



British Embassy
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STUDY OF THE CHALLENGES THAT HINDER MSME DEVELOPMENT IN MONTENEGRO

**Report for the British Council
and Swedish Institute**



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EXECUTIVE SUMMARY

The European Commission's Enlargement Package Report (2015), concluded that Montenegro continued to make progress as regards the political and economic criteria, and improved its ability to take on the obligations of EU membership. Good progress was made in improving the legislative framework for the independence of the judiciary and the fight against corruption (rule of law chapters, 23 and 24). However, Montenegro was tasked to make further progress in strengthening the institutional framework and in establishing a solid track record in the fight against corruption and organised crime. In December 2015, Montenegro received an invitation to join NATO, which was a major achievement; it became a member in 2017.

With a gross domestic product (GDP) of US\$ 4.1 billion (constant 2010 value), Montenegro is the smallest economy in the Western Balkans and growth has been variable in recent years. However, Montenegro continues to play a constructive role in regional cooperation, ratifying its border agreements with both, Bosnia and Herzegovina and Kosovo. In terms of economic criteria, Montenegro has made progress in developing a functioning market economy (e.g. investments in infrastructure and tourism support economic activity). It has also strengthened the administration of its financial and labour markets, as well as on improving the business environment. However, rapidly rising public debt and high fiscal deficits, together with high external imbalances and high unemployment are of concern. The combined effects of large-scale public infrastructure investments and several new expensive social expenditure programmes challenge fiscal sustainability.

Montenegro is moderately prepared in its capacity to cope with competitive pressure and market forces within the Union. Some progress was achieved in improving the quality of infrastructure, the energy market and the digitalisation of the economy. SMEs support is modest but developing gradually. Unemployment in Montenegro is high, approaching 18% of the working population. However, this is average for the region, and only Serbia and Albania have lower rates.

Montenegro is, however, a major importer of short-term labour to service the needs of the tourism, construction and agricultural sectors, which are the main pillars of its economy. However, substantial efforts are still required to develop human capital and a competitive export-oriented industry. In common with many of its Western Balkan neighbours, Montenegro has a skills shortage, although not to the extent of other countries. This shortage mainly translates into a need to import seasonal workers for the tourist, construction and agricultural sectors.

Montenegro has a well-developed and competitive ICT sector compared with other countries in the region, but development remains in its infancy and there is a lot of potential for improvement. Despite this, business faces internal constraints and barriers, linked to skills, competences, finance and human resources. They also had problems with lack of information about foreign markets and how to access them. To contribute to the process of internationalisation, businesses need a better introduction to foreign markets, including information and facilitating access through contacts, legal and technical assistance or promotion. Total inward investment in Montenegro from other countries was US\$ 3.3 billion in 2016. This level is low in absolute terms, particularly compared to other countries in the region (behind Serbia, Bosnia, Macedonia and Albania), but relatively high on a per capita basis.

We undertook a survey of aspiring entrepreneurs across Montenegro. The sample was largely self-selected based on previous telephone surveys where respondents had expressed an interest in entrepreneurship, plus a review of the commercial register and referrals from respondents. The age distribution of aspiring entrepreneurs was under represented in younger age groups but higher in the 25–34 year old group compared with the population.

Entrepreneurship aspirations are positive. There are very few problems with structural issues such as ease of forming a company. For example, establishing a business in Montenegro can be a time-consuming process. According to the World Bank's Doing Business Report (2018), Montenegro was ranked 42nd globally for ease of doing business, a clear improvement on its previous ranking of 51st.

Results from our survey, indicate five key issues stand out:

1. Access to finance is very challenging and acts as a significant barrier to both innovation and entrepreneurship. There is a particular need for access to affordable seed capital. This is a similar to the challenge being addressed by some of the rural micro-finance programs in Asia.
2. Connection to markets outside Montenegro and the Western Balkans region is challenging for new entrepreneurs.
3. There is a considerable amount of energy and effort already being injected, but significant scope for improving the skills of entrepreneurial teams.
4. The trading channels and payment methods accepted suggest our entrepreneurs are using basic business models, almost entirely face-to-face and strongly cash-based.
5. Three quarters of all businesses in the survey supplied larger organisations, which may be accounted by the very large public-sector base.

Following President Juncker's 2017 State of the Union address, the European Commission has created a set of flagship initiatives and support (the Western Balkans Strategy), targeting specific areas of interest for both the EU and the Western Balkans countries were launched in Montenegro on Tuesday 27 February. President Juncker met Mr Duško Marković, Prime Minister of Montenegro and addressed the Parliament of Montenegro.

POLITICAL AND GEOGRAPHICAL BACKGROUND

Following the Socialist Federal Republic of Yugoslavia's dissolution in 1992, Montenegro entered into a federation with Serbia. It began transitioning to full independence, although a loose state union formed in 2003, known as "Serbia and Montenegro". The 14 years of transition passed peacefully and in June 2006, following a decade of negotiations, Montenegro became the 192nd member state of the United Nations. The United States played a significant role in the negotiations that led to Montenegrin independence in 2006, and the bilateral relationship remains favourable today. The country does not have its own currency and uses the euro as its legal tender (Laurent, 2011).

Montenegro is the smallest nation in the Western Balkans, with a population of just 622,218. Its capital is Podgorica, which has a population of 187,085. It has a coast on the Adriatic Sea to the southwest, and is bordered by Croatia to the west, Bosnia and Herzegovina to the northwest, and Serbia to the north. It is politically stable, with President Filip Vujanovic in power since 2003. In 2017, the EIU Democracy Index downgraded Montenegro from 5.72 (out of 10) to 5.69, and now defines it as a hybrid regime¹. Presidential democratic elections are due to be held in April 2018.

Montenegro became the 29th member of NATO in May 2017, and began the process of application to join the EU in 2005, while still in union with Serbia. Separate negotiations were launched in September 2006. Full accession negotiations started in June 2012, and Montenegro is expected to become an EU member by 2025. The EU has launched a number of policies and initiatives to bring the Western Balkans in line with its standards of entry. Montenegro has made progress against these criteria, though it is not yet at the required levels of entry. A 2016 report by the European Commission (Communication on EU Enlargement Policy 2016) outlined the further improvements and progress needed in preparation for membership. These include economic and monetary policy and the country's administrative infrastructure.

¹ A hybrid regime is defined as one where consequential constitutional irregularities exist in elections, and regularly prevent them from being fair and free. These nations commonly have governments that apply pressure to political opponents, non-independent judiciaries, and widespread corruption, harassment and pressure placed on the media.

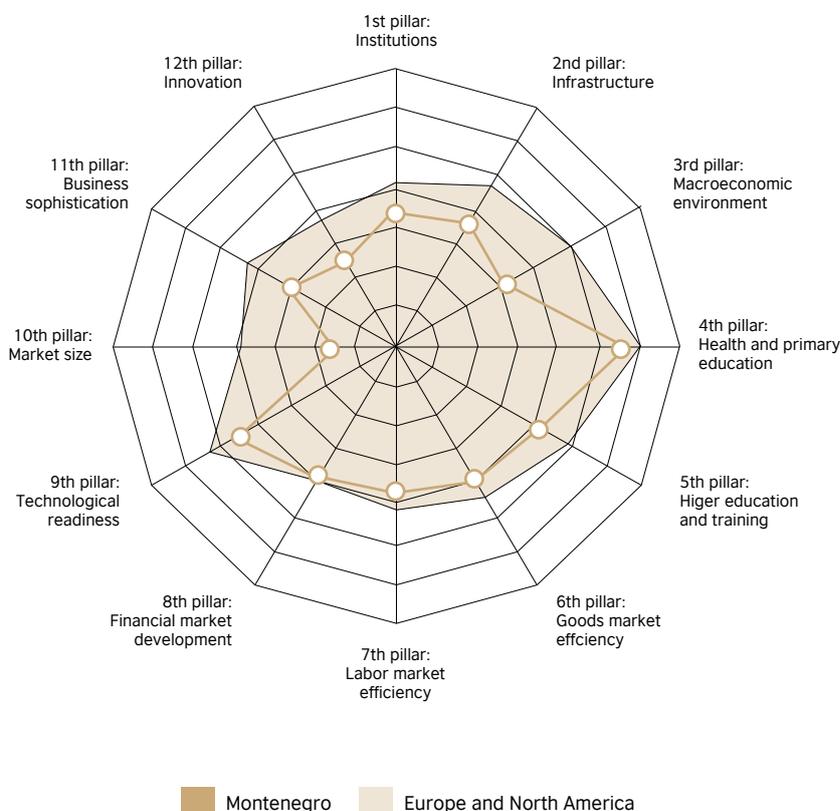
ECONOMIC BACKGROUND

Overall Economic Environment

Montenegro's economic health is generally getting better. It has seen improvements in exporting competitiveness relative to other countries, and there has been a slight improvement in the ease of doing business domestically, although growth has not been as fast as other countries in the area (World Bank, 2017).

