

## REPORT – MONTENEGRO

### 1. Institutional and legal framework

The underdevelopment of the social economy and social entrepreneurship in Montenegro is followed with the lack of legislation in this area that define types of social economy organization, the procedure of foundation, registration, operation and funding.

The Constitution and many strategic documents: the Agenda of Economic Reforms, the Poverty Reduction Strategy, the Regional Development Strategy, the Sustainable Development Strategy, the Agriculture and Rural Development Strategy, etc. outline the goals and priorities that favour the development of the social economy.

Montenegro's legislation is not supportive to the development of a social economy organization, but it is not limiting, either. The Law on Non-Governmental Organizations defines two types of organizations: non-governmental associations and non-governmental foundations, and they may perform economic business activity provided that the entire realized gain is used for performing the goals for which it has been founded in the territory of the Montenegro.

According to the Law on Non-governmental organization (NGO) adopted in 2012, NGO cannot perform economic business activity in case the revenues from the economic business activity exceed the amount of 4,000 EUR in the previous calendar year or if such revenue exceeds the amount of 20% of the total annual revenue in the previous calendar year, and they are obliged to be registers of the Central Registry of the Commercial Court in Podgorica for the purpose of performance of economic business activity. Under the Law, a non-governmental organization shall perform economic business activity in accordance with special regulations which regulate the requirements for the performance of such a type of business activity. Given the fact that the Law on NGOs has not yet applied the part relating to financial support to NGOs from the national budget, it is necessary to amend the Law on Non-Governmental organizations.<sup>1</sup>

There is no law on professional associations, private charity foundations or humanitarian organizations, and their constitution under the Law on NGOs creates significant limitations to their operations. Similarly, there is a lack of legislation in the field of cooperatives and social enterprises that would provide a framework for development in this field.

Concerning the business environment, Montenegro has achieved mixed progress<sup>2</sup>. Over the years, Montenegro has established a track record of business-friendly legislation and openness to foreign investors, with the country regularly topping the regional list of countries in terms of FDI per capita. The country ranks 46<sup>th</sup> out of 189 countries on the World Bank's ease of doing business score. At the same time, the latest Foreign Investor Council White Book points to areas such as the rule of law and property development as being problematic areas in the past year. On the other hand, the local business community<sup>3</sup> sees as key business barriers an inadequate regulatory framework, difficult access to finance, a significant grey economy, and corruption at all levels, as well as a discrepancy between the education system and the real needs of the labour market. One of the key problems of the inadequate regulatory framework is an easy

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<sup>1</sup> Source: „Report on implementation of the Law on non-governmental organizations in Montenegro (January 01, 2012-January 31, 2014)“, Centre for Development of NGOs,

<http://www.crnvo.me/attachments/article/8969/IZVJE%C5%A0TAJ%20O%20PRIMJENI%20ZAKONA.pdf>

The NGO Coalition “Through Cooperation to the Aim” submitted to the Ministry of the Interior in May 2015, proposals for amending the Law on NGOs and the adoption of a regulation that will establish a new system of financing of NGOs from public funds, according to recommendations of the Strategy for the Development of NGOs 2014-2016, and the Analysis of the institutional framework to carry out activities related to the development of non-governmental organizations. According to their proposal, NGO projects supported by public funds should be associated with public policies. Unfortunately, no steps have been taken in this field yet.

<sup>2</sup> Source: Transition Report 2015-16, EBRD, <http://2015.tr-ebd.com/en/countries/#sthash.fwidx9jo.dpuf>

<sup>3</sup> Source: Montenegrin Employers Federation, <http://www.poslodavci.org/forme-i-obraci/5-ubica-biznisa/>

entry into doing business, but a very difficult exit from it (one can establish an LLC company in a few days and with all the costs being less than 100 EUR, but if one decides to shut down a business it is difficult to do so without several hundred or several thousand EUR – needed to pay all the taxes no matter the realized losses.<sup>4</sup>

In 2011, the Government adopted “The strategy of encouraging competitiveness at the micro level” in order to enhance the performance of SMEs.

