

Horizon 2020 Policy Support Facility



Towards Entrepreneurial Innovation Ecosystems in Montenegro

Preliminary findings and
recommendations

Podgorica,
Montenegro

November 2018

Structure

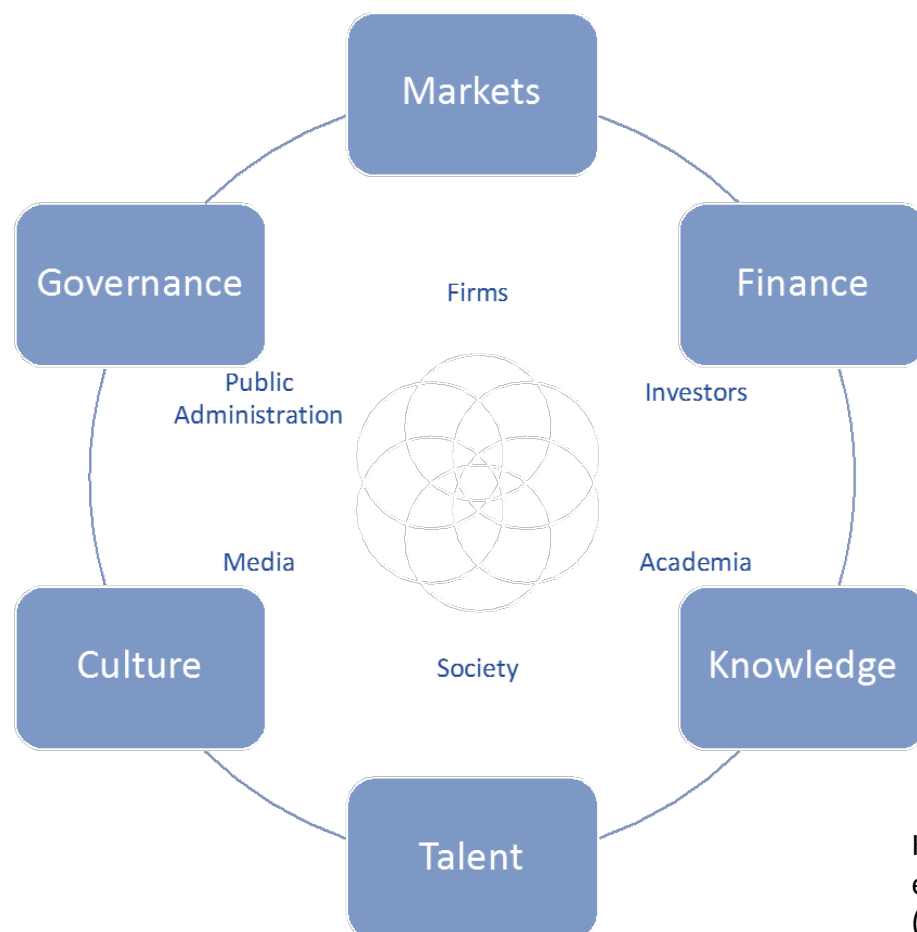
1. INTRODUCTION
2. OVERCOMING LEGISLATIVE BARRIERS
3. DEVELOPING FUNDING & RELATED MECHANISMS
4. ENHANCING GOVERNANCE AND CONNECTIVITY



1. INTRODUCTION



Challenges and Opportunities in the Montenegro ecosystem



Key dimensions and actors of entrepreneurial innovation ecosystems (modified from Könnölä et al. 2017).



Challenges and Opportunities in the Montenegro ecosystem

Legislative framework

- A lack of adequate legislative framework for developing a vibrant entrepreneurial innovation ecosystem.
- Even if the country has a favourable flat capital income tax of 9%, this is offset by a complex system of additional taxes (e.g. tourist tax applied to all businesses located in tourist areas), labour contributions amounting to 68% of net pay, tourist tax.
- In particular, the lack of IP framework in practice prevents academia-industry collaboration.
- Montenegro is also perceived as a high-risk country (Moody's: B1, S&P: B+), which affects Foreign Direct Investment and together with the size makes it slow to be integrated with the international online payment systems such as Pay Pal or Apple Pay.
- Legislative barriers for the entrepreneurial innovation ecosystem development is the natural starting point for this report, elaborated in detail in Section 2.



