.

Green business

R20. A green transition is defined as a way to achieve long-term sustainable economic development in human living conditions, which is also a way to encourage innovation and avoid the middle-income trap\(^\text{91}\), so it is recommended to define incentive schemes for a green transition on the supply side. Some of the measures could require achieving high energy efficiency levels in all newly built facilities (for example, through solar panels and appropriate batteries, and passive energy building standards). The demand side should also be covered by encouraging e-mobility, as well as supporting the modernization of production processes in order to achieve greater energy efficiency.

R21. It is recommended to revisit the programme of economic passports to include investments in green transition and digital transformation projects, as well as attracting talent to Montenegro, borrowing from examples of start-ups from other countries (e.g. Estonia, Ireland, Chile and Israel).

R22. The 2030 Sustainable Development Goals represent a global universal agenda that can only be achieved if the real sector is fully engaged, so it is recommended that the SDG mapping of the key value chains is conducted and programmes created to support the achievement of the defined SDG business indicators through these specific value chains. Addressing segments of the value chain that can be digitalized or substantially improved from the point of view of their impact on the environment should be given particular attention.

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\(^{91}\) The “middle-income trap” is an economic development phenomenon in which a country that attains a certain income gets stuck at that level and does not progress to higher income levels.
Innovative financing of green and digital economic recovery

R23. It is recommended to accelerate the implementation of recently adopted legislation that deals with innovation.

R24. Also, as one of the models, it is recommended to consider and create programmes such as the purchase of the green bonds of small and medium enterprises that provide funds to companies to invest in achieving SDG indicators defined by the prospectus in the proportion of: 70% from financial institutions and 30% from the government, under more favourable conditions. Furthermore, it can be considered to convert part of the investment into a performance-based grant.

R25. The important role that the Investment and Development Fund plays in encouraging the development of micro, small, and medium enterprises could be further emphasized in the context of the green transition and digital transformation. That is why it is recommended that the IDF concentrates dominantly on innovation-support programmes. It is recommended to consider the introduction of “green” credit lines strengthened by the application of performance-based grant schemes (PBGS) which can be linked to the operation of the Eco Fund and the future Innovation Fund as well.

R26. It is necessary to consider the diversification of sources of financing for small and medium enterprises, so in that sense it is recommended to define measures for stock exchange reform in terms of the possibility of generating funds to support a new generation of green projects.

R27. Given the importance of industrial policy for GDP diversification, it is recommended to define measures and an action plan to stimulate a circular economy.

Business environment

R28. It is recommended to remove additional administrative barriers in order to improve Montenegro’s position on the World Bank’s Doing Business list, but also primarily in order to curb the informal economy. The strategy, i.e. the action plan, should recognize and be the basis of the policy for improving the business environment in all sector-level policies. It is also recommended to consider the Estonian e-residence model and to establish companies in this way.

R29. It is recommended to change the legislation in order to enable the introduction of blockchain technology in everyday use. Also the intensified and preferably mandatory use of digital signatures is recommended in order to improve the work of the administration with clients during all the administrative procedures as well as monitoring the status of applications with the help of digital technologies, such as blockchains.

Tax policy

R30. Given the importance of the tax policy, it may lead to the solutions that can free up additional private capital for investments in health, life insurance, and education. Therefore, it is recommended to consider certain models of relieving the tax burden on labour, primarily through the transfer of contributions at the expense of the employer in gross wages and compensation to employees through the revision of income tax. This approach should be based on the median salary and could also lead to a reduction in the informal economy. Therefore, it is recommended that MONSTAT, in cooperation with the Tax Administration, define the methodology to calculate the median salary, as well as the average salary, in both the public and private sectors.

R31. In the context of financing the reduction in the tax burden on labour and public debt, it is recommended to consider the model of introducing a carbon tax.
New social policies

R32. Having in mind existing pilot programmes in the world, it is recommended to conduct research on the possibilities and models of universal basic income, to gauge its relevance for Montenegro. In addition, with a view to a sustainable social policy, it would be helpful to monitor the trends in the household income median, and not only individual salaries, which should be provided by MONSTAT.

R33. It is recommended to review the conditions on the labour market and the current legislation and redefine jobs in terms of introducing flexible working hours and working from home, which would lead to productivity growth and have a positive impact on women’s activity in the labour market.

Support investments

R34. It is recommended to intensify PPP (public–private partnerships) in all areas, including public administration, and especially in areas where specialist knowledge is needed. PPP models can also be used when it comes to further expansion of the broadband network in order to provide quality service to rural areas, as well as to invest in a 5G network. The same model can be used to consider the establishment of regional hubs for data centres, bearing in mind the possibility of further development of the energy sector on the basis of clean energy.

