



Social Economy in Eastern Neighbourhood and in the Western Balkans

Country report – Montenegro

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LIST OF ABBREVIATIONS

COSME	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs)
CRNVO	Centre for development of non-governmental organisations
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
EaSI	EU Programme for Employment and Social Innovation
EBRD	European Bank for Reconstruction and Development
EFSE	European Fund for Southeast Europe
EMES	Research Network for Social Enterprise
fAKT	Fund for Active Citizenship
IDF	Investment and Development Fund of Montenegro
LDA	Local Democracy Agency
LLC	Limited Liability Company
MFI	Microcredit Finance Institution
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PI	Public institution
SE	Social Enterprise
SME	Small and Medium-sized Enterprise
PwD	Persons with disabilities
WB EDIF	Western Balkans Enterprise Development and Innovation Facility
YSB	Yunus Social Business Balkans
East Neighbourhood	
AR	Armenia
AZ	Azerbaijan
Blr	Belarus
GE	Georgia
MD	Moldova
UK	Ukraine
Western Balkans	
AL	Albania
BA	Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
XK	Kosovo*
MK**	The former Yugoslav Republic of Macedonia
ME	Montenegro
RS	Serbia
WB	Western Balkans

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

** Provisional code which does not prejudice in any way the definitive nomenclature for this country, which will be agreed following the conclusion of negotiations currently taking place under the auspices of the United Nations

1. EXECUTIVE SUMMARY

According to the 2016 EU assessment of the accession progress, Montenegro has the highest level of preparedness for membership among the negotiating states. The country has experienced relatively stable economic growth nevertheless accompanied with challenges in the form of social inclusion, unemployment (particularly among vulnerable groups) and poverty. In such context, the Montenegrin social enterprise (SE) sector itself is relatively small even for a country with a limited population. It is a nascent sector with an estimated 20-30 SEs operating in the country and the majority of them being established by civil society organisations. The identified social enterprises are in their early stages of development, either developing or validating their business models. As such they have a limited impact and are considered as a marginal segment of the civil society. However, individual SEs showcase the potential to impact social inclusion and sustainable development especially in local communities.

The SE sector benefits from a limited political support and its perception is disputed among the relevant stakeholders. There is little institutional understanding of the sector among the key designated institutions. The legislative environment is not supportive for the development of the SEs. The Law on NGOs establishes strict limitations to the economic activities with unclear fiscal and taxation rules; which does not enable the growth of the entrepreneurial activity crucial for SEs survival in the open market. Cooperatives do not constitute a prominent part of the SE spectrum. They are limited by a legislation focused on agriculture cooperatives which does not recognise social cooperatives. The potentially positive impact of social entrepreneurship is recognised by the National strategy for Employment and Human Resources (2012-2015), the Strategy for Cooperation with NGOs and the Strategy for sustainable development 2030. Still, specific policy measures are missing. The targeted SE law, strategy and action plan were drafted in 2013; however, they were not adopted (in part due to disagreements amongst stakeholders) and to all intents and purposes, this initiative has been stopped. There is no clear governmental direction on the issue and it seems that the institutions are waiting for the Prime Minister to appoint a responsible body. Given the lack of developments on the legislative side, it is clear that the issue of social entrepreneurship is not on the government agenda and without concerted advocacy from stakeholders and the EU, that situation is unlikely to change in the near term.

Given the relatively small size of the sector, it is of little surprise that there is a lack of the prerequisite skills necessary to develop social enterprises. Among these, business & financial management skills are particularly lacking and going forward will hinder sector development. Although the SE sector is in its infancy and does not enjoy sufficient governmental and institutional support, progress is being made in building out the infrastructure necessary to support it. CSO actors such as fAKT, CRNVO, the Local Democracy Agency Niksic and the business incubator BSC Bar have created a positive environment for the development of SEs, providing skills development and other key services. There is no existing SE network in the country and the Montenegrin SEs do not participate in regional or EU SE networks which limits their opportunities for peer-learning and joint advocacy.

The SE sector faces a fairly bleak funding landscape as literally all social enterprises have been founded with and continue to rely on donor funding. There has been a gradual erosion of these international donor-funding sources in part due to the impact of the EU Accession and the broader economic crisis. There are no support mechanisms specifically designed to support SEs and those that do access funds do so by accessing support aimed at promoting active employment measures for vulnerable groups and the civil society. The government of Montenegro does not prioritise the CSO sector as illustrated by the fact that the total government funding for CSOs represented only 0.26% of the total budget in 2014¹. Concerns exist about the transparency of the award process and the follow up monitoring. Beyond grant funding, a financing model for any but the very earliest stage of SE

¹ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

development does not exist, banks are not engaged, and private sector funding sources have shown little interest in the sector.

2. INTRODUCTION

Montenegro has a small open economy structurally transitioning away from its economic dependence of its access to the Yugoslavian market. Its economy is heavily reliant on capital inflows and an extended program of large public-sector investment. The economy has grown from EUR 830 mil in 2000 to EUR 3,870 mil in 2014 and is forecasted to hit EUR 4,260 mil in 2017². GDP per capita has grown gradually to EUR 6,284 with an official average salary of EUR 767 per month in October 2017³. The country benefits from the fastest growing tourism sector in the world⁴ and is expected to continue to do so at an average rate of 8.8% until 2024.

The Montenegrin government has steadfastly committed to an accelerated integration into the international economy. It has fully committed to the path towards an EU integration and is working towards full membership by 2020; with its progress being recognised in the EU Accession reports. Although the economic outlook for the short and medium term is positive, there are significant underlying challenges such as unsustainable fiscal deficits, wages growth especially in the public sector that are significantly higher than productivity, the inevitable negative impact of reduced public investment as the large infrastructure projects are already completed. Government strategies have focused on largescale infrastructure investment, continued foreign investments in coastal regions and supporting increased tourism and large economic actors.

Montenegro faces significant challenges in its social economy, with social service provision being pressured by unsustainable high unemployment rates of 22.51%⁵, high poverty rates of 12.8%⁶, as well as a large number of refugees and displaced persons as a legacy of the various regional conflicts. These people have limited access to health care and social services; in part due to language barriers and an unresolved legal status. In addition, there is limited structural support for SEs, an overall high long-term unemployment, low labour force participation of around 68%, a lack of mobility, significant regional disparities, and a mismatch between labour supply and demand.

The high unemployment rate is likely to grow even further as fiscal pressures are expected to force the government to restructure the public sector, (which currently employs 35% of all employed people in the country) by reducing the number of civil servants⁷. The impact of policy amendments such as the Law on Social Care and Child Protection which introduced a lifetime benefit to mothers with 3 or more children led up to 4,000 women to leave formal jobs and is believed to have led 10,000 more people to register as unemployed. Gender inequality is prominent, with substantial portions of women being economically and/or politically disadvantaged or not working at all⁸.

Other socially disadvantaged groups include Roma, Ashkaelia and Egyptians, displaced persons, People with Disabilities (PwDs), beneficiaries of social and child protection (UNDP Human Development Report 2009). Although there are a number of government programmes designed to stimulate employment opportunities for PwDs, they suffer significant discrimination and only 2% of them were employed according to 2015 statistics from the State Employment Agency. Worryingly, only 11.8% of young people are employed with university graduates sometimes having to wait up to 4 years before getting their first job⁹. In response to this trend, a government-financed program was

² Trading Economics website

³ Ibid.

⁴ World Travel and Tourism Council

⁵ Trading Economics website

⁶ World Bank website

⁷ World Bank country report

⁸ Ibid.

⁹ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

launched in 2013 with the aim to provide professional training to up to 4,000 young university graduates.

Montenegro suffers from marked regional disparities in economic development and wealth creation; the North in particular has a significantly larger numbers of unemployed persons and consequently a rate of poverty four times higher than southern Montenegro.

Other than large scale foreign investments in coastal regions, private sector growth is limited. The SME sector struggles from limited although improving access to finance. Excessive state influence in the overall economy especially through state owned enterprises needs to be significantly reduced in order to create opportunities for the private sector. Over recent years, the service industry, representing 69% of total GDP has become the key component of the economy, with industry at 21% and agriculture at 10%¹⁰.

This study is dedicated to social enterprises and the social economy in Montenegro. It is implemented in the framework of the “Social economy in Eastern Neighbourhood and in the Western Balkans: Preparing a methodology/toolbox for EU Delegations” project, funded by the European Commission – DG NEAR. The main objective of this assignment is to identify the conditions and the modality of support to efficiently develop social economy and social entrepreneurship in the Enlargement and Neighbourhood East countries.

More specifically, this report provides an analysis of the social economy and social entrepreneurship ecosystem in Montenegro. It includes an assessment of the state of play of the social economy in the country, including an assessment of its nature, size and key sectors, as well as an overview and analysis of the regulatory framework, the institutional support, the financing options and the available support structures.

The methodological approach is based on a mix of desk research, qualitative interviews and documentary analysis. An assessment mission in Montenegro took place between 13th and 15th of November 2017 with online follow-up by the end of November 2017. Formal and informal interviews were conducted with the main stakeholders during the mission. The list of interviews is indicated in Annex II. The mission was conducted by Ms. Nikica Kusinikova.

3. STATE OF PLAY OF THE SOCIAL ECONOMY IN MONTENEGRO

3.1. Nature and size of the social economy sector

The social enterprise sector in Montenegro is relatively limited; with an estimated maximum of 30 organisations. In general, there is a lack of data-base or any comprehensive research on the size of the sector and the estimates are thus based on mapping exercises realized by several support organisations and interviews conducted during the study.

In principle, social enterprises in Montenegro use the following legal forms: 1) non-governmental organisations (NGOs); 2) limited liability companies; 3) sheltered workshops and 4) agricultural cooperatives. As in most of the Western Balkan countries, most of the identified social enterprises are registered as NGOs. According to a 2015 mapping survey conducted by the Centre for development of NGOs (CRNVO)¹¹ covering 19 of these social enterprises, 16% of them are inactive, 73% (14) were CSOs engaged in economic activity, 5.5% (i.e. 1 respondent) was registered as a limited liability companies established by CSOs and a further 5.5% (i.e. 1 SE was) a sheltered workshop established by CSOs.

¹⁰ Trading economics website

¹¹ Vukovic M. and Bulatovic J., Needs analysis of social enterprises in Montenegro, Center for development of NGOs, 2016

As a consequence, the nature and size of the CSO sector can be used to outline the SE sector. According to the Ministry of Public Administration, as of January 2017, there were 4,213 registered associations, 153 foundations, and 115 foreign CSOs. During the year of 2016, 469 new CSOs were registered. Most registered CSOs work in the following sectors: culture, human rights, art, formal and informal education, agriculture and rural development, social and health care, civil society development and volunteerism, and environmental protection. CSOs provide a variety of services, mostly focused on social protection for victims of domestic violence, HIV/AIDS patients, drug addicts, and other vulnerable groups. According to the Report on the economic value of the non-profit sector¹², the total income of the CSOs in Montenegro in 2015 was 19.889.292 EUR; out of which 80% stemming from grants and donations, 15% from economic activities and 5% from other sources. However, in-depth analysis and cross-check with official data from the tax authorities indicate that one single organization has earned around half of the total income from the economic activity generated by the sector¹³; thus reducing even further the level of economic activities of the CSOs. They are also small-scale employer and employ around 776 employees in total. CRNVO mapping also indicates that the sample of SE employ not more than 10 employees per organization.