Challenges and Opportunities in the Montenegro ecosystem

Financing and access to capital

- Montenegro spends approximately 0.38% of its GDP on R&D since 2010, which nominally means gradual increase of funding. By 2015 (latest available data) this translates to €13.67 million, or in per capita terms €22, or one of the smallest amounts in Europe.
- Montenegro government has voiced an ambition to embrace innovation-driven entrepreneurship as a way to develop a new growth model and secure a better future for the country in the long-term. In 2017, the Ministry of Science supported by the Ministry of Finance embarked on a process of building this growth model with the first ever call to fund innovation-based entrepreneurial projects. Out of 30 submitted proposals 5 projects coming from private and public sectors have received funding. In 2018, the Ministry of Science have received a 60% budget increase to continue its efforts and build an entrepreneurial innovation ecosystem by strengthening local capacity and the connections with the regional and European entrepreneurial innovation ecosystems.
- Section 3 addresses this challenge of developing funding and related mechanisms to stimulate innovation and entrepreneurship in Montenegro.



Challenges and Opportunities in the Montenegro ecosystem

Governance and organisational models

- Given the small size of the country, actors of the entire Montenegro ecosystem should be engaged to collaborate in order to exploit their knowledge, human capital, and financial resources to boost sustainable economic growth and job creation in the country. However, in general terms, Montenegro remains governed in silos with no current programmes stimulating collaboration, integration. Furthermore, the country would benefit from better integration of the existing agents of the Montenegro ecosystem with other ecosystems in the neighbouring countries and Europe. The development of any ecosystem requires collaboration beyond institutional, organisational or sectoral silos. Thus, the success of the Montenegrin ecosystem depends largely on how the activities are organised and coordinated in the country and beyond.
- The Government of Montenegro has strategic interest in strengthening its entrepreneurial innovation ecosystem. This agenda has not yet been part of the work programme of the Competitiveness Council.
- Digital transformation of public sector and a strategic focus on the e-government strategy could help create a more transparent business environment, shorten and simplify administrative procedures and possibly create a demand for IT services in the private sector and thus helping growth entrepreneurial innovation ecosystem.
- Section 4 looks at this challenge of governance and connectivity in detail and develop recommendations for different ecosystem stakeholders.



Challenges and Opportunities in the Montenegro ecosystem

- **Knowledge creation and diffusion**

- Existing industry actors could be encouraged to develop also their research and development activities
- Strategic coordination is needed to build also innovation capacity of existing SMEs especially in the tourism and agriculture through talent development, digital transformation and business model innovation.

- **Access to talent**

- The main threat for the Montenegro innovation ecosystem is brain drain. The Ministry for Science has reached out to the scientific diaspora inviting researchers of Montenegrin origin to build ties with the country.
- The country has also been developing an international brand as a tourist destination. Safe, clean and welcoming, it builds its image based on the beauty of the Adriatic coastline with most southern fiord in Europe and picturesque mountains.

- **Entrepreneurial culture**

- Actors in the existing Montenegrin ecosystem often seem to approve the status quo and appear compliant with existing boundary conditions.
- There is a significant level of frustration among innovation actors both in the private and public sectors, and dissatisfaction that not much can be changed, that procedures are not transparent.

- **Market access**

- Montenegrin startups created in recent years have left the country in search of better opportunities for market access, and as a precondition set out by investors to sign investment agreements.



