International Labour Organization

Inclusive Entrepreneurship Ecosystem Analysis in Montenegro

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This report was written by Jasna Pocek from the Sten K Johnson Center for Entrepreneurship, Lund University, with the contributions and guidance of the ILO's SME Unit.

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Executive Summary

This report applies the International Labour Organization´s (ILO) inclusive entrepreneurship ecosystem approach to Montenegro and outlines the possibilities for a more inclusive and sustainable ecosystem that works for all. The application of the ILO´s approach led to a comprenhensive and holistic analysis of the Montenegrin ecosystem, which was followed by a clear guidance on how the ecosystem of Montenegro can improve and provide better service to all those aspiring to become business owners.

In order to apply the ILO´s six pillars framework: policy, finance, support, culture, human capital and market, with its two cross-cutting dimensions -inclusiveness and pathways to decent work- we employ an analysis based on secondary data and interviews conducted with some of the key actors of the Montegrin entrepreneurship ecosystem. The report identifies key players of the ecosystem, their portfolios and the ecosystem dynamics. The cross cutting dimensions of inclusiveness and pathways to decent work were used additionally to help us diagnose the priority areas for improvement across the entrepreneurship ecosystem. As a final step we outline recommendations based on the theory of change, on how the identified priority areas can be addressed in practice.

While previous studies developed and tested entrepreneurship ecosystem models, to our knowledge this is the first time that the dimensions of inclusiveness and pathways to decent work are discussed in relation to entrepreneurship ecosystems and applied to a specific context. In this manner the ILO´s inclusive entrepreneurship ecosystem framework not only takes consideration of all pillars that should work together in order to provide a good service to entrepreneurs, but also strives to ensure that these services are available to all and that working lives of both entrepreneurs and their employees meet the standards of sustainability and decent work.

Introduction: why the focus on Entrepreneurship Ecosystems?

Entrepreneurship ecosystems are a new phenomenon in the scientific field of entrepreneurship and have rapidly developed in the course over the past years, through evidence-based research that informs also national and international policies. Although researchers and policy makers have so far failed to agree on a single definition of this concept, entrepreneurship ecosystems are generally understood as dynamic and complex spaces, whose actors are interconnected around support for new venture creation and business model innovation. As every entrepreneurship ecosystem is embedded in a certain locality, its complexities, dynamics, challenges and opportunities depend on the socio-economic and policy environment in which it operates. This calls for a context-sensitive and evidence-based investigation of entrepreneurship ecosystems.

In late 2020 the ILO developed an inclusive entrepreneurship ecosystem framework, based on the work experience of the ILO experts and those involved in the literature and science of entrepreneurship. The framework is composed of eight pillars, two of which are cross-cutting and also include a novelty in the entrepreneurship ecosystem field: inclusiveness and the pathway to decent work. In this report we apply the ILO inclusive entrepreneurship ecosystem approach to the context of Montenegro, to understand the opportunities, challenges and dynamics of its ecosystem and provide recommendations for improvement. In order to perform the analysis, we employ literature review and qualitative analysis using in-depth interviews with a number of Montenegrin entrepreneurship ecosystem actors.

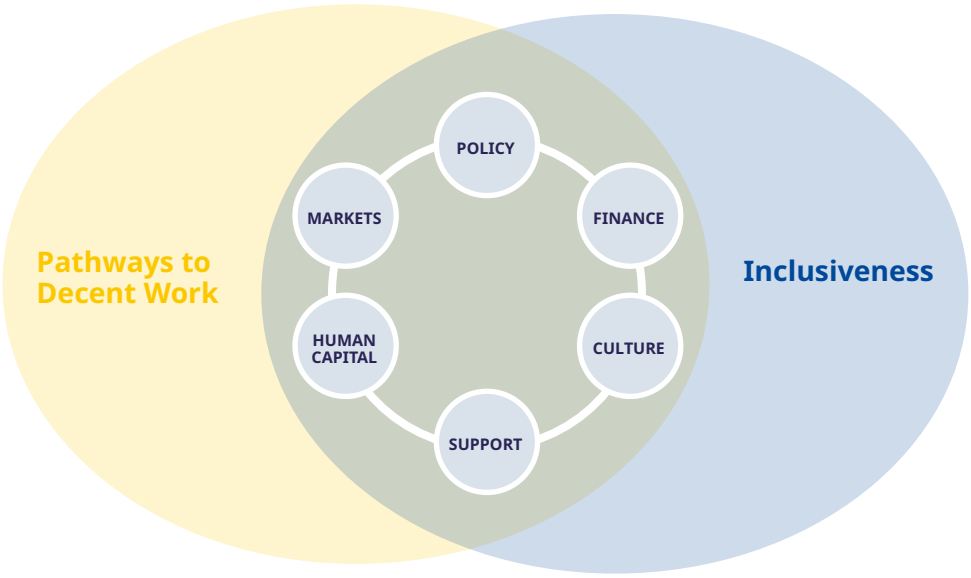
The report is structured as follows.

- Following the introduction, section one presents the ILO Inclusive Entrepreneurship Ecosystem Approach.
- In section two, we outline the socio-economic conditions of the Montenegrin context relevant to the conceptualization of the ecosystem environment.
- Section three presents the mapping of the entrepreneurship ecosystem of Montenegro against the ILO inclusive entrepreneurship ecosystem approach, outlining the developments and challenges of each one of the six pillars, while at the same time recognizing where the two cross-cutting dimensions inclusiveness and the pathways to decent work emerge. Following the ecosystem mapping, this section also analyses the Montenegrin entrepreneurship ecosystem macro-dynamics.
- Section four provides a qualitative analysis related to the challenges identified as ecosystem priority areas and outlines recommendations for how these challenges can be addressed.
- In section five we present conclusions.

1 The Inclusive Entrepreneurship Ecosystem Approach: supporting entrepreneurs in creating sustainable businesses

Recently, the ILO has developed the *Inclusive Entrepreneurship Ecosystems Approach* to support the development of inclusive entrepreneurship ecosystems that support entrepreneurs in creating sustainable businesses. Building on Isenberg's (2011) entrepreneurship ecosystem model, the approach emphasizes six core pillars that together form a holistic support system for entrepreneurs as well as two cross-cutting dimensions - Inclusiveness and Pathways to Decent Work – that ensure that the support system is inclusive of all entrepreneurs (Figure 1).

Figure 1: The ILO's Inclusive Entrepreneurship Ecosystem Framework



Possible additional dimensions (cutting across the entire ecosystem or selected components ar **technology** and **environmental sustainability**)

The Ecosystem Pillars

1. **Human capital:** Human capital refers to the availability of high-skilled and motivated labour, which is central to entrepreneurs' ability to build sustainable businesses. Key components that contribute to human capital include existing high-growth enterprises that can up-skill the labour force (i.e. entrepreneurs with previous relevant work experience), as well as demand-oriented educational, technical and vocational training institutions and universities. Up-skilling programmes and labour demand and supply matching services can also be important.

2. **Policy and leadership**: Legislation and policies that foster business creation are key. These include easy and transparent business registration procedures, fair taxation policies, and policies that actively promote entrepreneurship. While the legal text is important, it is the implementation that has the greatest impact on entrepreneurship and business creation. Subsequently, a policy environment that combines top-down and bottom-up approaches, and provides an integrated set of effective regulations are important to promoting entrepreneurship.

3. **Appropriate finance**: Access to financial resources is crucial for entrepreneurs seeking to start and grow a business, and the availability of a diversity of financial products and services is an important component of entrepreneurship ecosystems. Financial services should be accessible and appropriate to entrepreneurs at different stages of enterprise development. For some entrepreneurs, loans may be most appropriate. For others, seed and angel investors might be instrumental, and in some contexts, other financial institutions like microfinance and financial cooperatives may play a key role.

4. **Culture**: This component describes the legitimacy of entrepreneurship in the wider society of a given context, i.e. whether entrepreneurship is considered a viable career path and whether entrepreneurs have a positive reputation. A positive entrepreneurial culture is reflected in whether and how entrepreneurial success stories are disseminated in the local population and how entrepreneurship ranks as a career choice, particularly among young women and men.

5. **Support**: This component refers to the variety of support services available to entrepreneurs. This includes the availability of demand-driven and accessible non-financial business development services (BDS) like business management training, capacity building, mentoring, and coaching, as well as operational services like accounting and legal advice, IT and design support, and sector-specific support (e.g. veterinary and agricultural extension services).

6. **Markets**: The availability of and access to markets is crucial for any business. In the entrepreneurship ecosystem framework, this component refers specifically to the availability of customers who are interested in purchasing innovative products and services. Where local demand is low, strong entrepreneurship ecosystems are often characterised by accessibility to regional or international markets for local entrepreneurs.

The cross-cutting dimensions

Pathways to decent work. Entrepreneurship constitutes an important pathway to decent work. New businesses drive job creation, and a fundamental role of the ILO's inclusive entrepreneurship ecosystem framework is to ensure that the jobs created are quality jobs, i.e., characterized by decent working conditions but that also entrepreneurs themselves are living a decent working life. To achieve this, considerations regarding quality job creation through entrepreneurship need to be embedded in the entrepreneurship ecosystem. Since ecosystems vary by context, there is no one size fits all in terms of how an inclusive entrepreneurship ecosystem can be promoted.

Inclusiveness. Entrepreneurship ecosystems not only differ by context but also between target groups in a given context. Although, for example, financial and business development services may exist in a given context, access to them is rarely equal among all entrepreneurs. Furthermore, informal norms and values (the Culture component of the ecosystem framework) may impede business creation among marginalized groups, such as women, youth, migrants or other populations. Often, differences in access to the entrepreneurship ecosystem are implicit and promoting an inclusive ecosystem that works for all entrepreneurs, therefore, requires a clear understanding of the target group(s) and sensitivity to structural and take-for-granted dynamics in how different target group(s) experience the extant entrepreneurship ecosystem.

In addition, further dimensions may be relevant, depending on the specific local context. These can be added to the framework similar to the two core dimensions above. Two important additional dimensions to consider are technology and environmental sustainability:

- **Technology** plays an increasingly central role to entrepreneurs and MSMEs everywhere and is therefore also an important component for any entrepreneurship ecosystem. However, despite the opportunities for new businesses and innovative business models that emerge from the wider availability of feature and smartphones, laptops, digital payment methods and other innovations, entrepreneurs and small businesses tend to lag in the adoption of modern technology. Across all dimensions, it will therefore be important to consider the opportunities created through technological advancements in terms of strengthening the overall support ecosystem. This could, for example, take the form of digital payment solutions under the "finance" component, or "e-Government" online business registration procedures under the "policy" component. Finally, the potential of technology to facilitate interaction and exchange between individual components should also be taken into account.
- **Environmental Sustainability** should be a core concern to all entrepreneurship ecosystems. Ecosystems can help promote green business creation, as well as help, embed environmental considerations among start-ups and entrepreneurs more widely. Furthermore, environmental considerations are also important for the individual ecosystem components. For example, under this dimension, the sustainability of service provision (e.g. under the Supports and Finance components) could be considered, as could a closer look at whether and how regulations facilitate environmentally sustainable enterprise creation (under the Policy component).

