



Enhancing systemic support for innovations and MSMEs development

Norway for You - Montenegro (second phase)

August 2021

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Executive Summary

The second phase of the "Norway for You - Montenegro" project, "Enhancing systemic support for innovations and micro, small and medium enterprises (MSMEs) development" is designed to support the Government of Montenegro to accelerate growth, transformation and diversification of its economy. During 25 months of implementation, it is expected that the project will a) enhance efficiency and effectiveness of support provided for the development and transformation of MSMEs sector; and b) enhance institutional, organisational, and administrative capacity of innovation ecosystem institutions for implementation of innovation and smart specialisation policies.

Through seven result areas, the intervention will assist the Government to: design, implement, monitor and evaluate state aid programmes for the MSMEs (including through a priority grant scheme); it will work with the local self-governments (LSGs) to enhance business environment in their authority, but also to improve collaboration with the national government; then, complementary to IPA 2020 project, this initiative will support strengthening of the newly established Secretariat of the Innovation Council; the intervention will also focus on the reinforcing the institutional setting of the Innovation Fund and its capacities; furthermore, the newly established Science and Technology Park of Montenegro will get support to improve the quality of its services to its tenants; the National Technology Transfer Office will be established, while monitoring and control of innovation policies implementation will be enhanced through application of digital tools.

The two implementing agencies, UNOPS and the United Nations Development Programme (UNDP), while cooperating and coordinating relevant activities, will hold independently the accountability and responsibility for each specific result, and ensure good visibility of the donor's support. The Project Coordination Body (PCB) will include representatives of the Ministry of Economic Development, the Ministry of Foreign Affairs, the Innovation Fund, the Science and Technology Park, the Union of Municipalities of Montenegro, the Chamber of Economy, UNOPS and UNDP. The representatives of the donor, the Royal Norwegian Embassy, will participate in the work of the PCB as observers.

The project activities have been planned, while taking into account the key risks identified in the planning period: COVID-19 pandemic, potential changes in the Government, and the limited capacities of the beneficiaries. The Risk Management Approach will be defined at the start of implementation, to ensure establishment of a systemic approach to management of uncertainty.

Both UN agencies are committed to ensuring institutional, financial, economic, social, environmental, and technical sustainability of actions, in order to create a solid basis for benefits over time.

The performance will be measured against the planned targets within the results framework. Monthly and quarterly reports will be prepared for internal circulation, and annual and final report(s) will be produced for the donor and the key external stakeholders. The evaluation and audit will be organised in accordance with the relevant provisions of this Agreement.



List of acronyms

BSE	Business Support Entities
EBRD	European Bank for Reconstruction and Development
EU	European Union
FTE	Full-time equivalent staff
GDP	Gross Domestic Product
GG	Good Governance
IA	Implementing Agency
ICT	Information and Communications Technology
IDF	Investment and Development Fund
IF	Innovation Fund
ILO	International Labour Organisation
IP	Intellectual Property
LSG	Local Self-government
MED	Ministry of Economic Development
MFA	Ministry of Foreign Affairs of Montenegro
MS	Member State
MSME	Micro, Small and Medium Sized Enterprises
PB	Project Board
PCB	Project Coordination Body
RIA	Regulatory impact assessment
RNE	Royal Norwegian Embassy in Belgrade
R&D	Research and Development
SDG	Sustainable Development Goal
SME	Small and medium sized enterprises
SMP	Sustainability Management Plan
STEM	Science, technology, engineering and mathematics
STP	Science and Technology Park
S3	Smart Specialisation Strategy
TA	Technical Assistance
TTO	Technology transfer offices
UOM	Union of Municipalities
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNOPS	United Nations Office for Project Services

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Introduction

This intervention is designed to support the efforts of the Government of Montenegro to initiate transformation and diversification of its economy. The focus of the proposed intervention is two-folded:

- to enhance capacities of the national, regional, and local stakeholders to support Micro, Small and Medium Sized Enterprises (MSME) sector transformation;
- to strengthen the innovation ecosystem envisaged by the Smart Specialisation Strategy¹ of Montenegro (S3 Strategy) through institutional and administrative capacity building and digitalisation of administrative procedures.

The actions related to MSMEs transformation and building of the innovation ecosystem would be implemented by the United Nations Office for Project Services (UNOPS) and the United Nations Development Programme (UNDP) respectively within the second phase of the Norway for You - Montenegro project that was designed to support sustainable socio economic development of the country. The second phase of the project is funded by the Kingdom of Norway and will last for 25 months.² The proposed actions are embedded in the national policies and identified in collaboration with the national partners, primarily with the Ministry of Economic Development (MED).

Since the MED is as of recently mandated to support the employment and innovations, it is expected that it will manage around 17 different State Aid Programmes³ annually, majority of them focusing on support to the MSMEs growth. Considering increased Government's commitment in this field and volume of planned support, UNOPS will, through the second phase of the project, strengthen the MED institutional, administrative, and technical capacity for implementation, monitoring and evaluation of the State Aid Programmes. It will also support initiatives of the Business Support Entities that will facilitate transformation and growth of MSMEs. Furthermore, selected local self-governments (LSGs) will be supported in efforts to contribute to implementation of the national policies, while creating a more conducive environment for business development at the local level. Underlying objective of these initiatives is to synchronise and enhance efforts of national, regional, and local stakeholders, including MSMEs, towards diversification and transformation while following relevant national policies.

The second focus of this intervention, which will be implemented by UNDP, is inspired by the recognition of innovation as an essential driver of Montenegro socio-economic development that benefits consumers, businesses, and the society as a whole. Key principle here is that the role of innovation is to translate scientific research into new high-quality services and products with the aim of raising competitiveness in the global market and improving the quality of life for the citizens.

Since 2018 Montenegro accelerated establishment of its innovation ecosystem, by introducing S3 Strategy, as overarching strategic framework in setting approach to innovation, but also introducing Law on Innovation Activities⁴ and Law on Incentives for Research and Development⁵ as fundamental laws on innovation. Key elements of the policy driven innovation ecosystem are already in place, including recently established Council for Innovation⁶ as well as recently established Innovation fund⁷ but also innovation related institutions, such as Science and Technology Park of Montenegro, which is perceived as the central point of the future Innovation network institutions.

This part of the proposal encompasses provision of support for enhancement of institutional, organisational, and administrative capacities of institutions that constitutes the innovation ecosystem. The assistance will predominantly be based on provision of expert support for development of strategic and operational plans, design of innovation services and programmes, provision of organisational support and training to staff of targeted innovation institutions.

The second phase of the Project will be implemented in collaboration with national and other relevant stakeholders to ensure synergies among complementary interventions. UNOPS and UNDP will closely coordinate their activities, especially the ones related to design of innovation programmes and development of digital tools. Activities will be coordinated with the European Bank for Reconstruction and Development (EBRD), which provides support to the

¹ [Smart Specialization Strategy 2019-2024](#)

² Specifically, from 9 August until end September 2023

³ https://mek.gov.me/program_za_unapredjenje

⁴ [Official Gazette of Montenegro, 82/20 LAW ON INNOVATION ACTIVITIES](#)

⁵ <https://wapi.gov.me/download/2babe8ff-11f9-422b-807a-a02de41d54bb?version=1.0>

⁶ <https://wapi.gov.me/download/39be80f0-318c-4989-bff1-33ac5693f489?version=1.0>

⁷ [Predlog odluke o osnivanju društva sa ograničenom odgovornošću „Fond za inovacije Crne Gore“ Podgorica](#)



Government to enhance programming of the State Aid by analysing their effectiveness and providing assistance for their development. Activities benefiting small businesses will also be coordinated with the Small and Medium Enterprises Unit of the International Labour Organisation (ILO) that also works on capacity building of enterprises and strengthening of the labour market. Interventions related to strengthening of the innovation ecosystem will be in particular coordinated with the Technical Assistance for Supporting the Implementation of Strategy for Smart Specialisation Project, that is funded Instrument for Pre-Accession Assistance – IPA II for 2020.

Problem analysis and justification

Montenegro is a European Union (EU) pre-accession economy where the micro, small and medium sized enterprise (MSMEs) sector provides for a 60-70% contribution to the country's gross domestic product (GDP) output and accounts for three quarters of those who are employed in the private sector.

The need for stronger support to the MSMEs and economic diversification and transformation has been recognised by the Government even before the COVID-19 outbreak, throughout different strategy documents. The pandemic consequences have amplified this need as well as the need for introducing a more systemic support to small businesses in making them further resilient to the future outbreaks. Financing of the small businesses is continuously raised as an issue by all stakeholders, including also the low capacity of MSMEs to recognise appropriate financing mechanisms, nationally and internationally.

Strategy for Development of Micro, Small and Medium Enterprises Development 2018-2022⁸ places capacity building, innovation, access to information and advisory services, association initiatives, and a range of other methods that would tap the potentials of the MSMEs towards improved access to finances, internationalisation and export orientation, particularly of women and youth. The 2019 Report on the Strategy Implementation⁹ verifies the directions in its recommendations by emphasizing the need for supporting growth of women and youth owned business. It indicated significant progress in activities related to enhancement of business environment and high realisation of measures enhancing access to finances. In terms of challenges and priorities for the coming period, this Report among others noted the need for further simplification of administrative services and their digitalisation, for enabling easier access to financial mechanisms, improvement of non-financial support to MSMEs, introduction of new financial support schemes for MSMEs, and enhancement of innovations.

