

May 4, 2021

H.E. Jakov Milatović  
Minister  
Ministry of Economic Development  
Rimski trg 46, Podgorica  
MONTENEGRO

*World Bank Technical Assistance in the field of Innovation Policy*

Your Excellency,

I would like to thank you and your team for the discussion on the innovation policy agenda over the last few months. After the meeting with you in January, and with the State Secretary Ms. Milena Lipovina Božović and her team in February, the World Bank team also held consultative meetings at the technical level with Ms. Branka Žižić and other representatives of your Ministry.

The World Bank team was asked to review the drafts of three rulebooks that are needed to implement the recently adopted Law on Innovation Activities and the Law on Incentives for Research and Innovation Development. Our general view is that the draft rulebooks provide a reasonable starting point for the implementation of the Laws, however, additional work is needed to ensure that the laws and by-laws are aligned with international good practice.

While we continue the discussion at the technical level, we kindly request a meeting with you and the State Secretary to discuss the broader issues related to this regulation, in particular:

- 1) **The adopted laws do not reflect the World Bank's earlier comments** and suggestions submitted in writing during their preparation phase when international best practices and experiences have been shared. It is not clear whether the desired effects on enhancing innovation and entrepreneurship could be achieved without amending the laws to bring them more in line with good practice.
- 2) **The proposed R&D incentives seem very broad, generous, and applicable to a wide range of entities.** This could have significant fiscal implications, yet due to their broad range would have quite limited impact in terms of the main goal of stimulating innovation. Further, the decision-making process for the innovation incentives and the policy mix is not fully clear, in particular the respective roles of the Commission on Incentives, the Innovation Fund, and the role of other government ministries.
- 3) **The R&D and innovation activities should be part of a well-defined policy mix** that should be jointly developed by the Ministry of Economic Development, the Ministry of Finance and Social Welfare, Ministry of Education, Science, Sport, and Culture, and other relevant stakeholders.
- 4) Based on the current versions of adopted laws, it would be rather difficult to overcome some of the major weaknesses through secondary regulation included in the rulebooks. Furthermore, the quality of three draft rulebooks that have been submitted for the Bank's review requires major interventions and significant further development.

The Bank's extensive experience from other countries has shown that addressing these issues early on, either in the primary laws or in the accompanying bylaws/rulebooks, is critical for the success of the R&D and Innovation related reforms.

During our joint meeting the Bank team would like to provide more details on the issues raised, as well as our views on the best practice solutions for your consideration.

We are looking forward to your response and supporting you in your efforts to promote innovation development and novel technology adoption as important prerequisites for sustainable economic development of Montenegro.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Emanuel Salinas', is written over a light blue horizontal line.

Emanuel Salinas  
Country Manager  
Bosnia and Herzegovina and Montenegro

cc.

Mr. Milojko Spajić, Minister of Finance and Social Welfare

Ms. Milena Lipovina Božović, State Secretary, Ministry of Economic Development

Ms. Branka Žižić, Ministry of Economic Development

Mr. Koen Davidse, Executive Director, the World Bank