



AMERICAN CHAMBER OF COMMERCE IN MONTENEGRO
AMERIČKA PRIVREDNA KOMORA U CRNOJ GORI
CREATING OPPORTUNITIES • STVARA MOGUĆNOSTI

2012 AmCham Montenegro Business Climate Report

Podgorica, Montenegro
June 2012

Executive Summary

The American Chamber of Commerce in Montenegro commissioned work on its *2012 Business Climate Report* in order to identify key areas for improvement and highlight recent advancements that have helped make Montenegro a more competitive place to conduct business.

This report is based on responses to a questionnaire issued to each member company of AmCham Montenegro. In the survey, members were asked to express their satisfaction with certain areas of business in Montenegro. Members were also asked to gauge improvement as well as provide concrete examples of business challenges and progress with addressing business challenges in Montenegro.

After the initial survey responses were collected, AmCham conducted another round of one-on-one, interview style questioning with executives of member companies in order to obtain more details about business challenges in Montenegro. Members were also asked about how they perceive progress with respect to reforms and strides that the Government of Montenegro has made to improve the business environment.

AmCham members noted some significant progress with certain procedures and clarifications with respect to doing business in Montenegro. Mentioned amongst the key improvements in this report are:

- Notary services are no longer exclusively handled within the courts, which has allowed for companies to execute these services more swiftly by hiring registered notaries.
- While the pace at which court cases are adjudicated is still considered slow, there have been some improvements over the last 5 years with the speed and efficiency of the courts.
- The latest Law on Labor recognizes outsourcing and gives employers much-needed flexibility to outsource non-core services to contracted entities.
- Law on Labor allows for easier dismissal of employees due to underperformance or for not meeting expected goals and objectives at work.
- The procedure for hiring foreign workers has been simplified.
- Members have witnessed improved efficiency and responsiveness of the Tax Authority to requests for interpretations of laws and procedures.
- VAT, Personal Income, and Business Income Taxes are being maintained at a satisfactory level.

While there have been notable improvements to the business environment, there still exist a number of challenges, including the following:

- Adjudication of cases in some courts is extremely slow, particularly with respect to land disputes.
- Court decisions are not consistently applied and/or enforced.

- Laws, legislation, and regulations are often found to be confusing because they can conflict with one another or can be ambiguous, which makes them difficult to interpret, and thus follow.
- The existence of a grey economy still looms large in the market, affecting the bottom line of businesses that are up against unfair competition and bear the brunt of the tax burden.
- Lack of a highly qualified and/or highly skilled labor pool, forces companies to look for more expensive hiring solutions from outside Montenegro.
- High payroll taxes combined with high pension and health care fund contributions associated with employee wages cause the overall cost of labor to be high.
- Taxes vary from municipality to municipality and are not in line with taxes assessed at the national level. Some municipal taxes levied on companies are perceived to target larger, more successful companies that have a presence in multiple municipalities.
- Extremely high excise duties on some products have unexpectedly been introduced in 2012. High excise duties are damaging sustainability of affected industries, posing serious threats to market stability and hampering the predictability of Montenegro's environment for doing business.
- Detailed Urban Plans are lacking in many municipalities, making construction permit procedures lengthy and complex. The lack of DUPs gives investors an unclear picture about the future development plans and the sustainability of municipalities.
- Communal/Utility Connection Fees are exorbitant across Montenegro accounting for 20-50% of total construction costs.
- Inconsistent efficiency and effectiveness of the Real Estate Administration, responsible for registering property in the cadaster, particularly on the local level.
- Appeals processes for public tenders are often futile since contracts will already have been awarded or canceled before there is a decision from the Administrative Court, which is charged with hearing public procurement appeals.

AmCham Montenegro prioritizes the following solutions and actions in order to improve the business climate in Montenegro and make it easier for companies to reinvest as well as attract new investments:

- Improve the Rule of Law. Without efficient court procedures and even application of the law and regulations, many investors will be discouraged by Montenegro's business climate no matter what other incentives or stimuli are offered.
- Establish a credit bureau or reporting agency for businesses to assess the creditworthiness of clients and customers.
- Introduce a standard for appraising real estate by introducing a law to regulate appraisals and licensing all professional real estate appraisers.
- Invest in infrastructure improvements to enhance the safety and efficiency of people and goods circulating throughout Montenegro and beyond. Infrastructure investments should focus on road, rail, airports, and seaports.

- Introduce greater controls and transparency in the public procurement process. Enforce laws and legal procedures for regulating tender procedures and ensure that all conditions are being met when qualifying bidders.
- Reduce public administration by making further investments in technology in order to improve transparency and efficiency of bureaucratic processes.
- Greater centralization or regulation by the state government of taxes rates and fees that are assessed on the local level in order to improve consistency and uphold favorable tax policies.
- Introduce a tax incentive program to stimulate investments from current investors in Montenegro as well as from other investors in targeted industries.