In addition, **although there are EU funds and other funding opportunities available for MSMEs, there is still a very low absorption of the financial support by the MSMEs.** There are structural funds still available for the MSMEs, including favourable loans of IDF,¹⁰ but the key fact in the forthcoming period is that MSMEs will need to introduce innovation, digitalisation as well as greening in doing business.

National Strategy for the Sustainable Development of Montenegro 2030 recognises the importance of more balanced regional development of LSGs and regions, with focus on the northern part of the country, which will be based on competitiveness, innovations, and employment. The Strategy supports measures that enable identification of new opportunities for economic growth, mobilisation of research and innovations, and enhancement of competitiveness. The objective of enhanced competitiveness of Montenegrin economy for sustainable development and green jobs should be achieved among others through enhanced business environment for development of MSMEs, establishment of favourable financial instruments for supporting entrepreneurs and MSMEs, and improvement of quality of MSMEs' products and services.¹¹

Industrial policy of Montenegro 2019-2023¹² prioritizes improved access to finance, including redesign of the financial framework supporting it, diversification of the industries, and strengthening cooperation between MSMEs and Business Support Entities, primarily with the purpose of empowering production technology and sale, but also in accessing different funding mechanisms. This Strategy also emphasizes the importance of introducing greening and digitalisation, as well as ICT and creative industries as "emerging industries" in Montenegro.

⁸ [Strategy for development of micro, small and medium enterprises 2018 - 2022](#)

⁹ [2019 Report on the SME Strategy Implementation](#)

¹⁰ [IDF - BACKGROUND INFORMATION](#)

¹¹ [National Strategy for the Sustainable Development of Montenegro 2030](#)

¹² [Industrial Policy of Montenegro 2019-2023](#)



The **COVID-19 outbreak** and a range of its negative effects, primarily resulted in 79% lower number of tourists in 2020 compared to the data from 2019,¹³ and in a slowdown of the overall economic activity, triggering a steep increase in public debt, most likely exceeding 90% of GDP in 2021. Negative development trends have stimulated the re-thinking of the transformation of the economy by prioritizing some other sectors. In this regard, the Government of Montenegro announced that Montenegrin development will be based on the following pillars: green economy, digital transformation, regional cooperation and connectivity, improving competitiveness, society of equal opportunities and good governance.¹⁴

UN Common Country Assessment for Montenegro,¹⁵ recently developed by the United Nations Country Team (UNCT) as a base for the United Nations Development Assistance Framework (UNDAF) 2021-2027, claims that an appropriate mix of policies and programmes, which harness digitalisation and the green economy, could offer a pathway to stimulate structural transformation to higher value/productivity sectors, thereby broadening the production base.

Along with four fiscal measures introduced to support industry throughout the COVID-19 period, the Government is looking for a long term solution in creating a sustainable system of support to the MSMEs, which includes State Aid Programmes (primarily grant schemes) for small businesses, not just in building better resilience to possible future outbreaks but also in using the opportunity to transform small business functioning.

On the other side, according to the 2021 European Innovation Scoreboard¹⁶ Montenegro is in the group of emerging innovators, which means its innovation performance is well below 50% of the EU average, but on the other side it has a relatively large share of In-house product innovators with market novelties. Still inadequate performance of Montenegrin eco-system is multi-layered, and it could be viewed from institutional, legislative, networking (insufficient collaboration between academia and private sector) and financial level. As regards the share of R&D expenditure in 2018, in Montenegro it accounted for 0.35% GDP, while at the same time in EU 28 it was 2.12% GDP, out of which the share for the private sector was 0.05% GDP while in EU 28 it stood at 1.45% GDP.

Another indicative data regarding innovation capacities of Montenegrin MSMEs is provided in pilot MONSTAT¹⁷ data in the area of innovation statistics. The pilot data indicates a relatively high share of innovative enterprises in Montenegro with 55.3% compared to 49.7% in the EU 27. Taking, on the other hand, the share of sales accounted for by innovation, Montenegro lags behind the EU 27 (7.16% in Montenegro, and 13.72% in the EU27).

The previous data provides clear indications that the innovation potential does exist in Montenegrin MSMEs, but there is also a need for the state to enforce institutional setting and introduce improved/new measures to create a systemic framework to enable knowledge and technology transfer from the science and research sector, and foster innovative MSMEs to explore, protect and use intellectual property.

Smart Specialisation Strategy of Montenegro (2019-2024) made Montenegro the first EU candidate country to adopt it, hence setting a strong leadership pace in the Western Balkans for the growth of knowledge-based economy. Smart specialisation is a "Made in EU" approach to optimise research and innovation investments in EU regions and states. The S3 Strategy has opened new paths of collaboration within the European value chains as well as with EU institutions such as Joint Research Centre which supports all EU member states (MS) but also Western Balkans in its implementation. It prioritizes development of the following sectors: sustainable agriculture and food value chain, energy and sustainable environment, sustainable and health tourism and ICT.

Law on Innovation Activities including Law on Incentives for Incentives of Research and Innovation Development are fundamental laws referring to Innovation. When it comes to the Innovation ecosystem development, since 2018, Montenegro started to create its innovation policy, while many policy initiatives in this field have been created in collaboration with the business community and society. New legal framework recognises the main actors in the system: those who perform innovation activity, innovation infrastructure holders and innovation investors.

Innovation related support schemes have been initiated by the Government of Montenegro since 2018, through the ministry support services. The impact of these schemes need to be evaluated and transferred, with modifications,

¹³ [Macroeconomic report 2020, Central Bank of Montenegro](#)

¹⁴ [Programme of the new Montenegrin Government, 2020](#)

¹⁵ [Common Country Analysis, UNCT Montenegro](#)

¹⁶ <https://ec.europa.eu/docsroom/documents/45926>

¹⁷ Statistical Office of Montenegro



to the Innovation Fund for a more professional and effective implementation. Digitalisation of administrative processes would allow for higher transparency, cutting of red tape and providing analytical tools for monitoring and evaluation of policy instruments.

The above-noted policies, priorities, and developments, confirm relevance of activities that would complement efforts of the Government, and in particular of the MED, to enhance efficiency and effectiveness of the State Aid Programmes, as well as of activities that would strengthen capacities of LSGs and business support entities to support MSMEs transformation.

Furthermore, there is an opportunity and need to engage with a broad range of partners in order to support the development of the innovation ecosystem, promote stronger roles of women in STEM and overall digital transformation of Montenegro. The experience of other countries shows that boosting technology capabilities and innovative entrepreneurship requires an effective non-fragmented institutional framework, well-designed programme framework, support schemes and also sizable funding.

Beneficiaries and key stakeholders

The following are the Project's key beneficiaries and stakeholders:

The Ministry of Economic Development (MED) is mandated to enhance the competitiveness, investment environment and cooperation with the business community. It strives to improve the business environment and facilitates easier conduct of business operations for small and medium-size enterprises and strengthening entrepreneurship. MED is the "owner" of the Strategy for Development of MSMEs and an important stakeholder in implementation of the innovation agenda. The MED will directly benefit from part of activities, while indirect support is ensured through contribution to implementation of national policies. The MED will participate in the work of the Project Coordination Body (PCB).

The Council for Innovation and Smart Specialisation was established in August 2019 in order to coordinate the activities on implementation of the Smart Specialisation Strategy at the highest political level. The Council, among others, coordinates the key activities of state administration bodies and other competent authorities and institutions tasked with implementation of the priorities and measures identified under the Smart Specialisation Strategy of Montenegro (2019-2024), first and foremost planning the budget and donor funds. Moreover, it coordinates the activities of state administration bodies and other competent authorities and institutions in terms of establishing investment priorities and implementing measures defined by strategic development documents in the field of innovation.

The Innovation Fund of Montenegro (IF) has been established as a state-owned company, which will play a key role in developing and implementing government innovation policy based on the smart specialisation concept and is intended for innovative entrepreneurship as a driver of sustainable economic development. By pursuing evidence-based policy and putting in place financial, expert and other assumptions, the aim of the Innovation Fund is to create a transparent framework for transforming innovation into commercial products for the market. By providing grants and by promoting and attracting investments in entrepreneurship, the Fund will provide an environment conducive to commercialisation of scientific outputs and development of innovative entrepreneurship within the existing or new businesses. The IF will directly benefit from the Project. The IF will participate in the work of the Project Coordination Body (PCB).

The Science and Technology Park of Montenegro (STP), as the central innovation infrastructure object in Montenegro, has been created with the aim to foster cooperation of academic institutions with business and financial sectors and to be a generator of innovative activities, entrepreneurship and creation of high value products. The STP will become an interactive hub where innovative and creative individuals and projects will merge, along with the intensive cooperation of key stakeholders of entrepreneurial process (science and economy). It also has an important role in attracting foreign investments in high-tech industries, commercialisation of research results and support internationalisation of MSMEs. The STP is included in the National Infrastructure Projects Unique Pipeline and financial resources for its works are planned in the national capital budget, while completion of works is expected in 2022. The Park employs four people and one intern at the moment, participates in several innovation support projects and is ready to take all actions for the full operation of the infrastructure. The STP will participate in the work of the Project Coordination Body (PCB).



