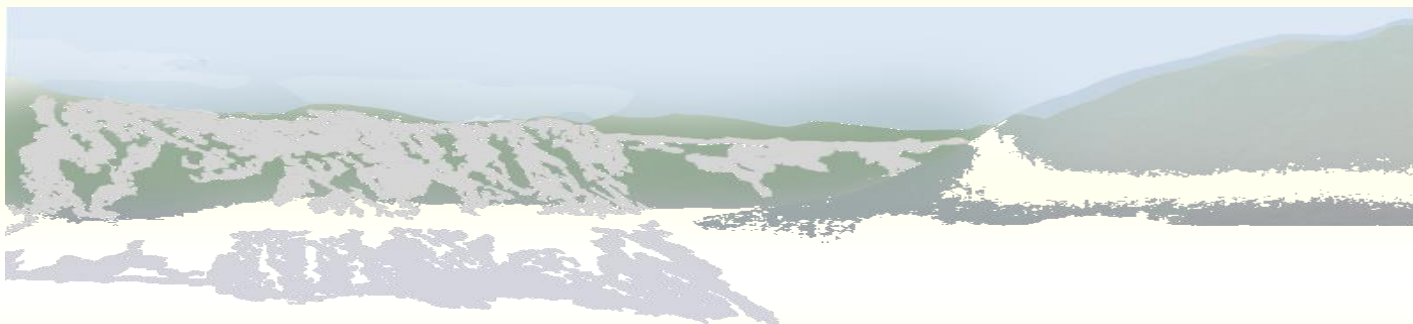




# **Investment Climate in Montenegro**

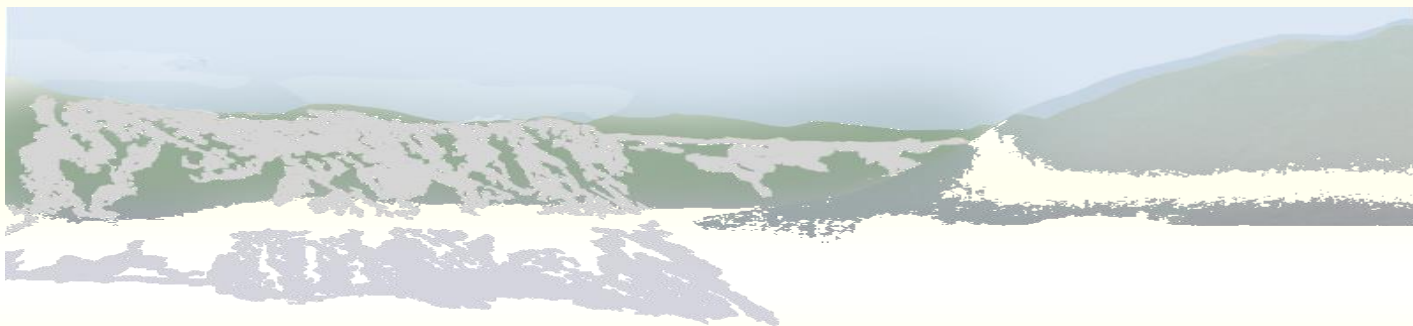
*Secretariat for Development Projects*



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## INVESTMENT ENVIRONMENT IN MONTENEGRO



Montenegro is situated on the Balkan Peninsula, at the heart of Europe. Although it has a territory of only 14,000km<sup>2</sup> and a population of some 630,000, its contribution to World Heritage is impressive. Montenegro borders with Serbia (to the north), Kosovo (to the east), Bosnia and Herzegovina (to the west), Albania (to the southeast), and Croatia (to the northwest) and has the Adriatic coast on the south. The border is 614km long. The coast is 293km long. There are two international airports - in Podgorica and Tivat. There are ports in Bar, Kotor, Zelenika and Tivat, ferry routes Bar-Bari-Bar and Bar-Ancona-Bar, and the railroad Bar-Podgorica-Belgrade-Budapest.

Since the restoration of independence in 2006, Montenegro has made a major stride in social and economic development, reinforced its position as the economically most developed country of the Western Balkans and proven to be a safe, politically stable and economically viable country with potential for fast growth. Its security and prosperity have facilitated prospective EU and NATO integration; in April 2012, Montenegro became a full member of the World Trade Organization (WTO).

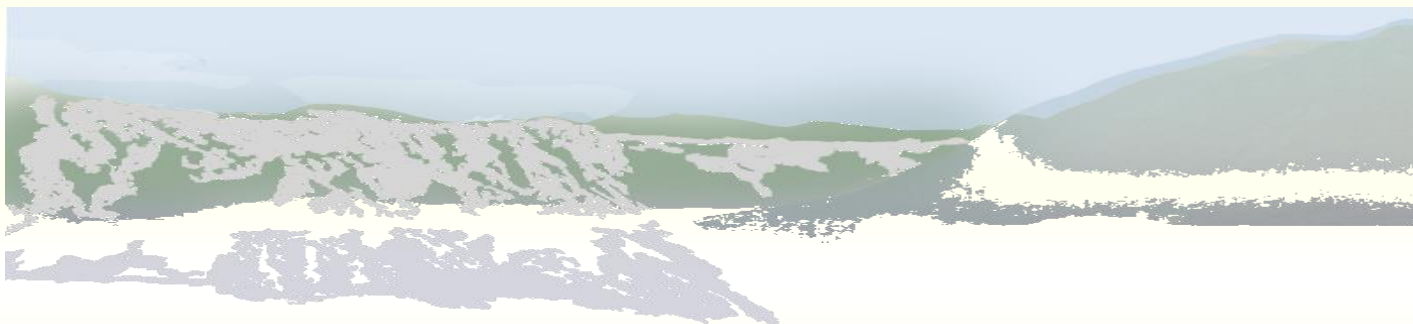
According to the Human Development Index (HDI), a key quality of life indicator published by the UNDP, **Montenegro was ranked 49<sup>th</sup> out of the total of 188 countries in 2015**, falling into the category of countries with high HDI. Namely, Montenegro ranked higher than the rest of the countries of the region, except Croatia, and even some of the EU countries. In the Forbes Magazine Best Countries for Business List, Montenegro ranked 50<sup>th</sup> out of the total of 139 countries ranked on the basis of 11 criteria, with monetary freedom and investor protection identified as its key advantages.

The current developments in the Montenegrin economy suggest that the economic activity has picked up since the second quarter of 2016, driven primarily by the intensified works in the course of implementation of large infrastructure projects in the tourism and energy sectors.

In the context of the global economic crisis, the programmes aiming to eliminate barriers to new investment projects and create a more conducive business environment became imperative. In this regard, adoption of new laws, harmonized with the EU ones, and implementation of the institutional reform in the fiscal system and financial sector helped towards a considerable improvement of the business environment in the country.

The economic growth model will remain unchanged in the upcoming period and will rely mainly on foreign direct investments (FDIs). Growth potential exists in the sectors of tourism, energy, agriculture and industry, which have been identified as the strategic development priorities. The economic policy will therefore focus on enhancing the





competitiveness of the economy, along with implementation of structural reforms and development of infrastructure, all with the aim to facilitate greater volumes of domestic and foreign investments.

According to the projections for Montenegro for the period 2016-2019, real GDP is expected to grow by 4.6% in 2017, 3.9% in 2018 and 1.8% in 2019. Between 2017 and 2019, the Montenegrin economy is expected to grow, prompted by increased investments and involvement of domestic potential, principally in the construction and transport sectors. Strong contribution of the construction sector will be driven by the local companies' involvement in the construction of the motorway section and by the construction of new tourism and energy facilities. Tourism is expected to provide a more robust contribution through the operational stage of the newly-built facilities; the same is also expected from the complementary sectors of retail and transport. Agriculture is expected to provide a positive contribution as well, as a factor for food import substitution and greater export. **The average projected GDP growth rate in 2017-2019 is 3.4%.**

Driven by the growth of the economic activity, employment will gradually increase (on average by 1% per annum); wages are expected to rise on average by **2%** in 2017.-2019. Unemployment is projected to drop from the estimated average of 19.4% in 2016 to 16.6% in 2019.