Over the recent period a number of strategies and policies have been adopted with a view to bringing the Montenegrin labour market much closer to European Union standards. At the same time, new laws have been adopted, among which the most important are: the Labour Law, the Law on Employment and Realization of Rights from Insurance against Unemployment, the Law on Employment and Work of Foreigners, the Law on National Vocational Qualifications, the Law on Recognition of Education Qualifications, etc. An action plan for employment and human resource development was adopted by the Government in 2012. It focused on measures and activities directed particularly at young people and the long-term unemployed, but it has not been fully implemented due to budgetary constraints.

Undeclared work continues to be an obstacle to increasing regular employment. A Law on the Prevention of Illegal Businesses was adopted in June 2013. A working group was set up to propose measures to combat the grey economy and action plans for 2013 and 2014 were prepared and implemented.

In the area of social inclusion, a new Law on Social and Child Protection was adopted in May 2013. Also, an Action plan for 2013 for improving the position of the Roma, the Ashkali and the Egyptian (RAE) population and the Strategy for Social Protection of the Elderly 2013-2017 was adopted in 2013.

The Law on Professional Rehabilitation and Employment of Persons with Disabilities, adopted in 2008 and amended in 2011, regulates the manner of and procedure for exercising the right to vocational rehabilitation of persons with disabilities, measures and incentives for hiring, modes of financing and other issues of importance to the Vocational Rehabilitation and Employment of Persons with Disabilities.

The Ministry of Labour and Social Welfare (MLSW) started drafting the procedure for passing a Law on Social Entrepreneurship two years ago, but both the MLSW and the Ministry of Finance decided not to put it on the Government agenda for 2014. The situation was the same in 2015 when a change at the head at the MLSW occurred, which significantly slowed down the process. Fortunately, the new Minister of the MLSW has shown to be open for SE initiatives and has announced placing the development of the National Strategy for Social Entrepreneurship on the 2016 agenda.

The adoption of the Law on Social Entrepreneurship has been initiated by CSOs and the Government has decided to create a working group consisting of governmental and CSOs representatives. Significant technical support to the group has been provided by the TACSO office in Montenegro, whose councillor provided a presentation of different models of social economy enterprises in Europe.<sup>5</sup> The key opposition to the adoption of the Law on social entrepreneurship comes from the Ministry of Finance which expresses concern that the Law will have a negative effect on competition on the market (through the tax incentives issue) and that this will demand additional sources of public funding.

The institutional development of the social economy in Montenegro stagnated also due to the termination of the work of the Network for Social Responsibility which was led by the Government and was a good platform for the exchange of views between different stakeholders in society<sup>6</sup>. The Network tackled the SE development issue several times, but it suddenly stopped with its activities in 2015.

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<sup>4</sup> Similarly, it is easy to enter the VAT system, but difficult to exit it. Compared to many countries in the region, the Montenegro VAT boundary of an annual turn-over of only 18,000 EUR is seen as another barrier to doing small business in Montenegro. Authorization to carry out business activities, which is provided by the local authorities, represents another business barrier.

<sup>5</sup> Several issues that were raised through the work of the working group affected a postponement of the adoption of the Law: 1) Why do we need a specific law on social economy organizations; 2) How is it related to the Law on business organizations, and 3) What would be the sources of funding.

<sup>6</sup> *The Network for Social Responsibility operated for several years under the Ministry of Sustainable Development and Tourism (MSDT) and it rallied representatives of different ministries, NGOs, business associations and individuals.*

The “Programme of the Ministry of Labour and Social Welfare for 2015”<sup>7</sup> defined several priorities of the Government in the field of the SE:

- The Reform Programme of Employment and Social Policy<sup>8</sup> - This programme should provide the solutions (in response to challenges) in the areas of the labour market and employment policy, human resources and skills development, and the policy of social inclusion and social protection. In addition, the programme should include capacity building, process management and reform of institutions and the amount of IPA Funds for the implementation of the envisaged reforms.
- The National Strategy for Employment and Human Resources Development 2016-2020 with the Action Plan for Employment and Human Resources (Deadline: IV quarter, Body in charge: Governmental Commission for Economic Policy and Financial System) – this obligation comes from the Law on Employment and Realization of Rights from Insurance against Unemployment. The National Strategy will define strategic priorities in the area of the employment policy, which will be in line with the Strategy "Europe 2020". The Strategy will include objectives and ways to prevent illegal work and employment, in accordance with the recommendations of the Report on Human Development (NHDR) - "The informal economy: overcoming exclusion and marginalization". Also, it will prepare an Employment Action Plan, which will define the measures and activities of the employment policy for a one-year period.
- The Draft of the Bylaw on subsidies for the employment of certain categories of unemployed persons (Deadline: IV quarter, Body in charge: MLSW) - This regulation will define the subsidies for legal entities and entrepreneurs in the event that they employ certain categories of unemployed persons that are registered with the Employment Agency of Montenegro, in accordance with Article 38 of the Law on Employment and Realization of Rights from Insurance against Unemployment.

