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Report

INFORMAL ECONOMY IN MONTENEGRO

- The Enabling Environment for
Sustainable Enterprises in Montenegro-



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Purpose of the Document

Basic purpose of this document which rests on strategic documents of the Montenegrin Employers Federation (MEF) – a report *The Enabling Environment for Sustainable Enterprises in Montenegro* (2013) and *5 Business Killers* - and on thematic research done through work of the focus groups that was conducted by MEF, is to define the most important causes of informal economy and measures both for tackling it and transitioning it to formal zone. Also, the goal of the document is to encourage creators of business environment and decision makers in Montenegro to undertake comprehensive and systematic activity of creating a strategy and recommendations for tackling informal economy, which would significantly contribute to economic growth, and growth of formal and productive employment.

Executive Summary

Informal economy is one of the key challenges in the globalized world of today and one of the most important barriers of a consistent economic growth followed by the employment growth. The most frequent manifestations of informal economy in Montenegro are informal employment (the so called “undeclared work” both in formal and informal economic entities) and informal business (when the entire economic activity of the entity is carried out against the law and is completely unregistered).

Key causes of grey economy in Montenegro, according to MEF’s findings, are: weak rule of law, inadequate regulatory framework, implementation of policies and laws which is not efficient and effective enough, and relatively high business costs.

Basic measures of tackling grey economy, founded on realistic review of its causes and proposed by the MEF, refer to a comprehensive and coordinated approach to this problem, with emphasis on meeting conditions for the creation of formal jobs, while simultaneously providing a business environment conducive to sustainable development of enterprises.

Due to serious effects of grey economy on the overall social and economic development, the Montenegrin Employers Federation would like to indicate the gravity of the challenge in this document and the necessity of taking stronger measures for overcoming the challenge in the long run.

1. INTRODUCTION

Almost half a century since the conceptual “discovery” of informal economy, this phenomenon has been a subject of many scientific-research studies and wider debate, so the problem of the

so called “informal sector” and “informal employment” evolved into a concept of “informal economy”. Informal economy draws an increasing attention; in line with findings that the extent of negative influences it has on the economic system, on its strength, efficiency and dynamics, and, thereby, on the social system, is very significant in terms of scope and depth. Many scientific studies of the International Labour Organization (ILO)¹ and other international organizations, institutions and individuals, lead to a conclusion that informal economy is a global problem.

Even though there is no common definition of informal economy, a definition provided by the Conclusions of the International Labour Conference from 2002 will be used for the purpose of this document, within which the term “informal economy” refers to “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs”². Those that operate in the zone of informal economy can find themselves in different situations which include, for example, people that cannot find a job or a business opportunity in formal economy (in their case it is a survival strategy); those that consider costs of running a business in compliance with the law and regulations to be much larger than any benefits. Furthermore, there are individuals or enterprises that opt for informality to reach competitive advantage.

Growth of informal economy is often attributed to inadequate national legislative and institutional framework which is not conducive to development of formal business where conformity with the law is harder because the law per se is burdensome or imposing excessive costs.

High percentage of informal economy is bad for economic and social development because in most cases it excludes individuals from the framework of social protection and reduces collection of public revenues against business operations and income. Informality is often associated with countries which have an apparently weak institutional setup and poor management structures, prone to corruptive actions.

Importance of informal economy and its potential is also recognized at the international level. UN Commission Report on the Private Sector and Development titled *“Unleashing Entrepreneurship: Making Business Work for the Poor”* (March, 2004) states: *“Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on.”*³

¹ ILO - International Labour Organisation

² ILO, *Conclusions Concerning Decent Work and the Informal Economy*, International Labor Conference, 90th Session, Geneva, 2002

³ UN Commission on the Private Sector and Development, *Unleashing Entrepreneurship: Making Business Work for the Poor*, 2004

The governments publicly recognized importance of creating responses to combat informality at the policy level, which was especially presented in a document emerging from the Summit of the UN General Assembly (September, 2005) and Ministerial Declaration of the UN Economic and Social Council which states:

“We acknowledge the vital role the private sector can play in generating new investments, employment and financing for development. We encourage Governments to continue to pursue the creation of an environment conducive to enterprise development in both rural and urban areas. Particular attention should be given to policies that promote micro, small and medium-sized enterprises and women’s participation and entrepreneurship in formal and informal sectors through, inter alia, simplified and improved administrative regimes for the registration of small businesses access to microcredit, social security systems and information on markets and new technology, as well as better regulations. Such policies should contribute to the integration of informal economic activity into the mainstream economy.”⁴

In addition to negative implications for the public finances caused by informal economy in Montenegro because of the inability to collect taxes and other receivables, when it comes to economic sector, the opinion of the Montenegrin Employers Federation is that the issue of informal economy, i.e. illegal economic activities, beside creating unfair competition, is also causing problems to formal courses of economy through fiscal burden, since one part of the tax burden is transferred to those entities that are fully operating in accordance with regulations (through increase of the existing tax forms, or through introduction of new tax forms).