SWOT of the Montenegrin Ecosystem

STRENGTHS

- Tourism and agriculture
- Stability
- Flat income tax, double taxation agreements
- International relations
- Access to international R&I funds

WEAKNESSES

- Lack of entrepreneurial culture and role models to startup
- Lack of critical mass of talent, knowledge and funding
- Lack of serial entrepreneurs and business angels
- Low credit ratings and high transaction fees
- C2B online payments

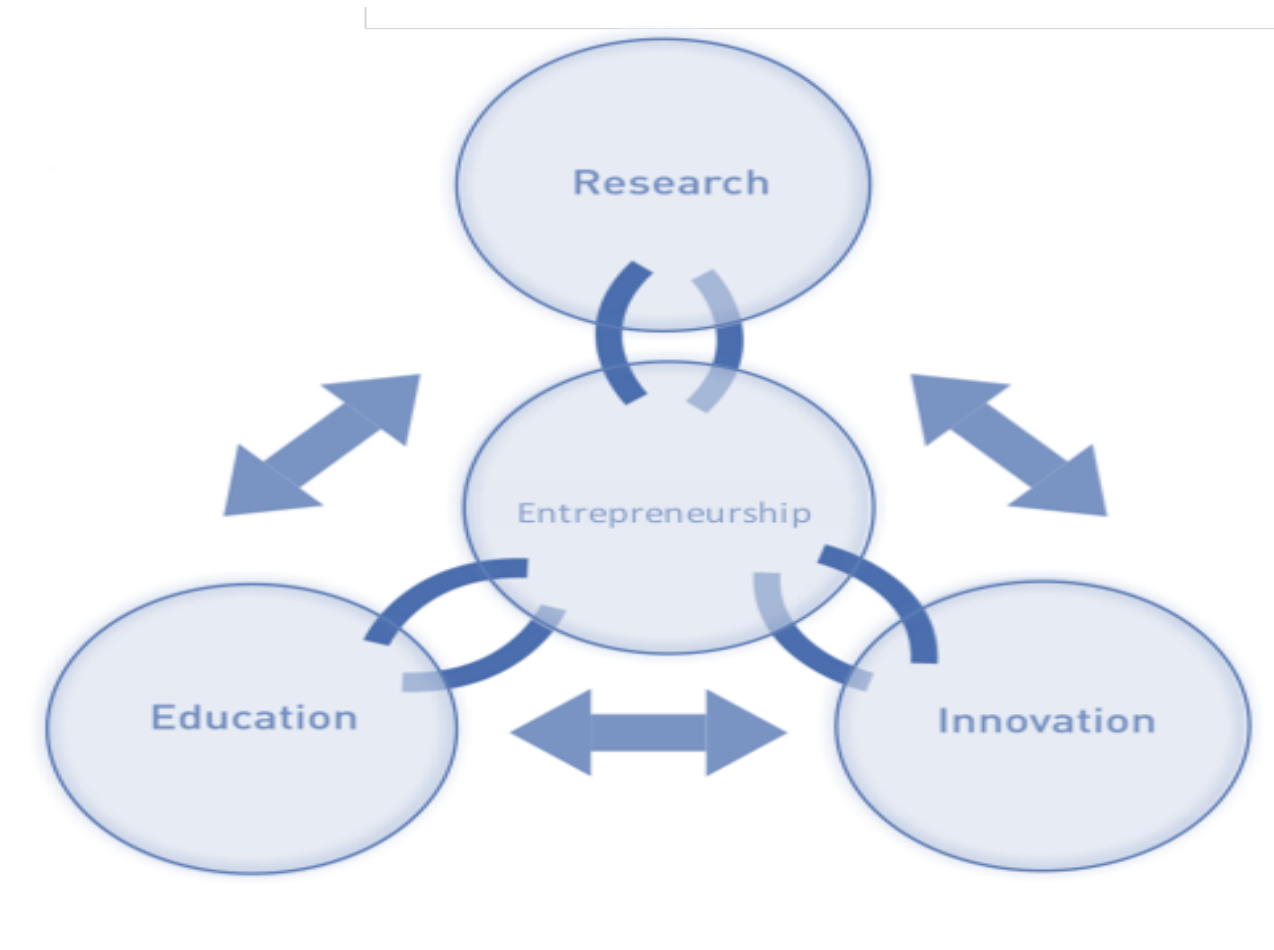
OPPORTUNITIES

- EU accession negotiations
- Reforming legislative framework and governance
- Entrepreneurial knowledge triangle integration
- Attracting foreign talent and direct investments for innovation
- Digital transformation of public sector and established industries
- Turning scientific diaspora into international networks
- Collaboration with neighbouring countries

THREATS

- Brain drain
- Lack of collaboration between universities and businesses
- Lack of inter-ministerial and vertical coordination
- Corruption and opaque governance
- Disintegration from the Balkans, Europe and global markets

Towards the Montenegrin model (1)



Towards the Montenegrin model (2)

- The model of Montenegro based on the concept of the entrepreneurial innovation ecosystems should take into account the dynamics of the global network of innovation networks.
- This means that policies grow its ecosystem should stimulate be based on dynamic processes for interconnecting the four pillars forming these ecosystems that is: research, education, innovation and entrepreneurship.
- These pillars include traditional institutions which produce knowledge (e.g. research centres), educate (e. g. universities), commercialize knowledge (e.g. industry) and create value (e.g. startups) as well as more emergent, temporary projects.
- To establish the strong premises for the Montenegrin model that may build on this approach of Entrepreneurial Knowledge Triangle Integration, the report provides the rationales and analysis on:
 - the legislative framework
 - funding schemes,
 - and governance and organisational models.
- Recommendations and action plan are developed in these areas to develop holistically the whole ecosystem and thus ultimately enhance knowledge creation and diffusion, entrepreneurial culture and access to talent and markets.



Towards the Montenegrin model of entrepreneurial innovation ecosystems (3)

