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# ▶ Progress review of the Enabling Environment for Sustainable Enterprises Programme in Montenegro



**Progress review of the  
Enabling Environment for Sustainable  
Enterprises Programme  
in Montenegro**

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## ▶ Executive Summary

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Micro, small and medium enterprises (MSME) in Montenegro, since 2014, represent over 99% of the business community. MSMEs employ 75.5% of the total number of employees, while they contribute to about 75.2% of exports. With baseline figures in 2014 of 23,051 active MSMEs employing 121,730 women and men, the sector grew with an increase of 10,000 MSMEs by 2019 and additional 30,000 employees.

Thanks to the tools and technical assistance of the ILO, in 2013 the Montenegrin Employers Federation (MEF) launched a systematic and strategic assessment of the enabling environment for sustainable enterprises. After a comprehensive survey and with the continuous support of the ILO, the MEF published the **Report "The Enabling Environment for Sustainable Enterprises in Montenegro"**. Based on well-planned activities MEF has conducted a 3 steps process:

1. Published the **EESE Report**, as comprehensive, broad and rich document of over 100 pages that served as basis for further activities,
2. Created a **Strategic Policy Framework** (*known as "5 business killers"*) with broad set of recommendations, that summarized the EESE Report and was used as strategic tool for further communication and advocacy,
3. Developed **five in-depth advocacy platforms** – individual policy papers for five key areas (*the so-called "5 business killers"*), related to five structural challenges in Montenegro concerning the enabling environment for sustainable enterprises.

Seven years after the publication of the EESE Report, it is a good moment to summarize the work done and results achieved.

More importantly, the advocacy activities of MEF, in line with the recommendations from the EESE Report, have resulted in concrete and significant improvements in the strategic, legal and institutional framework on issues of importance to the business community in Montenegro. The degree of implementation of the strategic and legal framework in some areas has been significantly improved, while in some sectors there is room for

further progress, as outlined in the last chapter of this document. The document also shows that there is an increased level of awareness and commitment among social partners and other stakeholders on the need and benefits of joint work and mutual trust in this area.

Regarding the regulatory framework, the process of transparency and inclusiveness in drafting legal regulations has been significantly improved in the past seven years, but in relation to the activities of certain institutions it has been noted that there is still room for increased transparency and readiness to involve all relevant stakeholders in their planning and work.

In area of funding and credit support to enterprises, the progress is noted with regards to the support of national institutions. There is also a growing trend of support for the development of enterprises by local government authorities, both of financial and non-financial nature. The lack of stimulating credit lines for individuals to start their own businesses, as well as high interest rates, were recognised as a significant challenge.

One of the biggest structural challenges is still the informal economy. The activities undertaken so far in accordance with, among others, the Economy Reform Program and Action Plan focused on strengthening fiscal discipline and eliminating unfair competition, as well as raising awareness about the importance of lawful business practices. There is still significant space for improvements in the areas of implementation and prioritization, but also for finding solutions to effectively redirect the informal sector to the formal economy.

With regards to the fight against corruption there was significant progress in relation to the institutional and legal framework and there is now room for the implementation and raising of awareness and trust on communication and joint work between the business community and institutions. There is a clear need to continuously improve the capacities of inspection services, particularly on their staffing and everyday work, as well as the implementation of other activities - including the improvement of the public procurement system.

The Case Study shows that the EESE Report identified precisely the bottlenecks in the Montenegrin education system. The results of reform activities in the past seven years reveal an evident progress in the area of secondary vocational education. It is very positive that all primary and secondary schools have introduced subjects or modules on entrepreneurship. On the other hand, when it comes to higher education, there is still room for improvement of practice during studies, even if the Law on Higher Education prescribes mandatory practical lessons.

Several activities have been recognised as possible good practice examples to organisations similar to the MEF at the international level, but also as a good basis for possible replication at the national and local level in Montenegro. For the purposes of this study, such activities have been illustrated with one example at each of those levels.

The Programme extensively contributed to capacity building of the Montenegrin Employers Federation in many areas, from human resources to improvements of work in particular areas, such as timely and systematic planning of activities, advocacy for its members etc. For these purposes critical success factors are recognized and divided in two main subsections – internal and external.

Finally, an integral part of the document are the identified areas for activities that would contribute to further reform efforts in strengthening the environment for sustainable enterprise development.

The document reveals a need for increasing the level of readiness of decision makers from different structures to take a clear position and invest continued efforts to address the recognised challenges. As regards specifically the ILO constituents in Montenegro, further support for the strengthening of their technical and human resources is of exceptional importance, in order for them to strengthen their social partner role, as well as their performance in the context of advocacy.

Having in mind “post-COVID” momentum and possible future activities it is estimated that now is the right moment to start a preparation and detailed assessment of the state of play in each of the key areas, which would enable the identification of new challenges and new recommendations. On the basis of such document and the previous experience a clear action plan needs to be prepared for

constituents to work on each structural challenge, with concrete activities and recognised mechanisms on how to advocate for their recommendations, thus contributing to medium and long-term reforms and activities also related to the economic impact of the COVID-19 crisis.

In addition to general recommendations, the document also contains specific recommendations on key areas where structural challenges have been identified. A set of potential activities are identified to support to sustainable development of enterprises in Montenegro in the short-term.

*What was especially emphasized by all three ILO constituents in Montenegro is the immense quality of cooperation with ILO and full understanding of ILO for the needs of its constituents in Montenegro.*



## ► Abbreviations and acronyms

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<b>AREC</b>	<u>Adriatic Region Employers Center</u>
<b>Businessseurope</b>	<u>Association of European Employers' Organizations</u>
<b>DWCP</b>	<u>Decent Work Country Program</u>
<b>EBRD</b>	<u>European Bank for Reconstruction and Development</u>
<b>EESC</b>	<u>European Economic and Social Committee</u>
<b>ESEE</b>	<u>Enabling Environment for Sustainable Enterprises</u>
<b>EU</b>	<u>European Union</u>
<b>ILC</b>	<u>International Labour Conference</u>
<b>ILO</b>	<u>International Labour Organization</u>
<b>IOE</b>	<u>International Organization of Employers</u>
<b>JCC</b>	<u>Joint Consultative Committee on Civil Society</u>
<b>MEF</b>	<u>Montenegrin Employers Federation</u>
<b>MSME</b>	<u>Micro, Small and Medium Enterprises</u>
<b>NATO</b>	<u>North Atlantic Treaty Organization</u>
<b>RCC</b>	<u>Regional Cooperation Council</u>
<b>SBA</b>	<u>Small Business Act</u>
<b>SDG</b>	<u>Strategic Development Goals</u>
<b>SSCG</b>	<u>Federation of Trade Unions of Montenegro</u>
<b>SWTS</b>	<u>School-to-Work Transition Survey</u>
<b>UN</b>	<u>United Nations</u>
<b>USSCG</b>	<u>Union of Free Trade Unions of Montenegro</u>
<b>WB</b>	<u>World Bank</u>



## ▶ 1. Introduction

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Along with other activities, one of the most important forms of ILO assistance offered in Montenegro focuses on strengthening sustainable enterprise development.

Through its programme on the Enabling Environment for Sustainable Enterprises (ESEE), the ILO conducts research and provides advisory services to constituents to create a more enabling environment that facilitates enterprise development and formalization, through appropriate and well-coordinated legislation, policies and compliance mechanisms. In Montenegro, the ESEE process was launched in 2013, following the request from the Montenegrin Employers' Federation (MEF). The process was led by the ILO's Bureau for Employers' Activities (ACTEMP), with technical support from the ENTERPRISES department.

The objective of the Case Study is to assess the impact of ILO's support to Montenegro, by highlighting concrete steps taken by relevant stakeholders in Montenegro regarding activities that contribute to an improved business environment. In that respect, the focus is on the ESEE assessment report and other relevant documents that are the result of the ESEE process in Montenegro. Also, background research and communication with key relevant stakeholders and ILO constituents in Montenegro was conducted in order to gather information and assess the effects of ILO support and to recognize a clear impact and influence of supporting measures in different sectors (public and private).

The Case Study is prepared on the basis of secondary data research (review of reports, studies and other relevant documents), but also of in-depth interviews with ILO constituents and key stakeholders for business environment in Montenegro. Secondary data research was focused on international and national documents, such as reports of relevant international organizations, as well as the analytical, strategic and legal framework of Montenegro (Annex 1). The interviews were conducted using a semi-structured approach, having in mind that this approach has been proven empirically as the most used and useful methodological tool, what was also confirmed during the preparation of this Case Study (list of conducted interviews is part of Annex 1).

The Case Study recognizes concrete steps taken following the assessment of the business environment in Montenegro. It also provides recommendations on key factors to be considered when providing further support to the ILO constituents on improving the business environment.