Montenegro was ranked 77th in the World Economic Forum's Global Competitiveness Index, one of the more authoritative measures of comparative standing used by governments to gauge their position globally. It has remained at around that level over recent years. **Chart 1** shows Montenegro's performance against the various criteria used to define competitiveness and its relative position in the western world (Europe and North America) (World Economic Forum, 2017).

Chart 1. Montenegro's place in the Global Competitiveness Index



With a gross domestic product (GDP) of US\$ 4.1 billion (constant 2010 value), Montenegro is the smallest economy in the Western Balkans and growth has been variable in recent years (ILO, 2017; World Bank, 2017a). Following moderate GDP growth of 2.9% in 2016, Montenegro fared better in 2017, with an average GDP growth over the first 9 months of 4.5%. It was on course to return a record high level of growth for the complete year. This increase is ascribed to intensified activities in the construction of a number of infrastructure projects in the construction and energy industry, and a significant increase in tourism indicators. The number of tourism nights booked in 2017 was 1.2 million, 15.8% higher than in 2016. There was growth in tourism, construction, forestry, air and road transport sectors, but this was offset by a downturn of 6.7% in industrial output (Central Bank of Montenegro, 2017).

Table 1. GDP growth rate

2008	2009	2010	2011	2012	2013	2014	2015	2016
3.5	-5.8	2.7	3.2	-2.7	3.5	1.8	3.4	2.9

Source: World Bank (2017a)

Household consumption is the main component of GDP. GDP per capita, adjusted for purchasing power parity, stood at US\$ 17,665 at the end of 2016, having risen consistently year-on-year since 2012, despite fluctuations in overall GDP. This makes Montenegro significantly the most prosperous country in the Western Balkans using this measure (around US\$ 2,000 higher than Macedonia, its nearest rival), but is still only 59% of the average world level (World Bank, 2017a).

Unemployment in Montenegro is high, at 17.7% of the working population (ILO, 2017a). This is average for the region, and only Serbia and Albania have lower rates (World Bank, 2017). Montenegro is, however, a major importer of short-term labour to service the needs of the tourism, construction and agricultural sectors, which are the main pillars of its economy (ETF, 2016).

It is likely that these sectors are focal points for the growth of a significant informal/shadow economy. Estimates suggest that around 30% of the labour force work informally. A research study sponsored by the UN Development Programme, (UNDP, 2014), found that almost one quarter (24.5%) of economic activities takes place in the informal economy. Of the total number of people who work, 32.7% are either informally hired (22.3%) or have a part of their salary paid “cash in hand” (10.4%). It was estimated that the accompanying tax evasion cost the government EUR 140.6 million in revenue (9.4% of all revenue).

The report contained a number of broad-brush recommendations for reducing the informal economy. Analysis by the United Nations Development programme UNDP, (2015), shows that informal employment is highest in agriculture, where it is common practice for typically younger formally-employed workers to work extra undeclared hours for which they are paid cash-in-hand. Adjusted US\$ per capita is shown in **Table 2**.

Table 2. Purchasing power adjusted current US\$ per capita income

2008	2009	2010	2011	2012	2013	2014	2015	2016	9 Yr Growth	4 Yr Growth
13,817	13,038	13,661	14,472	13,864	14,884	15,410	16,316	17,665	27.9%	18.7%

Source: World Bank (2017b)

As a percentage of GDP, Montenegro’s current account balance of payments was –19.1 at the end of 2016. Imports are much more important to its economy than exports, and increasingly so. In 2016, Montenegro imported US\$ 2,283 million of goods, largely from the European Union (48%) and Serbia (22%). The corresponding export figure for 2016 was a modest US\$ 361 million of goods. The main components were fuels and refined metals, especially unwrought aluminium, at 46%, agricultural products at 27%, and manufactured goods at 25%. Key trading partners are the EU (receiving 37% of exported goods) and Serbia (26% of exported goods).

Table 3 shows that the current account of the balance of payments widened to a six-year high in 2016. Latest figures suggest that the trade deficit continued to grow in 2017. In December 2017, it stood at EUR 194 million, the largest trade gap since 2008, driven by imports of mineral fuels, lubricants and related goods, metals and leather goods.

Table 3. Percentage surplus or deficit on balance of payments

2008	2009	2010	2011	2012	2013	2014	2015	2016
-49.8	-27.9	-22.7	-17.6	-18.5	-14.5	-15.2	-13.3	-19.1

Source: IMF (2017a)

Total inward investment in Montenegro from other countries was US\$ 3.3 billion in 2016. This level is low in absolute terms, particularly compared to other countries in the region (behind Serbia, Bosnia, Macedonia and Albania), but relatively high on a per capita basis (IMF, 2017b). The countries making the biggest investments were Russia (US\$ 1,324 million), Serbia (US\$ 676 million), Italy (US\$ 241 million, Slovenia (US\$ 182 million) and Hungary (US\$ 173 million) (IMF, 2017b).

Montenegro had a negligible outflow of investment in other countries in 2016. **Table 4** shows flows of foreign direct investment, which have remained relatively constant year-on-year. Consumption has also grown steadily since 2012 and is now US\$ 4.7 billion (at constant 2010 value) (**Table 5**).

Table 4. Foreign direct investment in Montenegro (US\$ billions current prices)

2009	2010	2011	2012	2013	2014	2015	2016
2.3	2.4	2.8	2.7	3.6	3.4	3.4	3.3

Note: Figures show outward counterpart country investment
Source: IMF (2017b)

Table 5. Final consumption expenditure in Montenegro (constant 2010 US\$ billions)

2009	2010	2011	2012	2013	2014	2015	2016
4.2	4.3	4.3	4.2	4.3	4.4	4.5	4.7

Source: World Bank (2017c)

In 2016, gross domestic capital formation was US\$ 1.153 billion (at 2010 value). This is a constantly rising indicator of growth in an economy dominated by inward tourism and with relatively low exports.

Table 6. Gross capital formation (constant 2010 US\$ million)

2008	2009	2010	2011	2012	2013	2014	2015	2016
1,502	1,018	901	833	851	861	877	941	1,153

Source: World Bank (2017d)

Role of Micro, Small and Medium-Sized Enterprises (MSMEs)

The Montenegrin Central Statistics Office (MONSTAT) collates regular census data on production and turnover within industry categories, but there have been no statistics on the number of small and medium-sized enterprises (SMEs) collected since 2012. In Q4 2012 (the latest data available), there were 22,351 business enterprises in Montenegro, of which 98.7% were small businesses. Only 47 companies employed 250 or more employees.

No statistics are available for self-employed workers, nor any more granular breakdown to identify the number of micro-businesses. If Montenegro follows the same distribution pattern of most other economies, it is likely that there are around 20,000 micro businesses, with one to nine employees. Total employment was 188,167 at the end of 2017 (Central Bank of Montenegro, 2017) (**Table 7**).

The EU Interreg Danube TransNational Report used similar figures to estimate the SME population as around 23,000 small, 200 medium-sized and 100 large companies.

Table 7. Business structure in Montenegro

Size of business enterprises Q4 2012		
Number of employees	Number of enterprises	%
Small (1–49)	23,482	98.7
Medium (50–250 employees)	260	1.1
Large (> 250 employees)	47	0.2

Source: MONSTAT

Table 8 gives a breakdown by Standard Industrial Classification grouping for the same time period. It categorises sectors into opportunity-focused (professional, technology services or those requiring high levels of capital investment) and household-focused (servicing, selling or producing for household consumption). One quarter of all businesses are opportunity-focused, the main sector in Montenegro being professional, scientific and technical activities (1,855 businesses). Three quarters are household-focused, dominated by wholesale, retail and vehicle repair (8,697 businesses). One tenth are tourism-related businesses (accommodation, food and drink activities) and therefore likely to be employing seasonal, informal labour.

Table 8. Montenegro business population

Number of business enterprises Q4 2012			
	Business sector	Number	% of total
Opportunity-Focused	Manufacturing	1,963	8.8
	Electricity and water supply	85	0.4
	Mining and quarrying	58	0.3
	Information and communications	482	2.2
	Financial and insurance activities	139	0.6
	Real estate activities	780	3.5
	Professional, scientific and technical activities	1,855	8.3
	Arts, entertainment and recreation	260	1.2
	Total opportunity-focused	5,622	25
Household-Focused	Agriculture, forestry and fishing	255	1.1
	Wholesale, retail, motor vehicle repair	8,697	38.8
	Transportation and storage	1,610	7.2
	Accommodation, food and drink activities	2,518	11.3
	Administrative and support services	780	3.5
	Education	45	0.2
	Construction	2,027	9.1
	Human health and social work	64	0.3
	Other service activities	633	2.8
	Total household-focused	16,629	74
	Public administration and defence, extraterritorial orgs	96	0.4
	TOTAL	22,351	100

Source: MONSTAT

In 2014, the (non-trade) service sector dominated the Montenegro economy, accounting for 49.1% gross value added, followed by trade (14.2% of gross value added) (EIB, 2016). There was a changing dynamic caused by the increasing entry of international corporations, particularly in the retail clothing trade. This has translated into fewer opportunities for SMEs, encouraging some of them to shift from trade into the service sector (EIB, 2016).