2. BRIEF HISTORICAL OVERVIEW OF THE PROBLEM

During the fifties of the past century, informality of economic activities was mainly associated with the so called traditional sector characterized by workforce surplus in developing countries (mainly petty traders, small holders and wage labourers). Majority of economists thought that economy growth would gradually absorb these entities into a modern industrial sector. It was also believed that this sector was marginal and not linked to the formal economy or to modern capitalist development.⁵ However, in the early seventies of the twentieth century, research was conducted which showed that in some parts of the world the informal activities had not just persisted but expanded in scope over time. That is how the term “informal sector” started to be widely used and it referred to unrecognized, unregistered, and (contractually) unprotected economic activities. During the nineties, an interest in the informal sector analysis was renewed as it turned out that informality was a feature of both developed countries and developing countries. Deepening of understanding of the informal sector, of its dimensions and dynamics led to conceptual expansion of its definition by the International Labour Organization, so that is how the term “informal sector” was replaced by the term “informal economy”. In this way, the

⁴ United Nations Economic and Social Council (ECOSOC) Ministerial Declaration, 2005

⁵ ILO, *The Informal Economy and Decent Work: A Policy Resource Guide, Supporting Transitions to Formality*, 2013

focus was moved from the enterprise to the concept which does not only cover the production unit, but also the traits of the job or of the employee who does the work.

Informal type of economy came to the fore in Montenegro during the nineties, as a result of transition processes, transfer from the planned economy to the market economy model and transformation of social property into private property. The change of the structure of Montenegrin economy and a tendency of its transition to a service oriented economy, as well as migration from rural to urban environment, led to a drop in absorption capacity of the industrial sector, to a decrease in added value produced by the employee and reduced productivity, which are characteristics conducive to development of informal sector. However, the problem of informal economy in Montenegro became noticeable during global economic crisis, after a drastic economic downturn in comparison with the period just before the crisis, when a need for redefining and creating comprehensive and coordinated policies which would contribute to a faster and more intense recovery of the economy emerged. Moreover, the status of candidate country for EU accession additionally obliges Montenegro to adapt its regulations, policies and strategies to EU requirements as much as possible, and one of the indicators of successful implementation of legislative and institutional reforms and economic development is a percentage of informal economy within the overall economy.

Even though there are no official statistics on the amount of informal, the so called grey economy in Montenegro and on its percentage share in GDP, some surveys show that this percentage ranges from 26 to 31 %, depending on width of grey economy definition which was used in different surveys.

The Government of Montenegro, i.e. the Ministry of Finance, formed a Working Group in 2013 to create a proposal of a set of measures for tackling grey economy (and a Team for tackling grey economy in labour market, as well as a Team for initiating percentage increase of the minimum wage amount, that were formed within the framework of the Working Group), consisting of representatives of all ministries, inspection agencies, social partners and the Parliament of Montenegro, with an aim of including all entities in the process of finding the best and the most efficient ways and instruments for combating grey economy.

Furthermore, the Law on Prevention of Illegal Business (Official Gazette of Montenegro, No 29/2013) was adopted, and it defines illegal business as “carrying out activities without a previous registration according to the law, or without consent prescribed by the law, and contrary to conditions under which the consent is given”.

Even though the Law is declaratively trying to prevent carrying out unregistered economic activities by an individual or an economic entity, this segment of grey economy is not sufficiently elaborated, nor are the institutional instruments for tackling it. It turns out that in practice the provisions of this Law mainly refer and apply to registered economic entities, because there are only couple of articles that deal with the problem of carrying out activities which are not registered in compliance with the law, and the proposed Law contains provisions that mainly resolve the problem of “legal gaps” in other legislative documents. Therefore, we

have an “omnibus” law that is almost fully focused on already registered tax payers (legal persons and entrepreneurs). For that reason, the issues that were primarily supposed to be resolved by this law, such as competence and authority of inspection agencies to enter an unregistered facility and perform inspection in all those cases when there is an evidence that trade of products or services is carried out, or that any other type of activities are conducted (in order to introduce them to legal courses, to collect taxes, etc.), are still undefined, so problems of informal economy will still persist to the same or greater extent.