This report reviews ILO support to improve the enabling environment for sustainable enterprises development through the promotion of business linkages between multinational enterprises (MNEs) and local enterprises in Sierra Leone.

### 1.1. Background of ESEE Report

The International Labour Conference (ILC) adopted in 2007 the conclusions on promotion of sustainable enterprises, which identified 17 conditions that constitute the enabling environment for sustainable enterprises (the ESEE conditions). By using the ILO methodology, the MEF conducted in 2013 an extensive survey, which focused on the 17 ESEE Conditions. The results of the survey are contained in the extensive Report "The enabling environment for sustainable enterprises in Montenegro" (the ESEE Report). It is one of the key documents that served as a foundation for further strengthening of the position of the MEF as a representative of the employers, but also as a tool for paving the way for further reforms aimed at overcoming structural challenges of the business community in Montenegro.

### 1.2. The ESEE Report drafting process

The ESEE Report is based on a secondary data and literature review, focus groups discussions and in-depth interviews with relevant companies in Montenegro and other relevant stakeholders. Using the 17 conditions as a starting point, the focus group discussions identified the following seven priority pillars for primary research in Montenegro:

- ▶ Good governance;

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- ▶ Education, training and life-long learning;

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- ▶ Access to financial services;

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- ▶ Sound and stable macroeconomic policy and good management of the economy;

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- ▶ Enabling legal and regulatory framework;

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- ▶ Trade and sustainable economic integration; and

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- ▶ Fair competition.

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### ▶ 1.3. Key findings within the Strategic Policy Framework

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The key obstacles to enterprise development identified in the EESE Report are recognized within five structural challenges. In order to more effectively communicate and advocate for solutions to overcome these challenges, the MEF, with the support of the ILO, developed a Strategic Policy Framework known as “5 business killers”, those being:

- ▶ Inadequate regulatory framework

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- ▶ Difficult access to financial resources

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- ▶ High share of informal economy

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- ▶ Existence of corruption at all levels and in all areas

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- ▶ Skills mismatch between the education system and labour market needs.

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## ► 2. Follow-up activities and advocacy mechanisms

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The MEF has conducted significant activities in promoting the EESE Report and advocating for its recommendations. For the purpose of this Case Study, an analysis was conducted of the activities carried out by MEF, with the ILO's support, which directly or indirectly influenced the drafting and development of public policies and legal frameworks in Montenegro.

### 2.1. The EESE Report as groundwork for public policy development in Montenegro

Following the launch of *"5 business killers"*, the MEF has developed a set of five individual policy papers for each identified structural challenge, so called "killer".

Along with the development of the internal strategic and policy documents, the MEF took part, together with the Ministry of Labour and Social Welfare and other social partners – trade unions, and with the ILO's assistance, in the drafting of one of the key social dialogue programs in the country – the Decent Work Country Programme, on two occasions - for the period between 2015 and 2017 and between 2019 and 2021 (DWCP). DWCP goals include: creating jobs, extending social protection, guaranteeing rights at work, and promoting social dialogue as key components of economic and social policies. Agreed DWCP priorities for 2019-2021 are: i) strengthening of social dialogue mechanisms and collective bargaining, ii) creation of favorable conditions for employment and sustainable entrepreneurship, iii) formalization of the informal economy.

In addition to the documents created under the leadership or on the initiative of the MEF, the EESE Report served as a starting point and a tool for

drafting key strategic documents adopted by the Government of Montenegro. For the purposes of the study we highlight the Economic Reform Program 2020-2022, which is being prepared for the sixth consecutive year, and the Strategy for the Development of Micro, Small and Medium-Sized Enterprises 2018-2021<sup>1</sup>. Both of these documents directly address the systemic challenges recognized within the EESE Report and the identified concrete economic policy measures directed towards solving the structural problems in economy, or eliminating the key obstacles to improvement of the country's competitiveness and increasing potential for mid- and long-term economic growth.

### 2.2. Dialogue forums – Institutional communication

At the time of the publication of the EESE Report, a series of discussion forums on the business environment were established by the Government and relevant institutions. The MEF took part and used the opportunities to advocate for the report's recommendations. This section will review two out of many bodies in which the MEF is taking part and which are important for implementation of the recommendations from the EESE Report and its Strategic Policy Framework<sup>2</sup>. These activities were especially conducted within the Social Council and the Competitiveness Council, described below.

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#### The Social Council

The issue of the national tripartite social dialogue is a constitutional category<sup>3</sup> in Montenegro. The Constitution, adopted in 2007, stipulates the existence of the Social Council, which deals with the social position of employees, as well as with the general issues of economic policy, social

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1 The list of other important strategic documents highlighted during the interviews and surveys, which served for drafting this Study, is part of the Study Annex

2 List of key dialogue forums with national institutions and other organizations at both national and international level in which the MEF participates is part of the Study Annex

3 Article 65 of the Constitution of Montenegro (Official Gazette of Montenegro, No. 1/07)

development and the stability of employment policy, wages and prices. The provisions of the constitution were put into practice by the Law on Social Council, for the first time in 2007 and further by improvements of the Law in 2011 and the new Law on Social Council in 2018. The Law prescribes the establishment, composition, scope and manner of work, financing and other issues of importance for the work of the social council.

The Social Council comprises 8 government representatives, 8 representatives of representative organisation of trade unions of Montenegro and 8 representatives of representative association of employers in Montenegro. During 2021, the function of the President of the Social Council will be performed by the President of the MEF.

As an illustration, one of the most recent results of the Social Council is the newly adopted Labour Law, in which 60% of ILO recommendations have been incorporated, as well as the EU acquis on labour rights. Also, within the Social Council, negotiations on increasing the minimum wage were taking place at the tripartite level. At the same time, on the basis of the conducted joint analysis of the Ministry of Finance, the MEF and the trade unions, the proposal of the MEF on reducing the burden on salaries was accepted. This was also assessed by the MEF as an example of good practice in conducting social dialogue in Montenegro.

### The Competitiveness Council

The Competitiveness Council was established by the Government of Montenegro in 2017, replacing the Council for the Improvement of the Business Environment which was established in 2013.

The Council is chaired by the Minister of Economic Development, while the Minister of Finance and Social Welfare has been nominated as Deputy. The Prime Minister is represented in the Council by two advisers, for economic and legal issues.. The Council is made up of 20 members, ministers, directors of the key national authorities and companies, representatives of universities, the Union of Municipalities of Montenegro, as well as the representatives of the most important business and employer associations in Montenegro. The MEF is represented by its Secretary General.

Based on the Government's Decision on establishment of the Council, the Council's tasks are, among other things, to analyse, coordinate and propose to the Government the activities concerning the implementation of reforms to eliminate the key barriers to higher competitiveness and faster economic growth. Furthermore, the Council proposes to the Government the structural reform plan to improve the economy's competitiveness and participates in drafting the plan to curb the informal economy, the employment plan, as well as all development plans relevant for macroeconomic stability, and monitors their implementation.

To ensure high quality monitoring of the decisions and implementation of the Council's conclusions, the Council's Secretariat has been formed with the support of the EBRD and the UK Government.

*"We have not been dealing very much with the EESE Report itself in the period following its publication, but we have been continuously discussing "5 business killers". When drafting analytical and reform strategic documents that the Council considers, documents by the MEF are among our main resources. The plan of the Councils' work is being developed, among other things, on the basis of MEF's inputs".*

Bojana Bošković, Competitiveness Council Secretary.

For instance, one of the most recent products of the Council's Secretariat, made with full support of the MEF among others, is a publication on the reform of the business registration procedure in Montenegro. This brochure compares the steps required to register a company before and after October 2020. According to the brochure, the number of required actions and procedures decreased from 26 to 17. This reduction is part of a process that should eventually lead to possibility of online business registration.

On the other hand, high intensity of communication has been seen between ILO constituents in Montenegro and the Ministry of Labour and Social Welfare. Particularly notable is the past cooperation on drafting the Labour Law and the Law on Amicable Settlement of Labour Disputes.

*“So far we have had high quality and transparent ongoing cooperation which occasionally created an impression that we as the Ministry representatives work together within the same organization with our partners from the Employer Federation and the trade unions. The ILO played a key role in that through supporting our joint activities”.*

Irena Joksimović, Ministry of Labour and Social Welfare.

As social partners, representatives of the MEF and the trade unions are also members of the management boards of the key national institutions in the labour area, within which they advocate for their founding goals and interests of their membership, such as:

- ▶ Health Insurance Fund;
- ▶ Pension and Disability Insurance Fund;
- ▶ Labour Fund;
- ▶ Employment Agency of Montenegro;
- ▶ Agency for Peaceful Settlement of Labour Disputes.

