

REFORM Case Study

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Creating a Voice for Entrepreneurs in Montenegro

The collapse of the former Yugoslavia left Montenegro with an economy in tatters, political instability, a worn-out socialist production system, and rampant corruption. After years of little progress on overcoming those obstacles, two local organizations, the Center for Entrepreneurship and Economic Development (CEED) and the Montenegro Business Alliance (MBA), formed to unite entrepreneurs and give them a voice in the policymaking process.

CEED and the MBA, with funding from the United States Agency for International Development and technical assistance from the Center for International Private Enterprise, worked with the business community to strengthen its capacity and advocate for essential economic and democratic reforms. In addition to their tangible successes in the fields of research and analysis, entrepreneurship skills-building, and legal reform, the legacy of CEED and the MBA is the trust that has developed in the Montenegrin business environment. Through the work of these pioneering organizations, Montenegro has made rapid progress towards becoming a free-market democracy.

CIPE's programs in Montenegro with CEED and the MBA were conducted with the support of the U.S. Agency for International Development.



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The Center for International Private Enterprise is a non-profit affiliate of the U.S. Chamber of Commerce and one of the four core institutes of the National Endowment for Democracy. CIPE has supported more than 900 local initiatives in over 100 developing countries, involving the private sector in policy advocacy and institutional reform, improving governance, and building understanding of market-based democratic systems. CIPE programs are also supported through the United States Agency for International Development.



The U.S. Agency for International Development (USAID) is an independent federal government agency that receives overall foreign policy guidance from the Secretary of State. Its work supports long-term and equitable economic growth and advances U.S. foreign policy objectives by supporting economic growth, agriculture and trade; global health; and democracy, conflict prevention and humanitarian assistance. It works in close partnership with private voluntary organizations, indigenous organizations, universities, American businesses, international agencies, other governments, and other U.S. government agencies. USAID has working relationships with more than 3,500 American companies and over 300 U.S.-based private voluntary organizations.



The Center for Entrepreneurship and Economic Development (CEED) was founded in 1994 in order to help local entrepreneurs promote free trade, entrepreneurship, and private ownership - based upon a foundation of rule of law. CEED is considered one of Montenegro's foremost sources of independent statistical information, research-based analysis, and polling data. Working with CIPE, CEED helped to establish the Montenegro Business Alliance in September 2001.



The Montenegro Business Alliance (MBA) was founded in 2001 and became Montenegro's most powerful independent voice for business, advocating for market reforms and private sector growth. The mission of the Montenegro Business Alliance is to improve the quality of life for all Montenegrin citizens through economic growth and prosperity. The organization aims to partner with the public and private sector as well as international groups and individuals to bring stability and sustainability to the economy of Montenegro.

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Introduction

Montenegro inherited an array of woes from the former Yugoslavia: the costs of war, political instability, a worn-out socialist production system, and corruption. It scarcely made any headway in reform for a decade after the fall of communism. The resulting toll on business and the population was enormous.

Yet Montenegrin economists and business leaders found ways to unlock the potential of entrepreneurship and elevate the country's prospects. Two pioneering organizations – the Center for Entrepreneurship and Economic Development (CEED) and the Montenegro Business Alliance (MBA) – brought new life to the business community. Working together, with funding from the United States Agency for International Development and technical assistance from the Center for International Private Enterprise, they forged positive relationships between business and government, and rebuilt business links across the region. CEED and the MBA introduced quality information and analysis to policy debate, sowed an entrepreneurial culture and skills, piloted crucial legal reforms, and helped reform and democratize the governance of the country.

The Center for Entrepreneurship and Economic Development contributed to private-sector development through entrepreneurship training, business consulting services, research and analysis, and legislative reform. Its programs from 1999 to 2005 built trust between the private sector and government. The programs also helped to remove a significant source of instability – widespread unemployment – through the creation of 940 new businesses and 5,780 new jobs. Research surveys and media projects recognized CEED and the journalists it trained as reliable, independent sources of information.

The Montenegro Business Alliance, with popular programs like business-to-business exchanges across Montenegro and neighboring countries, brought together diverse businesspeople from all parts of the republic and all religious backgrounds, thereby building trust in the war-torn region. The business

community developed its voice through the MBA to participate in public-policy debate. CEED and the MBA cooperated to achieve eight important legislative reforms, including an Enterprise Law that made it easier to register a new business – thus reducing the large informal sector of the economy – and an Accounting Law, which replaced socialist accounting standards with International Accounting Standards. These and other reforms made the environment less favorable for the corruption and cronyism that characterized the rule of former Yugoslav President Slobodan Milošević.

