



**MFIC** | Montenegrin Foreign  
Investors Council

# White Book

Investment Climate in Montenegro - Opportunities and Challenges



**2012**

By Montenegrin Foreign Investors Council



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## Foreword



The Montenegrin Foreign Investors' Council (MFIC) marks its fourth year of existence and operations by publishing its fourth annual edition of the White Book. This publication is the key product of the Council, pointing out the main problems that our members are facing in doing business in Montenegro. It offers suggestions for changes and priority measures aimed at improving the overall business environment in the hope that it will stimulate a pragmatic and intensive dialogue between the private sector and the government that would result in a constructive public-private partnership.

Looking back over the year 2012, we can say that it was one of the most difficult and challenging years since the outbreak of the global economic crisis in 2008. It seriously affected the entire region including Montenegro, resulting in a lower inflow of FDI (a net FDI of 10; 5% down YoY), a higher unemployment rate and general uncertainty in the business environment, even bringing some countries in the region to the edge of bankruptcy. However, there have also been some positive developments and we find it necessary to underline those facts as well.

Firstly, Montenegro became a fully-fledged member of the World Trade Organization, which was one of the country's priorities. This is expected to send a positive signal to foreign investors, enabling Montenegro to be recognized as a destination where internationally accepted trading rules and standards in all areas are adhered to.

Secondly, negotiations on EU accession were opened in June, which is one of the most important dates in recent Montenegrin history. This process promises to Montenegrin citizens numerous benefits such as stability, potential for economic prosperity and an improved standard of living, and brings common values shared by all EU countries.

Thirdly, Montenegrin reforms were noticed in the region and confirmed by the most recent Doing Business Report, positioning Montenegro in 51<sup>st</sup> place when it comes to the overall business climate, compared to the last year's 56<sup>th</sup> position.

Finally, in early December, the 40<sup>th</sup> Government of Montenegro was elected. We strongly support the newly appointed prime minister's commitment that the new government will, in all its public conduct, contribute to creating a welcoming atmosphere for each local and foreign entrepreneur and investor who will spend money in Montenegro, create new value, share know-how and technologies, and open up jobs in Montenegro. In that regard, we take this opportunity to underline the Council's readiness to be a constructive and reliable partner to the government in establishing a more investor-friendly business environment. This we also confirmed by appointing a Council representative in the Working group for the preparation for negotiations on the accession of Montenegro to the European Union for Chapter 4 – Freedom of Movement of Capital.

Montenegro  
Perfect Investor Landscape



By publishing this edition of the White Book we wanted to underline all the improvements in the area of legislation through introduction of regulatory reform and implementation of the reform of certain procedures, increased administrative capacities of some of the ministries, etc. However, the fact that we are repeating certain recommendations from the previous edition reflects the fact that our members are still experiencing major gaps in implementation and everyday practice, embodied in a complex legal and regulatory framework, less-than-transparent business processes and inefficient institutions.

In this White Book edition we again bring the MFIC Index, which is a perception-based evaluation of the simplicity and effectiveness of doing business in Montenegro. The overall rating is 5.9 (on a scale from 1 to 10), which increased slightly by 0.1 compared to last year. This demonstrates that there is additional room for further improvement in key areas upon which this perception-based rating is compiled.

Finally, we take this occasion to thank all contributors to this edition of the White Book, especially our members.

Rüdiger J. Schulz,  
MFIC President



## About the MFIC



**MFIC** | Montenegrin Foreign  
Investors Council

The Montenegrin Foreign Investors' Council (MFIC), an association of leading foreign investors in Montenegro, was officially established in January 2009 although informal activities regarding the formalization of cooperation between foreign investors started in the summer of 2007. Our aim was to implement an already well-established practice seen in other transitional economies in South-East Europe, regarding the adoption of a nationwide formal association of foreign investors.

The MFIC is a non-governmental and non-profit organization, founded by five foreign companies operating in Montenegro. Today we represent 18 members from various sectors, including banking/financial services, telecommunications, metallurgy and mining, hotel management, fast-moving consumer goods (FMCG), manufacturing, audit, energy and retail. Our current members provide around 4,250 local jobs, and have annual turnover of approximately €550 million which accounts for 16.5% of estimated GDP for 2012.<sup>1</sup>

We plan to achieve our goals: through meetings and dialogue with high-ranking officials and government representatives; by putting forward initiatives to amend legislation that has proved to contain obstacles for investors; through contact with local and international institutions and organizations; by providing relevant information to media representatives; by publishing the White Book which contains an overview of the most important issues and obstacles faced by our members and concrete proposals on how these could be overcome.

The MFIC will be working hard to foster dialogue between policymakers and investors in order to improve the Montenegrin business environment through both informal and formal events, such as forums, presentations, official meetings, etc.

Overall, it is our vision to make Montenegro a better place to live and work in.

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### The MFIC's goals are to:

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1. Improve the investment climate and support business development in Montenegro
  2. Represent and express the opinions of its members for the purpose of promoting common interests and stimulating direct foreign investment
  3. Promote communication, cooperation and dialogue between the Council and the official authorities in Montenegro
  4. Cooperate with the Montenegrin authorities for the purpose of overcoming possible problems and obstacles which may be faced by foreign investors, including those concerning economic relations with other countries
  5. Connect with other foreign organizations for investors within the SEE region for the purpose of:
    - a) Sharing the benefits and experiences of best practice in the world
    - b) Analyzing concrete tools in order to facilitate regional business and other activities
- 

<sup>1</sup>According to Central Bank data, the estimated GDP for 2012 amounted to €3,324 million, [http://www.cb-mn.org/slike\\_i\\_fajlovi/fajlovi/fajlovi\\_publikacije/biltencbcg/2013/biltencbcg0113.pdf](http://www.cb-mn.org/slike_i_fajlovi/fajlovi/fajlovi_publikacije/biltencbcg/2013/biltencbcg0113.pdf)

## Summary

In chapter 1 of this publication we present an overview of the business environment in 2012, assessing that it has remained largely the same as in 2011, although some improvements have been noted. On the other hand, these were to an extent offset by certain new negative aspects, not so much in the regulatory environment itself, as in the implementation of the existing legal solutions. We noted that, generally speaking, the transparency of the system as whole is gradually improving and that all public affairs, including business, are being introduced into the system and away from the “grey” zone. The pace at which this transition is happening is, nevertheless, not perceived as satisfactory. This is also visible from the results of this year’s MFIC Index which slightly increased from 5.8 to 5.9 on a scale from 1 to 10.

Nevertheless, a stronger reversal of the severely negative trends in the economy after 2008 has still not materialized, and according to projections cannot be expected before 2014. Insufficiently robust and competitive, the Montenegrin economy remains dependent on FDI, which saw an increase year-on-year.

The government continued to implement business-friendly reforms; however, despite progress, some key areas, such as property development and the rule of law need further improvements.

In chapter 2, the White Book 2012 covers several key issues identified by MFIC members. We list them here, giving a brief description of some of the essential characteristics for each:

- **Labour Market and Employment** – inflexibilities in the legislative framework and practice remain an obstacle to further development of the labour market.
- **Property Development** – Construction permits and cadastre practices, among other things, continue to hamper the realization of the huge potential this industry has for Montenegro.
- **Taxation** – An unpredictable tax environment which too often lacks transparency counters the generally low tax regime.
- **Corporate Governance** – Improvements are necessary in the areas of financial reporting and audit if Montenegro is to advance in this area. Banking regulation, and its enforcement in particular, remain an issue.
- **Rule of Law** – More effort needs to be invested into increasing the efficiency of the judiciary and enforcement of existing rules, while continuing the reform of this basic prerequisite of a successful market economy.

In Chapter 3: Industry Overview, the White Book deals with issues and recommendations that are specifically related to industries which our members come from and have not been mentioned in the focus areas in chapter 2.

Chapter 4: Miscellaneous Items offers further detail on the well-established cooperation the MFIC has with the government and the issue of how education may contribute to a sustainable increase in the average salary in the long run.

# Chapter 1: MFIC Index, Investment and Business Environment

## 1.1 The second MFIC Business Environment Index: Stabilization in 2012

The year-on-year comparison of the overall rating of the MFIC's Montenegro Business Environment Rating represents a quantitative expression of what we noticed in surveying our members both in questionnaires and in interviews: an overwhelming majority assessed that they noted slight improvements in the business environment. However, even though improvements have been noted, especially in the regulatory environment, enforcement remains in some areas a matter for concern, overall creating a largely unchanged environment. And thus, there is still scope for introducing changes that would contribute to increasing the competitiveness of Montenegro's economy.

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### About the Index

The MFIC Index is a perception-based evaluation of the ease of doing business in Montenegro. It is derived solely from the opinions of its members who grade the individual industries which they represent on a scale of 1 to 10, where 1 is the poorest score and 10 the best. The aim is to provide foreign investors and local decision makers equally with a quantitative overview of how the investors already running a business in the country perceive the business environment on the basis of several indicators (see below). It is divided into two categories: in the first investors provide a rating of the industry in which they operate as a whole, and in the second, individual focus areas that the MFIC identified on the basis of the inputs from our members.

### 1.1.1 Overall rating 2012

5.9 (5.8<sup>2</sup>)

<b>Industry rating</b>	<b>2012</b>	<b>2011</b>
Telecommunications and ICT	5.5	(8)
Banking	6.6	(5.6)
Tourism	7	(7)
Production/Mining/Energy	5	(N/A)
Trade/Retail/Transportation/Logistics <sup>3</sup>	N/A	(5.7)

<b>Focus areas</b>	<b>2012</b>	<b>2011</b>
Labour Market and Employment	5.4	(4.4)
Property Development	5.4	(4.8)
Taxation	6	(6.3)
Corporate Governance	5.6	(5.5)
Rule of Law	5.2	(4.8)

*We would like to emphasize that there is no specific methodology behind this ranking, it only reflects the subjective perception of MFIC members and not generally accepted facts.*

When rating the **industry**, our members considered how easy or difficult their daily operations are due to the **general business climate and regulatory environment**, and other factors such as:

- administration,
- the legal framework including laws and institutions,
- other business infrastructure areas like roads/education/ etc.

These represent conditions as “provided” by the state, and do not reflect current conditions or other external factors such as an economic crisis.

For rating the **individual focus areas**, our members considered how much positive or negative impact to their business each of the categories listed below has:

- **The labour market and employment** include several issues such as severance payments, fixed-term contracts, sick leave, etc.
- **Property development** for this particular purpose relates to construction permits, registration, cadastre, enforcing mortgage contracts, real-estate appraisal, etc.
- **Taxation/contributions** refers to various fees, taxes, levies and the overall consistency and transparency in paying taxes/evasion of payments.
- **Corporate governance** includes financial reports, bankruptcy regulation, VAT harmonization with the EU and audit practices.
- **Rule of Law** and provisioning of public services includes the length of commercial disputes and court cases, permits and licenses, temporary residence and work permits, etc.

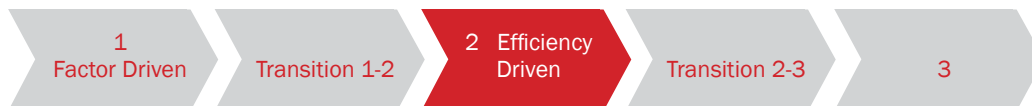
<sup>2</sup>2011 result

<sup>3</sup>The rating for this area has not been provided for this year's edition. However, we plan to publish it from next year onwards.

## 1.2 Investment and the Business Environment

### Introduction

In the latest *Global Competitiveness Report 2012-2013* prepared by the World Economic Forum (WEF), Montenegro is classified as being “Efficiency-Driven” with a mark of 2 on a scale from 1 to 3, the same as in previous years:



This section gives an overview of where the country stands relative to its regional peers in South-East Europe (SEE) and globally, drawing on a range of macroeconomic data and survey-based evidence, with a special focus on progress made year-on-year.

We will argue that, notwithstanding the progress in recent years, there are still major challenges ahead that need to be addressed if the country is to continue to successfully compete for FDI and achieve sustainable levels of growth in the medium and long term.

Several major developments were listed in the EBRD’s annual publication *Transition Report for 2012*<sup>4</sup>, and we cite them below:

#### HIGHLIGHTS OF THE PAST YEAR

**Montenegro has begun EU accession negotiations.** The decision of the European Council in June 2012 to endorse the European Commission’s recommendation reflects substantial and sustained progress in reforms in both the political and the economic spheres.

**Montenegro became a member of the World Trade Organization.** This marks an important milestone in the country’s trade integration agenda, and is likely to boost the country’s growth potential in the medium to long run.

**Important steps have been taken to develop Montenegro’s energy potential.** Tariff reforms have progressed in the power sector, and plans are advancing in the development of an underwater interconnection cable between Montenegro and Italy.

<sup>4</sup>Transition Report 2012: “Integration Across Borders”

## 1.2.1 Overview

In 2012, a positive trend in FDI inflow was recorded. According to the Central Bank of Montenegro's preliminary data for 2012, net FDI inflow amounted to €453.6 million, or 16.6% more than in 2011.

	2008	2009	2010	2011	2012*
Direct investment, € million <sup>5</sup>	581	1066	543	389	453

Table 1: Foreign Direct Investment, source Central Bank of Montenegro

However, the decline in FDI from the post-independence boom is evident, but in per capita terms Montenegro still ranks first among the five countries of the South-East Europe region<sup>6</sup>. For example, in 2011, which saw the lowest level of FDI in several years, the per capita FDI at €869 was more than double the next best result – €341 in Serbia.

Once again we note the importance of FDI for the Montenegrin economy: "... [L]arge external imbalances deteriorated, reflecting weak export capacity... Overall, macroeconomic stability has been broadly maintained, but risks and uncertainties persist due to the high reliance on external financing."<sup>7</sup>

In 2012 we saw a continuation of the trend from recent years when it comes to sovereign debt. The scenario was similar throughout the region – with rapid deleveraging of the private sector the external debt declined, but public external debt continued to head upward as a result of government external borrowing in the context of the weak recovery of both the economy and government revenues.

After independence, for example during 2006–2008, Montenegro was one of the fastest growing economies in Europe, with GDP growth rates of 8.6%, 10.7% and 6.9% during 2006, 2007 and 2008 respectively. Over the previous few years Montenegro's GDP had registered a large share of foreign direct investment (FDI), around 25%. Due to the global economic crisis, economic activity slowed down by the end of 2008 and in 2009, GDP recorded a decrease of 5.7%.