Both the MEF and the trade unions have also been very active in the previous period within Montenegro’s EU negotiation structure. According to the information available *“the MEF delegates 26 representatives that participate in the negotiations within 25 working groups, and thus the Employers Federation contributes significantly to Montenegro’s negotiations in the chapters that directly impact the issues of importance for the economy”*<sup>4</sup>. These mechanisms of influencing the design and implementation of public policies have created significant opportunities to advocate for the importance of the EESE Report recommendations, which have been, according to the information received, used by the MEF.

The MEF, as well as the trade unions, have been very intensively using other so-called institutional communication mechanisms, by taking part in the work of many commissions and working groups formed by the Government and competent ministries to prepare public policy proposals or

drafts of legal acts aimed at addressing structural challenges in the areas of business, labour relations and social policy.

Furthermore, continuous participation of the MEF and other ILO constituents has been noted in the work of the Parliament of Montenegro’s working bodies, including the Economy, Finances and Budget Committee, the Labour and Social Welfare Committee, the Healthcare Committee, and the Gender Equality Committee. This has created significant opportunities for the voices of the social partners to be heard, but also for aligning the legal framework with the real needs of the business community and the workers.

An indicator of a broad range of the MEF’s activities in representing the employers’ interests are the several initiatives filed by the MEF to the Constitutional Court of Montenegro for assessing the constitutionality and legality of legislation and regulations within the competence of local administration authorities. However, the MEF points to bad experiences in these processes due to the marked slowness in the proceedings of the Constitutional Court. It is not uncommon for decisions of this court to be either omitted or made after the Parliament has previously amended the disputed part of the law, due to which the MEF addressed the Constitutional Court with an initiative.

### 2.3. Public outreach

One of the most visible mechanisms of MEF’s activities with regards to the EESE Report is certainly in the domain of public outreach. The MEF has, through its general public communication channels, but in particular within various cooperation forums at the local, national and international level, managed to position itself as a high quality partner in creating an enabling environment for sustainable enterprises in Montenegro.

As regards the local and national level, the EESE Report helped the MEF to advocate for the interests of employers and contribute to the improvement of business environment much more clearly and more concretely. Furthermore, owing to the EESE Report and its follow-up activities, MEF has

4 Statement of the Montenegro’s EU Chief Negotiator, at the joint meeting with MEF of 27 June 2013

had a very extensive base for promoting its activities in media and in communication towards the general public.

Moreover, MEF has managed to promote in many countries its work on drafting and implementing the EESE Report in Montenegro as an example of best practice, in particular in the former USSR region, where it transferred its knowledge and experience, as well as expertise in taking concrete steps in preparing the report, for the purposes of drafting national reports in those countries.

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*"While taking part in one of the many of ILO's international conferences, in which we presented the results of our work that followed the EESE Report publication, a representative of the South African Republic saw the name of my country in front of me, turned around and said: "Oh, Montenegro, I know 5 business killers".*

Filip Lazović, MEF.

## 2.4. International communication

Relying on the previous section of advocacy in public outreach, the MEF has notably used its membership in various international forums and in communication with international partners to promote the work on the EESE Report and the follow-up activities in Montenegro. Thus, the MEF has used its membership in the International Organization of Employers (IOE), Businesseurope, as well as of the Adriatic Region Employer's Center (AREC).

The EESE Report also served in the past years as groundwork for the consultations between the MEF and the EU Delegation to Montenegro in discussing Montenegro's progress in the EU negotiation process and the European integration process in general. Within the EU dialogue forum, the MEF presented the challenges recognized in the EESE Report through the Civil Society Joint Consultative Committee, established by the European Economic and Social Committee and Montenegro, of which the MEF has been a member since 2013.



## ▶ 3. Overview of results

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The period of more than seven years represents a sufficient time frame for the implementation of a strategic and legal framework, and therefore assessing the effects of reforms. Since the publication of the EESE Report and “5 Business Killers”, many activities have been implemented to address the systemic challenges and structural problems of the economy, and contribute to the sustainable development of enterprises in Montenegro. The following is a brief overview of the (non)compliance with the recommendations on the key challenges.

### 3.1. Inadequate regulatory framework

The recommendations from the ESE report in this area are largely the result of the former working practice of the business community and they mirror the actual level of dialogue between the key social partners. The recommendations addressed in particular the importance of involving representatives of the real sector in the development of public policies and the legal framework, reducing administrative procedures and parafiscal charges, increasing the level of certainty and uniformity in the work of local government authorities and improving the penal policy.

Since the publication of the EESE Report, many framework and sectoral strategic documents have been created to address the challenges recognised in its recommendations. The process of transparency and inclusiveness in drafting legal regulations has been significantly improved in the past seven years, as indicated in conversations with representatives of all social partners. Thus, a high level of involvement of the MEF and of the trade unions has been noted in the process of drafting strategic documents, in multiple areas, most often through the involvement of representatives of these organisations in working groups tasked with drafting those documents. On the other hand, in relation to the activities of certain institutions, it has been noted that there is still room for increased transparency and readiness to involve all relevant stakeholders in their planning and work. This especially refers to the need for greater involvement of representatives of the employers’

organisation in the initial stages of drafting laws and bylaws as well as during the public debate.

With regards to the legal framework that enables the participation of all interested parties in the development of public policies and legislation, such as through the participation to working groups or through public hearings, internal institutional mechanisms have also been developed. One of these requires state authorities to assess, in the process of drafting legal regulations, the impact of the regulations on business environment, through the so-called RIA (Regulatory Impact Assessment) form, as well as to intensify (still low) involvement of the economy in the development of RIA forms in the coming period.

As regards the improvement of regulatory framework, a specific recommendation from the EESE Report has been implemented. The Law on deadlines for settlement of liabilities has been adopted, in order to establish a normative groundwork that would significantly influence the practice of doing business and settling liabilities (both between the public sector and business entities and among the business entities), while also increasing the liquidity and competitiveness of business entities. In addition, in order to reduce para-fiscal charges at the local level, the Law on Administrative Taxes and the Law on Local Communal Taxes were adopted in March 2019. This is a confirmation of the successful three-year work of the MEF, supported by the ILO, and its full commitment to activities aimed at consolidating and reducing the number and/or the costs of the existing parafiscal charges in Montenegro.

*"Under the Law on administrative taxes, we have reduced 72 taxes, i.e. 11 percent of the total number, and abolished 49 taxes or 7 percent of the total number, while no other tax has been increased. Nine grounds for determining local utility taxes were abolished by the Law on Local Utility Taxes, while it has been introduced that prior approval of the Government is required to determine local decisions"*

Bojana Bošković, DG in the Ministry of Finance: 26 July 2019 - Conference on parafiscal burdens in Montenegro – MEF in co-operation with the ILO

According to an announcement from the Ministry of Finance, the development of an online register of levies (fiscal and parafiscal). The revision is being done with the support of the EBRD and based on the MEF Report on Parafiscal Charges as well as the MEF Register of state and local parafiscality, which were created under a project supported by the ILO. Later, the MEF submitted the Register to the Secretariat of the Competitiveness Council for further management, development and implementation. The working version of the Register is publicly available ([www.javninameti.me](http://www.javninameti.me)) from October 2020 and is expected to be fully operational as of mid-2021.

### 3.2. Lack of funding and poor credit conditions

The key recommendations in this section referred to a lack of communication between financial institutions and businesses, because during the drafting of the EESE Report as many as 98% of enterprises believed that the financial products were not fully adjusted to their needs. The lack of stimulating credit lines for individuals to start their own businesses, as well as high interest rates and collateral for credit insurance, were recognised as a significant challenge.

*"Our interest is sustainable economy"*

Vladimir Krsmanović, the Trade Union Alliance of Montenegro

Seven years after the publication of the EESE Report, the analysis of the strategic, legal and policy framework shows a significant progress, as has also been noted by the MEF. For example, through the Programme for Improvement of Competitiveness, the Ministry of Economy has allocated €1.6 billion through 10 programme lines. In addition to the Ministry of Economy, at least seven more state institutions are providing support for sustainable development of enterprises, especially MSMEs, including the Ministry of Agriculture and Rural Development, Ministry of Science, Ministry of Labour and Social Welfare, the Employment Office and the Montenegrin Investment and Development Fund.

As regards the private financial sector, there are 13 commercial banks and 7 microcredit financial institutions (MFI) operating in Montenegro and offering financial support through a number of credit products, as well as foreign and international business organisations that provide non-financial assistance to the national economy. In addition to financial support, several domestic and international business entities have been established recently, which provide non-financial support to businesses through project implementation, education and training, etc. – starting from business incubators and business start-up centres, through local and national business associations.