These documents are bound to improve the framework for SE development. However, it is necessary to recognize the SE as the overall development strategy in this field, not only to infiltrate it into various national documents.

The MLSW clearly states that it is open to work on SE development, but there is evident lack of a clear vision and strategy in this field. A good sign is that the new Minister informally confirmed that the National Strategy for Social Entrepreneurship should be on the MLSW agenda in 2016.

As regards preparations for the European Social Fund, Montenegro’s strategic coherence framework was endorsed by the Commission in December 2012. A new section for programming and implementing EU funds was set up in March 2013 as an independent unit within the MLSW. Despite the provision of training, the administrative capacity in the relevant line ministries is still insufficient, in terms of both numbers of staff and expertise.

## **2. Analysis of financial incentives and support mechanisms**

Both Montenegro and the region are losing the interest of many international donors due to the economic crisis and the integration processes of Western Balkan countries towards the EU. Political issues are still a predominant concern among the funders, such as corruption and bureaucracy. Environmental issues are still of great interest to the funders, but many other important issues are not on the table of important donors. On the other hand, local funders (primarily corporate ones) are primarily focused on specific activities linked to their corporate social responsibility (CSR) strategies.

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<sup>7</sup> Source: Ministry of Labour and Social Welfare, March 2015, <http://www.mrs.gov.me/informacije/planrada/147184/Program-rada-Ministarstva-rada-i-socijalnog-staranja-za-2015-godinu.html>

<sup>8</sup> Deadline: II quarter, Body in charge: Governmental Commission for Economic Policy and Financial System

Individual philanthropy and CSR are at a low level of development. Most of the smaller, less developed NGOs do not know how to approach the business sector with ideas, or how to adapt their ideas to appeal to companies, while the business sector finances only those NGOs whose programmes align exactly with their specific CSR focus.

The new Law on NGOs introduced the major change when it comes to the financing of NGOs from the state budget, since it abolished the funds of several ministries designed for CSOs. Till present no changes in other regulations have been made resulting in the allocation of funds according to “the old model of financing”. The key problem here is that the Montenegro Government sees these funds as „spending”, i.e. something that must be given to CSOs, not as funds that are allocated for solving social issues in the community. Thus, the funds are distributed to only 5<sup>9</sup>, even though the Law on NGOs recognizes more than 20 areas of public interest, and that significantly limits the development of both the civil society and the SE sector<sup>10</sup>.

The distribution of public/state funds to CSOs is still characterized by a lack of transparency in the allocation process, a limited number of areas of public interest that were the subject of support, the lack of a systematic approach to monitoring the implementation of projects and the control of spending. Some progress has been made by the Lottery fund commission, but with a limited impact on the sector.

Significant progress was only made in the amount of allocated funds from the “Lottery fund” with an increase of 67% in 2015. While the budget allocated 1,687,800 EUR in 2014, this fund totals 2,735,048 EUR in 2015<sup>11</sup>.

*Table 6: Allocations of national funds to CSOs*

	2010	2011	2012	2013	2014	2015
Total funds for CSOs (national level)	4,721,991	3,078,028	2,338,164	1,546,886	1,687,800	2,735,048
Total funds for CSOs (local administration)	298.121,00€	370.044,00€	199.179,42€	n/a	n/a	n/a