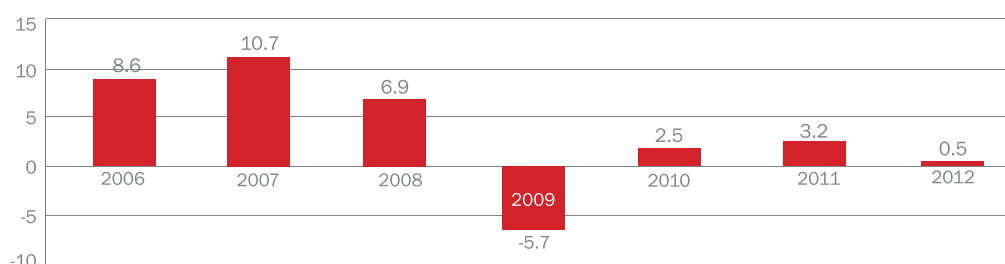


Chart 1: GDP growth, annual % (source: Central Bank of Montenegro)

<sup>5</sup>Source: Central Bank, for 2012 estimates by the Montenegrin Ministry of Finance.

<sup>6</sup>According to the central banks of the five countries in the region: Montenegro, Serbia, Albania, Macedonia, B&H.

<sup>7</sup>European Commission, Montenegro 2012 progress report.

In order to mitigate the consequences of the lingering crisis that has drained the lifeblood of Montenegro's economy – the FDI – and to return to strong growth, Montenegro needs a competitive environment for FDI more than ever before.

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However, according to research carried out by the World Economic Forum (WEF) Montenegrin competitiveness continued its decline for the second year in a row from 2011.<sup>8</sup> Montenegro kept on improving its competitiveness over the past few years, until 2011. According to the WEF's Global Competitiveness Index (GCI), Montenegro saw a year-on-year drop in all three groups of indicators covered by the research: Basic Requirements (a drop from 57 to 74)<sup>9</sup>, Efficiency Enhancers (a drop from 63 to 74)<sup>10</sup>, and Innovation and Sophistication Factors (a drop from 59 to 69)<sup>11</sup>:

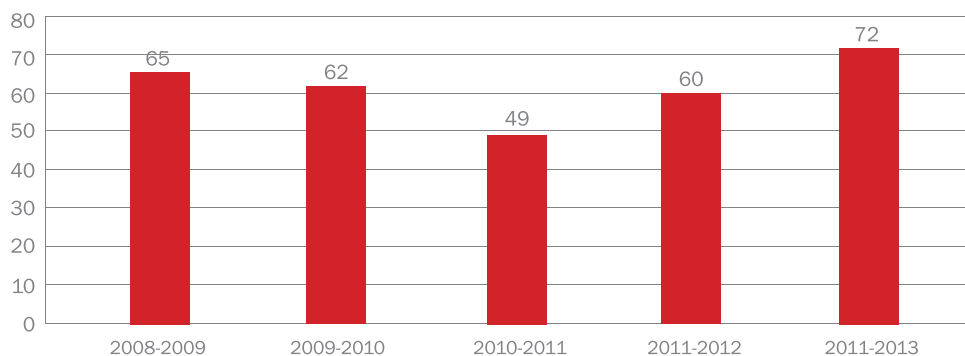


Chart 2: Montenegro's Global Competitiveness Index ranking (Source: the Global Competitiveness Report; World Economic Forum)

According to the results of the WEF's research, Montenegro again saw a major drop in the macroeconomic environment indicator.<sup>12</sup> In 2011, the number one most problematic factor for doing business, as identified by the WEF research, was "Access to financing", which replaced "Inadequate supply of infrastructure" from the 2010-2011 report. This year, however, the picture is rather different, with "Poor work ethic in national labour force" being the leading factor, followed by "Inefficient government bureaucracy", as shown in Chart 3:

<sup>8</sup>[http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf)

<sup>9</sup>Subcategories used for assessment of this indicator with scores on a scale of 1 to 7: Institutions (4.4), Infrastructure (4.1), Macroeconomic Environment (3.8), Health and Primary Education (5.7).

<sup>10</sup>As above: Higher Education and Training (4.6), Goods Market Efficiency (4.4), Labour Market Efficiency (4.1), Financial Market Development (4.5), Technological Readiness (4.1), Market Size (2.1).

<sup>11</sup>As above: Business Sophistication (3.8), Innovation (3.3).

<sup>12</sup>The macroeconomic environment indicator is a part of the Basic Requirements group, and according to the GCI Montenegro is now ranked 118th in this area, as opposed to 97th in last year's report.

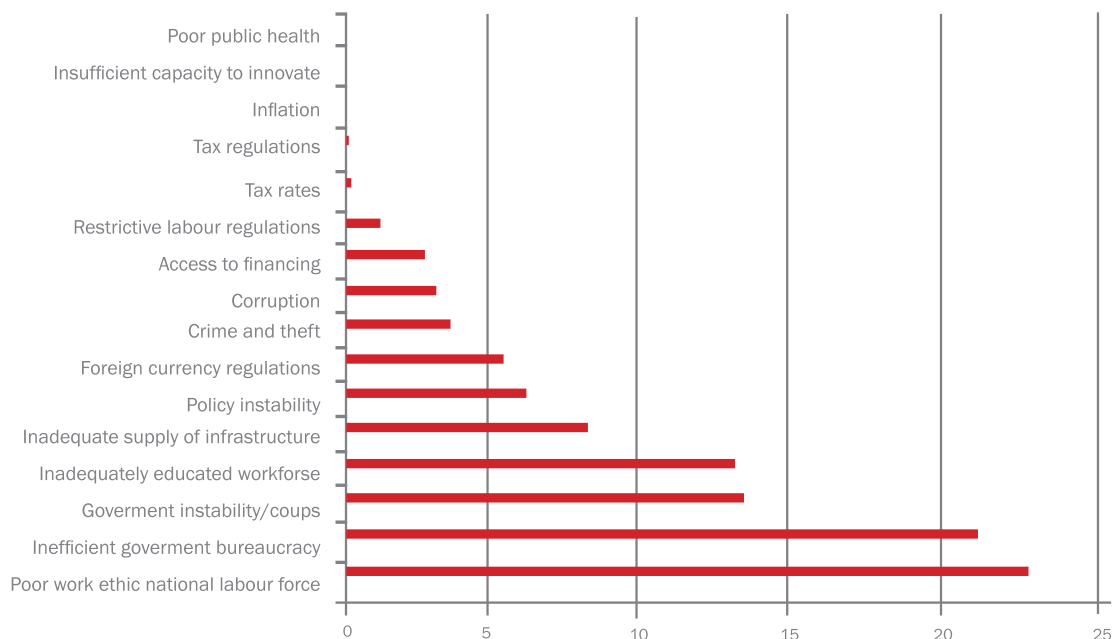


Chart 3: The most problematic factors for doing business, according to Global Competitiveness Index, by the World Economic Forum.

The trends identified in the WEF’s GCI need to be reversed if Montenegro is to continue to attract the level of FDI sufficient for resuming stronger growth. As assessed in Bertelsmann Stiftung’s Transformation Index (BTI) 2012, Montenegro Country Report<sup>13</sup> :

*“However, Montenegro’s economy is still characterized by a lack of diversification and the dominance of industrial aluminium production, rendering it vulnerable to international crises. Continuing privatization in the field of energy and transport is of key importance for the economic competitiveness of the Montenegrin economy.”*

This characteristic of Montenegro’s economy leaves it highly susceptible to outside influences and dependent on outside sources of funding. With the current global negative trends in the economy, attracting FDI is going to be a challenge.

<b>Status Index</b>	<b>1-10</b>	<b>7.28</b>	<b># 27 of 128</b>	
Political Transformation	1-10	7.60	# 29 of 128	
Economic Transformation	1-10	6.96	# 31 of 128	▶
Management Index	1-10	6.09	# 27 of 128	▶

**Scale: 1 (lowest) to 10 (highest)**      score      rank      trend

Table 2: Montenegro’s score according to Bertelsmann Stiftung’s Transformation Index (BTI) 2012

<sup>13</sup>The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated. More on the BTI at <http://www.bti-project.org>



## 1.2.2 Macroeconomic background

Montenegro's economy grew at an outstanding pace in the pre-crisis period with an average of almost 7% from 2004 to 2008. This has mainly been due to strong domestic demand especially in the area of real estate, fuelled by large FDI inflows and rapid credit growth. The growth proved unsustainable as demand contracted due to the impact of the global crisis and internal factors. The steep decline in demand was followed by a drastic fall in FDI, leading to an almost total freeze in the real estate market and a sudden liquidity shortage. The impact of the crisis on the Montenegrin economy has been severe and fully unfolded during 2009, with annual GDP contracting by 5.7% YoY from an already high 6.9%. After contracting for almost two years, industry began to grow again in the second half of 2010. Nevertheless, industrial production at the end of 2010 was still considerably below its pre-crisis peak.

In 2012, economic performance remains depressed. This is a consequence of a combination of the substantially weakened external demand due to the impact of the eurozone crisis and weak domestic demand. The result is a slight increase in GDP in the first half of the year. The weak external environment affected the aluminium producer KAP, Montenegro's largest enterprise and exporter, which was reflected in very volatile industrial production figures. The current account deficit, which narrowed to 19.4% of GDP in 2011, remains the highest in the region. Inflation has been on a generally upward trend this year. It stood at 4.1% YoY in December 2012.

The fiscal position has been weakened by KAP nationalization and weaker-than-expected growth. On the fiscal side, policies have become more prudent in the past couple of years, but the deteriorating economic situation and the activation of state loan guarantees related to KAP have prompted revisions to the 2012 budget. Public debt is over 50% of GDP as of December 2012.

In addition, unfavourable public debt dynamics have resulted in a sovereign debt rating downgrade by Standard and Poor's (S&P). The downgrade may hinder access to markets to fund the deficit.

### Sovereign Credit Ratings

	Dec 2010	Dec 2011	Mar 2012	Jun 2012	Sep *2012
MNE	BB	BB	BB	BB-	BB-

Source: Standard & Poor's. \* No change as of December 12, 2012.

### 1.2.3 Business environment

Montenegro has made significant progress relative to its regional peers in improving the business environment according to the World Bank’s Doing Business 2013 survey, which places the country in 51st position out of 183 economies surveyed.

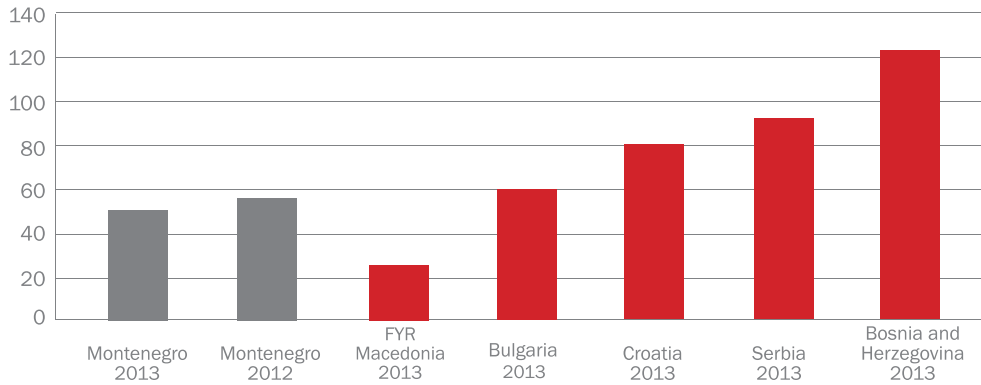


Chart 4: WB Doing Business 2013 – Overall rating, regional comparison

Thus, Montenegro continued improving its business environment over the years, according to the DB report. In summary, these are the positive accomplishments the DB 2013 highlighted for 2012:

Dealing with construction permits	Getting credit	Employing workers
Montenegro made dealing with construction permits less expensive by reducing the cost of pre- and post-construction procedures.	Montenegro improved access to credit information by guaranteeing the borrowers’ right to inspect their personal data.	Montenegro lowered redundancy costs – though it also reduced the maximum duration of fixed-term contracts and increased paid annual leave.

Table 3: Highlights from Doing Business 2013

According to the Heritage Foundations’s 2013 Index of Economic Freedom, Montenegro’s economic freedom score is 62.6, making its economy the 70th freest in the 2013 Index.<sup>14</sup> As explained in the report: *“its score is essentially the same as last year, with notable gains in the control of public spending, business freedom, and freedom from corruption balanced by declines in labour freedom, monetary freedom, and trade freedom.”* Montenegro ranks 33rd out of 43 countries in the Europe region, and its overall score is above the world average.

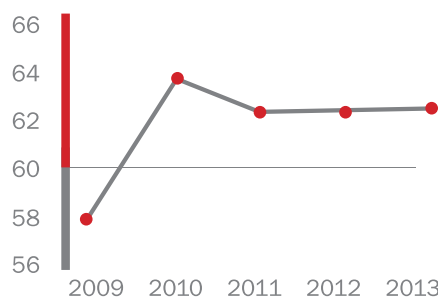


Chart 5: Montenegro's Score over Time, Heritage Foundation's Index of Economic Freedom 2013

<sup>14</sup> 2013 Index of Economic Freedom, Heritage Foundation; <http://www.heritage.org/index/country/montenegro#>

The report continues: “Although the regulatory environment is generally consistent with a market economy, bureaucracy curtails entrepreneurial dynamism. The government has pursued reform measures to curb chronically high levels of government spending and improve public-sector efficiency, but overall progress has been sluggish. Despite the relatively well-maintained rule of law, the pace of legislative and judicial reform has been slow, and corruption is still perceived as significant.”

Our members agree that notable progress has been made regarding the business environment. Although this progress will contribute to a much-needed increase in the competitiveness of the Montenegrin economy, many challenges are still to be addressed. As noted in last year’s White Book, we can reaffirm this year:

“The Government of Montenegro demonstrated its commitment to continuing to improve the environment for business through concrete reforms. The MFIC welcomes this, and encourages the government to maintain the pace of reforms.”