The National Technology Transfer Office (TTO), once established within the scope of this project, will assist universities and researchers in identifying research results that have commercial value and will support innovators to commercialise their ideas through a disclosure process. In parallel, given the low level of technological capacities of Montenegrin companies, the TTO will support capacity development of the business sector regarding the technology integration into their business processes which can lead to their improved products and competitiveness.

The Micro, Small and Medium Sized Enterprises sector (MSMEs) are the main growth driver in Montenegro as they represent 99% of active business entities and they are a major employment sector by providing 75.5% of total national employment, participating with 75.2% in export share and 83.13% in total employment. The importance of MSMEs and entrepreneurship is reflected in several national strategic documents, such as the Strategy for Development of Micro, Small and Medium Enterprises 2018 – 2022.¹⁸ The Strategy acknowledges a growing trend of MSMEs number in Montenegro, as by the end of 2020 the number was 37,255. The MSMEs will benefit both directly and indirectly from the Project.

Business Support Entities (BSEs) are defined as entities which contribute to the development goals such as economic growth, employment generation as well as poverty reduction. BSEs role, among others, is to provide advisory services to the business community and to promote a favourable business environment. They represent a key catalyst for local and regional needs and resources, participate in the implementation of relevant national policies, programmes and projects in the territory of their competence, thus practically representing a bridge of communication and coordination of development policies and programmes between the national and local levels of the Government. This project will provide grants in support of selected BSEs projects that benefit MSMEs development.

Local Self-governments (LSGs) are, among others, responsible for preparation of development policies and creation of conditions for development of entrepreneurship, tourism, and agriculture. The LSGs will be supported to enhance the local business environment and collaboration with the national institutions.

The Union of Municipalities of Montenegro (UOM) is a national association of local authorities of Montenegro in charge of improving organisation, work and functioning of the local government. Among its numerous activities, UOM develops and improves the legal system and the position of local government, representing common local government interests in front of state bodies and other domestic and international entities. UOM also participates in public debates and gives opinions and suggestions regarding laws and other regulations identifying relations important for the local population and cooperates with international organisations of local governments and other international organizations. The Project will coordinate activities related to LSGs with the UOM. The UOM will participate in the work of the Project Coordination Body (PCB).

The Chamber of Economy of Montenegro is a business association that represents the interests of all registered economic agents or the economic and overall development of the state of Montenegro. It enables companies to participate in managing the economy and thus preserve their freedom, encourages production in the economy, presents business opportunities in foreign countries and fosters business ethics and practices. The Project will coordinate activities related to LSGs with the Chamber. The Chamber of Economy will participate in the work of the Project Coordination Body (PCB).

The Ministry of Foreign Affairs of Montenegro (MFA), as the national coordinator for development cooperation, along with the line Ministries of the Government of Montenegro, is the major stakeholder in the Project. It has responsibility for monitoring the Project implementation and providing assistance and facilitation as necessary. The MFA will participate in the work of the Project Coordination Body (PCB).

The Government of Norway, through its Royal Norwegian Embassy in Belgrade is the contracting authority. The Ministry of Foreign Affairs of Norway (MFA) has an overarching Agreement with Montenegro supporting primarily its integration into the European Union with a specific requirement to support projects contributing to the reforms process and to the development of sectors to the EU and the NATO standards.

The United Nations Office for Project Services (UNOPS) has the overall responsibility for the implementation of Project results 1 and 2.

The United Nations Development Programme (UNDP) has the overall responsibility for implementation of results 3, 4, 5, 6 and 7.

¹⁸ [Strategy for development of micro, small and medium enterprises 2018 - 2022](#)



Relevant projects

This project will in particular coordinate activities with:

IPA - Montenegro is currently benefiting from a wide EU financial assistance programme set out in the Indicative Strategy Paper 2014-2020¹⁹. The 2020 Annual Action Programme²⁰, deriving from the Indicative Strategy Paper, will target the sectors of Democracy and Governance, Rule of Law, Competitiveness and Innovation Employment and Social Issues, and Education, employment and social policies. More specifically, in the coming period, within the Action Programme for 2020, publication of two grant schemes is planned: one to support women's entrepreneurship, and the other to implement the S3 strategy through innovative projects. Both grant schemes will have small technical support projects that will be implemented in order to support the grantees in the implementation of these projects. All these activities are closely coordinated and will be complementary with both segments of the present Project. These projects are yet to be approved.

EBRD will strengthen the institutional capacity of MED related to MSMEs development and enable regulatory improvements to enhance the business environment for SMEs. While EBRD support is focused on the institutional capacity and "programming side" of the State Aid, this Project will build complementary operational and technical capacity. EBRD's project will also support development of the web portal to serve as a single access point of information for the MSMEs and other external audiences - this intervention is complementary to development of information systems for internal monitoring and assessment of State Aid programmes. The Project will therefore establish a systematic approach to coordination with the EBRD, which will include periodic meetings and regular exchange of information, to ensure coordinated and complementary implementation of akin activities. When relevant, EBRD may be invited to attend the Project Coordination Body meetings as an observer.

ILO - The main framework for the delivery of ILO support to Montenegro is the Decent Country Work Programme 2019 to 2021²¹. Current ILO support focuses on: a) providing better access to public employment services for vulnerable groups such as persons with disabilities, long term unemployed or youth; b) modernising labour market administration processes through digitalisation; c) strengthening labour inspectorates; d) supporting social and economic councils; e) Introducing alternative dispute resolution for labour conflicts and Support Employers and Workers' organizations in improving advocacy and service delivery to members. The Project will coordinate its activities supporting MSMEs and the ones facilitating vertical and horizontal collaboration to enable exchange of best practices and lessons learned.

Project objectives, results, and activities

Overall objective

- To contribute to a diversification and competitive growth of Montenegro's economy.

Specific objectives

The proposed interventions will specifically:

- Enhance efficiency and effectiveness of support provided for the development and transformation of MSMEs sector;
- Enhance institutional, organisational, and administrative capacity of innovation ecosystem institutions for implementation of innovation and smart specialisation.

Results and activities

Result 1: Enhanced capacity of the Ministry of Economic Development to implement, monitor and evaluate State Aid Programmes supporting MSMEs

¹⁹ [Indicative Strategy Paper for Montenegro for the period 2014-2020](#)

²⁰ [Annual Action Programme 2020](#)

²¹ [Decent Country Work Programme 2019 to 2021](#)

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Timeline for implementation: August 2021 – January 2023

The Result 1 will enhance the administrative and technical capacity of the MED to design, implement, monitor, and evaluate State Aid Programmes for MSMEs. The approaches, regulations,²² processes, and tools will be improved, but also the competencies of the MED staff will be strengthened.

Development of an information system will facilitate monitoring of support programmes as well as evaluation of their efficiency, effectiveness, and impacts. It will also enable extraction of analytical data that will be valuable input for revising existing and planning future MMSEs schemes. This system will also contribute to transparency of State Aid Programmes as the MED will have real time access to data and will be in a position to enhance reporting towards the general public in this segment.

Furthermore, the Business Support Entities (BSEs) will be engaged to provide support for development of MSMEs. This will enable growth of the targeted MSMEs. Finally, this Result will promote the role which BSEs can play in implementation of the national policies and programmes at the grass roots level as well as in bridging the gap between the opportunities provided for the MSMEs and their ability to explore them.

The Project will explore the opportunity for signing of the Memorandum of Understanding²³ with the MED to define responsibilities and facilitate implementation of activities.

Activity 1.1. Improve regulations, processes, and tools related to implementation and monitoring of State Aid Programmes for MSMEs

The Project will provide technical assistance (TA) to the MED for revision of approaches and processes related to the implementation and monitoring of State Aid Programmes to MSMEs.

Initially, regulations, processes, and tools applied by the MED will be reviewed. This assessment will among others include analysis of governance principles: accountability, transparency, and efficiency. Special attention will be given to the review of the approach to monitoring and evaluation of the State Aid Programmes.

Based on the Review findings, while considering good international practices, and extensive UNOPS experience related to fund (and grant) management, in consultations with the MED, TA will be provided for revision of existing or development of new methodology, processes and tools pertaining to implementation, monitoring, and evaluation of the State Aid Programmes.

This activity also includes development of e-based supporting materials and delivery of learning sessions to the relevant MED staff in order to facilitate application of the new approaches.

Internally, outputs of this Activity will be, where relevant, considered in Activities 4.1.1 and 4.1.2 to ensure consistency in approaches and avoid duplication. Externally, this Activity will be complementary to the EBRD intervention that also strengthens MED capacities, but will focus on policy and regulatory improvements related to the strategic and programming side of MSMEs support schemes. The Project team will closely coordinate activities with the EBRD to ensure maximum synergy and harmonisation.

Activity 1.2. Design and implement priority grant scheme in collaboration with the MED

The purpose of this activity is twofold: through joint engagement with the MED in design and conduct of the grant scheme, in accordance with good international practices and UNOPS methodology, capacities of the MED for implementation of other State Aid Programmes will be strengthened; and, secondly, the scheme will provide direct benefits to MSMEs.