	Knowledge (create and diffuse)	Culture (encourage and venture)	Talent (attract and educate)	Markets (commercialize and scale up)
Regulation		Section 2. Overcoming legislative barriers		
Funding		Section 3. Developing funding and related mechanisms		
Governance		Section 4. Enhancing governance and connectivity		

Table 1. Towards the Montenegrin model of entrepreneurial innovation ecosystems.



2 OVERCOMING LEGISLATIVE BARRIERS





1 – Bankruptcy law

Current bankruptcy law hampering serial entrepreneurship

Further focus is needed on constraints entrepreneurs encounter on the one hand when closing a business that has no future and on the other hand when launching a subsequent new venture (e.g. the burden of fiscal debt of the old business). The bankruptcy laws vary among countries and are often a product of an overall culture and societal perceptions on risks and failure.

- ***Develop an entrepreneur-friendly bankruptcy law to encourage entrepreneurship, protect creditors and renew the business ecosystem*** Why is this not discussed in the analysis section? Especially to what extent is this a real barrier? Explain/justify why this is among the recommendations, i.e. one of the most important reforms needed in the country.



2 – eCommerce taskforce

eCommerce stumbling on difficulties in receiving online payments

Public administration could negotiate at the earliest with financial institutions and payment platforms to overcome high transactions fees and to establish electronic payment systems. Otherwise promising eCommerce businesses are highly affected by these constraints that could benefit from temporal measures to alleviate the negative impacts.

- ***Establish an eCommerce taskforce lead by public administration and supported by financial institutions, payment platforms and online business representatives to overcome high transactions fees, to establish electronic payments systems and to alleviate the negative impacts of the current situation.***



3– Enhance vertical government coordination to streamline fiscal and legislative measures

Lack of vertical coordination to streamline fiscal and legislative measures

While the Government is developing various schemes for innovative and international business and attracting FDI, local administrations seem to impose taxes and other expenses that may hamper the business development.

