2021 SME COUNTRY FACT SHEET
MONTENEGRO

Brief introduction

- Montenegro’s economy has been severely affected by the COVID-19 pandemic and by the measures taken in response to it. In 2020, GDP dropped by an estimated 15.2%, while employment fell by an estimated 7.3%. A major factor in this downturn was a reduction in demand in the tourism sector, a key sector in Montenegro.

- In 2018, small and medium-sized enterprises (SMEs) contributed 69.3% of total value added and 76.3% of total employment. In comparison, the average SME contributions to value added and employment in the EU were much lower, at 52.9% and 64.9%, respectively.

- However, SME productivity in Montenegro, measured as value added per person employed, was only EUR 10 100 in 2018, roughly a quarter of the EU average of EUR 41 400. SMEs in Montenegro employ an average of 4.1 people, slightly more than the EU average of 3.7.

**SME-RELATED STRENGTHS AND CHALLENGES**

**KEY STRENGTHS**

- According to the Global Entrepreneurship Monitor, Montenegro performs well above the EU average in early-stage entrepreneurial activity – both in general and for female entrepreneurial activity.

- The government has delivered a strong policy response to combat low levels of investment in R&D. Recently, it approved a smart specialisation strategy for the country as well as an improved regulatory framework to promote innovation.

- Following a new lifelong learning strategy, there has been a substantial increase in enrolment in dual vocational education and training, according to a European Training Foundation report.

- According to an OECD report, the country suffers from an uncoordinated approach in the provision of support measures to SMEs. These have now been merged into a single support mechanism, making it easier for SMEs to access them.

**KEY CHALLENGES**

- Montenegrin SMEs face a competitive environment distorted by the informal economy. According to the Informal Economy in Montenegro Report, the informal economy is estimated to total between 26% and 31% of the country’s GDP.

- Alternative sources of funding are not available for young companies. Venture capital is practically non-existent and the local business angel network is limited, as reported by Eurostat and the Global Entrepreneurship Monitor. The Montenegrin Economic Reform Programme also recognises that traditional banking finance does not meet the needs of entrepreneurs, start-ups and innovative SMEs.

- Montenegrin companies face a number of challenges related to the administrative burden. As reported in the World Bank’s Doing Business report, these include paying taxes – which takes 300 hours a year – and the cost of enforcing contracts, which is above the EU average.

**OTHER KEY SME-RELATED BRIEF INSIGHTS**

**IMPACT OF COVID-19 CRISIS ON SMES**

The World Bank estimates that Montenegro is expected to experience the deepest recession among the Western Balkan countries in 2020 during the COVID-19 crisis. This is mainly due to its heavy reliance on tourism. The government launched three packages of measures in 2020 to tackle the impact of COVID-19, including credit lines, loan deferrals, tax relief measures and wage subsidies.

**START-UP ENVIRONMENT**

The Science and Technology Park Montenegro was established in 2019 to promote innovation and entrepreneurship and to provide support to high-tech young companies. In addition, the government is expected to approve a reform of the company registration process so that companies can register electronically.

Almost all SMEs (98.8%) use computers for their activities and have access to the internet (99.5%), but high-speed broadband connections are not yet commonplace. In 2020, the government started preparing the ‘Digital Transformation Strategy of Montenegro 2021-2025’ and established the Coordination and Advisory Body for Digital Transformation.

**GREEN TRANSITION OF SMES**

According to a Eurobarometer survey, 81% of Montenegrin SMEs have taken resource efficiency measures and 20% of them offer green products and services. The MSME Development Strategy 2018-2022 envisages the provision of advice and guidance on resource efficiency, backed up by financial incentives for SMEs.