Instead of preventing such activities, creating better climate for business and expanding the circle of taxpayers, this Law puts an emphasis on more frequent inspections and more rigorous penalties for registered economic entities (up to a point of their total termination, as it seems) that are already in the zone of serious illiquidity due to large costs and poor business environment. Instead of encouraging tax discipline and voluntary implementation of legal obligations, actions of legislative and executive authorities discourage the regular payers of taxes and other liabilities.

In addition to the aforementioned, an Action Plan was created, as well as a Communication Strategy for tackling grey economy in 2014, and, even though this is an important step forward concerning the ambition and dedication of the state agencies in this field, the importance of defining real causes and redirecting basic activities to resolve the cause is not sufficiently recognized. Instead, in majority of cases these documents are focused on fixing consequences, when grey economy is the most evident.

3. MANIFESTATIONS OF INFORMAL ECONOMY

The most important step in designing efficient interventions for tackling informal economy is recognizing its heterogeneity, different labour categories and different causes of both informal economy growth and de-formalisation of formal economy. Entities of informal economy are very different in terms of income (level, continuity, seasonal character), status (employees, employers, casual and temporary employees, family workers), sector (trade, construction, tourism, agriculture), type and size of enterprise, location (urban or rural), social protection and employment protection.

Statistical definition of informal economy⁶ includes the following categories of economic units and workers:

- ✓ own-account workers (self-employed workers) employed in their own informal sector enterprises;
- ✓ employers (self-employed with workers) employed in their own informal sector enterprises;
- ✓ contributing family workers, irrespective of the type of sector;
- ✓ members of informal producers’ cooperatives (not established as legal entities);

⁶ 17th International Conference of Labor Statisticians, *Guidelines Concerning a Statistical Definition of Informal Employment*, 2003

- ✓ employees holding work positions defined as informal on the grounds of employment relationship (by law or in practice, jobs are not covered by national labour legislation, wages are not taxed, there is no social protection or possibility to exercise employment rights such as paid leave, temporary leave due to illness);
- ✓ own-account workers engaged in production of goods exclusively for use by their own household.

In Montenegro, due to relatively high costs of business operations of registered enterprises, particularly due to share of labour costs compared to overall costs of the enterprise, the following categories of informal economy are mainly recognized:

- unregistered activities, when trade of products and services is done completely outside of formal courses (trade of certain products, provision of handicraft and professional services);
- reduced reporting of turnover in a registered, formal enterprise during cash transactions;
- the so called undeclared work, when an individual does a job in a formally registered enterprise without an employment contract;
- partial undeclared work, when part of the wage is paid cash-in-hand to the employee who has the employment contract in a formal enterprise, in order to increase his wage, on one hand, and to evade taxes for that amount of wage which otherwise couldn't be paid to the employee, on the other.

4. CAUSES OF INFORMAL ECONOMY IN MONTENEGRO

Presence of informality is, in majority of cases, associated with poor rule of law. Even though the economic growth is critical for creating possibilities of a more efficient transition from informal to formal courses of business activities by enterprises and individuals, the research shows that economic growth on its own is not in direct correlation with formal employment growth (the so called jobless growth).

Growth of informal economy is attributed to: inadequate, inefficient or poorly implemented macroeconomic and social policies; lack of favourable legislative or institutional frameworks; poor governance in terms of efficient and effective implementation of policies and laws.

If not focused on employment growth, macroeconomic policies, including structural adaptation, economic restructuring, and privatisation policies, reduce the number of available jobs or do not create a sufficient number of new jobs in formal economy.

Generally speaking, abandoning formal economy can be caused by many reasons, but it seems that the most important ones are as follows:

- labour supply: internal impediments related to poverty, inadequate human capital (inadequate education, skills and competences), which keep the workers away from a productive employment or from an access to financial means and other resources;

- labour demand: structure of economy is based on capital-intensive growth as compared to labour-intensive growth, which leads to negligence of small enterprises and private sector by institutions that should be supporting them;
- external factors: globalisation and higher competition that lead to companies relying on atypical, nonstandard, and cheaper contractual relationships.