Phase 3 (18 months-4 years or more): long-term measures to build socio-economic resilience

Public finance

R35. Deterioration of macro-financial parameters is to be expected as a result of the pandemic, uncertainty in the future, and the openness of the Montenegrin economy and thus the propensity for external shocks. It is recommended to consider the modalities of the fiscal reserve up to 10% of GDP. One of the models could be to connect to the so-called sovereign wealth funds of some countries and the reserving of funds to withdraw in the case of the fulfilment of the conditions, instead of relying on the extraordinary issuing of bonds.

Education

R36. In order for education at all levels to contribute to digital transformation and smart and inclusive growth, it is recommended to ensure the development of quality digital curricula with a special focus on 21st-century skills (such as critical thinking, problem solving, digital literacy, teamwork, and empathy), and provision of capacity-building programmes that will support teachers to use digital tools in an effective manner and ensure that their learners develop the skills they need for success in the labour market.

R37. The programme of implementing innovated internship has contributed to a reduction in youth unemployment, which nonetheless remains high. It is recommended to further apply the internship model with the additional innovation of an approach based on a decade of experience. It is also recommended to consider a similar model before setting quotas for university enrolment.

Industrial production

R38. At the same time, it is recommended to analyse comparative examples of small countries that have renewed or preserved industrial capacities by relying on the use of robots and other digital technologies.

Culture, tourism, and agriculture

R39. The defined value chains in the Smart Specialization Strategy are potential generators of high-income business activities, so it is recommended to develop measures to encourage medical and other similar forms of tourism, and to consolidate and expand economic value chains that can spur both domestic production and consumption, as well as lead to the exporting of selected products (e.g. organic food and cosmetics).
R40. One of the development opportunities for Montenegro is the international film market. Streaming as such has increased significantly during the epidemic, so it is recommended to intensify contacts in order to create sustainable conditions for international film production (Netflix, HBO, Disney...)

R41. It is also recommended to strengthen cultural industries through promoting cultural diversity and the management of cultural heritage as a vehicle for sustainable development.

Pension system

R42. It is necessary to continue activities on the sustainability of the public pension system, so it is recommended to develop a model of further reforms, which could include the introduction of a set of individual accounts for all first-time employees within the Pension and Disability Insurance Fund, which would be managed separately.

Regional cooperation

R43. Regional cooperation in many areas has become especially important, so in this context it is recommended to initiate a model of cooperation in order to provide strategic reserves in a reliable and cost-effective manner, as well as forms of cooperation in health to ensure access to (and possibly local production of, e.g. through 3D printing) equipment and medical devices, and potentially tele-medicine.
VIII. APPENDICES:

1. Representative sample

The survey of business entities in this study was carried out on a representative sample of entrepreneurs, micro, small, and medium-sized enterprises in Montenegro. In other words, the survey covered the above business entities within the whole territory of Montenegro, within all three regions, and for all three types of activity (manufacture, trade, and services).

Sample breakdown by type of activity:

<table>
<thead>
<tr>
<th>Activity</th>
<th>May</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture</td>
<td>71</td>
<td>76</td>
</tr>
<tr>
<td>Trade</td>
<td>96</td>
<td>97</td>
</tr>
<tr>
<td>Services</td>
<td>152</td>
<td>148</td>
</tr>
<tr>
<td>Total</td>
<td>319</td>
<td>321</td>
</tr>
</tbody>
</table>

Sample breakdown by company size:

<table>
<thead>
<tr>
<th>Company size</th>
<th>May</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>287</td>
<td>292</td>
</tr>
<tr>
<td>Medium</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>319</td>
<td>321</td>
</tr>
</tbody>
</table>

Sample breakdown by region:

<table>
<thead>
<tr>
<th>Region</th>
<th>May</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Centre</td>
<td>154</td>
<td>152</td>
</tr>
<tr>
<td>South</td>
<td>118</td>
<td>123</td>
</tr>
<tr>
<td>Total</td>
<td>319</td>
<td>321</td>
</tr>
</tbody>
</table>

In the first stage of stratification, all the business entities were represented by the region in which they are registered, the type of activity they pursue, and their size (small or medium-sized enterprises) in the proportion that exists in the population of business entities in Montenegro (based on the 2018 CRPS data). Given that, by applying proportional stratification of entities, a small sample of medium-sized enterprises is obtained, which would prevent one from drawing any definite conclusions for this group of entities, the stratification was adjusted by increasing the intended number of medium-sized enterprises, while reducing, at the same time, the number of small enterprises. After gathering the data, the disproportional stratification produced was adjusted through post-stratification.