The Center for International Private Enterprise nurtured these reforms by fortifying CEED's research, training, and consulting programs and catalyzing the formation of the MBA. CIPE trained CEED's trainers and counselors, advised on course materials, and aided strategic planning. Working with CEED, CIPE also helped organize the business community from the "bottom up," encouraging businessmen, businesswomen, and organizations to pool their resources to create an umbrella association to represent business: the MBA.

The Economic Straits of the 1990s

In the wake of economic devastation wrought by civil war and international sanctions against Yugoslavia, Montenegro recognized the need for complete economic restructuring through privatization and private-sector development. The reconstruction of Montenegro was restrained, however, by continuing regional instability, the legacy of communism, and corruption.

Sanctions imposed against Yugoslavia for its war actions led to unemployment, falling salaries, and hyperinflation. As enterprises failed, the number of unemployed rose to 65,000 out of Montenegro's total population of 615,000. The overall standard of living fell dramatically, and in 1993, two-thirds of the population lived below the poverty line. In 1994, Yugoslavia experienced the highest hyperinflation in history: 300 million percent in January alone.¹ The sanctions brought the republic to the verge of economic collapse.

The breakup of Yugoslavia exacerbated Montenegro's economic troubles. After years of close ties with the other republics, Montenegrin enterprises abruptly lost access to those markets. Refugees and internally displaced persons from Bosnia-Herzegovina, Croatia, and Kosovo swelled to 20 percent of the total population, placing further strains on employment. Political uncertainty over Montenegro's status, first within Yugoslavia and then its relationship with Serbia, delayed institutional reforms and structural adjustment. When Montenegrins did seek market-oriented reform, they were resisted by the Serbian and federal governments, which were controlled by cronies of former Serbian President Slobodan Milošević. Consequently, Montenegro lagged behind most Eastern European countries.

By the late 1990s, the Montenegrin government had privatized about 20 percent of state-owned enterprises (SOEs). Some of the largest SOEs, including an obsolete aluminum processing plant, were not privatized, thus remaining a drag on the economy. Reforms were desperately needed to stimulate small-business development and curtail unemployment. A majority of the 10,000 small enterprises opened since 1990 had failed. More than 60 percent of the economy operated in the informal sector.

Entrepreneurial activity in Montenegro was discouraged by a maze of regulations, limited access to credit, and high taxes and customs rates. For example, there was a 105 percent tax on wages. Most would-be entrepreneurs lacked practical knowledge of how to start and expand a business. They also lacked the means to promote the reforms they needed. Unfortunately, the only mouthpiece of business was a state-controlled chamber of commerce with mandatory membership.

Organizing for Change

In this difficult environment, the Center for International Private Enterprise joined forces with two up-and-coming Montenegrin business organizations, the Center for Entrepreneurship and Economic Development and the Montenegro Business Alliance,

to support private sector development in Montenegro. Together, they aimed to improve the skills and capabilities of business owners and managers by providing a comprehensive range of consulting and training services. Equally important, they set out to support economic policy reform through activities that would unite the local business community and create opportunities for business to participate in the reform debate.

The Center for Entrepreneurship and Economic Development was established in 1998 by leading economists at the University of Podgorica as an independent, non-governmental organization dedicated to supporting economic reform, privatization, and entrepreneurship. CEED established a business service center to provide entrepreneurship training programs and counseling to new businesses. The center served both the unemployed seeking basic information on starting a business and existing businesses looking to expand through partnerships, joint ventures, and new investment. Moreover, CEED established itself as both an independent source of statistical data not available anywhere else and a major source for research-based analysis and policy recommendations.

The Montenegro Business Alliance was organized by 10 founding members in September 2001, with support from CEED and CIPE. It became the first private, voluntary umbrella business association open to entrepreneurs, businesses, and other associations. The alliance attracted new members with its profitable business-to-business exchanges and member services. Members articulated their needs in the form of a National Business Agenda, through which they advanced their case for numerous legal reforms.