2 Socio-economic analysis: turning the focus on entrepreneurship and MSMEs in Montenegro

In the last 30 years, Montenegro has experienced a process of transition from a centrally planned economy to an open and market-based one. This has implied for example the closure or sale of large state-owned enterprises that used to provide many employment opportunities, but also an increasing stream of foreign direct investments (FDIs). FDIs between 2007 and 2019 have been on average 15% of GDP, reaching up to 37% of GDP in some specific years (World Bank, 2020). Even so, Montenegro still had to cope with relatively high levels of unemployment partly generated also by this transition: in the years between 2010 and 2014, the unemployment rate was just below 20% and only after 2015 it gradually started to decrease until reaching 14,8% in 2019, before the Covid-19 pandemic (World Bank, 2020), still higher than most countries in the region, such as Serbia (12,6%) or Croatia (6,9%).

Notwithstanding the high unemployment rates, Montenegro economy kept growing in the last years before the pandemic crisis: Montenegro's GDP has enjoyed moderately positive rates of growth, with 3.6% growth in 2019 and 5.08% in 2018 (Montenegrin Statistical Institute, Monstat, 2020). The economy of Montenegro is to a large extent depending on the contribution from micro, small and medium-sized enterprises (MSMEs). MSMEs account for a large share of the total value creation in the national economy. According to the latest data released by the Montenegrin Statistical Institute (Monstat), in 2019 73% of total value added was produced by SMEs: more specifically 45% of the value-added was created by small businesses with less than 50 employees and 28% of value-added came from medium-sized companies (between 50 and 250 employees). Not only MSMEs account for a large fraction of the creation of value in Montenegro, but their contribution has been growing in recent years, especially for what concerns small businesses. As illustrated by Table 1, in the period 2012-2019 the rate of growth of value-added has been especially high among small companies: while the yearly growth of value-added for all firms has been 10,7%, the yearly growth rate of small companies has been 16,9%. Compared to the growth of medium-sized businesses (8,2%) and large ones (6,5%) it is clear that a large contribution to wealth creation in the last 7 years has come mainly from small companies.

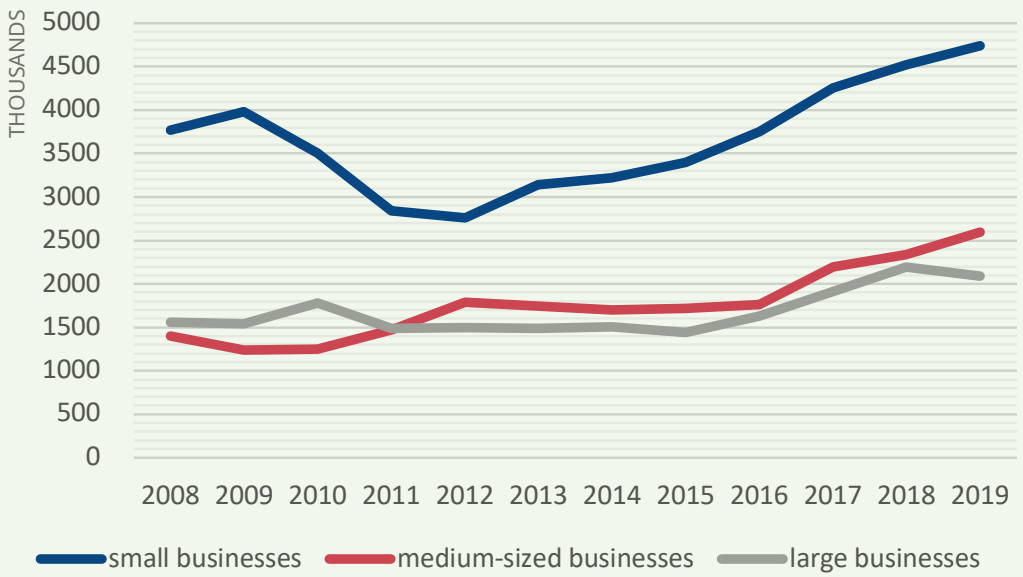
Table 1. Value-added in Montenegro, by type of company (2012-2019)

year	small businesses: 1-49 employees	medium businesses 50-249	large businesses 250+ employees	Total
2012	422 270	377 547	385 130	*1 184 948*
2013	480 038	384 396	474 745	*1 339 180*
2014	540 976	387 790	453 233	*1 381 999*
2015	571 925	398 888	440 828	*1 411 641*
2016	714 843	412 700	472 291	*1 599 834*
2017	764 721	537 747	572 264	*1 874 732*
2018	838 590	562 292	620 317	*2 021 199*
2019	992 293	626 184	586 696	*2 205 173*
yearly growth 2012-2019	**16,9%**	**8,2%**	**6,5%**	**10,8%**

Source: Montenegro statistical office - Structural business statistics (2019), own elaborations

This steep increase in value addition by small businesses can be explained by different factors. First of all, small businesses were most affected by the financial crisis of 2009, as indicated by Figure 2, showing the dynamics of sales (turnover) for the period 2008-2019, by typology of firms. Medium and large businesses were comparatively less affected in those years. Therefore, the increase in added value for small firms in the following years (2012 to 2019) should also be considered in the context of a recovery period for this specific category of firms, after the adverse effect of the financial crisis. Additional explanations for the increase of value creation by small businesses in recent years can be related to a) existing small firms becoming more productive and efficient over time or b) an increase of entrepreneurial propensity through the increase of the total number of small firms, i.e. a higher rate of entry of new (small) businesses.

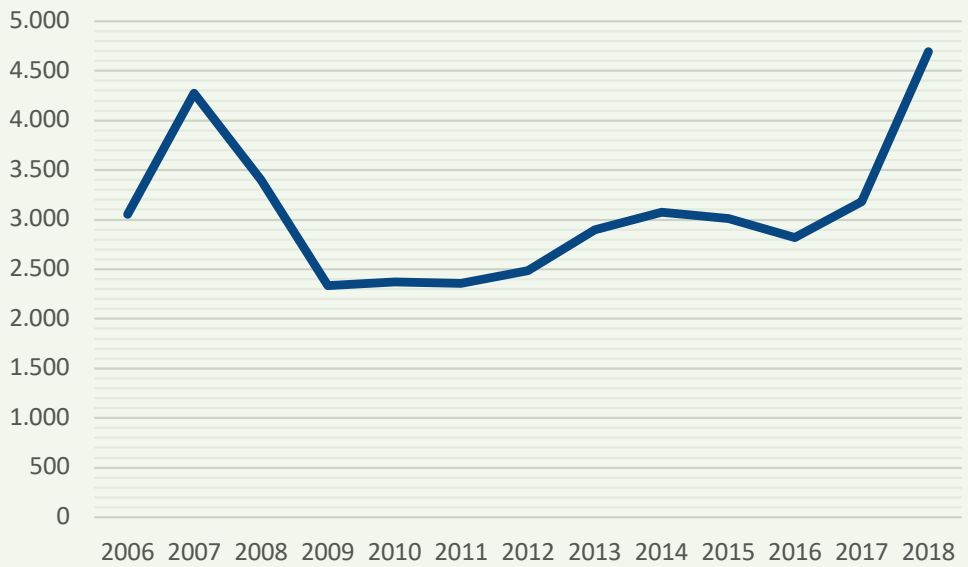
Figure 2. Turnover in Montenegro, by type of company (2008-2019)



Source: Montenegro statistical office - Structural business statistics (2019), own elaborations

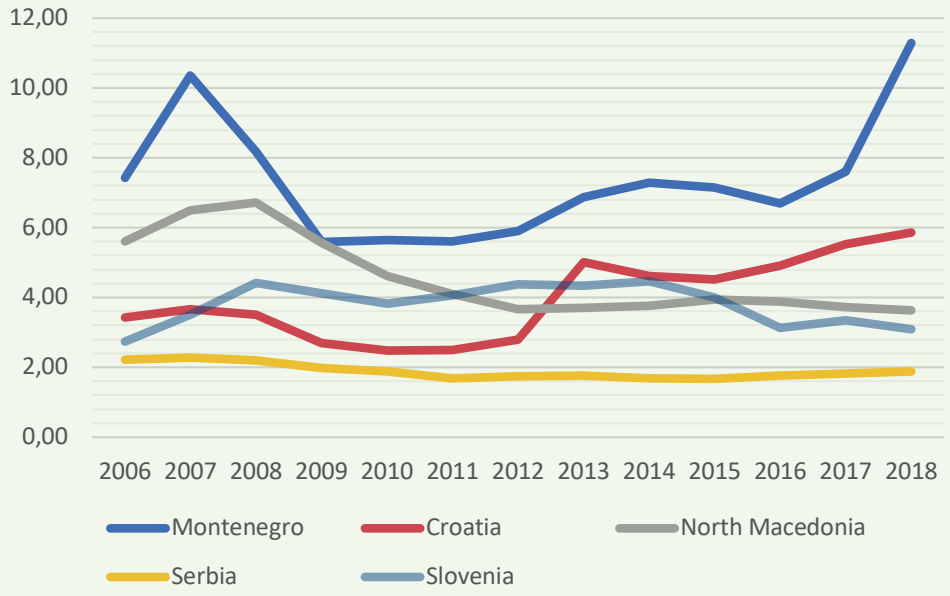
This second explanation seems quite supported by the data on new business creation provided by the World Bank, and shown in Figure 3. The figure shows that after a dip of new firm creation in 2008 and 2009, the number of new companies (limited liability companies) created in each year slowly re-started to grow and took off in 2016, eventually overcoming the levels of new enterprise creation before the financial crisis. Figure 4, based on World Bank data, shows the number of new enterprises in each year divided by the adult population of Montenegro and it compares Montenegro with other countries in the Balkan region (Croatia, Serbia, Slovenia, North Macedonia). The results show that not only new enterprise creation has increased in Montenegro in recent years, but also that Montenegro enjoys relatively higher levels of new-firm creation per capita than the other countries. Figures 5 and 6 put Montenegro's levels of new firm creation in comparison with other European countries outside of the Balkan region: the Figures show that indeed Montenegro has a higher number of new companies per capita than other large European countries, such as France, Germany and Italy. When compared to other smaller and relatively entrepreneurial countries, such as the Netherlands, Ireland or Estonia instead Montenegro's levels of firm creation per capita are more or less similar to that of countries such as the Netherland or Ireland and lower than another small eastern European and entrepreneurship-friendly country such as Estonia. While the figures suggest relatively good levels of entrepreneurial activity per capita in the country it does not inform about the quality of entrepreneurial activity, in terms of skills of the entrepreneurs and their employees, types of activities and also general levels of productivity and wages of the new enterprises.