At the national level, well-developed organizations provide quality services to the public, influence public policies, and are able to affect the work of the government. The situation, however, differs at the local level, where the authorities, as well as businesses and some media, still do not sufficiently acknowledge the services of community-based CSOs. Small and local CSOs are largely dependent on state funds in order to provide services, due to issues around their financial viability. CSOs tend to apply for any kind of funding opportunities even if it does not fit their missions; which undermines their ability to respond to the real needs and priorities of communities. A significant number of CSOs therefore depend on short-term project funding. This means that there are only a limited number of them that are able to provide continuous services. This in return influences their ability and capacity to develop sustainable social enterprises.

There is very limited research about the cooperatives in Montenegro. Available data indicate that under the old Yugoslav cooperative law from 1996, there were 140 registered cooperatives, the majority of which are engaged in agriculture¹⁴. There is no available data on the number of registered agricultural cooperatives under the new Law on agricultural cooperatives. The lack of knowledge about the cooperative sector doesn't allow any estimates on whether any of these cooperatives exhibit characteristics of social enterprises. In any case, limitations of the legal framework (outlined in the next chapter) and the lack of self-identification as SE indicate that the cooperatives do not represent a prominent part of the SE spectrum in Montenegro.

The abovementioned study conducted by CRNVO¹⁵ indicated that there is only one sheltered workshop in the country. The sheltered workshop, "Golden hands"¹⁶ from Bijelo Polje, was established by the Association of paraplegics Bijelo Polje and Mojkovac. Golden hands involve people with disabilities in the production of textile garments such as T-shirts, uniforms, shirts, bed linens as well as special services of logotypes embroidery on textile for restaurants and other service industries. They have a special line of production of anti-decubitus program from buckwheat flakes, making sleeping bags of pure buckwheat husks with the addition of lavender, rosemary and other fragrant medicinal plants.

There are no available studies or comprehensive information about SEs established under the Company law. CRNVO study identified one social enterprises registered under this law. The NGO

¹² Velat D., Report on the Economic Value of the Non-Profit Sector in the Countries of the Western Balkans & Turkey, Balkan Civil Society Development Network, 2015

¹³ Ibid.

¹⁴ Strategic study on the social economy development in the context of the South East Europe 2020 strategy, Regional Cooperation Council Secretariat, 2015

¹⁵ Vukovic M. and Bulatovic J., Needs analysis of social enterprises in Montenegro, Center for development of NGOs, 2016

¹⁶ <https://www.facebook.com/zlatnerukebp/>

PR Center¹⁷ from Podgorica established in 2011 a limited liability company “PRiME” which provides commercial PR services to commercial companies and public institutions while providing free-of-charge or subsidised PR services to other NGOs and thus helping local non-profit organisations to promote their missions and advocate for social change.

3.2. Key sectors for social economy and phases of development of social economy players

Although there is very little details about the social impact of SEs in Montenegro, according to CRVNO, the most common activities for actors in the SE sector are the production of souvenirs, garments, home décor, and merchandising items for businesses. Those focused on services run assistance and day care services for the elderly, or those with disabilities, and all types of assistance services for the elderly. In terms of the target groups they serve, the same mapping indicates that 68% of them employ people with disabilities, 12% employ female victims of domestic abuse, 12% elderly women and 6% people from the minority Roma and Egyptian communities. For the cooperatives, the predominant sector is agriculture.

The identified social enterprises in Montenegro are in their early stages of development. Most of them are in the stages of developing their business plans or testing their business model in practice. There have been only few examples, identified by the stakeholders and the expert, where the SEs are in a stage of validated business model and are exploring strategies for long-term growth and sustainability. CRVNO study revealed that all except one of the SEs lacked feasibility plans before initiating their entrepreneurial activity. Only one of the SEs has developed a viable marketing strategy. This indicates their lack of strategic planning which contributes to slow down and limit the growth of the sector.

3.3. Funding and financial tools social enterprises use

Accessing to financial viability remains the most challenging issue for SE & CSO actors in Montenegro. They continue to be highly dependent on international donor funding, while state support although relatively significant is insufficient. There are some initiatives from the private sector, but they are limited in size and scope.

Most of the SEs were initiated by CSOs using grant funding for purchasing equipment, buying materials and covering the salaries of the employees. Some SEs have also used individual and corporate support to purchase the initial equipment needed to launch the entrepreneurial activity. Grant funding was obtained directly or indirectly through intermediary organisations such as fAKT¹⁸, the Chamber of Skilled Crafts and Entrepreneurship¹⁹, Care International²⁰, etc. SEs covered in the CRVNO survey indicated that they have not considered EU IPA²¹ funding as a significant direct support. However, the intermediary organisations mentioned above are providing support through EU funds they received. Thus, many of the SEs have indirectly benefited from EU grant support.

According to the survey from 2016, the largest number of CSOs were funded by the Government and State bodies; namely 42%, while 41% of CSOs used the funds received from local self-governments. SEs covered in the CRVNO mapping also pointed out the support from the municipalities not only through modest grant funding but also in buying their products and thus supporting them in accessing to the market. However, having in mind that most of the SEs are CSOs, which have limitations on earned income of 4.000 EUR, the level of income from their economic activities is very modest. This reinforces SEs dependence on grants to cover the staff and running costs. There are no cases identified where an SE has used other types of financing beyond grants and donations.

¹⁷ <http://www.prcentar.me/>

¹⁸ <http://www.faktcg.org/>

¹⁹ <https://wbc-rti.info/object/organisation/10930>

²⁰ <https://www.care-international.org/>

²¹ EU Instrument for Pre-Accession Assistance

Despite efforts to expand their funding sources, there is little or no diversification in SE and overall CSO funding. Not helped by the fact that individual philanthropy, in-kind support, volunteerism remain underdeveloped and concepts such as corporate social responsibility are completely new to the country. **Beyond donor funding, a severe lack of alternative funding is one of the key obstacles to the growth of social enterprises in Montenegro.** The situation is worsened by the fact that many donors are leaving Montenegro due to a combination of economic challenges and the region progress in its EU accession processes.

3.4. Monitoring and evaluation of the financial and social return

There is no reliable data about the impact of social enterprises on the vulnerable groups that they seek to serve. This is partly explained because the reporting structures within the SEs themselves are under developed or inefficient and little attempt is made to verify their social impact.

Individual SEs being mostly focused on employment and social integration of vulnerable groups monitor the number of target groups they serve and document individual case-studies. Since most of the funding is project-based, SEs would normally use the reporting requirements of the donor to report on their results and impact. Nevertheless, having in mind the nascent character of SEs, and the challenges they face in terms of financial sustainability, they often provide short-term engagement for their target groups and thus face challenges in consistently tracking long-term social return.

4. THE ECOSYSTEM FOR SOCIAL ENTERPRISE DEVELOPMENT

4.1. Relevant policies, regulatory and institutional framework

4.1.1. The legislative and regulatory framework related to social economy

The Government of Montenegro has acknowledged the potential impact of the SE sector on employment and social cohesion, and the National Strategy for Employment and Human Resources (2012-2015) emphasized that SE can contribute to the creation of alternative jobs, especially vulnerable groups. However, little real progress has been made on the issue. Social economy is still a poorly understood concept among the Montenegro's state organs. It is mostly considered through the lens of employment of vulnerable groups while the wider potential impact on sustainable and equitable development has not been considered in the policy discourse.

Despite the fact that the Government Work Program for 2013 obliged the Ministry of Labour and Social Welfare to prepare a draft law on Social Entrepreneurship, the Strategy for Social Entrepreneurship 2013-2016 and a subsequent Action Plan for 2013, there is still no law on the SE sector, nor are there a national strategy and approved policy document. There is no legal framework to define the different types of SEs, foundation and/or registration procedures and perhaps most critically, no rules on operations and funding. The policy drafting efforts have failed mostly due to significant diverging views of the various stakeholders; which is still the case today. This has reduced the political will to address this topic. It should be noted that a number of critical strategic documents were adopted, ranging from the constitution of the Agenda for Strategic Reform (2002), the Poverty Reduction Strategy (2003) and the National Development Plan of 2013-2016, all outlining the goals, strategies and priorities essential to the development of the SE sector.

Existing SEs operate under the primary laws that govern their legal forms. The main legislation governing CSOs is the Law on NGOs²², which defines NGOs as non-governmental associations and non-governmental foundations. Foreign CSOs may also operate in Montenegro. The law regulates

²² Zakon o nevladinim organizacijama, Sl. list Crne Gore broj 39/2011

procedures for the formation and registration of CSOs, as well as the requirements for the management bodies and other aspects of CSO activities. In November 2016, through the Ministry of Interior, the government presented a decision to reorganize the state administration, delegating CSO affairs, including registration, to the newly established Ministry of Public Administration. Registration procedures for CSOs are simple and founding documents are not demanding. According to the law, CSOs may engage in economic activities, but income derived from such activities should not exceed EUR 4,000 in a given year or a maximum of 20 % of an organization's total income in the previous year. The information has to be registered by the Central Registry of the Commercial Court. To be able to earn income above these limits, CSOs have to establish commercial entities. Any income generated within the NGO above the threshold is to be transferred to the state budget. This situation limits the growth of SEs under this legal form as any continuous economic activity would easily exceed this annual income level. It also limits CSOs' opportunities to compete directly for tenders for service provision which instead have to establish separate companies that are taxed at the corporate rate in order to be able to compete to deliver such services.

CSOs are exempted from VAT on foreign grants and donations. Imported humanitarian goods, all services provided by CSOs, unless the exemption would unfairly distort market competition, and "public interest" services, which include educational, cultural, sports, and religious services²³ are also exempted. CSOs don't have to register for VAT if their annual income doesn't exceed 18.000 EUR. The Labour Law treats CSOs like other employers which enables them to use the benefits for active employment measures. It also rises challenges in terms of providing long-term employment since the law requires to offer formal employment contract to employees after two years of continuous engagement²⁴. Most of the NGOs do not have stable long-term funding and most of their staff is project-based.

Some CSOs have established SEs under the company law²⁵, mostly as Limited Liability Company. By being established on commercial basis such enterprises do not receive tax incentives except for the possibility to deduct up to 3.5% of their total income as donation to specific social purposes ; as defined by the Income tax and Corporate tax laws²⁶. The Law on volunteering work²⁷ doesn't allow companies to engage volunteers which again limits the possibilities of SEs with this legal status to engage volunteer support. Nevertheless, under this legal form they are able to use the support measures available to SMEs which are out of reach for the CSOs.

The Law on Cooperatives²⁸ regulates the registration and operations of the cooperatives in the area of agriculture. Cooperatives in the construction industry are also covered by the sectoral law. Except the old legislation from the former Federal Republic of Yugoslavia, there is no umbrella piece of legislation on cooperatives. The legislation thus fails to recognise other forms of cooperative movement including social cooperatives. Similar to the dilemmas on SE legislation about who has the authority to legislate, the Ministry of economy did not assume a proactive role in cooperative policies. This is also a limiting policy factor in the development of social economy in the country.