"The economic environment has improved today," said one of the founders of the MBA and MBA Vice President Petar Ivanovic in early 2006, "mainly because major privatization activities are now complete and Montenegro has become part of the international economy. A legal framework is in place, which includes the Securities Law, the Enterprise Law, and the Accounting Law; tax reform has been successfully carried out. Businesspeople have more confidence in the banking and securities system

now that the whole banking sector is privately held. There has been a reduction in the size of the informal sector and procedures for business registration and operation are now transparent and known in advance. Consequently, the unemployment rate has been reduced.”

Making a Difference: Initiatives and Achievements of CEED and the MBA

The Center for Entrepreneurship and Economic Development

Business Consulting Services

Through its consulting services, CEED delivered highly practical advice to new entrepreneurs. For instance, entrepreneurs needed a business plan to obtain loans, but preparing a business plan was a completely new concept in Montenegro; very few people knew how to prepare one or even why one was necessary. Fully one-fifth of participants at CEED’s seminars asked for help in developing a business plan. From 1999-2004, CEED developed 967 business plans for individual entrepreneurs, including 110 business plans for women entrepreneurs. Over 85 percent of the business plans developed with CEED assistance received bank loans or other funding totaling 18 million dollars. Over 940 new businesses were established and 5,780 new jobs created. Firms that received CEED consulting or training assistance experienced, at minimum, a 15 percent increase in employment, a 20 percent increase in investment, and a 25 percent increase in sales.

Clients also needed help with investment plans, feasibility studies, market research, sales promotion, and the like, preferably in a one-stop-shop organization. Meeting the range of clients’ needs, CEED signed more than 220 contracts to provide services worth over 160,000 dollars.

In addition, CEED introduced the first leasing agency in Montenegro. The agency leased 275,000 dollars worth of equipment to 33 privately owned companies and was sold at a profit.

Research, Analysis, and Outreach

Through the quality, relevance, and timeliness of its information, CEED established itself as a pioneer in research and analysis in Montenegro. CEED publications have been accepted as the reliable source throughout government at the highest levels, and by international financial institutions such as the World Bank, International Monetary Fund, and the Organisation for Economic Co-operation and Development. As a testament to its quality analysis, CEED’s work was singled out by the Montenegrin Minister of Finance, Dr. Igor Lukic, who said, “Reforms implemented by Montenegrin Government are not always welcomed by the public and civil society. Changing the way people think is not easy and not a quick process – it takes time. For this purpose, we are ready to hear critiques and different opinions. Still, the factors that make CEED efforts different from others are reasonable initiatives and analytic support ... I hope we will continue our cooperation, especially in the field of designing tax policy and removing barriers to business development.”

How CIPE Assisted CEED

- Trained 10 business counselors for the CEED Consulting Group
- Exposed the staff to international techniques and approaches to providing services to small business
- Conducted a strategic evaluation of CEED and its program and developed a strategic plan
- Reviewed course materials developed by CEED and recommended improvements to materials on complex business plans, due diligence, financial restructuring, and pre-certification for ISO standards
- Reviewed sources of support and recommended fee-based consulting, which now mostly sustains CEED

CEED's research projects were used to both diagnose problems and devise solutions. CEED prepared 11 thematic surveys and published the findings for use by the private sector and policymakers. Among its more important recommendations was CEED's 2000 analysis of the business registration process in Montenegro. This research dealt with the need to simplify the company registration process, make it less costly and less time consuming, and reduce the amount of capital required. CEED distributed the study widely and successfully advocated for these changes while participating in the working group appointed to draft the new Enterprise Law.

In addition, CEED developed 12 publications on specific topics of greatest relevance to mapping and analyzing the economic and business environment in Montenegro. They include:

- *Montenegro Business Outlook* – a quarterly publication of pertinent economic indicators presenting a comprehensive view of Montenegro's business environment. This report serves international businesspeople seeking investment opportunities in Montenegro. To date, 18 issues of 550 to over 1,000 copies each have been published and distributed.
- *Barriers to Doing Business in Montenegro* – a survey begun in 2000 and repeated every two years that identified barriers to business development, such as the lengthy, expensive, and at times arbitrary process for registering firms, and offered recommendations for their elimination. Also, by promoting the most successful firms in Montenegro through the rating lists, CEED managed to have an influence on the adoption of higher business standards. *Barriers to Doing Business* earned CEED a 2005 Templeton Freedom Prize for Free Market Solutions to Poverty. One of the judges for the prize commented, "CEED shows how to put ideas into action! It goes beyond the discussions and proposal of public policies to actually participate in the implementation and really make a difference."