The Law on Professional Rehabilitation and Employment of Persons with Disabilities provides significant benefits and financial mechanisms such as: 1) Grants for adapting the workplace and working conditions for employment of persons with disabilities; 2) Credit funds on favourable terms for the purchase of machinery, equipment and tools required for the employment of persons with disabilities; 3) Participation in financing the cost of personal assistants of persons with disabilities; 4) Subsidies to earnings of persons with disabilities: a) 75% of gross earnings paid for the entire period of employment, for an employer who hires a person with at least 50% disability; b) for employers who hire a person with less than 50% disability, the subsidy in the first year is 75%, in the second year 60%, in the third and each subsequent year 50% of the gross earnings. Experience from the recent years has shown that Montenegro CSOs dealing with disabled persons are not able to absorb all the available funds and that Montenegro institutions are not efficient in using the funds. According to data of the State Audit Agency<sup>12</sup>, since 2009, 36.5 million EUR has been

<sup>9</sup> Social welfare and humanitarian activities; meeting the needs of persons with disabilities; development of sports; culture and technical culture; non-institutional education of children and youth and contribution to the fight against drugs and all forms of addiction

<sup>10</sup> Source: „Report on implementation of the Law on non-governmental organizations in Montenegro (January 01, 2012-January 31, 2014)“, Centre for Development of NGOs, <http://www.crnvo.me/attachments/article/8969/IZVJE%C5%A0TAJ%20O%20PRIMJENI%20ZAKONA.pdf>

<sup>11</sup> Source: Ministry of finance: [http://www.mif.gov.me/rubrike/konkurs\\_igre\\_na\\_srecu/151807/Konkurs-za-raspodjelu-dijela-prihoda-od-igara-na-srecu-za-2015-godinu.html](http://www.mif.gov.me/rubrike/konkurs_igre_na_srecu/151807/Konkurs-za-raspodjelu-dijela-prihoda-od-igara-na-srecu-za-2015-godinu.html)

<sup>12</sup> Source: Daily Pobjeda, <http://www.cdm.me/drustvo/crna-gora/skandalozno-na-racun-invalida-usparali-346-miliona-eura>

collected according to this Law and only 1.97 million EUR has been used for the rehabilitation of the disabled.

Public procurement is still a process followed with a lack of transparency and corruption, and future reforms should focus not only on the removal of the existing defects, but on the improvement of procedures that can benefit the SE sector and provide better overall result for the country in total.

Encouraging fact is that Montenegro has been allocated up to €270.5 million under the EU's new Instrument for Pre-Accession Assistance (IPA II) in 2014-2020. The assistance will support reforms in preparation for EU membership, socio-economic and regional development, social policies and rural development, as well as competitiveness<sup>13</sup>. Still, the improving of the framework for the SE will significantly influence the absorption of these funds and their overall results.

The Employment Agency manages measures of active employment policies through several mechanisms, some of which are: financing or co-financing of job creation, the inclusion of the unemployed and co public works programme, compensation of the expenses for the maintenance of productive jobs, loans for investments in employment on the basis of new production and other capabilities, assistance in the training of newly hired employees and others.

It is expected that the Bylaw on subsidies for employment of certain categories of unemployed persons (to be prepared by the MLSW by the end of this year) will provide additional supportive mechanisms to the sector.

Also, the Ministry of Agriculture and Rural Development and the Investment and Development Fund of Montenegro (IDF) have different potential financing mechanisms (co-financing and loans under favourable conditions) that can be used for the development of social enterprises.

The Directorate for development of small and medium sized enterprises, together with the Ministry of Economy, is working on creating different non -financial supporting mechanisms for the development of SMEs, such as providing expert assistance to SMEs, preparing educational programmes for entrepreneurs etc. The Montenegro Chamber of Commerce and business associations also provide expert support to their members.

The lack of non-financial support (incubators, trainings, consulting, mentoring, networks, etc.) represents a significant barrier to the development of the SE sector. There are rare businesses that are able to provide non-financial support and the sector should be strengthened by establishing different training centres and incubators, SE networks, consulting and mentoring companies that will receive support for their sustainability.

### **3. Analysis of the current situation within the sector**

The concept of social economy (SE) is not well known to the Montenegrin general and professional public. There is a misunderstanding of the significance of social enterprises for the overall development of the country, with few initiatives to put SE development on the agenda.

In Montenegro, there is no official data on the size and structure of the SE sector as a whole. Since there is no system of data collection in the field of the SE in Montenegro, this analysis must rest on a variety of sources and studies.