Figure 3. Number of new Limited Liability Companies per year in Montenegro



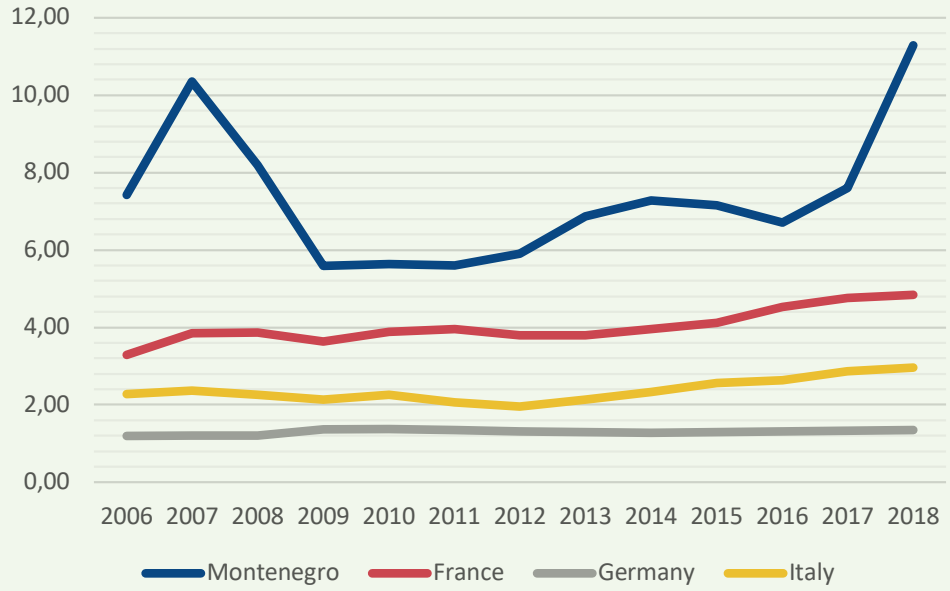
Source: World Bank (2019), own elaborations

Figure 4. Entry rates of new companies for different countries



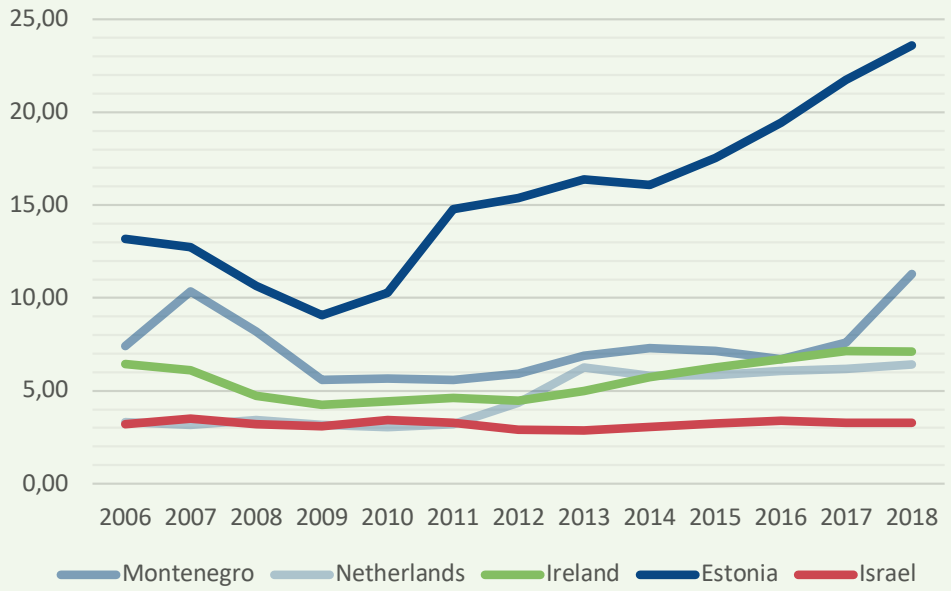
Source: World Bank (2019), own elaborations

Figure 5. Entry rates: comparison of Montenegro and large European countries



Source: World Bank (2019), own elaborations

Figure 6. Entry rates: comparison of Montenegro and small entrepreneurial countries



Source: World Bank (2019), own elaborations

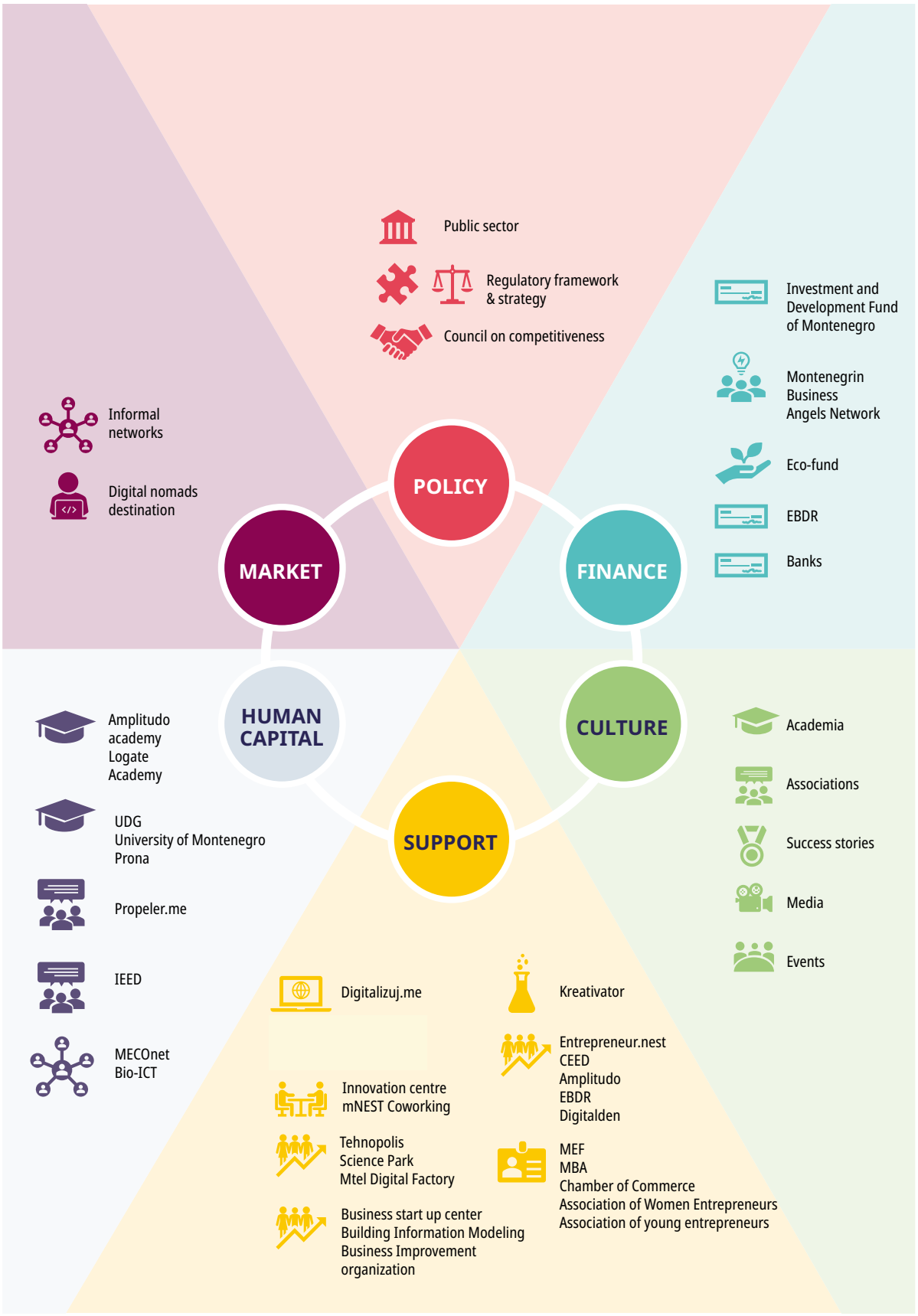
All in all, the data suggest that MSMEs are a fundamental component of the economy of Montenegro, and especially that the role of smaller businesses has gained centrality in recent years. Small businesses, which had been particularly affected by the financial crisis at the beginning of the 2010s, improved their performances in the last years and this was coupled with an increasing entrepreneurial activity proxied by the growing number of new enterprises each year. These dynamics, combined with the fact that Montenegro has a generally higher number of new business per capita than other countries in the region, indicates that Montenegro's economy can spur a relatively high number of new ventures and that these ventures, especially small ones, increasingly contribute to wealth creation in the country. The centrality of MSMEs to the economy calls for an in-depth analysis of the conditions that promote the best environment for this type of businesses, with a specific focus on the creation and running of new ventures, i.e. entrepreneurship, as well as innovation.

3 Montenegro's Inclusive Entrepreneurship Ecosystem Analysis

3.1 Entrepreneurship Ecosystem Mapping

The mapping of the entrepreneurship ecosystem in Montenegro is performed by using the secondary data composed out of policy reports and literature on entrepreneurship and Montenegro and additional web search for active Organisations and their services related to entrepreneurship. This information is further matched against the ILO inclusive entrepreneurship ecosystem framework that consists of six pillars: Policy, Finance, Culture, Business Development Services, Human Capital, Markets. Based on this framework, some of the key features of the Montenegrin entrepreneurship ecosystem are identified under each of the six pillars (Figure 7), while two cross-cutting dimensions, inclusiveness and the pathway to decent work are discussed across the ecosystem pillars.

Figure 7: Entrepreneurship ecosystem in Montenegro



Policy

The entrepreneurship ecosystem policy pillar in the context of Montenegro is composed of organisations responsible for policy making, such as various Ministries, and Organisations established under the coordination of the public sector. One of those is the Council for Competitiveness whose members are the representatives of the public and private sector including the Montenegrin Employers´ Federation. The work of the Council is supported daily by the established Secretariat. As a cross-cutting dimension, the pathway to decent work is mainstreamed to the Montenegrin regulatory environment and later to the ecosystem, through the social dialogue with the tripartite partners. These dialogues, which in the case of Montenegro are institutionalised through the Social Council, create labour market framework conditions within which the entrepreneur operates when becoming an employer.

The public sector has demonstrated a commitment towards the creation of enabling conditions for the development and scale-up of entrepreneurship by adopting clear strategies and action plans, as well as some recent legislative reforms. The entrepreneurship and innovation ecosystem assessment in Montenegro has recently been conducted as part of the EU Horizon 2020 Policy Support Facility Programme – "Towards Entrepreneurial Innovation Ecosystems in Montenegro". In 2018 the Ministry of Science agreed on the Programme of Measures Promoting Innovative Start-ups and the accompanying Action Plan while in 2020 the Government adopted the new law on innovation activities. This law defines some of the terminology of particular importance for the entrepreneurship ecosystem for the first time and relates to start-ups, spin-offs, technology transfer, business model and business process innovation, social innovation, venture capital and investor in innovation activities, to name a few.

Montenegro is also the first non-EU Member State to adopt the Smart Specialisation Strategy (S3) (2019-2024) under the EU Negotiation Chapter 25: Science and Research-policy framework. This provided for the alignment of the Montenegrin policy framework on research and innovation with the EU policy framework. The S3 strategy calls for a bottom-up approach to the identification of priority areas in which innovation will be stimulated through entrepreneurship. The priorities identified in the Montenegrin S3 strategy are sustainable agriculture and food, energy and sustainable environment and health tourism. Information and communication technologies are identified as a cross-cutting dimension in the S3 document.

Challenges of the Policy pillar

The challenges involved in establishing, running and growing a business in Montenegro inherent in the regulatory and institutional framework are outlined in several policy documents published both nationally and internationally. In this category, we identified three topics of relevance for business in Montenegro: administrative and bureaucratic procedures, legislative framework and public expenditure on R&D.

Bureaucratic and administrative procedures hamper the work of entrepreneurs and MSMEs due to their extent and the costs they impose (ITU, 2020; Despotovic et. al, 2018). Recently the public bodies with the support of the Secretariat for the Council of Competitiveness have been working on easing the business registration procedure and the procedures of running the business, by the means of digitalisation. Some results have already been achieved and the registration procedure is eased, and now the work is continued towards establishing a national digital system for tax collection. Obtaining licences and permits for business so far is still costly and complicated as it involves interactions with multiple stakeholders instead of a single and simpler digitalized procedure (ILO & MEF, 2013) that would support rather than hamper business operations.