- *Fruitful Editions* – a popular series of simple leaflets, each designed to make entrepreneurs aware of the changes to a particular law. 2,000 copies of each edition were printed, except the one concerning the Enterprise Law, which was printed in 10,000 copies.

CEED publications were often cited in debates in Parliament. Publication recipients included the Prime Minister, 15 ministers, all 75 members of the Parliament, and when appropriate, the nine political parties in Montenegro. Within the private sector, CEED publications were distributed to 15 business associations, over 200 domestic and foreign firms and potential investors, 24 domestic and foreign banks, and numerous regional organizations.

After producing a survey or publication, CEED actively worked to disseminate its findings and conclusions. Today, CEED is one of the four organizations commanding the greatest presence in Montenegro's media. Thanks to the ECO Press Club, which was founded by CEED in response to the dearth of informed coverage of economic issues in the media, more economic reporters are now able to understand the economic and business issues and give a balanced view of economic news and business matters. As a direct result of the ECO Press Club, all daily newspapers in Montenegro now have at least one page or even a regular weekly appendix dedicated to business and financial news.

In recognition of CEED's accomplishments, in November 2005 the Atlas Economic Research Foundation named CEED as the winner of the 2005 Templeton Freedom Prize for Initiative in Public Relations. CEED was recognized for its success in utilizing the media to promote the principles of a free society.

Business Forums, Conferences, and Roundtables

In cooperation with the MBA, CEED organized high-level forums with foreign experts as keynote speakers. The forums explored ideas for policy recommendations. Between 120 and 250 participants

were present at the forums, many of them MBA members, but also government representatives.

In January 2002, the first ever Business Forum, entitled “Public-Private Partnership,” achieved exceptional impact. The forum’s five sessions tackled the most crucial issues facing Montenegro including: improving the understanding of business advocacy; the importance of public-private partnerships; new legislative initiatives and implementation of laws; and best practices. As a result, the first public-private partnership was created in Montenegro. The Forum was extensively covered by the media including in the daily newspapers *Vijesti*, *Pobjeda*, *Dan*, and on the television stations *In* and *Elmag*.

Due to the tremendous success of the first forum, additional topics were discussed, such as the importance of corporate governance for emerging economies, barriers to doing business, joining the World Trade Organization, the social responsibility of the private sector, and possibilities for private investments in infrastructure.

After issues were raised and ideas developed at the business forums, and after the opinions of the private sector were obtained, CEED organized conferences as the final step in filtering ideas before policy recommendations were drafted. CEED organized three conferences and 14 roundtables, attended on average by between 50 and 100 representatives of business associations and government.

Montenegro Business Alliance

The MBA has become a leading voice of business in Montenegro. Its membership and its original Board of Directors represented all parts of Montenegro and all major religions – Orthodox, Muslim, Catholic, and Jewish – as well as small and large firms, men and women, and domestic and foreign firms from different sectors. The association has played a crucial role in linking the diverse business community of Montenegro and the region and mobilizing the private sector for reform.

CIPE fostered the development of the MBA from a loose alliance into an effective advocacy association

How CIPE Assisted the MBA

- Performed diagnostics on 15 business associations
- Provided a full-time consultant, Ralph J. Marlatt, a seasoned industry association executive and advocacy specialist
- Helped develop the MBA’s first strategic plan
- Worked with CEED to establish the MBA as a sustainable umbrella association
- Coached the MBA in advocacy techniques and supported related committee activities
- Coached the MBA in the use of CIPE’s National Business Agenda process to build a private-sector consensus on public-policy change and develop a grassroots advocacy network

with a permanent footing. The MBA started to come together as a cohesive organization during a cross-border business-to-business trip to Kosovo organized by CIPE in April 2002. At that time, hardly anyone from Montenegro was traveling for business to Kosovo, and the novelty of the trip brought the initial members together and facilitated trust between them. On that six-hour bus ride, the businesspeople began to talk with one another, and they realized that they had similar problems. As a result of that trip to Kosovo, more than 900,000 dollars in deals were signed, and those in attendance told others about its success.