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<sup>13</sup> Source: EBRD, <http://2015.tr-ebd.com/en/countries/#sthash.fwidx9jo.dpuf>

Although the number of registered CSOs and cooperatives is significant, the SE sector is underdeveloped. The sector is fragmented, disorganized, poorly equipped, with limited capacities and resources and it is overly dependent on foreign donors. It is more focused on political and humanitarian issues than on development issues, and rarely on generating income and the employment of disadvantaged groups.

The new forms of cooperatives and social enterprises are in its infancy. However, it should be taken into account that active labour market programmes are aimed directly at the development of the SE, in particularly by building human capital through the training of a large number of people engaged in CSOs and local communities.

Even though there is no law on cooperatives, some 140 cooperatives are registered in the Central Register of the Commercial Court in Podgorica according to the legislation from the former Federal Republic of Yugoslavia dating from 1996 (Federal Gazette FRY, 41/96). Most of them are organized in the Cooperatives Alliance of Montenegro, which rallies more than 100 cooperatives of different types, but primarily focused on agriculture. There are also several student and housing cooperatives. The Alliance which has 7 employees and provides services to over 1,000 members and over 5,000 subcontractors has not been a beneficiary of the budget of the MARD since 2013 due to budget restrictions. Previously, it received 80,000 to 90,000 EUR per year. Together, all the cooperatives that are members of the Alliance have around 500 employees (0.3% of total employees in the country), while the Alliance budget is around 2 million EUR annually (0.06% of the GDP).

Up to April 01, 2014, according to data of the Ministry of the Interior, 3,096 CSOs: 2,908 non-governmental associations, 95 foundations and 93 representative offices of foreign CSOs have been registered. Poor communication and cooperation between CSOs and insufficient access to information and support for organizations in rural areas, particularly in the north, appear to be deep-rooted problems with cultural, geographical and technological origins which have a negative impact on the sustainability and effectiveness of the sector. Shortages of financial resources and dependence on short-term project funding determines that a limited number of Montenegrin CSOs conduct their activities continuously.

So far, non-governmental organizations have not been particularly active in registering businesses, in line with the Law. Among 229 NGOs included in a questionnaire carried out by the CRNVO, only 14 of them were registered in the Central Registry of the Commercial Court for carrying out economic activities<sup>14</sup>. There are rare cases of CSOs managing to gain financial sustainability from their own sources of income. Also, a small number of CSOs achieved financial stability for longer than 12 months (even though programmes are financed for periods longer than a year).

In the Central Register of the Commercial Court in Podgorica, 410 CSOs have been registered for business activity, but unfortunately, there is no recent research on their activities. Research from the Centre for Development of NGOs from 2011 showed that 933 CSOs filed financial reports in 2011 to the Tax Administration. A total of 57% of CSOs that filed tax applications operate in the central region, including 41.69% or organizations with headquarters in Podgorica. CSOs are almost equally represented in other parts of the country, with 20.25% in the northern region and 22.7% in the southern, coastal region.

According to the Annual Financial Reports of CSOs in Montenegro – 2010<sup>15</sup> (TACSO, 2011), 213 CSOs had revenue in 2010 amounting to 5,413,603.98 EUR in Montenegro<sup>16</sup>. Most CSOs generated an income of

<sup>14</sup> Source: „Report on implementation of the Law on non-governmental organizations in Montenegro (January 01, 2012-January 31, 2014)“, Centre for Development of NGOs,

<http://www.crnvo.me/attachments/article/8969/IZVJE%C5%A0TAJ%20O%20PRIMJENI%20ZAKONA.pdf>

<sup>15</sup> URL: <http://www.tacso.org/project-org/Montenegro/>

<sup>16</sup> CSOs that agreed to share their information on financial statements.

up to 10,000 EUR in 2010 - 149 of them. Revenue exceeding 100,000 EUR was generated by 18 organizations. Revenues from domestic sources, primarily government sources of funding, came to a total of 1,432,862.94 EUR. According to the data, CSOs received funds from 41 local donors (legal entities) in 2010. Funds CSOs received from foreign sources (64 foreign donors) amounted to 3,952,345.76 EUR. In the same year, a total of 4.1 million EUR was allocated for CSOs from the national budget, accounting for 0.26% of the GDP.