Thus, the actual size of the sample and the sub-samples (defined by size, type of activity, and region) ensured reliable assessments of the indicators measured both across the whole population of small and medium enterprises in Montenegro and by the region, three types of activity, and two size sets of the above entities.

The quantitative survey made it possible to precisely measure and quantify the relevant indicators and compare the results for each indicator for different segments of the population. In addition, in social sciences, a quantitative survey is a systemic and empirical study of social phenomena using statistical, mathematical, or computer-assisted methods. The aim of a quantitative survey is to develop mathematical models, theories, and/or hypothesis which refer to the phenomenon being surveyed. The measurement process is key for quantitative research since it ensures a fundamental link between empirical observation and a mathematical expression of quantitative linkages.
quantitative surveys done on a representative sample in compliance with certain sample planning
and execution procedures enable generalization of the results obtained for the whole population,
as is the case with this study. We can say with a certain degree of certainty that the survey results,
obtained on a random representative sample, reflect the state-of-play in the overall population of
small and medium-sized companies; figuratively speaking, the results obtained are the “opinions of
entrepreneurs and small and medium-sized enterprises in Montenegro”, not of “respondents”.

A single-stage stratified random sample was used, in terms of its technical characteristics and
sampling procedures. The sample framework is the list of all business entities registered in the CRPS
in 2018. Stratification was done by region, type of activity (manufacturing, trade, and services),
and size (small and medium-sized enterprises), while, based on this stratification, business entities
were selected randomly as representatives.

When it comes to the groups of activities selected for stratification, we first used the division of
business entities according to the NACE Rev. 2 classification. Thereafter, in order to obtain reliable
data at the activity level, all the activities were grouped under three headings: manufacture, trade,
and services.

As regards the size, the division into small and medium-sized enterprises was done according to the
number of workers (in 2018). Based on this criterion, all business entities were classified either as
small (< 50 employees) or medium-sized (50–250 employees). The group of small-sized entities
also includes entrepreneurs and micro-companies.

The distribution of business entities (in %) around these characteristics is shown in the graph below:
2. The first package of measures to mitigate the impact of the COVID-19 crisis in Montenegro: 19 March 2020

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>MITIGATING THE ADVERSE IMPACT ON THE FINANCIAL SYSTEM – LOAN REPAYMENTS DEFERRED FOR 90 DAYS</strong> – Moratorium on loan repayments for businesses and individuals, the Central Bank – the Decision on Interim Measures for Mitigating the Adverse Impact of the Novel Coronavirus on the Financial System (Official Gazette of Montenegro 019/20 of 19 March 2020 and 028/20 of 2 April 2020). A 90-day repayment deferral for the loans of businesses and individuals held with banks, microcredit institutions, and the IDF for all types of loans, including cash loans (secured and unsecured), housing loans, loans for pensioners, consumer loans, investment loans, working capital loans, liquidity loans, credit products linked with the use of payment cards, etc.</td>
</tr>
<tr>
<td>2</td>
<td><strong>PAYMENT OF PAYROLL TAXES AND CONTRIBUTIONS AND LIABILITIES UNDER THE LAW ON LIABILITY RESCHEDULING DEFERRED FOR UP TO 90 DAYS</strong> – Payment of payroll taxes and contributions deferred for 90 days, later linked with the second package and subsidies to businesses. The Law on Tax Liabilities Rescheduling, Official Gazette of Montenegro 83/16, the public call for rescheduling was issued in 2017; the process is being conducted by the Tax Administration – deferred for 90 days.</td>
</tr>
<tr>
<td>3</td>
<td><strong>NEW IDF CREDIT LINE TO SUPPORT BUSINESSES</strong> – Liquidity, up to a maximum amount of €3 million per beneficiary, with a 1.5% interest rate (EIB financing, while it can go up to 2% from other sources), grace period – 2 years, repayment period – 8 years, excluding the grace period, for entrepreneurs and SMEs in the priority areas: medication, medical equipment and vehicle supply, tourism, hospitality, food production and processing, transport, and services. Liquidity loans are intended primarily for the payment of employee earnings for three months, based on the last paid net salary. The loan proceeds will be deposited by banks into the current accounts of employees.</td>
</tr>
<tr>
<td>4</td>
<td><strong>ASSISTANCE FOR THE MOST DISADVANTAGED</strong> – The government appropriated €1 million in assistance for the most destitute (€50 for 8,500 social assistance beneficiaries and 11,900 pensioners who receive the minimum benefit of €128).</td>
</tr>
<tr>
<td>5</td>
<td><strong>RESTRICTION AND CONTROL OF BUDGET SPENDING</strong> – The suspension of all tenders except necessary ones. Procurement in line with the PHI recommendations of 11 and 13 March 2020 – the Assets Administration and the relevant municipal services to procure additional quantities of hygiene products in an urgent procedure, as well as disinfectants for personal use, work spaces, and equipment for the needs of state administration authorities, administration authorities, and local authorities. To be done in line with the recommendations by the Public Health Institute. Plus – for educational and healthcare institutions. In order to cut costs, the government has introduced limitations to and strict control of budgetary expenditures, with a ban on launching any procurement, except what is needed for the functioning of the health system, i.e. urgent procurement in terms of the Law.</td>
</tr>
<tr>
<td>6</td>
<td><strong>BUDGET SAVINGS</strong> on gross salaries of public administration employees (central level, municipal level, public companies where the government and/or municipality hold a majority stake, public institutions, regulators, and other bodies). <strong>Just the fixed part of the salary</strong> – all variables and fees for the work in commissions or on management boards are suspended. Local governments are recommended to do the same. Just the fixed part of the salary. The Prime Minister said that the members of the government would pay half of their salaries to the account of the National Coordination Body for Communicable Diseases. Budget users are prohibited from (further) payments on the basis of the NCB, because the budget is harmonized.</td>
</tr>
</tbody>
</table>
7 PAYMENT OF RENT FOR PROPERTIES IN STATE OWNERSHIP DEFERRED FOR 90 DAYS. The government entrusted all state institutions that rent property owned by the state to enable for all lease holders, upon application, rent payments to be deferred for 90 days. The measure entered into force on 1 April 2020. The government wanted to lead by example and to encourage others towards responsible behaviour.