### **Treatment of foreign investors**

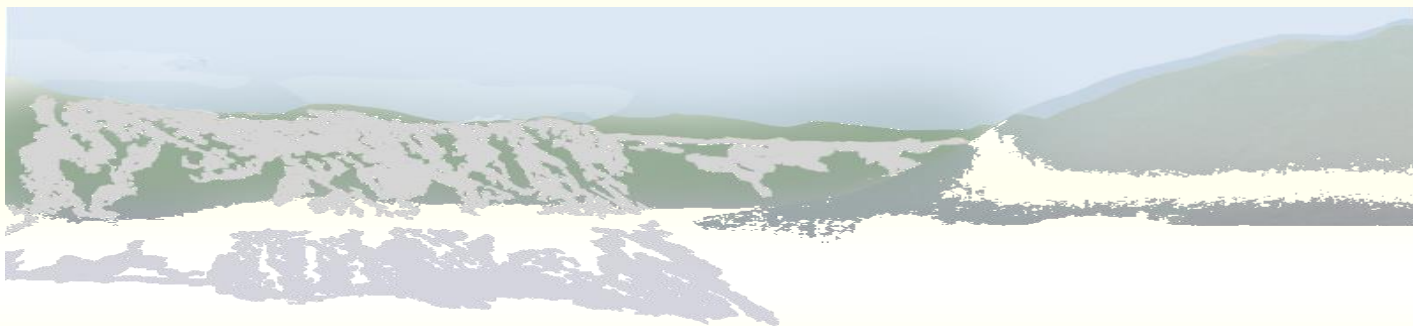
Foreign investors may invest in any industry and are free to transfer funds, assets and other goods, including profit or dividend. Foreign investors enjoy national treatment, i.e. have the same status as the domestic ones.

Foreign investors include: foreign physical or legal persons with headquarters abroad; companies with more than 25% of foreign capital; Montenegrin citizens residing abroad for more than 12 months, or companies set up by foreign citizens in Montenegro.

➤ **Foreign investments are implementable through:**

- Setting up of a new company (independently or together with other investors);
- Investing in existing companies;
- Setting up a foreign company branch;
- Purchase of a company.





### **Visa regime for foreign citizens**

Holders of travel documents containing a valid Schengen visa, a valid visa of the United States of America, United Kingdom of Great Britain and Northern Ireland or the Republic of Ireland, or a permission to stay in these countries, may enter and stay, or pass through the territory of Montenegro up to 30 days, and not longer than the expiry of visa, if the period of validity of the visa is less than 30 days.

Holders of travel documents issued by the European Union Member States or the United States of America, Kingdom of Norway, Republic of Iceland, Swiss Confederation, Canada, Commonwealth of Australia, New Zealand and Japan based on the Convention Relating to the Status of Refugees (1951) or Convention Relating to the Status of Stateless Persons (1954), as well as Travel Documents for Foreigners may enter, pass through the territory of and stay in Montenegro up to 30 days without a visa.

Mere possession of a visa does not grant the entry to Montenegro. Other legal requirements for granting a foreigner the right to enter and stay in Montenegro must also be met, according to the Law on Foreigners (*Official Gazette of Montenegro* 56/14, 28/15 and 16/16).

Visa regime between Montenegro and other countries is regulated by the Decree on visa regime (*Official Gazette of Montenegro* 35/16) ( <http://www.mvpei.gov.me/en/sections/consular-affairs/visa-regimes-for-foreign-citizens>).

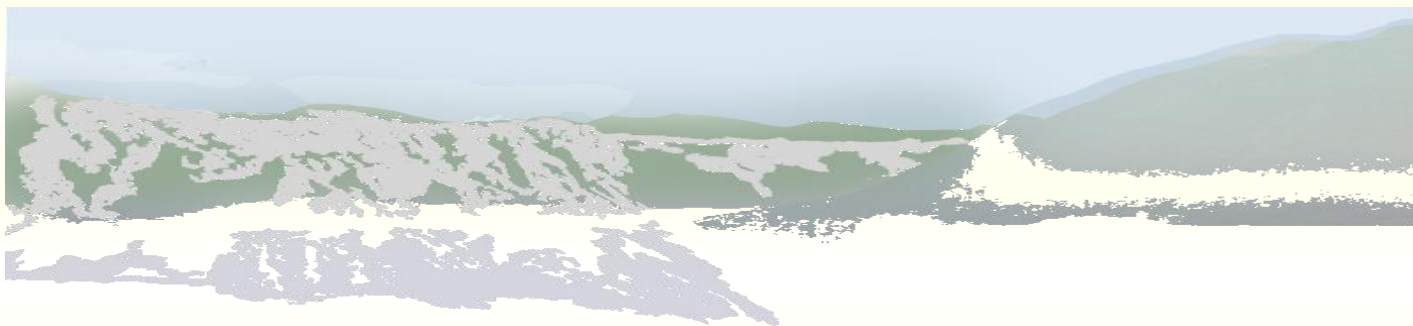
Visa in itself does not grant permission to work in Montenegro. Person who intends to work in Montenegro must obtain a temporary residence permit for the purpose of employment or seasonal work, on the grounds of previously issued work permit.

### **Purchase of real estate**

Foreigners in Montenegro have the right to purchase real estate under the conditions fulfilled by domestic entities and by presenting an identification document. However, according to the Law on Property Relations, a foreigner cannot own natural resources, public goods, agricultural land, forests and forest land, cultural monuments of great and special importance, real estate in a land-border area up to a depth of one kilometre and islands, real estate located in an area which was declared by law an area in which foreigners cannot have right of ownership in view of protecting the interests and security of the country.

Exceptionally, foreigners may also acquire the right of ownership on agricultural land, forests and forest land having a surface area of up to 5,000 m<sup>2</sup>, only if a residential building located on that land is the subject of the contract of divestiture (sale, gift, exchange, etc.).





Foreigners may be entitled to a long-term lease, concession, BOT and other arrangements of public-private partnership over the above mentioned real estate.

By means of legal transactions, foreigners may transfer the right of ownership to domestic persons, as well as to foreign persons eligible for that right.

### **Fiscal policy**

Since the introduction of the euro in 2002, the fiscal policy has been one of Montenegro's economic policy instruments, and it is based on the principles of competitiveness, predictability and consistency.

The medium-term fiscal framework relies on the macroeconomic growth scenario and reforms across the whole system, primarily the implemented and planned changes in the fiscal regulatory framework, including the following: a) general measures concerning further intensive fight against informal economy, with emphasis on the labour market and excised products and discontinuation of privileged retirement options; b) revenue-side measures: keeping the general VAT rate at 19% as well as the rates applicable to some categories of products (0% and 7%); gradual increase of the tobacco excise, in line with the excise calendar; tax on coffee and lottery winnings.

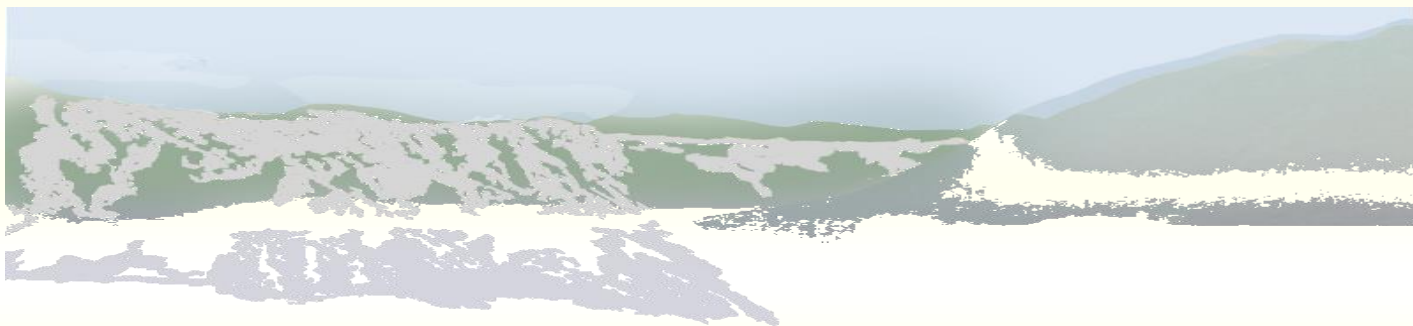
Responsible expenditure of budgetary funds will continue to be the underlying principle of national budget management. The fiscal policy is focused on the public debt, while acknowledging the need to finance the capital/infrastructure projects which generate considerable investment spending during construction and have multiplier effects on the entire economy. In the longer run, implementation of these investments will result in greater economic growth and more equitable development of the country.

Capital investments may affect fiscal indicators in the medium-term perspective; however, in the long-term one, they contribute to more efficient utilization of local resources, enhanced competitiveness of the economy, faster economic growth, increased employment, more revenues, lower share of public debt in the GDP, and ultimately to better living standard.