While the final criteria will be confirmed with the MED and the donor, the grant scheme will support the sectors of sustainable agriculture and food value chain, sustainable and health tourism, ICT, creative industries, and manufacturing. Proposals that support introduction of technological advancements, digital transformation, greening of businesses, internationalisation and export and sales will be eligible for support. The scheme will be opened to

²² This does not relate to legal norms regulating State Aid but to regulations related to management

²³ Or exchange letters, or similar

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BSEs from the whole country, but proposals supporting MSMEs in underdeveloped municipalities²⁴ will be given special consideration. In addition, proposals positively affecting vulnerable groups (women and youth) will be highly prioritized. Opening of new jobs will be among the criteria for obtaining grants.

UNOPS Project Team will cooperate with the designated MED staff on design of the grant scheme and documentation. After the approval of the scheme, a campaign (information sessions, promotional materials, and media activities), will be organised to strongly promote the scheme and attract eligible BSEs to apply.

The applications will be evaluated in accordance with UNOPS regulations, and with involvement of the MED staff. Following the issuance of grants' contracts, UNOPS Project Team will organise training for the grantees on project management, and administrative and financial obligations deriving from the grant agreements. Grantee's progress and performance will be continuously monitored in order to facilitate successful implementation of supported projects.

Special attention will be given to identification of lessons learned and good practices that could be integrated into the Ministry's approaches related to the State Aid Programmes.

Activity 1.3. Design information system to monitor and assess State Aid Programmes

This activity includes development of an integrated information system that will enable recording, monitoring and analysis of data related to implementation of the State Aid Programmes for MSMEs.

The intervention encompasses procurement of the information system and conduct of training for MED staff and other relevant institutions' staff on how to use system functionalities, including available analytical operations.

UNOPS' experts will identify the specific needs in consultation with the MED, develop technical specifications and engage a company that will design and deliver the information system. The selected company will be responsible for delivery of training and provision of technical support for smooth running of the system in the early phase. UNOPS will stay engaged through the process to ensure that the provided solution is fit for purpose and that the data generated by the information system are used as ground for monitoring and evaluation of the State Aid support.

This activity also complements the EBRD intervention on designing the Web Portal providing all necessary information on systemic support to MSMEs and serves as a main single access point for information for the MSMEs about State Aid Programmes and all other information relevant to MSMEs in the county. Furthermore, this information system will be compatible with the Register for Innovation Activities, whose establishment is envisaged under the Result 7.

Result 2: Enhanced business environment and support to MSMEs at the local level

Timeline for implementation: November 2021 – January 2023

This result will strengthen the capacity of LSGs to enhance the local business environment, including services and support they provide to MSMEs. This will be achieved through enhancement of vertical coordination - between the MED and line national institutions and LSGs and other stakeholders at the local level. On the one hand, LSGs would provide stronger contribution to implementation of national policies at the local level, while the national institutions would better respond to local priorities and needs. In addition, horizontal institutional coordination, primarily among LSGs, will be strengthened, to facilitate exchange of experiences and best practices.

Furthermore, the selected LSGs will be supported to enhance collaboration with the business community, improve existing or introduce new business related services and revise support schemes that benefit the business community. These efforts should facilitate development of MSMEs.

Expected outcomes also include identification of inter-municipal projects and enhanced awareness of good international and Montenegro practices related to the local business environment.

Activity 2.1. Develop mechanisms for improved collaboration between national and local governments and other stakeholders pertaining to development of MSMEs

²⁴ Possibly rural areas



The first sub-activity will analyse the collaboration between the national and local governments and other stakeholders (i.e. vertical coordination'), and try to identify the gaps on issues related to the development of entrepreneurship and MSMEs. The analysis will provide inputs for development of proposals for strengthening of institutional mechanism(s) that should: enable more efficient and effective coordination and collaboration between national and local level regarding provision of support to MSMEs sector; contribute to enhanced awareness at the local level about national economic policies, including those related to innovations, and about financial mechanisms supporting MSMEs; enable the MED and national institutions to better understand local priorities, needs, and challenges; facilitate horizontal collaboration, including exchange of good practices, among LSGs.

The collaboration between the national and local levels will also be analysed through the work of focus groups, consisting of the LSG representatives and business associations. The following criteria will be considered in identification of LSGs that will make the focus group: population size (to ensure representation of larger and smaller LSGs); geographic position (to ensure even geographic representation); development levels (to ensure stronger representation of less developed municipalities, in particular from the north of the country). There will be at least four periodic meetings of the focus group during the life cycle of the Project in order to facilitate monitoring of progress and replication of good practices.

Furthermore, this activity will include development of a matrix of organisations that actively support the MSME sector, in order to identify possible overlaps and opportunities for synergies.

At least one high profile national event will be organised to promote national policies and priorities, and facilitate their implementation at the local level.

In addition, at least two workshops will be organised for local development practitioners from LSGs in order to enhance their competencies related to creation of a more conducive business environment and development of entrepreneurship and MSMEs, while considering Montenegro's policy and legislation framework. These workshops will include representatives of the MED and other national stakeholders and enhance "vertical coordination". They will also encourage inter-municipal cooperation and, where relevant, facilitate identification of inter-municipal projects. Considering the importance of digital transformation, green economy and innovations in general, the workshops will also include sessions on these concepts. These workshops will be used to present good international, regional, and Montenegro practices related to provision of support for development of the local economy.

Finally, parts of this activity that are related to promotion of Montenegro's innovation agenda will be implemented with inputs from the UNDP, which contributes to synergies among results of this Proposal.

Activity 2.2. Support LSGs to design and implement measures supporting MSMEs development

This intervention includes development of tailor made support packages that will benefit at least three selected LSGs in design and implementation of measures that contribute to the creation of a business friendly environment as well as that promote and support development of entrepreneurship and MSMEs.

The tailor made packages may include the following support activities: cooperation between LSG and local business community; promotion and support schemes for entrepreneurship and MSMEs; improving availability of data about business community; reviewing local taxes and fees; improving LSG's services to business community, including e-services; and enhancement of project management capacities of LSGs departments dealing with local economic development, including for development of project applications. At least two areas of LSGs performance related to business environment and MSMEs development will be improved through these tailor made support packages.

The support packages will be primarily based on the provision of a TA and, where justifiable, procurement of IT equipment including software, which could be bought to enhance management of data related to MSMEs or to enhance some e-services. The criteria for the selection of beneficiary LSGs will include but not be limited to: commitment and interest from the LSG; relevance in the context of local development policies and needs; potential for generation of effects; development level of LSGs (focus should be on less developed LSGs as they have limited resources); institutional, financial, and environmental sustainability. The criteria will be confirmed in collaboration with the MED, while consulting other relevant stakeholders, such as the Union of Municipalities of Montenegro.

Finally, the results of this activity will be strongly promoted among national authorities and other LSGs in order to facilitate replication of the most effective approaches.



Result 3: Smart specialisation implementation framework strengthened and newly established Secretariat of the Innovation Council fully functional

Timeline for implementation: September 2021 – September 2023

The Project will provide expert assistance for the support to the MED in S3 policy design and monitoring, as well as for putting in function key junctures in the S3 implementation framework. Namely, the Council for Innovation and Smart Specialisation - a key body for the operationalisation of the Smart Specialisation Strategy of Montenegro (S3), will be supported by an operational unit - Secretariat, while the Innovation Working Groups as a decided form of the continuous Entrepreneurial Discovery Process, an essential participatory instrument for making the S3 in Montenegro a live and dynamic policy, will be activated.

Based on the good practice of the Council for the Competitiveness of Montenegrin Economy, and its Secretariat, established under EBRD support and additionally supported by the British Government, the idea is to have the Council for Innovations and Smart Specialisation, foreseen by the Law on Innovations, as a development oriented Government consultative body. The Secretariat would function under the motto "Dialogue for Innovative Montenegro" and would connect all the stakeholders in the S3 implementation. Together with the operationalisation of the Innovation Fund of Montenegro as a main implementation body for S3 – also supported by this project – a significant push will be given to Montenegrin public administration and for the benefit of MSMEs as end-users of this policy, and economy in general.

Expert support will be provided to ensure efficient coordination and alignment of the Council decisions as well as effective communication towards MED, scientific community, and business sector in Montenegro. In addition, the Council will be supported in fulfilment of the priority activities and obligations in close cooperation with the S3 community established, capable of giving clear policy advice. It envisaged development of the new Work Programme of the Secretariat of the Council for Innovation and Smart Specialisation and its effective implementation. Efficient Implementation of the Work Programme will lead to the fulfilment of a number of the Council's obligations in accordance with the new legislation in the field of innovation.

This result will build on expert support that was provided to the Innovation Council through the UNDP Project from March 2019 to April 2020. In addition, it will be complementary to the IPA IIA 2020 Pre-Accession Assistance project, implemented by MED, which is designed to support capacity building of the Innovation Council and Innovation Fund. The Result 3 has been conceptualised to ensure synergy with activities envisaged under IPA IIA 2020 action and avoid duplication or/and overlapping.