According to data provided by the World Bank, Montenegro has improved for what concerns the number of days necessary to start a business, decreasing from 25 days in 2007 to approximately 12 days, a value that is still higher than other countries in the region (such as Serbia – 7 days- and Slovenia -8 days-), but lower than others, such as Croatia (19 days). The cost of starting a business in Montenegro has also decreased over time from 6.9% of Gross National Income in 2006 to only 1.2% in 2019, and this is lower than Serbia (2.3%), Croatia (6.2%) and North Macedonia (3.1%). However, other indicators, such as the number of start-up procedures necessary to register a business, show that instead, Montenegro does not perform very well, being one of the countries in the region with the highest number of procedures needed (8, against 7 in Serbia and Croatia, 6 in North Macedonia and only 3 in Slovenia), including interactions to obtain necessary permits and licenses and to complete all inscriptions,

verifications, and notifications to start operations.[1] Here *the pathway to decent work* as a cross-cutting dimension interacts with the policy pillar since discouragements to comply with formal procedures encourage rule avoiding behaviour as well as informality.

The reviewed literature further reveals that perceived inaccessibility of information necessary for starting up a business accompanied by complicated procedures discourages young people in particular from opening their businesses (UNDP, 2017). There seems to be a need for further digitalisation of organisational procedures allowing, for example, e-payments (Ministry of Science, 2018) that would encourage entrepreneurs and MSMEs in their business endeavours. Indeed, as recognized in Montenegrin S3 strategy, advanced technological solutions to support the overall national system including the entrepreneurship ecosystem, are required, which is also where the *inclusiveness* cross-cutting component intersects the policy pillar. These would be technological solutions for new businesses and start-ups, digitalised solutions for payment of taxes, and other e-government services that will encourage business activity and make it accessible and *inclusive*. However and to better design and implement these technological solutions, such as the ones promoted in the S3 strategy, the bottom-up consultation processes should be continuously be promoted, at the city and regional levels.

The legislative framework, acknowledged as very dynamic and subject to frequent change (MEF, 2014), is discussed in light of a need for reform of the tax policy system, penalty policy, intellectual property (IP) framework, bankruptcy procedures and lack of incentives for going green (Horizon, 2020; ILO & MEF, 2014; Ministry of Science, 2018). For example, while the Montenegrin 9% flat tax has been found encouraging for entrepreneurship (Horizon, 2020) it is often accompanied by a complex system of additional taxes, such as a tourist tax (Horizon, 2020). The authors suggested further that the penalty policy concerning tax violations should be progressive and take account of the size of the business, so as not to impose very high costs on entrepreneurs and small firms (MEF & ILO, 2013) forcing them to terminate their activities. In addition, there seems to be a need for a reform to make the bankruptcy law more friendly (Horizon, 2020; Despotovic et. al, 2018). A ranking score system that helps evaluate countries bankruptcy procedures and their friendliness towards entrepreneurship found that Montenegro has the worse entrepreneur-friendly bankruptcy laws out of 33 European and non-European countries. The law works against serial entrepreneurship also because the bankruptcy procedures are exhaustive and lengthy rising to 60 months (Horizon, 2020, Wymenga et al., 2014).

The IP framework is inadequate (Ministry of Science, 2019) and almost not practised, representing an obstacle to important collaboration between academia and the private sector (Horizon, 2020; Ministry of Science, 2018). Montenegro also lacks a legislative crowdfunding framework. Through the EU Interreg Crowd-stream project, however, the actors of the ecosystem are working on strengthening the informal networks for crowdfunding in Montenegro. The project aims to provide support for defining and adopting a crowdfunding legislative framework by 2024. Finally, the legislation does not provide incentives to the MSMEs for going green and becoming sustainable, an issue particularly relevant for both the *inclusiveness* and *pathway to decent work* related cross-cutting component of the ecosystem.

Low *public expenditure on R&D* is the third topic discussed in the reviewed secondary material. At the same time, the private investment in R&D remains very low, although the government allocated more support for measures and activities that would stimulate MSMEs interest in R&D investment (European Commission, 2020). Low R&D expenditure represents an obstacle to the development of innovative entrepreneurship and SMEs (Ministry of Science, 2018; Horizon 2020; ITU, 2020), and low R&D public expenditure discourages collaboration between academia, industry and other relevant actors, as well as the potential commercialisation of academic research and hence knowledge transfer to the market and society.

The analysis of the qualitative interviews also supports the above-described challenges of the entrepreneurship ecosystem policy pillar. The interviewees, both the representatives of ecosystem Organisations and entrepreneurs themselves, indicated the existence of large fiscal and parafiscal burdens that hamper the work of business owners. The fiscal policy is perceived as unbalanced and frequent regulatory changes as a factor of instability. The interviewees also perceive that the public bodies are inefficient in fighting the corruption that is disrupting the

1 The number of days required to start a business, the cost of setting up a business and the number of start-up procedures do not change according to whether the entrepreneurs are women or men.

business processes, and that is perceived to exist in both the public and private sector. On the other hand, the entrepreneurs reported that formally speaking starting a business is quick and that formal procedures related to starting up are not complicated.

Finance

Access to quick finance is important for promoting entrepreneurship. The mapping of the Finance pillar of the entrepreneurship ecosystem in Montenegro depicts an environment that is dynamic in terms of investment offers, however, not very rich when it comes to seed and microfinance investment. Indeed, the financial system of Montenegro seems to be bank dominated. [2]

Montenegrin legislation regulated non-bank financial instruments such as factoring, leasing, purchase of receivables, microcredit and credit-guarantee operations, with the law adopted in 2018. MSMEs can raise funds from private investors and the government encourages in particular the investment of foreign direct investors. Law on cooperatives of Montenegro is hoped to have a positive impact on the capacity of small land owners to attract investment, through the formation of cooperatives with other small land owners from the same location.

Seed funding is potentially available through the Montenegrin Angel Investors Network, established in 2018 at the University of Donja Gorica (UDG), to connect Business Angels and entrepreneurs who have a team and a developed business plan. The idea of establishing the Business Angels Network was developed initially to help UDG students who aspire to become entrepreneurs. Business Angels Network is part of networks at both the European and global level, and so far it provided seed funding to entrepreneurs, three of which are currently up and running. Seed funding is also available through Youth Innovation Lab "Kreativator" for adolescence who are planning and implementing their social entrepreneurship venture. However the size of the non-bank financial sector is still small (European Commission, 2020). Additionally, European Commission (2020) reports that high interest rates, as well as indebtedness of companies, are two main obstacles to accessing finance.

International finance Organisations such as the European Bank for Reconstruction and Development also support MSMEs and entrepreneurs in Montenegro including helping them to go green and most recently helping them to overcome the consequences of the Covid-19 pandemic with credit funding.

The public sector is active in providing microfinance through initiatives such as the Investment and Development Fund (IDF) of Montenegro, established in 2009 with the primary aim of supporting MSMEs and entrepreneurship. They also have special interest-free credit lines that aimed to encourage women entrepreneurs. Another public initiative is the Eco-fund, recently established to support green and environmentally sustainable projects. The public sector also provides grants to micro, small and medium enterprises through the employment office and provides funding in the form of grants to the entrepreneurs with a special focus on some particular groups of entrepreneurs such as female entrepreneurs, thus, fulfilling the public mandate related to supporting the more vulnerable parts of society on their entrepreneurial path. For example, the capital city of Podgorica has supported several initiatives and awarded grants to the most creative entrepreneurs and female entrepreneurs.

Challenges of the Finance pillar

Access to capital and finance is discussed in light of challenges that entrepreneurs and small business owners face due to the lack of financial resources in the market as well as their lack of credibility in the eyes of investors in the case of female business owners.

Lack of financial resources has been highlighted by several studies as a barrier to entrepreneurship and MSME creation (Horizon, 2020; Ministry of Science, 2018; Bobera et al., 2014; Despotovic et. al, 2018; ITU, 2020). Lack of financial resources from sources other than family and friends seems to be particularly challenging for young people in Montenegro (UNDP, 2017). There is a need for greater diversification of the population of available investors, which could be achieved with the support of venture capitalists, business angels and specialized investors contributing to a more vibrant entrepreneurship ecosystem (Horizon, 2020). The inexistence of a legislative framework for Crowdfunding represents another challenge. Additionally, only one public fund in the country offers finance for sustainable projects and solutions, which points out to still early-stage development of publicly coordinated actions that support green businesses, particularly relevant for the

2 https://www.ebf.eu/montenegro/

inclusiveness cross-cutting dimension of the ecosystem. *The pathway to decent work* also cross-cuts the finance pillar of the ecosystem, since lack of support for sustainable ways impacts both the livelihoods of business owners but also of their employees.

Obtaining financial resources appears to be particularly challenging for female business owners, as lack of *credibility perceived by financial institutions* seems to pose a major problem for their business-related activities (Despotovic et. al, 2018). Studies have found that the procedures should allow for better and simpler access to funding for this category of business owners (Despotovic et. al, 2018; UNPD, 2017; MEF, 2013) with care being taken to ensure that female-owned businesses are supported in less economically developed parts of the country (MEF, 2013). The difficulties around obtaining finance for women entrepreneurs have been linked also to their lack of property ownership compared to men. Therefore credit institutions such as banks of different funds, find women ineligible for financial credits. Similarly, young people often lack initial capital that would serve as a guarantee to the loan providers. While IDF provides credit and guarantees support to micro, small and medium businesses and entrepreneurs, their support is disproportionately allocated to larger and profitable companies (European Commission, 2020). Therefore, when it comes to the *inclusiveness* and accessibility of ecosystem resources, women and young people seem to be disadvantaged in terms of access to finance and capital.

By looking at the qualitative data, our interviewees perceive that there is a lack of easy access to finance and they are not familiar with the presence of business angels or similar type of investors in the country. For running their businesses our interviewees use bank loans, grants awarded by the public or international institutions, but also apply bootstrapping methods and use family and friends as sources of financing. In addition, the private investors´ mentality is perceived as an issue rather than the lack of people with capital that could support small businesses. Interestingly, some of the well-connected entrepreneurs use their networks to bring foreign investors to the country. The interviewees report also serious problems related to the work of the Public Investment Development Fund, and these span from perceiving corruptive practices, the non-transparency in procedures, to the impossibility of obtaining funds for small business owners with no capital and complicated bureaucratic procedures that discourage venture creation and running. This is also where the inclusiveness cross-cutting pillars intersect the finance pillar of the ecosystem.

Culture

In Montenegro, the media engagement is identified in their support for events that promote entrepreneurship and environmental sustainability and entrepreneurship and creative industries. Media covers success stories of MSMEs, although on an ad hoc rather than on a more organised basis. For example, recently the news on Montenegrin success stories of innovators and entrepreneurs have been very present in the media. Within the framework of the project 3DPRI-Covid19 supported by the Ministry of Science, the group of scientists have made an important discovery that helps in fight with the Covid-19 pandemic and as such their voices have been heard via both, social and regular news media in Montenegro. Additionally, once per year Spark.me organizes one of the largest Southeast European tech and marketing conferences in Montenegro. Large influential events and conferences, such as Spark.me are also important for boosting the entrepreneurship culture and can promote creativity and action-oriented type of behaviour. These types of conferences can also attract the talents that Montenegro lost and inspire them to invest their knowledge in the country.