To enhance utilization of major resources and bring in new investments, the tax reform policy introduced fiscal incentives for the investments in the following sectors: high-end tourism – hotels with 5 or more stars; food production, except primary agricultural production, and capital investments in the energy sector. The **Law on VAT** stipulates zero VAT rate on the delivery of products and services for the construction and furnishing of any hospitality establishment with 5 or more stars, construction of energy-generation facilities with more than 10 MW installed capacity or of food production plants categorized within sector C group 10 under the Law on Business Activity Classification (*Official Gazette of MNE* 18/11), if the investment exceeds €500,000.







With the aim to eliminate business barriers and incentivize high-end tourism, the Law Amending the Law on Real Estate Tax allows local governments to set a higher tax rate of 2%-5.5% of the market value of the real estate for the hospitality establishments with up to 3 stars situated at priority tourism sites, depending on the category of the establishment; local governments are also allowed to lower the tax rate for the hospitality establishments that operate throughout the year by up to 30% for the 4-star ones and up to 70% for those with more than 4 stars.

## Tax system

### The tax system in Montenegro includes:

- Corporate Income Tax;
- Personal Income Tax;
- Value Added Tax (VAT);
- Real Estate Transfer Tax;
- Social security contributions;
- Excise duties;
- Fees;
- Customs duties.

The tax system for foreign investors is the same as for local business entities.

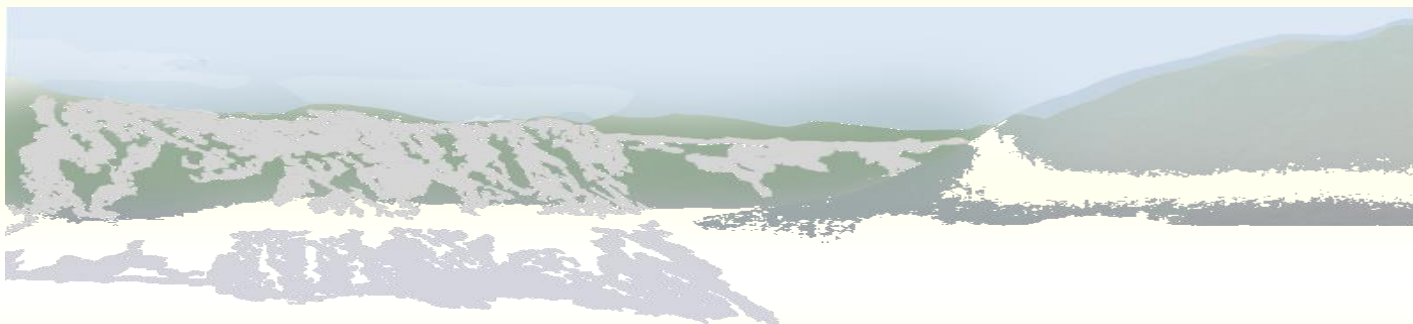
Corporate income tax amounts to 9%. The tax rate on personal income is 9% i.e. 11% on gross wages higher than € 720. Upon payment of corporate income tax, business entities operating in Montenegro have the possibility to transfer funds to their accounts abroad at the end of the year.

Two positive **VAT rates** are applied, namely the standard rate of 19% and the **reduced rate of 7%** (for basic foodstuffs, such as milk, bread, lard, cooking oil and sugar; medicines and some medical devices; books, textbooks and teaching aids; potable water; feed; fertilizers and breeding livestock; plant protection products and propagation material; some services, such as: accommodation; food and beverage services in the hotels with at least 4 stars in the northern region and at least 5 stars in the central or coastal regions (becomes effective as of 1 Jan 2018); public passenger transport; public hygiene; funeral services; copyright and services from the field of education, literature or art; use of sports facilities for non-profit causes; copyright in science or related to artefacts, collections and antiquities, and some of the services which involve charging of tickets for cultural or sports events).

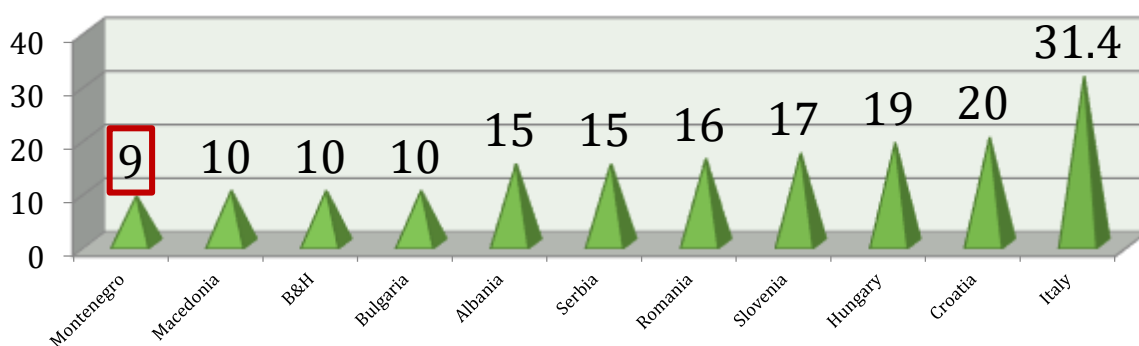
**The zero rate** applies to export transactions and delivery of medicines and medical devices that are funded by the National Health Insurance Fund.

**Real estate transfer tax rate is proportional and amounts to 3% of the tax base.**





### Corporate profit tax (%) – MNE 9%



Compulsory social insurance is covered by the employees, employers, entrepreneurs and farmers who are not contributors to unemployment insurance.

**The contributions for compulsory social insurance are:**

- Contribution for compulsory pension and disability insurance;
- Contribution for compulsory health insurance;
- Contribution for unemployment insurance.

The contribution rates vary, depending on the category of taxpayers, and are determined by the Law on Compulsory Social Insurance.

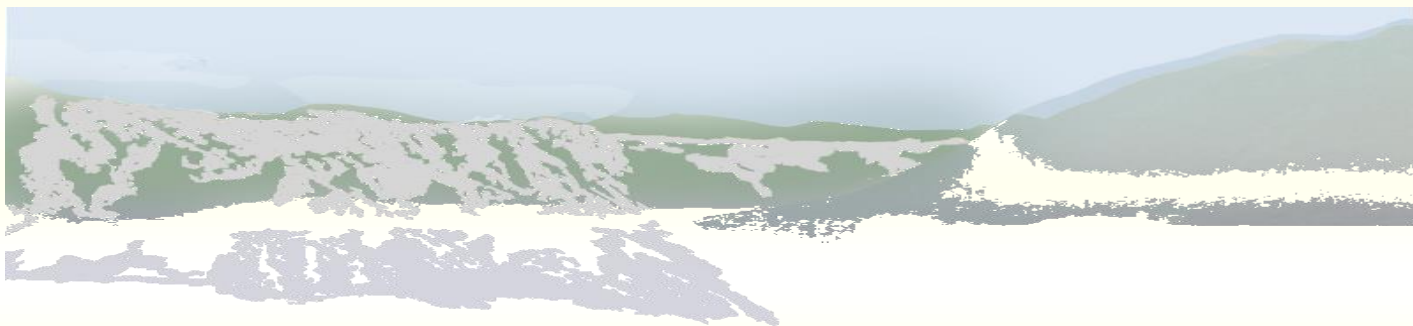
The Law on Excise Duties governs the system and introduces the obligation to pay excise duties for the individual goods and services that are released for free circulation on the territory of Montenegro.

The three **excise products** in Montenegro are:

- Alcohol and spirituous beverages;
- Tobacco products;
- Mineral oils, their derivatives and substitutes.







Excise duty payers calculate the excise duty for the calendar month themselves.

**The types of fees** in Montenegro payable by investors are:

- Administrative fees;
- Court fees;
- Utility fees;
- Registration fees;
- Sojourn fees.

The basis of the customs system in Montenegro consists of the **Law on Customs Tariff and the Customs Law**. Customs clearance under this law, includes receipt of import customs declaration, inspection of goods and classification according to the customs tariff and other tariffs, fixing the customs basis, amount of customs duties and other import duties charged on the goods, collection of fixed customs duty amounts and other import duties.

According to the law, investors may be eligible for exemption from customs duties if investing in hotels with five or more stars, energy facilities or processing facilities.

- **VAT refund**

If the tax liability (output tax) for the taxable period is lower than the input VAT, deductible for the same period, the difference is either recorded as tax credit for the coming period or refunded, following the taxpayer's request, within 60 days from the date of submission of the VAT return.