Since then, the MBA has conducted or participated in seven more business-to-business (B2B) forums. Montenegrin businesspeople have traveled to Kosovo, Serbia, Albania, Croatia, and Bosnia, and businesspeople from these countries have come to Podgorica to re-establish old business links. In all, these B2B forums have produced in excess of six million dollars in contracts signed.

Excerpt from the MBA Business Agenda 2005

Business Agenda 2005 – What We Have To Do

Business agenda 2005 represents a one-year plan adopted by members of the Montenegro Business Alliance at the sixth regular assembly in order to accomplish the following long term goals:

1. Greater participation of the private sector in the creation of public policy;
2. Creation of a legal environment that will contribute to faster growth of the private sector;
3. Creation of stable opportunities for investments, new working places and greater profit.

Cited long term goals come from the five-year strategic plan, which was adopted by the MBA assembly when suggested by the Board of Directors in February 2003. To accomplish these goals, we will fight with all legally allowed means!

Taking and overcoming risks is the basis of every business. When we were founding our companies and when investors came to Montenegro, we have all taken risks, and all of us are suffering the consequences of business risks. However, in addition to business risk, in Montenegro as a country in transition, there are many risks that come from politics conveyed by government. We want to be partners who help with suggestions for the rules of the game and ensure that they are enforced for everyone, create healthy competition, and make possible the development of our companies. In that way, total economic growth in Montenegro will be impacted.

If our businesses do not develop, it is not possible to fill up the state budget. We are witnesses to the existence of a state budget deficit. It will not be relieved until the economy is relieved. The economy can be relieved by private businesses, not by tax increases and state administration. The state budget is not reduced this year. From where does that money come? From the private sector! We cannot earn as much money as the state administration can spend. That is why limits should be settled! Instead of decreasing, new obligations were imposed on the private sector in Montenegro during 2004, primarily by municipalities.

Protectionism has failed in all countries in which it was led. Lately, numerous reports of different international organizations, including ones that were great advocates of impacts in certain sectors in the Montenegrin economy, testify about it.

That is why we deem that Montenegro, a country that has our business trust, needs strategic vision. We kept the slogan from the previous year: “When, if not now? Who, if not us?” The slogan is meant to encourage all from the private sector to take action. We are inviting all business associations in Montenegro to unite around problems that bother our business. We are sure that on the following pages you will recognize what you, as business people, want from every system.

The Montenegro Business Alliance is ready to be a serious partner in realizing the vision given on the following pages. We want to work together with representatives of the Government and Parliament of Montenegro in order to move things to become better.

As serious and responsible people, we must know that if we do not reach a national Consensus about priorities we will endanger not only our businesses, but also our future and the lives of our families in Montenegro.

As its membership grew, the MBA opened satellite offices in six additional cities: Ulcinj, Bar, Kotor, Herceg Novi, Niksic, and Bijelo Polje. It expanded its member benefits, offering discounts on more than 45 products and services. As of January 2006, the MBA had 450 dues-paying members, including the major firms in Montenegro. More than 250 attended the most recent 7th Assembly Meeting. The membership represented over 30 percent of GDP, employed more than 21,000 workers, and contributed more than 34 percent of the Montenegrin budget.

The MBA's primary goal was to develop the voice of business in the public policy process. Upon its formation in 2001, the MBA wasted no time before engaging in advocacy concerning the Enterprise Law and the Accounting Law. Based on these early successes and the lessons learned from them, in 2003 the MBA developed a strategic planning process for advocacy inspired by a CIPE model. This process was designed to build private sector consensus around a National Business Agenda that would serve as the roadmap for policy reform.

First, a questionnaire on business concerns was distributed at the annual assembly meeting. CEED analyzed the responses and identified the major issues facing the business community. CEED also conducted polls to broaden the agenda and distributed follow-up questions to explore issues in more detail. The MBA's Education and Research Committee then reviewed the findings and submitted recommendations to the Board of Directors for discussion and modification. Members had an opportunity to comment before the Board voted on a final version. MBA commissions and special interest groups developed specific action plans to implement the agenda. 6,000 copies of the National Business Agenda were sent to members, potential members, and officials. This process was repeated in 2004 and 2005.