Membership based Organisations such as the Association of Women Entrepreneurs of Montenegro also partake in the building of an entrepreneurial culture, by providing training that targets the mindset of people. This is particularly relevant in a process of breaking and challenging stereotypes concerning gender roles in business, since, women have less access to finance than men. Indeed the data further confirms this since women have less participation in entrepreneurial activities compared to men: the percentage of women entrepreneurs and owners of SME in Montenegro today is 24% although it increased since 2017 when it was 6.9% (Melovic & Djurisic, 2020). The University of Donja Gorica is working as well on creating entrepreneurial oriented mindsets of students, contributing altogether to better awareness about the entrepreneurial culture.

Challenges of the Culture pillar

An ecosystem environment in which entrepreneurship and MSME development take place faces numerous culture-related challenges. As cultural elements, these attributes are established over a longer time in a given context, therefore changing them represents a challenge in itself (North, 1990). The culture-related challenges also influence the implementation of regulations and policies, where policies that run counter to entrepreneurship are positively correlated with a decrease in the entrepreneurship culture.

According to the studies reviewed, the culture of entrepreneurship in Montenegro is affected by the tendency towards risk aversion, unenthusiastic social attitudes towards entrepreneurship and the presence of an informal economy.

Risk aversion has been found to exist at the individual level (Ministry of Science, 2018) and has been linked to the dominance of more traditional forms of occupation in the country that provide more security, such as jobs in the public sector (Ministry of Science, 2018). Studies also revealed that risk aversion is present at the Organisational level (MSMEs), leading to a failure to attract talent, creativity and entrepreneurship (ITU, 2020). *Societal attitudes towards entrepreneurship* are demonstrated by the high desirability of stable occupations, preferably in public administration, in the eyes of the population (UNDP, 2017). This is indicated to be particularly demotivating and leads to lower levels of entrepreneurship among younger people (UNDP, 2017; Horizon, 2020). *The informal economy* that is present to various degrees (ILO & EBDR, 2020), is a challenge to many spheres of the Montenegrin economy and also impacts the entrepreneurship culture. This is where *the pathway to decent work* intersects with the ecosystem pillar of culture. In Montenegro, the obstacles to the creation of formal entrepreneurship practices seem to be inefficient and inconsistent fiscal and administrative procedures (MEF, 2014) as well as lack of capacity on the side of labour inspection. On the other hand, the informal economy´s large presence in the country indicates entrepreneurship potential and the existence of a "hidden enterprise culture" (Williams, 2006, 2007, 2010; Williams and Windebank, 2006) that in the words of the ILO could represent "an incubator for business potential and ... a transitional base for accessibility and graduation to the formal economy" (ILO, 2002), once the regulative barriers are removed. The media should play a larger and more systematic role in promoting particular success stories that could inspire others and in general stories on entrepreneurship.

The qualitative data supports these findings. The interviewees perceive that the societal mentality is not working in support of entrepreneurship and in particular, they relate this to the high levels of risk aversion and the consequent fear of failure among the population. As per our interviews, there is a perceived tendency to give up due to the shame one experiences in society, because of failure. The informal economy is perceived to exist due to the regulatory challenges, corruption and unloyalty in competition. The qualitative data analysis reveals further that business owners perceive a lack of incentives to employ formally the workers and hence contribute to the creation of *decent work* also because their competitors are often informal and as such often not penalized by the system.

Support

The Support pillar of the entrepreneurship ecosystem is composed of Organisations providing infrastructure to the aspiring entrepreneurs and SMEs, as well as Organisations providing coaching, mentoring and business development advice. The infrastructural element of the Support pillar is provided by Organisations and incubators that provide working space, as well as space for community building, formation of a community of practice and exchange of knowledge.

The co-working spaces are established by the private sector and also by academia- University of Donja Gorica. "Tehnopolis" Innovation and Entrepreneurship Center was established by the Government in 2014. The Science and Technology Park of Montenegro was established in collaboration between the government and academia, but its physical infrastructure is still in the development phase. Once completed, the Science Park will provide support for academic research commercialization, including so far not sufficiently developed technology transfer services.

Coaching, mentoring and business support services for entrepreneurs and SMEs seem to be available through various initiatives, such as Tehnopolis and its incubator, as well as pre-acceleration (i.e. BoostmeUp) activities, MTel Digital Factory incubator, Amplitudo Accelerator, NGOs such as Business Innovation Modeling and Business Improvement Organisation or Paradigma- an NGO promoting entrepreneurship and environmental sustainability.

The University of Donja Gorca has several programmes that provide resources to students to help them with their entrepreneurship initiatives. One of these is a programme called "Entrepreneurship nest" that, in difference to a more traditional incubator, serves as a laboratory for the generation of ideas and runs as a pre-acceleration programme. The Youth innovation lab "Kreativator", funded by UNICEF, also provides mentoring services, working space and other kinds of resources to young entrepreneurs. It works as an incubator programme that connects young people with public services, NGOs, the private sector and academia in support of creating solutions that would help young people.

Coaching and mentoring is provided by membership-based Organisations. One of these Organisations is the Montenegrin Employers Federation, which on a stand-alone basis or in collaboration with national, regional and international partners, organises and invites members to participate in many events that provide coaching and information on business development, including on the improvement of decent work conditions. Other membership-based Organisations that provide business development services and training to their members are the Chamber of Commerce, the Montenegro Business Alliance, the Association of Woman Entrepreneurs, the Association of Young Entrepreneurs and others.

In addition to the Association of Woman Entrepreneurs, the BDS services targeting woman are delivered throughout the ecosystem by other support system Organisations , such as Montenegrin Employers Federation, Tehnopolis, Association of Young Entrepreneurs, Business Start Up Center, and the Capital City of Podgorica that in 2016 established free business counselling services for women and young people.

When it comes to digitalization and the IT sector, Digitalizuj.me is an NGO, with a digital community that helps citizens and Organisations take full advantage of digital progress.

The Support pillar also contains references to environmental sustainability and hence *inclusiveness* cross-cutting dimension of the ecosystem, however on an ad hoc rather than in a coordinated and more standard fashion. For example, the recent CoronaThona Hackaton organized by Tehnopolis, in partnership with UNDP, the Ministry of Finance and the Ministry of Culture, invited participants to present solutions related to environmental sustainability that would be promoted through green tourism, green jobs etc. In November 2020 first hackathon event in Montenegro on the topic of climate change took place with the support of MNest business development, the public sector, UNDP and the European Union.

Challenges of the Support Pillar

While business development services in Montenegro appear to be promoted by many organisations, the unpreparedness of the physical infrastructure of the Science Park in the capital city presents a challenge. Without a fully operational Science Park and technology transfer office, the potential transfer of academic knowledge to the market, and therefore its commercialisation, cannot be fully implemented. The technology transfer office, as well as a potential student incubator that could form part of the Science Park as it situated in geographical proximity to the University, could also be expected to boost the entrepreneurial and SME culture. Another challenge is related to better promotion of networking events that need to evolve and emerge to a greater extent. They could serve as the framework for building and participating in communities of practice, which are useful for learning entrepreneurship as a social activity (Lave and Wenger, 1991; Kubberød and Pettersen, 2018) and familiarize participants with the entrepreneurial culture (Jack and Anderson, 2002; Spigel, 2017; Politis et al., 2019; Williams Middleton et al., 2019). Further, the support for sustainability seems to be on an ad hoc basis, and the training that promotes the connecting points between the 2030 Agenda for Sustainable Development Goals and MSMEs, have not been identified.

Specialised training programmes in the form of mentoring, coaching and training in entrepreneurship for all or tailored to particular categories of entrepreneurs and SMEs are needed. In particular, studies refer to a lack of specialised training programmes for older entrepreneurs (Bobera et al., 2014) and the need for know-how and skills development targeting women entrepreneurs (Despotovic et. al, 2018; Ministry of Economy, 2015). Older small and medium enterprises face more challenges in particular with digitalization procedures and they need time and training to adapt to new ways of doing business. This is where the cross-cutting dimension of *inclusiveness* meets the Support pillar of the ecosystem.

There are also challenges involved in the provision of support due to the gap in communication between the business support service providers and the general population (UNDP, 2017). Consequently, those who aspire to become entrepreneurs do not have information on where

to obtain coaching or mentoring on business development. The qualitative analysis supports the abovementioned identified challenges. For example, our interviewees report the difficulties in accessing the information that could benefit the business development, leading them sometimes to give up in this process. Women entrepreneurs with family obligations expressed concern due to their lack of time to attend business development programmes since they carry most of the burden related to family obligations.

Human capital

Human Capital in the context of the entrepreneurship ecosystem is composed out of different academic and non-academic institutions that promote entrepreneurship education, by relying on different learning methodologies. Higher education institutions promote entrepreneurial learning through projects and initiatives (the University of Donja Gorica and the University of Montenegro) or by offering hands-on training and instruction in specific domains that facilitate the creation of entrepreneurial individuals and promotion of an entrepreneurial mindset (Logate Academy, Amplitudo Academy). The Government also implemented the Dual VET approach to education in some schools, which provides learning to students one day per week in private sector companies. Some NGOs are also active in promoting activities that enhance human capital. For example, Prona is an NGO that promotes the development of science in Montenegro and its linkages with entrepreneurship and innovation. Hands-on research produced in the form of policy reports and state of the art descriptions is promoted by the Institute for Entrepreneurship and Economic Development, a think-tank that also works on disseminating the results of their research and hence educating wider audiences.

Challenges of the Human Capital Pillar

The formal educational curriculum that should support entrepreneurship is perceived as inadequately developed and a mismatch with the needs of the labour market (ILO & MEF, 2013). The school entrepreneurship curriculum is perceived as particularly problematic by young people (UNPD, 2017), due to their lack of experiential learning and theoretical knowledge at all levels of education. This could be further related to a deficiency of talent and champions at the national level and those equipped with the necessary skills for managing business operations, as pointed out in a study conducted by the Ministry of Science (2018).

Moreover and also relevant for the pathway to decent work as a cross-cutting dimension of the human capital pillar, although the number of new businesses has grown in recent years, as well the contribution of MSME to economic growth, unemployment levels were still relatively high, even before the Covid-19 pandemic. One possible explanation for this may be that the vitality of the Montenegrin entrepreneurial ecosystem and its' micro and small enterprise does not necessarily lead to the creation of high levels of new employment. Possibly this could be since most of the new businesses do not have high growth ambitions and remain relatively small over time, hence they do not create a lot of new employment opportunities. Another possibility is that there is a mismatch between the skills of unemployed people and the skills required by the new businesses. This could either be driven by senior workers, which, due to long-term unemployment, may be of little appeal for new companies, or it could be driven by younger workers if new companies require skills that the educational system does not equip students with. Finally, the explanation could also partly be linked to the high share of informally employed throughout the country.

An additional component of the education challenge is the lack of *peer learning*. Networking activities among, for example, students and industry as well as among entrepreneurs themselves, are conducted on an ad hoc basis, rather than in a coordinated and structured fashion (Ministry of Science, 2018; UNDP, 2017) leading to the loss of learning potential and lack of formation of communities of practice. Indeed, networking and entrepreneurship and business development education are not perceived as accessible to young people, which constitutes a challenge and the intersection point between *inclusiveness* and the human capital pillar.