External shocks such as global economic crisis, significant distortions of economic climate, institutional underdevelopment and inefficiency, poverty and many other factors encourage the growth of informal economy. The share of grey economy in GDP in countries in transition and developing countries which was recorded at the beginning of this century, was very high (39 per cent in transition economies, 41 per cent in developing economies, 18 per cent in OECD countries) (Schneider, 2002). According to Williams (2011), the ability of not just self-sustainability, but also ability of this economy to grow, is dominantly achieved for two reasons: the first reason is competitive prices as a consequence of avoiding paying taxes, contributions and fees, that is, fiscal costs of legal business operations; the other reason is size optimisation of enterprises (usually micro enterprises with up to five employees) which have flexibility as a basic characteristic, i.e. ability of adaptation to newly created conditions, especially in a period of radical social and economic changes – transition processes.

The survey of International Labour Organization from 2011 focused on informal employment with an example of Albania, Bosnia and Herzegovina, Moldova and Montenegro, showed that at least 30% of all employees was hired “under the table” in all of these four countries. Informal employment estimate of ILO (2011), including almost every country in the world, shows that employment in unregistered enterprises surpasses employment in registered enterprises and households.

The largest number of informally hired is in agriculture, and the most represented group per years of age is the younger population. Workers with lower education levels, knowledge and business skills are more prone to informal employment for understandable reasons. One of the conclusions of the survey is that the part wage paid in “cash” represents a general practice and one of the most significant negative implications for budget revenues.⁷

According to the Montenegrin Employers Federation, based on the analysis of existing policies and positive regulations, on everyday communication with member employers, and on internal surveys, the most important causes of the presence of informal economy and its resistance to formalization in Montenegro are the following:

- 1. Unsatisfactory level of the rule of law, which is reflected in inefficient public administration, selective and random implementation of regulations and inconsistent interpretation of laws by different instances of administrative agencies***

⁷ ILO, *A Comparative Overview of Informal Employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro*, op. cit., p. 14

In the framework of more intensive efforts to tackle grey economy, there is an apparent growth of number and frequency of controls exerted by inspection agencies that surely contribute to increased fiscal discipline, but, at the same time, they produce additional pressure on registered economic entities, having in mind that inspection agencies in most cases implement penal and repressive measures, instead of preventive ones. In that sense, inspection agencies bragging about a number of charged fines and budget revenues on account of that, in their work reports, is not acceptable, considering that their role should also include preventive actions and guidance whenever possible to resolve the problems and omissions in running a business, since in most cases the employers intention is not to evade regulations.

Such approach, misunderstanding, and different manifestations of corruption in the inspection services discourage the existing employers and eliminate beforehand those who want to start their own business in the future. In the context of informal economy, not only does the previously mentioned situation not contribute to the transition of informal to formal business activities, but it also invokes fear that exactly the opposite can happen. Moreover, for example, lack of master plans and cadastral records of revenue authorities causes almost unbridgeable barriers for construction ventures; inaccurate, incomplete and uncoordinated records of revenue authorities create a needlessly large number of administrative procedures; overlapping of competences of different agencies and impossibility of determining authority for individual needs of enterprises create dissatisfaction and abandoning of the intention to proceed with formalization.

2. Inadequate regulatory framework

High transaction costs, burdensome regulations, complicated, expensive and inadequate registration procedures represent serious barriers against entering formal courses. Based on the World Bank data (2011), the Regulatory Quality Index was negative for Montenegro, which means the situation is bad. When compared to the neighbouring countries (Bulgaria, Croatia, Serbia, Slovenia), we had the worst score of Regulatory Quality Index. Also, 97% of enterprises think that the existing regulations are not conducive to the business.

The biggest complaint the employers had concerning the regulatory framework refers to its unpredictability in terms of frequent regulation amendments, to poor assessment of compliance of regulations with other laws or lack thereof, and to its impact on business environment. Furthermore, the complaints also include the aforementioned inadequate implementation of regulations, or, in some cases, inability to implement them.

3. Inflexible labour legislation, especially in the area of legal limitations to duration of fixed-term employment contracts

Having in mind that Montenegrin economy is facing a reduced intensity of business, illiquidity and insolvency, and, at the same time, projections for future business operations that are to a great extent unpredictable due to a wide variety of factors (including business environment,

regulatory framework, market fluctuations, funding approach, etc.), it is hard to expect that employees will be given “lifetime” employment contracts.

Labour legislation is mostly focused on protection of employees' rights at the expense of potential profitability of the enterprise. The emphasis within the labour legislation is primarily and predominantly placed on the employee, and such an approach significantly reduces potential of the enterprise to run its business successfully and encourages undeclared work.