- ***Enhance vertical government coordination; monitor and review the implementation of fiscal and legislative measures to create favourable conditions for innovative businesses.***



4 – University-business collaboration to commercialise research

Lack of collaboration between research and business

Beyond the limited research and innovation resources, these activities are conducted in silos rather than cross-disciplinary and -sectoral networks. New regulation should encourage cross-feeding; bringing practitioners into university and researchers into businesses.

- ***Revise and develop university rules to offer flexible and attractive ways to affiliate industry professionals and entrepreneurs , and to ensure university staff opportunities to develop further relations with businesses in order to extend university staff obligations and performance measurement around teaching responsibilities and to make them more flexible to cover research, applied research and the commercialization and diffusion of knowledge in society.***





5 – Establish clear IP rules to commercialise research

Lack of IP regulations hampering commercialisation of research

The legislative framework should clarify how research and development can lead to the creation of commercial products and also startups in which scientists can be involved.

- ***Develop IP rules and provide transparent rules to deal with incompatibilities, terms and conditions to engage in research commercialisation.***



6 – Leveraging on the scientific diaspora

Scientific diaspora not involved in knowledge creation and access to talent

The research capacity and capabilities are further affected by the brain drain and the international diaspora of Montenegrin researchers, who are not connected neither to the homeland research community nor between themselves.

- ***Revise and develop university rules to offer flexible and attractive ways to affiliate foreign researchers and build on their international networks.***



7 – Internationalisation of universities

Internal university rules hampering internationalisation

Researchers of the University of Montenegro have difficulties to obtain sabbaticals and stays in foreign universities due to internal regulation. Often, they are obliged to stay for performing their teaching obligations with no available alternative arrangements.

- ***Revise and develop university rules to ensure university staff opportunities to develop further relations with international universities and research centres via international visits and stays.***





8 – Harmonise the use of startup concept

Lack of common understanding on startups and their support measures

It is important to clarify the role of startups in designing new measures to ensure they are recognised and to avoid any confusions or outright inconsistencies. It is also possible to define responsibilities to label or select startups meeting the specific criteria, which would then accredit them to apply for specific target funding and other types of support.

- ***Define and agree on the commonly accepted definition and use of the concept for startups, which should facilitate the development of their support measures and subsequent monitoring.***



9 – Developing startup visa

Missing foreign talent due to visa procedures

Montenegro could be an interesting haven for digital nomads and startup entrepreneurs benefiting among other things from good weather, attractive profit tax scheme and sufficient infrastructure.

- ***Ensure fast-track visa procedures for new and established talent and communicate the practice effectively (see also the recommendation on visiting research scholarships in Section 4).***





10 – Experimenting with regulatory sandboxes

Lack of experiments in regulating innovation

As the regulatory changes may have wider impacts on a particular sector or industry, the process of changing regulations has to be done through wider engagement with the industry stakeholders.

- ***Develop targeted regulatory sandbox initiatives together with strategic (trade) partner countries to attract and enable startups test and develop new products and services in promising fields.***



2. DEVELOPING FUNDING & RELATED MECHANISMS



Developing Funding & related mechanisms

- Funding schemes:
 - Capital-oriented schemes
 - Subsidy-oriented schemes
 - *"Innovation & R&D"-oriented schemes*
 - *"Ecosystem"-oriented schemes*
- Plus: related, supporting schemes.
- In all cases: need for transparent and inclusive evaluation processes
- **Recommendation 1:**
 - *Establish a formal documentation according to which any funding scheme dedicated to innovation and entrepreneurship should fulfil criteria with respect to its selection process, notably through the involvement of external experts under non-conflict-of-interest oaths.*