According to the 2010 survey by the Association for Democratic Prosperity ZID (TACSO, 2011), there are only 556 persons permanently employed with CSOs, while 1,358 were engaged on the basis of service contracts (short-term or occasional employment). That is less than 1% (0.86%) of the total number of employees in Montenegro in 2010 (MONSTAT, 2010-2013). According to the TACSO 2011 Needs Assessment Report, Montenegrin CSOs officially employ two persons on average.

At the national level, there is a group of well-established, organizationally mature CSOs engaged mainly in the provision of social services, advocacy, research, monitoring and capacity building in fields such as vulnerability, environment, the fight against corruption, public administration, poverty reduction, and human rights. The small number of fully professionalized organizations is in contrast with the great majority of CSOs that are active but can be defined as weak, are fully voluntary based, or semi-professional.

The Montenegrin public is relatively well informed about the civil sector and holds it in high regard. Public support to CSOs and their activities is relatively high and stable. A survey conducted by the Centre for Democracy and Human Rights (CEDEM) (TACSO, 2011) in December 2010 indicated that citizens have significant trust in CSOs (50.5% of people have trust in CSOs). A Gallup survey in 2010 showed that the number of those with no trust was reduced from 8.4% in 2009 to 6.7% in 2010. Trust in civil society is significantly higher in Montenegro when compared to other countries in the region, with the exception of Kosovo\* (TACSO, 2011). The main factor that contributes to the generally positive citizens' attitude to civil society is the high level of interest of local and national media in CSO activities. Furthermore, civil society has taken its own steps to enhance its performance, standards and transparency.

Even though social enterprises do not exist in Montenegrin legislation, there are examples of social enterprises in the country primarily established by CSOs. A good example might be 'Nova Sansa u Novom' (New Chance in Herceg Novi) which established a digital printing house 'Naša ID Kartica' (Our ID Card) as a Centre for training of youth with disabilities. Another good example of a social cooperative might be the Roma women craft cooperative 'Rukatnice' engaged in employing Roma women in tailoring and hairdressing and established through the support of [CSO 'SOS Nikšić'](#), which failed to become sustainable due to internal problems and lack of know-how and has ceased its activities for the time being.

These organizations need additional support in order to be sustainable and profitable, primarily through training, consultancy and mentorship aimed at developing managerial, financial and marketing skills. CSOs need primarily non-financial support for doing business, due to the lack of know-how in management, financial planning, marketing, HR, etc. No research has been done in this field, but their perennial dependence on donor support indicates that these organizations need empowerment in order to be prepared for the market.

Currently, there is only one BI in Montenegro - BSC Bar. BSC Bar was established in 2010 by the Municipality of Bar and with the support of SPARK, and its primary mission is to provide comprehensive and integrated support to small and medium-sized enterprises. There was another IT Business Incubator 'Inventivnost' in Podgorica but it did not manage to survive on the market<sup>17</sup>.

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<sup>17</sup> 'Inventivnost' was established in 2008 by the Directorate for Development of SMEs and Podgorica Capital City and started its operations in March 2009. Further support was provided by the University of Montenegro, GIZ, TurnAround Management (TAM) and

It is encouraging that the Ministry of Science in Montenegro decided to support the linking of science with business & market needs through the establishment of the first innovation-entrepreneurial centre „Tehnopolis<sup>18</sup>“ in Nikšić<sup>19</sup>. The Government has already provided 1 million EUR for the reconstruction of a former Army facility in the Niksic municipality covering 1,995 m<sup>2</sup> and other necessary funds are expected to be provided from the budget for 2016, when the centre should officially start with its operations.

In 2011 the Government of Montenegro adopted the Business Development Incentives Programme, which defines tax and administrative benefits for the development of business zones in Berane, Kolasin, Podgorica, Bar, Cetinje, Bijelo Polje and Niksic, and potential business zones in Zabljak, Mojkovac, Tivat and Danilovgrad. Business activities within the zones will receive tax and administrative benefits, with additional benefits based on the free trade agreements with EU member states, EFTA, CEFTA, Russia, Turkey and Ukraine. However, due to the slow adjustment to local governments, business zones are mostly in the initial phase even though four years have passed since the adoption of the programme.