It is planned that experts during the engagement will closely work with at least four employees of the Ministry and thus to transfer knowledge and experience in the field of their own expertise. In this way, the capacities of the Ministry in the new area will be strengthened and sustainability in the implementation of innovation policies will be ensured.

Activity 3.1. Provision of policy advice for more effective S3 implementation by the four priority thematic Innovation working groups (agriculture, energy & environment, tourism, ICT) in order to enhance community dialogue

The activity will encompass the constitution of innovation working groups; creation of their work programmes, synchronized with the Secretariat and the work plan of the Council; regular meetings with concrete outputs for the S3 governance and implementing institutions; giving opinion on the Operational Programme for S3 (planned for Q4 in the Government Programme for 2021); review of all the policy instruments and giving guidelines for their better alignment with the S3; giving opinion on the infrastructural improvement for the S3, as an input for the National Research Infrastructure Roadmap (planned in Q4 2021) and Laboratory Centre of the Science-Technology Park; giving opinion on the "transformative projects" as potential state/local public development projects, PPP or private investment projects that are in line with S3; reacting on the current developments in legislation relevant for innovations and research; setting up of a digital tool for communication etc. The experience of the Innovation Working Groups in the current policy cycle (2019-2024) will be formulated as a White Paper for the next S3 policy cycle development (post-2024).

Activity 3.2. Creation of the Work Programme of the Secretariat of the Council for Innovation and Smart Specialisation and its effective implementation.

The work programme will encompass two years where the activities from the S3 Operational Programme that deal with governance and participatory dialogue will be operationalised. Such activities include preparation of opinion of the Council on the draft work programme of the Innovation Fund, specifically its funding instruments; support to the Ministry in the formulation of S3 policy documents; preparation of the Council's proposal for changes in policy



instruments foreseen in the Strategy or their migration from a Ministry to the Fund; decision of the Council on the inter-ministerial allocation of funds for innovation projects to the Fund; coordination of donor support to research and innovation; preparation of methodology for creation of a pipeline of transformative S3 projects; collaboration with UNDP / EC / JRC / EIT on the related topics; coordination of the work of the Innovation Working Groups and streamlining their opinions towards Council and Government decisions; coordination of inter-ministerial collaboration on S3 implementation; preparation of opinions of the Council on other relevant legislative and strategic policy actions at the level of the Government; commissioning of necessary analytical documents, studies for evidence-based policy making etc. The activity will be supported through this project by the engagement of the key expert, while additional experts will be provided as non-key experts from a complementary IPA-2020 project which is under tendering procedure and should start by the end of 2021 and last for 16 months. It is planned that the key expert during the engagement will closely work with at least two employees of the Secretariat and thus to transfer knowledge and experience in the field of his own expertise.

Result 4: Strengthened institutional setting of the innovation ecosystem through improved governing and administrative capacities of the Innovation Fund

Timeline for implementation: September 2021 – September 2023

This result will contribute to the strengthening capacities of the Innovation Fund's staff for implementation of innovation policies. In addition, an efficient framework for implementation of innovation programmes will be designed. Through this institutional framework for entrepreneurs, researchers and businesses will be created, so they can develop innovative and viable solutions to society's challenges.

The Innovation Fund capacities will be strengthened to promote enterprise innovation by managing financial and technical support provided by public and donor sources to support innovative Montenegrin companies and strengthen linkages between research and business sectors, following the highest ethical, financial, and business standards.

Newly employed staff of the Innovation Fund will be provided with the right tools and skills to develop and manage complex programs and projects from the State budget as well as European sources. Members of the Board of Directors will be provided with tailor-made trainings and seminars in order to be enabled to analyse and understand complex reports in the area of innovation.

The programme framework will cover all stages of the innovation value chain, but also take into consideration specific needs of the Montenegrin companies and R&D institutions and the maturity of the innovation ecosystem as a whole. Special attention will also be given to the startup community, which is a very vibrant actor of the Montenegrin ecosystem. The programs will be aligned with European Green Deal goals and will take into consideration the gender-sensitive policy design.

Capacity GAP assessment will be executed prior to organizing the tailor-made trainings. Based on the findings of the assessment, a number of tailor-made trainings, on the job trainings, tailor made seminars will be delivered.

Activity 4.1. Improving administrative capacities of the Innovation Fund's staff

In order to ensure efficient and transparent operations of the Innovation Fund, it is of great importance to build administrative capacities of its newly employed staff. The main idea of this activity is to provide newly employed staff with the right tools and skills to develop and manage complex programs and projects from the State budget as well as European sources. The methods used to implement this activity will be tailor made trainings, on the job trainings, tailor made seminars and participation of the Innovation Fund's staff in an international seminar.

Topics of the trainings for the IF staff	Target groups
Grant scheme preparation and implementation of calls for proposals	Staff from the IF, MED, STP, TTO, other
Project selection process and Monitoring framework for project implementation	Innovation Fund and Ministry of Economic Development
EU State Aid rules applicable to R&D projects	Staff from the IF, MED, STP, TTO, other
Intellectual property rights	Staff from the IF, MED, STP, TTO, other
IPA procedures, preparation of projects for centrally managed EU programs	Innovation Fund and Ministry of Economic Development



Parts of this activity related to grant scheme approaches, project selection and monitoring will be implemented in coordination with UNOPS to ensure alignment with the Activity 1.1 and enable share of UNOPS fund management good practices. At least 2 study tours for at least 3 delegation members of the Innovation Fund will be organized, of which at least two in Europe (Innovation Norway or similar Fund from EU countries).

In EU: 2 study tours x 3 delegation members (plus UNDP representative) x 4 working days (6 travel days / including travel costs).

Activity 4.2. Strengthening the capacities of the Board of Directors of the Innovation Fund

Members of the Board of Directors will be nominated from different ministries (Ministry of Economic Development, Ministry Education, Science, Culture and Sports) and from the innovation community, and it will be operational from August 2021. Especially during the first period of the Innovation Fund's operations, the Board is supposed to meet on a monthly basis to discuss and agree on various topics, like programme design, financial allocations, preparation of Annual Plan, human resources issues, etc.

Within this Activity, in order to develop required competencies of all members of the Board of Directors, the support will be provided in the form of tailor-made trainings and seminars based on their needs, as well as support in preparation of documents and analysis like rules for conflict of interest for the Board of the Directors members, analysis needed for the Board of Directors decisions, presentations and other inputs for meetings.

In addition, under this activity, a study-tour for three representatives of the Board of the Directors to Innovation entity in the region or in the EU is planned.

Topics of the trainings for the Board of Directors members
Knowledge and training needs assessment of the Board of Directors
At least 2 attendances to international seminars (4 people from IF)
Tailor made trainings and seminars (minimum 6 types of trainings) avg. 5-10 persons per training
Study tour for Innovation Fund staff (region 2x2500EUR + Europe 2X5000) avg. 3 persons
Development of at least 20 meetings/consultations with Board members on different topics (program design, analysis on other innovation actors, financial allocations, preparation of Annual Plan, human resources issues and etc.) including documents and guidelines (i.e. rules for conflict of interest for the Board of the Directors members, analysis needed for the Board of Directors decisions, preparation of various analysis such as on innovation profile and capability of Montenegrin firms, innovation actors in Montenegro, presentations and other inputs for meetings)
Study tour for Innovation Fund Board members

Activity 4.3. Design of Innovation Fund's programmes

This activity will consist in development of four detailed programme contents including criteria, goals performance indicators, etc. for each program. The programmes will be developed to the stage of publishing call for proposals. All programs will be piloted and before publishing calls, the events gathering innovation community actors will be organized, where programs will be presented and discussed.

Activity 4.4. Development of documentation for the Fund's operations

This task will consist in preparation of project selection guidelines for each program, monitoring regulations, code of conducts and conflict of interests for evaluators, State Aid regulations for each program, procurement rules, contracts for beneficiaries of the various programs, IPR regulations for Fund's beneficiaries, etc.

The Activity 4.4 will consider, where relevant, the approaches/products delivered through the Activity 1.1, to enhance effectiveness of actions and ensure consistency.

Result 5: Capacities of the newly established Science and Technology Park of Montenegro (STP) strengthened for provision of high quality services for its tenants.



Timeline for implementation: September 2021 – September 2023

This result aims to further strengthen the infrastructural capacities of Science and Technology Park (STP) with a view to create better prerequisites for fostering research and innovation-based economic development and thus support the STP's overall mission and vision. In order to meet this goal, it is necessary to develop a new Strategic Plan, raise the administrative capacity of the institution by introducing well-designed trainings for the staff, create adequate conditions for tenants of the STP and realistically assess what types of laboratories are important for future work of the STP, thus supporting scientific community in the country. It is of utmost importance to identify and design the concrete STP services, both core and outsourcing, for already existing and well-established companies, thus creating appropriate package of services to tenant companies. The knowledge-based start-ups and SMEs with growth potential, will be supported with established start-up programmes as well.