The Government of Montenegro incorporated sections of the first National Business Agenda in its economic reform package and several reform laws. As a direct result of the National Business Agenda, a Memorandum of Understanding (MoU) was signed by the Parliament and the MBA, allowing MBA staff

and members to testify before Parliament on issues of concern to the business community.

Several public-private partnerships were formed whereby the MBA and the business community worked together with government to initiate legislation. Examples of these partnerships include the Council on Economic Freedom and the agreement between the MBA and the Ministry of Finance to meet on a regular basis to discuss the business community's issues of concern. Because of the National Business Agenda, the MBA now works directly with the Tax Authority to resolve problems with the tax police.

Legislative Results

CEED and the MBA positively influenced the passage and implementation of eight key laws that define the economic environment. Their process was to explain the economic logic underlying the new laws and find creative means to bring about less expensive and shorter, more user-friendly methods of doing business.

1) Securities Law (*passed in November 2000*)

CEED participated as a member of a special team tasked with drafting a law to build infrastructure for the national securities market. CEED was a leader in this area as its VICE President, Petar Ivanovic, was a specialist on the subject. Based on the law there are now two stock exchanges, six investment funds, and 12 brokerage houses in Montenegro. In their first six months of operation, over 10 million shares were traded. In addition, capitalization of the stock market in Montenegro reached 63 percent of GDP, increasing from 33 million dollars in 2002 to over 1.2 billion dollars in 2005.

2) Corporate Profit Tax Law (*passed in December 2001 and amended in 2004*)

A CEED comparative analysis found that the tax rate in Montenegro was the highest in the Balkan region. CEED and the MBA proposed to lower taxes from the existing 15 percent on profits of

up to approximately 120,000 dollars (100,000 euros), or 20 percent on higher profits. They advocated instead for a nine percent flat tax, as well as for deductions on capital investments. The rationale behind this was that if taxes are high, people report less profit. At the time, companies were minimizing reported wages while paying workers under the table.

Amendments passed in 2004 yielded a nine percent flat tax on corporate profits, the lowest in Europe. As a consequence, companies began to report their actual profits. Companies have begun to use auditors, and firms that are profitable can now be discerned from ones that are not. CEED and MBA also conducted advocacy efforts that led to a 10 percent decrease in taxes and contributions on wages for the first time in 25 years.

3) Enterprise Law (*passed in January 2002*)

This law was CEED's biggest challenge and biggest achievement. CEED thoroughly researched the issue and established that it took 45 working days or more to register a firm, through a maze of institutions and at the discretion of government bureaucrats. In addition, firms had to re-register every year. "Can you imagine that even the State Chamber of Commerce was against our proposal," said Petar Ivanovic. "Our success was based on the common-sense approach we took and the strength of our arguments, which were supported by the solid research and analysis we conducted." Under the new law, which was practically drafted by CEED, it now takes four days and one dollar to register a firm, whereas previously it took 5,000 dollars. A firm is automatically re-registered if not called within one day by the government. Today over 15,000 entrepreneurs and 14,500 other legal subjects have registered. CEED and the MBA helped over 4,000 companies register free of charge.

CEED published a leaflet about the law for its series Fruitful Editions and distributed 10,000

copies, one per company. The MBA organized 12 seminars, and CEED organized six, to explain to entrepreneurs the substance and the implementation of the law so that they would not have to hire lawyers.

4) Accounting Law (*passed in January 2002 and amended in December 2005*)

CEED assisted in drafting this law, which adopted 18 International Accounting Standards (IAS). The MBA also participated in the working group. The old law was based on socialist accounting standards, which were not accepted anywhere else in the world. The new accounting procedures are much simpler, thus reducing firms' accounting expenses. Also, balance sheets were shortened to make accounting easier for firms. Implementation of the law is expected to contribute to the reduction of the sizeable informal economy.

An Institute of Accounting and Auditing was created with the authority to grant accounting licenses and permits, as well as to provide education for potential auditors. The MBA received a seat on the Institute's Board of Directors.

5) Bankruptcy Law (*passed in January 2002*)

CEED conducted extensive research and analysis for this law, which simplified bankruptcy procedures and reduced the costs to all concerned. The new law afforded additional options for handling bankruptcies: reorganization and orderly self-liquidation. Previously, bankruptcy cases dragged two to three years on the average. By the end of summer 2004, about 70 percent of bankruptcy cases were successfully concluded within three months.