## 1.2.4 Progress in transition

**The Heritage Foundation’s World Rankings for Montenegro from 2012 (out of 184 countries) per category, 2011 ranking shown in brackets (out of 183 countries)**

<i>Business Freedom</i>	60 (77)	<i>Investment Freedom</i>	79 (77)
<i>Trade Freedom</i>	83 (51)	<i>Financial Freedom</i>	69 (72)
<i>Fiscal Freedom</i>	21 (22)	<i>Property Rights</i>	70 (72)
<i>Government Spending</i>	142 (151)	<i>Freedom from Corruption</i>	64 (70)
<i>Monetary Freedom</i>	34 (35)	<i>Labour Freedom</i>	52 (15)

Montenegro’s EU membership aspirations have received a significant boost. In June 2012 Montenegro received official approval from the European Council to proceed to the next stage of the EU accession process. The Council endorsed the European Commission’s assessment that Montenegro was sufficiently compliant with the membership criteria to be able to start accession negotiations. The Council also highlighted that the government needs to make further efforts in addressing important remaining challenges, particularly the strengthening of judicial independence, tackling corruption and fighting against organised crime.

While Montenegro has made substantial progress in reforms such as trade liberalisation and small-scale privatisation, deeper institutional reforms are needed in areas like corporate governance, competition policy, financial institutions and infrastructure services. Most of our members also emphasise that the implementation of laws remains an issue, especially when it comes to administrative procedures required for obtaining different licences, permits, approvals or registrations.

These points are brought out by comparing Montenegro’s scores on the EBRD transition indicator scale with those of its regional peers. Chart 4 shows that Montenegro’s average score is below all others in SEE except Bosnia and Herzegovina and Serbia, reflecting low scores in a number of areas.<sup>15</sup>

<sup>15</sup>The EBRD scale goes from 1 (little or no reform) to 4.33 (standard for an advanced market economy).

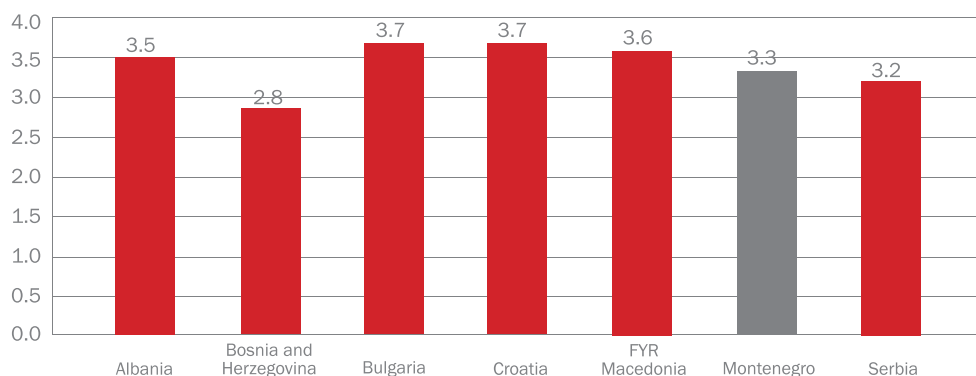


Chart 6: EBRD Transition Scores 2012 – SEE

As noted by the Heritage Foundation’s Index of Economic Freedom: *“Montenegro’s on-going transition to a free-market economy has been facilitated by structural reforms and an increasingly vibrant private sector. Along with policies that open the country to global commerce and trade, competitively low flat tax rates and an evolving regulatory system have contributed to a more dynamic and broadly based economic expansion.”*

### 1.2.5 Challenges ahead

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*Statement at the conclusion of an IMF staff visit to Montenegro: “A modest recovery in economic activity is expected in 2013, but the outlook remains constrained by the problems in the metals sector and the challenging international environment. Fiscal buffers are exhausted and thus budgetary consolidation is an urgent priority as it will lower the government’s borrowing need and reverse the upward trajectory of public debt (as also recognized by the 2013 budget). The government has adopted some fiscal measures to underpin the budget and has strengthened efforts to reduce the grey economy. Nevertheless, tangible and significant additional spending and revenue measures would be needed to achieve the 2013 budget deficit target.”*

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In the short term, negligible growth of the economy is expected. The eurozone crisis will continue to negatively impact Montenegro’s economy and growth is forecast at negligible levels in 2012, with only a small rise in this figure expected in 2013. Diversification of the economy remains a challenge for building sustainable growth in the medium term, but the visible progress in the EU approximation process should help to attract further FDI and ultimately boost the country’s growth prospects.

As noted in the EBRD's Transition Report 2012:

## KEY PRIORITIES FOR 2013

**The fate of the main industrial enterprise needs to be resolved.** The future viability of the aluminium company KAP is highly uncertain. The government needs to come up with a clear action plan for either major restructuring or closure of this company, which still employs a significant portion of the labour force and accounts for a large share of exports.

**Further strengthening of the financial system and maintaining adequate access to financing for the private sector, especially small and medium-sized enterprises (SMEs), is vital for economic recovery.** The state's involvement in this sector should be designed to ensure a level playing field and transparent regulation, rather than focused on support for selected troubled banks.

**Moving ahead with the restructuring of the power sector is a priority for improving electricity supply and efficiency.** The government has adopted an ambitious Energy Development Strategy, but concrete programmes and implementation instruments to promote renewable energy and energy efficiency have yet to be established.

### 1.2.6 Chapter Summary

Slight improvement shown in the MFIC Index of the Business Environment which increased from 5.8 in 2011 to 5.9 in 2012, illustrates the general assessment of the business and investment environment of our members and several relevant international surveys – although improvement of the business environment has continued, it requires additional efforts.

In the year in which Montenegro initiated accession talks with the EU, became a member of the WTO and elected a new government, the economic crisis took its toll on the economy, with GDP increasing by not more than 0.5% according to preliminary data, although the level of FDI saw a year-on-year increase of 16.6%, albeit from a low base.

According to the Global Competitiveness Index, Montenegro continued the decline from 2011, dropping to 72<sup>nd</sup> from 60<sup>th</sup> the year before. Nevertheless, the business environment kept improving according to the World Bank's Doing Business report which ranked Montenegro at 51<sup>st</sup> position compared to 56<sup>th</sup> the previous year. According to the Heritage Foundation, Montenegro also slightly improved its economic freedoms with a score of 62.6 (in 2012 it was 62.5), which placed it 70<sup>th</sup> out of 177 countries ranked.

When it comes to Montenegro's progress in transition, there was substantial progress in reforms such as trade liberalisation and small-scale privatization, while deeper institutional reforms are needed in areas like corporate governance, competition policy, financial institutions and infrastructure services. According to the EBRD's transition indicator scale Montenegro's average score places the country in 5<sup>th</sup> position out the 7 countries of the SEE region.

In 2013 Montenegro will be facing many challenges due to a continued weak economic recovery expected not only in Montenegro but also internationally.

## Chapter 2: Focus Areas

### Introduction

In this the fourth review of our earlier recommendations and issues that we identified as defining for the business environment, the readers will see what our members viewed as positive changes and what remains to be further improved. However, generally speaking, during the past year we saw limited progress, and the momentum from the previous years and the post-independence boom has gradually faded. The deficiencies and an inefficient administration coupled with an unstable regulatory environment tend to be much more visible in the midst of an economic downturn. This is going to put additional pressure on the government to continue delivering reforms that will maintain the competitiveness of Montenegro's economy. In this chapter the MFIC offers its view of the specific issues that need further improvement and presents suggestions to help that cause.

Here we will list several specific focus areas highlighted by our members, and within them the problems and issues, noting which ones were eliminated and which still persist. The following is a review of five broad categories which encompass numerous individual issues and topics of significance for a well-functioning business environment and an investment-friendly economy, as seen by our members. Now we will discuss the following areas:

- 2.1 Labour Market and Employment
- 2.2 Property Development
- 2.3 Taxation
- 2.4 Corporate Governance
- 2.5 Rule of Law

### 2.1 Labour Market and Employment

In the latest Doing Business report, Montenegro is commended for reducing redundancy costs, a very important step towards a more flexible labour market:

Feature	Economies	Some Highlights
Reduced redundancy costs	Czech Republic; Montenegro; Portugal; Slovak Republic	The Czech Republic made severance pay in cases of redundancy dismissal dependent on the employee's years of service. Montenegro reduced severance payments applicable in cases of redundancy dismissal <sup>16</sup> , and the Slovak Republic eliminated them altogether. Portugal reduced the severance pay applicable to contracts signed after November 1, 2012 to 20 days.

Table 4: Doing Business 2013: "Who made employing workers easier in 2011/12—and what did they do?"

<sup>16</sup>According to DB 2013, Montenegro also reduced the maximum duration of single and multiple fixed-term contracts from an unlimited period to 24 months, increased paid annual leave from 19 working days to 21 and increased the notice period applicable in cases of redundancy dismissal.

*Even though the new Labour Law adopted in 2011 did bring about certain changes towards increasing flexibility, this is merely the beginning. It can serve only to postpone the inevitable and thus increase the price the country will pay in the long run due to forgone employment opportunities and lost growth. In the face of such fierce global competition this is not something Montenegro can afford.*

Regardless of these initial positive steps in the right direction, this is an area that is still subject to criticism from the business community, primarily due to the inflexibilities that only serve to inhibit a stronger labour market and to indirectly protect people with inadequate performance, thus contributing significantly to a higher unemployment rate. This is an issue that affects the whole of Montenegro. If we want a completion of the transition process and a strong, growing and developing economy, we need a strong workforce that would carry that growth. Even though the amendments to the Labour Law<sup>17</sup> adopted in 2011 did provide for certain increases to its flexibility, our members are unanimous that the extent of the changes is not enough. This can only result in postponing the inevitable and thus increase the price the country will pay in the long run due

to forgone employment opportunities and lost growth. In the face of such fierce global competition this is not something Montenegro can afford. The situation has, in general, remained the same during 2012, which is why the following quote from last year's White Book is still applicable:

*"We see the currently offered solutions with regard to contract duration as a compromise between a backward and obsolete artificial protection of labour which in the end does more damage than good and a forward-looking model that would enable both the employers and employees alike to negotiate contracts more freely and in accordance with individual needs. However, the MFIC considers this compromise to be insufficient to promote new employment and enable investors to overcome the challenges brought about by the current economic slowdown."*<sup>18</sup>

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*It is our core belief that the regulatory framework of any modern economy should be designed to stimulate market development, create skilled jobs, productivity and attract investment. As part of this, an effective Labour Law should provide basic fairness and protection for employees, while also promoting healthy competition for skilled, long-term jobs by facilitating flexibility and labour mobility. This is currently not the case in Montenegro, which is why we urge the government to reconsider its policies in this area.*

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## Other issues and recommendations

During the past three years we noted several issues affecting our members, and the economy as a whole. Here we list all of them citing comments we received from the Government's Council on Regulatory Reform, but we also list some new concerns that have surfaced during 2012.

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*The problems that arouse from the inability of the social partners to agree upon the draft General Collective Agreement have been carried on to the employees but also the employers which are brought into a legal vacuum. This usually results in court proceedings which are in most of the cases concluded in favour of the employees.*

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<sup>17</sup>"Official Gazette of Montenegro", No. 59/11.

<sup>18</sup>MFIC White Book 2011.



- As the **General Collective Bargaining Agreement is no longer in force** as of September last year, and the new one has not yet been passed, there are **no common guidelines on the disciplinary rules of procedure and the violation of working duties (substantive rules)**.
- Related to the previous paragraph is an issue we noted last year: the regulation limiting the duration of the **disciplinary procedure** has been abused to avoid possible consequences of such a procedure. Due to a lack of the Collective Bargaining Agreement the situation is now different, however disciplinary procedure is still an issue. According to the Council, the role of the disciplinary procedure is eliminated by the new Law on Labour through defining a more simple procedure for individual lay-offs. Our members, however, have different experience in practice.
- Again we note that **suspected abuse of the right to sick leave** is still an issue. This year as well our members reported no progress at all, even though, according to the Government's Council, the institutions in charge are working on bringing more effective control of this issue.
- Our members consider that the **definition of the special services agreement<sup>19</sup> is vague**, and they too often have to ask for additional clarifications on what is treated as a special service. Additionally, legal treatment of **this type of employment is not completely clear when it comes to the payment of contributions and recognizing work experience** for the purposes of calculating the time of service.
- The amended **Labour Law from 2011 promotes the principle of employment agreements with an indefinite period**, whilst employment agreements with a definite period can only be concluded for exceptional purposes. According to comparative legislation, countries that have indefinite employment agreements as a rule also have a simple procedure for terminating such agreements. This is not the case in Montenegro, and this poses a significant business and investment barrier.
- At the beginning of August 2012 **the Collective Bargaining Agreement for the Trade Sector was revoked** by the decision of the Constitutional Court of Montenegro.
- The **Labour Law does not regulate in full some situations related to employment** such as the period of notice as defined in the Article 144, paragraph 5: "If an employee is temporarily unable to perform work-related duties during the time he is obliged to work, at his request, the period of time from paragraph 1 of this article shall be stopped and resumed after the temporary disability for work is finished". It remains unclear whether in this case the employer is obliged to pay reimbursement during the period of temporary disability for work.
- Other crucial issues which continue to negatively influence the area of employment are **inefficient inspections and the "grey economy"**, especially in the coastal area, although not limited to it.

The total cost of employment remains very high. In order to hire an employee on an average Montenegrin salary of €480, an employer has to pay a total of €720.

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*"High payroll taxes combined with high pension and healthcare fund contributions associated with employee wages cause the overall cost of labor to be high."*

2012 AmCham Montenegro Business Climate Report

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This is not exclusively a feature of the Montenegrin regulatory environment, as PwC's report "Paying Taxes 2013" noted:

*"Almost all of the economies in the region have a significant element of the Total Tax Rate accounted for by labour taxes and social contributions, but in addition in three economies 'other' taxes are important."*<sup>20</sup>

This could present an opportunity for Montenegro to stand out and offer what other countries do not have by trying to make the cost of labour lower than elsewhere in the region.

<sup>19</sup>In the original "Ugovor o djelu".

<sup>20</sup> <http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2013-full-report.pdf>



With the introduction of the so-called “crisis tax” in February 2013, which increased income tax from 9% to 15% for salaries above the average of €480, those employers who decide to absorb the increase will see an additional burden placed on already stretched budgets of companies. The economy is already suffering under the burden of the crisis, and the introduction of any additional levies is extremely dangerous. If such measures are not followed by a reduction on the side of the government’s expenses the outcome might be nothing but a shrinking of the tax base and thus potentially producing a result completely opposite from the intended one.

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## 2.2 Property Development

This chapter will combine several areas related to property development that affect businesses across a range of industries. These include construction permits, the cadastre, enforcement of mortgage contracts, real estate appraisal and others.