There is a growing trend of support for enterprise development by local government authorities, both of financial and non-financial nature: starting from financial support through subsidies and incentives for production and development of entrepreneurship, to non-financial support in the form of financing the drafting of business plans, accounting and consulting services and other forms of support.

The activities undertaken since 2014 and the development of the overall environment has significantly contributed to the steady downward trend in interest rates on corporate loans extended by commercial banks<sup>5</sup>.

5 Source: Central Bank of Montenegro - <https://www.cbmg.me/me/statistika/statisticki-podaci/kamatne-stopje>

One of the examples of the impact of the EESE Report in this area and, thereby, an indicator of its usefulness for the planning of support of international donors is the support provided by the Kingdom of Norway for the development of entrepreneurship in Montenegro. A public call for project proposals from entrepreneurs, micro and small companies was published in 2019, basing the rationale for its support, inter alia, on the EESE Report and the 5 Business Killers, with reference to the lack of funding and poor credit conditions.<sup>6</sup>

### 3.3. Informal economy

Yet another structural problem facing the countries in transition, to which Montenegro is not immune, is the problem of the informal economy. It is evident that, from a strategic and legal aspect, Montenegro has started to address this structural business barrier. Apart from establishing the strategic and legal framework, multi-disciplinary consultative and operational bodies have been established, in particular the Council for Competitiveness and the Commission for Suppression of Informal Economy, which involves representatives of the ILO constituents.

The Economic Reform Programme defines the priority measures for the improvement and implementation of actions against the informal economy. The document for operational and coordinated action in this area is the Action Plan for Suppression of Informal Economy, with the established preventive, restrictive and stimulating measures, monitored by the Commission for Suppression of Informal Economy.

The activities undertaken so far in accordance with the Action Plan focused on strengthening fiscal discipline and eliminating unfair competition, as well as raising awareness about the importance of lawful business practices. For example, the Tax Administration is implementing the Tax Administration Reform Project, which is focused on improving the efficiency of the Tax Administration and reducing costs for the taxpayers.

Some of the positive campaigns that have contributed to the implementation of the recommendations from the EESE Report also included direct

participation of citizens in the process of suppressing informal economy through online tools, as part of the platform *budiodgovoran.me*. The online platform *bezbarijera.me*, implemented in partnership with the MEF (in the first phase), produced similar results with employers as the target group.

► *The key results of the “Be Responsible” campaign ([www.budiodgovoran.me](http://www.budiodgovoran.me)), as tool opened to citizens to report possible business irregularities: a total of 17,040 reports by citizens of irregular business activities have been registered and the fines imposed by inspectors in a total sum of €2,777,239.76. From the revenues collected through the campaign in only three years, 17 community projects worth over €800,000 were funded.*

► *The “No barriers! So business doesn’t wait” campaign ([www.bezbarijera.me](http://www.bezbarijera.me)), was an online tool opened to entrepreneurs who are interested in pointing out to the state and local administration the problems they face in exercising their rights in doing business. As reported, in the period between November 2015 and March 2017 228 barriers were reported, categorized into 8 groups: financial constraints in starting and developing business, complicated and unclear procedures, inadequate inspection control, inadequate legislation, inefficient administration, limitations to business operation, informal economy and high fees.*

Through a Government aid Program, titled “Stop Informal Economy”, over the past five years, starting from 2016, a total of 824 university graduates have been hired through the Employment Office in order to support inspectors in the exercise of their duties. The main aim of the program is development of the human resources and support to inspection authorities in the field.

With regards to the second set of recommendations from the EESE Report, the ILO constituents have provided a significant contribution to the drafting of the Labour Law, thus contributing to the implementation of the concrete recommendation from the EESE Report, advocating for the interests of their membership, but also demonstrating a high level readiness for a dialogue and understanding.

<sup>6</sup> <https://norveskazavas.me/uploads/files/42-809-opis-i-kriterijumi-javnog-poziva-azurirano-13-avgusta-2019.docx>

An example that testifies to the quality of the tripartite dialogue during the work on the Draft Labour Law is the joint participation of representatives of the Ministry of Labour and Social Welfare and the ILO constituents from Montenegro in meetings dedicated to the Labour Law reform held with the European Commission in Brussels, which referred to incorporating the EU *acquis* into that legislation.

Activities of the MEF in this area have also been noted at the regional and wider international level. One of the examples is the participation of the MEF Secretary General Suzana Radulović, at the invitation of the Regional Cooperation Council and the International Labour Organisation (ILO), to the regional conference “Employment and informal economy in the Western Balkans: Regional perspectives for creating new and better jobs”, which took place in Sarajevo.



*“We are still only talking about the consequences of informal economy, although the focus should be on its causes, i.e. on what causes an employer to operate in the informal zone,”*

Suzana Radulović, MEF

### 3.4. Corruption

The recommendations from the EESE Report largely correspond with Montenegro’s commitments established in the strategic documents, in particular in the context of the EU accession process, as part of the negotiation chapters 23 and 24.

Soon after the publication of the EESE Report, in cooperation with the European Commission and international partners, a new legal framework for the fight against corruption was developed, both in terms of preventive and repressive action. Consequently, the institutional framework was significantly strengthened, especially through the establishment of the Anti-Corruption Agency (2016), Special State Prosecutor’s Office and the Special Police Unit (2015). As part of the initial track record, which needs to be additionally improved and strengthened, concrete results in the fight against corruption have been noted.

The work of the Anti-Corruption Agency has resulted in over 270 public officials submitting their

resignations or being dismissed from service, while nearly 2000 requests for misdemeanour proceedings have been filed for violation of anti-corruption legislation, resulting in nearly half a million euros in fines. In the field of repression, since the establishment of the Special State Prosecutor’s Office, indictments have been issued for corruption-related crimes that caused the financial damage of more than €100 million.

In parallel, as regards the introduction of standards and integrity, a series of activities have been undertaken at the level of national institutions, which have led to the adoption of the Code of Ethics for Civil Servants and State Employees, as well as the individual integrity plans for each institution. Furthermore, the Anti-Corruption Law also includes the provisions that introduce the institute of a whistle-blower, which could be any person or legal person that files a report on a threat against public interest that indicates the existence of corruption, which can also be done anonymously.

Still, a very significant challenge in this area is the need of improvement in the work of General Inspectorate Affairs, comprised of 22 inspections, tasked with different duties. Labour Inspection is also part of this institution. Their impartial and transparent work is crucial to ensure a fair business environment. There is a clear need to continuously improve the capacities of this Inspectorate and other inspection services, in relation to their staffing and everyday work.

On the other hand, part of the recommendations from the EESE Report in the area of corruption contain concrete recommendations on how to facilitate business operations in Montenegro. Among other things, it recognises the need to improve the public procurement system, in terms of ensuring transparency and economical use of public funds, boosting competitiveness and eliminating opportunities for corruption. By participating in the Competitiveness Council and several working groups and commissions of the Government, which include representatives of the state institutions in charge of the public procurement system, the MEF has provided a significant contribution to improving the situation in this area and fulfilling this recommendation. Therefore, in example, the MEF jointly with the former Public Procurement Administration, launched a survey among its members, which contributed to the drafting of the Guidebook for Greater Participation of Small and Medium-Sized Enterprises in the Public

Procurement Market in Montenegro (a project funded by the World Bank).

Furthermore, the activities that followed have led to the establishment of an electronic public procurement system, whose full implementation is announced for 1 January 2021. According to the announcements, in addition to increasing transparency and competitiveness of public procurement, the introduction of the electronic public procurement system also increases the efficiency and transparency process, reduces administrative costs both for the public and the private sector, and facilitates access to public procurement opportunities and the collection of coherent, current and reliable data.

### 3.5. Skills mismatch between the labour market and the educational system

The EESE Report identified precisely the bottlenecks in the Montenegrin education system, which the employers and past analyses had recognised, and which need to be removed through a well-timed and clearly designed reform. It is noted that the social dialogue with the Ministry of Education has been significantly improved owing exactly to the EESE Report, because the ILO constituents in Montenegro have been involved in policy making and thereby in the work of thematic commissions and committees.

*“Following the publication of the EESE Report and especially the report on 5 Business Killers, the social dialogue in the field of education has started to move forward”*

Ana Markovic, MEF

The recommendations recognised in the EESE Report focused for the most part on secondary vocational and higher education.

The results of reform activities in the past seven years reveal an evident progress in the area of secondary vocational education, including the introduction of dual education as one of the most significant accomplishments. In that respect, the role of the ILO constituents in Montenegro has been and still is of great importance, considering their involvement in the work of 16 sectoral commissions that give their opinion of educational

programmes and then, together with the Centre for Vocational Education, work on the development of qualifications, and also participate, among others, in the Council for Qualifications, the National Education Council, Adult Education Committee and the Vocational Education Committee.