Active support measures for PwD are laid out in the law on Professional Rehabilitation and Employment of Persons with Disabilities²⁹. This law also outlines possibilities for establishing specific forms of sheltered workshops or enterprises for professional rehabilitation for this particular target group. However, in practice, these entities are mostly state owned companies dependent on state subsidies. The study conducted by CRNVO³⁰ identified one CSO that has established a sheltered workshop ("Golden Hands" established by the Association of paraplegics Bijelo Polje and Mojkovac).

²³ Needs Assessment Report Montenegro, Update 2016, Technical Assistance for Civil Society Organisations (TACSO) Montenegro Office, 2016

²⁴ The 2016 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2017

²⁵ Zakon o privrednim društvima, Sl. list Crne Gore broj 006/02, 017/07, 080/08, 040/10, 036/11, 040/11

²⁶ Limited to health, educational, scientific, religious, cultural, sport, humanitarian and environmental purposes

²⁷ Zakon o volonterskom radu, Sl. list Crne Gore broj [26/10](#), [31/10](#) i [14/12](#).

²⁸ Zakon o kooperativama, Sl. list Crne Gore broj 43/15

²⁹ Zakon o profesionalnoj rehabilitaciji i zapošljavanju lica sa invaliditetom, Sl. List Crne Gore broj 49/08, 73/10 i 39/11

³⁰ Vukovic M. and Bulatovic J., Needs analysis of social enterprises in Montenegro, Center for development of NGOs, 2016

The Strategy for the Development of CSOs 2014-2016 defines social entrepreneurship as the ‘fourth measure for the creation of an enabling environment for civil society’. According to the stakeholders, the first working version of the new strategy included several measures for supporting SE development including adopting a Strategy on social entrepreneurship. However, most of the measures were removed from the following draft versions and thus, the existing draft does not include any policy measures related to SE development.

Although there is an agreed need for a legal framework for social enterprises among the stakeholders, it has been suggested that in the interim period, revisions in the existing laws could be made to positively affect the creation and operation of social enterprises. Potentially, the law on Business Organisations and the law on Non-Governmental Organisations could be adapted to provide greater sector relevant support.

4.1.2. Institutional framework

In the previous years, the Ministry of Labour and Social Welfare was designated as responsible for issues related to social entrepreneurship policies considering the focus on employment and social inclusion of vulnerable groups. Even though the Ministry of Economy has participated in the policy debate when the draft law was prepared back in 2013, the Ministry has not been actively involved in the process and has not seen yet a significant role for them in shaping the SE policy agenda. Although the upcoming strategy on SME development does not include social entrepreneurship, it presents an opportunity since the strategy is still in the drafting process. While the development of social entrepreneurship has been included in the National strategy on sustainable development of Montenegro 2030, the Ministry of Sustainable development and tourism has not been actively involved in shaping public policies in this area.

The Employment Agency of Montenegro is seen by the SEs covered in the study as a key institution that provides support in the implementation of their social entrepreneurship initiatives. The Employment Agency is responsible for the implementation of the active labour market measures including the subsidies for the employment of vulnerable groups.

There are several mechanisms that facilitate the cooperation between the Montenegrin government and CSOs. The main one is the Office for Cooperation with NGOs, together with a network of liaison officers in ministries and other state administration bodies that facilitate coordination and cooperation between the government and CSOs. The Office for Cooperation with NGOs plays an active role in increasing the awareness among the institutions about the importance of SE and the need to address this issue in the policies.

The Government of Montenegro adopted a decision to establish a Council for Cooperation between the Government and NGOs. The Council is composed of 11 representatives from Ministries, the Head of the Office for Cooperation with NGOs and 11 CSO representatives. The chairperson of the Council is the President; the chairperson and the members of the Council are appointed by the Government for a mandate of 3 years. CSOs are elected through a public announcement. The main goals of the Council are the further development of institutional mechanisms of cooperation and participation of NGOs, monitoring of the implementation of the Strategy for Cooperation with NGOs and support the development of the relations between the Government and NGOs. The council is specifically responsible for monitoring the implementation of the Strategy for Development of CSOs for 2014-2016, as well as the Action Plan for Chapters 23 and 24 of the Acquis related to CSOs, and for providing recommendations on legislation and other documents related to CSOs with the aim of improving CSO–government cooperation.

In practice, the work of the Council experienced a polarisation between government and CSO members partly because of the overall political environment, which often resulted in outvotes. Recently, the CSO representatives boycotted their membership due to a “dissatisfaction with the way

the opinions of the Council have been presented to the Government by its President”³¹. CSO representatives are also included in working groups for the negotiation process with the EU, the Joint Coordination Body of the European Economic and Social Committee, and other advisory bodies established by the government and other state entities. However, the EU accession process continues to lack transparency, mainly due to a change in the negotiating structure and the establishment of the Rule of Law Council, which consists only of state authorities and organizes closed meetings.

The Law on Local Self-Government regulates cooperation between CSOs and local authorities. However, the implementation of the law is inconsistent, and CSO participation in the development of local strategies and policymaking is very limited.

4.1.3. Links with existing Social Protection and Social Inclusion systems

As a result of the challenging fiscal environment, the national government will have to take active measures to reduce the number of people employed within the public sector, partially through the reduction of bureaucracy. Moreover, this is likely to require the transition of social protection service providers out of the public sector and into private/public partnerships or fully into the private sector. This could create increased opportunities for SEs to be recognised as social service providers and potentially engage in social contracting with the institutions.

The updated National Strategy for Employment and Human Resources (2016-2020) has specifically recognised the importance of social entrepreneurship in creating opportunity for job creation for the vulnerable groups (long term unemployed, women, the young, persons from underdeveloped areas and PwDs) and places social inclusion and reduction of poverty as strategic imperatives. The strategy identifies a need for further analysis and for the drafting of a Strategy for the development of social entrepreneurship.

The Law on Social and Children Protection³² enables a decentralised delivery of social services in this area, which is financed by the State and municipality budgets. It opens an opportunity for social service-providers SEs which would have to be licenced and accredited by the designated authorities. The bylaws have been adopted in 2015. Nevertheless, there is a lack of information and the standards seem too high for the emerging SEs³³.

4.2. Key stakeholders and existing coordination mechanisms

Table 1 shows the already identified Social Enterprise Ecosystem stakeholders within the Western Balkans Mapping Study 2017 ©NESsT, updated for the purposes of this study. Coordination among stakeholders on issues related to civil society is formalised through the Council for Cooperation with NGOs. In relation to social entrepreneurship, there is no formal coordination mechanism and the stakeholders are mostly engaged through working groups and different meetings of stakeholders.

Table 1: Key Stakeholders in the Social Enterprise Ecosystem in Montenegro

Organization	Role
Policy Makers	
Ministry of Labour and Social Welfare	<ul style="list-style-type: none"> • Develops key strategic documents around social entrepreneurship, social services and employment • Prepared a draft Law on Social Entrepreneurship in 2013; Strategy for social entrepreneurship 2013-2016 and the Action plan for 2013 (which were never adopted)

³¹ Monitoring Matrix on Enabling Environment for Civil Society Development, Regional Report 2016, Balkan Civil Society Development Network, 2017

³² Zakon o socijalnoj i dječjoj zaštiti, Sl. list Crne gore br. 27/13, 1/15, 42/15 and 47/15

³³ The 2016 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2017

	<ul style="list-style-type: none"> • Adopted and implemented a National Strategy for Employment and Human Resources (2012-2015)
Ministry of Interior	<ul style="list-style-type: none"> • Adopted Strategy of Development for CSOs for 2014-2016
Ministry of Public Administration	<ul style="list-style-type: none"> • Newly assigned institution for CSO related issues
Ministry of Economy	<ul style="list-style-type: none"> • Responsible for legislation related to companies • Implements financing Programmes for fostering business
Ministry of Agriculture and Rural Development	<ul style="list-style-type: none"> • Develops legislation for cooperatives • Develops and promotes the growth of the existing micro, small and medium enterprises and entrepreneurs in the sector of agriculture and food production • Provides supporting mechanisms for the development of cooperatives.
Ministry of Finance	<ul style="list-style-type: none"> • Draws up and implements the government's fiscal policy and support mechanisms
Office for cooperation with NGOs	<ul style="list-style-type: none"> • Responsible for coordinating cooperation between the government and the CSOs • Active in increasing awareness among the institutions about the importance of SE and the need for enabling policies
Funders	
Fund for the Professional Rehabilitation and Employment of People with Disabilities	<ul style="list-style-type: none"> • Provides funding for professional rehabilitation of unemployed and employed people with disability • Supports active employment policies for people with disability • Co-finances special organisations and sheltered companies for the employment of people with disability • Provide subsidies for the employment of people with disability
Investment and Development Fund of Montenegro (IDF)	<ul style="list-style-type: none"> • Provides a variety of financing mechanisms, such as co-financing and loans with favorable conditions • Runs finance facilities for specific target groups, e.g. youth and women
Employment Agency of Montenegro	<ul style="list-style-type: none"> • Implements active employment policies and measures • Finances or co-finances job creation and inclusion of the unemployed • Finances adaptation of premises and technical equipment for PwD
EU funds	<ul style="list-style-type: none"> • Supports development of the social sector through know-how support, experience exchange and funding (including IPA funding) • Supports SME sector development, including through the Western Balkans Enterprise Development and Innovation Facility ("WB EDIF"), which provides financing solutions for SMEs implemented by EBRD and EIB Group as well as targeted policy interventions and advisory services aimed at the SME sector
Yunus Social Business (YSB)	<ul style="list-style-type: none"> • Supports social enterprises through investment readiness programme YSB Balkans Accelerator for social enterprises from the Balkan Region
Microcredit finance institution (MFI) Alter Modus	<ul style="list-style-type: none"> • Provides microfinance to micro and small enterprises • Partner lending institution of EFSE
Support Organizations and Institutions	
Fund for Active Citizenship (fAKT)	<ul style="list-style-type: none"> • Foundation providing financial assistance to CSOs • Promotes social entrepreneurship • Advocates for a more enabling environment • Provides capacity building in the areas of advocacy, project management and financial management
Centre for Development of Non-Governmental Organizations (CRNVO)	<ul style="list-style-type: none"> • Supports CSOs sustainability and development of SE initiatives • Provides capacity-building programs for CSOs and SEs • Conducts studies and research • Manages SE web portal https://proizvodise.me/

	<ul style="list-style-type: none"> • Promotes social entrepreneurship and advocates for a more enabling environment
NGO Juventas	<ul style="list-style-type: none"> • Published a Study on Social Entrepreneurship in Montenegro • Provides capacity building to CSOs on business planning and supports establishment of SE initiatives
Local NGO Local Democracy Agency Niksic (member of ALDA – The European Association for Local Democracy established by initiative of Council of Europe)	<ul style="list-style-type: none"> • Works on development of democracy on the local levels • Supported ten CSOs to develop business plan, fundraise and build capacities in management and promotion; • Conducted research and mapping on SE needs in Montenegro; • Established Centre for Social Economy Development
PI Montenegro Chamber of Skilled Crafts (ex. NGO Montenegro Chamber of skilled crafts and Entrepreneurship)	<ul style="list-style-type: none"> • An umbrella organization representing the professional, economic and social interests of Montenegrin SMEs in skilled crafts industries; • Supported the creation of six social enterprises, with grants, capacity building and networking; • Implemented awareness raising campaign on buying SE products in 2014.
Foundation Business Start Centre Bar (BSC Bar)	<ul style="list-style-type: none"> • Provides comprehensive and integrated support to small and medium-size enterprises • Provides training for the acquisition and improvement of business skills, advisory services for starting business • Offers micro-loans • Organized in 2016 first seminar on social entrepreneurship

4.3. Existing funding strategies for social economy

4.3.1. National public funding schemes

Since there are no policies on social entrepreneurship, there is a lack of targeted approach to support social enterprises. SEs are able to access funding through active employment measures, grants for CSOs and other SME support measures.