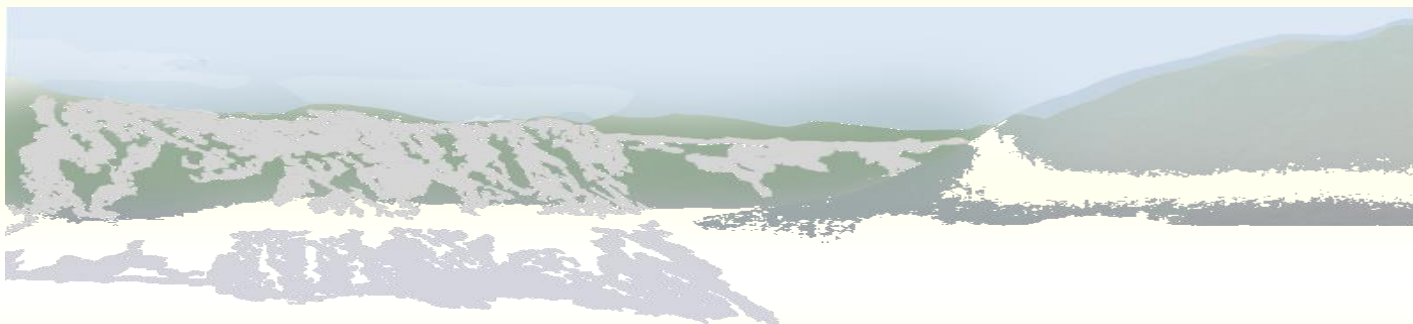
To taxpayers who are predominantly involved in export and those who have shown excess input VAT in three consecutive VAT assessments this difference is refunded within 30 days from the date of submission of VAT return.

In the event of taxpayer defaulting on the payment of other taxes, such tax arrears are subtracted from the VAT refund due.

### ***International agreements***

The signed bilateral agreements enable the investors who decide to do business in Montenegro to export their products to a market of more than 800 million people.





- **Economic cooperation agreements**

The economic cooperation agreements aim primarily to establish an institutional form of cooperation through the strengthening and promotion of economic interests. These agreements identify the areas of mutual interest, with particular emphasis on the following: agriculture, water management, energy, research and development, construction industry and infrastructure, transport and logistics, environmental protection, tourism, investment promotion, cooperation in the field of SMEs, ICT and services.

**20 agreements on economic cooperation are in effect in Montenegro, namely with:** Romania, the Republic of Austria, the Republic of Bulgaria, the People's Republic of China, the Republic of Hungary, the State of Qatar, the Republic of Serbia, the Republic of Turkey, the Republic of Macedonia, the Republic of Slovenia, the Hellenic Republic, the Republic of Croatia, the Federal Republic of Germany, Spain, the Republic of Azerbaijan, the United Arab Emirates, the Czech Republic, the Slovak Republic, the Republic of Albania, and the Argentine Republic.

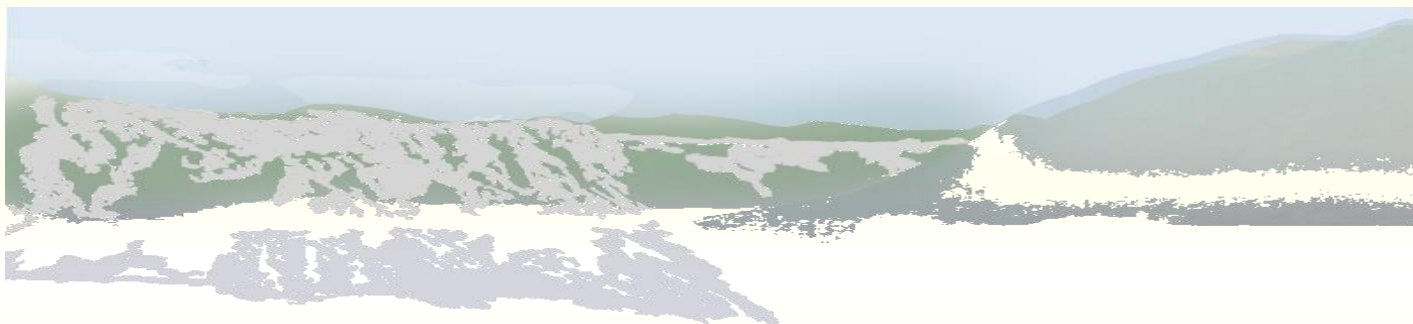
The agreements envisage establishment of Joint Committees, assigned to carry out periodical reviews of the issues related to the enhancing of the existing bilateral economic relations and identification of new avenues for their development. Most Joint Committees meet once a year to exchange experience in the course of direct communication and provide suggestions for further strengthening of economic cooperation.

- **Agreements on the mutual promotion and protection of investments**

These agreements ensure further enhanced mutually beneficial cooperation between two countries, thus establishing an adequate legal framework for reinforced cooperation in the field of investment. They define the conditions for investments, allow free transfer of funds, and regulate the right of subrogation, compensation in the event of expropriation and settlement of disputes between investors and countries, including the settlement of disputes between the countries themselves.

**24 agreements on the mutual promotion and protection of investments are in effect in Montenegro, namely with:** the Republic of Austria, the Republic of Slovakia, the Republic of Serbia, the Czech Republic, the Kingdom of Denmark, the Republic of Finland, the State of Qatar, the Republic of Macedonia, Malta, France, the Hellenic Republic, the Netherlands, Israel, Cyprus, Romania, Lithuania, the United States of America, Germany, Poland, Spain, the Swiss Confederation, the Republic of Azerbaijan, Moldova, and the United Arab Emirates.





- **Free trade agreements (FTAs)**

Implementation of these agreements implies greater volume of trade and facilitation of foreign investments and joint access to third markets. The starting platform for them are the relevant agreements of the World Trade Organization (Article XXIV of the 1994 General Agreement on Tariffs and Trade and Article V of the General Agreement on Trade in Services).

**Montenegro has FTAs with the following countries:** Russian Federation (Law on Ratification of the Agreement between the Federal Republic of Yugoslavia and the Government of the Russian Federation on Free Trade between the Federal Republic of Yugoslavia and the Russian Federation, *Official Gazette of FRY – International Treaties* 1/01 of 11 May, 2001); signatories of CEFTA 2006 Agreement (Law on Ratification of the Agreement on the Amendment of and Accession to the Central European Free Trade Agreement, *Official Gazette of RMNE* 18/07 of 28 March, 2007; Law on Ratification of the Additional Protocol to the Agreement on the Amendment of and Accession to the Central European Free Trade Agreement, *Official Gazette of MNE – International Treaties* 14/11); Turkey (Law on Ratification of the Free Trade Agreement between Montenegro and the Republic of Turkey, *Official Gazette of MNE – International Treaties* 3/09 of 31 July, 2009); Ukraine (Law on Ratification of the Free Trade Agreement between the Government of Montenegro and the Government of Ukraine, *Official Gazette of MNE – International Treaties* 3/12 of 08 March, 2012), and the EFTA states (Law on Ratification of the Free Trade Agreement between Montenegro and the EFTA States, *Official Gazette of MNE-International Treaties* 8/12 of 19 June 2012).

These agreements define access to the goods market; the exception is the Agreement with Ukraine, which has a broader scope and regulates trade in goods and services.

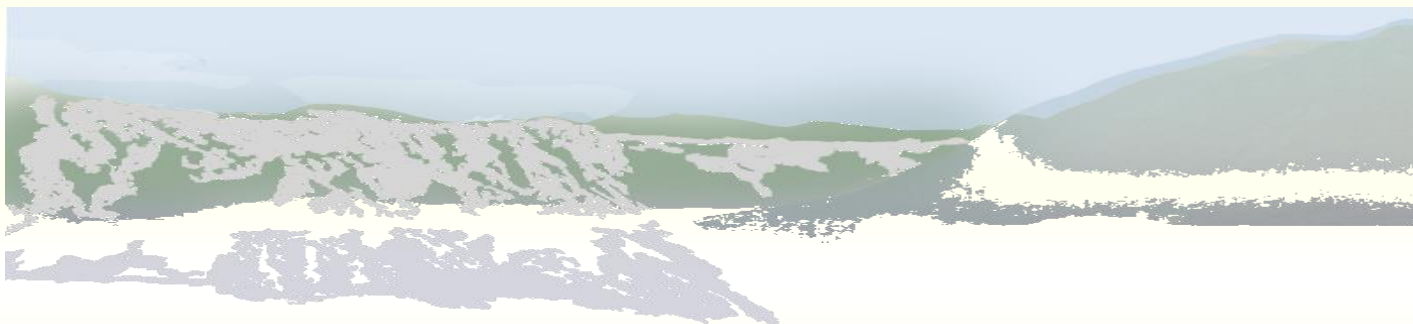
Given the initiative for additional liberalization of the agricultural products recognized by Montenegro as the key ones to be marketed in Turkey, the FTA with the Republic of Turkey is expected to undergo amendments in 2017.

