



# EMN

## Legislative Mapping Report

# MONTENEGRO



December 2016

This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:

- 1 Regulation of lending activity
- 2 Supervisory framework for non-bank lending
- 3 Products
- 4 Incentives and support
- 5 Development of existing framework for non-bank microcredit provision
- 6 Inclusive entrepreneurship and microenterprise development

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## Regulation of Lending Activity

Microcredit provision in Montenegro is regulated by the Law on Banks. In accordance with this Law, the Montenegro Central Bank approves the licensing applications for non-banking financial institutions and credit unions. MFIs can be established as a joint-stock company or a limited liability company. The minimum initial pecuniary capital requirement for an MFI is EUR 100,000. According to the law, MFIs are allowed to:

- ➔ Grant loans to legal entities, entrepreneurs and specific purpose loans to individuals from their own funds or borrowed from the money market.
- ➔ Invest in short-term securities issued by the Government of Montenegro and in other high quality short-term instruments in the financial market.
- ➔ Offer financial leasing services.
- ➔ Offer financial consulting services.

Before the implementation of this new regulatory framework, NBFIs were forced to establish partnerships with banks in order to provide microloans while credit unions were able to lend directly in accordance with the law on banks.

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## Supervisory Framework for Non-Bank Lending

The Central Bank of Montenegro is responsible for the supervision of lending activities of non-bank financial intermediaries. In supervising NBFIs, the Central Bank applies sound banking principles on MFI operations such as: rules for secret banking, protection of clients and minimum standards for risk management in MFI operations. The latter includes credit risk, liquidity risk, market risk, operational risk, reporting, provision for loan losses and capital requirements.

NBFIs and credit unions are required by the Law on Banks to share client data with the national credit bureau, which also applies to the State Development and Investment Fund<sup>1</sup>. In similar fashion, these institutions can access data from the national credit bureau.

1. State agency providing microloans to microbusiness, entrepreneurs, unemployed and start-ups from 10k-50k

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### Products

In Montenegro, both NBFIs and credit unions are allowed to provide business microloans while only NBFIs are allowed to provide microcredit to individuals (personal microloans).

NBFIs can disburse up to EUR 30,000 for business microloans with no interest cap. While credit unions can also disburse business microloans, information is not available on the maximum loan such institutions can disburse.

In terms of personal microloans, only NBFIs have the legal mandate to disburse such loans up to EUR 5,000 with no interest cap.

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### Incentives and Support

In Montenegro, there are no national or regional funds dedicated to support microcredit in the form of guarantees, equity or any form of business development services.

There are also no tax incentives for organisations and individuals that offer financial support to microcredit provision in the country.

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### Development of the Existing Framework for Non-Bank Microcredit Provision

Given the recent changes, there is currently no such development.

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### Inclusive Entrepreneurship and Microenterprise Development

Currently, one challenge the sector faces is the cumbersome administrative procedure to establish a business. Entrepreneurs have no welfare bridge to support them in the transition out of unemployment, education at the secondary school does not incorporate entrepreneurship nor is there any form of awareness creation run by the State on inclusive entrepreneurship. However, a development fund for the micro and SME sector has been established and some other agencies are promoting entrepreneurship; however, these programmes do not have any significant effects.



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