The level of state resources allocated to CSOs is limited. The adoption of the 2011 law on NGOs was intended to provide a structured approach to government support of the civil society sector by establishing a commission with representatives from the institutions and CSOs³⁴. However, the necessary bylaws have not been adopted and the Commission was not established. In the meantime, despite the fact that the Commission has never been functional, the respective Ministries have not resumed funding. In 2015, the Ministry of Interior (MoI) prepared a draft Law to amend the Law on NGOs, which addresses the issue of funding from the state budget. The draft law, though not adopted yet, introduces a new model of financing that involves centralized planning but decentralized allocation of funds to CSOs³⁵. According to this proposal, which may not have taken into account the prerequisite input from the NGO community, the government will identify the priority areas for funding while the distribution of these funds would be managed by the relevant ministries.

The *Commission for the Allocation of Revenue from Gambling* still exists and continues to redistribute 60% of the revenues from the games of chance. As a result, the major source of state funding for the CSO is still coming from games of chance. In 2016, CSOs received 3,129,477 EUR from games of chance, a slight increase from 2,819,637 EUR in 2015³⁶. The available funding cover six areas of work: social protection and humanitarian activities, needs of persons with disabilities, sports development, culture, non-formal education of youth and children, and issues of addiction. This is despite the fact that the law that governs it identifies 20 areas of public interest. Overall, the stakeholders state that the distribution of lottery funds lacks transparency and is available to a limited

³⁴ Needs Assessment Report Montenegro, Update 2016, Technical Assistance for Civil Society Organizations (TACSO) Montenegro Office, 2016

³⁵ . The 2016 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2017

³⁶ The 2016 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2017

scope of organisations. Moreover, they believe that there is a lack of a control and monitoring mechanisms to provide an oversight over the funds awarded.

The allocation of *funds by municipalities* is insignificant, not relevant to the sector needs, and is generally not transparent. According to data published by the Centre for the Development of NGOs (CRNVO), municipalities allocated EUR 440,572 for CSO projects in 2015³⁷. Out of this amount, EUR 285,538 were allocated based on open calls for proposals, while the remaining EUR 155,034 were allocated non-competitively; generally based on a decision by the mayor where personal relationships, rather than the quality of projects is assumed to be the deciding factor.

Active support measures for persons with disabilities (PwD) are laid out in the law on Professional Rehabilitation and Employment of Persons with Disabilities, which regulates the vocational rehabilitation, and employment of PwDs. There are a number of incentives for companies that employ PwDs, including: grants for workplace modernisation & adaptation, preferential loans for workplace equipment and tools for PwDs, contributions to payroll cost for each employed PwD³⁸, and an allowance for any human resources specialist employed to assist the PwDs. Nevertheless, this law has a limited impact on the SE or NGO sectors as the majority of the beneficiaries are state owned companies with little market or social orientation while the employers from the commercial sector prefer to pay fines to the Fund than to employ persons with disabilities. Unfortunately, a notable portion of the EUR 4-5 mil allowance is returned back to central government. CSOs and cooperatives were not able to provide quality programs to absorb this funding mechanism³⁹.

State funded *programmes for the active employment* offer a number of subsidy models as well technical support to enterprises, individuals and other employers to support the employment of people facing labour market barriers. The Employment Agency's activities are focused on active employment measures to finance job creation, inclusion of long-term unemployed people, other social welfare beneficiaries and other disadvantaged groups, as well as public works programs. In addition, they provide loans for investments in production and other capacities that lead job creation, seasonal employment (agriculture, tourism et al) and training programs for new employees. Employment subsidies that provide an exemption from payment of payroll and other related taxes target the inclusion of disadvantaged groups. The subsidies target the employment of people from 9 categories of registered unemployed: people over 40, long term unemployed, public works employees, people that find employment after completion of vocational training programs or internships, people made redundant, seasonal workers, people depending on social welfare assistance, members of the RAE⁴⁰ population, and people with at least 25 years of work experience⁴¹. In 2016, 400 employers used the subsidies granted for the employment of vulnerable groups; employing 4,997 people.

Several state-funded credits and other financing targeted at SMEs are also accessible to social enterprises that register as commercial entities. These support mechanisms are available through the Ministry of Economy (ME) and the Investment and Development Fund of Montenegro (IDF). The Ministry of Economy implements annual *Programmes for fostering business* which include a vast array of measures to improve regional and local competitiveness, modernize the industry, support SMEs and clusters, support direct investments and the development of business zones. Measures targeting SMEs include: a) co-financing 60-70% of costs (up to 5000 EUR) to reach international standards; b) financing of up to 3.500 EUR for introducing innovation in SMEs; and c) mentoring services. In addition, they provide a combination of loans, grants and technical support in cooperation

³⁷ Ibid.

³⁸ A 75% rebate on total payroll costs for PwDs for the entire period of their employment provided that the person has an over 50% disability. For PwDs with a lower percentage, subsidies are provided on a sliding scale starting at 75% in the first year to 50% from the third year onwards.

³⁹ Strategic study on the social economy development in the context of the South-East Europe 2020 strategy, Regional Cooperation Council Secretariat, 2015

⁴⁰ RAE refers to Roma, Ashkali and Egyptian population

⁴¹ Ibid. footnote 37

with the IDF such as: a) combination of subsidy and loan from IDF (20% subsidy from ME up to 20.000 EUR and the rest is a loan) for the modernization of the processing industry and b) combination of training and support in developing business plans combined with loan of up to 50.000 EUR from IDF for entrepreneurs interested in starting their own business.

The *Investment and Development Fund of Montenegro (IDF)* offers a wide range of mechanisms (some targeted specifically at women & youth) from the co-financing of loans to reduce interest rates. IDF has an average growth rate of 50% per year and it is estimated that 140 million EUR should be invested in 2017. The IDF in particular has support mechanisms for start-up financing, women in business, youth business financing, support to university graduates and support to entrepreneurship development. The loans granted to university graduates starting their own business are offered with a zero % interest rate for up to 50.000 EUR, with 1:1 collateral and up to 4 years of grace period. Since 2017, they have opened similar loan scheme for women entrepreneurs as well. The IDF also provides incentives in terms of reduced interest rates for borrowers who employ and/or provide internships for young people, are based in disadvantaged areas, etc. These measures are available only to SEs registered under the company law. They provide some support measures for clusters but there was no interest by any cooperative yet to make use of them.

There are however significant hurdles for SEs to access these public funds, among which a lack of awareness of their availability and a lack of the technical skills necessary to provide credible applications for funding and navigate through the application processes.

4.3.2. European Union funding

Even though there were no EU programmes specifically focused on social entrepreneurship, EU grant support is available to CSOs launching social enterprises. The funding is available directly as well as indirectly through grant programmes targeting civil society or the programmes implemented to improve employability and the labour market system.

The EU is a critical source of funding for Montenegrin CSOs. Historically, the European Commission has been the most significant external support to the entire civil society sector and supported social enterprises in all their forms. There has already been a number of funding activities that directly supported the development of social entrepreneurship and social services. *The EU Gender Equality Programme IPA 2010* for example finances the UNDP's Women in Business Programme, which is implemented by IDF jointly with the Ministry of Human and Minority Rights⁴². It is a capacity-strengthening programme for improving mechanisms and advancing appropriate policies in accordance with international frameworks.

There are a number of IPA programmes that have had notable impact on the social sector in Montenegro; including the *IPA Adriatic Cross-Border Cooperation Programme*, and the *IPA Cross Border Cooperation Programmes*. Together, these programmes have facilitated the delivery of relevant and crucial know-how, supported the exchange of best practise learning and of course provided funding.

The main funding instrument to date has been the *Instrument of Pre-Accession IPA (2007-2013)*; which was then completed with funds from the European instrument for Democracy & Human Rights, *ERASMUS* (for University students), *EaSI* (Employment & Social Innovation), *COSME* (Competitiveness of Enterprises and SMEs) and the *Civil Society Facility*. Grant funding was mostly available to associations through grant schemes for social inclusion (under IPA) and human rights (such as EIDHR). These mechanisms are still used for direct support of several social enterprises.

⁴² Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

However, it was highlighted in reports⁴³ that there were less EU funding available to CSOs in 2016. There were no calls in 2016 under the European Instrument for Democracy and Human Rights (EIDHR) and the only one single call under the Civil Society Facility Montenegro Programme, with a funding of EUR 2 million, was announced at the very end of December 2016, with contracts awarded in mid-2017⁴⁴. In addition, while the CSF call in 2015 identified the development of social entrepreneurship as one of the key areas to support, the last call (CSF Programme 2016 Montenegro) excluded social entrepreneurship⁴⁵ as an area to be supported. Nevertheless, Montenegrin CSOs were eligible for funding under several EU calls at the regional and EU levels. Direct EU funding is mostly accessible to a few well-developed CSOs due to strict cost-share requirements and provisions for advance financing of activities by the recipient; reimbursed only after the reports are approved⁴⁶. Few CSOs have flexible resources that they can use for this purpose. Thus, many SEs have been using this funding through larger intermediary organisations.

For example, the Fund for Active Citizenship (fAKT) which amongst other things provides capacity building in the vital areas of project management and financial management as well as advocacy, has been providing grants and EU re-granting schemes to CSOs - some of which were social enterprises - to improve their sustainability. The Centre for Development of NGOs (CRNVO) has been supporting social enterprises using EU funds since 2014; initially through a cross-border partnership with Smart Kolektiv from Belgrade. They have continued to provide capacity-building programmes in partnership with academia. Recently, Care International, with EU funding, is promoting SE as step towards the independence of CSOs and provides support to two partner organisations (Bona fide from Pljevlja and Centre for Roma Initiatives from Niksic) to establish social enterprises.

The *Public Institution (PI) Montenegro Chamber of skilled crafts*⁴⁷ (umbrella organisation of 18 crafts associations) in cooperation with the Italian Cooperation for the development of emerging countries (COSPE) implemented an EIDHR funded programme “Third sector and social enterprise development in Montenegro” through which they provided grant funding and technical support in the establishment of six social enterprises. Those SE mostly focused on integration of PwD through crafts. Around 40 organisations of persons with disabilities were included in the training on entrepreneurship, corporative design, fundraising, etc. The Chamber is making efforts to secure additional funding to provide on-going support; however, at present they are not able to sustain this initiative.

The IPA Operational Programme Human resource Development 2012-2013 within the grant scheme “*Youth, women and long-term unemployed at the labour market*” provided grants to the organisation FORS Montenegro⁴⁸ to promote social entrepreneurship and provided support and capacity building to unemployed persons from the above-mentioned vulnerable groups for establishing and managing social enterprises.

The European Investment Bank (EIB) makes funding available (primarily through the Western Balkans Investment Framework) to support a wide range of priorities. Of particular relevance to SEs are programmes such as *JEREMIE*⁴⁹, which provides funds targeted at start-ups, technology & innovation, microcredits, etc.