- **Stabilization and Association Agreement**

Following ratification by all the EU member states, **the Stabilization and Association Agreement (SAA) with Montenegro came into force on 1 May 2010**. The ratification concluded two years and seven months from the date of signing; during this interval, the Interim Agreement applied, regulating trade and trade-related issues that fall under the competences of the European Commission.

The SAA is the international agreement between the signatory and the European Union setting the legal framework for mutual cooperation and gradual harmonization with the European standards. Its coming into force marked the new





stage of integration, with Montenegro assuming the formal obligation to harmonize its legislation with the EU *acquis communautaire* and to ensure compliance of the positions and policies across all areas of cooperation.

## INCENTIVES AND RELIEFS AVAILABLE TO INVESTORS

### Decree on fostering direct investment

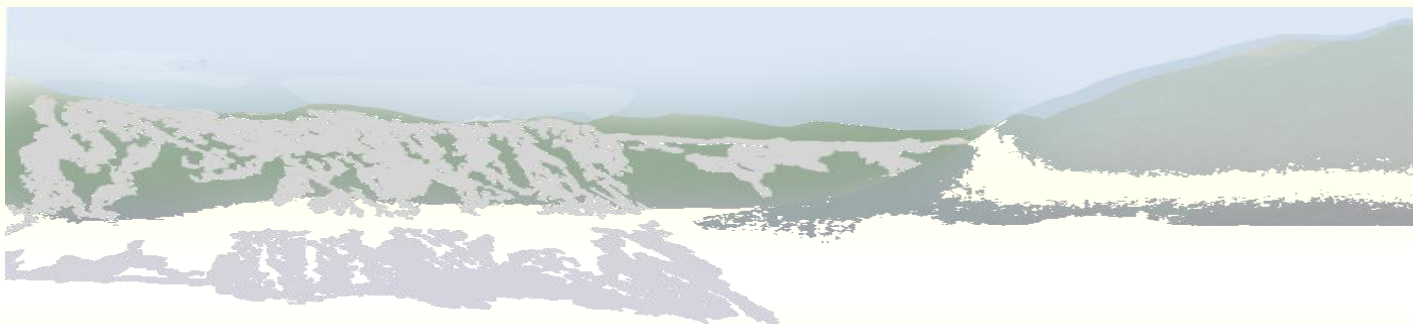
[http://www.srp.gov.me/EN/home/direct\\_investments](http://www.srp.gov.me/EN/home/direct_investments)

**The Decree on fostering direct investment** (*Official Gazette of Montenegro* 80/15) sets forth the financial incentives for new investment in Montenegro, as well as for expansion or diversification of the existing ones; it aims to improve the business environment and enhance the competitiveness of the economy. The Decree seeks to attract new investors, increase employment, in particular in the less developed areas, and balance out regional disparities.

Availability of adequate incentives has a direct impact on the investment-related decisions of the potential investors considering positioning themselves on the Montenegrin market.

The investors implementing investment projects that create jobs and contribute to the economic and regional development of the country are eligible for the financial incentives approved by the Government of Montenegro. The funds are not to be used to finance the investment projects in the following sectors: primary agricultural production; manufacturing of synthetic fibres; transport; games of chance; retail; primary coal and steel production; electricity generation; oil and gas production; manufacturing of tobacco and tobacco products; arms and ammunition; genetically modified organisms, or hazardous waste.

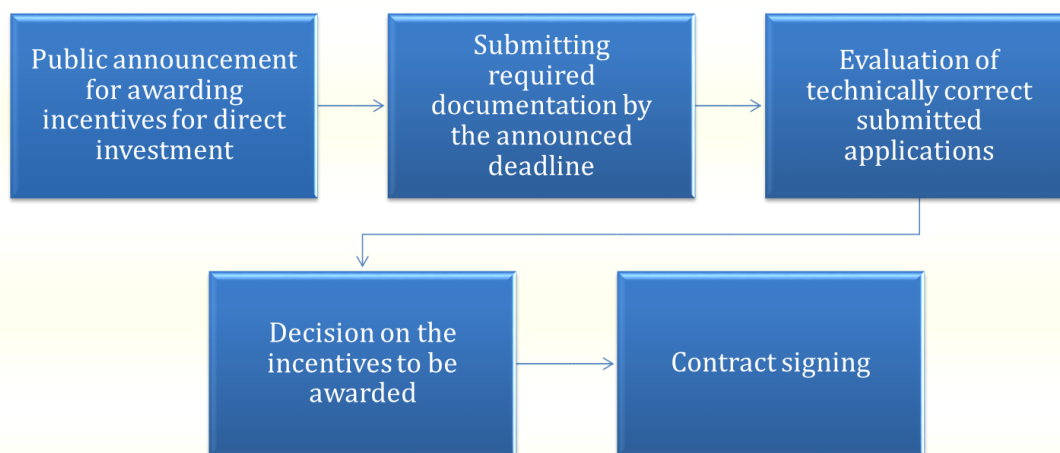




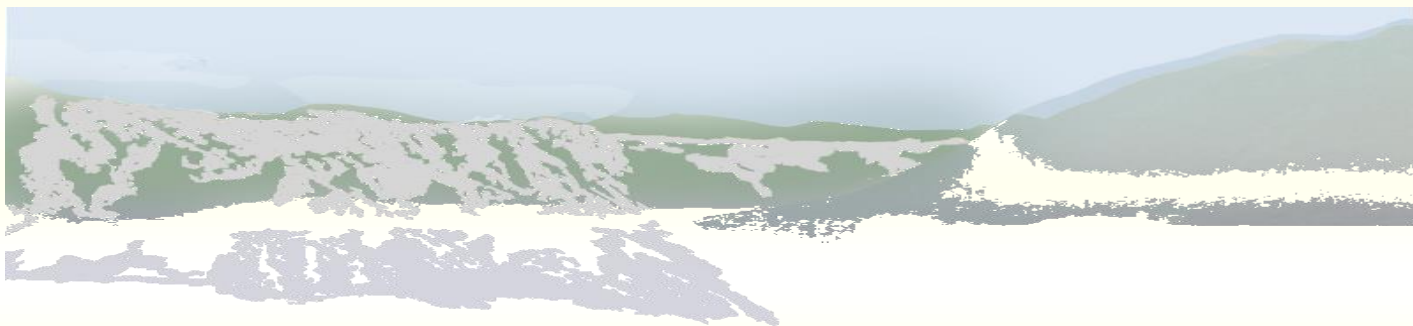
The funds to incentivize investment are allocated following a **public announcement**. Eligible investment projects **in the Capital City and the southern region** include those of minimum worth of **€500,000** which generate at least 20 jobs for newly employed persons over the course of three years from the date of signing the agreement on the use of funds with the Government of Montenegro; **in the northern and central regions** (excluding the Capital City), eligible projects include those worth at least **€250,000** which generate at least 10 jobs for newly employed persons within the mentioned timeline.

The amount of the incentive is set according to the criteria included in the Decree; following the scoring exercise, it may range from **€3,000 to €10,000** per newly employed person. A newly employed person is defined as anyone hired for an indefinite period of time to carry out the responsibilities related to the investment project; incentive beneficiaries are required to keep a steady number of newly employed persons for at least three years following the completion of the investment project in the case of SMEs, or for at least five years in the case of large companies. In addition, any capital investment in excess of €10 million and generating at least 50 jobs for newly employed persons within the timeline stipulated in the agreement on the use of funds is eligible for incentives of up to 17% of its worth, without any scoring required. The Decree also envisages the possibility to reimburse the costs of construction of the infrastructure required to implement the investment project.

The stages of the procedure for allocation of the funds to foster foreign investment:







The amount of the incentive is set at up to 50% of the eligible costs of implementation of the investment project in case of large companies, up to 60% for medium-sized companies and up to 70% for small companies.<sup>1</sup>

More information is available from the Secretariat for Development Projects – Department for preparation, analysis and monitoring of investment contracts, email address: [srp@srp.gov.me](mailto:srp@srp.gov.me).

### **Promotion Programme of Business Development –Business Zones**

<http://www.bizniszona.me/en/>

The Government of Montenegro adopted the **Promotion Programme of Business Development**, which included the plan for development of Business Zones. Business Zones are unique entities at the territories of the respective local governments; they are partly or fully connected to the utilities and potential investors gain access, in addition to shared premises, to additional tax and administrative reliefs both at the national and local level. The project aims to incentivize production industries on the land plots with available connections plots with available connections to utilities, enhance employment in the less developed local governments, and activate the capital of the domestic and foreign investors who would identify interest in the implementation and advancement of this project at considerably lower costs of operation within the zones.