Activity 5.1. Development of the new Strategic Plan for the Science Technology Park with the accompanying Action plan

The Strategic Plan for the establishment of the STP was originally adopted by the Government in December 2012. The country established the STP in the 2019 period and the strategic framework adopted nine years ago is outdated. This is especially true because Montenegro has adopted the Smart Specialisation Strategy (S3) in 2019, as a part of its obligations under the European Road Map. The STP has an important role in the new innovation ecosystem and development of a new strategic framework for the STP in respect of its organisation and management is necessary. In its work and organization of activities, STP will be guided by the following strategic documents: Program for Encouraging Innovative Start-ups in Montenegro and Strategy of Innovative Activity (2016-2020), all within the legal norms defined by the Law on Innovative Activity and the Law on Scientific Research activities. In addition to the mentioned documents, STP will also rely on strategic documents of the University of Montenegro, such as the "Development Strategy of the University of Montenegro 2019-2024" and harmonize its activities with the said document. Also, in its future business, STP CG will take into account other strategically important documents of the Government of Montenegro and its departments in order to fully subordinate its activities defined in the Strategic Plan for the establishment of the STP with other related documents.

Activity 5.2. Preparatory activities on enabling the framework conditions for the future STP tenants

Proposed activities are:

- (a) Identifying and designing the concrete STP services, both core and outsourcing, for already existing and well-established companies. This should help the STP personnel to develop, communicate and deliver the appropriate package of services to tenant companies, as well as for other businesses within the wider economy and international business community (virtual tenants).
- (b) Services for supporting knowledge-based start-ups and SMEs with growth potential, which relate to mentoring and business advice, start-up programmes (often linked to an incubator), access to finance, marketing, project-based placement of students and recent graduates, and open-innovation.

The whole package of framework documents regarding STP services, both core and outsourced, for the already existing and well-established companies, will be developed, which shall include: Action Plan, tenant's application forms, terms and conditions for usage of STP services and other related documents. The expert support is envisaged to develop the set of the above mentioned documents.

Activity 5.3. Training of STP personnel including the transfer of know-how

This set of activities should focus on the training of STP personnel by their peer colleagues from related stakeholder institutions (STPs from Norway and/or from the Balkan region) including the transfer of know-how and the best practice experiences. The STP personnel will be thoroughly educated on the following topics:

- (a) Management tools for successful STP (Team management; Services of STP (core and outsourcing); Best practices (EU and Region)
- (b) Management of prospective tenants and users of the STP services (Selection criteria for prospective tenants of the STP, the desired structure of tenants, dynamics of occupation of premises within the STP (duration of rental contracts) etc.

Activity 5.4. Feasibility Study on the establishment and operation of the STP Laboratory Centre



Given that the STP envisages the construction of laboratory capacities, it is necessary to conduct a feasibility study that would show the market needs for specialized laboratories within the national research ecosystem. The study will provide the necessary information on how STP can design its laboratories, to complement the needs of the market and users of the STP services and to contribute to the commercialisation of scientific research in MN.

Result 6: National Technology Transfer Office established in accordance with the scientific community capacities and market needs.

Timeline for implementation: September 2021 – September 2023

Transferring knowledge and innovation from a research organisation to the private sector for commercial application and public benefit requires a formal and accessible structure —a technology transfer office (TTO) — to support the process of product development, starting from R&D through IP protection and various forms of commercialisation. Therefore, the technology transfer office should assist universities and researchers in identifying research results that have commercial value and support innovators to commercialize their ideas through a disclosure process. In parallel, given the low level of technological capacities of Montenegrin companies, the TTO should support capacity development of the business sector regarding the technology integration into their business processes which can lead to their improved products and competitiveness.

The project aims at supporting the establishment of the TTO. The identified obstacles at present are related to the low capacities of research institutions in technology transfer, lack of appropriate organisational legal framework and low capacities of companies for technology integration in order to improve the process of new product development. The office will work to overcome existing obstacles, therefore provide guidance and advice for the preparation of procedures and related legal acts for technology transfer at the university and company level, and support the most urgent needs of companies in relation to technology integration. Initially, capacity building of the staff employed in the office is required. Activities to raise awareness among interested stakeholders on various issues related to technology transfer, technology integration, new product development etc. are needed.

Activity 6.1. Defining the services and organisational structure of the National TTO

A pre-feasibility study should be developed in order to propose the priority services of the TTO in Montenegro based on the needs-assessment, and appropriate organizational structure negotiated with the interested parties, number and type of employees and governance model which defines the relationships with interested stakeholders (state, universities, and business entities). The study would encompass a Business Plan of the National TTO. As a starting point, a basic Roadmap for the TTO in Montenegro has been produced in 2020 within the EU project BESME and the proposal includes setting the TTO within the Science-Technology Park of Montenegro.

Activity 6.2. Adopting Government decision on the TTO

Information for the Government with accompanying Decision on the establishment of the TTO needs to be prepared, based on the study and business plan from previous activity. The decision needs to be supplemented by the RIA (regulatory impact assessment) form.

Activity 6.3. Capacity building and awareness raising for TTO personnel

The activity would encompass capacity building of the staff who will start working on the TTO development, with a possibility for immediate fellowship / internship within some of the developed European TTOs, with focus on priority services defined in the study from activity 6.1. The awareness raising campaign would encompass info-days, workshops and media activities with the goal to improve the knowledge of the interested parties on technology transfer, technology integration, new product development, research commercialisation opportunities, services of the TTO in Montenegro etc.

Result 7: Efficiency of administrative procedures for innovation and control of its effectiveness improved

Timeline for implementation: September 2021 – September 2022

For the purpose of more efficient implementation, monitoring and evaluation on innovation activities, Project will support the MED to establish a new IT system with following purposes: for the Register of the innovation activity it will enable transparent and simplified application procedure along with collection of data for statistical purposes; for the purpose of tax incentives and grants it will allow transparent application procedure and provide instruments to monitor effect of subsidies on the system, etc.

Jr.



The activity corresponds to the activity A.1.3. (Design information system to monitor and assess State Aid Programmes) where it is planned to connect Register of the innovation activity to the Aid Programmes information system, thus enabling monitoring of the use of incentive measures that will be available to innovators and innovation companies in accordance with the Law on incentives for research and development.

Activity 7.1 Support to the MED through development of the digital tool for implementation and monitoring framework for innovation policies

This activity will be implemented through:

- a) Development of the e Register of the innovative companies and innovators.
- b) Transfer of experience (from Norway) on the implementation of R&I tax incentives with hands-on advice for the finalisation and improvement of Montenegrin secondary legislation.
- c) The web page for Innovation Fund as well as new S3.me domain for promotion of the S3 strategy will be created.

Project Assumptions

The key assumptions for the successful implementation of the proposal are the following:

1.	The Government of Montenegro is committed to reforms and will be supportive of the Project throughout implementation.	This proposal contributes to implementation of national policies related to development of MSMEs and enhancement of innovations and research. These efforts are also aligned with the EU accession efforts.
2.	The Project beneficiaries and key stakeholders actively cooperate in implementation.	The activities have been designed in close collaboration with the national partners, while also considering experiences from preceding interventions. The proposed activities will be presented to beneficiaries and stakeholders, with emphasis on the benefits, and thus contribute to the sense of ownership and facilitate active cooperation.
3.	The restriction measures deriving from the COVID-19 protracted crisis allow for the implementation of Project activities.	Despite the COVID-19 pandemic and negative effects on implementation, UNOPS in Montenegro delivered an estimated 80 % of activities during 2020. This Project has taken into account the lessons learned during the implementation in pandemic circumstances.
4.	Severe weather and other natural disasters and emergency situations may delay, but will not endanger Project implementation.	Much of the territory covered by the Project is subject to severe weather conditions: snowfall, and droughts. Additionally, there is a small risk of earthquakes. The work plans will incorporate adequate tolerances for adverse weather conditions. In case of major natural disasters, the activities could be modified, in consultations with the donor and the Government.



5	Changes in legislation will not negatively affect the implementation of the Programme.	As a EU candidate country, Montenegro should ensure compliance of national legislation with the EU acquis and hence new policies should reinforce the proposed activities.
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Project Risks

The initially identified risks and possible mitigation measures are presented in the table below:

	Risk description	Probability (H/M/L ²⁵)	Impact (H/M/L)	Mitigating measure
1.	Significant changes in the Government due to parliamentary elections or recomposition could shift priorities and or reduce engagement with and support to the Project. This could slow down the progress and reduce relevance/effectiveness of some activities.	M	M	The interventions are embedded in the national strategies and aligned with Montenegro's international commitments, primarily related to the EU accession. The Project will establish strong collaboration with professional staff in the national institutions/beneficiaries, which should facilitate progress/continuity that is not heavily dependent on political changes.
2.	As COVID-19 protracted crisis can be expected to last throughout a part of the Project lifecycle, its effects and consequences, spanning restrictive measures, infected individuals and teams, etc, can negatively affect the Project timeline.	M	M	While introducing the precautionary and safety measures to ensure wellbeing of the team and beneficiaries, the Project will develop backup plans for activities that can be implemented in alternative modes (e.g. online meetings and training etc.). The Project will monitor the developments and maintain close communication with the donor and the key national partners to identify possible remedial actions.
3.	Limited capacities of the Project stakeholders and beneficiaries may decrease efficiency and endanger timely completion of the Project.	M	L/M	The Project envisages capacity building and technical assistance to the beneficiaries in order to facilitate implementation. Activities have been designed in collaboration with the national partners while also considering lessons learned from the first phase, which should facilitate their strong engagement.
4.	Increased national partners' and donor activity and the lack of cooperation with other interventions may create overlaps and require change of scope/budget and time.	L/M	L/M	The Project will hold extensive consultations during implementation with relevant donors/projects to prevent anticipated difficulties. Part of activities is designed to ensure complementary with relevant ongoing actions.