⁴³ The 2016 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2017

⁴⁴ Ibid.

⁴⁵ Guidelines for grant applicants, IPA 2014 Civil Society Facility Montenegro Programme and Civil Society Facility Programme 2016, Montenegro

⁴⁶ Needs Assessment Report Montenegro, Update 2016, Technical Assistance for Civil Society Organizations (TACSO) Montenegro Office, 2016

⁴⁷ By law re-registered as public institution from and NGO Montenegro Chamber of skilled crafts and entrepreneurship https://www.facebook.com/pg/zanapredak.me/about/?ref=page_internal

⁴⁸ <http://www.forsmontenegro.org/>, Project SEEM – Social Economy for Employment in Montenegro

⁴⁹ [http://www.eif.europa.eu/what we do/resources/jeremie/index.htm](http://www.eif.europa.eu/what_we_do/resources/jeremie/index.htm)

The financial products available to SMEs through the European Bank for Reconstruction and Development (EBRD) could also be considered by SE registered under the Company law. The financing is available through commercial partner banks or through direct financing instruments.

4.3.3. Social Investors, Social Impact Funds and other socially driven financing institutions

There are no specialised national social investors, social impact funds or socially driven financial institutions in Montenegro yet. The only available social investors for the Montenegrin social enterprises are the regional actors that cover the wider Western Balkans region.

Yunus Social Business Balkans (YSB), a non-profit venture fund (part of Yunus Social Business) is based in Tirana. Initially open to social businesses in Albania, it has expanded its activities throughout the Western Balkans region. YSB provides financing as well as business support to SE. The financing instrument consists of flexible loans with no collateral. Equity stake of up to 25% serves as security until the loan is repaid. The loans range between 80.000 – 500.000 EUR for a period of 6-7 years on average, with interest rates between 6 and 8 per cent and a grace period of up to 5 years. The finance facility is coupled with advisory support through training, mentoring, expertise and networking opportunities. No SE from Montenegro has been using their support yet.

Together the EIB & the EBRD provide facilities through the Western Balkans Enterprise Development and Innovation Facility (WB EDIF). The WB EDIF is designed to offer a range of measures to improve access to finance for SMEs and foster economic development. It provides direct and indirect financing according to the development stage of the SME, supports the general SME business environment through policy interventions and by providing advisory support. While the WB EDIF does not explicitly target SE, its support can be accessed by the SE operating as LLC.

The European Fund for South East Europe (EFSE)⁵⁰ aims at fostering economic development and prosperity in the Southeast Europe region and in the European Eastern Neighbourhood region through the sustainable provision of additional development finance; notably to micro and small enterprises and private households, via qualified financial institutions. EFSE Development Facility programme partnered with Partner Lending Institutions (PLIs) to achieve their goals. In Montenegro, they are present through the regional office of the partner Finance in Motion.

4.3.4. Private sector

Overall, there is very little private sector involvement in the activities of SEs. According to fAKT, the majority of small CSOs do not have the prerequisite skills to effectively communicate with the business sector and as such are unable to create appealing project proposals to attract support from companies. In general, the business sector itself only finances the programme proposals that fit their existing CSR programmes objectives. Individual philanthropy, in-kind support and volunteerism, all remain underdeveloped in Montenegro. Few companies regularly fund CSOs through calls for proposals. For example, Trebjesa Brewery supports environmental projects of CSOs since 2010⁵¹, while Montenegrin Telekom and Telenor both support initiatives to improve welfare in the local communities. More commonly, companies support CSOs by providing them with goods or services or jointly organizing events. There are no networks of socially responsible companies. For example, the UN Global Compact initiative has four members from Montenegro all of them non-profit organisations and business associations but no corporate actors.

⁵⁰ <https://www.efse.lu/>

⁵¹ Needs Assessment Report Montenegro, Update 2016, Technical Assistance for Civil Society Organisations (TACSO) Montenegro Office, 2016

Unless SEs are registered under the trade law and can meet normal bank credit criteria, debt funding is not a practical or viable option for the sector. Venture capital activity and business angels networks are not existent in the country⁵².

4.3.5. Microfinancing

The *BSC Bar Business Incubator*⁵³ was launched by the Municipality of Bar in 2010 with support from the Dutch CSO SPARK. Among its services, the BSC Bar has provided micro loans ranging up to 10,000 EUR to 71 start-ups totalling 495,290 EUR⁵⁴. Although social enterprises are eligible, none has applied so far.

The *Microcredit finance institution (MFI) Alter Modus* is the only microfinance partner lending institution of EFSE in Montenegro (others include large banks such as Erste, NLB and Societe Generale). Initially established as an NGO (as spin-off of the Danish Refugee Council) to provide support to marginalised groups in increasing their economic independence. With the new legislation related to the banking sector and NGO sector, at the end of 2008, they have established a new legal entity MFI which implements full microcredit programme. In 2004, they became the only non-profit EBRD loan recipient. Alter Modus provides microcredits to small entrepreneurs in Montenegro. Over the years, they have disbursed 80.000 loans totalling 148.7 million EUR to 37 thousand of clients⁵⁵.

The study didn't identify any stakeholder that recognised microfinancing as a suitable financing option for the SEs in Montenegro; neither a social enterprise that has used this type of financing.

4.3.6. Development Aid Agencies

International donors and agencies have played an important role in supporting the development of the SE sector, with key players such as USAID, United Nations Development Program (UNDP), International Office of Migration (IOM), International Labour Organisation (ILO), and the EU. However international donors are reducing their overall support. For example, USAID which is one of the largest supporters in the region has closed its operations in the country in late 2013 since Montenegro has made significant progress towards an EU accession. CSOs have acknowledged that they have received funds from the Norwegian Embassy, the US Embassy, the Australian Embassy, all targeting CSO sustainability.

4.4. Type of additional non-financial support to social economy

4.4.1. Business Development Services

There are several SE support organisations that are active promoters of social entrepreneurship and provide support for the majority of SE initiatives in the country.

*Juventas*⁵⁶ is a youth oriented NGO focused on supporting youth education and positive activism. In addition to its focus on youth issues, it is also actively engaged with providing social services to a range of vulnerable groups, reducing poverty and its impacts, promoting the rights of LGBT persons and the inclusion of Roma people. With funding support from the EU under the Project "SPEED UP (Social Policies, Entrepreneurship, Employment, Dialogue Upgrading)", Juventas published a study on Social Entrepreneurship. The study's goal was to 'highlight the importance of social entrepreneurship for the socio-economic development of Montenegro' and to initiate stakeholders' dialogue on the legal

⁵² SME Policy Index: Western Balkans and Turkey 2016, *Assessing the Implementation of the Small Business Act for Europe*, OECD, 2016

⁵³ <http://www.bsbar.org/en>

⁵⁴ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

⁵⁵ Alter Modus web resources <http://www.altermodus.me/index.php/me/>

⁵⁶ www.juventas.co.me; <https://www.facebook.com/nvo.juventas.3/>

framework on SE. They engage in this topic having in mind their target groups and have already developed several SE ideas. In addition, Juventas has provided training courses to NGOs on developing business plan for their socially driven businesses. In another EU-funded project, Juventas has financially supported two SE-related initiatives for the integration of prisoners (decoupage technique for women prisoners and building prisoners' skills for different traditional crafts which were highly productive). Nevertheless, the Government did not take a proactive approach in providing follow-up funding for the workshop educators and the initiatives didn't become sustainable.

*Fund for Active Citizenship (fAKT)*⁵⁷ is the only local donor that offers grants to informal groups. In 2016, fAKT funded thirty-nine community-based actions and organizations for a total amount of 133,000 EUR. In addition, fAKT is part of the SIGN Network, a regional network of indigenous grant makers. fAKT provides capacity-building opportunities to contribute towards the building of democracy and positive social change. The grants target CSOs that deliver social services and supports local CSOs as they build towards sustainability. Direct support has been provided to six SEs in the form of grants ranging from EUR 5-10,000.

*Centre for development of NGOs (CRNVO)*⁵⁸ provides support for the establishment and development of NGOs in the country as well as support to organisations that want to establish social enterprises. Amongst a range of activities targeted towards the social enterprise sector, CRNVO has launched the first school for social entrepreneurship in Montenegro, hoping to strengthen the capacity for building social enterprises. The school is implemented in cooperation with the University of Montenegro, Faculty of Economics. To support this, it has also built a dedicated website about social enterprises (<https://proizvodise.me/>) and runs the first social enterprise fair in the country. They also engage in raising awareness and advocacy in this area. In cooperation with TACSO, in 2014, they have provided support to the Ministry of Labour in relation to the legislation.

*Local Democracy Agency Niksic*⁵⁹ was founded in 2011 as part of a regional network (former Yugoslav countries) of 11 agencies to support the development of democracy. As part of that mission and in partnership with the Association of Cooperatives from Italy in the period from 2014-2016, LDA Niksic carried out a mapping survey of social enterprise needs in Montenegro. They further provided capacity-building activities and organised a number of roundtable events to promote the concept to relevant stakeholders. To date, around 20 CSOs took part in trainings for business planning, fundraising, management and promotion. One of the key project outcomes was the creation of the Centre for Social Economy Development in Podgorica, which, although the project itself is over, is currently carrying out fundraising for its own long-term sustainability. While the Centre provides advice, information, contacts, networking and training, their aim is to act on two levels: a) as SE incubator where SEs share the common expenses and b) as chamber of SEs based on membership and self-organising for mutual support and advocacy.

In addition to the work of the abovementioned organisations, there are two business incubators operating in Montenegro, IT Business Incubator "Inventivnost" in Podgorica and BCS Bar in the Municipality of Bar. The business incubator in Podgorica doesn't seem to be operating anymore due to financial constraints⁶⁰ and no recent information is available online about their work. *BSC Bar*, is a business incubator targeting a broader range of SMEs (both established and start-ups). BSC Bar provides facilities at discounted rates for a maximum period of three years, skills training, business advisory services and broader training. Amongst its achievements, it has supported the establishment of over 120 companies and 71 start-ups, and trained more than 3,527 people⁶¹. BSC also organized seminars on social entrepreneurship and SEs are eligible to use its support services.

⁵⁸ <http://www.crnvo.me/>

⁵⁹ <http://aldnk.me/index.php/en/>

⁶⁰ SME Policy Index: Western Balkans and Turkey 2016, *Assessing the Implementation of the Small Business Act for Europe*, OECD, 2016

⁶¹ BSC Bar website

The *EBRD* addresses the needs of the SME sector via its *Advice for Small Business* facility, which co-finances technical support activities for companies to engage consultants to help improve business practises and performance. These consultancy services typically encompass areas such as finance, management processes and information systems, process and quality management, human resources, export promotion, etc. The facilities are open to SEs performing registered commercial activities. In addition, the EBRD manages the *Women in Business Program* for women-led or majority owned SMEs that provides skills course, business advice, mentoring and access to finance.

4.4.2. Local/national and/or Regional Networks

Currently, there is no existing network of social enterprises or any other SE-related networks in Montenegro. CRNVO study identified poor networking as one of the key challenges for the SEs covered with the study. Even in terms of participation in regional and international networks, SEs seem to lack awareness and information about European networks and membership opportunities. This definitely limits the possibilities of Montenegrin SEs to learn from their peers, get inspired and utilise resources available beyond the country borders.