The Montenegro Chamber of Skilled Crafts and Entrepreneurship, which is the umbrella organization representing professional, economic and social interests of Montenegrin SMEs organized through 15 professional associations, has implemented the first SE pilot project supported through IPA<sup>20</sup>. The project published a call for proposals for the development of social enterprises in Montenegro and six CSOs representing vulnerable groups have received a 7,500-EUR grant each for their business start-ups. The Chamber provided technical support and a public awareness campaign about social entrepreneurship throughout the project.

Montenegro participates in four IPA CBC Programmes (Component II) with neighboring Western Balkan countries (Albania, BiH, Croatia and the Republic of Serbia, and recently with Kosovo\*). Montenegro also participates in the IPA Adriatic CBC programme with Member States and the trans-national cooperation programmes: the SEE and Mediterranean under the ERDF. These programmes have significant impact on the development of the social sector in Montenegro, primarily through know-how support, experience exchange and funding, but also through the development of networks of similar organizations that will have an impact on the regional, national and local level such as the BCSDN and SIGN Network of local donors from SEE<sup>21</sup>, which have already made some progress in empowering civil society and promoting the sustainability of the sector.

Similarly, significant impact can be achieved through joint regional initiatives for the promotion of the SE such as the Belgrade Declaration on the Development of Social Entrepreneurship, which was based on the principles of the Strasbourg Declaration on the principles of contribution of social enterprises to Europe.

#### 4. Summary with recommendations

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*the Business Advisory Services (BAS) Programme of the European Bank for Reconstruction and Development (EBRD) and a Dutch CSO SPARK. Entrepreneurs with implementable projects joining the incubator were offered a range of specialized support resources and services, such as: physical space and equipment, management coaching and training, support to creating effective business plans, administrative services, transfer of knowledge and technology, and business networking.*

<sup>18</sup> „A society with a concentration of technology-based businesses or emphasis on technology“ by [Collinsdictionary](#), or „a technologically advanced city, or one heavily involved in mechanised manufacture of goods, especially of microelectronics“ by [Wiktionary](#).

<sup>19</sup> <https://www.facebook.com/tehnopolis.me/>

<sup>20</sup> The project was entitled ‘Third Sector and Social Enterprises Development in Montenegro’ and it was realized in cooperation with a partner organization Cooperation for the Development of Emerging Countries (COSPE) from Italy.

<sup>21</sup> Members: National Foundation for Civil Society Development (Croatia), Mozaik (BiH), Trag (Serbia), fAKT (Montenegro), FIQ (Kosovo\*) and CIRa (FYR Macedonia)

Economic development does not progress evenly in all parts of Montenegro and that is directly reflected in employment and recruitment. The elimination of regional disparities in employment is a strategic option given that the activation of human resources is an essential prerequisite for the rapid economic and overall development. The development of the SE can directly be reflected in increased employment, higher inclusion of marginalized groups, higher per capita and the solving of different social issues.

The more rapid development of individual regions requires the development of appropriate forms of the SE that encourage the employment of those groups that are not sufficiently competitive in the open market, activate potential economic resources (arable land, pastures, forests, rivers, industrial facilities that are not operational) and meet the specific needs of the local community in the area of production and services. It is necessary to increase awareness and understanding of the SE and social entrepreneurship at different levels (regionally, nationally and locally) and to increase capacity and know-how in order to achieve sustainable development and provide better allocation and effectiveness of the available funds.

In addition to the recognition of the benefits of the SE, its further development should be more strongly supported by the Government and other institutions. The crucial impetus may come from involving all stakeholders regionally and nationally in the harmonization of regulations and the development of support mechanisms.

Social inclusion, reduction of poverty, deinstitutionalization of social care, rural development and employment of vulnerable groups are not areas with high profitability and it will be difficult to find investors to partner with the state in solving these issues. Thus, it is necessary to develop a framework for SE development which is based on and compatible with EU standards, and to increase the efficiency of existing social funds by supporting different social initiatives focused on meeting the social priorities defined in the key national strategies in this field.

The development of the SE in Montenegro does not depend on large budgetary allocations or changes to the system, but rather on the introduction of new mechanisms to match market supply and demand. The SE can play a significant role in the mediation between beneficiaries (vulnerable groups) and different social and development institutions.

Acting on different levels (regionally, nationally and locally) it is necessary to increase awareness and understanding of the social economy and social entrepreneurship and to increase capacity and know-how in order to gain sustainable development and provide better allocation and effectiveness of the available funds. Advocating for the development of the social economy implies a commitment to efficiency, higher employment and employability, a reduction of social exclusion, justice, humanity, and a harmonious society.