The MFIC believes this area to hold huge potential in contributing to the overall growth and development of Montenegro, but there is a lot of work left to be done to create an environment that would facilitate and encourage further investment and not be an obstacle to it.

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Property development will continue to be a crucial sector for attracting investment, and stimulating growth. Real estate investment also continues to play a key role in expanding Montenegro’s tourist sector.

However, depicting the situation in the area of construction permits, the following table is illustrative:

<b>Easiest</b>	<b>RANK</b>	<b>Most difficult</b>	<b>RANK</b>
Hong Kong SAR, China	1	Montenegro	176
Singapore	2	Azerbaijan	177
Georgia	3	Russian Federation	178
Marshall Islands	4	Serbia	179
St. Vincent and the Grenadines	5	Tajikistan	180
New Zealand	6	China	181
Bahrain	7	India	182
Denmark	8	Ukraine	183
Taiwan, China	9	Albania	185
Grenada	10	Eritrea	185

Table 5: Where is dealing with construction permits easiest— and where is it most difficult? (Source: WB Doing Business 2013)

This particularly poor rating comes despite some progress in the area, also according to the findings of the Doing Business 2013 report:

Feature	Economies	Some highlights
Reduced fees	Republic of Congo; Guinea; Montenegro	The Republic of Congo reduced the cost of first-time registration of the building.
Guaranteed by law borrowers' right to access data	Costa Rica; Ethiopia; Mongolia; Montenegro; Oman; Uzbekistan; West Bank and Gaza	Introduced new laws or regulations guaranteeing the right of borrowers to inspect their personal data.

Table 6: Positive developments highlighted in the Doing Business 2013 report

### 2.2.1 Construction Permits

As we noted in the previous editions of this annual publication, most of the issues related to the issuance of construction permits and real estate development are related to the local administrations.

Noting very limited improvement, which is a product of the experience that existing investors accumulated in Montenegro, in addition to concrete improvements, our members consider that this is one of the areas demanding most additional attention by the central authorities. And thus, the Doing Business report noted one single improvement in this area during the past year:

Feature	Economies	Some highlights
Reduced fees	Republic of Congo; Guinea, Montenegro	The Republic of Congo reduced the cost of first-time registration of the building, Montenegro made dealing with construction permits less expensive by reducing the cost of pre- and post-construction procedures.

Table 7: Who made dealing with construction permits easier in 2011/12—and what did they do? (Source: World Bank's "Doing Business 2013")

In a regional comparison, according to the findings of the World Bank's Doing Business 2013, the only country in the region ranked lower than Montenegro is Serbia. In addition Montenegro fell three places from the previous Doing Business 2012 research, which is another 3 places from 2011, as shown in Chart 7:

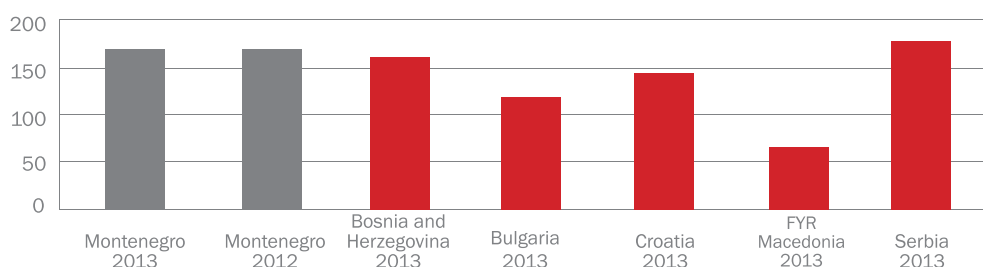


Chart 7: Doing Business 2013; Rankings for Dealing with Construction Permits.

## Other issues and recommendations:

- In the two previous White Books we noted that: “perhaps the most challenging issue is the one related to restitution. Procedures with former owners last far too long from the perspective of a potential investor.” Again, we can repeat that: “...(the process of restitution) poses a threat to further real estate development.” Last year we were informed by the Government’s Council for Regulatory Reform that if an investor is interested in a piece of land currently under restitution procedure, such a case would be given priority.
- One of the most challenging obstacles are the still **very high utility connection fees**. According to our members, in some cases they can make whole larger development projects unprofitable. The government will, as we are informed, consider this issue, but no progress in this could be reported during the past several years, except in the Municipality of Budva which, as we mentioned last year also, decided to decrease the utility fees for investors constructing four- and five-star hotels in the so-called “exclusive zone” by 75%.<sup>21</sup>
- There were only limited changes regarding the MFIC’s objection from three previous White Books regarding **unequal conditions for issuing construction permits in different municipalities**. However, in 2012 not one member reported improvements.
- The **one-stop-shop principle is not being implemented in practice** or covers only a small portion of the steps required for obtaining construction permits.
- Still relevant is the objection that cadastre plans are not harmonized with detailed spatial plan s (DUP). For details see the text box “Harmonization of cadastral plans with spatial planning documents”.

### **Harmonization of cadastral plans with spatial planning documents**

*The essence of the problems is in defining the boundaries of a parcel of land as defined by the spatial plan in comparison to boundaries of cadastral land parcels or ownership.*

*In some of the best international practices, the ownership of the land is taken into account in the process of defining a land parcel in spatial plans, which means avoiding wherever possible the situation in which two or more cadastral land parcels owned by two or more different owners lie within one land parcel as defined by the spatial plan.*

*In this way the principle of ownership and efficiency is respected. Practice in Montenegro has shown that this sometimes poses an insurmountable obstacle to real estate development when one of the owners of the land in question asks for an unrealistic price for his property.*

*It would be recommendable to introduce the institution of urban re-parcelling, and an obligation of the planners to, wherever possible, match the boundaries of land parcels in spatial planning documents with the boundaries of ownership.*

- Our members still report that the legally prescribed deadline for property registration of 15 days is not always implemented in practice. Even 15 days is a long period, and according to our members, when this deadline passed a number of buyers expressed serious concerns they might be victims of fraud. This is damaging to an investor’s reputation and the country as a whole.

<sup>21</sup><http://www.vijesti.me/vijesti/budva-komunalije-hotele-sa-4-5-zvezdica-75-odsto-manje-clanak-57946>

## *Cadastral plans not updated due to inefficient property registration*

*It would be recommendable for the Real Estate Directorate to hire private, licenced geodetic companies, to make changes in the cadastral records on behalf of the Directorate. This would contribute to increasing the limited capacities of the Real Estate Directorate. The second recommendation, as we noted in the section on Construction Permits, is to introduce a “pending index”, a note informing any interested party that there is an on-going procedure. See the ‘Improving Cadastral Practices’ section below for more details.*

- For the last three years we have pointed out a serious issue: **the obligation of investors to buy the land necessary for the completion of a land parcel as defined in the spatial plan.**<sup>22</sup> Our recommendation is explained above, while the commitment expressed by the Council for Regulatory Reform to consider a solution for this issue is welcomed, noting again, however that no timeframe is mentioned and no concrete activities noted.
- In many municipalities, there is a **lack of either or both detailed and general urban plans.** Creating comprehensive zoning plans and implementing plans at a faster pace would provide a clearer picture about what can be built in specific municipal areas. It would also promote consistency and transparency in the permission process. Further **development of staff members at municipal offices and other government agencies** in order to work with sophisticated development projects such as golf course development is necessary.
- The goal for the country should be to work towards having **all the urban planning documents online, accessible to everybody.** The benefits of this are far-reaching, and the cost is small when compared to possible gains. The documents currently available online are just a small and incomplete part of should be available.
- The Government’s Council considers that our proposal from the previous White Book that **market principles should be implemented in the process of developing spatial plans**<sup>23</sup> is “*acceptable*”. However, no concrete steps have been noted.
- The area of **real estate appraisal** is still a matter of concern. Two years ago we noted: “*There are currently no standards implemented in practice, due to a lack of regulation in this important field. Introduction of internationally recognizable standards would enable a better foundation for further growth and development in the real estate market.*” This year the Council informed us that the Ministry of Finance and the Ministry of the Economy are still expecting “*concrete proposals*” in order to initiate solutions in this area. The real estate appraisals made during the period 2006–2010, were significantly overestimated or underestimated which caused considerable damage to financial institutions in Montenegro. In addition, **there is no clear penalty policy developed against appraisers.** The only available option is if there is a suspicion of a criminal act by an appraiser, a financial institution may bring criminal charges.

<sup>22</sup>The investors are required, when filing for issuance of a UTU, to assume ownership of the whole parcel as defined by the spatial plan, although some parts of it may not have any influence on construction of the planned facility, or generally speaking, making the parcel fit the purpose intended for it by the spatial plans.

<sup>23</sup>The established zoning system in Montenegro is such that even when an investor finances development of a planning document, those urban spatial parameters that would meet the investor’s requirements in accomplishing project feasibility often cannot be introduced due to the limitations of a planning document of a higher rank, limiting urban parameters. This is why it is necessary precisely and in great detail to standardize and regulate economic and market analysis which would be designed during the stages before adopting a planning document of a higher and lower rank. Such an analysis is mentioned in the Law on Spatial Planning and Construction and the accompanying rulebook, but it has not been standardized. In this way economic and market analysis would become a standard for the market valuation of the planner’s solution, making planning documents and the projects therein more competitive and attractive for investors. In addition, it is even more important to accomplish a realistic basis for a quick start-up of projects planned in such a way. The basic condition for this is to provide for implementation of this approach in practice through higher-rank plans.

## Improving Cadastral Practices

In the last White Book, we detailed the issue that was of great concern to our members, **a regulatory loophole that enables mortgage borrowers to avoid their obligations:** *“There are cases in which clients of banks provide a property as mortgage security to more than one bank within a short period of time. In addition, what sometimes also happens is that a person sells a property and shortly after uses it as collateral for a loan, since the change of ownership has not been recorded by the Cadastre. For reasons of legal transaction safety, banks are forced to wait for confirmation of the mortgage registration in order to pay out a loan, which can cause significant delays, even several months.”* We proposed a solution of introduction of electronic registration of pending requests. This way all property deeds issued would contain a note on possible pending registration requests before the Real Estate Directorate, and that online property deeds are updated daily to include the pending request notes.

No concrete activities have been noted in this regard and the problems caused by this serious issue remain unchanged, and our recommendation for introduction of a **“pending index” as a sign that there is a procedure in progress** is still valid.

The Law on Property Rights (“Official Gazette of Montenegro”, No. 19/09)<sup>24</sup> defines the usage of the **continuing mortgage**. Through continuing mortgage, the creditor secures debts and receivables from specifically defined loan contract and other receivables that may arise/become due during the continuing mortgage validity. This provision is interpreted in a different manner by the Cadastre and notaries, and MFIC members expressed concerns as to how this provision is applied in practice, since there were cases in which a bank was not allowed to secure its interests in line with the maximum amount for which the assets were encumbered.

**The Real Estate Administration’s database should be updated on a daily basis** instead of once a month or even more rarely. In addition, **the possibility to download the title deed and pay for all the fees electronically** would be a welcome change that would significantly reduce part of the procedure.

In addition, our members reported the following issues:

- **Inefficient and non-transparent processing of requests** for changes in cadastral documents represent a serious obstacle and slow down the lending activities.
- Due to a regulatory loophole, there is a practice whereby **a spouse requests annulment of a mortgage agreement**, based on claims that it was not brought to his/her attention that a property was subject to a mortgage in a bank loan agreement.
- As **debt collection and management procedures are relatively new, the current legislation is not updated** to reflect the complexity of the issues. The rules are too often interpreted in different ways, and legal procedures are far too slow.
- **Efficiency of debt collection processes is hampered** due to complex and overwhelming administrative procedures, and limited by different interpretation of legal principles.

<sup>24</sup><http://www.poslodavci.org/doc/Zakoni/imovinsko-pravni%20odnosi/Zakon%20o%20svojnisko-pravnim%20odnosima.pdf>

## 2.2.2 Infrastructure

**This hugely important area remains underdeveloped**, and is one of the major limiting factors in development of the whole country. In 2012, primarily due to a lack of funding, no major projects were initiated that could improve the situation in this regard. However, we note the government’s efforts invested in changing this, and express hope they will be successful.

**“AmCham members have expressed concerns about the level of investment in Montenegrin infrastructure. Members feel that this is an area where the government will need to focus its energy and resources if it is to foster investments and help improve productivity in Montenegro.”**

The 2012 AmCham Montenegro Business Climate Report

The MFIC is pleased to recognize that the new government will have this issue among its priorities, as Prime Minister Milo Djukanovic said in an address to AmCham members and guests at a business luncheon organized on 6 March 2013. Mr Djukanovic emphasized that improving flight connections and the road infrastructure, including motorways, will be the focus areas of his government.

## 2.3 Taxation

Montenegro is generally recognized as a low-tax area. This is a very good image to have in the business community; however, this is just a part of the story. The joint effort of PwC, the World Bank and the IFC, the *“Paying Taxes 2013 - The global picture”*<sup>25</sup> report, places Montenegro in 81st position out of 185 economies, with the total tax rate at 22.3%. This is still a very good result and a reasonably favourable total tax rate in a regional comparison, but it nevertheless demonstrates in quantifiable terms how the 9% corporate tax rate is not the only consideration to take into account when talking about the tax environment.