8 ADVANCE PAYMENT TO CONTRACTORS FOR INVESTMENT WORKS, where it does not threaten public health. The capital projects launched will not be halted. Continued financing for capital projects under way and the necessary services to suppliers through advance payments with bank guarantees up to the amount of the advance payment (the Public Works Administration and the Transport Administration).

9 ASSISTANCE TO MEDIA OUTLETS – All measures concerning liquidity apply also to media outlets. The Media Agency is to relieve them of fee payments, and print media are to be urgently provided with liquidity financing. Support also to local public broadcasters through the Ministry of Culture in the form of one-off assistance.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1 SUPPORT FOR BUSINESSES AND EMPLOYEES TO MITIGATE THE ADVERSE IMPACTS OF THE COVID-19 CRISIS</td>
</tr>
</tbody>
</table>

1 SUBSIDIES FOR CLOSED ACTIVITIES (List 1 – 77 activity codes)

Business entities are eligible for subsidies on employee earnings for the months of April and May 2020 upon application. The amount of the subsidy is set against the value of the minimum wage established by the Government Decision on Setting the Minimum Wage (Official Gazette of Montenegro 33/19), by determining the amount of taxes and contributions proportionate to the earnings, and no more than **100% of taxes and contributions on the minimum wage and 100% of the net minimum wage** for company employees registered in February 2020.

Thus the subsidy is granted to entrepreneurs and employee earnings for which the employer, which pays taxes and contributions according to the actual income or as a lump sum, has filed the GPPF return for 2018 or 2019, then the ZPO return for 2020 and paid the advance payments in 2019. The subsidy is granted for the employees in a company registered in February 2020 and for whom the IOPPD return was filed with the tax administration ending with the month for which the subsidy application is filed and if the company has paid payroll taxes and contributions owed in 2019. The business entities which are at the time of application regularly meeting their rescheduled tax liabilities under the Law on Tax Liabilities Rescheduling (Official Gazette of Montenegro 83/16) are also eligible for subsidies for employee earnings. Additionally, a business entity is eligible for subsidies if it does not downsize the workforce for the duration of the measure compared to the number of employees registered in February 2020.

2 SUBSIDIES FOR THE TOURIST SECTOR (List 2 – 7 activity codes)

Subsidies are granted to entrepreneurs and MSMEs in tourist businesses whose work is not suspended, but whose level of activity is considerably reduced as a result of the orders issued by the Ministry of Health with the aim of containing the novel coronavirus outbreak. No more than **100% of taxes and contribution on the minimum wage and 100% of the net minimum wage** for the company employees registered in February 2020.
### Subsidies for Affected Activities (List 3 – 105 activity codes)

Entrepreneurs and MSMEs in lines of business where work is not suspended, but whose level of activity is considerably reduced as a result of the orders issued by the Ministry of Health with the aim of containing the novel coronavirus outbreak are eligible, upon application, for subsidies of gross employee earnings for the months of April and May 2020.