In common with many of its Western Balkan neighbours, Montenegro has a skills shortage, although not to the extent of other countries. In Montenegro, the shortage mainly translates into a need to import seasonal workers for the tourist, construction and agricultural sectors. These jobs are considered unattractive and this importing is not deemed to cannibalise domestic job opportunities:

“Despite the fact that there are a significant number of unemployed people, Montenegro is a major importer of labour, particularly to meet the needs of employers during the tourist, construction and agricultural season. It should be noted that these jobs are considered unattractive, as almost 90% of vacancies reported to the Employment Agency are for a limited duration.” (ETF, 2017)

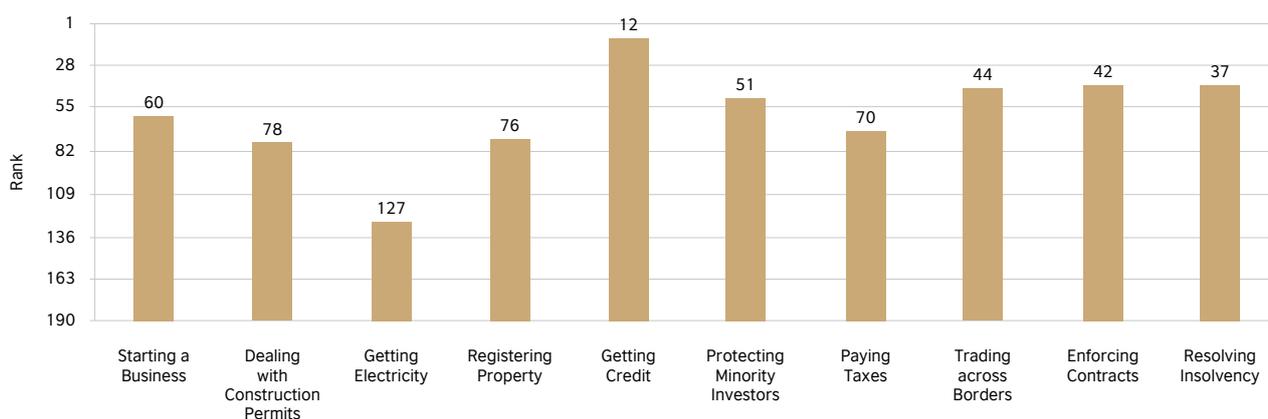
Montenegro holds the 51st place in the World Economic Forum Report on competitiveness in information communication and technology (ICT) for 2016 (Baller et al., 2016). The strongest part is the communications component, because of foreign investments from telecommunication operators. Montenegro has a well-developed and competitive ICT sector compared with other countries in the region, but development remains in its infancy and there is a lot of potential for improvement. The future of the ICT sector is dependent on government subsidies and development of e-government services. The *Strategy for the Development of Information Society to 2020* defines the key sectors for development in this area. The ICT sector in Montenegro has been recognized as one of the most important sectors for future economic development. The plan is to increase its current share in GDP of 4.2% to 6% by 2020 (Baller et al., 2016; TeamFinland, 2017).

One study by Jovović et al., (2017) showed that businesses faced internal constraints and barriers, linked to skills, competences, finance and human resources. They also had problems with lack of information about foreign markets and how to access them. To contribute to the process of internationalisation, businesses need a better introduction to foreign markets, including information and facilitating access through contacts, legal and technical assistance or promotion. Certain companies in particular sectors, however, are leading the way, primarily in tourism. These companies perceive the attractiveness of foreign markets and are also aware that they have the competence and capability to expand, and an offer that is attractive to foreign consumers.

Ease of Doing Business

In the 2018 Doing Business Report, Montenegro was ranked 42nd globally for ease of doing business, a clear improvement on its previous ranking of 51st (World Bank, 2018). A number of metrics are used to generate these rankings, including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Montenegro’s rankings for each of these is shown in **Chart 2**.

Chart 2. Ease of doing business in Montenegro



Source: World Bank (2018)

Electricity supply is the main issue currently faced by businesses in Montenegro. In terms of the regulatory and credit environment, the environment for businesses is relatively strong. The Global Entrepreneurship Index 2018 (GEDI) provides another comparative measure based on different components of entrepreneurship. This puts Montenegro 60th (out of 137 countries) and 30th (out of 38) in the European region, with the strongest area being start-up skills (*does the population have the skills necessary to start a business based on their own perceptions and availability of tertiary education?*) and

internationalisation (*do entrepreneurs want to enter global markets and is the economy complex enough to produce ideas that are valuable globally*). The weakest area is risk acceptance (*are individuals willing to take the risk of starting a business? Is the environment relatively low risk or do unstable institutions add additional risk to starting a business?*) (GEDI, 2018).

EDUCATIONAL SYSTEM

Only one quarter of all adults in Montenegro have attended tertiary education in any form, so it is unsurprising that the level of skills within the workforce is generally quite low (ETF, 2018; Radović et al., 2009). There does exist, a national Strategy for long-life entrepreneurial learning (2015-2019); and, a National Partnership, composed of key state institutions, faculties, business associations and NGOs, which has played a vital role in promoting entrepreneurial learning, in addition to monitoring the implementation of the above Strategy. In that sense, the country has placed significant emphasis on improving the skills of its population and is the first in the Western Balkans to implement the foresight exercise, a list of standards and objectives set out by the European Training Foundation to lead toward EU competency levels.

Table 9 shows the progress towards achieving the 2020 EU targets for skills and educational attainment. It also shows that there is still a long way to go, particularly with basic reading and mathematical skills.

Table 9. Montenegrin progress in attaining education targets

		Montenegro		EU		EU 2020 targets	
		2010	2014	2010	2015		
Headline targets	Early leavers from education and training (% aged 18–24)	6.6	5.1	13.9	11	<10	
	Tertiary education attainment (% aged 30–34)	18.7	28.3	33.8	38.7	>40	
	Employment rate (% aged 20–64)	m	55.6	68.6	70.1	>75	
Other targets	Participation in training (% aged 25–64)		3.2	2.6	9.1	10.7	<15
	Underachievement (% aged 15)	Reading	49.5	43.3	19.7	17.8	<15
		Mathematics	58.4	56.6	22.3	22.1	<15

Source: ETF (2018)

Montenegro stands out in the region for its good practice on entrepreneurial learning and initiatives to reduce skills gaps and upskill workers, which have been praised by the Organisation for economic Cooperation and Development (OECD, 2016). For example: -

- Montenegro’s VET Development Strategy 2015–2020 has a clear mandate to engage all stakeholders from industry, intermediaries and education to develop, and monitor, the quality and effectiveness of work-based learning models (ETF, 2018);
- Attempts are underway to foster more effective links between higher education institutions and SMEs, to improve the effective transfer of skills;
- The government provides training for entrepreneurs, both those starting up in business and those already established;
- Over recent years, more educational institutions have included entrepreneurial skills within their curricula. In 2014, all lower secondary schools adopted a cross-curricular approach to the development of entrepreneurship competence, with implementation in the higher secondary school stage;
- The “Training Firms” initiative has been made an obligatory element of formal education practice and there are consistent efforts to link good practice exchange, networking and capacity building measures like teacher training; and
- Montenegro was active in the South East European Centre for Entrepreneurial Learning (SEECCEL) regional good practice initiatives and contributed to piloting the key competence approach.

The Global Competitiveness Report 2016–2017, released by the World Economy Forum (Schwab, 2016), stated that the World Bank is devoting increasing resources from its digital development programme to digital transformation and sustainable development. It also suggested that there is a strong correlation between the two. Automation and potential employment loss are likely to affect developing countries, but there are also possibilities for job creation (e.g. developments are not accompanied by a loss of social protection for workers).

Education was analysed in the context of the use of technology, where the findings were inconclusive because some of the most advanced education systems, such as the Finnish model, use limited technology in classrooms. It was also considered in the context of acquiring new skills. In a recent paper, Trbovich et al. (2017) noted that modern labour markets require creativity, teamwork, problem-solving, and critical thinking in ever-changing environments. These are all skills that traditional education systems do not teach and that are the hardest to measure. As a consequence, many countries are adapting their approach to education.

INTERNATIONAL ACTORS AND SUPPORT

Key external actors include:

The European Union: through accession preparations.

The World Bank: through dedicated projects, most recently to improve the energy efficiency of public buildings in Montenegro.

The European Bank for Reconstruction and Development (EBRD) has been responsible for a number of funding programmes to support SME growth, including the SME Competitiveness Support Facility (EBRD, 2015), by providing support for local lenders in their financing efforts.

To date, the EBRD has started 55 projects in Montenegro, with EUR 526 million invested (a current portfolio of EUR 384 million, 51% of which is in electricity). The EBRD was particularly active in 2014–15, with smaller amounts invested in 2017 (EBRD, 2015).

The International Monetary Fund (IMF) has had little in the way of active projects in Montenegro in recent years, as it has been awaiting a more stable political climate.

It remains focused on trying to reform the Montenegrin economy by opening it up to outside investment and helping it to become more globally integrated, mainly by providing advice and support to the government (IMF, 2017).