Such activities reveal that efforts have been made to strengthen the role of employers and their representatives in creating educational policy, educational programmes, and work of schools and promotion of occupations that are in short supply. In addition, MEF also used special projects and media campaigns to promote cooperation between employers and schools. Compared to the earlier period, progress has also been made in terms of the approach of individual businesses to this issue, considering that certain companies, especially in the IT and tourism industry, have launched internship programmes for young people.

*“The contribution of the EESE Report in the area of bringing education in line with the market needs was of exceptional importance and the reform activities that we have undertaken have enabled the creation of a clear system of consultation and directed continued involvement of the MEF and other organisations in creating vocational training programmes”*

Srđan Obradović, Centre for Vocational Education

It is very positive that all primary and secondary schools have introduced subjects or modules on entrepreneurship, with a view to promoting and strengthening the culture of entrepreneurship among children. One of the good practice examples is the functioning of entrepreneurship clubs in the majority of secondary schools in Montenegro. A significant encouragement for adequate implementation of activities in this area was the adoption and continued monitoring of the 2015-2019 Life-Long Entrepreneurial Learning Strategy (*a new strategy has also been adopted for the period until 2024*).

On the other hand, when it comes to higher education, there is significant room for improvement of practice during the studies. Although the Law on Higher Education prescribes mandatory practical

lessons, the results show that the educational reform requires additional effort in this area. This is particularly the case since employers have been provided with significant state support for hiring university graduates through the Programme of Professional Training of University Graduates, which has been available since 2012. However, the support programme could produce a stronger effect if the employers and relevant state institutions focused more on practical education during the studies. It is estimated that such activities would also have a significant impact on the students' practical preparation for future work on the labour market.

Following the seventh round of implementation of the Programme, a total of 36,267 persons have been given an opportunity for vocational training. Employers expressed a great interest in the 2018/2019 Programme, which resulted in advertising 11,005 vocational training openings, while the total number of university graduates who applied to participate in the Programme was 3,447. An analysis of employability of the Programme beneficiaries conducted by the Ministry of Education, in cooperation with the Montenegrin Tax Administration, revealed that around 50% of the beneficiaries continued to work after completing their practice, of whom 60% in the private sector and 40% in the public sector.

Finally, the EESE Report recognised another very important topic and that is prior learning. This significant issue has been addressed in the 2015-2025 Adult Education Strategy by creating opportunities for everyone who acquired competences outside the formal educational system to test and validate their knowledge and skills by obtaining a nationally recognised certificate. In addition to the Adult Education Law, this area is also governed by the Law on National Professional Qualifications. The Law creates opportunities for acquiring a national professional qualification through direct testing and assessment of knowledge, skills and competences, regardless of the method of acquisition. In practice, the Montenegrin Examination Centre enables the issuance of certificates based on demonstrated knowledge, but there is room for additional improvement in the list of occupations.

Furthermore, the interviewees agree that, when it comes to the quality of private training providers, there is room for additional investment, in terms of closer monitoring of the teaching process and higher quality of the composition and work of the examination commission.

## ▶ 4. Lessons learned and recognised challenges

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The past period has shown that there is room for improving the implementation of strategic documents and legal framework, and thereby strengthening trust between institutions and the business community, as well as for improving the perception of and satisfaction with the business environment for sustainable development of companies. Therefore, lessons learned are presented in two perspectives: (1) benefits for MEF and other stakeholders and (2) challenges that could be assessed more detailed for the purpose of further planning and activities. The third part presents the key success factors of the EESE Programme in Montenegro.

### 4.1. Benefits of EESE Programme for MEF and other stakeholders

*“The policy implemented based on the Strategy for Development of Small, Micro and Medium-Sized Enterprises will bring the most significant effects for the operation of MSMEs, which reflect, among other things, upon improved business environment, reduced administrative procedures and costs, accessibility and availability of finance through loans, factoring, etc., stronger competitiveness of MSMEs through incentives for export and innovation, improved infrastructure for start-ups (business incubators), financial support for start-ups, women, youth, social entrepreneurship, etc.”*

Radosav Babić, former Director-General for Investments, Development of SMEs and Management of EU Funds, Ministry of Economy.

The research has revealed an increased level of awareness and commitment of social partners, including the key decision makers and stakeholders, to the importance of creating an enabling environment for sustainable enterprises. In that context, the conclusion is that the state institutions and the ILO constituents in Montenegro are very well acquainted with the EESE Report and recommendations, which they have taken into account

while conducting their respective activities. In the context of the abovementioned, the following concrete benefits brought by the implementation of the EESE Program in Montenegro were also recognized:

- ▶ The support provided as part of the EESE process has been justified and that it has adequately streamlined the MEF's work, by strengthening the capacities of this ILO constituent in Montenegro.
- ▶ It has become evident that state institutions and other key partners and stakeholders are very familiar with the EESE report and, in particular, with the Strategic Policy Framework document known as “5 Business Killers”, whose explicit title has attracted a lot of attention.
- ▶ It is evident that the Government's reform activities have been underpinned also by the commitments arising from the European integration process, which largely coincided with the activities and recommendations of the EESE Report.
- ▶ Through the activities of the ILO and its constituents in Montenegro, in particular of the MEF in this area, the state institutions have realised the benefits of involving social partners in the process of creating an enabling environment for sustainable enterprises.
- ▶ Implemented activities within the EESE Programme have led to creating a high-quality analytical, strategic, legal and institutional framework. Therefore, clear preconditions have been created for full implementation that is always recognised as a challenge in addressing structural issues.

## 4.2. Challenges in implementing recommendations from EESE Report

*“Dialogue is essential and it has produced the results that have been achieved so far. Still, additional progress is needed regarding the dialogue – so that it comes naturally, rather than we should all be happy that it takes place.”*

Ana Markovic, MEF

Many recommendations have been implemented and some recommendations deserve a more innovative approach to implementation, due to the changes in circumstances and the business environment over the past 6 years.

- ▶ A certain number of recommendations have not been implemented, considering that they are addressing structural challenges of the country and are part of the systemic problems that require time, adequate commitment of institutions and all partners.
- ▶ In order to implement certain recommendations, understanding and continued dialogue are the only way to reach solutions that serve the needs of all social partners.
- ▶ The analysis of the recommendations that still have not been implemented (for example: practical training at tertiary level of education), has revealed the need for increasing the level of readiness of decision makers from different structures to take a clear position and invest continued efforts to address the recognised challenges.
- ▶ It has been noted that the dynamics and intensity of implementation of certain recommendations have been influenced by limited human resources in certain areas.
- ▶ There is also room for strengthening the already established cooperation between the key stakeholders in the process of improving the enabling environment. This refers, in particular, to the role of local government authorities in the process of maintaining dialogue with relevant stakeholders, but also the strengthening of bipartite communication, both among ILO constituents and among other associations.
- ▶ The challenge of a lack of institutional memory has been recognised in certain areas, which is characteristic of the countries that, in certain aspects of their development, are still in transition. In that context, there is a need to identify a model of communication and work that will bring stability in implementing the decisions made by a management whose term has expired or that has been replaced by another. Most of the interviewees have recognised this challenge also in the context of the expectations of the new political developments following the parliamentary elections of 30 August 2020, based on the experiences of the 2016 parliamentary elections and the changes that then followed at the level of top management in certain institutions.
- ▶ Certain entities have also recognised as a challenge the inability to make social dialogue clearly measurable.
- ▶ It has been noted that many activities have been conducted in order to raise the level of awareness and education, provide trainings, develop handbooks and associated activities, but also that it is necessary to focus efforts on the activities that will produce more measurable results with clear indicators of success and impact (for example, a lack of collective agreements in some sectors of commerce, which employs around 80,000 people).
- ▶ A significant need for support when it comes to building the capacity for accessing the EU Instrument for Pre-Accession Assistance - IPA funds, has been recognised by all ILO constituents. The trainings attended by the representatives of ILO constituents in Montenegro that were supported by different organizations have showed that there is still space for improvements when it comes to drafting applications for specific calls.
- ▶ In the context of availability of funding, results have shown that certain challenges still remain, especially in relation to the level of trust between the banking sector and the private sector.
- ▶ Further support for the strengthening of technical and human resources of ILO constituents in Montenegro is of exceptional importance,



in order for them to strengthen their social partner role, as well their performance in the context of advocacy.