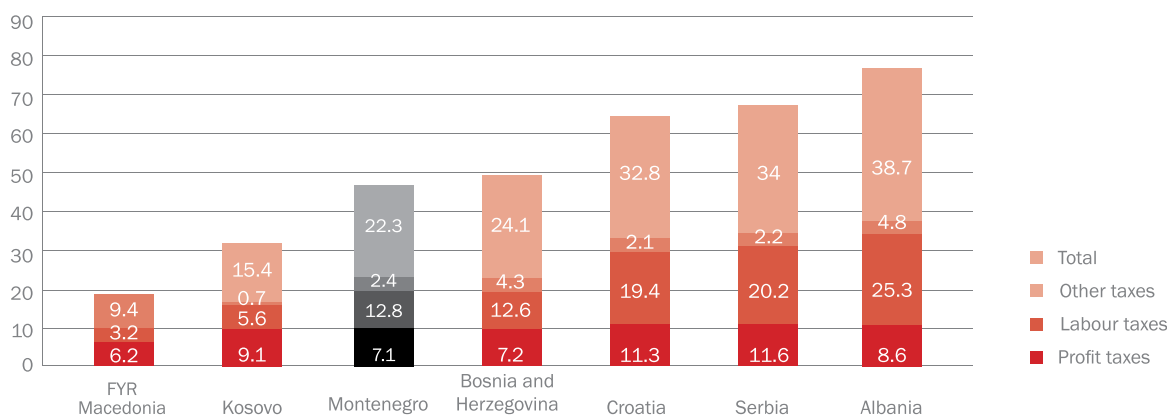


Chart 8: Total tax rates in SEE, PwC's "Paying Taxes 2013"

PwC considered not only the total tax rate in calculating the total ranking, but also “time to comply” and “number of payments”:

<sup>25</sup><http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2013-full-report.pdf>

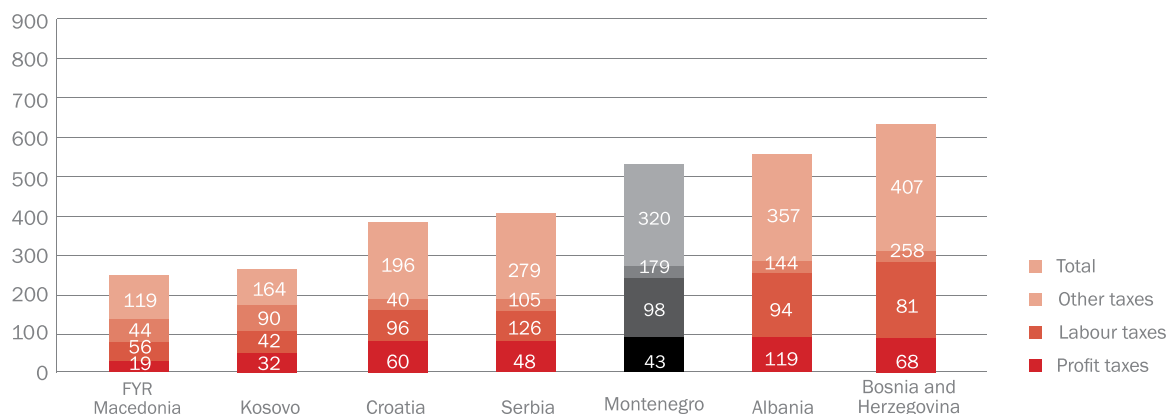


Chart 9: Time to comply, in hours, SEE countries; PwC's "Paying Taxes 2013"

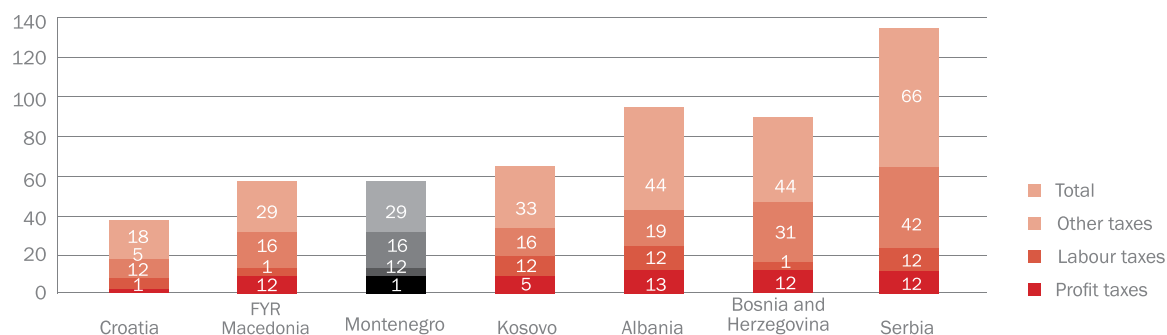


Chart 10: Number of payments in Central Asia & Eastern Europe; PwC's "Paying Taxes 2013"

### Other issues and recommendations:

*Predictability of the tax environment is one of the most important factors in creating an investment-friendly environment as it affects the calculation of business cases through expenses. A sudden unforeseen increase in expenses, including taxes, can turn a perfectly prepared and compelling business case into a loss for an investor. This can adversely affect future investment decisions forcing existing investors to be conservative, and prospective ones to reconsider their decisions on new investments.*

- The **tax environment in Montenegro remains unpredictable**.
- Some municipalities **misinterpret fiduciary ownership** as defined in the Law on Property Rights ("Official Gazette of Montenegro", No. 19/09). There were cases of banks being requested by municipal authorities to pay real-estate tax although they held only the fiduciary ownership of the property for purposes of securing claims.
- **Municipal tax policies vary considerably across 21 municipalities**, making calculations complex and inconsistent. Our members have not noticed any improvements with regards to this issue over the past few years.
- Some of our members were subject to **retroactive taxation**. This is a questionable practice, which stems from a change in the interpretation of the VAT rules for a case 9 years old. It is important here to emphasize that the relevant legislation itself has not changed, only the authorities' interpretation of it.
- After the Law on Roads was amended, **certain municipalities began introducing completely new taxes** in order to maintain the tax revenue from telecommunications operators at the level before the amendments were adopted.
- The process of **returning overpaid taxes is very complicated and slow**, due to long administrative and court procedures.



- **Tax representation possibilities are not implemented** in practice, which is a serious deficiency when aiming to attract foreign investors.
- **Sales of properties used as guaranties in loan agreements are also subject to taxation**, which leads to additional costs for financial institutions in the process of debt collection.

As the Montenegrin Employers Federation noted in their “Initiative for Improving the Business Environment”:

*“...the Law on Improving the Business Environment in Article 9 amended the Article 22 paragraphs 4 and 5 of the Law on Roads (“Official Gazette of Montenegro”, no. 42/04 and no. 21/09, 40/11), so that the amount of the fee for municipal roads is determined by the local self-administration bodies with prior approval from the government.*

*“Nevertheless, we have received information from our members during the past year, that local administrations in Montenegro adopted decisions on determining the fees in question for 2011 on the basis of decisions from previous years, i.e. according to the decisions made prior to the aforementioned amendments to the Law on Roads.”*

In previous editions of White Book we discussed a dangerous practice of **ad-hoc introduction of taxes and various fees at the local level**, and the frequent changes in legislation, especially at the local level. To illustrate this, our members pay, for example, an annual fee for access to office buildings, membership fee for the tourist association, both of which are subject to change based on criteria interpreted in a manner that is neither clear nor consistent.

Additionally, the issue of **high utility connection fees** (see section Property Development for details) **which frequently vary from municipality to municipality**, from project to project, is another matter of concern. As our members noted, the amount of the utility fees does not reflect the expenses the utility connections actually incurs to municipalities. The prices should be standardized in order to promote consistency and transparency.

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**Montenegrin Employers Federation, Initiative for Improving the Business Environment:**

*“It would be important to create an inventory of all fees paid to municipalities and question the relations among the listed legal and economic institutes, especially in the area of real estate ownership both commercial and residential, of garages or construction land.*

*“It would be purposeful to identify growing tendencies in municipalities when it comes to unjustifiably high municipal taxes and fees, especially when it comes to multiplication of the same categories of fees. Closer analysis could identify cases in which the same category is charged two or more times under different names.”*

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## 2.4 Corporate Governance

Since the introduction of the MFIC's White Book project in 2009 we have repeatedly heard our members speak of corporate governance as an area which, despite significant improvements, remains one of the weakest components of Montenegrin business environment. In this report we outline several such components of corporate governance.

### 2.4.1 Financial reporting

The quality of financial reporting remains an area with huge potential for improvement. Even though there are several exceptions, the overall quality is still not at an acceptable level. Some of our members are working with their clients on producing financial reports that would enable them to access a wider pool of financing options available outside Montenegro. However, this creates only a limited impact on the system as a whole, and the MFIC considers it would be crucial for the relevant authorities to **improve not only control, but also education in this area**. This would enable not only banks but all other businesses to make informed decisions based on reliable financial statements, such as opting for a particular supplier.

The MFIC was reminded by the Government's Council for Regulatory Reform that the Ministry of Finance has adopted two rulebooks for the purposes of increasing the quality of financial reports. This is a step in the right direction, and the MFIC encourages the government to continue to pursue the raising of standards in this very important area.

Here we have to commend the government for **making the list of companies with blocked accounts publicly available**.<sup>26</sup>

In addition we would like to suggest that it also **make the list of companies which have blocked a listed company public**, along with the orders for blocking warrants.

### 2.4.2 Audit Practices

*"New amendments to the Law on Accounting and Auditing, establishing an independent public oversight body for auditors and a related quality control system, are yet to be adopted. Overall, preparations are moderately advanced."*<sup>27</sup>

Regarding our recommendation that an **independent public oversight body for auditors and a quality control system should be established**, we were informed by the Council for Regulatory Reform that such a body which would control the audit companies is being planned. It would include representatives of the institutions involved in implementation of the regulation in this field (Ministry of Finance, Tax Administration, Securities Commission ...) and representatives of professional organizations.

Additionally, in order to increase professional standards in this area it would be beneficial to **reduce the threshold for obligatory auditing of financial reports**. The current standards set by the Law on Accounting and Audit are likely too high for a small economy such as Montenegro. According to Article 3a of the Law, in order for an audit to be legally binding for a company it has to fulfil at least two out of the following three conditions: that it has an average number of employees above 250, total annual revenues above €50 million, and total assets of more than €43 million.

<sup>26</sup>While the White Book 2011 was being prepared for printing, the Amendments to the Law on the Payment System were adopted, enabling the Central Bank of Montenegro to publish the names of companies with blocked accounts. The Central Bank is now publishing the names of the companies with accounts blocked for more than 30 days and with more than €10,000 blocked. The list is updated once a month, and published on the Central Bank's website, [www.cb-mn.org](http://www.cb-mn.org).

<sup>27</sup>European Commission, Progress Report on Montenegro 2012.

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*Criteria for obligatory auditing in Serbia are significantly lower than in Montenegro, with a company having to fulfil two out of three conditions – that it has over 250 employees, annual revenues of more than €10 million, and holding assets worth more than €5 million. Croatian standards are higher than Serbian ones, but still lower than the ones in Montenegro. According to Croatian Laws on Accounting and Audit, a company has to fulfil two of these three criteria: that it has more than 250 employees, total assets of more than €17 million, and revenues of more than €34 million.*

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After the Law on Accounting and Audit was amended in 2012, in order for an auditor to acquire a licence he or she needs to have at least three years of practice after getting a local certificate. This applies also to **holders of internationally recognized licences such as ACCA licence<sup>28</sup>, who also have to wait for 3 years.**

We will here revisit recommendations from the previous years and list new ones, divided into three areas which our members consider important for future development of this part of the economy: Corporate Income Tax (CIT), Value Added Tax (VAT) harmonization with the EU, and the financial reporting framework.

#### *Corporate Income Tax (CIT) issues and recommendations:*

- No changes were reported when it comes to Montenegro's **transfer pricing rules not being aligned with OECD Transfer Pricing Guidelines** and best international practices in this area. The Council for Regulatory Reform noted that the OECD recommendations will be taken into consideration in drafting a guideline for this issue.
- White Book 2011: **"Tangible assets that have an individual value below the threshold (€300) prescribed by the CIT Law do not qualify for tax depreciation**, but there is no rule in the CIT Law allowing tax deduction for these assets as an expense in the current year. As a result, companies operating with a large number of small-value assets suffer additional CIT costs. We recommend amending the CIT Law to allow tax deduction for such assets in the year that they are purchased, or tax depreciation of the whole group of such assets as a single asset."
- Previously we recommended **additional rules to be introduced into the CIT Law to further align the CIT Law with the International Financial Reporting Standards (IFRS)** when it comes to the issue of taxable profit for the purpose of assessment of CIT being determined by adjusting profit determined through applying IFRS in accordance with CIT Law rules: "There is a high dependency of taxable profit on accounting treatment of income and expenses under IFRS. Due to the lack of rules in the CIT Law, unintended excess taxation or non-taxation may occur in specific types of transactions (e.g. property measured at a fair value, recognition of income, etc)."
- WB 2011: **"Rules relating to permanent establishments of non-resident entities are very general and many uncertainties exist with respect to invoicing, financing and taxation.** Additional rules should be introduced to increase the clarity and certainty of tax and accounting treatment of permanent establishments." The Government's Council: **"Additional alignment with the relevant EU directives is planned** in the upcoming period: Council Directive 2003/49/EC and Council Directive 2009/133/EC."
- WB 2011: **"Rules regarding tax treatment of liquidation of a company and corporate restructuring (mergers, spin-offs, etc.) are too general and unclear."**
- WB 2011: "Currently **there are no rules regarding tax treatment of joint ventures and joint operations** (arrangements where two parties conduct business activity under joint control, with or without establishing a separate company), resulting in a high level of uncertainty." Council for Regulatory Reform: **"The recommendation will be subject to attention in the upcoming period** in the process of drafting the amendments to the relevant legislation."
- Our members reported no progress when it comes to the following issue we noted in the WB 2011: **"Rules regarding withholding tax on royalty payments to non-residents are general** and according

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<sup>28</sup>The Association of Chartered Certified Accountants, for more info please visit: <http://www.accaglobal.com/>

to our members the current approach of the Montenegrin tax authorities is that withholding tax on royalties is payable on licenses for the use of software. Such an approach is not consistent with best international theory and practice. We recommend amending the rules on withholding tax in order to align them with international practice.”

### *Value Added Tax (VAT) harmonization with EU*

- Regarding our recommendations from last year – that there are **significant discrepancies with the latest EU VAT amendments and common business practice**, and that **Montenegro did not improve its VAT system as much as the current business practice requires** – the Government’s Council for Regulatory Reform informed us that during 2013, the relevant authorities will be working on further harmonization of the VAT Law with Directive 2006/112 EC, aimed at clarification of and additions to the existing provisions.

### *Financial Reporting Framework*

- WB 2011: **“The issue of a relevant financial reporting framework in Montenegro remains**, even though several years have passed since the International Financial Reporting Standards (IFRS) were introduced into the law. The law says that IFRS should be applied when preparing a set of financial statements even though the standards have not been translated or officially adopted by the relevant authorities. There is generally some confusion as to whether the legislators mean IFRS as adopted by the EU or IFRS in general, which can make a large difference in the case of financial reports, especially in the financial sector.” Our members from the financial sector repeated that this is still an issue, although according to the Government’s Council the existing regulations do include IFRS.

- Similar to the above: **“In practice, according to the information our members have, certain departures from IFRS are clearly exercised but not admitted to by companies or the relevant authorities.** The examples are corrections of prior-year errors, sub-consolidations and consolidations, to name just a few.”