²⁵ H for high, M for medium, L for Low



4.	Due to financial constraints, the Government may not ensure timely payments to the Innovation Fund, the STP and the TTO, which could delay some activities and endanger sustainability of some activities.	L	M	The Government confirmed strong commitment to support the innovation ecosystem. In addition, the IF, STP, and TTO beneficiaries will not be obliged to return unspent funds to the State Budget at the end of each year, which is also confirmation of the Government's commitment. The Project will in addition, prior to provision of support verify the fulfilment Government financial commitments towards the innovation ecosystem beneficiaries. In case of significant deviations, the activities may be halted or reconceptualised in consultation with the donor and the PCB.
5.	Inadequate input for development of technical specifications for envisaged IT tools could result in development of products that are not fit for purpose, which would reduce Project results.	M	M	The specifications will be designed in collaboration with the national beneficiaries. Effort will be put to include representatives of all institutions/departments that would use the system. The Project will have experts that will be able to ensure quality of specifications.
6.	Delay in completion of construction of the STP could endanger or disable implementation of part of activities benefiting STP.	M	L	Significant part of STP activities of the project are not dependent on the completion of the construction work for STP and hence will progress without hindrances. The Project will, however, monitor progress of construction works and maintain communication with the national partners.
7.	Delay in establishment of TTO may delay some TTO related activities and negatively impact project timeline	L	M	Establishment of the TTO is envisaged by the Law and does not require an extensive budget. The Project will monitor progress and adjust dynamics and or scope of activities in case of significant delays.
8.	Employment of staff with inadequate experience and expertise in innovation ecosystem institutions could reduce efficiency and effectiveness of part of Project outputs	L/M	M	Employment of staff that will work in innovation ecosystem institutions will be done by the line national institutions, in accordance with the approved organisation, and in accordance with the national legislation that ensures a transparent, competitive, and fair selection process. In addition, as it may be challenging to identify qualified staff, an intensive capacity building programme is envisaged to enable candidates to quickly develop critical knowledge and skills for implementation of innovation policies.
9.	Replacement of the leadership and senior managerial staff in the innovation system institution.	M	L	The Project will establish and cultivate professional relations with all relevant staff, not only leadership, which will facilitate continuation of operation even if some changes occur. It will also monitor whether any replacement of the senior staff is conducted in accordance with the legal regulations applicable operational procedures.



Implementation modality

The proposed activities will be undertaken by UNOPS and UNDP in partnership with the Government of Montenegro and in cooperation with the national and local institutions, ensuring coherence with the relevant national policies and ensuring national ownership.

UNOPS and UNDP, while cooperating and coordinating relevant activities, will hold independently the accountability and responsibility for each specific result, and ensure good visibility of the donor's support. More specifically, UNOPS will be accountable for the delivery of outputs under Results 1 and 2, and UNDP for Results 3, 4, 5, 6 and 7. The Agreement between the Embassy of Norway and UNOPS related to the Norway for You - Montenegro Project will be amended to enable expansion of scope and time extension to 30 September 2023. UNOPS and UNDP will subsequently sign the UN2UN Agreement, which will provide a basis for implementation of Result 3, 4, 5, 6, and 7 by the UNDP. Documentation that will be developed by UNDP in support of the UN2UN Agreement, including description of results and activities, and budget will be reviewed and verified by the donor, RNE.

UNOPS activities envisaged under Results 1 and 2 of this document will be implemented in accordance with UNOPS project management method and requirements that are based on international standards such as PRINCE2 and PMBOK® Guide. This approach, inter alia, provides a framework for ensuring adequate management control, sustainable results management, quality stakeholder engagement, financial management, risk management, organisational governance, and quality management, following an integrated approach throughout the life cycle of the Project.

Furthermore, UNOPS Project Board (PB)²⁶ will provide unified direction, and perform monitoring and oversight functions regarding UNOPS implemented activities. The PB is also responsible for conducting quarterly assurance, which among other includes review of compliance with six project success criteria: stakeholders' satisfaction, delivery performance, respect of procedures, knowledge management, personnel management and UN core values.

UNOPS implemented activities include provision of technical support, grant scheme, and procurement activities. Grant scheme will be conducted through a competitive process in accordance with UNOPS grant methodology that gives ownership over activities to the grantees while UNOPS maintains monitoring responsibilities and provision of assistance. This approach promotes "national ownership" and will contribute to enhancement of grantees' capacities. UNOPS will in accordance with relevant UNOPS procedures ensure involvement of the MED both in the design and conduct of the grant scheme and in monitoring of grants in order to enable identification of practices that could be integrated into the Ministry's approach.

As a central procurement resource for the United Nations (UN) system and its partners, UNOPS emphasizes efficient, transparent, cost-effective and sustainable delivery, in line with public procurement best practices. The following general principles will receive due consideration when undertaking procurement activities: best value for money; fairness, integrity and transparency; effective competition; and the best interest of UNOPS and its partners.

UNDP activities will be implemented in accordance with UNDP rules and regulations, while ensuring respect of conditions and terms derived from the UN2UN Agreement with UNOPS. UNDP will implement its activities under the Direct Implementation Modality, i.e UNDP will assume full responsibility and accountability for the management and implementation of the actions as listed under the *Results and activities* section, including monitoring and evaluation of interventions, achievement of the objectives and defined results, and the efficient and effective use of resources. UNDP will apply the principles of Quality Management, by streamlining all internal working procedures, organizational structures and establishing standardized feedback and improvement mechanisms.

UNDP project-level M&E requirements are outlined in the UNDP Policies and Procedures (POPP). This includes ensuring that the UNDP Quality Assurance Assessment during implementation is undertaken annually; that annual targets at the output level are developed, monitored and reported using UNDP corporate systems; regular updating of the risks. Any quality concerns flagged during these M&E activities must be addressed by the UNDP Country Office and the Programme Officer.

²⁶ This is internal governance mechanism



Project Coordination Body

The Project Coordination Body (PCB) for the second phase of the Norway for You - Montenegro will be established in the first three months of implementation. It will include representatives of the Ministry of Economic Development, the Ministry of Foreign Affairs, Innovation Fund, Science and Technological Park, the Union of Municipalities of Montenegro, Chamber of Economy, UNOPS and UNDP. The representatives of the donor, the Royal Norwegian Embassy, will participate in the work of the PCB as observers.

The PCB, while promoting national ownership over the Project, will provide strategic guidance, monitor progress and performance, contribute to review of relevant products, support risk and issue management, while in particular facilitating engagement of the national stakeholders. It will also contribute to coordination with other relevant projects and interventions and identification of lessons learned. The PCB composition and responsibilities will be confirmed through development of the Terms of Reference in the early implementation phase. The ToR will be verified at the first meeting.

The PCB will meet on a quarterly basis. Extraordinary meetings and/or consultations/voting through email may be organised.

Budget and Timetable

With an additional budget of NOK 11,203,800 for the second phase of the Norway for You Montenegro, the total budget is NOK 26,699,073. The second phase of the Norway for You - Montenegro will be implemented over a period of 25 months.²⁷

Sustainability

The Project considered a range of the institutional, financial, economic, social, environmental, and technical aspects in order to create a solid basis for sustained flow of the benefits over time. The following approaches will be used to ensure sustainability of the Project:

- **Institutional sustainability** will be addressed at multiple levels. First, the core of this Project is to enhance national capacities for State Aid Programmes, innovation and research; strong engagement of national partners and institutions is envisaged in all activities (e.g. in design and conduct of grants scheme). The key national stakeholders participate in the work of the PCB, which will enable them to influence decisions and give a strong sense of national ownership over results.
- **Policy level sustainability** - activities include provision of advice related to innovation policies and legislation; interventions are embedded in the national policies and aligned to the international commitments, primarily related to the EU accession and the UN SDGs and support their implementation. It will also contribute to enhancing regulatory and administrative frameworks related to State Aid and innovation.
- **Economic and financial sustainability**²⁸ - At a strategic level, the Project is part of a major national effort to transform the economy in order to facilitate its sustainable and competitive growth. At an operational level, the Project will have direct positive effects on local communities and the economy. For example: grant scheme that will be implemented with BSEs will support development and growth of MSMEs, which in the long run will mean more job opportunities for local workers; envisaged procurements will generate business opportunities for local companies; enhanced systemic support for MSMEs development and innovation with also primarily benefit local businesses.

The Project also includes support for establishment of innovation ecosystem institutions/bodies whose functioning will require (national) funding - these entities are envisaged by the national policies and legislation. More specifically, the MED is preparing an Innovation Programme, which should be adopted by the Government by the end of this year, which will serve as the framework for further investment in the innovation sector. The document encompasses different measures from supporting the start-up

²⁷ The end date is 30 September 2023

²⁸ For the purpose of this proposal, financial sustainability relates to affordability of Project's products after the funding ended, while economic sustainability pertains to economic benefits

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community in Montenegro, boosting the innovation process based on the S3 concept and programs for the Innovation Fund. This year, the MED committed 100,000 Euros for the operational functioning of the Fund. Additionally, the MED supported Science and Technology Park construction works at the value of eight million Euros.