### 4.3. Critical success factors for the implementation of EESE Programme

*“Social dialogue needs to have its measurable results, which are measured by the number of collective agreements signed and the representativeness of a trade union”*

Vladimir Krsmanovic, SSCG

Implementation of the EESE Programme in Montenegro started in the right moment because it is recognized that the Programme provided added value to the national counterparts, especially the Government, in designing its analytical, strategic and legal framework. The Programme extensively contributed to capacity building of ILO constituents in Montenegro in many areas, from human resources to improvements of work in particular areas, such as timely and systematic planning of activities, advocacy for its members etc. For the purpose of this section, critical success factors for the implementation of the EESE Programme are divided in two main subsections – internal and external.

#### 4.3.1. Internal critical success factors for the implementation of EESE Programme

The MEF, as the key stakeholder of the EESE Programme in Montenegro, started its implementation in the appropriate way, by conducting a thorough analysis of the situation and in-depth survey between its members. That approach resulted in preparation of a very good ground for further work and production of useful documents and tools for communication with relevant partners.

This kind of the approach has contributed to the preparation of a general membership-driven policy agenda and evidence-based position that can be advocated in systematic manner mainly to the Government and local self-government units. In addition, activities under the umbrella of the EESE Programme have contributed to an improvement of MEF employees’ analytical and advocacy

skills, as well as improvement of other critical factors of MEF.

#### 4.3.2. External critical success factors for the implementation of EESE Programme

The implementation of the EESE Programme in Montenegro would certainly not be possible if there were no visible external preconditions. In this context, the key external critical success factors that determined the implementation of the EESE Program are also recognized.

Among the first key factors is the existence of a clear constitutional definition and commitment to social dialogue, which is one of the key bases for dialogue between the Government and the social partners, including the ILO constituents. Further elaboration of this constitutional principle through legal regulations very clearly prescribes the obligation of continuous communication between MEF and other partners. Thus, the legal framework, as a critical success factor, served as a significant basis for the start and implementation of the program. This led to recognition of key national and local institutional partners for further joint work with MEF, directly or within different government forums and advisory boards.

In addition, it is important to recognize the willingness of small and medium enterprises to contribute to the survey and development of recommendations and to advocate for its implementation through active participation. It is also an indicator of the trust they have in their umbrella representative organization of employers – MEF who managed to motivate them to involve in EESE Programme.

Implemented activities and research in this Case Study have shown space for further improvements that are critical success factors for further work and possible continuation of activities under the scope of EESE Programme (see more in Section 6. – Opportunities and Recommendations).

## ► 5. Potential for replication

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Several activities have been recognised that could serve as examples of good practice to organisations similar to the MEF at the international level, but also as a good basis for possible replication at the national and local level in Montenegro. For the purposes of this study, such activities have been illustrated with one example at each of those levels.

### 5.1. International level

What is characteristic of the EESE Programme in Montenegro is that it has showed its effectiveness and the possibility to be replicated by the ILO constituents in other countries. By now, the Programme has been implemented in over 60 countries, providing assistance to ILO social partners to advocate for an enabling environment that facilitates the launch and growth of small and medium enterprises, with the ultimate goal of favouring sustainable job creation.

The activities in which representatives of the MEF have been involved regarding the promotion of the EESE tools in the former USSR, such as Georgia, reveal that the same tools and practices can be replicated in a broader geographic area, among the countries that are at a similar level of social and economic development and have similar business environments. More concrete, there is potential space for MEF to share its experience and best practices with similar ILO constituents in the world regarding its position and advocacy activities within the official national dialogue structures (e.g. Social Council and others). Of course, a pre-requisite for this kind of dialogue is a mutual understanding and result oriented approach from all stakeholders, especially from the Government's side, which is determined by the political will and knowledge.

### 5.2. National level

The introduction of dual education programs represent a very good example of long-term efforts of the MEF towards building cohesion between employers and the Montenegrin educational system through practical education. At the national level, such an approach is also needed in the

field of higher education. The strategic and legal framework have been ensured, and replicating the experience of secondary vocational education in the higher education system may certainly produce significant results.

Such an approach should be observed as a mainstream activity in the coming period, in order for the practical training to become a standard and commonly accepted practice. In that sense, communication between employers and faculties could become part of a normal way of thinking and working, in order for best practices to become the norm.

### 5.3. Local level

The local self-government system in Montenegro, where by the Law all municipalities have same level of competences, besides their demographic, economic and other differences (omnibus system of competences and monotype way of organization), are very diversified. That represents an evident challenge for the business community. In that sense, creating adequate and sustainable platforms for dialogue is of essential importance.

The existence of a good mechanisms for tripartite and bipartite talks at the national level may be used as an example of good practice in establishing dialogue at a local level. Therefore, the work of the Social Council and the Council for Competitiveness represents an example of best practice for dialogue among social partners at the national level. At the local level, having in mind limited resources and since there is no need for creating multiple consultative bodies, one might consider creating a single body that would bring under its remit at the local level the competences that both councils have at the national level, while working with the support of a professional secretariat.

## ▶ 6. Opportunities and recommendations

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The EESE Report in Montenegro was implemented at the right moment for the key ILO constituent among the employers, giving a strong and much needed international aspect to the activities in Montenegro.

In addition, the COVID-19 pandemic already poses a great challenge to the economy, with clear expectations that for the short-term period even greater challenges will follow. The COVID-19 crisis yet remains to reveal its negative effects, including its impact on the priorities of future work, both in the public and private sector in Montenegro. Activities will be determined by this so-called “new normality” and the role of policy makers is crucial in this process. It is evident that the ILO constituents in Montenegro, with the ILO’s exceptional support, have already undertaken a significant number of very useful activities during 2020, aimed at supporting the sustainable development of enterprises and that the future joint work is of outmost importance.

For the purposes of this document, certain opportunities have been pointed out that may be used for further action, with a number of recommendations in the key areas.

### 6.1. General approach

- ▶ Having in mind the passage of time and the past development, as well as the new challenges, especially “post-COVID” momentum, there is a need to prepare a detailed assessment of the state of play in each of the key areas, which would enable the identification of new challenges and new recommendations, with the possibility for involving in the drafting process other ILO constituents in Montenegro – the trade unions in addition to the MEF.
- ▶ On the basis of such document and the previous experience a clear action plan needs to be prepared for constituents to work separately on each structural challenge, with concrete activities and recognised mechanisms on how to advocate for their recommendations, thus contributing to medium and long-term

reforms and activities also related to the economic impact of COVID-19.

- ▶ Ensuring greater visibility for the ILO in Montenegro, not only within institutions, but also among the general public, by supporting the activities that include employers, workers and citizens in general (for example, online platforms for reporting barriers or problems). Digital communication tools and platforms in the upcoming period could be very useful in this regard.
- ▶ Continuing to invest in advocacy capacities for the policies and activities of ILO constituents in Montenegro.

### 6.2. Dialogue

- ▶ Recognizing the potential of market actors and social partners in designing upcoming mid-term and long-term public policies in area of MSME development, especially regarding the reduction of informal economy and with particular attention to women, youth and persons with disabilities.
- ▶ Making efforts to raise the level of trust and awareness on the importance of mutual dialogue among the social partners in the country, both at the bipartite and the tripartite level.
- ▶ Improving the legal framework, especially in the context of the Law on the Social Council, by extending the competences of local councils, in order to enable possible replication of national mechanisms of communication at a local level (merging competences of social and competitiveness council), while understanding the needs and capacities of local government authorities.
- ▶ Promoting the possibilities offered by the Law on Social Council, in terms of using the tools for inter-municipal cooperation in the formation and functioning of local social councils, potentially through the establishment of three regional councils (for southern, central and northern region).

- ▶ Focusing activities on further strengthening of level of trust through the development of dialogue among universities, state institutions and employers, in the direction of developing practical education for students and the development of modules for entrepreneurship studies at universities.

### 6.3. Regulatory framework

- ▶ Continuing to strengthen consultative processes during the drafting of legislation at the national level.
- ▶ Creating mechanisms for developing a continued consultation process during the drafting of legislation at the local level.
- ▶ Considering the possibility of obliging, through amendments to the legal framework, national and local authorities to more intensive involvement of employers' organization representatives in the initial stages of drafting laws and bylaws that affect the business environment, and without which draft regulations could not be presented to the Government for adoption of final proposals and their further forwarding to the Parliament.
- ▶ Developing fast-track approval legal proceedings related to requests that have to be submitted by enterprises to public bodies for approval, especially by increasing back-office proceedings within the institutions (one stop shop) and by using digital tools.
- ▶ Focusing efforts, in the area of public procurement, on strengthening cooperation with state institutions, especially the Ministry of Finance, in the context of improving regulations and control of the procedure of the so-called "simple procurement", by creating a uniform regulation that would consolidate procedures in this area, which will directly increase the level of transparency, simplify the procedures for businesses as bidders, but also ensure a better control of the procedures for this type of procurement.