United Nations Development Programme (UNDP) lists nine goals within its sphere of influence. Of these:

- Goal 8 relates to decent work and economic growth, and its objective in Montenegro is to achieve full and productive employment, and decent work, for all women and men by 2030.
- Goal 9 relates to industry, innovation and infrastructure, and the objective in Montenegro is to bridge the 'digital divide' as this is considered crucial to ensuring equal access to information and knowledge, as well as fostering innovation and entrepreneurship.

Within Montenegro, UNDP has a particular focus on women's rights and opportunities (UNDP, 2015).

International Labour Organisation (ILO) and Montenegro signed its first cooperation programme to promote social dialogue, create more and better jobs, and formalize the informal economy. The Decent Work Country Programme 2015-2017 was aligned to the goals and targets set out by national development strategies.

In January 2018, Minister of Labour and Social Welfare, Mr. Kemal Purišić met Mr. Guy Ryder, Director-General of the ILO. Director-General Ryder pledged full support and technical cooperation in the development of the new Decent Work Country Programme for 2018-2020.

CURRENT GOVERNMENT POLICIES ON ENTREPRENEURSHIP

In 2016, the Government introduced a *Strategy of Innovation Activity 2016–2020* and supporting Action Plan, recognising the paradox that “SME success is closely related to innovation, as a key factor of competitiveness but in general, SMEs are not a key factor in the innovation system of Montenegro and very few of them are involved in development activities”. Two major strands underpinned the strategy:

1. To improve competitiveness by introducing innovation, SMEs need to be aware of different types of funding at the various stages of innovation (‘seed’, ‘start-up’, and early growth expansion). Venture capital and business angel investment are very relevant.
2. Improved environment and innovation infrastructure are highly effective in facilitating innovation activities, through connectivity between businesses and RandD institutions. This suggests that clusters can play an important role in increasing innovation and disseminating knowledge. In 2016, there were 17 clusters (in wood production, food production and tourism), of which ten were supported through grants (2012–2016) and four through technical support.

Accepting the challenges of putting place an infrastructure that would address the challenges, the Government set out its Vision (Government of Montenegro, 2016):

“By 2020, Montenegro will have in place a sustainable and efficient innovation system, aimed at solving social challenges of the future, the system will be a key driver of the Montenegrin economy and improvement of development, as a result of technological and non-technological innovation, increased investment in RandD and encouraging private sector investment and its potential for innovation, which will increase the competitiveness of the economy, encourage investment and development with the improvement of economic conditions and standard of living in the country.”

This vision makes a clear commitment to the establishment, funding and support of clusters, linking business and research communities and driving innovation activity. The first Centre of Excellence was set up in mid-2016 at the Institute of Modern Technology Science and Technology Park, “Technopolis”.

National government policy on SMEs is mainly the responsibility of the Directorate for Development of Small and Medium-Sized Enterprises². Exports and foreign investments are managed by the Montenegrin Investment Promotion Agency (<http://www.mipa.co.me>).

Government incentives to encourage entrepreneurship

A number of incentives are provided by the government to business start-ups, and under the Decree on Business Zones, which provides incentives for SMEs to set up in designated zones. The Government’s Fiscal Strategy 2017–2020 includes several incentives, such as:

- Government-funded short-term and long-term loans for investments and liquidity particularly to support entrepreneurial activity among traditionally-disadvantaged applicants e.g. unemployed graduates, young entrepreneurs, women and start-ups.
- The Investment and Development Fund of Montenegro is a government initiative that provides finance through banks and directly to SMEs. The fund only provides 50% funding for investments. In 2015, it provided a total of EUR 115.6 million to 254 projects. The EIB granted a further EUR 70 million to the IDF in 2017 (EIB, 2016).
- Through the Ministry of Science and the Ministry of Education, and over the period 2012–2017, the INVO project (higher education and research for innovation and competitiveness of Montenegro) was driven by a loan from the World Bank. This program supported applied and development research projects in energy; information and communication technologies; medicine and human health; sustainable development and tourism; agriculture and food; and new materials, products and services. Projects were supported by between EUR 150,000 and EUR 400,000.
- Using the funds available for the implementation of the Program for Improving the Innovation of Small and Medium Enterprises in the Manufacturing Industry for 2017, the Ministry of Economy announced a further round of grant funding to businesses for innovation across a number of areas including marketing and product development. Grants were available to a maximum of EUR 3,500 per company.

² A website does exist <http://nasme.me/aktuelnosti/> however, on inspection, there is little current information contained under the various menu listings.

- Continuation of the model of financing credit guarantees for financial intermediaries as part of the COSME programme (Competitiveness of small and medium-sized enterprises 2014-2020) for existing and new beneficiaries.
- Tax relief incentives for inward investors who locate their businesses in particular zones or employ certain unemployed workers.

BANKING SYSTEM AND ACCESS TO FINANCE

Despite Montenegro's small size, 14 banks operate there, plus six micro-finance institutions (Femić-Radosavović and Jovović, 2017; Jovović et al., 2017a). Table 10 shows that there was little increase in the number of non-bank funding mechanisms such as private equity or venture capital investors over the three years shown, suggesting a degree of stagnation in accessibility to finance.

Table 10. Finance sector in Montenegro

	2013	2014	Q3 2015	2018
Banks	11	12	14	15
Leasing companies	4	4	4	n/a
Micro-credit institutions	6	6	6	7
Stock markets	1	1	1	1
Government funds	1	1	1	n/a
Private equity/venture capital funds	0	0	0	n/a

Source: EIB (2016), Central Bank of Montenegro (2017)

All the banks in Montenegro actively lend to SMEs, with little competition from other potential lenders. The total supply of loans given to SMEs was estimated to be around EUR 553 million in 2015. **Table 11** shows a summary of SME access to finance issues.

Table 11. Access to finance issues for SMEs in Montenegro

	Firms Facing Finance Constraint	Loan Rejected	Too Complex	Interest Rate	Collateral Needs	Poor Loan Terms (Amount / Time)	Expect No For Answer	Collateral Greater Than
Montenegro	60%	6,8%	2,3%	84,1and	2,3%	4,5%	0,0%	230%

Source: Moder and Bonifai (2017)

Table 11 points to a substantial funding gap. Banks are seen as extremely conservative and use risk-averse policies with stringent eligibility criteria, such as requiring high levels of collateral of up to 230% of loan value. This effectively prevents start-ups and small, new businesses from applying for loans. Of those who do apply, 11.6% were rejected (EIB, 2016; World Bank, 2017). New lending contracted in the first six months of 2017. During this period, banks granted a total of € 258.5 million new loans, a year-on-year decline of EUR 4.9 million (1.9%) (Central Bank of Montenegro, 2017).

To put this in context, we estimate a funding need of between EUR 45 million and 55 million for young MSMEs (see Annex I). Micro-finance is unable to meet the demands of small businesses: there are only seven operators in Montenegro, all heavily orientated toward the retail sector rather than businesses. The total assets and liabilities of micro-credit financial institutions increased by 6.6% year-on-year to the end of 2016. 2017 saw a further 11% uplift, almost entirely within the retail sector. Only 2.8% of the total lending was to non-retail borrowers, and this has shown no signs of growing, probably because these institutions do not have sufficient lending capacity (Central Bank of Montenegro, 2017). In the context of falling lending volumes, the EU's COSME guarantee program is very relevant.

With such a stringent credit environment, the only alternative for newer/younger entrepreneurs is to turn to more informal sources of finance, such as their friends and family. The research undertaken for this programme suggested that this is the most likely source of finance: 42% would approach friends and family compared with 32% using formal finance sources such as banks (see **Survey Results** section, **Access to Finance**).

Alternative Finance Sources

Alternative sources of funding are available to MSMEs, although these are neither well-known nor sufficiently well-resourced to make an impact. They include direct funding entities and intermediaries. Sources include:

Western Balkans Enterprise Development and Innovation Facility: an EU-funded initiative, headed by the European Investment Fund, which aims to increase the finance available to SMEs. It has four main pillars:

- WB EDIF Guarantee Facility (WB EDIF GF): providing guarantees to financial intermediaries operating in Western Balkan countries to encourage them to increase their lending to SMEs;
- Enterprise Innovation Fund: supporting new or expanding innovative SMEs in the Western Balkans by providing equity finance through local fund management companies. A full list of the intermediaries supported by the EIF is listed on: http://www.eif.org/what_we_do/where/me/index.htm;
- Enterprise Expansion Fund: supporting the expansion of SMEs with high growth potential in the Western Balkans; and
- Support Services Facility: technical (non-financial) assistance to Western Balkan governments to implement policy reforms that support innovative and high growth SMEs.

United Nations Development Programme (UNDP): a donation-based platform where three projects are currently supported: bicycle paths, solar benches/smart bus stops and solar boats. This initiative is dedicated to the protection and conservation of Montenegro's biodiversity (EU, 2016).

Business Angels Networks and risk capital: There are no angel investor networks or risk capital firms operating in Montenegro. Some independent angel investors operate there but do not constitute a cohesive framework or structure. Montenegro had not yet established a crowdfunding industry, and this might take some time. Young people and entrepreneurs use foreign crowdfunding platforms to finance their projects (EU, 2016).