The human capital provision in Montenegro faces further numerous serious shortcomings, related to the brain drain and lack of entrepreneurial talent. Higher education institutions rank low in world rankings when it comes to the education they offer to students and their research output (Horizon, 2020). This indicates a lack of academic participation in dialogue and engagement with their counterparts from around the globe. As a result valuable knowledge of research results in the domain of entrepreneurship, that the university could bring into the country by performing its high-level research and communicating it to students, is lost.

The qualitative data also reveals that ecosystem members perceive the education system to be in a mismatch with the labour market needs and that entrepreneurship, innovation and creativity should be more central to all levels of education. The interviewees also expressed concern related to the insufficiency of academic involvement in dialogue with national and international actors around the promotion of entrepreneurship. Peer learning is perceived to be low, due to both the perceived lack of formal networking events and the fear of unfair competition. The entrepreneurs also face challenges in accessing the human capital needed due to the perceived deficiency of motivated and sometimes qualified labour force willing to take risks.

Market

The fact that the entrepreneurship ecosystem is also spatially delimited indicates its relation to and dependence on its closest proximal geographical location (Pocek, 2020; Stam and Spigel, 2016). One of the characteristics of the Montenegrin market is its small size as the country has around 600,000 people, with tourism and agriculture as dominant industries (Horizon, 2020). Montenegro is an EU candidate country and has signed The Free Trade Agreement with the EU (EFTA). This removes the custom related barriers for exports of industrial products in the EU, with the exception of marine products of Montenegro.

Studies point out that the size of the market is not the only reason for some companies to consider leaving the market at some point in their development (Horizon, 2020). Due to the almost disregarded IP field, which is also related to a history of low public expenditure for R&D, innovative companies that require IP solutions are forced to rely on foreign IP services and possible leave the Montenegrin market. Moreover, it seems that the Montenegrin market is poorly integrated with the global market and financial services such as Paypal, Apple pay and others (Horizon, 2020).

The narrative around the Montenegrin market indicates an interest in internet-based solutions, the country's internet domain (".me") is popular both nationally and internationally and the public sector promotes Montenegro as a good destination for digital nomads. Technological innovation and entrepreneurship started recently to be promoted by the public sector, academia and different company spinoffs, which aim to bring together technology, science and commercialization processes.

Organisations such as the Chamber of commerce as part of their official mandate help companies access the foreign markets. Some membership-based associations help entrepreneurs reach a better domestic market or the international market, through their networks. This is for example the case with the Business Women Association, which provides these services by taking advantage of their channels. However, these are not taking place through officially established offers of organisations but occur as part of rather informal and ad hoc dynamics. As a state in the process of EU accession, it is expected that Montenegro will also benefit from full access to the EU market, once the membership process is completed.

Challenges of the Market Pillar

Tourism and agriculture are the most important sectors of the economy and already established industries, therefore, innovative solutions that could help foster these sectors should be given special attention. The Montenegrin ecosystem does not expose entrepreneurs to strong local and global networks that could help them penetrate the market and establish communication channels with the customer bases and other assets that could serve as knowledge spillovers into Montenegrin businesses. The networking activities crucial for the acquisition of market-related knowledge, assets and resources are rather informal and on an ad hoc basis. They depend on the initiative of individuals, but greater promotion and a tendency to become more formal has only occurred recently. While the existence of informal networks facilitates knowledge spillover, shared learning experiences are also fostered when formal networking activities are promoted (Pittaway & Cope 2007).

As suggested above, also our interviews largely perceive that there is a lack of easily accessible and well-promoted information on formal networking events that could serve as intermediaries in the process of connecting the entrepreneurs and the markets. Others reported that fears of unfair competition prevent them from participating in the events that would eventually broaden their network bring out the *inclusiveness* cross-cutting component of the ecosystem. Different Organisations of the ecosystem expressed on the other hand that they informally connect their members to the markets upon the initiative of their members, or formally through organized foreign and domestic visits and events.

3.2 Ecosystem dynamics

Ecosystem partnerships

The mapping of the ecosystem stakeholders in the context of Montenegro indicates the active role played by academia, as well as NGOs, the public and private sectors in supporting entrepreneurship and SME development. This reflects the four-dimensional model of participation of the Organisations in the ecosystem (Figure 8).

Collaboration at the ecosystem level is present when, for example, the public sector supports the work and activities of the Innovation and Entrepreneurship Center "Tehnopolis". The establishment of a Science Park of Montenegro is based on cooperation between the public sector and academia, while the MTel Digital Factory Incubator is also supported by the Ministry of Science in collaboration with the Telecommunications industry. Through the Ministry of Sports and Youth, the Government collaborated with UNICEF and the NGO "Digitalizuj.me" on the establishment of the Youth Innovation Lab. The public sector is also present in partnerships with financial institutions, such as national and international banks.

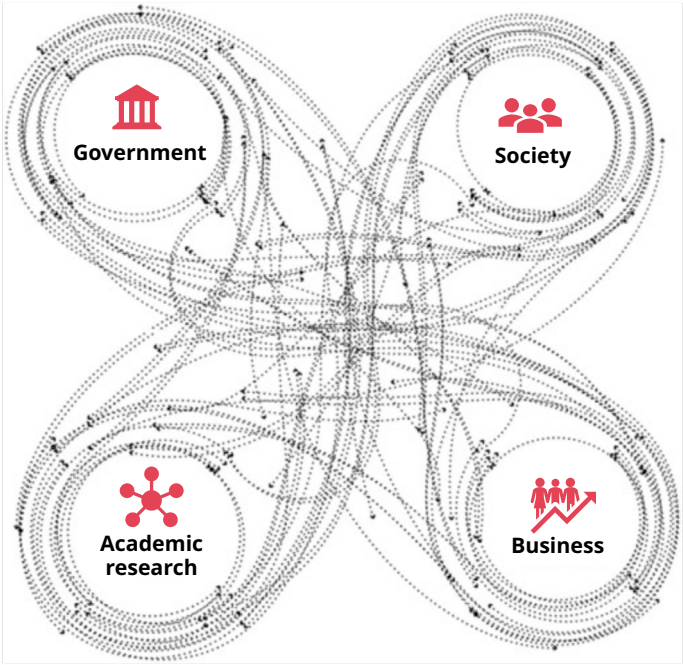
Academia is also a platform for partnerships between universities and the private sector. For example, BIO-ICT is the first centre of excellence in Montenegro that brings together national and international faculties and successful Montenegrin MSMEs with the aim of introducing innovative ICT-based solutions to different sectors. BIO-ICT was supported by the Ministry of Science and the World Bank.

Other types of partnerships have been established as spinoffs from different projects supported by NGOs. One of these is MECOnet, a spinoff company established by researchers and industry representatives, aimed at becoming a platform for bridging the gap between research, institutions and practitioners.

On the other hand, there is also active collaboration in establishing events of limited duration. The public sector, typically through the Ministry of Science, Ministry of Culture and Ministry of Economy or municipalities, supports events that help promote the culture of entrepreneurship in collaboration with support system organisations, international organisations and also the European Union. These would be typically short term acceleration programmes or hackathons.

Through our interviews, we were also informed that some ecosystem organisations such as the Association of Young Entrepreneurs as well as the Association of Business Entrepreneurs were established with the support of the Montenegrin Employers Association.

Figure 8. Quadruple helix model of participation (Carayannis & Campbell, 2009).



Coherence of the ecosystem

The interaction processes of the ecosystem organisations contribute to the creation of networks (Spiegel & Harrison, 2018; Ferrary and Granovetter, 2009; Sullivan and Ford, 2014) and ecosystem resilience (Roundy, 2017). Ecosystems with high interaction and interdependence of their organisations tend to have more coherent dynamics. In the context of Montenegro, the entrepreneurship ecosystem faces a lack of information sharing among and within its organisations (Horizon, 2020, ITU, 2020, Ministry of Science, 2018), potentially leading to less coherent ecosystem dynamics. This is caused by communication gaps between and within the organisations of the ecosystem and between the entrepreneurs and the ecosystem organisations.

The communication gap between and within the organisations is a challenge that affects the ecosystem level governance and flow of relevant information across the ecosystem that could be beneficial for supporting entrepreneurship. Studies performed in Montenegro in this regard recognized the need for more horizontal government coordination and information sharing (Horizon, 2020, ITU, 2020, Ministry of Science, 2018) that would lead towards complementary actions to support entrepreneurship. The communication among the organisations of the ecosystem should also be better coordinated, rather than on an ad hoc basis, to promote entrepreneurship (Ministry of Science, 2018). A communication gap is also present between *the entrepreneurs and the organisations of the ecosystem (UNDP, 2017)*. Successful ecosystems are characterized by the ability to provide resources to entrepreneurs without undue delay. However, in particular, young people seem to be affected by the lack of support from institutions and unfamiliarity with the services that institutions can offer them on their entrepreneurial path (UNDP, 2017). Horizontal government coordination and better promotion of dialogue among the ecosystem organisations (public and private sector, academia and civil society) would lead towards more coherent ecosystem governance and consequently dynamics. Furthermore, resources should be accessible and information about their existence should be disseminated through user-friendly channels.

3.3 Summary of the analysis

MSMEs are a fundamental component of the economy of Montenegro, and the role of smaller businesses has gained centrality in recent years. Government reforms in support of entrepreneurship in Montenegro are taking place. The Ministry of Science is particularly active and has supported innovation and entrepreneurship as priority topics in recent years by adopting a bottom-up and dialogue-based approach to policy making. The Ministry of Economy and the Ministry of Culture are also active in including municipalities at the city level. The reforms are implemented in partnership with academia, the private sector and NGOs. This model of collaboration made the adoption of the S3 strategy possible, making Montenegro the first non-EU country to adopt it. The Council of competitiveness has also been established, bringing together actors from the private and public sector to discuss matters related to the Montenegrin market. Entrepreneurship education has been promoted particularly by the University of Donja Gorica, which has been also active in establishing student pre-acceleration programmes and the Business Angels network. A large number of bottom-up Organisations has emerged in recent years, including incubators, co-working spaces and companies assisting with business development and digitalization. Partnerships for promoting collaboration between science, technology and commercialization processes have been established. Various events, such as large conferences that host TED talks, or hackathons for climate change or Covid-19 are taking place and have been supported by some of the largest media in the country.

Entrepreneurship ecosystem analysis revealed many challenges of the Montenegrin environment and these are summarized in Table 2.

Table 2: Entrepreneurship ecosystem in Montenegro: summary of identified challenges

Analysis of:	Challenges identified
Policy	- Lack of legislation that incentivizes formal entrepreneurship and business practices - Inadequate tax policies - Bankruptcy procedures that discourage entrepreneurship - Non practised IP framework and low R&D public expenditure - Need for digitalization of administrative and bureaucratic procedures
Finance	- Lack of fast access to finance and limited diversity of capital sources - Lack of access to finance by women and young people - Low transparency of Investment Development Fund
Culture	- High-risk aversion - Low Societal support - Large presence of informal economy
Support	- Lack of operational Science Park and technology transfer office - Lack of specialised training for some categories - Lack of fast access to information
Human capital	- Lack of entrepreneurship and innovation in school curricula - Lack of high-quality research on entrepreneurship and innovation - Lack of peer learning - Brain drain - Lack of talents
Market	- Low attention to solutions for agriculture and tourism - Poor connections to local and global networks - Lack of formal networking initiatives

While the services in the ecosystem could be better for the general population, review of literature and policy documents shows that care should be taken concerning some particular groups:

- young people, women and older entrepreneurs should be encouraged to start businesses
- women and older people should be offered more specialised training and skills development
- women and young people should have better access to finance and
- entrepreneurship education should be experiential.

