Montenegro

In BEEPS V, the top three business environment obstacles identified by Montenegrin firms were competitors' practices in the informal sector; access to finance; and electricity issues (Chart 1). Large firms found issues with customs and trade regulations and workforce skills the most problematic. Manufacturing firms found electricity issues to be a more binding constraint than access to finance. In BEEPS IV access to finance was replaced by tax administration as one of the main business environment obstacles.

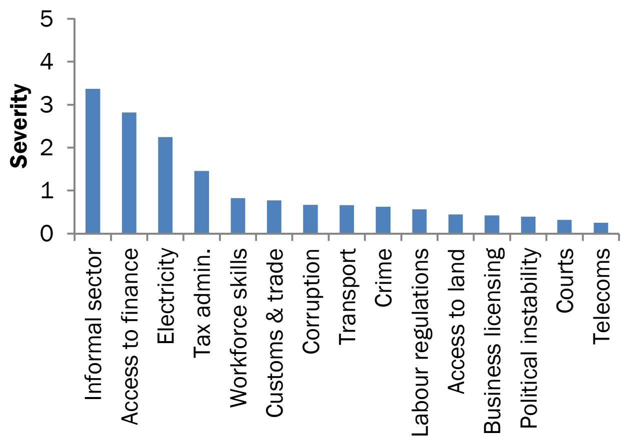
Fierce informal competition and high interest rates

Competitors' practices in the informal sector remained among the largest obstacles to conducting business in Montenegro. The share of firms that reported to compete with firms in the informal sector increased from 27.3% in BEEPS IV to 52.4% in BEEPS V (Chart 2). This may include practices by registered firms, such as paying part of the wages informally and not declaring them to the authorities, contributing to informal employment and affecting the tax revenue of the state.

Access to finance was the second most severe obstacle. Montenegrin firms relied much less on internal funds and retained earnings to finance working capital and fixed assets purchases than their south-eastern Europe (SEE) counterparts (Chart 3). Instead, more than a quarter of working capital and 14% of fixed assets purchases were financed by purchases on credit from suppliers and advances from customers. About 4.9% of the firms relied on non-bank financial institutions (microfinance or credit companies) to finance their fixed assets, more than twice the SEE average of 1.8%. Over half of surveyed firms had a loan, although the median collateral required increased to 240% of loan value, compared with 100% in BEEPS IV. Large firms had relatively good access to finance compared with SMEs: out of more than 90% of them that needed a loan, only 1.8% were credit-constrained, compared with 72.9% of credit-constrained SMEs out of the 51.2% that needed a loan. The situation was even worse for young firms: out of 55.9% that needed a loan, all were discouraged from applying for one.

Electricity issues remained among the top obstacles. While the wait for an electrical connection did not change significantly and was below the SEE average, there was a sharp increase in the percentage of firms reporting that an informal payment was expected or requested to obtain it: from 2.7% in BEEPS IV to 19.3% in BEEPS V. In addition, electricity supply became less reliable, with the percentage of firms experiencing power outages rising from 55.3% in BEEPS IV to 74.9% in BEEPS V (almost 20 percentage points above the SEE average), although they occurred less frequently overall and resulted in lower losses than in BEEPS IV.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Competition from the informal sector

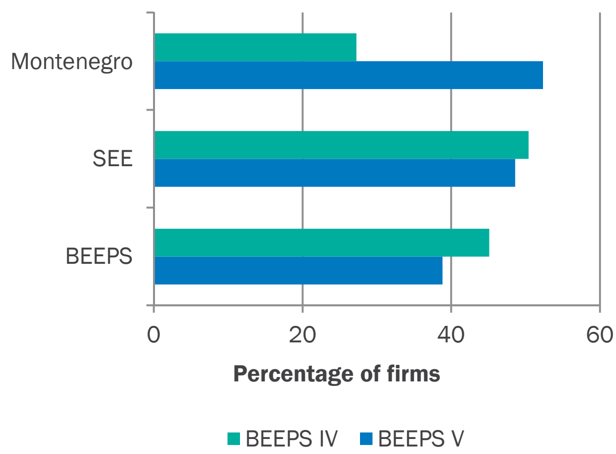
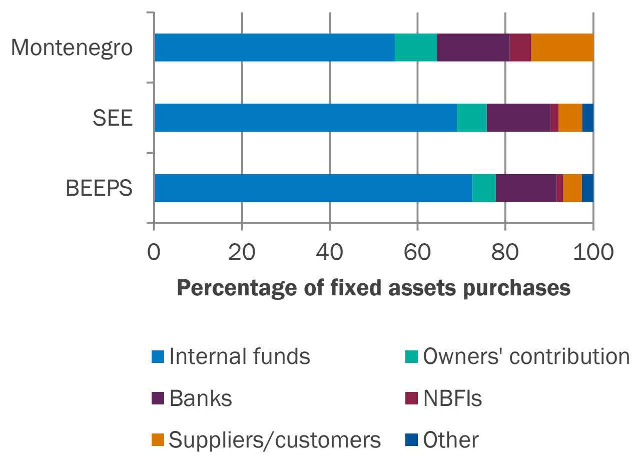


Chart 3. Sources of financing of fixed asset purchases



Survey fieldwork period: February 2013 – June 2013. SEE: Albania, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Kosovo, Montenegro, Romania and Serbia. Small and medium-sized enterprises (SMEs) have 5-99 employees. Young firms are less than 5 years old.