Leasing: The supply and demand for leasing has fallen significantly in recent years, possibly because of lack of awareness and understanding of this form of finance (EIB, 2016).

LOCAL SUPPORT ORGANISATIONS

European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development works through partners when dealing with smaller companies, providing a network of consultants and advisers who can be accessed on a co-payment basis. It is the largest financial investor in Montenegro, and has invested more than €530 million in about 50 projects since 1991.

The current portfolio for Montenegro amounts to around €350 million and is focused on strengthening the competitiveness of the private sector, including the tourism sector, further integration of the economy into the wider region through improving roads and energy networks, and the promotion of the green economy through the development of sustainable energy and resource efficiency.

The EBRD's current strategy for Montenegro also identifies the importance of access to finance for businesses including SMEs. The EBRD is ready to expand its cooperation with the local banking sector through dedicated and targeted credit lines (EBRD, 2018).

The Global Entrepreneurship and Development Institute (GEDI)

A research organisation that advances knowledge on links between entrepreneurship, economic development and prosperity. The Global Entrepreneurship Network (GEN) is a year-round platform of programs and initiatives aiming to create a global entrepreneurial ecosystem. GEN helps people in 160 countries to unleash their ideas and turn them into promising new ventures, creating jobs, accelerating innovation and strengthening economic stability around the world.

It supports the Global Entrepreneurship Research Network, Global Entrepreneurship Week: the Startup Nation Summit and the Global Entrepreneurship Summit. It also publishes the Global Entrepreneurship Index.

Balkan Environmental Association

<http://benaweb.gr/>

The Balkan Environmental Association is a think tank that advises on ways to improve the environment of the Western Balkans. It works with SMEs by, for example, hosting conferences to help them develop in a more sustainable way.

Balkan Small Business Association

<http://www.mbb-org.eu/en/>

Based in Bulgaria, the Balkan Small Business Association works regionally (including Montenegro) primarily with small businesses with some sort of craft focus, to provide training and business support. It publishes studies on how businesses can promote themselves.

European Training Foundation

<http://www.etf.europa.eu>

The European Training Foundation (ETF), based in Turin, is an established European Union agency that focuses on enabling vocational training for both entrepreneurs and workers in developing countries. It provides online resources and runs workshops across several countries and has been operational since 1994. In Montenegro, it has worked to train teachers and improve and review the current systems of qualification.

Enterprise Europe Network

<https://een.ec.europa.eu/about/branches/montenegro>

The Enterprise Europe Network is a co-operative of business centres and foundations supported by the European Commission to disseminate relevant information to SMEs. There are two branches in Montenegro. It helps SMEs with advice, support and opportunities for international partnerships.

Social Impact Lab

<http://socialimpactlab.co/en/programs/sia>

Social Impact Lab runs workshops to attract young people to entrepreneurship, capping interest with a competition for business ideas and innovation that has a 6000-euro prize fund. It has recently started working in Montenegro

Association of Montenegrin Managers

<http://amm.co.me/en/>

The Association connects various managers and chief executives from across Montenegro. It provides networking opportunities and training as well as lobbying the government.

UK Alumni Association of Montenegro (MAUK)

<http://www.mauk.me.uk/>

A networking organisation that connects Montenegrins with degrees from UK universities.

Peer-to-Peer Networks

Peer-to-peer networks are essentially online and newer. It is likely that more will spring up in the near future, but a key network is:

- **Start Us Magazine**
<https://magazine.startus.cc>

Start Us is a magazine and online hub connecting entrepreneurs across Europe. The magazine often features articles about issues affecting Montenegro, and allows SME owners and employees to connect with each other. The website also contains a job board.

Incubators

- **Business Centre Bar** <https://wbc-rti.info/object/organisation/10919>

Established in 2007 through a project to open business centres and incubators from 2007 to 2010. The project was funded by the Ministry of Foreign Affairs of the Netherlands and implemented by the Dutch NGO SPARK, as part of a project to open similar centres in Bitola (Macedonia), Kragujevac (Serbia), Priština and Mitrovica (Kosovo). The Montenegrin centre is part of the regional network and collaborates with other centres at the regional level. It aims to create a favourable environment for economic development by encouraging the development of entrepreneurship and SMEs.

- **IPC Technopolis** <http://www.imtm.me/tag/tehnopolis/>

Founded by Ministry of Science of the Government of Montenegro, on 11th of September 2014. Technopolis aims to develop micro, medium-sized and small enterprises, and provides business consulting services, conference space and, in the near future, a biochemical laboratory and one for industrial design. It also promotes and develops entrepreneurship, knowledge-based growth and commercialization of innovations. Its main goal is to establish more intensive cooperation between the scientific community and the economy, and to motivate young people to think proactively to realize their business ideas.

- **Mtel Digital Factory** <https://www.itu.int/en/ITU-D/Regional-Presence/Europe/Documents/Events/2017/Regulatory%20Conference/10%20years%20of%20business%20eng.pdf>

Founded by the mobile telecommunications company Mtel, the Digital Factory offers support to those with ideas in the IT space. It provides the conditions for establishing and developing businesses to start projects as soon as possible and develop successful business activity. It provides concrete support through a custom workplace, a cloud computing development platform, technical support, start-up programs, and administrative and legal advisory services.

- **NGO Digitalizuj me** is a non-governmental organisation that examines the transformative power of technology through various projects, including workshops and competitions for start ups. The NGO is a partner of Spark.me, one of the leading technological/business conferences in Southeastern Europe (source: <http://digitalizuj.me/onama/>).

Chambers/Associations/Interest groups

- **Chamber of the Economy of Montenegro** <http://www.privrednakomora.me/en>

A business association that organises conferences and works closely with the government to connect it to businesses. It also gives awards for innovative and successful small businesses.

- **Montenegrin Employers Federation** <http://poslodavci.org/en/>

A national umbrella employers' organization. It brings together entrepreneurs, SMEs, large economic entities and employers' associations, running projects to help grow business in Montenegro, holding award ceremonies and providing networking opportunities.

- **Montenegro Business Alliance (MBA)** <http://www.visit-mba.me/>

A business association that brings together entrepreneurs, and domestic and foreign investors. It was established in September 2001 by ten companies from Montenegro. It promotes private sector development and points out problems in existing legislation, offering recommendations to contribute to removing existing barriers and improving the overall environment for business in Montenegro. Montenegro Business Alliance today includes about 500 of the most successful companies in Montenegro.

- **Montenegro Business Services** <http://business-services.me/>

Montenegro Business Services provides expertise on the various processes involved in starting a business. It also provides guidance on the purchase of premises.

- **Association of Businesswomen of Montenegro** <http://www.poslovnazena.me>

A voluntary, non-governmental, non-political and non-profit association founded in late 2009. Its goal is to help improve business and strengthen women's businesses, linking businesswomen to support exchange of ideas and joint projects.

- **Managers Association of Montenegro**

An association of professionals engaged in management positions.

- **The American Chamber of Commerce in Montenegro** <http://www.amcham.me/>

An independent non-profit business association. Founded in 2008, it has created a strong network of members who strive for a more competitive and prosperous Montenegro. It represents the voice of the international business community in Montenegro.

SURVEY RESULTS: THE ENTREPRENEUR PERSPECTIVE

Introduction

A programme of primary research, with telephone interviews among potential/new business start-ups was undertaken specifically for this project, across the six Western Balkans states to provide a regional overview of entrepreneurial activity and explore individual experiences of setting up and running a business. The programme allows us to look individually at each market, and also compare the experiences and attitudes of entrepreneurs in Montenegro to those of their peers across the region. As part of this programme, 100 interviews were carried out in Montenegro from mid-December 2017 to early January 2018.

Profile of respondents

For the purposes of this report, we refer to these respondents as entrepreneurs. It is pertinent, however, to appreciate how respondents see themselves, as this may be an indicator of future growth and success:

- 40% described themselves as entrepreneurs;
- 55% described themselves as self-employed; and
- 5% described themselves as businesspeople.

Table 12 shows age bands and levels of education by self-description.

Table 12. Age band and level of education, by self-description

Q1: Which age band do you fall into?	Total	Entrepreneur	Self-employed
Sample size	100	40	55
Under 25	12%	8%	13%
25–34	43%	40%	45%
35–44	45%	53%	42%
Q2: What is the highest level of education you achieved?			
No higher education after school leaving age	38%	43%	33%
Technical qualification or higher	67%	58%	67%

Respondents were equally split between those intending to start a business in the next 12 months (50%) and those who had set up a business in the last two years (new start-ups). Of those who already ran their own businesses, 22% were employing five or more staff. The survey focused on young entrepreneurs under the age of 45. Within the sample:

- 12% were under 25 years old;
- 43% were aged 25–34; and
- 45% were aged 35–44.

Table 13 shows the highest level of education achieved and self-description, by age.