The following are not eligible for the subsidy: state institutions, local self-governments, and companies where the government or a municipality holds a majority stake, as well as companies whose main activity codes are listed in Appendix 3. The subsidy is provided in an amount equal to **50% of taxes and contributions on the minimum wage and 50% of the net minimum wage** for company employees registered in February 2020. The difference up to the full gross salary of the employee is provided by the employer.

As for the five newly added healthcare institutions and companies, which made their accommodation facilities available for mandatory quarantine, the subsidy will amount to **100% of the net minimum wage**.

### Subsidies for New Employment

Subsidies are granted to business entities which:
- did not downsize the number of employees compared to February 2020
- register new employees in the period of six months starting from 1 April 2020 (who were not registered as employed with the same entity in January or February 2020) and who were at the same time registered unemployed with the National Employment Office in the month preceding the month when the application was filed

The maximum number of employees eligible for this subsidy equals the difference in the number of employees in the month for which the application is filed and the number of employees registered in February 2020. The subsidy is provided in an amount equal to **70% of taxes and contributions on the minimum wage and 70% of the net minimum wage**. The difference up to the full gross salary of the employee is provided by the employer.

### Subsidies for the Earnings of Employees on Paid Leave

An entrepreneur or a company whose employee is on paid leave for the care of a child under 11 years of age is eligible, upon application, for subsidies to gross salary for those employees. The subsidy is provided in an amount equal to **70% of taxes and contributions on the minimum wage and 70% of the net minimum wage** in the given company for employees registered in February 2020. The difference up to the full gross salary of the employee is provided by the employer. The following are not eligible for the subsidy: state institutions, local self-governments, and companies in which the government or a municipality holds a majority stake. The subsidy is provided for the period for which the employee exercised the right to be on paid leave, upon the employer’s application.

### Subsidies for the Earnings of Employees Who Are Quarantined or in Isolation

An entrepreneur or a company whose employee is quarantined or in isolation on the orders of the Ministry of Health with the aim of containing the outbreak is eligible, upon application, for subsidies to gross salary for those employees. Up to **70% of the net minimum wage** in the given company for employees registered in February 2020. The difference up to the full gross salary of the employee is provided by the employer. State institutions and local self-governments are not eligible.
## SPECIAL SUPPORT MEASURES FOR AGRICULTURE AND FISHERIES

### MARKET INTERVENTIONS

In order to maintain the current level of production and market stability, both in terms of the prices and in terms of the quantities offered in agricultural produce (livestock, dairy, fruit and vegetables, etc.) and the fisheries and aquaculture product market, and maintain a stable income for farmers and fishermen, a special Market Intervention Programme is introduced to mitigate the impact of the COVID-19 crisis. The programme includes the following measures:

- Withdrawal and storage of agricultural, fisheries, and aquaculture product surpluses, and assistance in the distribution of products by business entities that possess the proper conditions for that purpose;
- Support for farmers, fishers, and fish farmers and processors due to market disturbances caused by substantial price drops and with the aim of maintaining price and income stability;
- Support for the incomes of farmers, fishers, fish farmers, and processors due to the inability to market their products, and the accumulation of surpluses with the loss of markets for products which cannot be distributed or due to produce deterioration;
- Making surpluses available to public institutions (hospitals, residential care centres, etc.), the Red Cross, and others, with the reimbursement of producers of an amount equal to 100% of the product’s market value.

Depending on the circumstances and problems that hit individual sectors, respecting the specificities of production, marketing, etc., some of the above market intervention measures will be launched.

With a special regulation, the Ministry will set the terms for launching a required measure.

In addition to the above measures, the Ministry may adopt an **additional set of measures** with the aim of maintaining continuity of production and purchase, and performing all the activities linked with the smooth production and distribution of agricultural, fisheries, and aquaculture products, given the particular sensitivity of such markets, the specific production conditions, and possible disturbances in the international and domestic markets which may occur as a result of COVID-19, currently unforeseeable.