6) Private Sector Participation in Delivering Public Services (*passed in May 2002*)

Under the new law, for the first time the private sector was allowed to deliver services – such as

bus transportation – and participate in projects that had previously been the sole prerogative of the state government and municipalities. CEED organized a business forum in Podgorica to explain to nearly 200 businesspeople how they could participate in public services, especially in building infrastructure. Some of the participants have since become involved in delivering public services.

7) Energy Law (passed May 2003)

The main contribution of CEED and the MBA to this law was to include the possibility for private sector investment in small hydroelectric plants, which was not possible under the old Energy Law. Two private companies have taken advantage of the new law and invested in hydroelectric plants.

8) Licensing Law (*in progress*)

Having removed the barriers to registration at the Commercial Court via the Enterprise Law, CEED began working with the MBA to eliminate barriers at the local municipal level. CEED conducted extensive discussions with mayors and departments of local governments to determine the steps to proper licensing. They discovered that a minimum of five commissions were required to visit a business before certain licenses could be issued, and also that it could take longer than one year to obtain the license. CEED and the MBA helped to draft a new Licensing Law to simplify the local registration procedure. With the proposed law, the procedure should be quicker, and bureaucrats' discretionary power will be much reduced.

Conclusion

In 2004, the MBA's advocacy program won the Associations Make a Better World Award given by the American Society of Association Executives. CEED was also recognized as a promising young organization by the Atlas Economic Research Foundation, receiving a 2005 Templeton Freedom Award for Institute Excellence. The Montenegrin business community thoroughly supported Atlas'

choice and numerous heads of business organizations made statements to that effect. Especially supportive of CEED and its success was Deputy General Director of the Montenegrin Commercial Bank (CKB) Ms. Aleksandra Popovic, who said, "Your successful projects are contributing to the good image Montenegro is building through international business contacts. The effort of the Center for Entrepreneurship and Economic Development in developing a good business climate is helping to achieve the goals of our bank as well. We are sure that our future cooperation will even more improve entrepreneurial initiatives, and prove that Montenegro can and will have a significant place in the modern economy."

One of the keys to the success of the advocacy program was the close partnership between the MBA and CEED. Both organizations worked to support ordinary entrepreneurs by addressing problems from the bottom up. CEED employed its survey and research tools to supply facts to the MBA, which in turn used them to advocate forcefully on behalf of its members. By nurturing the formation of new businesses and educating entrepreneurs, CEED also created a pool of new members for the alliance. In short, good information and national grassroots mobilization secured meaningful institutional reform.

The reforms addressed several of the most pressing needs of entrepreneurs. High tax rates were reduced, new business formation was encouraged through eased registration and licensing requirements, the informal sector was reduced; accounting standards were raised, understanding of the law by businesspeople was improved, and new avenues of business were created. These reforms benefited a broad segment of the business community, encouraged job creation, and created a basis for fair, reliable public revenue. Not only was business revived after years of war and corruption, new economic horizons were opened up that were unavailable under communism.

The spirit of enterprise, which has been the grassroots driving force behind the success of CEED and the MBA, shows that the people of Montenegro are ready to transform their country into a stable

and prosperous free-market democracy. By helping entrepreneurs take the economic reform process into their own hands, CEED and the MBA have set the stage for continued reforms and a more vigorous democracy. As Amela Karabegovic of the Fraser Foundation predicted, “I have no doubt in my mind that Montenegro will achieve great new heights in the future years and that would be in no small part due to organizations like CEED, the MBA, and others who believe in the idea of economic freedom and liberty.”

Energized by dedicated young professionals committed to spreading free market ideals, CEED and the MBA are preparing a bright future for Montenegro. Going forward, with a proven advocacy strategy, good organizational infrastructure, a broad business coalition, and promising revenue sources, they can hope to build upon their successes and stimulate farther-reaching changes. They have initiated constructive dialogue among the business community, with the public, and with the government. Perhaps most remarkably, they have augmented overall trust in the business environment in Montenegro, which is becoming more stable and predictable. Against a legacy of conflict and arbitrariness, trust and commitment to reform are truly the building blocks of democracy.

¹Steve H. Hanke, “New Currency Boards Come to the Balkans,” *Transition* (World Bank) 8, no. 1 (1997).

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