Table 13. Level of education and self-description, by age band

Q2: What is the highest level of education you achieved?	Total	Under 25	25–34	35–44
Sample size	100	12	43	45
No higher education after school leaving age	38%	58%	28%	42%
Technical qualification or higher	62%	42%	72%	58%
Q10b: Would you describe yourself as:				
An entrepreneur	40%	25%	37%	47%
Self-employed	55%	58%	58%	51%

Unlike their peers elsewhere in the region, respondents were not very e-connected or engaged with the world of business. On a daily basis they stayed abreast of news/current affairs (Q25) via:

- online media using a desktop computer or laptop 2%
- online via smart phone 5%
- printed media (publications/press) 16%

They also engaged mainly on issues which concerned them directly rather than further afield, including news and events relating to their business sector (56%), the local economy (44%), national politics (23%) and foreign affairs (3%).

Just one in seven businesses were in opportunity-focused sectors, defined as technical, professional and creative arenas or those requiring high capital investment, compared with household-focused businesses (directly servicing and selling to households, or producing goods which will be used by households) (**Table 14**).

Table 14. Opportunity-focused and household-focused businesses

Business activity		Total
Sample size		100
Opportunity-focused	Professional, scientific and technical activities	13%
	Manufacturing	1%
Household-focused	Wholesale and retail trade; repair of motor vehicles and motorcycles	33%
	Agriculture, forestry and fishing	30%
	Accommodation and food service activities	4%
	Administrative and support service activities	1%
	Other service activities	18%

Business scope and operations

Respondents' businesses were largely locally-focused, and the opportunity- focused businesses in the survey only traded domestically (unlike their peers in other markets, who were likely to trade abroad). Only 7% of businesses were involved in exporting or importing activity (**Table 15**).

Table 15. Business scope and field of operations

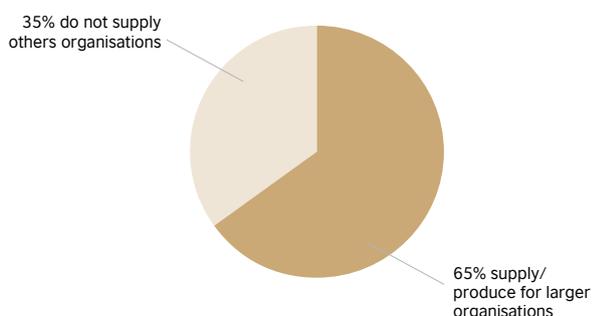
Q9: Do you (expect to)...	Total
Sample size	100
Operate only within Montenegro	88%
Q9c: Where do you operate within Montenegro? Sub-sample size	89
At a national level	47%
At a local level	53%
Export goods/services to other countries Sample sizes too small for meaningful breakdown of destinations	7%
Import goods/services from other countries Sample sizes too small for meaningful breakdown of destinations	5%

Working within a supply chain

Two thirds of all businesses in the survey supply larger organisations (**Chart 3**).

Chart 3. Businesses as part of supply chains

Q6: Does your business make products or supply services that will be used by other, larger, organisations?



The key industry sectors in which these businesses operate is set out in **Table 16**.

Table 16. Industry sectors of businesses

Q6a: Which industry sectors does your [intended] business service or supply?	Top 5 sectors
Sample size	63
Business services	22%
Food and beverage processing	15%
Perfumes/cosmetics	11%
Agriculture	3%
Textiles	2%

Business trading models

The trading channels and payment methods accepted indicate that these entrepreneurs use very simple, and probably unsophisticated, business models, almost entirely face-to-face and very strongly cash-based (**Table 17**).

Table 17. Accepted forms of payment

Q7. Does (will) your business?	Total
Sample size	100
Have a digital (online) interface with customers	2%
Have a telephone interface with customers	7%
Service your customers face-to-face/in person	100%
Q8: And do (will) you accept payments ...?	
Sample size	100
Online (via payment cards)	22%
Over the telephone (via payment cards/bank debits)	30%
Through automated bank credits/cheques	1%
In cash	98%

Motivations for setting up a business

The key motivation for setting up business was the opportunity to make money, often to provide financial security for family (**Table 18**).

Table 18. Motivation for starting a business

Q10a: What are your key motivations for setting up your own business?	Total	Self-description	
		Entrepreneur	Self employed
Sample size	100	40	55
Opportunity to make money	57%	58%	53%
Providing long term financial security for family	55%	68%	51%
Utilising skill sets	28%	20%	36%
Natural progression	20%	15%	25%
To build financial independence	11%	20%	11%
Offset unemployment	5%	5%	5%

In total, 43% had started a business in an area which was familiar to them, or within their skill sets, but the key influence in their choice of business and/or sector was the support and encouragement of their family. Very few had chosen their business as a result of the availability of incentives (**Table 19**).

Table 19. Reasons for choosing a sector and/or business

Q5b: Why have you chosen to start a business in this specific activity?	Total
Sample size	100
Encouraged by family/the experience of others	48%
It is my profession/skill set	43%
It is cheap/low cost to set up a business doing this	15%
It is easy to set up a business doing this	12%
Continuing/extending a family business	4%
There are incentives available to set up a business doing this	2%

Perceptions of the business climate and business confidence

The process of setting up a business was usually swift. All respondents had taken less than six months to register their business and obtain any necessary licenses. In total, 34% of respondents felt that the current domestic business climate was favourable to businesses. Only one in ten considered the business climate to be unfavourable. This is the most optimistic outlook across all six countries covered in the research programme (**Chart 4**).

Chart 4. Perceptions of business climate

Q11a. From your position, how would you describe the business climate in this country? (five-point scale)



1: Unfavourable

5: Favourable

The key reasons for optimism were:

- State incentives for new food producers 25%
- European integration 24%
- The nature of their chosen business 24%

(Q11b: in what way is the business climate favourable for businesses? Sample size 34)

For the minority who felt that the climate was unfavourable for businesses, the key reasons were:

- Low standard of living and consumer spending power 45%
- Competition (from larger organisations) 27%
- Taxes 27%

(Q11b: in what way is the business climate unfavourable for businesses? Sample size 11)

This is linked to perceptions of the barriers to business growth, which relate to market/economic pressures (competition, consumer spending), rather than administrative or financial costs of doing business (**Table 20**).

Table 20. Barriers to doing business

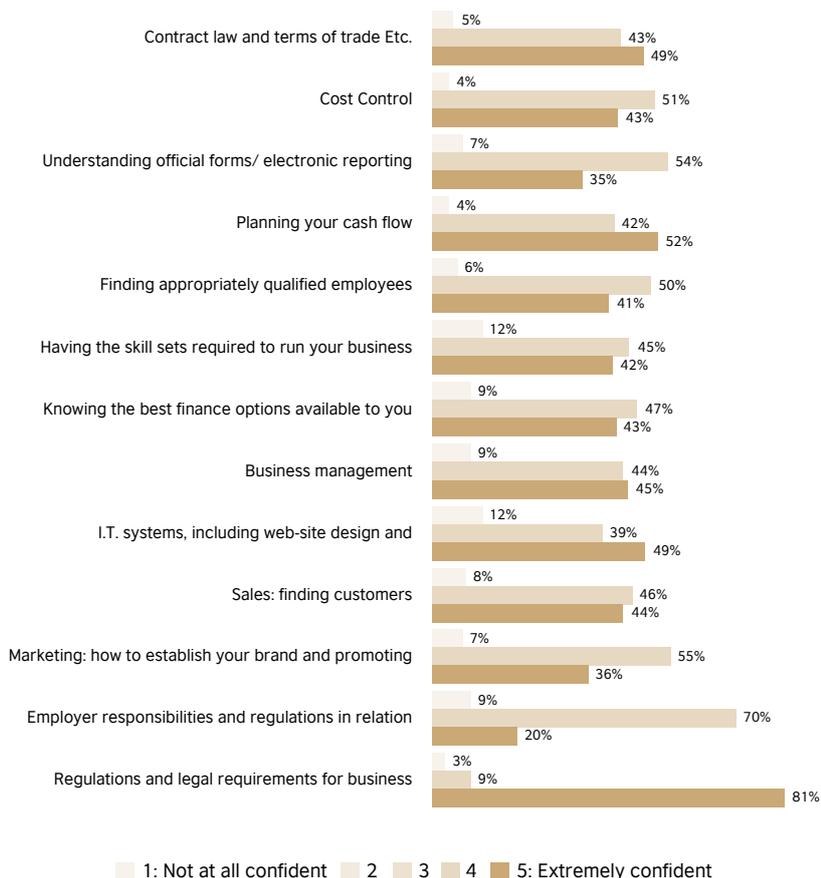
Q12. What do you perceive is the biggest barrier to (setting up) (growing) a business? (open ended, grouped responses)		
Rank	Sample size	100
1	Economic situation, crisis, small purchasing power	35%
2	Low purchase prices	16%
3	High taxes, administration, paperwork	12%
4	Lack of support from the state and municipalities	11%
5	Many competitors	9%

Levels of confidence

Chart 5 shows that entrepreneurs are extremely confident about all aspects of setting up/running their businesses, especially those areas which they can control themselves.