**The Decree on Business Zones** has been adopted; it includes two categories - Business Zones of Strategic Importance, designated and managed by the Government of Montenegro, or Business Zones of Local Importance, designated and managed by the local governments. This by-law defines the model of business zone designation, establishment and management, entry requirements, eligible activities, connections to utilities, and national incentives.

Investors in both categories of Business Zones will be granted national- and local-level incentives. At the national level, the employers who hire staff to work in a Business Zone are exempt from the contribution for compulsory insurance paid to salaries and from personal income tax over a period of five years. Local-level reliefs include:

- Lower utility and other fees;
- Favourable lease/purchase of premises within the business zone;
- Lower or zero surtax to PIT;
- Lower real estate tax rate;
- Opportunity to define a favourable public-private partnership model;
- Access to utilities, where required.

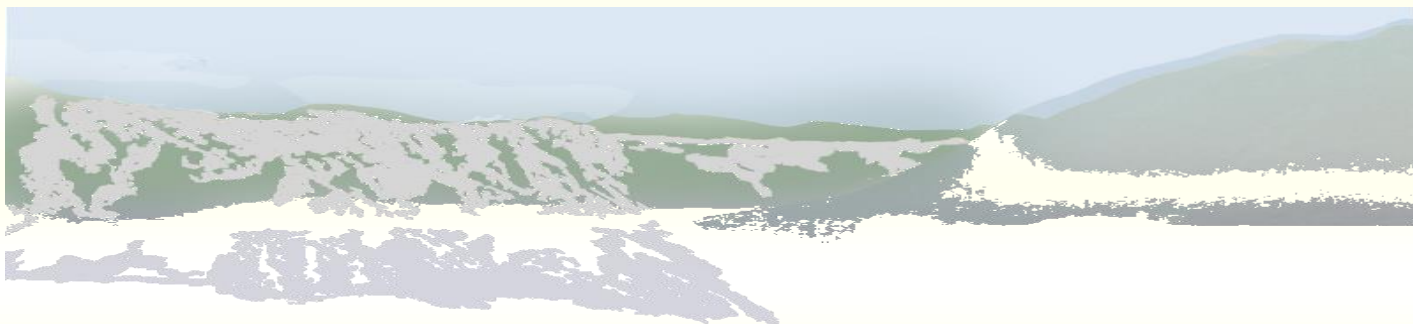
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<sup>1</sup> Small company is any company with fewer than 50 employees and annual turnover or total annual balance lower than €10 mil.

Medium-sized company is any company with 50 to 250 employees and annual turnover lower than €50 mil or total annual balance sheet lower than €43 mil. Large company is any company with more than 250 employees and total annual balance sheet above €43 mil.







In addition to the reliefs described above, which are available only in the Business Zones, the investors operating on these sites have access to other national- and local-level reliefs, such as subsidies under the Decree on fostering direct investment, Investment and Development Fund (IDF) loans and similar support programmes, all in line with state aid rules.

Nine local governments have identified Business Zones of Local Importance to date, enabling the investors to invest under favourable terms in Berane, Bijelo Polje, Kolašin, Mojkovac, Cetinje, Nikšić, Podgorica, Ulcinj and Rožaje.

### **Law on Free Zones**

The Law regulates the establishment of free zones and free warehouses, management and conditions for performance of business activities within them.

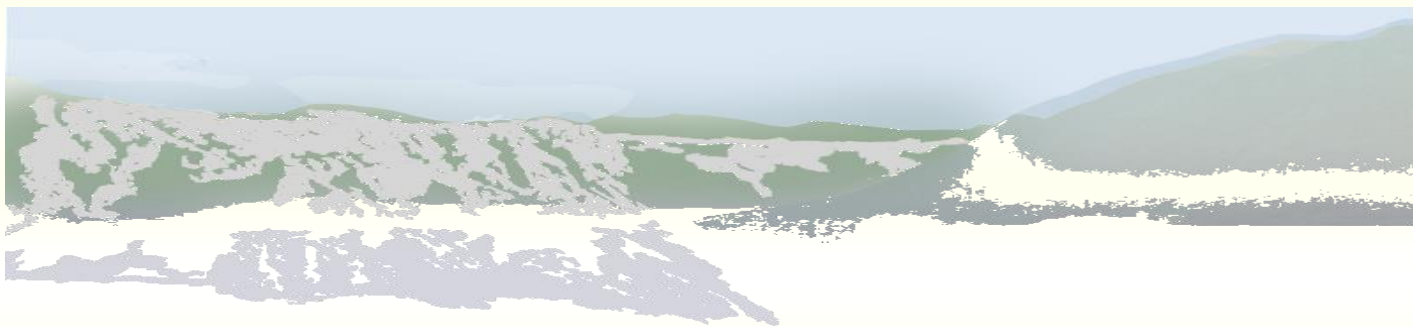
The zones and warehouses are parts of the customs territory of Montenegro where business activities take place under the specific conditions set by the Law. A zones or a warehouses may be established by one or more domestic or foreign legal or physical persons. Zone or warehouse users are the domestic or foreign legal or physical persons implementing their business activity within its territory. The zones and warehouses are established if that is economically viable and if the necessary physical preconditions (related to space, infrastructure etc.) are met or will be met, subject to prior opinion of the competent state administration authorities. Their establishment is economically viable if it they can realistically be expected to have a significant impact on export, employment, modern technology transfer, economic restructuring etc.

Any goods entered into a free zone or warehouse that are used or consumed in line with the Law are exempt from customs duties, customs charges and VAT.

### ***Decree on the subsidised for employment of specific categories of unemployed persons***

The Decree was adopted in December 2015; it identifies the subsidies available to legal persons and entrepreneurs who decide to hire some categories of unemployed persons who are registered with the Employment Agency of Montenegro. Under the Decree, such subsidies are available to the employers who hire: anyone older than 50 years of age or a single person with one or more dependants; anyone out of work for the past 6 months; anyone who did not complete secondary education or gain professional qualification; anyone who completed regular schooling and did not find employment within two years; members of the Roma and Egyptian population; anyone participating in the public works programmes.





Employers are entitled to the subsidies for the maximum duration of **12 months** from the day of hiring the persons from the above categories. Employers are exempt from payment of the compulsory social insurance contribution to salaries, contribution for the Labour Fund, and personal income tax.

The subsidy may amount up to 50% of the eligible costs, in line with the regulations on state aid.

### **Cluster Development Programme in Montenegro 2017-2020**

[www.mek.gov.me](http://www.mek.gov.me)

A comprehensive legislative, strategic and institutional approach to development of SMEs is a prerequisite for strengthening the competitiveness of Montenegrin enterprises and ensuring a more equitable regional development. Cluster formation is of particular importance for greater competitiveness of entrepreneurs, micro-, small and medium-sized enterprises (MSMEs).

Stronger entrepreneurship and competitiveness resulting from cluster formation contribute to greater employment, import substitution, boosting domestic production and export, better business environment, more equitable regional development and more effective harnessing of natural resources and production capacities.

**The Programme aims to provide financial support to the entrepreneurs and MSMEs** within clusters through investment in tangible or intangible assets or operational costs, in order to strengthen the capacities of clusters and their positioning in the local and international market. This financial support scheme is implemented in two or three tranches, depending on the project timeline: the first tranche is advanced following the signing of the contract awarding the subsidy, while the second/third ones depend on the implementation of the activities and eligibility of the expenditures made during the previous reporting period.

The Ministry of Economy will cover up to 65% of the eligible costs of the purchase value of equipment, excluding VAT, for the clusters operating in the less developed local governments<sup>2</sup>, or up to 50% of the eligible costs for the clusters from other regions; the maximum amount per applicant is €15,000. The remaining 35% or 50% of the costs of purchase of equipment are covered by the applicants themselves.