When it comes to the ecosystem macro-dynamics, the analysis identified that these are affected by two types of communication gaps, namely 1) between and within organizations and 2) between the entrepreneurs and ecosystem organizations.

4 Priority areas: the way forward

Priority areas for the analysis of the Entrepreneurship ecosystem of Montenegro were identified based on the cross-cutting dimensions of inclusiveness and the pathway to decent work, as well as the macro ecosystem-level dynamics (Table 3). Each of the priority areas is matched to the cross-cutting dimension, entrepreneurship ecosystem pillar and a broad topic. Below we analyse the identified challenges using 17 in-depth semi-structured interviews and outline recommendations based on the theory of change.

Table 3. Challenges related to inclusiveness, the pathway to decent work and ecosystem-level dynamics

Cross-cutting dimension	EE Pillar	Topic	Priority areas
Inclusiveness	Policy	Technology Sustainability	- Digitalized solutions for payment of taxes, and other e-government services that make businesses inclusive - Lack of incentives for SMEs that wish to go green and become sustainable
	Finance	Sustainability Finance Finance	- Only one public fund to support green initiatives - Poor access to finance for women and young people. - Non-transparent Public Investment Development Fund
	Support	Sustainability Technology	- Coaching and mentoring on sustainability on an ad hoc basis - Lack of access to training for SMEs on digitalisation procedures
	Human capital	Networking	- Accessibility of networking and peer learning
	Market	Networking	- Fear of unfair competition
Pathways to decent work	Policy	Compliance with formalities Sustainability	- Digital solutions to/for business management and start-up that encourage formal compliance - Lack of incentives for going green
	Finance	Sustainability	- Low financial support for going green
	Culture	Compliance with formalities	- Informal economy driven by unfair competition practices and tax system
	Human capital	Workforce	- No high levels of new employment by MSMEs - Mismatch between education and the labour market
Ecosystem level dynamics			- Communication gap between and within the organisations - Communication gap between the entrepreneurs and the organisations in the ecosystem

4.1 Inclusiveness

Inclusiveness and technology

When it comes to the inclusiveness and policy ecosystem pillar, entrepreneurs expressed concern related to the lack of simple, digitalized procedures for the payment of taxes. However, recently Montenegro underwent a reform of the tax administration and digital solutions and real-time payment of taxes are possible. Interestingly, our respondents and particularly small producers, entrepreneurs who come from creative industries expressed concern related to the lack of digitalised fast procedures for payment of taxes. Some of the entrepreneurs would prefer the option of using digital mobile cash registers that could be downloaded for free on their phones, so that they could sell their product in any location, without having to deal with complicated bureaucratic procedures. They also perceive that tax administration offices are generally not available and that the information on their website is not user-friendly. *This indicates that entrepreneurs are not informed about policy developments related to the new possibility of digital tax payments and the information provided so far is not user-friendly.*

Challenges with the Support pillar also indicated the lack of access to training for disadvantaged groups in particular when it comes to digitalisation and new electronic procedures related to the payment of taxes and other e-services. In our interviews, small enterprise owners who are used to more traditional ways of dealing with tax payments, such as through administratively demanding and slow cash registers, expressed resistance towards this innovation and also concern about whether they would be able to understand the digital tax payment methods. One could argue that the resistance may be higher and more difficult to overcome among more senior entrepreneurs, or at least entrepreneurs in MSMEs with already established experience in their business, while it may be less of a challenge for junior or entrepreneurs who just started their operations.

Theory of change

IMPACT

Improved perception of people on the availability and usefulness of technology in starting up and running their business

OUTCOME

SUPPLY
Entrepreneurs and SMEs are able to apply digital knowledge and comply with e-services

INTERMEDIATION
Public tax administration provides better information on the digitalized procedures to the interested parties

DEMAND
Businesses start using public digital infrastructure

OUTPUT

Different groups of entrepreneurs acquire digital knowledge on online methods for payment of taxes, and online business practices

Tax administration user friendly and informative approach to providng information on digital solutions for small ventures and SMEs

Business are aware of digital infrastructure that is in place to facilitate their work

ACTIVITIES

Series of E-commerce and digital skills trainings targeting elderly entrepreneurs and SME owners

Series of trainings on the use of existing digital tax solutions for entrepreneurs and MSMEs across the ecosystem

Capacity building workshop for all public agencies involved in taxation issues on best practices in facilitating process of digitalization for different groups of entrepreneurs and MSMEs

Awareness raising campaign across the ecosystem on the existence of user friendly online tools on business registration, licensing, taxation

CONSTRAINTS

Businesses limited capacity to work with the digital solutions and limited awareness of it´s existance and benefits

Limited proactiveness of the public sector for tackling problems with digitalization entrepreneurs and MSMEs are faced with

Poor availability of relevant information on digitalization through user friendly channels, including the e-governance Montenegro digital platform.

Inclusiveness and sustainability

Inclusiveness cross-cuts the policy pillar of the ecosystem for lack of policies that incentivise going green and entrepreneurs who wish to be sustainable. Our respondents stated that to their knowledge there are no active policies that would support their work on sustainability or incentivise them in the transition towards sustainability in their small businesses or in providing sustainable solutions for their end product. This eventually leads some entrepreneurs to even terminate their sustainability-related activities, which is a loss for the whole of society.

Inclusiveness also cross-cuts the finance pillars concerning the lack of finances that would support the entrepreneurs' work on sustainability. Only one fund exists (the recently established Ecofund initiative) but it was not referred to or used by any of our informants. This could be due to the novelty of the fund or/and because the information about what the fund does has not reached the entrepreneurs.

Inclusiveness cross-cuts the Support pillar of the ecosystem concerning the lack of availability of coaching and mentoring on sustainability. Only one programme is identified in this regard, provided by Tehnopolis. However, this is available to a limited number of entrepreneurs, while a large proportion of entrepreneurs who do not reach out to Tehnopolis, are not aware of where to obtain sustainability support services. Nevertheless, this might be a natural development due to a lack of policies that incentivise sustainability and a lack of perception of the quick access to finance that would support sustainability.

Theory of change

IMPACT

Entrepreneurship ecosystem is more inclusive of sustainability

OUTCOME

SUPPLY
Entrepreneurs and SMEs have tools to promote sustainable approach of doing business

INTERMEDIATION
Public and private sector are active actors in facilitating transition to sustainability

DEMAND
Existing and new businesses and investors create a more sustainable way of doing business in the country

OUTPUT

Ecosystem actors gained awareness of the importance of sustainability and recognize opportunities for the development of business

Public and private sector, including the NGOs and academia, gained understanding of the importance of policies that promote sustainability and sees them as developmental potential

Community recognized opportunities for profit and growth through providing sustainable solutions

ACTIVITIES

A number of trainings of trainers on sustainability and entrepreneurship are organized for public and private Organisations of the ecosystem

Transition to green jobs training for MSMEs

Assistance to the public sector to launch a platform for sustainability under the Social and Economic Council, composed from various disciplines, public, private sector and NGOS

Assistance to the public sector to undertake the assessment of the current Eco Fund initiative

Training for private investors on the benefits of investing in sustainable solutions

Capacity building for the existing incubators on the ways of mainstreaming sustainability as part of their key performance indicators

CONSTRAINTS

Lack of awareness on the linkages between the private sector and sustainability

Lack of policies and incentives on sustainability

Limited perceived opportunities recognized

Inclusiveness and access to finance

Some groups of entrepreneurs seem to be in a disadvantaged position when it comes to access to funding, which is where inclusiveness meets the finance pillar. For example, women and young people often do not qualify for loans due to their lack of capital. In the absence of business angels, venture investors and investors whose mentality is aligned with new venture creation processes, entrepreneurs are turning to banks and the Investment and Development Fund of Montenegro in search of loans. In absence of quick access to finance, both experimentation and learning are discouraged. As our respondents also stated, women and young people are two groups that often do not possess property that could serve as a guarantee for loan providers including the Investment Development Fund. In these cases, women and young people most commonly turn to family for help with seed funding.

Inclusiveness is also related to the finance pillar, where we reported the perception associated with the lack of accessibility of the Investment development fund of Montenegro. To our informants, this perception ranged from corrupt practices and non-transparency in procedures, to the impossibility of obtaining funds for small business owners with no capital and complicated bureaucratic procedures that discourage venture creation.

Theory of change

IMPACT — **Increase access to various forms of finance for all businesses**

	SUPPLY	INTERMEDIATION	DEMAND
OUTCOME	All entrepreneurs and SMES, including woman and young people, increase awareness on possibilities of access to finance, including quick access to finance	Public sector ensures transparent and accessible procedures for financing business and establishes framework for quick access to finance	Increase in number of entrepreneurs and businesses, including those led by women and young people, who obtain capital to start and run their business from sources other than family and friends
OUTPUT	Women and young people identify opportunities for access to finance. Local investors perceive opportunities in acting as fast providers of finance	Public sector provides incentives for quick private financing including in under-served areas and for all	Changes in business community's perception of the availability of access to finance Opportunities for financing more female and young people business are in place
ACTIVITIES	Support for networking initiatives that bring together entrepreneurs and investors, with particular emphasis on women and youth Training on equity funding through gender sensitive funds for local investors and entrepreneurs in collaboration with MEF and Tehnopolis	Support to the public sector on developing innovative instruments for quick and inclusive access to finance Provide support to the public sector to visually map financial service access indicating served and under-served areas and population	Support to the public sector together with MEF, Chamber of Commerce and Association of business women to launch Women angel co-investment fund Capacity building for the public and private sector on best practices in launching public private partnerships with the aim of coinvesting with Business Angels
CONSTRAINTS	**Women and young people perception on lack of adequate access to financing**	**Limited proactiveness of the public sector in ensuring inclusive and quick access to finance**	**Limited opportunities of entrepreneurs to access quick forms of finance**

Inclusiveness and networking

Inclusiveness cross-cuts the human capital dimension concerning the accessibility of networking and lack of peer learning. Networking events, which are crucial for entrepreneurship, where entrepreneurs acquire knowledge, including through peer learning and concerning human capital, are not practised among our respondents. They indicate lack of time as one of the reasons and are not aware of the benefits of networking events. Some respondents also perceive that networking in Montenegro is based on a "closed system", and therefore believe that a particular kind of recommendation is needed for them to feel included in the group, or be taken into consideration by the community. However, others pointed out that networking in Montenegro is in its initial phase of development and has yet to fully unfold.