### ONE-OFF ASSISTANCE FOR COMMERCIAL FISHERS, HOLDERS OF A COMMERCIAL FISHING LICENCE

In Montenegro 184 fishers with valid licences engage in commercial fishing. With the closing down of hospitality establishments and the scaling down of farmers’ markets, the livelihood of commercial fishers, their employees, and families is very much at stake. Thus, one-off assistance for all commercial fishers who are holders of valid commercial fishing licences is proposed. The assistance amount will be defined based on the day catches entered into the Fishing IT system in 2019. Alongside the assistance, public calls for an agro-budget continue. Funds needed: €200,000.
<table>
<thead>
<tr>
<th>9</th>
<th><strong>SUPPORT FOR PURCHASING DOMESTIC PRODUCE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>During the COVID-19 pandemic and subsequent recovery, and aiming to ensure safer procurement of agricultural and food products, the public contracting authorities will particularly take care regarding the freshness and seasonal character of produce and the transportation time, to ensure as short as possible a supply chain and to reduce the environmental impacts. Affirmation of the food safety principle. Other contracting authorities are also recommended to observe the same principles.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10</th>
<th><strong>SUPPORT FOR PAYING CONTRIBUTIONS TO BENEFICIARIES INSURED ON THE BASIS OF AGRICULTURAL ACTIVITY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Ministry of Agriculture and Rural Development will pay all contributions for farmers, both those borne by the budget and those borne by the insured person for a period of six months. A total of 529 insured persons who regularly pay their contributions will be covered. Funds needed: €100,000.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>11</th>
<th><strong>ONE-OFF ASSISTANCE FOR BENEFICIARIES OF OLD-AGE BENEFITS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Law on Agriculture and Rural Development envisages that the heads of agricultural holdings are entitled, under specific terms, to old-age benefits. Most households of this type engage in agriculture in rural areas and keep villages alive. The beneficiaries of old-age benefits will receive a one-off additional benefit of €64. Funds needed: €225,000.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>12</th>
<th><strong>SUPPORT FOR TIMELY SETTLING OF LIABILITIES TO PRODUCERS BY TRADE COMPANIES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In order to reduce payment times, the IDF will create a new credit line that will enable trade companies to make payments to domestic producers within 15 days.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>13</th>
<th><strong>FAVOURABLE CREDIT LINE FOR AGRICULTURE AND FISHERIES</strong></th>
</tr>
</thead>
</table>
| | The IDF will create a new credit line to support registered agricultural producers, processors, commercial fishers and holders of aquaculture/mariculture licences. The IDF already has four credit lines intended for agriculture on its portfolio, which are investment-oriented and serve the IPARD pre-financing purposes, agro-budget measures, and the purchase of agricultural produce, so this credit line is intended for registered agricultural producers, processors, commercial fishers, and holders of aquaculture/mariculture licences with the aim of mitigating the consequences of the COVID-19 crisis through the procurement of current assets needed for smooth production. By way of reminder, **the IDF has already given the option of suspending the repayment of existing loans for a period of three months**. The terms of the loans for current assets:

- Maximum amount €20,000.00;
- Annual interest rate of 1.50% using the proportional calculation method
- Repayment period of up to 2 years (including grace period);
- Grace period of up to one year

Eligible loan holders – registered agricultural producers, processors, commercial fishers, and holders of aquaculture/mariculture licences. Loan purpose – procurement of current assets, raw materials, inputs, and semi-products in order to establish new production or maintain existing production. |

<table>
<thead>
<tr>
<th>14</th>
<th><strong>SUBSIDIZED INTEREST FOR THE NEW IDF CREDIT LINE INTENDED FOR AGRICULTURE AND FISHERIES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For all beneficiaries of the IDF credit line to support agriculture and fisheries, interest will be subsidized for the duration of the grace period. The funding required for this measure: €150,000.</td>
</tr>
</tbody>
</table>
**15. ADVANCE PAYMENT OF 80% OF THE TOTAL SUPPORT PER HEAD OF CATTLE, SHEEP, GOAT, AND PIG AND PER HECTARE OF FARMING LAND**

Based on the payment list from 2019 and the data held in the relevant registries of the Ministry. The advance payment on this account would amount to some €3,500,000 and would be implemented in the first half of May, much earlier than in previous years. The advance payment of a share of premiums provides additional certainty for agricultural producers and gives an incentive to continue production. The funds needed for implementing this measure will be secured from the agro-budget appropriations for this purpose, amounting to €3,500,000.