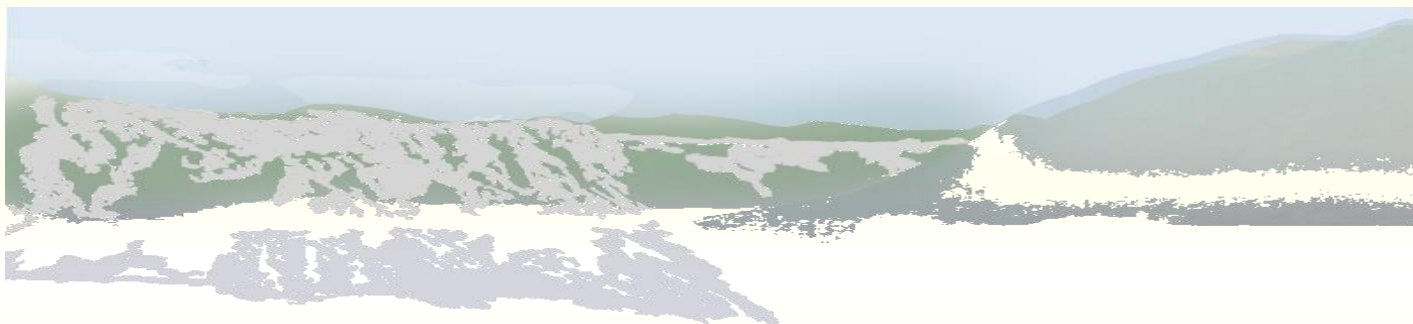
The strategic priority activities eligible for co-financing include the following:

- **Wood processing;**
- **Other manufacturing activities (except those not included in the Programme);**
- **Tourism and hospitality industry.**

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<sup>2</sup> According to the Rulebook on determining the list of local self-governments by level of development (Official Gazette of Montenegro 82/16), the less developed local self-governments have the development index below 75% and are as follows: Berane, Mojkovac, Plav, Kolašin, Rožaje, Bijelo Polje, Šavnik, Andrijevica, Gusinje and Petnjica.





## **Programme for Enhancing Regional and Local Competitiveness through Harmonization with International Standards of Business for the period 2017-2020**

[www.mek.gov.me](http://www.mek.gov.me)

The Programme aims to support entrepreneurs, SMEs and clusters of SMEs, in particular the ones from the less developed municipalities and the northern region, to maximize their competitiveness through harmonization with the product-related international standards and support for conformity assessment accreditation.

The Programme includes two components:

- 1) Support to SMEs in the sense of reimbursement of the accreditation costs for the conformity assessment body;**
- 2) Support to SMEs in the sense of reimbursement of the standard implementation/ certification/re-certification costs.**

The Ministry of Economy subsidy amounts up to 70% of the eligible investment costs for the category of entrepreneurs and small enterprises or up to 60% for medium-sized ones, the maximum amount being €5,000. State aid under the Programme is implemented through a reimbursement scheme – the beneficiaries finance implementation of the activities themselves; the pre-set share of funds is subsequently reimbursed, upon submission of the implementation report and accompanying evidence.

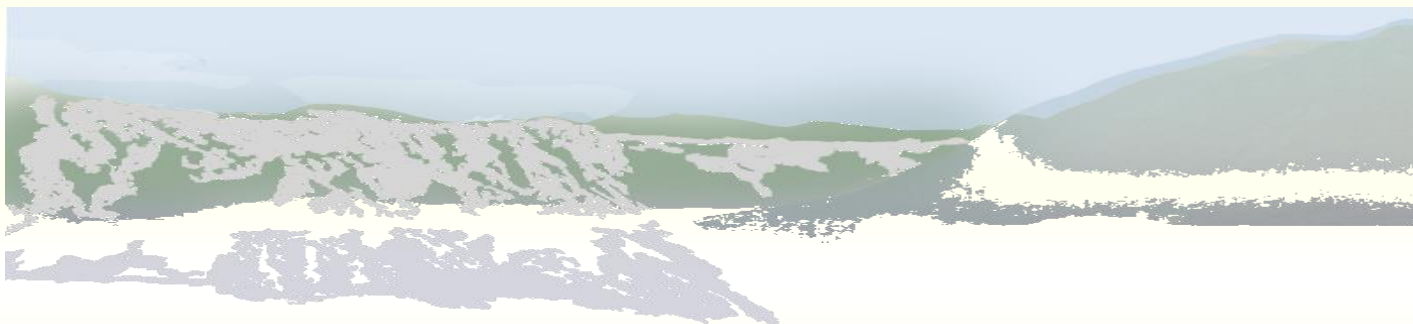
## **Programme to enhance innovation in SMEs**

[www.mek.gov.me](http://www.mek.gov.me)

The Programme is implemented with the aim to enhance the innovation potential of SMEs and strengthen cooperation with innovative organizations (science-and-research institutions, science and technology parks, centres of excellence, innovation-entrepreneurship centres, business incubators, consultancy companies) and to advance research and development and translate the results into development of new products, processes, organization models and marketing improvements. This grant support scheme for more competitive and innovative SMEs is intended to help improve the efficiency of the enterprises working in the processing industry through improved products, business processes, methods, techniques and strategies, changed business routines, innovation-related staff qualifications and potential, greater market shares and ultimately increased sales and revenues.

Under the Programme, an enterprise is required to fund up to 100% of the costs of the external consultant for the innovative activity; following the completion of the activity, the enterprise becomes eligible for a reimbursement of up to 50% of the eligible costs, or €2,500 excl. VAT. The remaining 50% of the costs need to be covered from the enterprise's own sources.





### **Programme to support industry modernization**

[www.mek.gov.me/en/](http://www.mek.gov.me/en/)

<http://www.irfcg.me/en/2014-03-10-14-50-58/production-support-programme>

Bearing in mind that the existing range and type of equipment used in the enterprises, the situation and developments on the market hinder a long-term increase in production, the Government of Montenegro adopted this Programme, which aims to strengthen the competitiveness of companies and upgrade business operation, productivity and profitability by investing in equipment.

The Programme includes co-financing of the eligible costs of purchase of equipment – up to 20% for small and 10% for medium-sized companies, excl. VAT, in line with state aid rules. The remaining funds are provided through the IDF lending scheme. The funds allocated to the Programme are intended to co-finance the costs of purchase of new/used production equipment/machines or new parts and specialized tools, to enable activation of unused machines.

Equipment upgrades through implementation of new technologies will enable modernization of production processes, efficient use of available resources, development of new products and services, and generation of new jobs.

## **KEY INVESTMENTS IN MONTENEGRO**

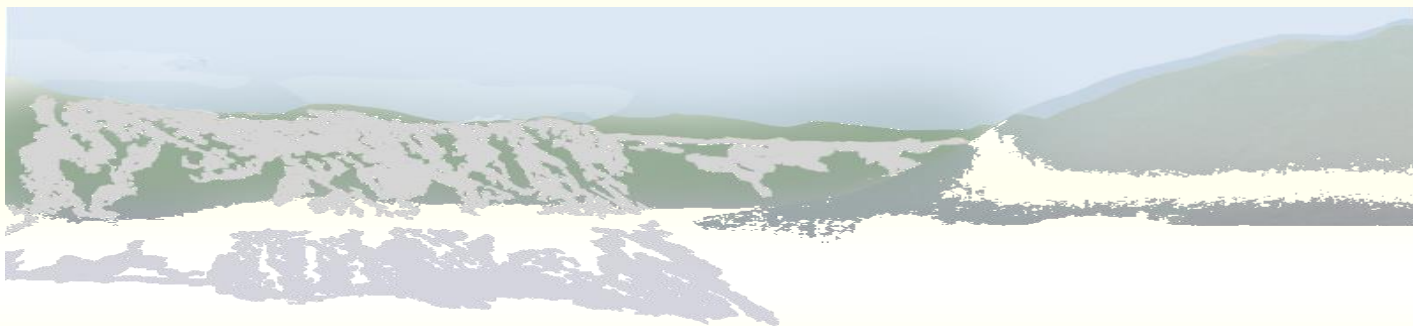
Several multi-million projects are currently underway in Montenegro:

**Bar-Boljare Motorway.** The priority section Smokovac-Uvač-Mateševo is 41km long. The construction of this section within the contractual deadline of 48 months (the project started in May 2015) requires the Contractor to develop the Main Design, build the section in question, purchase and install the required equipment and systems. Design and construction of the initial section will cost €809.6 million. 85% of this amount, i.e. €688.16 million, will be secured through the Exim Bank loan, while 15%, i.e. €121.44 million, will be funded by the government.

**Adriatic-Ionian Motorway.** The project of the Coastal Expressway aims to improve connectivity within the region and between the region and the EU. This is a strategic project for the SEE region and the Balkans. Its completion will ensure a high-capacity and high-quality corridor connecting Central Europe and Northern Italy with the Ionian Peninsula and spanning Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania and Greece.

The expressway will also enable Montenegro to connect to the network of top-category roads and establish a modern transport system consisting of all transversal, main, regional and existing roads. The coastal expressway will run along the hinterland, beginning close to the border with the Republic of Croatia, near Herceg-Novi, and then stretching for





some 110km from Herceg Novi across the Bay of Kotor to Tivat, Budva, Bar and Ulcinj to Sukobin (the border with the Republic of Albania).

The project is estimated at €880 million.