- Our recommendation from last year that the authorities should **define which standards are applicable** and who (if need be) is responsible for the adoption and translation of the standards, is still valid.

### *Other issues and Recommendations*

#### *VAT:*

- Lack of detailed rules related to VAT treatment of single/ancillary supplies
- Inconsistent rules as to whether import VAT can be deducted after it is paid / or whether the payment of import VAT is not necessary for its recovery as input VAT
- Some uncertainties regarding the application of a reverse-charge mechanism i.e. the possibility of applying a reverse charge by an entity which is not registered for VAT
- Application of the rules regarding the status of tax representative
- VAT treatment of usage of business property
- Options to correct VAT liability in case of bad debts
- VAT rules in Montenegro have not been aligned with the last EU directive (Dir. 2008/8/EC)

#### *Corporate income tax*

- No further guidance with respect to beneficial ownership rules exists. This is necessary in order to apply double-tax treaty provisions
- Transfer pricing rules and their applicability
- Deductibility rules in case of bad debt provisions and write-off
- Application of Double Tax Treaties

## Personal income tax

- It is necessary to determine the method of calculation and reporting of personal income tax on the offshore income of residents

### 2.4.3 Bankruptcy Regulation

We discussed this issue in detail in the White Book 2011, expressing serious concerns, and this year we also have to note that systemic deficiencies in practice still exist.

*The current Law on Bankruptcy regulates in detail all aspects of the bankruptcy procedure. However, the problem of the bankruptcy procedures is not in the legal framework, but in the implementation. Montenegrin courts and judges have not yet built a clear position and legal practice regarding the application of the Law on Bankruptcy and the introduction of modern concepts of bankruptcy law to Montenegro.<sup>29</sup>*

It is important to note **that our legal system does not recognize the institution of personal bankruptcy and therefore a person may have a number of companies in which he has a founding role.** In the event that one of the companies enters bankruptcy proceedings, the business is transferred to another and continued without interruption. The result in practice is that the founder of a business is in that way able to avoid their obligations towards their creditors, be they banks or suppliers or other businesses.

Last year we noted that this is not regulated by Montenegro's legislation.

As the Government's Council for Regulatory Reform reminded, the new Bankruptcy Law, which came into force in January 2011, brought about several regulatory novelties.

In practice, however, as our members have noted, there were no improvements in 2012 in this regard. There are certain cases where our members have been trying for more than a year and a half to initiate bankruptcy proceedings to claim a substantial amount of debt from loans it approved to various members of a locally owned group of companies.

*In practice, however, as our members have noted, there were no improvements in 2012 in this regard. There are certain cases where our members have been trying for more than a year and a half to initiate bankruptcy proceedings to claim a substantial amount of debt from loans it approved to various members of a locally owned group of companies.*

Another alarming issue is that according to the Law, **minority creditors can outvote majority creditors and make decisions which are harmful to the interests of the majority creditor.** This can happen by means of disputing well-justified monetary claims without proving grounds for such action by either the bankruptcy manager or the judge. In order to avoid such a situation, it would be recommendable to introduce a principle of proportionality, which would offer adequate protection to majority creditors in bankruptcy proceedings and to stipulate the minimum level of objective evidence for justifying a monetary claim.

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<sup>29</sup>For example, financial transactions such as loans to financial derivatives, which is the ability to charge in bankruptcy using the newly introduced provisions such as those of setoff, the right to choose, and the like.

## 2.5 Rule of Law

In the 2012 report by Property Rights Alliance, International Property Rights Index<sup>30</sup>, Montenegro is ranked 72<sup>nd</sup> out of 130 countries surveyed, coming in second in the region (see Chart 7 below). In this extremely important area that has correlation with economic development and growth, Montenegro saw a modest drop from the 71<sup>st</sup> position it held in the 2011 report. The index is composed of three major components, Legal and Political Environment (LP), Physical Property Rights (PPR), Intellectual Property Rights (IPR), in which LP fell by 0.1 points as three of four sub-components registered mild losses. *Judicial Independence* was the only subcomponent to show a positive change. The PPR score decreased by 0.3 points in 2012 because of the deterioration in *Protection of Physical Property* and *Access to Loans*. The IPR score increased by 0.1 points. Improvements in *Protection of Intellectual Property* and *Copyright Piracy* accounted for the change, as explained by the authors of the Index<sup>31</sup>.

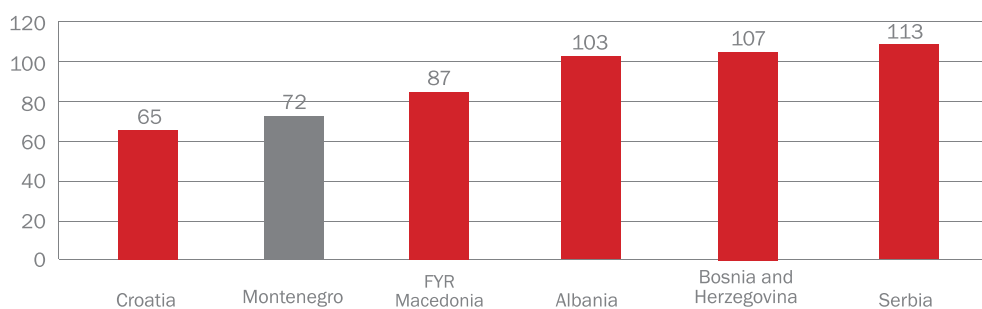


Chart 11: Property Rights Index Ranking out of 130 countries; International Property Rights Index - 2012 Report, produced by Property Rights Alliance

Generally, our members consider that even though Montenegro is making progress on its EU reform agenda, there are still issues that are a cause of concern in this area, primarily the fight against corruption and reinforcing the rule of law.

As the Heritage Foundation noted in its *Index of Economic Freedom 2013*: “*The constitution provides for an independent judiciary, but the system is inefficient and subject to political interference. Infringements of intellectual property rights are fairly widespread. Mistrust of government continues, particularly due to pervasive corruption in the executive and judicial branches. Parliament is investigating allegations of bribery in connection with the 2005 telecommunications privatization.*”

In conclusion we cite an assessment of the European Commission from the Progress report on Montenegro 2012:

“*Overall, a new system has been introduced to improve the efficiency of civil enforcement of claims. However, weaknesses in the rule of law and corruption continue to have an adverse effect on the business environment and remain a major challenge.*”<sup>32</sup>

<sup>30</sup><http://www.internationalpropertyrightsindex.org/>

<sup>31</sup><http://www.internationalpropertyrightsindex.org/profile?location=Montenegro>

<sup>32</sup>Montenegro 2012 progress report, European Commission [http://ec.europa.eu/enlargement/pdf/key\\_documents/2012/package/mn\\_rapport\\_2012\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/mn_rapport_2012_en.pdf)

## 2.5.1 Judiciary

One of the issues most frequently mentioned by our members in discussing the state of the Rule of Law in Montenegro are the **lengthy commercial disputes and court cases**. This was mentioned in each edition of the White Book. We also noted the efforts invested in remedying the situation in this regards, expressing understanding for the very limited resources at the disposal of the authorities. However, there is still work to be done in order to achieve a satisfactory level of performance of the judiciary that will be an efficient provider of services for businesses and citizens, and not an obstacle. Observations from the previous two issues of this document are still relevant today: *“Lengthy court proceedings can render the intent of the petitioner completely pointless, thus jeopardising the very foundations of the rule of law.”*

*To illustrate how damaging only the immediate effects may be, it is noteworthy to mention here the example we detailed in the part on Taxation: the case in which our member was charged taxes by a municipality according to a law that had already expired several years before. This happened precisely due to the problem of lengthy court cases, which was a direct cause of €500,000 in losses to our member.*

Expressing understanding for reasons which, among others, cause the **inefficiency of Commercial and Basic Courts** – a combination of large number of cases and limited administrative capacity, we need to note that this greatly affects businesses in general. This is in spite of the fact that: *“Montenegro continues to be one of the countries with the highest number of basic courts, judges...and administrative staff per capita in Europe.”*<sup>33</sup>

We dealt with other industry specifics regarding the rule of law issues in chapter 3.

## 2.5.2 Permits and Licences

Noting some progress in this area, our members are unanimous that **administrative procedures required for issuance of various permits and licences remain expensive and time consuming**. One of the most criticised areas of administrative procedures required for business operations is the area of issuing permits and licences. As in the previous two White Books, we have to commend the government for the progress achieved. However, a lot remains to be done in terms of streamlining the procedures and making them more cost-effective.

**Procedures for setting up a business have been streamlined**, and the number of licensing requirements has been reduced. However, **licensing costs remain burdensome, averaging more than 10 times the level of average annual income**.

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*An issue worth noting here is that **although mandatory use of the company’s seal is abolished, almost all state bodies and institutions still insist on using it**. This obligation was abolished in 2011 through the amendments to the Law on Companies (Article 19, point 4: “Use of the seal shall not be mandatory for companies”). This is also a good example of how practice too often differs from the regulations.*

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<sup>33</sup>[http://www.mip.gov.me/en/images/stories/El\\_download/Izvestaji/Izvestaj\\_o\\_skriningu\\_za\\_poglavlje\\_23.pdf](http://www.mip.gov.me/en/images/stories/El_download/Izvestaji/Izvestaj_o_skriningu_za_poglavlje_23.pdf)



Our recommendation on **introducing/implementation of the principle of ‘silence is consent’** is still valid. Even the Amendments to the Law on General Administrative Procedure from July 2011 introduce the principle of ‘silence is consent’ (Article 212a) but the practical value of this provision is still questionable. This year the Council for Regulatory Reform informed us that the government will investigate how much of the amendments of the existing Law on Administrative Procedure can be consistently integrated in the new law. However, no timeframe is mentioned.

In spite of welcome changes and improvements in the area of **temporary residence and work permits**, particularly when it comes to cost reduction and streamlining the procedure, obtaining work permits for foreigners continues to be a source of frustration for our members. They reported long waiting times and repeated, perhaps unnecessary, obligation to appear before the competent authorities in person.

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*The example we mentioned in White Book 2011 is still applicable:*

*Apart from the fact that the procedure for **Licences for Conducting Business** is far too long, the legal provisions guiding this procedure are scattered in numerous pieces of regulation. This creates confusion and causes unnecessary delays with starting a business. The one-stop-shop principle is in this area almost non-existent.*

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Here we list other issues our members reported during the 2012:

- Noting improvement over the past several years in the area of **temporary residence and work permits**, this in many cases continues to be a source of frustration for our members.
- Under the current regulations foreign citizens must initially be registered with the Central Registry of the Commercial Court as an executive director, after which it is necessary to initiate the procedure for obtaining a work permit from the Employment Agency of Montenegro as well as obtaining a temporary residence permit from the Ministry of Internal Affairs. The issue here is that although a foreigner registered with Central Registry of the Commercial Court as an executive director is not employed by the company until the temporary residence permit is issued by the Ministry of Internal Affairs, which lasts on average 23-27 days (along with the procedure of obtaining a work permit by the Employment Agency of Montenegro). This is because in order to apply a foreign citizen-executive director for the pension and health insurance before the Tax Directorate requires all of the above documents and the Directorate in practice records the foreign citizen as a taxpayer on the date of issuance of the temporary residence issued by the Ministry of Interior Affairs of Montenegro. In order to avoid this gap of almost a month during which the executive director cannot be compensated, the authorities need to coordinate the sequence of steps in the process.
- According to the Article 35 of the Law on Employment of Foreigners, the Employment Agency is in charge of the revocation and termination of validity of work permits for foreigners, and has to inform the Montenegrin Ministry of Internal Affairs within 8 days of the annulment, or termination of validity of the work permit. According to the regulation, the Employment Agency has to do the same also in cases when a foreigner is changing positions within the same company. And although this means a replacement of the existing work permit with a new one, on the basis of information obtained by the Employment Agency of Montenegro, the Ministry of Internal Affairs denies the previous work permit. The solution would be to make an exception in the case of replacement of the existing one with a new work permit which would be valid until the expiration of the temporary residence. So, in this way, there would be no risk of a (new) work permit lasting longer than the temporary residence being permitted.

Expressing satisfaction that a number of our objections and recommendations were taken into account, at the same time we urge the authorities to consider further streamlining of the procedures.

### 2.5.3 Execution Procedures

In the last two White Books the MFIC noted that:

*"In general, the MFIC recommends a solution that has already been implemented in the region – that execution procedures should be outsourced to private executors. This would reduce the burden unnecessarily placed on the courts, thus making them more efficient. Apart from this, procedures would also be facilitated, and what is perhaps most important, the incentive to cheat would be removed and the rule of law strengthened. As this procedure is new, lawmakers may choose the option of adopting a parallel system – private and court executors, to gradually introduce the new system."*

As the Council for Regulatory Reform reminded for the second year in a row, the Law on Execution and Security introduced the institute of public executors in a way similar to that which we recommended. The MFIC expressed satisfaction last year that such an institute was introduced into the legal system, however, we again have to note that the implementation has yet to start.

This is an issue noted also by the European Commission in its Progress Report for Montenegro in 2012: *"In December 2011, the parliament enacted the Law on Public Bailiffs, transferring powers for the civil enforcement of commercial contracts to these new legal officers. However, enforcement of civil decisions remains weak and bailiffs are yet to be recruited."*<sup>34</sup>

### 2.5.4 Notaries

After two years of working with the institution of Public Notaries our members generally assess that there is still room for improvement there. Again, most of the criticism was directed towards the two categories identified last year: unjustifiably high fees, and a prolonged procedure in some cases.

#### Fees

The fees remain almost at the same level as during 2011, and our members still consider that they are unjustifiably high.

MFIC members overwhelmingly agreed that the currently applicable fees charged by public notaries, which can go as high as €5,000, represent a significant business barrier. Even the new Notary Tariffs, adopted in January 2012, brought quite a small reduction in fees.<sup>35</sup>

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*A good illustration of how the costs add up is a contract for the transfer of ownership of, for example, a medium-sized apartment. The total transaction costs, especially if a buyer is in need of financing, which is so in the majority of the cases, can go as high as two to three average monthly salaries (this includes the cadastral fees, two notarised contracts – one for a mortgage and one for ownership transfer, insurance costs, and other various fees such as real estate appraisal, bank fees, etc). The transaction costs incurred in this way will negatively affect primarily small and medium-sized businesses and citizens.*

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Earlier, while the courts performed this duty (even though the courts and notaries do have different roles), the maximum fee was €300, while there are cases in which they are as much as 100 times higher than before. This is not just in theory, as our members have in practice paid such drastically higher fees.