Inclusiveness cross-cuts the market dimension also with networking events. Networking is an important source of information on access to the market. However, a large proportion of our respondents do not receive market related benefits through organised networking channels. It is more common for business owners who are members of associations to obtain market related benefits through the networking channel of these associations, both either upon the initiative of the association or the business owner her/himself. However, due to fear of unfair competition, many entrepreneurs stated that they would be reluctant to take part in networking events, particularly ones where they would meet representatives of companies from their industry. *This indicates serious issues related to the lack of trust among the ecosystem actors, that most probably lead to a situation of the so-called "social trap", i.e. the inability of cooperation even if there is exist a mutual interest (Rothstein, 2005).*

Theory of change

IMPACT — **Enhanced culture of trust in the entrepreneurship ecosystem**

	SUPPLY	INTERMEDIATION	DEMAND
OUTCOME	Business community perceive the benefits of acquiring social capital	Public and private sector acquire knowledge on obstacles to networking and take action to address them	Increased willingness to participate in networking
OUTPUT	Entrepreneurs and business community have the tools to promote their business ideas and business through networking	Public sector equipped with knowledge about interventions that reduce unfair competiton Private sector membership based Organisations actively and on a regular basis participate in networking events and organize events	Business community recognizes opportunities for development and growth through networking
ACTIVITIES	Business networking skills training for entrepreneurs and SMEs	Capacity building for public sector on the best practices in policies that address unfair competition Capacity building for private sector membership based organisations on organizing, supporting and participating in networking	Suport to the public sector for creating a Montenegrin cluster web platform with aim to support networking, and matchmaking, following the example of Estonia
CONSTRAINTS	**Entrepreneurs lack knowledge on the benefits of networking**	**Public and private sector actors are not addressing perceived unfair competition in the ecosystem that prevents participation in networking**	**Businesses and entrepreneurs are not networking**

4.2 Pathway to decent work

Pathway to decent work and compliance with formalities

The pathway to decent work cross-cuts the policy pillar of the entrepreneurship ecosystem in the section on policies that promote digital solutions and encourage formal compliance. Our informants perceive that due to the non-digitalisation of cash registers, which was common until recently, many entrepreneurs and business owners lacked knowledge and incentives to pay taxes and hence operated in a grey zone.

Based on the informants' perception, the informal economy that also forms the culture of entrepreneurship is caused by the numerous procedures with which businesses need to comply, fiscal and parafiscal burdens, including the wages of their workers. Additionally, interviewees perceive that little has been done to combat those who work without being registered or engaged in unregistered work and hence represent unfair competition.

For example, the respondents perceive that public authorities in charge of labour inspection target to a greater extent and on a more regular formal business as opposed to the ones operating in the grey zone.

Theory of change

IMPACT

Encouraged transition to formality and compliance with formalities in the entrepreneurship ecosystem thorugh social dialogue

OUTCOME

SUPPLY
Increased awareness on the benefits of formalization

INTERMEDIATION
Public and private sector and trade unions placed support to decrease informal economy

DEMAND
A higher number of formally registered businesses

OUTPUT

Tax morality among the population increased

Public sector improved knowledge on how to tackle informal economy

Enhanced knowledge base on the labour inspection

Businesses are incentivized to comply with formality

ACTIVITIES

Support the public sector to launch an information campaign with a focus on tax compliance and information on how taxpayers money is used

Strengthen the capacities of labour inspection including through examples of best practices in tackling the informal economy

Provide assistance to the public sector through collecting and analysing data on the population that forms part of the informal economy, so as to help tailored made solutions

Provide guidance to the public sector on how to offer positive incentives to formalisation

CONSTRAINTS

Lack of perceived incentives to pay taxes

Lack of action to tackle informal econonomy

Large presence of "hidden enterprise culture"

Pathway to decent work and human capital

The pathway to decent work cross-cuts the human capital pillar of the ecosystem. Here it was identified that although the share of new companies in Montenegro is high, they do not seem to create a high level of employment. Our interviews indicated that some of the reasons for hesitation in offering formal employment are the cost of labour and unfair competition, which are also the main causes of/motives leading to the informal economy. Additionally, some entrepreneurs prefer to work with others on a consultancy basis rather than employing them. Another issue related to the pathway to decent work is the mismatch between education and the labour market. Here the interviewed actors referred to the problems of education that in many instances only provides purely theoretical knowledge, while the practical skills and competencies are missing.

Theory of change

IMPACT **Enhanced economic growth**

	SUPPLY	INTERMEDIATION	DEMAND
OUTCOME	Better match between education and market	Public sector increases support and investment in human capital	More people willing to work in entrepreneurship and SME sector of the economy.
OUTPUT	Schools and academia have become more responsive to the labour market	The public sector has become knowledgeable about the policies that encourage human capital development	Increased risk tolerance
ACTIVITIES	Support the public to establish a platform for collaboration and dialogue between schools, industry, civil society and the public sector, under the Social and Economic Council Capacity building for introducing carrier guidance at the end of secondary education	Trainings on skills anticipation method and practices for the public sector	Involve successful entrepreneurs as mentors and lecturers in high schools and universities including the unemployed through collaboration with the public employment office
CONSTRAINTS	**Skills mismatch between education and the market**	**Public sector lacks tools for better shaping of the policies on the human capital**	**High percentage of population desiring stable jobs in the public sector**

4.3 Ecosystem level dynamics

Ecosystem level dynamics are affected by communication gaps between the organisations in the ecosystem and the entrepreneurs and communication gaps between and within organisations.

The qualitative data analysis indeed reveals problems in communication between entrepreneurs and ecosystem organisations. In particular, this leads to a lack of information on access to capital and the availability of business development services. Furthermore, the data show a lack of dialogue between ecosystem organisations and public sector. The interviewees perceive that this dialogue seems to be particularly impacted and interrupted when the public sector is exposed to criticism from these organisations which implies the existence of power dynamics that do not work in favour of improving the design and implementation of policies and overall dynamics of the ecosystem. The public sector instead should step in and govern in a capable, transparent, proactive and participatory manner and in some aspects guide some of the actors of the ecosystem and provide support wherever necessary. Finally, the lack of horizontal government coordination, through the perceived lack of information sharing among the different public sector bodies, is also discussed in our interviews. The problems with horizontal government level information sharing can disrupt the whole flow of the information process, and impacts directly the work of entrepreneurs and all ecosystem organisations, including the partnerships between the public and private sector which could be valuable in pursuing common goals.

Theory of change

IMPACT **More integrative ecosystem level dynamics**

	SUPPLY	INTERMEDIATION	DEMAND
OUTCOME	Ecosystem organisations collaborate more efficiently	Public sector facilitates the favorable dynamics of the ecosystem	Business Community has a changed perception on the access to information
OUTPUT	Improved horizontal public sector flow of information	The public sector utilizes advice from wide range of actors on improving the work of the ecosystem	Improved flow of information across the ecosystem
ACTIVITIES	Conduct training on transparency and information sharing across the public sector	A conference on the latest developments in entrepreneurship ecosystem research organized	Support for the promotion of a user-friendly websites and an apps with short and visual information of relevance for starting up and growing a business, opportunities access to capital and information on business development support.
CONSTRAINTS	Horizontal government level communication gap	Lack of research and dialogue on improving the work of the ecosystem communication gap between the public sector and other ecosystem level Organisations	Communication gap between businesses and ecosystem Organisations

5 Conclusions

In this report we applied the ILO's inclusive entrepreneurship ecosystem approach to the case study of Montenegro. The ecosystem framework has six core pillars and two cross-cutting dimensions, namely inclusiveness and pathways to decent work. In our analysis we identified the state of the art and challenges of each ecosystem component and elaborated on their interconnections and dynamics. Further we outlined the challenges of the priority areas, which are specifically related to the inclusiveness and pathways to decent work. We then attempted to address this through theories of change. In this process we draw on secondary and qualitative data collection and analysis.

Our analysis shows that in order to improve the dynamics of the entrepreneurship ecosystem of Montenegro, to make it inclusive and in order to integrate the pathways to decent work across the ecosystem, steps should be taken to:

- Digitalize government services, including the payment of taxes, and provide education on digitalisation procedures across the ecosystem.
- Address sustainability in a more proactive manner and provide better incentives for going green. Coaching and mentoring on sustainability should be integrated across the ecosystem.
- Improve the access to finance, especially for woman and young people and improve the transparency of the Investment Development Fund (IDF).
- Remove barriers for fair competition and promote networking and peer learning.
- Implement policies and programnmes that match the system of education and the labour market and lead to the overall improvement in human capital of Montenegro.

In the report we also present theories of change that attempt to address each one of the aforementioned issues, by articulating actions that should be taken on the interconnected sides of supply, intermediary and demand, so as to improve the situation. The theories also lay out what will be the immediate outputs as well as expected outcomes, should the ecosystem actors decide to take on the proposed actions.

Against this background the ILO inclusive entrepreneurship ecosystem framework proved to be a useful tool for the diagnosis of the Montenegrin ecosystem. The framework helped us identify the challenges and dynamics of the given ecosystem and provided an understanding of the areas that should be improved in order to have an entrepreneurial ecosystem that works for all and lives up to the standards of decent work.

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Annex

Method

The method employed in this report is based on secondary and qualitative data collection and analysis. The secondary data comprise research and policy documents on entrepreneurship and small and medium-sized businesses (SMEs) in Montenegro. These data were used in a twofold manner: to map the entrepreneurship ecosystem of Montenegro and to identify the challenges encountered by the entrepreneurs and SMEs. The challenges identified are further matched concerning one or more pillars of the ILO inclusive entrepreneurship ecosystem approach. We then screened the Montenegrin entrepreneurship ecosystem through the lenses of the two ILO cross-cutting ecosystem dimensions, inclusiveness and the pathway to decent work, to determine priority areas within the entrepreneurship ecosystem. In addition to the identification of priority areas, we also looked at the macro-level picture of the ecosystem and investigated its overall dynamics. These priority areas and macro-level overall dynamics of the ecosystem are analysed using qualitative data and recommendations are outlined based on the theory of change model.

Qualitative data were gathered from 16 in-depth, semi-structured interviews performed with 9 Organisations of the ecosystem and 7 entrepreneurs. The data breakdown is presented in Table 4.

Table 4. Data Breakdown

No	Organisation	Position	Gender
1	Ministry of Science	Director for innovation and technology transfer	Female
2	Secretariat to the Competitiveness Council of Montenegro	Head of Secretariat	Female
3	Montenegrin Employers Federation	General secretary	Female
4	MNest coworking space	CEO	Male
5	Association of Women entrepreneurs	President	Female
6	Entrepreneurship Nest programme, University of Donja Gorica	Project coordinator	Male
7	University of Donja Gorica	Associate professor in entrepreneurship	Female
8	Institute for entrepreneurship and economic development	Director	Female
9	Montenegrin Business Angels Network	Co-founder	Male
10	Entreprneur 1	CEO	Female
11	Entreprenuer 2	CEO	Male
12	Entrepreneur 3	CEO	Female
13	Entrepreneur 4	CEO	Female
14	Small business 1	CEO	Female
15	Medium business	CEO	Female
16	Medium business	HR representative	Female

The Organisations we invited for an interview were chosen following the analysis of the secondary data, which allowed us to identify the main actors in the ecosystem. The entrepreneurs we interviewed are both new venture owners and owners of small and medium-sized enterprises. Care was taken to ensure a gender-balanced approach throughout the process of data collection.

The interview guide was carefully designed in consultation with the ILO officials specialised in entrepreneurship and small businesses policies and the lead writer of the report. The questions are based on entrepreneurship literature and constructed to be understandable and allow in-depth answers and reflection on the part of our respondents. The average duration of the interview was 40 minutes.

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