**Construction of the underwater cable between Montenegro and Italy.** The project envisages the construction of the new interconnection with the capacity of 1,000MW – the underwater cable and the grid. The project is being implemented by the Montenegrin Power Transmission System (CGES) and the Government of Montenegro through a strategic partnership with the Italian power grid operator Terna.

The project is worth cca. €900 million. It is important in terms of infrastructure connection between the Western Balkans and the EU, as well as in terms of the preconditions for faster development of the entire region, also in line with the EU directives. The Italian side installed some 140km of the cable; the launch event on the Montenegrin side took place on 4 October 2016, and the cable was installed in February 2017. The cable is expected to be operational in late 2018 or early 2019.

**Pljevlja Thermal Power Plant Unit II.** The Building Contract worth €324.5 million was signed on 29 September 2016 by the EPCG (Electric Power Company of Montenegro) and the Skoda Praha Company from the Czech Republic. The investment is of high importance for Montenegro, given that this is the first major power plant to be built after 35 years. The project includes the thermal station for the remote district heating system for the town of Pljevlja. The new unit will comply with the strictest requirements of modern day technology, good practice of the European countries and environmental protection as stipulated in the EU directives.

**TAP – IAP, Ionian-Adriatic Pipeline.** Montenegro's Energy Development Strategy by 2030 identifies the 530km Ionian Adriatic Pipeline – IAP, intended to connect Fiera (Albania) with Split (Croatia), crossing Montenegro for 94 km. This has been identified as the leading option for a gas system in Montenegro as well as an opportunity to market own gas due to the construction of gas infrastructure and getting closer to the important gas market.

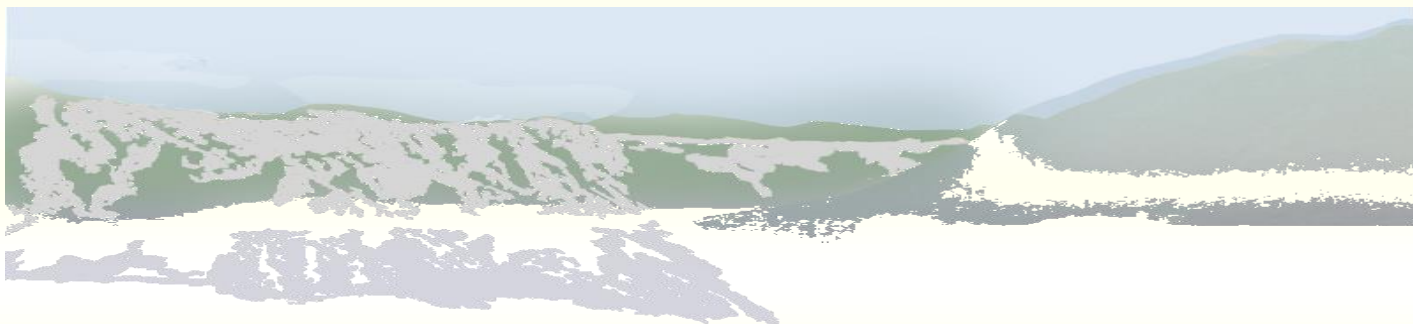
The IAP is a follow-up to the TAP and TANAP projects, which enable supply of gas from Azerbaijan to the EU. IAP enables diversification from the gas supply from Russia. In addition, the project has particular importance since it ensures stable supply of natural gas to the EU.

The European Commission and the EBRD funded the IAP Feasibility Study, which includes the Strategic Environmental and Social Impact Assessment and a proposed Business Model for project implementation.

The Ministry of Economy received a €550,000 grant from the Western Balkans Investment Framework to develop the Gas Master Plan for Montenegro and obtain a clear insight into this industry, previously non-existent in the country. The Master Plan will be accompanied by the Strategic Environmental Impact Assessment (an additional €150,000 grant







secured for this purpose), which is currently underway. The WBIF approved the €2.5 million grant for the IAP Preliminary Design for Montenegro and Albania.

**Wind farms.** On 05 July 2010, the Government of Montenegro signed the contract on the lease of land and construction of wind farm of 46 MW installed capacity at the **Možura** site with the Fersa & Čelebić consortium.

In line with the the Contract for the land lease and construction of wind farm on Mozura site and the signed annexes, the deadline for completion is the end of 2017.

The Government of Montenegro signed the Contract for the lease of land and construction of a wind farm at **Krnovo site** with the MHI-IVICOM Consulting GmbH consortium on 05 August 2010. The construction is complete; on 17 November 2016, the investor submitted to the competent ministry the application for the certificate of occupancy.

**Small hydro-power plants.** 26 concession agreements for the construction of 37 small hydro-power plants are currently being implemented in Montenegro. 43 small hydro-power plants of 88MW are to be built. 9 plants have been completed and are generating power.

**Porto Montenegro** (<http://www.portomontenegro.com/>). The project includes the construction of the yacht and mega yacht marina with 850 berths, with the surrounding village and a 5\* hotel, luxury villas, a helipad, a museum etc. The estimated investment to date amounts to cca. €450 million.

**Luštica Bay** (<http://www.lusticabay.com/>). The project includes construction of a mixed-use resort with 7 hotels, golf courses, residences and 2 marinas. The works on the marina, of estimated worth cca. €44 million are underway. The construction of the first hotel on the peninsula of Luštica is expected to commence soon.

**Portonovi** (<http://www.portonovi.com/>). The project includes construction of a luxury hotel to be operated by One&Only, a village with 500 residences and villas, a 250 berth marina etc. The investment is estimated at cca. €600 million. Construction works are underway in the mixed-use section-Phase I.

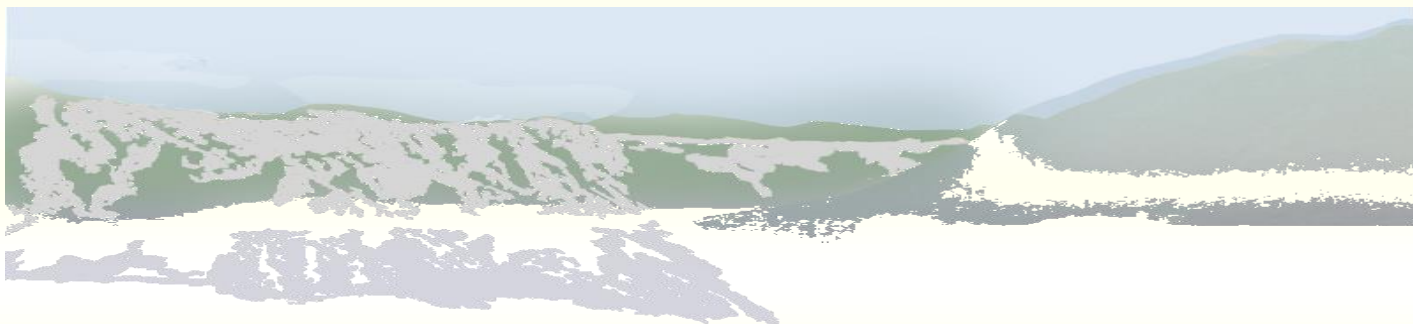
In addition to the projects described above, preparatory activities are underway for several multi-million projects and tenders for several sites ready to be developed, such as: **Ecolodge Vranjina**, **Kolašin 1600**, **Donja Arza**, **Mediterran Žabljak**. (<http://www.savjetzaprivatizaciju.me/en/valorization-of-tourist-sites/>)

More information is available from the Secretariat for Development Projects – Department for support and monitoring of investment projects, email address: [srp@srp.gov.me](mailto:srp@srp.gov.me).

## INVESTMENT SITES IN MONTENEGRO







[www.investmentlocations.me](http://www.investmentlocations.me)

Within the project *Enhancing the Competitiveness of the Economy*, the Secretariat for Development Projects, in cooperation with the UNDP Office, set up the webpage [www.investmentlocations.me](http://www.investmentlocations.me). In addition to promotion, the webpage aims to enhance access to and dissemination of data concerning the overall investment environment in Montenegro, and the identified investment sites in local governments.

The webpage [www.investmentlocations.me](http://www.investmentlocations.me) was set up in December 2016 and contains information on the overall investment environment across local self-governments, information concerning the investment sites in the 23 Montenegrin municipalities, tourism and other potential and tax reliefs, multimedia promotional material, relevant legislative framework, and useful links. This regularly updated portal enables all visitors and potential investors to access user-friendly information and to get in touch with the relevant contact person.

More information is available from the Secretariat for Development Projects – Department for support and monitoring of investment projects, email address: [srp@srp.gov.me](mailto:srp@srp.gov.me).