<sup>34</sup>[http://ec.europa.eu/enlargement/pdf/key\\_documents/2012/package/mn\\_rapport\\_2012\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/mn_rapport_2012_en.pdf)

<sup>35</sup>[http://notari.me/images/stories/tarifa\\_sl\\_u\\_beni\\_list\\_27\\_01\\_2012.pdf](http://notari.me/images/stories/tarifa_sl_u_beni_list_27_01_2012.pdf)



## Procedures

The issue of the obligation to make appointments, which in some cases needs to be made several days in advance, is still valid according to our members, although the waiting time has generally decreased in comparison to the 2011. As the Government's Council for Regulatory Reform informed us, the number of notaries was increased during the 2012 which influenced this decrease. However, the efficiency is still a matter that needs to be taken into consideration when contemplating further reforms and upgrades of the notary system.

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*“...efficiency is still a matter that needs to be taken into consideration when contemplating further reforms and upgrades to the notary system”*

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We noted last year that some of our members reported having issues with mistakes in notary records, due to which the whole procedure needs to be repeated. This is still valid, and we propose a **complaints procedure to be established, streamlined and made efficient so that it could be easily accessible and efficient in responding to complaints.**

Finally, a major issue has surfaced in practice: **there is no real-time link among cadastres and notaries and this creates the potential for serious abuses which we have witnessed during 2012.**<sup>36</sup> In addition, there is **no real-time link between notaries** to reduce the risk of abuses among different notaries when it comes to the issuing of real-estate-related legal acts. Any form of “pending index” as the MFIC proposed<sup>37</sup> would be of enormous assistance in preventing such occurrences which can bring the whole system's credibility into question.

*Finally, a major issue has surfaced in practice: there is no real-time link among cadastres and notaries and this creates the potential for serious abuses which we have witnessed during 2012. In addition, there is no real-time link between notaries to reduce the risk of abuses among different notaries when it comes to the issuing of real-estate-related legal acts. Any form of “pending index” as the MFIC proposed would be of enormous assistance in preventing such occurrences which can bring the whole system's credibility into question.*

### 2.5.5 Law on Foreign Investment

*“...[A]lthough foreign investment is officially welcome, the investment regime remains too bureaucratic to allow dynamic investment growth.”<sup>38</sup>*

Although some issues that we pointed to during the past three years last year remain outstanding, most have been incorporated into the Law on Foreign Investment. As we noted before, *“generally speaking, [the Law on Foreign Investments] does represent a step forward in comparison to the previous law, however, it still can be improved to offer additional protection.”*

*Our observation that the MFIC would encourage the government to “consider taking further steps in providing additional protection to foreign investors, in accordance with recent trends in this area”, still stands.*

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<sup>36</sup><http://www.pobjeda.me/2012/10/04/prodavao-iste-stanove-nekoliko-puta-uz-notarski-pecat/>

<sup>37</sup>See Improving Cadastral Practices in chapter 2 for details.

<sup>38</sup>Heritage Foundation 2013 Index of Economic Freedom, <http://www.heritage.org/index/country/montenegro#>

## 2.5.6 Regulatory Framework in Banking

Most of the issues related to the regulatory framework in this area are mentioned in general in the Banking chapter. Below is a list of issues specifically related to the implementation of mortgage regulations that was prepared for the White Book 2010 edition, with comments from the Government's Council for Improving the Business Environment, Regulatory and Structural Reforms, in order to keep track of the changes. Generally speaking, our members assess that based on current practice, the **legal framework and procedures stipulated for the registration, activation and enforcement of mortgages, need to be further improved, particularly with respect to timeframe and efficiency.**

We left out those issues that had been modified/improved, adding some new ones:

- When it comes to collateral enforcement in general, **our members assessed that improvement has been made by adoption of the Law on Financial Collaterals** ("Official Gazette of Montenegro", No. 44/12). This law improves the position of secured creditors in case of a bankruptcy procedure, optimizes the time to realize the rights of the creditor in case of execution of financial collaterals and minimizes the legal risk of creditors being in practice blocked by unconscious debtors who are using legal uncertainties to obstruct enforcement of financial collaterals.
- Improvements have also been made with the new Law on Enforcement and Securitization which came into force in September 2012, whereas the major advantage is the **introduction of public notifications used in cases when the post cannot be delivered to the debtor** through the ordinary procedure.
- Enforcement of other type of collaterals (mortgage and promissory notes) is still subject to concern. Also, **there is no effective and costless way to enforce real-estate secured collaterals.**
- White Book 2011: "In order to shorten procedures from initiation of a settlement to the point of executing an out-of-court sale, **mandatory registration of the Notice on the Initiation of Settlement with the Real Estate Directorate should be revoked** – thus the timeframe within which the sale of real estate can be conducted would be shortened by the duration of an entire administrative procedure."
- We noted last year that "deadlines given to administrative bodies to implement requests by banks or for making relevant decisions related to mortgages – for example regarding deadlines for urgent procedures should be shortened". Our members report that, although some of these deadlines are now at an acceptable level, still some of them are not respected in practice.
- **Harmonizing the positions of competent cadastral authorities with regard to changes in cadastral records.** This is regulated by the Law on State Surveying and Cadastre of Immovable Property, and the Ministry of Finance made a commitment in 2012 to monitor the implementation of the provisions of this law.

## Chapter 3: Industry Overview

Sectoral value-added as a share (%) of GDP<sup>39</sup>

Services	70
Non-Manufacturing Industry	14
Agriculture	10
Manufacturing Industry	6

### 3.1 Tourism

#### Introduction

Montenegro is becoming a worldwide tourist destination with high potential for further development. Tourism holds special significance for Montenegro's economy and is considered to be of strategic importance for the country's development.

Our members noted that Montenegro is being positioned as tourist destination better each year with concrete steps being taken to further improve its image.

Bulletin of Central Bank of Montenegro, January 2013: "According to Monstat records, 1,439 thousand tourists visited Montenegro in the first twelve months of 2012, which is a 4.8% y-o-y increase. Tourist overnight stays amounted to 9,151 thousand which is a y-o-y increase of 4.3%. Foreign tourists accounted for 89% of the total tourist overnight stays."

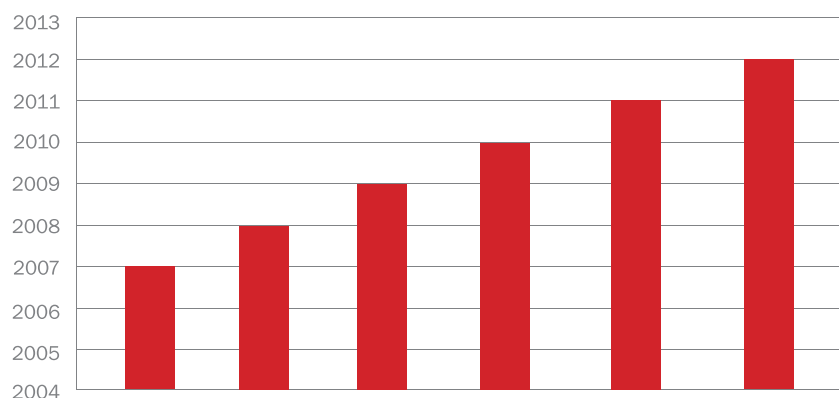


Chart 12: Number of tourist arrivals 2006-2011 | (source: Monstat, Central Bank of Montenegro)

<sup>39</sup> Source: Global Competitiveness Report 2012-2013, World Economic Forum

## KEY FACTS 2013<sup>40</sup>

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### **GDP: DIRECT CONTRIBUTION**

The direct contribution of Travel & Tourism to GDP was €335.9m (9.9% of total GDP) in 2012, and is forecast to rise by 13.2% in 2013, and to rise by 8.1% pa, from 2013-2023, to €827.1m in 2023 (in constant 2012 prices).

### **GDP: TOTAL CONTRIBUTION**

The total contribution of Travel & Tourism to GDP was €663.8m (19.5% of GDP) in 2012, and is forecast to rise by 14.1% in 2013, and to rise by 8.6% pa to €1,723.6m in 2023.

### **EMPLOYMENT: DIRECT CONTRIBUTION**

In 2012 Travel & Tourism directly supported 14,500 jobs (8.7% of total employment). This is expected to rise by 15.3% in 2013 and rise by 5.3% pa to 28,000 jobs (15.0% of total employment) in 2023.

### **EMPLOYMENT: TOTAL CONTRIBUTION**

In 2012, the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry, was 17.6% of total employment (29,000 jobs). This is expected to rise by 15.9% in 2013 to 33,500 jobs and rise by 5.8% pa to 59,000 jobs in 2023 (31.8% of total).

### **VISITOR EXPORTS**

Visitor exports generated €609.1m (43.3% of total exports) in 2012. This is forecast to grow by 6.1% in 2013, and grow by 8.6% pa, from 2013-2023, to €1,620.9m in 2023 (48.4% of total).

### **INVESTMENT**

Travel & Tourism investment in 2012 was €173.4m, or 24.6% of total investment. It should rise by 15.7% in 2013, and rise by 10.0% pa over the next ten years to €518.7m in 2023 (49.6% of total).

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## *Remaining issues and recommendations*

- We noted last year that **ad-hoc introduction of new taxes, such as the additional taxes on labour costs from last year, is harmful for businesses**, especially in the tourist industry which is labour-intensive. This year our members reported that the business environment has been stable in this sense.
- The feedback we received regarding **the work of inspections is mainly positive, although improvement is necessary**. Organizing inspections of one institution has demonstrated positive effects.
- **The total smoking ban** was revoked after eight months in force, and the compromise solution introduced afterwards is assessed by our members as satisfactory.
- No improvements were reported in fighting the so-called **“grey economy”**. We note again that according to the MFIC’s own estimates untaxed business activities may account for as much as €300 million in total revenue annually. This represents a huge loss for the national and local budgets alike, and creates unfair competition for businesses that abide by the law.
- We noted that the tourist potential of Montenegro is strongly affected by seasonality. In order to remedy this, it is necessary to develop golf courses and similar year-round facilities, such as conference centres. In addition **easy, cost-effective access from major European capitals needs to be encouraged**, as progress in this respect is rather slow.
- In the area of protection of music copyright our members reported that this issue is unregulated and allows for discretionary interpretation. **The Organization for Protection of Copy Rights of Music Authors of Montenegro (PAM) is selectively implementing the regulation from this area which is harmful for both the authors and users of the rights**. PAM’s discretionary policies are under no scrutiny of the authorities, which is, according to our members, being abused by the organization.

<sup>40</sup>Taken from World Travel & Tourism Council’s (WTTC) annual publication: “The Economic Impact of Travel & Tourism 2013”, [http://www.wttc.org/site\\_media/uploads/downloads/montenegro2013\\_2.pdf](http://www.wttc.org/site_media/uploads/downloads/montenegro2013_2.pdf)

## 3.2 Production/Mining/Energy

### *Introduction*

In a service-based economy, such as Montenegro's, the export potential of heavy industry has special significance.

According to the Central Bank data, total industrial output decreased 7.1% during the twelve months of 2012. A decline was recorded in the mining and quarrying sector (21%) and manufacturing industry sector (10.1%), while electricity, gas and steam supply sector recorded production growth of 6.4%.

### *Remaining Issues and Recommendations*

Our members this year noted limited positive developments:

- Our members pointed to **inflexibility in the Labour Law**<sup>41</sup> and other regulations in this field. These seriously hamper Montenegro's potential in the real sector, and impede the initiated restructuring process. However, in 2012, our members reported certain improvements regarding the flexibility of the Labour Law, **the introduction of Agencies recognized by law for the lease of staff, brought positive developments** which need to be continued.
- Foreign investors still have problems in **assessing the creditworthiness of the local companies** they co-operate with. They reported that in order to avoid this, they prefer to cooperate with companies having a well-known standing, usually members and/or controlled by well-known international companies. Montenegrin companies thus lose a significant source of income.
- When it comes to **municipal taxes** levied on companies in this sector, they are still costly and not transparent enough.
- No improvements have been made in the area of **liquidity and access to capital**.

## 3.3 Telecommunications and ICT Sector

### *Introduction*

The ICT sector is being changed by outside forces and pressures such as the global economic crisis, the growing role of consumers in demanding and shaping services and of course the explosive emergence of new, powerful internet players, 'over-the-tops' or OTTs. Perhaps the biggest single change is in the way we choose to communicate with each other remotely – by data, not voice, and by text, not telephone calls.

To deal with the fast-paced technological changes and the way the information is being consumed, produced and transferred the ICT sector needs to look into new ways of finding revenue streams, new business models, and new markets. The telecommunications industry must continue to explore new ways to monetize existing infrastructure and access investment to upgrade and expand that infrastructure, which is a particular challenge in Montenegro. All these goals can only be achieved by ensuring that outdated legislative and standardization frameworks are revised to fit the realities of the borderless broadband world.

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<sup>41</sup>For more details see the section headed "Labour Market and Employment".

That would enable the sector to utilize numerous opportunities, new business models that offer huge potential, such as embracing OTTs, offering tiered-access packages, or engaging with open-source innovation, entering new market spaces that are emerging in horizontal, cross-sector services and huge potential of M2M, cloud and mobile broadband which could bring about social and economic development on an unprecedented scale.

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*“That would enable the sector to utilize numerous opportunities, new business models that offer huge potential, such as embracing OTTs, offering tiered-access packages, or engaging with open-source innovation, entering new market spaces that are emerging in horizontal, cross-sector services and huge potential of M2M, cloud and mobile broadband which could bring about social and economic development on an unprecedented scale.”*

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All of these trends are increasingly affecting this industry in Montenegro as well, where this dynamic sector is still facing some of the challenges from the previous period.

## Developments

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*Unfortunately, the concerns our members expressed last year “that the difficulties that the Montenegrin economy is facing... may lead the authorities to tap deeper into the profits of successful companies by introducing ad-hoc taxation which may significantly impact their business”, proved to be justified as the first measure to make up for the budget deficit was to introduce a tax on SIM cards, IPTV and electricity meters.*

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The regulatory environment has remained largely the same. The introduction of new SIM card taxes has affected the revenues of operators as consumers – taxpayers – seek to compensate this increased cost of communicating by spending less. The public consultations, according to our members, now offer enough time for commenting on the new regulation that is being prepared, although the perception is that not enough suggestions are being taken into consideration. The mobile market retained very high levels of penetration, which brought it to a mature stage with very limited potential for growth which the operators must seek elsewhere.