As part of the raising awareness opportunities, the Association for Democratic Prosperity ZID⁶² from Podgorica is organizing the Upbeat Forum on Social Innovation.

On the other hand, the advisory support infrastructure in Montenegro is relatively vibrant, with CSOs frequently forming and joining networks and coalitions at the local, national, and regional levels; particularly around specific issues of interest. In 2015, the Open Platform was established to enhance dialogue within civil society and launch initiatives to improve the environment for CSOs and the image of the CSO sector. National thematic CSO coalitions and networks (such as Roma Coalition, Coalition for the Rights of LGBT, and Natura-Coalition of Environmental NGOs) have also been established. This could indicate that as the SEs grow they could recognise the benefits of networking for mutual support and advocacy.

4.4.3. Academia

Social Economy in general and social entrepreneurship in particular are not topics generally covered within the formal education system. Although the system is undergoing an overhaul and entrepreneurship has been introduced into the Vocational Education and Training system (VET), there is no systematic education about social entrepreneurship; which many see as a major hindrance to the development of the sector.

As part of the significant reform process, a Strategy for Life-long Entrepreneurial Learning (2008-2013 and 2015-2019) was introduced with the primary goal of developing and promoting an entrepreneurial mind set in society. The Directorate for SME acts as coordinator of the partnership between the Ministry of Economy, the Ministry of Education and other policy stakeholders. Many of the national policies were revised to horizontally integrate entrepreneurial learning. In 2014, cross-curricula approach to entrepreneurship competences was adopted in the lower secondary education⁶³. Between 2012/2013, 7,546 students in 37 high schools (80% of the total) participated in a programme called “Strengthening Vocational Training” in North Eastern Montenegro, which was designed to help students develop an entrepreneurial mindset and reach the practise competence to create their own businesses⁶⁴.

⁶² <http://www.zid.org.me/tekuci-projekti/you-see/item/861-upbeat-forum-drustvenih-inovacija>

⁶³ SME Policy Index: Western Balkans and Turkey 2016, *Assessing the Implementation of the Small Business Act for Europe*, OECD, 2016

⁶⁴ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

Although to date efforts have focused around vocational training, there is a clear need for the public higher education sector to deal with an array of systematic challenges. This creates the opportunity for private higher education institutions to fill-in the gap. CRNVO cooperates with the Faculty of Economy in Podgorica to deliver their SE training programs. This might be an opportunity for an increased involvement of the academia. However, University graduates are coming into the workforce without an entrepreneurial mind-set or skillset, and with little understanding of alternative business models, which has a knock-on effect to the SME sector.

4.5. On-going and planned initiative addressing social economy issues

Montenegro is currently completing IPA I, component on Human Resource Development which has been implemented for the last 3 year. This component included measures to improve employability and labour market systems, mini portfolio initiatives ranging from buying computers for VETs, to providing soft skills and technical assistance within key ministries. It also included grant schemes to deal with active employment measures including employability of vulnerable groups (women, long term unemployed and ethnic minorities), youth and supporting their transition from education to the labour market, etc.

IPA II will most likely contain active employment support measures, labour market management and support to self-employment programmes; although the parts related to social policy are still under review and pending a final policy decision. It is an opportunity to include support to the development of social entrepreneurship through technical assistance to the institutions and support to SEs and SE support organisations. The main challenge is the reluctance of public institutions for strategic support to SEs and the fact that the designated authorities have not requested technical assistance in this area.

Recently, with support from the US Embassy, CRNVO launched a new project to raise awareness, capacities and promote SE and partnerships at local level among the municipal actors.

The Investment and Development Fund of Montenegro (IDF), together with the Montenegro Development Bank, are considering the possibilities to support social enterprises in the future. However, no specific plans have been developed yet.

4.6. Best practices in the country and replicable models

The NGO Nova Sansa u Novom⁶⁵ founded *Our ID Card*, a digital printing office in Herceg Novi, in 2009. It was established with the help of a number of central government agencies (amongst which is the Agency for Employment which covered the payroll costs for six PwDs for the first year) and the local municipality (which has been providing rent-free offices since 2009). The social objective the SE is to employ people with development disabilities and building their working capacity. By taking full advantage of subsidies provided by the Law for Professional Rehabilitation of PwDs and combining grant funding totalling over EUR 75,000 from fAKT, the Foundation for Open Society and USAID, to cover capital and working capital requirements, the NGO has reached a turnover in excess of EUR 115,000 a year, employs 7 full time employees with another six PwDs being recruited thanks to further active employment support from the Employment Agency⁶⁶.

⁶⁵ <http://www.novasansaunovom.com/>

⁶⁶ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

5. GAP ANALYSIS AND NEEDS ASSESSMENT

5.1. Macro-social factors determining the sector

Although Montenegro has benefited from a period of relative growth, especially in the tourism sector, and is undergoing an unprecedented period of capital investment in infrastructure, its economy is exposed to significant internal and external downside risks, which may exacerbate an already challenged social economy. The political environment, rule of law issues, the challenges linked to the EU accession process and a relationship fraught with mutual suspicion between the government and the civil society indicates that development and support to civil society are not among the main priorities for the Government.

The government is the largest employer, state-owned companies dominate the economy and the level of entrepreneurial activity is low. Furthermore, several actors have noted the transformation of the economy dominated by extreme neo-liberal policies which left little space for SMEs to thrive and is thus impeding the survival of the SE in the open market. The welfare system remains weak and the policies related to social services and inclusion require more innovation and decentralisation to open up the space for services providing by SEs and CSOs. The EU integration process is expected to improve the overall context and force through the prerequisite policy changes that will support a vibrant social economy in the medium term.

The existing legislation is not conducive to the development of social enterprises. Existing restrictions on the levels of revenue that may be generated from the economic activities of CSOs act as a disincentive for future growth in the sector. This is perceived as one of the key legislative roadblocks that require urgent review. The fiscal and taxation rules do not provide clear guidance to the start-up SEs and as a result, many CSOs have been reluctant to expand their entrepreneurial activities. There is a lack of tax relief and/or incentives on the distribution of profits by for-profit companies established by CSOs. Furthermore, the law on cooperatives only recognises agricultural ones and possibilities among cooperative movement remain largely underutilised.

Social entrepreneurship is a relatively new model and is not properly recognised by the law. The concept of social entrepreneurship, as currently addressed by the policies, is largely seen as a tool for labour market inclusion of vulnerable groups. While individual SE examples have demonstrated the significant potential beyond labour market inclusion, the lack of a legal definition and positive legislation on social entrepreneurship demonstrates a failure to properly recognise its potential and does not support the growth of social entrepreneurship as a way of driving the broader sustainable development agenda.

The government policy agenda has promised material changes in the existing legal framework that could help the development of social entrepreneurship. However, the promised changes have been delayed on several occasions and obstructed by a lack of coordination and apparent lack of political will. There is little institutional understanding of the SE sector among the key designated institutions and even less engagement. The topic is on the margins of the political agenda. As a result, the EU did not include targeted SE support within their IPA programming. In the public discourse, the issue is mostly seen from the social policies aspect and not as a cross-sector theme. Thus, it is almost invisible to the public policies related to entrepreneurship and sustainable development. This has created confusion about the authority of the SE legislation. As a representative of the institutions rightly pointed out, social entrepreneurship is a form of business and the Ministry of Labour and Social Welfare cannot create conditions for business but can provide sectoral support in the inclusion of vulnerable groups. There is a need for an increased involvement of the Ministry for Sustainable development and tourism and the Ministry of Economy in the SE policy creation.

Setting up a supportive legal framework is one of the crucial element to create a supportive eco-system for SE. As indicated in the EU mapping study by European Social Enterprise Law Association

(ESELA)⁶⁷, the lack of legal recognition limits governments in introducing targeted support and incentives for SE and thus inhibits their development. It also limits the potential for a systematic monitoring of the trends, narrows the visibility and restrain the building of a specific SE identity. The key challenges in defining social enterprises remain the same regardless of which policy instruments are selected. It is important that any policies recognise the same three key aspects as in the other Balkan countries: 1) the potential scope of the impact of social entrepreneurship beyond labour market and social welfare; 2) cross-cutting characteristics of SEs across the sectors of economy, labour, environment, agriculture etc.; and 3) the need for an horizontally integrated legislation to properly recognise, promote and boost the development of SE; rather than a legislation perceived as controlling and over-regulating SE.

5.2. Access to finance

Access to finance has been identified as the biggest challenge for the social enterprises in Montenegro. Virtually all existing social enterprises have been founded and still operate with grant funding. The project driven nature of the majority of these enterprises means that many of its component organisations are young and are financially and technically unprepared for sustainable growth initiatives. They lack a diversification of their resources putting them in high financial risk in terms of sustainability.

SE face challenges in accessing both the public and private sector market. The lack of appropriate legislation means that SEs not only don't have a legal structure appropriate for investment or debt funding, but the lack of legal definition also excludes them from the potential income stream from public procurement.

Beyond grant funding for start-ups, a financing model for any but the very earliest stage of SE development does not exist. Banks are not engaged, private sector funding sources have shown little interest in the sector and the legislative framework necessary to provide structure and transparency to the sector doesn't exist; making it difficult to properly structure their funding. While microfinance is available on the market, it is only available to SEs from one organisation BSC Bar, who have built a proven model for incubating companies and supporting growth.

The funds that offer financing and technical support to SMEs that could be utilised by SEs do not take into consideration the nature of SEs nor do they reflect the restrictions existing on the way that SEs work.

Available government support funds lack transparency in the award process and many are inefficient. There is no follow up after the award, either to measure the appropriate usage of the funds or to measure the level of the impacts (if any).

On the other hand, most of the SEs lack the required absorption capacity. Being in the start-up or validation stages, they still seek continuous grant funding and are risks adverse. They also lack collaterals to be able to utilise the available repayable finance. Innovative support measures are needed to reduce their donor dependency on the medium-term.

5.3. Lack of relevant skills to access market

As in the rest of the region, the SE sector shows a clear shortage of project management skills, sector-specific experience (planning, budgeting and process management) and lack of the business management skills/experience necessary to plan for and manage financial, legal, and marketing processes. During the interviews conducted with the EUD and the larger enabling CSO actors, it appeared that they are critical of the existing SEs who, according to them, are too reliant on grant

⁶⁷ Social Enterprise in Europe: Developing legal systems which support social enterprise growth, Prepared by Bates Wells & Braithwaite London LLP on behalf of ESELA © European Social Enterprise Law Association, October 2015

funding and have shown little or no interest to develop themselves towards sustainability; which would be essential as more and more donors are abandoning the region. It is coupled with a lack of networking structures and knowledge of the past and current regional and EU experiences that could provide peer-learning and capacity building opportunities.

As indicated in the different studies, many SEs start their operations without any feasibility study or marketing plan. Only a small number of CSOs have developed public relations strategies. This is mainly due to a lack of internal resources and professionals in the sector, which may hinder the reputation building processes necessary to attract financings from the private sector. They lack proper branding which is crucial to reach out the potential targeted tourist market and thus expand the limited size of the local market. The opportunities of public procurement and supply-chains of larger companies remains underutilised and are limited by several factors such as lack of skills of the SEs, the limiting legislation and unsensitised market.