During and after the completion of the Project, the MED will ensure sustainability of innovation programmes by providing financing from the State Budget and the EU funds. Regarding the human resources supported through the Project, the Secretariat of the Council for Innovation and Smart Specialisation, the MED is planning to permanently employ staff in the Innovation Fund. Improved institutional capacity will contribute to the planning and budgeting of the new EU financial cycles, which will ensure additional funds to support innovation development.

IT systems that will be delivered will incur operational and maintenance costs. The Project will assess whether the beneficiary institution has planned funding needed for utilisation or operations and maintenance.

The above-noted considerations confirm the Government's commitment to financially support the innovation ecosystem, which also indicates solid prospects for financial sustainability.

- **Environmental sustainability** -The Project will have multiple positive effects on the environment. Part of activities will provide direct positive contribution. For example, support to greening of MSMEs that will be provided through BSEs grants will reduce environmental footprint, likewise development of IT solutions/services that will among other reduce use of paper. Building of national capacities for innovation and research is relevant as one of the key objectives of the innovative solutions is to enable use of resources and management of waste in accordance with the principles of circular economy, hence creating the foundation for sustainable development.
- **Technical factors** - as the Project, among others, includes development and installation of new IT systems and tools, it is necessary to consider the issues of technical compatibility with the existing equipment as well as with other relevant systems that are being developed. The IT products will be based on software solutions that will allow the national beneficiary to introduce modifications or upgrade it²⁹. These aspects will be addressed in technical specifications. In addition, the suppliers/producers of equipment will need to provide warranty period for items that will be provided by the Project and, where relevant, operational support for the identified time period. Procurement of equipment and goods, where relevant, will include training for the users in beneficiary organisations. This will result in development of necessary technical capacity to use the equipment and goods.
- **Learning and replication** - The Project will facilitate vertical collaboration between national and LSGs levels and horizontal collaboration among LSGs. The collaboration should facilitate implementation of national policies and priorities, enhance understanding of local contexts and needs, encourage replication of solutions and good practices introduced through this project or already existing in Montenegro municipalities. The Project will actively share expertise and knowledge with the beneficiaries' counterparts that would also build capacity needed to use and maintain the Project's outputs.

The Sustainability Management Plan (SMP) will be prepared in the first quarter of implementation, and will include an Assessment of a range of environmental, economic, and social parameters and an Action Plan identifying relevant sustainability actions, targets, and responsibilities.

Cross cutting themes

The envisaged activities, both those implemented by UNOPS and UNDP, will address the following cross cutting themes:

- **Digitalisation** - Digital technology enhances competitiveness of businesses and facilitates new business opportunities; it helps us to reduce environmental footprint and fight climate change; it contributes to efficiency and transparency of public services. Considering that this proposal will contribute to transition

²⁹ In case that "proprietary" software is used, the Project will in consultations with the national beneficiary ensure there are provisions which address "ownership" and allow the institutions to have control over possible modifications and accompanying costs.

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and diversification of Montenegro's economy, digitalisation is at the heart of the planned interventions. Contribution to digitalisation will be two-fold:

- Direct: project proposals that facilitate digital transition in MSMEs will be among eligible actions for grant support; support to LSGs to enhance (local) business environment may include improvement of e-services; both UNOPS and UNDP will be introducing digital tools;
 - Indirect: strengthening of the innovation ecosystem includes strategic and operational aspects, design of new services and innovation support programmes. All this will create the foundation for acceleration of digitalisation, considering it is a critical vehicle of innovations.
- **Climate change and environment** - as described in the sustainability section, the Project includes actions that will reduce environmental footprint and contribute to fighting climate change.
 - **Good Governance (GG) principles** - accountability, transparency, efficiency, effectiveness, non-discrimination, and participation - will be strongly embedded in capacity building activities of different national and local stakeholders. For example, UNOPS support to the MED would look to strengthen definition of roles and responsibilities related to conduct of State Aid programmes, while UNDP intervention will address institutional and organisational aspects of innovation ecosystem institutions (accountability principle); enhancement of the MED information system of the State Aid Programmes will improve access to data internally and enable the Ministry to enhance external communication, including towards general public (transparency principle). Enhanced transparency of the State Aid programmes, and clearly defined roles and responsibilities in their management, will also reduce room for corruption.
 - **Human Rights** - UNOPS aims to ensure that both genders and vulnerable groups have equal opportunity for participation in implementation of its projects and, where relevant, will put effort to facilitate fair distribution of benefits. Furthermore, UNOPS contributes to social sustainability by respecting international human rights principles and by engaging local communities. This Project includes activities that should contribute employment, while focusing on vulnerable, primarily women and youth. Part of activities will primarily target less developed parts of the country, which are also multi-ethnic areas. The Project also contributes to establishment of accountable and non-discriminatory municipal administrations, and will promote dialogue and good cooperation, not only on the local level, but on the regional and national levels as well. Finally, UNOPS will work with its contractors to raise awareness on the importance of considering vulnerable groups and promoting gender equality, while UNOPS personnel and experts will also need to complete mandatory courses and generally enhance knowledge related to international human rights.
 - **Gender Equality/Mainstreaming** - will be integrated into the assessment methods, regulations and tools. UNOPS grant schemes will include criteria to facilitate fair gender distribution of benefits, while UNDP will pay particular attention to promote stronger roles of women in STEM. A Gender Action Plan will be developed to ensure mainstreaming of gender equality into all relevant interventions.
 - **Fund management** - both pillars of intervention will support institutions, primarily the MED and the Innovation Fund, to manage funds. UNOPS and UNDP will base support in this area on extensive experience of two organisations and proven international practices.

Communications and Visibility

The communication and visibility activities will promote the Project interventions and results; facilitate collaboration and coordination in support of implementation and within efforts to identify synergy; and promote the assistance of the Kingdom of Norway to the Project, as one of the most important bilateral donors to Montenegro and the region.

The Communications and Visibility Strategy and Action Plan developed for the first phase of the Project will be revised during the first three months while considering positive results and lessons learned from the first phase of the Norway for You - Montenegro, and in consultation with the RNE, and the key stakeholders. The Strategy will define communications objectives and principles, target audiences and tools and techniques to be used for outreach, key messages, approach to monitoring and evaluation. One section will be dedicated to risks as well as to approach crisis communication.



A range of communication tools will be used to achieve the objectives including but not limited to: events, to mark start and, in particular, completion of interventions; web-based platforms, to facilitate continuous access to information about the Project for broader target audience; work with media, which will among other include development of press materials and briefings; video production, to record key achievements of the Project.

UNOPS will keep the RNE informed about the key communication activities and closely coordinate organization of functions that will require Embassy participation, while preparing the content for the RNE social media accounts.

The purchased equipment will be labelled to show it was donated by the RNE. All documents prepared by the Project will feature the Norwegian flag and communicate the funding contribution of the Kingdom of Norway.

Monitoring

Monitoring the progress of the implementation will be done in accordance with the requirements deriving from this Agreement. The information about Project progress and performance will be systematically and continuously collected and analysed to facilitate decision making and management of the Action. Several approaches and tools will be used in support of monitoring:

- Results Framework (RF), provides overview of objectives and results, identifies objectively verifiable indicators, including the baselines and targets, and lists key assumptions and risks. The Project will regularly monitor progress against the planned targets within the RF. While the RF identifies what will be monitored and measured, the Project will also develop the Monitoring Plan, which will provide information on where, how, by whom and how often the data will be collected. The Project Monitoring Tool will be designed to enable tracking of progress of individual interventions as well as of their outcomes.
- Monitoring will also be facilitated by application of two level planning: The Implementation Plan, a high level document that describes how, when, and by whom a specific targets for outputs, time, cost, quality, and benefits will be achieved, will be developed while considering Indicative Action Plan developed within this Proposal. The Implementation Plan will provide a baseline against which progress is monitored; Quarterly Plans, similar to Implementation Plan in content, but providing breakdown of products to the level of detail required to enable efficient day to day control.
- Approaches for risk, change, and quality management will be developed to provide directions regarding monitoring of these project variables. The Project will also use oneUNOPS Projects, UNOPS' IT project management system, which among other enables management and tracking of risks, issues, and lessons learned.
- The Project implementation will be monitored during UNOPS internal quarterly assurance meetings.

The Project progress and performance will also be monitored and assessed externally by:

- The MED and other relevant national institutions will through participation in the PCB have the opportunity to monitor progress and performance, risks and issues, and contribute to identification and implementation of mitigation actions
- Any monitoring related actions undertaken by the donor, in accordance with this Agreement

Reporting

UNOPS will produce reports in accordance with the requirements set in this Agreement.

If needed, the Project will provide ad - hoc reports to the donor on overall progress, or specific aspects. The structure, format and deadlines for submission of reports would be (re)confirmed with the donor.

UNDP will report progress of activities that fall under its responsibilities in accordance with requirements set in the UN2UN agreement. It will also provide quality and timely inputs for overall reports that will be compiled and submitted to the donor by UNOPS.



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