## Remaining issues and recommendations

Several general issues that have been an impediment to the further development of this sector in Montenegro have already been mentioned in this document, whereas in this section we would like to list a few industry-specific recommendations, of which some remain the same as in the previous White Book:

- The observation that **infrastructure development** via public/private partnerships needs to be continued, remains valid. However, this is still jeopardized by far too low prices for infrastructure leases as determined by the Agency for Telecommunications.
- When it comes to **infrastructure for mobile network base stations**, positive improvement has been noticed with some local authorities such as in Podgorica, Cetinje and Berane, where municipal authorities have been efficient in dealing with requests for obtaining building permits. On the other hand, our members faced significant negative trends in some coastal municipalities, going as far as total lack of cooperation which caused delays of one year for plans for temporary buildings.
- **Infrastructure for fixed network / telecommunication ducts:** The intention of some municipalities that only they can build and own telecommunication infrastructure is a potential obstacle.
- **Simpler regulations.** There are no developments regarding this issue.
- Regarding our positive assessment last year in general on a significant improvement when it comes to **cooperative national and local authorities**, our members consider that at the local level still more improvement is needed.

- In spite of **increases in administrative capacities** of relevant ministries during 2012, no significant improvements in efficiency have been noted.
- The situation remains the same when it comes to the **lack of understanding of the specific features of the telecommunications industry** for appeals before the Montenegrin authorities. **The authorities focus on formal and not substantial elements of the specific issues.**
- Implementation of certain remedies prescribed by **market analysis in the Law on Electronic Communications** may discourage further infrastructure investment.
- Last year we noted that in order to fully take advantage of electronic commerce, **provisions of the Law on Electronic Commerce relating to distance selling need to be aligned with the Consumer Protection Law.** We have been informed that the government is committed to tackling this issue through the new Law on Telecommunications. It is expected that the new Law on Electronic Communication which should be adopted in the near future will establish the regulation guiding online sales.
- The situation remains the same when it comes to the **overly demanding provisions for telecommunications business in the Law on Construction.** According to the Government's Council for Regulatory Reform, this issue will also be resolved by the new Law on Telecommunications. Thus far, however, our members reported no progress on this issue.
- Our members noted positive developments regarding **the sensitive area of personal data protection** in a professional approach of the Agency for Protection of Personal Data. They were efficient in providing opinions at the request of our members. Otherwise, **better understanding of personal data protection among different authorities is needed.**
- No changes: **"Burdensome local/municipality taxes as well as high notary fees that cause extremely high costs in day-to-day business.** Notary fees are in some instances as much as several hundred times higher than before."
- No improvements were noted either for the issue of lengthy **commercial disputes and court cases, which in some instances can last up to several years.**
- **Lengthy procedures for obtaining an ecological permit,** a basic document for obtaining construction permits. Currently the length of the procedure is six months at least. Simplification of the procedure should be proposed through the removal of some unnecessary steps like the first step in which it is decided whether an ecological study should be done or not.
- The regulator in Montenegro needs to have **more understanding when it comes to the differences between the small Montenegrin and significantly larger markets, such as the EU.**
- **The regulator should develop proper market analysis that would reflect the current status and its effects on future development** of Montenegro's market and economy.
- Our members also noted that the **public consultation process is used to satisfy the legal requirements** as such, and feel that their comments are not taken into consideration enough.



## 3.4 Banking

### Introduction

Deleveraging continued in the financial sector in the past year. Prior to the crisis between 2006 and early 2008, Montenegro reported annual credit growth rates of over 100%. Since the crisis, however, significant deleveraging has taken place and this trend has continued at a vigorous pace over the past year. Private sector credit as a percentage of GDP fell from 69% at the end of 2010 to 55% of GDP at the end of 2011. The banking sector is also characterised by a high level of non-performing loans (NPLs). NPLs declined from about 21% of total loans in 2010 to 15.5% in mid-2012, but this figure is still at the higher end of the spectrum in the SEE region as well as the transition region more broadly.

Confidence in the banking industry is gradually returning and foreign parent banks have maintained their commitment. Negative trends in the economy significantly influenced the banking sector as well: sluggish growth, worsening of the creditworthiness of companies and an increase in defaults.

The previous year has also been characterized by an increase in non-performing loans, defaulting loans and restructured loans. At the end of the third quarter of 2012, non-performing loans (C, D, E) made up 18.5% of total loans, and the share of defaulting loans has increased to 23.3%.

Following mild growth in the first half of 2012, total loans in the banking sector recorded a decrease in the third quarter, which affected a decrease in total of 3.3% in comparison to the end of the previous year. On the other hand, deposits increased by 10%, while the liquidity is satisfactory.

### *Statement at the Conclusion of an IMF Staff Visit to Montenegro:*

*“While there has been considerable progress in stabilizing the banking system, lending continued to contract, though at a declining rate, as banks remain hampered by a high level of problem loans... Improvements in judicial and administrative procedures would help in addressing the resolution of problem loans.”*

### *Remaining issues and recommendations*

- The **currently implemented accounting standards**, according to the regulation, **are not fully compliant with the International Accounting Standards (IAS)**. It represents a combination of the IFRS and the current national regulation. The MFIC encourages the CBCG to continue reforming this important area in order to provide adequate implementation of standards.
- **The quality of financial reports remains an area with huge potential for improvement.** Our members report that in the case of large companies, the audited financial reports are increasingly reliable. However most of the issues remain with medium and small companies, which still prepare reports that are insufficiently reliable.
- Commenting on our previous observation that the **level of fees for queries in the Regulatory Credit Bureau (RKB)** is high, the Government’s Council for Regulatory Reform expressed their disagreement. This, however, is a matter of perception and does not affect the actual price of the fee.
- Regarding our comment on **the requirement for authorization from customers for accessing RKB data**, the Government’s Council rightfully noted that the banks do actually request this authorization from new clients when applying for loans. However, the issue lies with clients who took loans before the authorization was mandatory – as we stated last year this “makes it impossible for the bank to have an overview of customers with non-performing loans”.
- **The establishing of new companies by managers or owners of companies undergoing bankruptcy proceedings should be restrictive.** More details were given in the section on Bankruptcy Regulation.
- A creditor needs to **initiate a court procedure in order to claim possession of a property** that is in his ownership already.



- **The CBCG introduced several important changes** (new General Ledger mapping, IFRS, interest rate limits), to which **banks were not offered a chance to give feedback of any kind prior to the adoption**. In addition, the detailed information on these serious changes was issued with a rather **short deadline for banks to comply with the new regulation** (understand the changes, decide on conceptual solution, make an IT request, IT development, test it and go live).
- Legally defined timeframes in which the court is obliged to submit a decision on execution to the central bank are still not being respected. The situation is the same when it comes to the timeframe for the court to decide upon a request for execution and upon an appeal. In accordance with the new law the terms are 5 days for deciding on a request and 15 days for deciding on an objection. **In practice, this deadline can be prolonged to more than one month for a request for execution, and for deciding upon the appeal more than 5 months.**
- According to the Law on Enforcement and Securing of Claims (“Official Gazette of Montenegro”, No. 36/11), **the procedure for enforcement and securing claims is urgent**, and the cases are to be processed in the order they are received.

## 3.5 Trade/Retail

### Introduction

In this industry our members report notable improvements, assessing that some challenges still do exist. In general, weak enforcement by the institutions remains to be an issue but the legislation and procedures have been very much improved.

The conclusion by the Heritage Foundation from their Index of Economic Freedom 2013, very much reflects the general perception of our members. Even though the trade-weighted average tariff rate is rather low at 3.5%, *“cumbersome non-tariff barriers interfere with trade”*.<sup>42</sup>

### Remaining Issues and Recommendations

- The MFIC encourages the government to ensure the equal treatment of businesses and equal application of the rules for all, including in the areas of **social, pension and health insurance and contributions**. These expenses comprise some 40% of employee-related costs and can dramatically impact the competitiveness of retail operations.
- According to the Ministry of the Economy, our members’ perception that **import procedures are unnecessarily complicated and long** is unfounded since, as stated, “the Customs Law is fully harmonized with EU legislation”. Our members **noted that this has improved in practice as well**.
- **Another issue we noted earlier is no longer considered problematic by our members** - the fact that importers are charged for all the mandatory procedures and analyses.
- The situation has generally improved as well with **procedures for the implementation of particular laws not being clear enough**. Some uncertainties are being resolved in cooperation with the institutions in charge.
- In addition, **procedures for issuing sanitary permits** for importing goods no longer pose a challenge.
- Concerns expressed earlier, regarding a certain kind of **protection of local retail chains** in comparison to those owned by foreign investors, are allegedly directed towards the treatment of inspections. **Our members do not consider this anymore to be a major obstacle**.
- However, they expressed concerns that some **local retailers are being favoured in some tender procedures**. This also does not pose a major obstacle, according to MFIC members from this industry.

<sup>42</sup><http://www.heritage.org/index/country/montenegro#>

- Regarding the issue we mentioned in the previous White Book that: “In dealing with municipalities, investors encounter numerous problems, ranging from **high and non-transparent fees, complicated bureaucratic procedures, to unreasonable, rigid and outdated regulation and a general lack of understanding of business**”, our members this year assessed that in the area of legislation there were no issues of this kind, however, its implementation is where the focus should be.

## 3.6 Transportation/Logistics

### *Introduction*

Integration into the European Union is bringing about a profound change in the sector. Local markets are coalescing into a single platform, with competitors operating at a European or even a global scale. In combination with customers’ growing service expectations, the new competitive situation is increasing pressure on costs and performance, but at the same time the potential markets are expanding.

### *Remaining Issues and Recommendations*

- The Government’s Council agrees with our recommendation from last year that the **liberalization and shortening of customs procedures should be continued**. They informed us that updating and modernization of the Customs webpage is on-going.
- WB 2012: “Customs branch offices should consider expanding the tool of ‘**in-house customs clearance**’ to more companies.” The Council for Regulatory Reform noted that the work on introducing an application for simplified procedures is being designed. It would enable electronic and centralised monitoring of these simplified procedures.
- Our observation on “**different interpretations of the same regulation** by different branch offices of the same institution sometimes represents a challenge” is noted by the Council – we were informed that, for the purposes of avoiding such issues, instructions are being drafted which are to be distributed to all branch offices.

## Chapter 4: Miscellaneous Items

### 4.1 MFIC Cooperation with the Government

The excellent cooperation the MFIC had with the government during the past three years continued throughout 2012. The new government also demonstrated its commitment to preserving and further improving the cooperation through new initiatives such as the Secretariat for Development Projects and our other long-time partners, the Council for Regulatory Reform and Improving the Business Environment.

The Government's Council for Regulatory Reform and Improving the Business Environment regularly reviews each issue of MFIC's White Book. The comments we receive from the Council encourage us to work further together. The MFIC is hopeful that the already fruitful cooperation will bring further improvements to Montenegro's business and investment environment, which is our common goal.

Representatives of the MFIC held several meetings with Ministry of Finance representatives in which they had a chance to present their views and concerns.

Cooperation was also initiated with the Government's Secretariat for Development Projects, which has been established as a special body to deal exclusively with larger investment ventures to assist in resolving administrative and other business barriers. The Secretariat was established in mid-2012 as a body responsible directly to the Government of Montenegro. It is now working as a representative of investors in the government and local authorities. According to its secretary, Nebojsa Popovic, the body has thus far successfully facilitated several larger investments, and is working on creating a better environment for investments and business in general.

The MFIC is looking forward to continuing the cooperation with the Secretariat, and welcomes the fact that the government recognizes the need for such a body which will proactively assist investors in implementing their plans to mutual benefit. The MFIC stands ready to provide any assistance to the government in its endeavours in this area and will work hard to continue being its credible partner.

### 4.2 Business and education

Since the first edition of the MFIC's White Book issued in 2009, our members report that they are increasingly starting to feel positive developments in the area of education. However, the incremental improvements are not enough for Montenegro's workforce to remain competitive in an increasingly global labour market.

Last year we discussed the regional comparison of scores in the Programme for International Student Assessment (PISA).<sup>43</sup> According to the PISA assessment, all of the surveyed countries from the region<sup>44</sup> have lower scores than the OECD average. However, Montenegro has the second lowest score in the region, which clearly points to the challenges in education which Montenegro faces.

These challenges can be converted into opportunities in an ever more connected world, in which physical distances, although still important, are being diminished through the development of technology. We would like to briefly point out how education can help shape the country's success in attracting FDI and thus create a solid base for future development and increase in the standard of living.

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<sup>43</sup>The OECD Programme for International Student Assessment (PISA), created in 1997, represents a commitment by the governments of OECD member countries to monitor the outcomes of education systems in terms of student achievement, within a common internationally agreed framework. For more information please visit [www.pisa.oecd.org](http://www.pisa.oecd.org)

<sup>44</sup>Croatia, Serbia, Bulgaria, Romania, Montenegro and Albania.

The different wage levels in different countries are primarily, among other factors, a consequence of varying productivity, which is, again, largely a consequence of the varying quality of education. In an open market and competitive environment it is the practicality and usability of education that reach the highest valuation. Therefore, this aspect of education has become the focus for strategic planning in this area.

To illustrate this, we can use the example of a company looking to increase its efficiency, or in simple terms get more for less. For a position that it can outsource, that company could choose to go “nearshore”, for example in Romania, if it considers that it can get more for an average salary of €500 there rather than in Montenegro.

The bottom line is that the wages have to be in line with quality of the work provided. Thus the way to increase the average pay is to increase quality and productivity – through education.

In order to achieve this in a sustainable manner, the approach must be systematic and include the society as a whole, not just educational institutions or the government. The EU is a good place to find appropriate practices in this sense that can be adjusted to the Montenegrin reality.

## 4.3 MFIC Members



NLB  Montenegrobanka



VIŠE RUKU, VEĆA JE I SNAGA

 SOCIETE GENERALE  
MONTENEGRO

**DELHAIZE  EUROPE**  
Montenegro



**Heineken**  
Import Montenegro d.o.o.



**Deloitte.**



## **For the Montenegrin Council of Foreign Investors:**

*Rüdiger J. Schulz, MFIC President*

*Sonja Ražnatović, MFIC Secretary*

*Kosta Radonjić, Consultant*

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