4. Heavy burden of taxes and contributions on wages

Even though the overall burden on wages amounts to 43 per cent, this data must be treated with reserve because it only represents a simple summary of prescribed income tax rates and contributions for mandatory social security. The determined methodology of recalculation of net into gross wages makes labour costs even bigger.

When recalculating net into gross wages, prescribed rates are applied, and calculation of payment liabilities based on taxes and contributions is done again by application of prescribed gross income rates. Along with other supporting legal obligations related to payment of income, this makes the employer's obligatory and real labour related costs extremely high. Therefore, the overall burden on net wages up to the average level amounts to 62-63 per cent, whereas burden on wages above the average is even higher than 70%. With such systems of taxation and social contributions that discourage formal employment, costs of formalising employment are pretty high which results in a high level of “employment” in the framework of informal economy, and in a reduced offer of new jobs in the market.

Moreover, minimum wage in Montenegro is not categorized per employee categories, nor is it categorized regionally. Determining minimum wage for youth at a level which is lower than the level of the existing national minimum wage would stimulate higher youth employment or greater interest of young people in starting their own business. In the same way, determining lower minimum wage for the northern region is justified by lower costs of living, by an influence it would have on mitigating migration to southern region which not only causes imbalance of demand and supply, but generates grey economy as well; and by stimulating new investments in the north. The general effect would be the economic empowerment of the north of Montenegro.

5. High and numerous taxes at the municipal level

Very complex procedures are evident, and a multitude of documentation is obligatory to start a business in municipalities. Moreover, the level of local administration is characterized by vagueness and incompleteness of regulations. There are especially unclear differences between certain types of instruments of taxes and fees, which increases the initial costs for the business holder, as a consequence of his/her having to additionally hire experts for interpretation and application of those regulations.

In the field of construction, for example, 8 different municipal taxes and fees are based on the surface of land or facility, and using municipal property incurs local utility and administrative taxes.

6. Lack of funding

Montenegrin economy is characterized by difficult access to financial resources and bank loans, because of high interest rates and extensive requirements in terms of collaterals and other forms of securing loans. In conditions of illiquidity, difficult collection of receivables, high labour costs and weak competitiveness, it is hard to set foundation for a mere maintaining of business, let alone for its high profitability.

Not only is such an environment unfavourable for creating new enterprises and new jobs, but it also discourages formalisation of informal activities.

5. EFFECTS OF GREY ECONOMY

Generally speaking, effects of informal economy are to a great extent negative. Even though informal activities, in the short term, serve as a “shelter” for the poor and for those with lower level of education in terms of survival opportunities, it can trap individuals and enterprises in a spiral of low productivity and poverty. It limits the ability of an individual to use capital, loans, technology, markets and institutions.

For governments and local self-governments, it means the inability to collect taxes and contributions. For workers, it can mean inferior work conditions, job uncertainty, inability to use state benefits and social security. Above all, it blocks economic growth and development⁸.

Having in mind that informal entities and workers do not pay taxes or social security contributions, they are unfair competition to formal businesses. Surely, a large segment of informal economy can consist of medium-sized companies that are managing to avoid all or part of their legal and tax obligations, often through affiliation with civil servants. Losses in collection of taxes and contributions, which are sometimes very significant, are reflected as a burden to those business entities that are registered and that fulfil their obligations in this regard, and mostly in a form of increase of the existing taxes or through introduction of new taxes. We are witnesses that presence of grey economy in Montenegro leads to a more strict control and penalties on registered business entities to substitute for at least part of the losses in collection of public revenues.

Lack of funding due to failure of planned revenue collection is also a big barrier to expansion of the social protection system and other systems which are vital for national development, such as education and healthcare.

⁸ IOE, *The Informal Economy - The Employers Approach*, 2006

However, the informal economy has an unquestionable economic and social potential. It is not only seen as means for those who are excluded from the formal economy to find a way of ensuring survival, but it also provides a wide source of entrepreneurship potential. Many people who work in the informal economy show features of a real business clairvoyance, creativity, dynamism and innovativeness. There is a good chance that this entrepreneurship potential blossoms if effective strategies are developed to remove obstacles to integration into formal economy.

6. RECOMMENDATIONS

Based on description in the part which addresses basic causes of informal economy in Montenegro, precise measures for a faster formalization of economy were implicitly pointed out. However, even though there is no universal recipe for encouraging transition from informal to formal economy, the prerequisite, which works for all countries regardless the difference in causes of informality and labour market specificities, is a need for a comprehensive, integrated and coordinated approach to this problem.