Capital-oriented schemes

Lack of pooling of venture capital funds in the Southern Balkans

- **Recommendation 2 – Studying the opportunity of a new Southern Balkan VC fund**
- Establishing a fund or supporting an existing capital-oriented funding scheme in Montenegro should not be done in isolation; the limited size of the Montenegrin entrepreneurial innovation ecosystem, especially the limitations of the deal flow, would make it extremely difficult to raise such a fund at seed stage or later.
- Conversely, a strategy at the level of the Southern Balkans, in relation to existing VC actors in the Region, would have more chances to succeed. Existing initiatives in the region should also be fully taken into account in order to see whether they could be partners and co-investors, or even potentially more.
- *Conduct rapidly a study of the feasibility of a new Southern Balkan VC seed fund with an international contractor that would contact all potential stakeholders: national authorities, the EU and its related bodies, VC firms active in the Region, local funds and business angel associations.*



Subsidy-oriented schemes (1)

- **Lack of subsidies for startups**
- Targeted towards addressing the very early funding needs of startups, i.e. in the 10-50 K€ range, and not related to R&I expenses but to the costs incurred by startups upon their launch.
- **Recommendation 3 – Honour loans for startups**
- Instead of providing subsidies to the startup, “honour loans” provide a loan to an individual founder or to founders, which tends to enhance both the feeling of responsibility of startup founders and their recognition.
- *Implement a startup-oriented subsidy scheme under the form of « honour loans », ideally associated with a program allowing founders to visit several other entrepreneurial ecosystems.*
- *Recommendation 1 with respect to selection processes specially applies here.*



Subsity-oriented schemes (2)

- **Recommendation 4 – Studying the opportunity of a new tax credit dedicated to innovation**
- Montenegro should certainly consider updating its regulations so that Montenegrin entities of all sizes could benefit from similar conditions to other entities in the Region and elsewhere in Europe, with respect to the criterion of innovativeness. However, it should be noted that focusing on innovation as a key criterion induces the necessary setting up of an expertise capability within the Montenegrin administration and/or through external experts.
- Since evaluating what is innovative and what is not cannot rely on any simple criterion, it is indeed necessary to evaluate each situation, on a case by case basis, in order to determine whether the activities considered are innovative. This process, which can only be assessed undertaken by experts who have some knowledge of the field, at least broadly, be they independent and external contractors, or part-time regular employees of an administration.
- Among the fields that could deserve special attention are tourism and agriculture, where Montenegro's economy has strong assets, and where innovative businesses should be able to benefit from a new subsidy scheme. Another question with respect to the accession to the EU, is whether subsidiaries of foreign businesses should be allowed to benefit from such a scheme, which has been the case in many countries, not less to raise the attractiveness of the country with respect to foreign investments.
- *Conduct rapidly a detailed study, with the help of international experts, about the potential impact of a tax credit dedicated to supporting innovative companies of all sizes in Montenegro, and of its associated costs in terms of expertise, in order to specify and adapt its scope with respect to the Montenegrin economy.*



Related schemes (1)

Lack of government support to international conferences

- **Recommendation 5 – Conferences on Science and Innovation**

- In order to raise international awareness on their country and their innovation activities. The costs of such support would be very limited.
- *Establish a support scheme for international events and conferences dedicated to science, innovation, entrepreneurship. Take advantage of these events to publicize Montenegro's resources, opportunities and achievements with respect to science and innovation. (Recommendation 1 with respect to selection processes also applies here).*

Lack of institutional measures to address scientific diaspora

- **Recommendation 6 –Visiting Fellowships Programme**

- Members of the scientific diaspora willing to involve Montenegrin entities in intentional collaboration could receive support from the government, for instance through the simple form of Visiting Fellowship that would allow them to spend some time in Montenegro while receiving some support, probably non-stipendiary and rather in the form of travels, hosting or other support directly targeted to their projects.
- *Establish a support scheme for Visiting Fellowships that would notably be accessible to the Montenegrin diaspora (scientific, innovative, entrepreneurial, cultural, etc.). (Recommendation 1 with respect to selection processes also applies here.)*



Related schemes (2)