### 6.4. Access to finance

- ▶ Establishing effective models of communication and cooperation, in order to additionally strengthen the trust between businesses and

banks, especially having in mind a need to prepare the business sector, especially MSME, to restart activities in the post-COVID era.

- ▶ Providing better information to businesses on all types of financial support and funding opportunities, both from state or other sources of finance.
- ▶ Creating a programme of support, modelled on the support instruments applicable in EU member states, which includes greater openness of the banking sector for support through the start-up lines – to the clients that are unable to meet the collateral requirements. The role of the MEF in that respect can be highly beneficial, especially in terms of facilitating communication with the Montenegrin Association of Banks.
- ▶ Considering support to the ILO constituents in Montenegro, in order to develop human resources for drafting, applying to calls for proposals and implementing projects financed from the EU pre-accession funds, not only for the purpose of strengthening internal capacities.

### 6.5. Informal economy

- ▶ Considering the possibility for investment capacity development of inspection authorities, especially the Labour Inspectorate, in order to ensure consistent and full implementation of the new Labour Law, which is also vital for the process of Montenegro's accession to the European Union, especially in relation to meeting the closing benchmark for Chapter 19 – Social Policy and Employment.
- ▶ Improving inspectorate's capacities to conduct controls even in those segments of business that are taking place outside the legal framework. Introducing inspection and other authorities with examples of best practices in controlling the entities that operate outside legitimate channels, in order to contribute to suppression of informal economy and to promote the need for lawful conduct of registered activities.

## 6.6. Corruption

- ▶ Establishing mechanisms for continued communication and cooperation between the ILO constituents in Montenegro and the preventive and repressive institutions in charge of the fight against corruption, by signing a memorandum of cooperation and establishing a forum for dialogue.

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- ▶ Conducting targeted public campaigns among businesses with a view to informing them about the possibilities, but also encouraging them to report to the competent authorities all the challenges that they are facing in this area in the course of their business.

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- ▶ Considering the possibility of greater involvement of the ILO constituents in Montenegro in the working groups for negotiations about Montenegro's membership in the European Union for chapters 23 – Judiciary and Fundamental Rights and 24 – Justice, Freedom and Security.

## 6.7. Education

- ▶ Preparing an analysis that would consider the possibility of introducing additional incentives for the employers who participate and deliver the practical training in VET and higher education.

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- ▶ Considering the possibility of creating a mandatory training program for in-company mentors who participate in vocational training programmes, in order for the mentors to have a more active role in the process of education planning and evaluation of students' achievements.

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- ▶ Intensifying efforts to fully implement the legal provisions on practical training in the field of higher education.

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- ▶ Raising the level of commitment in promoting and organising entrepreneurship modules in the educational curricula at the level of higher education.

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- ▶ Designing adequate models for monitoring the work of private providers of vocational education, with special emphasis on the composition and work of examination commissions.

## 6.8. Digitalisation of services and practices

- ▶ Continuing further improvements of registration and working processes of companies by introducing new online tools, such as business registration, licensing, taxation issues, property related matters etc.

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- ▶ Establishing and where it already exists strengthening promotion of e-communication platform between business and public institutions.

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- ▶ Continuing with activities in relation to e-procurement improvements from complex procurement procedures to so-called "simple procurement" arrangements.

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- ▶ Enhancing efforts in establishing and promoting e-commerce services and online transactions, as joint action of policy makers and business sector.

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- ▶ Keeping a momentum regarding a level of direct foreign investments that boost the work of MSME, by creating unique online platform for the promotion of Montenegrin potentials and investment opportunities through presentation of potentials and establishing possibilities for online consultations for potential investors and paperless procedures with institutions.

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## ▶ Annex 1: Overview of interviewed organizations and institutions<sup>7</sup>

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- ▶ ILO Office in Montenegro,
- ▶ Montenegrin Employers Federation,
- ▶ Union of Free Trade Unions of Montenegro,
- ▶ Federation of Trade Unions of Montenegro,
- ▶ Government of Montenegro - Competitiveness Council,
- ▶ Ministry of Labour and Social Welfare of Montenegro,
- ▶ Ministry of Economy of Montenegro,
- ▶ Ministry of Finance of Montenegro,
- ▶ Tax Administration of Montenegro,
- ▶ Center for Vocational Education of Montenegro,
- ▶ Union of Municipalities of Montenegro.

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7 Interviews conducted in October 2020

## ► Annex 2: General overview of the role of ILO in Montenegro

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The mission of the International Labour Organization (ILO) is based on the promotion of social justice and internationally recognized human and labour rights, while advocating for policies that promote social peace as the basis for the prosperity of every state. ILO activities aim to make progress in creating decent working conditions, while strengthening tripartite social dialogue for the purpose of sustainable growth and development of employers and employees.

The UN Agenda for Sustainable Development 2030 contains 17 goals for sustainable development. Number 8 is one of the key goals for the private sector, which refers to the need to promote sustainable and inclusive economic growth, including decent work for all. It is this goal that is the main focus of the ILO, as the only tripartite UN agency that, since its founding in 1919, brings together governments, employers and workers. Such action of the ILO also contributes to the implementation of the UN Integrated Program for Montenegro (2017–2021), especially for the area of results No 3 regarding social inclusion.

Shortly after regaining its independence, in 2006, immediately after joining the UN, Montenegro became a member of the ILO. Since then, Montenegro has ratified 76 international labour standards (conventions), including eight core conventions, and adopted the National Agenda for Sustainable Development until 2030, in order to meet the UN's sustainable development goals at the national level. Montenegro is currently the leader in the European integration process, as a country that has opened EU membership negotiations in all chapters, while temporarily closing negotiations in three negotiating chapters. Among others, Montenegro is actively negotiating in Chapter 19 - Social Policy and Employment and in Chapter 20 - Entrepreneurship and Industrial Policy.

ILO support in Montenegro has been on an upward trend for more than a decade. The ILO has continuously supported the Government of Montenegro and its constituents in creating and implementing integrated responses in the field of public policies related to employment and

sustainable enterprise development. The ILO conducts its activities individually mostly through its offices in Podgorica and Budapest, then through its constituents in Montenegro, but also in cooperation with other UN agencies, international organizations (e.g. WB and EBRD) and governments of other countries (e.g. UK Government).

Therefore, the support of ILO in Montenegro is diverse and can be divided into several segments within which visible activities were carried out, that had concrete effects in relation to the reform processes in Montenegro:

- Support to the preparation of analytical and strategic documents and public policies in the field of creating better working conditions and sustainable enterprise development,
- Support to the development of the legal framework in the field of employment,
- Support in strengthening human and other capacities to represent the interests of employees and employers,
- Support in strengthening the capacity of state institutions dealing with public policies in the field of employment and sustainable enterprise development,
- Encouraging dialogue between the social partners.

Thus, the ILO provided full support to the development of the Decent Work Country Program and the drafting of a new Labour Law, which incorporates 60% of the ILO recommendations and is in line with the current *acquis communautaire*. In this context, the ILO's significant and visible support is in supporting the development of tripartite dialogue between the Government representatives, employers and trade unions, especially within the Social Council.

Thanks to the support of the ILO, Montenegro is the first country in the region to establish a labour market information system that aims to collect various data on the labour market, analyse them and inform all participants in the labour market.

On the other hand, significant support was directed towards the development of research and the creation of a quality analytical basis for further policy development, such as the development of the School-to-Work Survey (SWTS), created by the ILO as part of the "Work4Youth" project, in partnership with the MasterCard Foundation.

An important ILO project is underway, which is oriented towards a comprehensive process of reform and modernization of the Employment Agency of Montenegro and which is being implemented with the financial support of the Government of the United Kingdom, through the Fund for Good Governance. Also important is the "MAP16" project, which improves the capacities of state institutions, especially the Labour Inspectorate, the police and centres for social work in the fight against child labour. In the field of protection of workers' rights, the ILO has implemented a significant project "Promotion of Equality and Non-Discrimination in Montenegro".

Thanks to ILO activities in Montenegro, a significant number of publications have been produced, containing very useful research, analysis, reports and position papers for further implementation of reforms in the field of employment and sustainable development of enterprises. Also, the ILO enabled a significant number of experts from state institutions and its constituents to gain new experiences and practices important for further improvement of work in their fields through study visits abroad.

ILO activities and support in Montenegro were also very visible during 2020 in the context of the COVID-19 pandemic, given that the ILO alone or with partners has supported the development of analyses and proposals for mitigation of the economic crisis caused by the COVID-19.

## ► Annex 3: About ILO constituents in Montenegro

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The constituents of the ILO in Montenegro are: the Montenegrin Employers Federation (MEF), the Federation of Trade Unions of Montenegro (SSCG) and the Union of Free Trade Unions of Montenegro (USSCG).