Considering that ad-hoc policies can hardly have a sustainable impact on decrease in informality, it is certain that there is a need for a stronger resolution and courage of the Government to address the problem of grey economy more seriously, having in mind that grey economy in many countries, including Montenegro, represents a replacement for the insufficient and weak social protection and, in a certain way, it alleviate socio-economic effects of the low employment rate and poverty.

Out of total number of the working age population in Montenegro in 2013 (501.2 thousand), the number of active workforce is 250.9 thousand, with a total number of employed amounting to 201.9 thousand (29.8 thousand of the self-employed and 2.5 thousand of household workers)⁹. Total number of employed workers with employment contract is 164.8 thousand, less than 2/3 of which is employed in the private sector.

The abovementioned points to the following figures of basic labour market indicators: 19.6 per cent employment rate and a pretty low activity rate of the working age population (15-64) – 58.9 per cent. It needs to be said here that youth employment rate (15-24) is very high and amounts to 41.6 per cent, while youth activity rate is only 23.2 per cent.

The simplest analysis of labour market indicators in Montenegro leads to a conclusion that urgent measures are required to increase employment and activities, both through general adoption of actual macroeconomic and employment policy, and through creation and efficient

⁹ MONSTAT, Labor Force Survey, 2013, <http://www.monstat.org/userfiles/file/ars/2013/godisnje/ARS%20-%20Godisnje%20saopstenje,%202013.pdf>

implementation, among other things, of specific measures for encouraging formalization of informal activities.

National development plan, strategies and macroeconomic policies need to place employment at the top of priorities. Reducing informality requires all economic and social policies to be focused on employment, along with improvement of the macroeconomic framework to be conducive to employment growth, as well as steering local and foreign investments to those economic sectors that have a higher absorption capacity for the manpower, and that increase productivity. In addition to macroeconomic stability, the goal of the policies should be to facilitate economic transformation, to increase the offer of formal jobs in the labour market, and to ensure higher readiness of the workers to perform well in those jobs.

Macroeconomic policy should focus on enabling favourable environment to generate employment, movement and efficient resource allocation. Moreover, sectorial approach to this problem makes it easier to define the potential of opening new jobs per sectors, and to clearly determine mutual dependence of different sectors.

As previously mentioned, harmonisation of laws and other regulations, adjustment of regulations to the actual economic situation and applicability of those regulations, along with awareness about the necessity of increasing formal employment as a basic goal should all be features of the entire regulatory framework and determinants for its amendments. Consistent, non-selective and efficient implementation of laws, as well as efficient work of inspection agencies and equal treatment of all protagonists of informal economy is of crucial importance for its tackling.

Entrepreneurship is one of the most important sources of employment, but, at the same time, a large number of entrepreneurship activities take place in the informal zone. It is necessary to give priority to incentives for transition to formal courses through further simplification of procedures, and through capacity building of the enterprises, in order for them to be able to fully abide by regulations, use fiscal incentives and micro-financing, get access to non-formal education, market information, and technology.

Development strategies at the local level need to be based on improvement of local infrastructure, on support provision to small and medium-sized business, simplification of procurement procedures for execution of public works, stimulation of public-private partnership, etc.

7. ROLE OF THE MONTENEGRIN EMPLOYERS FEDERATION

The mission of the Montenegrin Employers Federation (MEF) is to protect the interests of employers, improve business climate and promote entrepreneurship and responsible business practices with an aim of creating a strong economy and prosperous Montenegro.

Given that informal economy, in the long run, creates a serious problem from the standpoint of socio-economic development of the society, having in mind the MEF mission and its responsibilities and role of a social partner to the Government and trade unions, we deemed it necessary herewith to express our opinion on causes and effects, and identify the most efficient measures that would contribute to reducing the scope of informal economy in Montenegro.

Considering our direct and straightforward relation with business entities, based on national legislation and effects of its implementation, and on detected problems at the legislative, institutional and administrative level, taking into account Montenegro's economic situation and basic economic indicators, we believe our position is objective and founded on the actual state, with proposed steps to be adequate and applicable.

By stating the aforementioned, the Montenegrin Employers Federation does not show a responsible attitude only towards enterprises through declared efforts to improve the general business environment at all levels and in all aspects, but also towards society as a whole, by demonstrating a constructive and proactive approach to solving a problem that to a great extent can contribute to employment increase and stronger economic growth.

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