Most of the capacity building interventions are based on project-funding and thus do not provide long-term support and mentoring to the SEs in all stages of their development. Support is needed for the intermediary organisations and the already established initiatives (such as the Centre for social enterprise development and the Montenegro chamber of crafts) to take ground and build their expertise to properly serve the sector.

5.4. Opportunities and key drivers boosting the development and scaling up social economy

In addition to legislative and financial barriers, the sector faces a number of structural challenges, not least of which a historical public scepticism and suspicion over social ownership; legacies from the countries' socialist heritage. The CSO sector's overall public image has slightly improved due to involvement of several CSOs in the past election processes. According to CEDEM⁶⁸, as of June 2016, 39.8% of the public trusted CSOs, compared to 35.7 percent in November 2015⁶⁹. The media landscape in Montenegro is polarised, and personal disputes often affect coverage of CSO activities. Some media choose to report only on specific CSOs, disregarding or negatively reporting on the others. The building of improved relationships with the media is essential to improve CSO's reputation and improve public trust in order to increase the mutual interest for cooperation with both local and national commercial entities.

Although SEs and the sector are in their first stage of development and do not enjoy sufficient governmental and institutional support, progress are being made in building out the necessary infrastructure to support them. CSO actors such as fAKT, CRNVO, the Local Democracy Agency Niksic (ALD) and business incubator BSC Bar have created a positive environment for the development of SEs, providing skills development activities, training consulting and key services such as accounting and bookkeeping. However, it appears that there is no coordinated strategy. The later would better allow each entity to focus their resources on complimentary activities and create a more holistic environment for SE development. Further political, financial and technical support is needed urgently to guide the development of the sector.

There is an apparent need for building trust between the policy authorities and the SE actors in order to develop enabling long-term policies on social entrepreneurship. Coordinated effort by SEs and support organisations could contribute not only to build trust but also to educate the public authorities about the concept of social entrepreneurship. This in turn would accelerate the networking and building of a SE identity. There are also opportunities to stimulate the cooperatives legal framework by encouraging the Ministry of Economy to advocate for the inclusion of other forms of cooperatives in the legislation (potentially by adopting an umbrella cooperative legislation).

⁶⁸ Centre for Democracy and Human rights

⁶⁹ The 2016 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2017

The private sector has not been sufficiently considered by the CSOs and / or the nascent SEs, and not enough work is being done to present them with proposals for wider involvement. However, there are opportunities for a larger involvement of companies through their CSR agenda; especially in light of the Sustainable Development Goals and the UN Global Compact. Intermediary organisations, the chambers as well as the Ministry of Sustainable development and tourism could lead such initiatives.

For now, only organisations that employ PwDs enjoy the support necessary to thrive. The other forms of legal entities working within the SE sector continue to face difficulties and limited opportunities. Social entrepreneurship has the potential to make a notable contribution to the Montenegrin economy on key issues such as providing welfare services in partnership with or in replacement of government agencies, contributing to rural development, fostering the building of social capital which will positively impact social cohesion and inclusions and of course through work integration.

6. CONCLUSIONS AND GENERAL POLICY RECOMMENDATIONS

Social enterprises in Montenegro operate in an environment where central government resources are focused on fiscal stimulus to maintain economic growth. The entire sector enjoys little political support and a fragmented and unsupportive legislative framework. Structural, institutional, and legislative reforms are necessary. Social economy as a whole faces serious challenges related to legislation and access to finance. Existing social enterprises (the majority of which are in their start-up and validation phase) rely on infrastructural and financial support provided by CSOs. However very few of the SEs are prepared to scale up and do not have the capacity to absorb the financial resources necessary to reach sustainability. Domestic private sector social investment market is minimal and the debt-financing sector has little engagement with the SE sector.

The EU can support the development of the sector by providing much needed technical assistances as well as direct support in building sustainable SE eco-system. The EU could play a crucial role in placing social economy on the policy agenda of the Government; clearly focused on EU accession and policy convergence. One approach to this could be to place sector related reform within the Acquis framework, and by doing so, forcing the government to implement the required actions.

- **Legislative and policy framework**

The development of the SE sector suffers from limiting and unclear existing legislations as well as from a lack of targeted social entrepreneurship policies. It is of utmost importance that the legal barriers are addressed and complemented with targeted legislations which should clarify the definition of SE and provide a legal and public recognition of the nascent sector. As a first step, raising awareness among the main stakeholders and clearly defining the concept are essential in order to allow for the development of supporting policies. Furthermore, the concept should be integrated horizontally all throughout the different sectoral policies in the areas of economic development, employment and social inclusion, sustainable development and agriculture agenda. Public procurement policies should be adapted in order to take into account the social impact in the selection process.

Targeted SE policies are needed and should be built through wide consultations, integrating local expertise complemented with international comparative experience. If unblocked, the Council for Development of NGOs could initially serve as a space for policy discussion and convergence of understanding of the key stakeholders.

Public policy stakeholders could highly benefit from the implementation of a technical assistance to develop the policies, procedures and human capacities that are a prerequisite to an effective institutional support for the development social economy. Policy makers and other stakeholders need to be aware of the relevant EU and regional experiences and best practices. The EU can play a crucial

role in strengthening the Government's commitment to the principles of social entrepreneurship as developed by the EU's Social Business Initiative (SBI) as well as through technical assistance projects.

- **Access to finance**

The SE sector is dependent on donor financing and has made little attempt to adapt itself for the building of a sustainable operating model. This is partly due to a severe shortage of the technical skills and practise competence necessary to move towards sustainability. Many donor supported SEs are project rather than cause driven and as such do not consider sustainability in their initial project plans.

Donors are advised to provide financial resources to help potential grantees develop sustainable project plans and then disburse those resources on a milestone basis. A structured funding mechanism that would award grant funding for the initial start-up and development phases and low interest debt financing for the growth and sustainability phases would ensure that projects with a potential for sustainability are favoured.

Greater transparency is needed in the mechanisms, criteria, and award processes for public funded grants; in particular, the range of areas funded should increase to the 20 areas of public interest foreseen within the law on NGOs.

The success of the incubation activities of BSC Bar should be closely analysed and potentially used as a model to create a network of similar incubators across the country. A central funding structure combining central government and EU resources (perhaps through an organisation such as the EBRD) would potentially represent the best model to finance the operations of these incubators. Municipalities should be encouraged to participate in this initiatives by making vacant public properties available either as an in-kind contribution or by charging low rents. Municipal authorities should also be awarding a fixed percentage (perhaps 20%) of relevant local government supply contracts to qualifying SEs within their municipality, and thus would offer opportunities for the successful SEs and create long term jobs for vulnerable people.

From the strategic point of view, the SE funding community should increase coordination and develop funding approaches engaging with institutional stakeholders to turn them into active participants in the funding criteria and therefore ensuring a vested interest in the success of the sector. In a coordinated way, the various actors could create funding opportunities that suit short- as well as long-term financing needs of the SEs in all stages of development. Partnerships with large companies such as Erste bank with proven track-record as regional leader in SE support should be encouraged.

Another alternative mechanism to provide financial support for SEs is the concept of repayable grants. This 0% interest instrument where the principal is repaid in tranches on the basis of reached milestones, typically relate to financial performance (positive cashflow) and social impact (i.e. the number of disadvantaged people recruited or trained). The term 'Grant' is used purely from an accounting and taxation point of view.

- **Other support infrastructure**

To bridge the entrepreneurial skills gap and strengthen their management capacities, SEs require technical assistances. It requires that SEs should be granted with a full access to SME training and mentoring programs; whether governmental, CSR run or via donor partnership. This would be done more effectively if the relevant legislation and policies were inclusive for social enterprise. Initiatives to bridge the skills gap within SEs are ongoing through mentoring and training activities of organisations such as fAKT, CRVNO and ALD.

The regional disparities in Montenegro exacerbate the social challenges. It is recommended that a mapping exercise be conducted to understand the social economy needs of each region of Montenegro and a subsequent strategy document be devised. This strategy document should engage with and

provide strategic recommendations to all stakeholder groups. The documents strategic imperative should be to decentralise the capacity building and support services to better serve SEs in smaller towns and rural areas. The EU can provide valuable input through direct support to intermediary organisations as well as through encouraging public-private-CSO partnerships in building SE support infrastructure throughout the country.

Improving the visibility of SE actors and their achievements will help to raise awareness of the social and economic contribution that SEs can make; this in turn should encourage central governments to consider SEs at the core of their political agenda. Showing the positive impact that SEs can have will also encourage private sector actors to actively seek engagement with SEs and where appropriate reconsider the narrowness of their CSR activities.

Finally, networks of social enterprises and SE support organisations are important tools of the support infrastructure. As there is no SE network in Montenegro yet, the EU could consider supporting bottom-up networking initiatives at two levels: an SE network to build identity and articulate needs and a network of support organisations to promote and advocate in front of the authorities.

6.1. Priority sectors for country level intervention

The priorities in each area of support below are listed in such a way as to show the urgency and the sequencing of the needed interventions. It emerges that the most urgent support needed is within the **policy, legal and institutional framework** and the **coordination mechanism** which needs to be established. Further support is needed in **capacity building** through different approaches and modalities.

In parallel the need for increased and more streamlined **funding** will be necessary. With regards to this coordination among various stakeholders and funding institutions should be established to maximise the impact and improve prioritisation.

The table below shows the areas of intervention, priority areas and possible modality of support.

Areas of intervention in order of importance	What needs to be covered - priority areas	Modalities of support
<u>First area of intervention:</u> Policy, legal and institutional framework	<i>Priority area 1:</i> Technical assistance <ul style="list-style-type: none"> • Development of policy positions, procedures and human capacities that are a prerequisite to effective institutional support of the social economy. • Inclusion of the wider audience in the process of consultations when developing policies and strategic documents. • Acknowledgment and promotion of examples of good practice. • Study tours for policymakers to expose them to relevant EU and regional experience. • Media campaign to raise visibility and recognition of the impact SE produces. 	Bilateral envelopes (technical assistance, grants, CFP, twining, direct award etc.) Regional programmes (technical assistance, grants, etc.)
<u>Second area of intervention:</u>	<i>Priority area 1:</i> Coordination	Bilateral envelopes (technical

Coordination	<ul style="list-style-type: none"> • Support bottom-up SE national network to improve visibility and advocacy by SEs. • Support coordination of state institutions by creation of the national coordination body. 	assistance, grants, CFP, twining, direct award etc.)
<u>Third area of intervention:</u> Funding	<p><i>Priority area 1: Support to SE through adequate mechanisms</i></p> <ul style="list-style-type: none"> • Coordination between donors, private sector and financial institution to introduce new funding mechanism. • Open existing SME financial instruments to be available to SE as well. • Develop sustainable model of incubation support. • Support intermediary organizations to provide capacity building coupled with financial support. • Encourage corporate sector to engage in more venture philanthropy approach. 	<p>Bilateral envelopes (technical assistance, grants, CFP, twining, direct award etc.)</p> <p>Other support schemes (indirect management)</p>
<u>Fourth area of intervention:</u> Skills and access to market	<p><i>Priority area 1: Capacity building</i></p> <ul style="list-style-type: none"> • Ensure full access for SEs to SME trainings and mentoring programs, whether governmental, CSR run, or donor driven. • Design funding model to strengthen intermediary organizations to be able to provide capacity support to SEs throughout Montenegro. 	<p>Bilateral envelopes (technical assistance, grants, CFP, twining, direct award etc.)</p> <p>Regional programmes (technical assistance, grants, etc.)</p>