Chart 5. Levels of confidence in aspects of running a business

Q13. How would you describe your own level of confidence in each of these aspects of setting up/running a business? (Sample size 100)

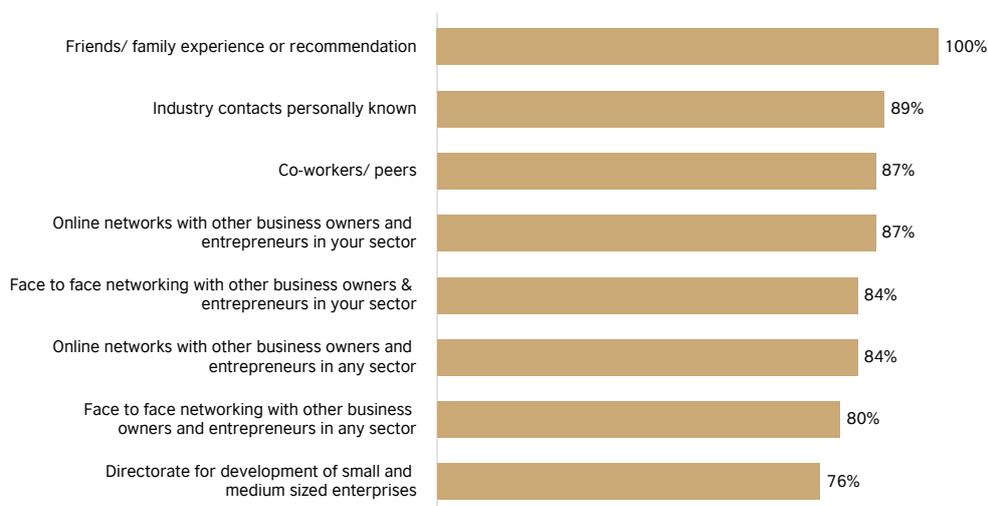


Advice and support

Entrepreneurs in the survey were most likely to turn to family and friends for advice, but there was a welcoming attitude towards all sources of advice, whether face-to-face or online (**Chart 6**). The appeal of engaging with like-minded individuals resonates strongly with the findings of the British Council's programme: *encouraging youth entrepreneurship in the Western Balkans project September 2015 – March 2016*. This suggests that there would be interest in local, targeted programmes and resources that can successfully improve skill acquisition, preparedness and motivation among young entrepreneurs.

Chart 6. Sources of advice and support

Q14. Here are some sources that people might turn to for support and advice when setting up and running a business. Please tell me how appealing each one is to you. (Sample size 100)



It is likely that young entrepreneurs often work in isolation without ready access to expert business advice. Family members featured very strongly as their most trusted advisers (**Table 21**).

Table 21. Most trusted advisers

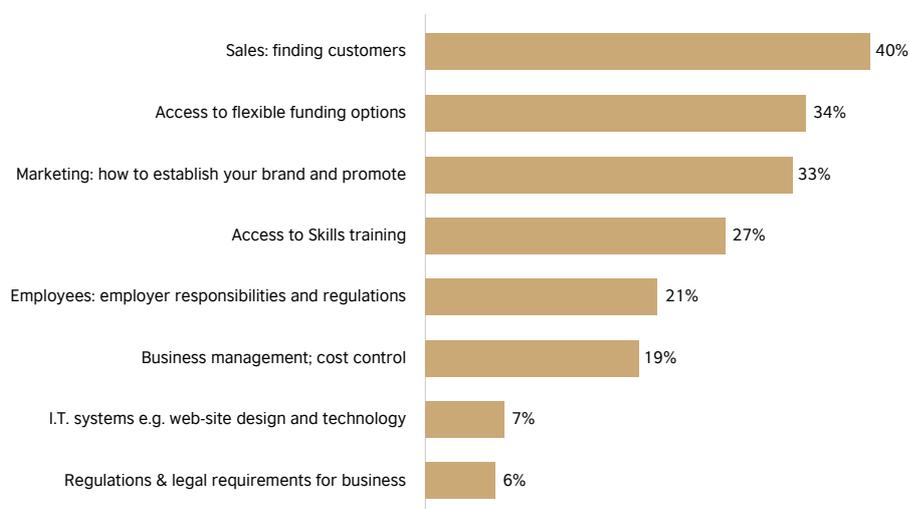
Q18. Who are your most trusted advisers?	Total
Sample size	100
Personal friends and family	60%
Financial adviser	19%
My college/employees	9%
Lawyer	2%
Accountant	0%

Entrepreneurs were particularly interested in support with marketing and sales. Other aspects of business management and governance were not highlighted as much as in other countries, possibly because of the size and nature of their businesses.

Access to flexible funding options was the second most popular area for support. One in three would probably to take up the opportunity to understand more about the options available to them (**Chart 7**).

Chart 7. Areas in which support is required

Q16. If you could access training and support on any of the following, which would you be likely to take up? (Sample size 100)



Our respondents had a preference for face-to-face delivery mechanisms, including both training and networking opportunities, rather than online resources (**Table 22**).

Table 22. Type of support required

Q17. What form of advice and support delivery would be helpful to you?		Ranking
Sample size	100	
In-person training courses	89%	1
Networking	48%	2
Online resources e.g. downloadable content; online training and chat facility	29%	3
Financial incentives	12%	4
Mentoring	4%	5

Future ambitions

Respondents were optimistic about their growth and development plans. Over the next two years, the majority were planning to invest in business assets and staff (**Table 23**).

Table 23. Future ambitions

Q19a. How likely will you be to access the following over the next 2-3 years? % saying likely/very likely		Ranking (most likely)
Sample size	100	
Purchase or leasing business assets (equipment, vehicles etc.)	77%	1
Hiring staff	69%	2
Expanding business	67%	3
Premises/office relocation	53%	4
Legal expenses	49%	5
Product or service development costs	48%	6
Opening new markets at home or abroad	47%	7
Patenting	44%	8

Unsurprisingly, business growth was perceived to be primarily dependent upon the development of a customer base. Fewer than one in five entrepreneurs identified the need for an injection of capital to achieve growth (**Table 24**).

Table 24. Key drivers of growth

Q23. Thinking about the next 2-3 years, what do you perceive to be the key drivers for success in your business?	Total	Ranking
Sample size	100	
More customers	60%	1
Product/service development	41%	2
Change of premises	33%	5
Increased skill sets/employee training	21%	4
Capital injection	18%	3

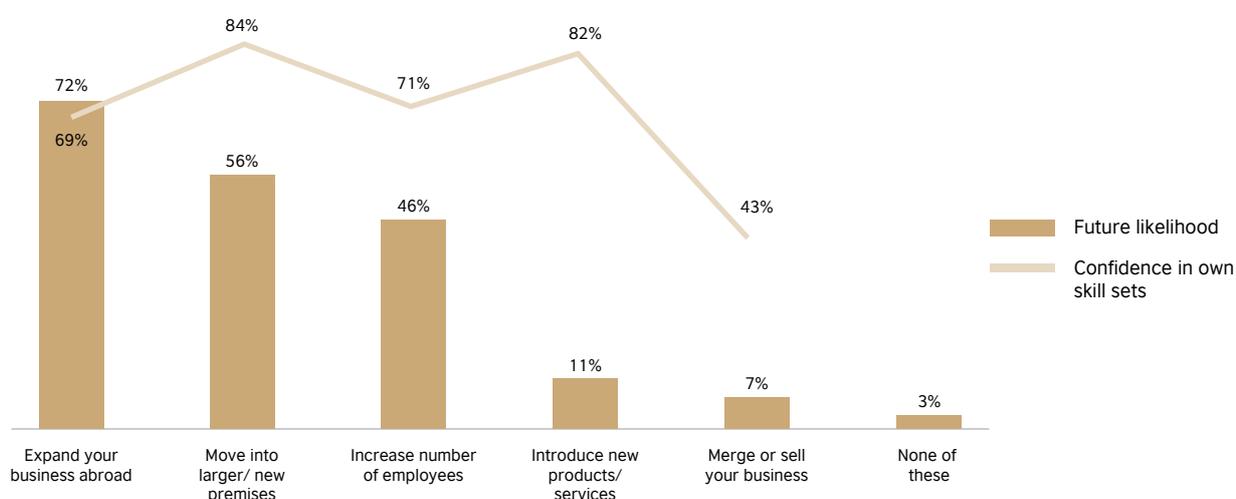
Our survey respondents were ambitious for the future, and largely confident in their ability to achieve their ambitions (**Chart 8**). This can only be seen as a positive trend for the future, but such ambitions also need to be supported.

Chart 8. Ambitions and level of confidence

Q24a. Thinking ahead 2 - 3 years, it is your ambition to do any of the following?

Q24b. At this stage, how confident are you that you have the knowledge and skills sets to enable you to do this?

Sample size 100

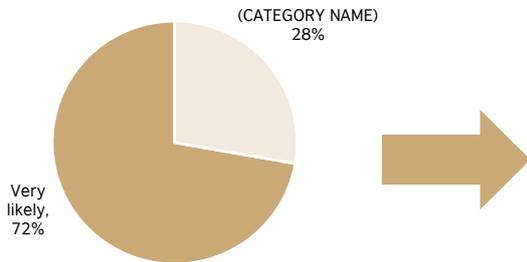


Access to finance

Compared to their peers in other Western Balkans countries, Montenegrin respondents were much more likely to expect to seek access to finance in the next few years. A total of 50% considered that it was difficult to obtain funding, and only 15% felt it was easy (Q21c) (**Chart 9**).