**The Montenegrin Employers Federation (MEF)** exists since 2002 and is an independent, non-governmental, non-political and non-profit organization based on voluntary membership. MEF was awarded the status of representativeness by the competent ministry and as such represents an independent voice of business at the domestic and international level. By signing the National Tripartite Agreement on December 28, 2006 MEF became a social partner - the official representative of employers in relations with the Government and trade unions. The membership of the MEF consists of entrepreneurs, small and medium enterprises, large economic systems, employers' associations at the local and branch level and non-governmental organizations. Members of the MEF participate with about 80% in the total GDP of the Montenegrin economy and employ about 65% of the workforce in the economy. MEF works closely with the ILO, with whose support it was established and operates in accordance with its conventions and recommendations.

**The Federation of Trade Unions of Montenegro (SSCG)** is an independent, democratic and voluntary organization of trade union members that promotes the principles of social justice, rule of law and democracy, by respecting international standards and insisting on the application of ILO conventions and the European Social Charter. SSCG is committed to strengthening unity and solidarity among employees in Montenegro, Europe and the world, prosperity of all employees regardless of nationality, gender, race and religion, ensuring peace, democratic development and free trade union action.

**The Union of Free Trade Unions of Montenegro (USSCG)** is a voluntary interest organization of employees, founded on democratic principles and independent of political, national and religious organizations. The mission of the Union is to build Montenegro as a state of social justice and social welfare for all its citizens. The main goal of the Union is to represent, protect and affirm the

basic social, economic and cultural interests of the members of its members and to represent the interests of employees in Montenegro. The work of the Union is based on the Charter of Human Rights, the Charter of the European Union, the Constitution of Montenegro, the conventions of the ILO, the European Social Charter and the Statute of the Union.

## ▶ Annex 4: Updated summary of key MEF achievements following the publication of the EESE Report

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- ▶ Reduction of the health insurance rate at the expense of employers from 4.3% to 2.3%;
- ▶ Abolition of the obligation of the employer to report vacancies in cases of extension of employment with the same employee or his taking over on the basis of an agreement with another employer;
- ▶ Extension of the maximum duration of a fixed-term employment contract from 24 to 36 months;
- ▶ Providing an opportunity for the employer to independently assess the abilities of the employee on probation, i.e. without the obligation to form a special Commission;
- ▶ Introduction of temporary deployment of employees in emergency situations;
- ▶ In order to combat abuse, the obligation of the employee to submit a certificate of opening sick leave to the employer has been established;
- ▶ Introduction of the condition that the employee must be employed by the employer for at least 18 months in order to be entitled to severance pay in the event of termination of the need for his work;
- ▶ Simplification of the procedure for determining the responsibility of employees;
- ▶ Introduction of a reprimand as a measure for a minor violation of work obligations;
- ▶ Introduction of conditional termination of employment as a measure for a serious violation of work obligations;
- ▶ Introduction of the institute of statute of limitations for claims from labour relations after the lapse of 4 years;
- ▶ Introduction of a single residence and work permit for foreigners;
- ▶ Abolition of quotas for foreigners by occupation;
- ▶ Introducing the possibility that an executive director who is foreigner can work with several employers at the same time;
- ▶ Exemption from the obligation of employers (up to 10 employees) to pay a special contribution for professional rehabilitation and employment of persons with disabilities;
- ▶ Introduction of the institute of salary compensation during interruption of work which occurred through no fault of the employee;
- ▶ Withdrawal of the Ministry of Health from its original proposal that the salary compensation during sick leave on the basis of maintaining pregnancy for the first 60 days be borne by the employer;
- ▶ Simplification of the company registration procedure;
- ▶ By the Constitutional Court, revocation of the Decision of the Water Supply and Sewerage of Podgorica on determining the price of delivered water and services for disposal and treatment of faecal waters;
- ▶ Revocation of the certificate from the records of Employment Agency of Montenegro in the further procedure of issuing the permit required for the work of foreigners in Montenegro;
- ▶ Amended provision of the Law by which the owners of business premises paid three times more than the owners of residential premises for the costs of maintaining residential buildings;
- ▶ Reduction of the VAT rate from 21% to 7% for catering.
- ▶ Abolition of 8 local utility taxes with the introduction of maximum amounts for the remaining three
- ▶ 72 utility and administrative fees were reduced, while 49 of them were abolished

- ▶ Abolition of the possibility of charging utility fees for billboards and masts on privately owned areas and buildings

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- ▶ Introduction of prior consent of the Government of Montenegro to decisions of Local Municipalities on local utility and administrative fees

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- ▶ Introduction of prior consent of the Government of Montenegro to the decisions of local governments on fees for public road

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## ► Annex 5: Review of the key forums for dialogue between the social partners in which the MEF participates

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**At the international level,** the significant participation of MEF representatives in key international organizations and forums is recognized. Thus, MEF is a member of IOE and BusinessEurope, and so is the co-founder of AREC - Adriatic Region Employers Center.

**At the national level,** the MEF has in recent years continuously represented the interests of employers through participation in state bodies with different powers and functions. Of particular importance is the participation in the following bodies at national level:

- Social Council
- Privatization and Capital Projects Council;
- Competitiveness Council;
- Partnership Council for Regional Development;
- Council of the Fund for Professional Rehabilitation and Employment of Persons with Disabilities;
- National Council for Education, and
- National Council for Sustainable Development.

Representatives of MEF are members of the following **management boards**:

- Management Board of the Labour Fund;
- Management Board of the Health Insurance Fund;
- Management Board of the Pension and Disability Insurance Fund;
- Management Board of the Employment Service of Montenegro,
- Management Board of the Agency for Amicable Settlement of Labour Disputes, and
- Management Board of the Limited Liability Company "Rekra".

MEF is a member of the following **committees**:

- Committee for Interpretation and Application of the general collective agreement;
- Committee for determining the representativeness of trade unions;
- Commissions for selection and dismissal of conciliators and arbitrators;
- Qualifications Council;
- Adult Education Committee and
- Committee for Vocational Education

Also, MEF representatives were **members of multi-ministerial commissions**, such as:

- Commission for evaluation of projects for employment of persons with disabilities,
- Commission for evaluation of project proposals - grant program for self-employment.

In addition, the MEF has participated in many working groups for the preparation of public policies. Just during 2018/2019 MEF participated in the following bodies for the preparation of strategic and other documents:

- Strategy for the development of micro, small and medium enterprises in Montenegro (2018-2022)
- Analysis of the increase in the amount of the minimum wage and the reduction of wage costs
- Action plan for the implementation of the Lifelong Career Orientation Strategy for 2019 and 2020
- Action plan for employment and human resources development for 2019
- Adult Education Plan in Montenegro (2019-2022)

- ▶ Program for the implementation of the Action Plan for Achieving Gender Equality for 2019 and 2020

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- ▶ Decision on determining the annual number of permits for temporary residence and work of foreigners for 2019

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- ▶ Turin Report on vocational education in Montenegro

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- ▶ Commission for preparation of opinions for the Government of Montenegro on proposals for decisions of local utility and administrative fees.

Also, MEF is a member of a large number of other working groups, management boards and advisory bodies - both at the national and local level, as well as working groups for the preparation and conduct of negotiations with the European Union.

In addition to the above, MEF representatives also participated in the working groups of line ministries in charge of drafting legal regulations. Only in 2018/2019, MEF representatives have participated in working groups to draft the following legal acts:

- ▶ Labor Law

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- ▶ Labor Fund Law

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- ▶ Law on Amendments to the Law on Pension and Disability Insurance

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- ▶ Law on amicable settlement of labour disputes

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- ▶ Law on Volunteerism

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- ▶ Law on Professional Rehabilitation and Employment of Persons with Disabilities

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- ▶ Law on Protection of Montenegrin Citizens that Work Abroad

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- ▶ Decree on criteria and procedure for determining the annual number of permits for temporary residence and work of foreigners

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- ▶ Rulebook on the procedure and methodology for financing grant schemes

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- ▶ Rulebook on active job search

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- ▶ Rulebook on the manner of obtaining financial assistance and reimbursement of transportation costs for unemployed persons

- ▶ Rulebook on exercising the right to one-time financial assistance and reimbursement of travel and relocation expenses for an unemployed person

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- ▶ Rulebook on the content, forms and manner of keeping records in the field of employment

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- ▶ Rulebook on accommodation for an unemployed person who has been offered employment outside the place of residence

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- ▶ Rulebook on the application of the procedure of fiscalization of cash and non-cash payments in the turnover of products and services, the content of the fiscal account, taxpayers of fiscalization and other issues of importance for fiscalization

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- ▶ Rulebook on the content and manner of verifying the invoice book, the manner of submitting invoices without a unique invoice identification code and the manner of checking invoices.