Should you need information on the suggested horizontal or regional approach see the final report for this contract (contract details on pg. 2 of this report), a very general overview is provided here:

- The analysis of SE in the Eastern Neighbourhood and in the Western Balkan countries shows that even though there are some differences, the **approach in prioritising the support in both regions could be the same.**
- Due to a **big number of stakeholders, fragmented support and lack of coordination**, it is of a paramount importance that the European Commission takes the lead in setting the **approach**, the **priorities** and in **defining the roles and responsibilities** for **EU horizontal approach.**
- When examining the needs in various countries the **current support** in terms of the format and amounts **dedicated to SE might not be adequate** or sufficient anymore.
- The analysis showed that **some areas should be covered on a country-by-country basis**, but **many priorities could be addressed through regional programmes**

7. ANNEXES

7.1. Annex 1 - Questionnaire survey

I. Questionnaire for the Delegations of the EU

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. EUDEL Country:
5. Position:
 1. What is the key responsibility of your Section? What programmes/project you carry out?
 2. Is your Section aware of the concept of social economy? If yes, can you provide your definition and/or understanding of the social economy and social enterprise concept?
 3. Is there a law on social economy in the country? Or Strategy or Action plan? If not, under what regulatory framework social enterprises operate? Under whose jurisdiction social enterprises fill in?
 4. Based on your opinion, is there an enabling environment for social enterprise development in the country? Were there any changes in the perception in the past years?
 5. Does your Section have a social enterprise strategy/action plan? What are the key elements, if exist.
 6. What type of programmes or facility EUDEL provide to the Civil Society Organizations in the country? Does your Section contribute to these programmes financially or otherwise?
 7. Are there any support schemes that might be suitable for the needs of the social economy actors? For example, support to women, youth, and civil society? Could they be suitable for social enterprises as well?
 8. What type of capacity support exist in the country? Networks, HUBs, network of impact/patient investors, incubators, start-up competitions, mentoring, etc. Are there any synergies with existing support programs within the country?
 9. Does your Section work with foreign partners implementing any social enterprise programme(s)? If not, do you think such partnership might be established?
 10. Are you aware of any special development programme that contribute to the competitiveness or sustainability of social enterprises? Please explain if positive.
 11. Based on your experience what is the nature and size of the social economy sector in the country? What are the key sectors/industries they cover? Are you aware of any assessment of the size of the sector? If not, what do you think is the reason?
 12. What are in your opinion limitations or challenges preventing social enterprises from obtaining financing?

II. Questionnaire for the Government institutions

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. Government Authority:
5. Position:

B. REGULATORY FRAMEWORK

1. What is the key responsibility of your Government Authority?
2. Is there a law on social economy in the country? Or Strategy or Action plan? If not, under what regulatory framework social enterprises operate?
3. What kind of support social enterprises may receive from the Government bodies (such as that grants, subsidies, incentives, TA). Are there any incentives for companies to employ marginalized individuals?
4. Based on your opinion, is there an enabling environment for social enterprise development in your country? Were there any changes in the perception in the past years?
5. Please assess the importance of the topic to the political and economic agenda of the country.

C. SPECIFIC SUPPORT TO SOCIAL ENTERPRISES

6. Is your Government Authority aware of the concept of social economy? If yes, can you provide your definition of the social economy and social enterprise concept?
7. Does your Government Authority have a social enterprise strategy/action plan? What are the key elements, if exist.
8. Do you support social enterprises directly or indirectly? If yes, what type of support your Government Authority provide: technical assistance, capacity building, financial, access to market, access to capital. Please provide details of such support; range of support, conditions, years of support, type of support (grant, investment, etc...)
9. Are there any support schemes that might be suitable for the needs of the social economy actors? For example, support to micro, small and medium entrepreneurs? Could they be suitable for social enterprises as well?

D. OTHER MAIN STAKEHOLDERS

10. Who are the main stakeholders in the social enterprise eco-system in the country? Are there any support organizations, what type of support they provide, do you cooperate with them in any way?
11. Who are the main donor to the social enterprises (this may include national or foreign foundations, government grant schemes, EU funding, impact investors, individual family support, diaspora, angel investors network, etc.).
12. What are your Government Authority plans for the further social economy development?

E. EU SUPPORT TO SOCIAL ENTERPRISES

13. Are there any EU programmes or facilities that benefits social enterprises in your country? Please provide details, if positive. Does your Government Authority contribute to that programmes financially or otherwise?
14. Does your Government Authority work with foreign partners implementing any social enterprise programme(s)? If not, do you think such partnership might be established?

F. STATE OF PLAY OF SOCIAL ECONOMY

15. Based on your experience what is the nature and size of the social economy sector in the country? What are the key sectors/industries they cover?

16. How would you assess the level of development of social enterprise sector in general in the country; start-up stage, validation stage, scaling stage?
17. What are the key challenges social enterprises face in the country?
18. What type of support social enterprises need? How do they fill it at the moment?
19. Please provide few examples of good practice of social enterprises in the country?

III. Questionnaire for the funders and supporters

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. Company name:
5. Position:

B. SUPPORT TO SOCIAL ENTERPRISES – SUPPLY SIDE

1. What type of support you provide to social enterprises? Please explain what products or services you offer?
2. What requirements you have in order to provide support to social enterprises?
3. What type of financing instruments you provide do social enterprises? Please explain the range of support, type of support (grant, loan, equity), typical amount, length of the support, additional capacity building attached to the financing, etc.
4. What products or services you offer to SMEs? Could they be suitable for social enterprises, if exist?
5. Do you have any future plans to create a more enabling environment for social economy development in the country or region? Who do you think should be responsible for social economy development within existing Government structure?
6. Would you consider partnering with similar organizations in order to provide additional support? Are you aware of any other support to social enterprises in the country/region?
7. How do you monitor and evaluate the progress of your support/investment?

C. SOCIAL ENTERPRISE NEEDS - DEMAND SIDE

8. What type of financing needs social enterprises usually have? What is the purpose of the support, typical amount they need, type of support they require?
9. What type of business advices, technical assistance and/or capacity building social enterprises typically have. Please explain.
10. What do you see as the key challenges social enterprises face when it comes to financing?
11. What do you see as the key challenges social enterprises face when it comes to capacity support?
12. What do you see as the key challenges social enterprises face when it comes to management and governing?
13. What are the key challenging in accessing the market for social enterprises?

IV. Questionnaire for the social enterprises

Note: Revised version of the questions was used for consultation meetings with the SEs

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

Name:

Email address:

Telephone number:

Social Enterprise:

Position:

B. SOCIAL ENTERPRISE INFORMATION

1. Please explain the mission of your organization/social enterprise?
2. What is your legal status of your social enterprise? How are you registered and under what law? Why did you choose that legal entity? Does it provide any benefits/subsidies?
3. What are the main social issues your organization is working on? Who are your main beneficiaries and/or clients?
4. What was the reason of establishing social enterprise?
5. What products/services your social enterprise is offering to the clients? Who are your main competitors? Who are target customers of your social enterprise?
6. How many people work in your social enterprise? Please specify how many comes from the beneficiary group, how many are full time, part time, volunteers?

C. FINANCIAL INFORMATION

7. What is your annual turnover? Did you have any profit in 2016, or years before? How do you distribute profit, if any?
8. Please evaluate the current financial status of your social enterprise:
 - a. We are losing money
 - b. We are breaking even
 - c. We are generating a profit (surplus of income beyond costs)
9. What tax you need to pay for the commercial activities within existing legal framework?
10. How did you get seed funding for your social enterprise? Please specify the source of funding:
 - a. grant (domestic or international donors)
 - b. own funds
 - c. loan from a bank
 - d. loan guarantee
 - e. support from government funding
 - f. impact investment
 - g. angel investment
 - h. equity
 - i. diaspora
 - j. other (please specify)
11. Please specify the purpose of funding and specify the amount provided including terms of funding:
 - a. operating cost
 - b. cost for the project activities
 - c. employment
 - d. start-up cost
 - e. other
12. Did you get sufficient amount of money to start your business? If not, how did you cover the rest?
13. What type and amount of funding your organization need at this stage of social enterprise development?

D. HUMAN RESOURCES

14. Did you have the necessary skills and experience to start your operations? If not, how did you obtain it? What type of support was provided?
15. What type of expertise and skills your social enterprise currently have? Do you know where you can obtain those?
16. Did you use any consulting support, capacity support, technical assistance, and networking?
17. Would you need additional consulting/mentoring/advisory support in the future? For what purposes? What specific skills your employees need?

E. OPPORTUNITIES WITHIN THE SECTOR

18. Is there an enabling environment for social enterprise development in your country?
19. Did you benefit from a membership in any social enterprise network? If yes, please specify the name of the network and type of support. What would you expect from such a network, what kind of peer support is most needed?
20. Are there any special development programs in your country supporting social enterprises?
21. Is there available EU support infrastructure for social enterprise development in your county?
22. Based on your experience what are the main challenges of social economy sector in your country.
23. Based on your experience what are the key opportunities for social economy in your country.
24. Please estimate the size of the social economy sector. Can you list some of the social enterprises in the country, giving us examples?

7.2. Annex 2 - List of Interviews

Stakeholders are divided into three main groups:

- Group 1: Representative of the public institutions
- Group 2: Representatives of support organisations and funders
- Group 3: Social entrepreneurs

Note: With some of the stakeholders were consulted over meetings and were not subject of full interview (as a follow-up of previous studies)

N	Organization	Representative Name Surname	Position
Group 1			
1	Ministry of Labour and Social Welfare	Mr. Jasmin Lukacevic	Independent advisor in the unit for vocational adult training, Directorate of labour market and employment
2	Ministry of Public Administration, National Office for cooperation with NGOs	Ms. Danka Latkovic Ms. Milica Dragičević	Head of the Office for Cooperation with NGOs Independent Advisor
3	Ministry of Economy Directorate for Industry and Entrepreneurship	Ms. Ivana Popovic Ms. Lidija Radovic	
Group 2			
1	Delegation of the EU to Montenegro	Ms. Marija Vukovic Djurovic Mr. Romain Boitard	Economic and EU Integration Advisor Program Manager for social policy

2	NGO Juventas	Ms. Ivana Vujovic	Executive director
3	Centre for development of NGOs (CRNVO)	Ms. Zorana Markovic	Programme Coordinator Good Governance Program
4	Fund for active citizenship (fAKT)	Ms. Anica Maja Boljevic Mr. Anto Jankovic	Executive Director
5	Agency for local democracy Niksic (ALD) Centre for economy development	Mr. Kerim Medjedovic Ms. Božina Stesević	Executive Director, ALD Executive Director of the Center
6	PI Montenegro Chamber of Skilled Crafts	Mr. Boris Mardonović	Executive Director
7	Investment and Development Fund of Montenegro	Mr. Vasilije Đurović	
1	NGO Help, Office in Montenegro	Mr. Dzenan Demic	Employment officer
2	NGO Help, Office in Montenegro	Ms. Marina R.	
3	NVO Centar za zenska prava	Mr. Marko Jusic	Assistant, Public Advocacy Program
4	Freelence advisor to SEs, ex. Project Coordinator at NGO Help	Ms. Nedjeljka Sindik	

7.3. Annex 3 – Bibliography

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