**III. MEASURES CONCERNING TAXES, CUSTOMS, AND SALARIES**

**16. FACILITIES TO BOOST LIQUIDITY**

The facilities to boost liquidity by reducing VAT refund times and extending the customs guarantee exposure limit period for the deferred payment of customs debt. As regards VAT refunds, the Tax Administration needs to undertake all the statutory measures to examine how well-founded the refund application is and, accordingly, refund the VAT within no more than 45 days from the application. If a taxpayer has outstanding tax liabilities that are due, these will be settled against the VAT credit, and the remainder will be refunded within the time envisaged.

In addition, customs debtors whose activity was suspended on account of COVID-19, and with the aim of boosting liquidity, need to be enabled to defer customs debt payments for 60 days from the moment of accepting the customs declaration, upon the debtor’s application.

**17. CREATING ADDITIONAL FISCAL SPACE FOR IMPLEMENTING GOVERNMENT MEASURES**

With the aim of creating additional fiscal space for implementing government measures to support businesses and individuals and foster public finance consolidation, a reduction in salaries of public administration employees categorized A and B as referred to in Articles 22, 23, and 24 of the Law on Salaries in the Public Sector is proposed for a period of two months by adopting the Decision on the Calculation Values of the Quotient for Public-Sector Employees for the Fiscal Year 2020. The quotient value went down from €90 to €45. This is expected to result in savings of approximately €400,000 a month, or €800,000 in total.

**18. FINANCIAL SUPPORT INSTRUMENTS**

New IDF credit lines need to be designed so as to be complementary to the government measures. In order to put in place the preconditions for proper measure implementation, the IDF 2020 Work Plan is in need of adjustment to the current reality of the COVID-19 pandemic by including the designation “urgent liquidity support for MSME&Es to respond to the adverse impacts of the COVID-19 pandemic”, and streamlining credit clearance procedures in cooperation with the CBCG.
### SUSPENSION OF ENFORCEMENT WITH A VIEW TO THE SOCIAL AND ECONOMIC PROTECTION OF BUSINESS ENTITIES OPERATING IN SECTORS WHOSE WORK WAS SUSPENDED ON THE ORDERS OF THE MINISTRY OF HEALTH AIMED AT CONTAINING THE OUTBREAK

This measure will further contribute to the social protection of individuals and of the economic vitality of businesses during the COVID-19 crisis. By deferring enforcement for a period of time, which in terms of the Law on Enforcement and Security may be set to up to one year, at the request of the judgment creditor, will provide for additional protection of individuals whose accounts are subject to enforcement, particularly those whose salary or pension benefits are subject to enforcement, and those where enforced collection is set against their property, while the deferral of payment of judgment debtor liabilities will increase their economic power and help overcome adverse COVID-19 impacts.

### AN ADDITIONAL MEASURE FOR THE TOURIST SECTOR

#### DECISION ON BILLING ELECTRICITY WHILE THE COVID-19 CONTAINMENT MEASURES ARE IN FORCE

Between 1 April and 30 June 2020, the fixed part of the electricity bill will not be charged to entrepreneurs and businesses operating in the tourist industry, as well as those whose operations were suspended on the orders of the Ministry of Health aimed at COVID-19 containment.

### SOCIAL POLICY

#### SOCIAL BENEFITS AS A PART OF THE SECOND PACKAGE OF GOVERNMENT MEASURES

- One-off assistance worth €50 for those registered unemployed on 31 March of the current year who are not entitled to unemployment benefits or cash allowances, either as beneficiaries or members of a family recipient of family cash allowance.

- The Montenegrin Pension and Disability Fund pays out 13,819 proportionate pensions, i.e. pension benefits for beneficiaries who acquired the right partly in Montenegro and partly in other countries with which Montenegro signed international agreements to that effect; 5,767 benefits are paid in Montenegro, of an average amount of €82.81. The beneficiaries whose proportioned benefits from Montenegro and the respective other country combined does not exceed the minimum pension benefit of €128.82 were identified and granted one-off assistance for pensioners worth €50.

- **EPCG announces subsequent measures**: 1. Vulnerable customers currently entitled to a 50% discount will be granted an additional discount of an equal amount to avoid having any electricity costs for the duration of the measure; 2. The subsidy amount currently available will be doubled, at the EPCG’s own expense; 3. The termination of all Debt Settlement Protocols will be postponed.
4. The third package of measures to mitigate the impact of the COVID-19 crisis in Montenegro: 23 July 2020