#### **Key recommendations for SE development:**

- The development of the social economy has to be an integral part of the strategy for the overall development of Montenegro. It is necessary to adopt specific regulation and policies that regulate organizations of the social economy, as well as different financial mechanisms which can encourage employment of insufficiently competitive labour groups on the open market, but also activate potential economic resources (arable land, pastures, forests, rivers, industrial facilities that are not operational) and meet the specific needs of the local community in the field of production and services. Social enterprises might be one of the solutions, but it is necessary to support other types of SE organizations as well.
- It is necessary to develop a National Strategy for SE development, which will be followed by a clear Action Plan and the networking of all stakeholders that will be fully involved in the process. In the development of the National Strategy for SE development, it is necessary not only to focus on the funding of SE organizations, but on the more effective usage of existing funds that might be available to

SE organizations, as well as to provide support for the creation of different types of non-financial support mechanisms.

- Special attention should be paid to the development of non-financial support mechanisms, such as incubators, training centres, consulting & mentoring services, networks, etc. and available sources of business schools, existing business associations and unemployed graduated students should be fully included in this process.
- Better coordination among state institutions such as the MLSW, the Agency for Employment, the Investment Development Fund, the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Ministry of Science, etc. is a necessity, since they are able to provide different kinds of financial and non-financial support necessary for SE development.
- A professional body, established by the Government, or as an independent agency<sup>22</sup>, should be responsible for promotion of the SE (including the implementation of the National Strategy for SE development and its Action Plan), in order to strengthen dialogue among key partners, develop monitoring mechanisms and provide policy proposals for SE development. This body/agency should act with local, national and regional/international partners in order to support the coordination of policies and programmes in the field of the SE.
- It is necessary to continue reforms in order to improve data collection, the business environment, funding of CSOs from public funds and public procurement processes, taking into consideration the impact of the reforms on the development of the SE sector. Reducing the barriers to starting businesses and the principle of "one-stop shop" should be introduced at all levels of the administrative process.
- A detailed analysis should be made on the implementation of the Law on Professional Rehabilitation and Employment of Persons with Disabilities, in order to establish the key obstacles and the more efficient ways for using the available funds and the supportive measures. In order to support the integration of the disabled in society, special attention should be given to different programmes that can involve other groups that are difficult to employ.
- Due to the lack of know-how among members/founders of CSOs, corporate management might be implemented, by separating managerial from the ownership/proprietary function<sup>23</sup>. This will not only increase the transparency of the work, but will also significantly increase the efficiency of doing business – while founders of SE organizations will be focused on control function, externally employed managers can focus on operations.
- Networking, mutual programmes and exchange of experience among local and regional partners should be supported by the Government, as well as international organizations. Cross-regional cooperation is essential for the transfer of know-how, exchange of experience and use of available cross-border funds.
- This study with its recommendations, together with the SEE 2020 strategy<sup>24</sup> and the EU strategy Europe 2020 should be the focal point for future policy making in the field of SE development and regional monitoring of the progress, together with an update of the current situation in each country, should be made in order to avoid impediments that have been in common in the region in the past several years<sup>25</sup>. Monitoring and regional meetings<sup>26</sup> should be organized at least every six month in order to avoid a repetition of the mistakes from the previous period.

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<sup>22</sup> *Different models are possible, but this Agency should primarily report to the Government in order to secure more efficient policy making and coordination of state institutions. Still, it is necessary to provide independence in decision making, through an independent budget line and independent supervisory board that will rally all stakeholders in the process.*

<sup>23</sup> *When the founders of CSOs rallied around some social cause decide to establish a business, priority for support might be given to those SE organizations that have a clear division between operational (executive) and proprietary function. Also, CSO members that have a lack of know-how in doing business will be able to engage people who have sufficient knowledge and skills, and this can also significantly affect increasing employment of qualified labour.*

<sup>24</sup> *Adopted by the Regional Cooperation Council (RCC)*

<sup>25</sup> *No clear vision about SE, no „obligation by EU in the integration process“, no success stories regionally...*

<sup>26</sup> *Involving Representatives of policy making bodies and SE organizations.*