Lack of support activities for startups

- **Recommendation 7 – Startup community**
- There are important functions in all entrepreneurial ecosystems that tend to be endorsed by ecosystem actors in a quasi- or explicit not-for-profit role. A recognition of these “grassroots” contributions can significantly strengthen the community and foster the structuration of the ecosystem. By providing specific support to entities playing a key role in the functioning of the Montenegrin entrepreneurial ecosystem, Montenegrin authorities could help their innovative and entrepreneurial community to structure more rapidly.
- *Provide support to grassroots initiatives that could help structure and strengthen entrepreneurship and the startup community in Montenegro.*



Related schemes (3)

Lack of visible and ambitious innovation projects

- **Recommendation 8 – Moonshot projects**
- All the previous recommendations might not be enough to address the need for bootstrapping that the Montenegrin ecosystem crucially needs, in a context where entrepreneurial ecosystems are thriving all around the world, and elsewhere in Europe including the Balkans.
- In order to bootstrap an ecosystem and to leapfrog the current situation, one or two moonshot innovation projects might considerably help, as is already the case in the scientific field with the Accelerator project supported by the Ministry of Science, a world-class research infrastructure dedicated to cancer therapy equipment and to help Montenegro address brain drain by attracting scientists, being built by the private sector.
- Assessing potential opportunities requires access to expertise that might not be available in Montenegro and should be procured internationally.
- The potential leverage of just one such moonshot project could be considerable in the medium term, with a positive impact on culture, often more difficult to change than policies.
- *Search for and incubate one or two moonshot projects in the field of entrepreneurship and innovation.*



3. Enhancing governance and connectivity

In-country, regional and global dimensions



1 - Cross-ministerial body for innovation activities

Silos and lack of horizontal government coordination

- **Recommendation:** Create cross-ministerial taskforce for startup constituted and led by prime-minister office and comprised of change agents from the government, academy and startup sector and experts that will incrementally develop innovation & startup strategy and actively accelerate implementation of urgent changes to improve the framework conditions.
- **Best case:** Building up the Slovenian startup ecosystem



2 - PPPs for general entrepreneurship promotion and support

Lack of coordinated actions to promote entrepreneurship

- **Recommendation:** Based on public calls intended to raise entrepreneurial culture, mindset and toolset support the creation of regional public-private partnerships among proven proactive actors that would execute entrepreneurship promotion, education and “hands-on” support program to activate entrepreneurial talent in Montenegro.
- **Best case:** Slovenian programme to stimulate entrepreneurship across the regions



3 - PPP for startup promotion & support

Lack of coordinated actions to promote innovative startups

- **Recommendation:** Based on public calls intended to fund startup support create national public-private partnership of proven proactive actors that would execute startup promotion, activation, selection and “hands-on” support to identify and accelerate growth of startups.
- **Best case:** National Initiative Startup Slovenia



4 - Capacity and network building for co-creation of the future science and technology park

The future national Science and technology park initiative biased to physical infrastructure

- **Recommendation:** To leverage from the big institutional investment, the future STP should build capacity and awareness, develop its strategic network of interested key stakeholders and co-create and execute programs that would position the future STP in the middle of the ecosystem.
- **Best case:** Science & Technology Park Belgrade



5 - EIT digital partnership

Lack of regional and international networks within knowledge tringle

- **Recommendation:** Develop a partnership with European Institute of Innovation and Technology (EIT) Digital, ARISE program that would provide international connectivity and benefits for innovation ecosystem actors and give international visibility of Montenegrin Government's efforts to improve its innovation ecosystem.
- **Best case:** EIT Digital Hub in Slovenia



6 - FDI promotion partnerships for innovation

The potential of foreign investments and talent for innovation not exploited

- **Recommendation:** Develop a public private partnership for global connectivity by implementing the foreign direct investment program intended for niche target segments that would be based on the specific needs of the segments and developed implementing the unique characteristic and advantages Montenegro.
- **Best case:** The „FinanceMalta“ is the public-private initiative set up to promote Malta as an International Financial Centre