**SHORT-TERM MEASURES**

<table>
<thead>
<tr>
<th>MEASURE 1:</th>
<th>MEASURE 2:</th>
<th>MEASURE 3:</th>
<th>MEASURE 4:</th>
<th>MEASURE 5:</th>
<th>MEASURE 6:</th>
<th>MEASURE 7:</th>
<th>MEASURE 8:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidised interests for rescheduled and new loans</td>
<td>Favourable credit lines</td>
<td>Tax reliefs</td>
<td>Subsidies on employee earnings</td>
<td>Grants for businesses</td>
<td>Defined investment structure and schedule by sector</td>
<td>Support to vulnerable groups</td>
<td>Creating additional fiscal space</td>
</tr>
</tbody>
</table>

**LONG-TERM MEASURES**

The development concept offering a new view of tapping into domestic resources towards sustainable development

- **IT industry**
  - Montenegro opens up new opportunities

- **Sustainable tourism**
  - Towards new realities

- **Agriculture, fisheries and food production**
  - The concept of quick breakthroughs

- **Environment friendly industry and energy**
  - Remediation and development measures

**Development principles**
- sustainable development; science and innovation;
- balanced regional development; green transition (decarbonisation); investments in human capital through education and more substantial participation of women and youth in delivering on development priorities

**Key instruments for creating an environment conducive to the achievement of development priorities:**
- Favourable credit lines; the relief of fiscal and para-fiscal burden
- Centres for S3 education and counselling for enterprises
- Education and Innovation Centre with virtual and augmented reality technologies
# AN OVERVIEW OF THE ENTIRE FINANCIAL FRAMEWORK OF THE THIRD PACKAGE OF MEASURES

<table>
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</thead>
<tbody>
<tr>
<td><strong>SHORT-TERM MEASURES</strong></td>
<td>82,700,000</td>
<td>31,600,000</td>
<td>9,050,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>127,350,000</td>
</tr>
<tr>
<td>Support for tourist businesses</td>
<td>50,950,000</td>
<td>26,100,000</td>
<td>6,300,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>83,350,000</td>
</tr>
<tr>
<td>Incentives for agriculture, agri-industry and fisheries</td>
<td>750,000</td>
<td>1,500,000</td>
<td>750,000</td>
<td>3,000,000</td>
<td></td>
<td>3,000,000</td>
</tr>
<tr>
<td>Fostering competitiveness</td>
<td>10,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>18,000,000</td>
</tr>
<tr>
<td>Subsidies for employee earnings</td>
<td>4,200,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,200,000</td>
</tr>
<tr>
<td>One-off assistance for vulnerable groups</td>
<td>1,800,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,800,000</td>
</tr>
<tr>
<td>Creating additional fiscal space</td>
<td>15,000,000</td>
<td>2,000,000</td>
<td></td>
<td></td>
<td></td>
<td>17,000,000</td>
</tr>
<tr>
<td><strong>MEDIUM-TO-LONG-TERM MEASURES</strong></td>
<td>198,527,000</td>
<td>178,254,860</td>
<td>123,495,630</td>
<td>68,483,630</td>
<td>524,969,630</td>
<td>1,093,730,750</td>
</tr>
<tr>
<td>Reinforcing IT businesses</td>
<td>827,000</td>
<td>1,046,815</td>
<td>25,995,630</td>
<td>983,630</td>
<td>969,630</td>
<td>29,822,705</td>
</tr>
<tr>
<td>Support for the tourist industry</td>
<td>100,000,000</td>
<td>9,700,000</td>
<td>7,500,000</td>
<td>7,500,000</td>
<td>7,000,000</td>
<td>131,700,000</td>
</tr>
<tr>
<td>The concept of quick breakthroughs in agriculture and fisheries</td>
<td>44,900,000</td>
<td>35,200,000</td>
<td>8,200,000</td>
<td>1,200,000</td>
<td></td>
<td>89,500,000</td>
</tr>
<tr>
<td>Economic measures for recovery and development</td>
<td>96,700,000</td>
<td>100,300,000</td>
<td>36,800,000</td>
<td>33,800,000</td>
<td>515,800,000</td>
<td>783,400,000</td>
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<tr>
<td>Support for the transport industry</td>
<td>10,508,045</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10,508,045</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>281,227,000</td>
<td>209,854,860</td>
<td>132,545,630</td>
<td>70,483,630</td>
<td>526,969,630</td>
<td>1,221,080,750</td>
</tr>
</tbody>
</table>
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- The Investment and Development Fund of Montenegro: www.irfcg.me
- The Ministry of Finance: www.mif.gov.me
- The Tax Administration: www.poreskauprava.gov.me
- The World Health Organization (WHO): www.who.int
- The Montenegrin Employers’ Federation: www.poslodavci.org
- The Government of Montenegro: www.gov.me
- The National Employment Office (ZZZCG): www.zzzcg.me