Chart 9. Access to funding

Q19. How likely are you to seek funding in the next 2 3 years? (Sample size 100)



Q19b. What do you envisage you will need funding for? (Sample size 95)

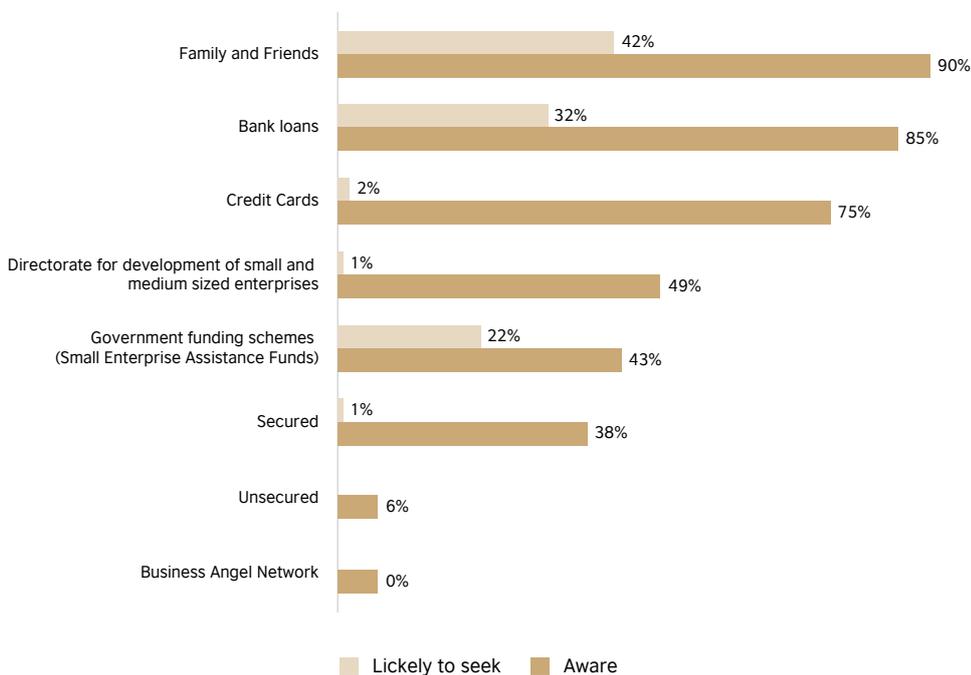
1	Purchase or leasing of business assets	41%
2	Working capital/cash flow	31%
3	Opening new markets at home or abroad	31%
4	Product or service development costs	29%
5	Hiring staff	19%
6	Patenting	8%
7	Legal expenses	6%
9	Premises/office relocation	4%

Chart 10 shows that awareness of any form of finance other than bank loans is quite low. Entrepreneurs are therefore most likely to rely on informal sources of funding, particularly family and friends. Awareness of government funding schemes was relatively low, but a high proportion of those who were aware would approach these sources for finance.

Chart 10. Awareness and use of forms of funding

Q20. Which of these forms of funding are you aware of? (Sample size 100)

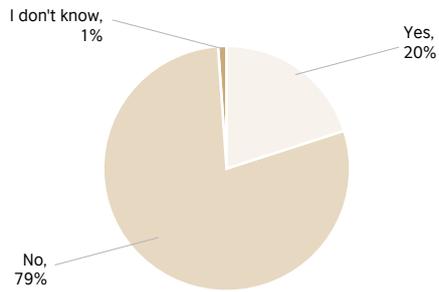
Q21a. Which form of funding would you be most likely to seek? (Sample size 100)



Access to trade credit is seen as potentially helpful for expansion by one in five respondents and most of these felt it could provide a fair or great boost to their business (**Chart 11**).

Chart 11. Use of trade credit

Q8b. Would your business expand if you could offer trade credit? (Sample size 100)



This concludes the findings of the primary research undertaken specifically for this project, involving 100 telephone interviews with new or prospective business start-ups in Montenegro. Fieldwork was undertaken in December 2017 and January 2018.

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ANNEX I – ESTIMATION METHODOLOGY FOR EARLY STAGE LOAN DEMAND

Overview

We have sought to separate out the loan demand for an MSME or a self-employed person's first two years of operation. This is often the most difficult and challenging period to fund, because lenders suffer from extreme information asymmetry. These business lack an audited trading/tax declaration record, credit rating data is likely to be sparse and the lending officer may have no detailed sector or local environment knowledge. The problems of information asymmetry have been highlighted by Stiglitz and Weiss (1981).

We have sought to estimate this “funding gap” by adopting a “bottom up” approach, estimating funding needs for MSMEs and self-employed people differently, on the basis that their funding needs are likely to differ. Our estimates are very rough and need further research and rigorous testing. We have included them because they are indicative pointers to the sufficiency or otherwise of existing schemes to support entrepreneurs in their first two years of activity.

Self-Employment

Self-employed people were an important component of our survey results. We assumed that each self-employed person would require seed capital or initial finance equal to three months of the 2015 euro current price per capita GDP for their home country. We took the data for this from the IMF (2018). We converted US\$ from the IMF date to € at 1.1998 US\$ = 1 EUR (an approximate 2017 year-end rate). The number of new self-employed people is based upon 5% of the self-employed population joining/leaving self-employment each year. The self-employed numbers were from the International Labour Organisation (2017).

MSMEs

For new MSMEs, we assumed a blanket requirement of EUR 5,000 for their start-up capital needs in the first year. For the number of businesses being registered, we relied on World Bank data (World Bank, 2017e; 2017f).

Year One Seed Capital

Taking these together, we calculated the seed (or first year) capital requirement by country, shown in **Table A.1**.

Table A.1 Western Balkans seed capital requirement for first year of operations

Number of New Limited	New Self Employed Estimate	Euro Per Cap GDP 2015	Seed Per Limited Liability	Seed Per Self Employed	Limited Liability Seed	Self Employed Seed	Total Est Seed Req
2,679	30,000	3,280	5,000	820	13,395,000	24,600,790	37,995,790
2,814	7,000	3,489	5,000	872	14,070,000	6,106,259	20,176,259
3,993	4,000	2,922	5,000	730	19,965,000	2,921,811	22,886,811
5,686	9,000	4,046	5,000	1,011	28,430,000	9,102,698	37,532,698
2,818	1,000	5,388	5,000	1,347	14,090,000	1,346,977	15,436,977
8,236	43,000	4,365	5,000	1,091	41,180,000	46,922,483	88,102,483
Total					131,130,000	91,001,017	222,131,017

Source: Authors

Year Two Calculation

For year two, we assumed that 25% of the new MSMEs would reach the growth phase, and that those MSMEs would require the average MSME loan value for their country. The average MSME loan value was taken from Table 11 in Hauser et al. (2016).

For the remainder of companies and self-employed people, we made the blanket assumption that those that survived their first year would have grown but not have reached full cash self-sufficiency. They were therefore likely to require additional finance equal to the entire (for all firms) amount required in the first year. These parameters give the calculated requirement for Year 2 in **Table A.2**.

Table A.2. Year 2 start-up finance requirement

Number of New Limited Liability companies	New Self Employed Estimate	Average Loan Size	% Year 2 Full Loan Demand	Total Fast Growers	Total Rest	Grand Total Year 2
2,679	30,000	35,668	25%	23,888,643	37,995,790	61,884,433
2,814	7,000	34,409	25%	24,206,732	20,176,259	44,382,991
3,993	4,000	30,507	25%	30,453,613	22,886,811	53,340,423
5,686	9,000	45,052	25%	64,041,418	37,532,698	101,574,116
2,818	1,000	47,519	25%	33,477,136	15,436,977	48,914,112
8,236	43,000	25,753	25%	53,025,427	88,102,483	141,127,910
Total				229,092,968	222,131,017	451,223,985

Source: Authors

Total First Two Year Finance Requirement vs Total MSME Lending By Country

We took these findings and combined them into Table A.3, then compared them to overall MSME lending in each Western Balkans state. The overall MSME lending figures come from Table 14 in Hauser et al. (2016).

Table A.3. Total entrepreneur first two year finance requirement vs total MSME lending by country

Number No SMEs	Euros Av Loan	%	Millions Euros				
			Total SME Loan Demand	Seed Year 1 Est. Demand	Early Stage Year 2 Est. Demand	Total Early Stage Est. Demand	SME Loan Demand % Early Stage
111,059	35,668	36.0%	1,426	38	62	100	7.0%
186,341	34,409	51.5%	3,302	20	44	65	2.0%
45,985	30,507	52.2%	732	23	53	76	10.4%
70,453	45,052	40.1%	1,273	38	102	139	10.9%
22,313	47,519	52.8%	560	15	49	64	11.5%
280,845	25,753	61.8%	4,470	88	141	229	5.1%
Regional Total In Millions Euro			11,763	222	451	673	5,7%

Source: Authors

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