Introduction

The American Chamber of Commerce in Montenegro is an independent business association consisting of 58 member companies as of January 1, 2012. AmCham Montenegro is comprised of American-based companies as well as some of the most prominent local and international companies operating in Montenegro.

AmCham Montenegro is dedicated to promoting mutual cooperation and friendship between Montenegro and the United States through trade, investment and economic development. AmCham strives to advance American commercial interests, as well as the interests of other forward-looking companies that stand for responsible corporate citizenship and that share our values.

In the 4th quarter of 2011, AmCham Montenegro issued a questionnaire¹ to its members in order to gauge their satisfaction with the business climate of Montenegro and to secure specific information about their satisfaction or dissatisfaction with the current conditions for businesses. The attained information was used to produce AmCham's *2012 Business Climate Report* (BCR) document.

The 2012 BCR, applying the same approach as the first survey in 2010, sought information from members in six specific areas: Rule of Law, Human Resources, Taxation, Public Procurement, Infrastructure, and Real Estate/Construction. The survey also allowed members to comment on other areas of concern to businesses in Montenegro.

In 2012, the AmCham Business Climate Survey was expanded to include closed-ended questions about members' satisfaction with the business environment and whether member companies sensed any changes, either positive or negative, vis-à-vis the previous year. After survey responses were collected, another round of more specific, one-on-one

¹ See Appendix 1 for a list of questions asked and Appendix 2 for complete survey results.

questioning was conducted in order to obtain more precise information, including examples and experiences, about the business challenges mentioned in the responses to the initial questionnaire.

The aim of the *2012 Business Climate Report* document is to identify and communicate broader business challenges that face AmCham members. AmCham will convey the concerns and, in some cases, the satisfaction with current market conditions that AmCham members perceive to relevant bodies in Montenegro. This document has intentionally refrained from mentioning any individual member company or the challenges of any individual AmCham member.

This document presents the results of the closed-ended survey, and summarizes the responses that were received when members were prompted to list and prioritize specific business challenges. The questions posed in the initial survey to AmCham's members are included in Appendix 1 of this document. Complete results of the survey are included in Appendix 2.

The *2012 Business Climate Report* is an AmCham Montenegro position document. It is not intended to be a scientific study. Thus, a detailed analysis of the responses and other information provided in this document was not conducted. The information in this document will give the reader a general understanding of the more common business challenges in Montenegro and an idea of the direction that has been taken by the Government of Montenegro and other relevant institutions to resolve these challenges.

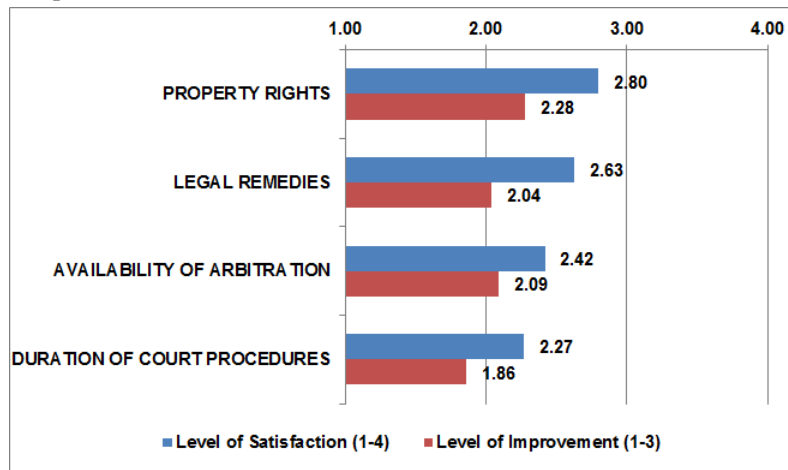
The American Chamber of Commerce in Montenegro will share this document and present its findings to officials from the Government of Montenegro, Members of Parliament, and other local government agencies. AmCham will also share the *2012 Business Climate Report* with NGOs, current and potential investors, diplomatic missions, as well as others who are interested in learning more about the state of the business climate in Montenegro from the perspective of AmCham Montenegro and its members.

AmCham intends to work with the Government of Montenegro, the Parliament of Montenegro, and other public agencies by imparting the knowledge and expertise of its members and share best practices from other countries via its network in order to overcome some of the mentioned business challenges. AmCham's goal is to help improve the business climate for current and future investors in Montenegro so that Montenegro will become a more attractive destination for Foreign Direct Investments.

AmCham Montenegro will continue to actively participate on the Government's Council for Regulatory Reform and Improving the Business Environment as well as other relevant forums to explain existing business challenges, describe their impact on the overall economy, and assist by offering practical solutions.

Rule of Law

Graph 1: Rule of Law

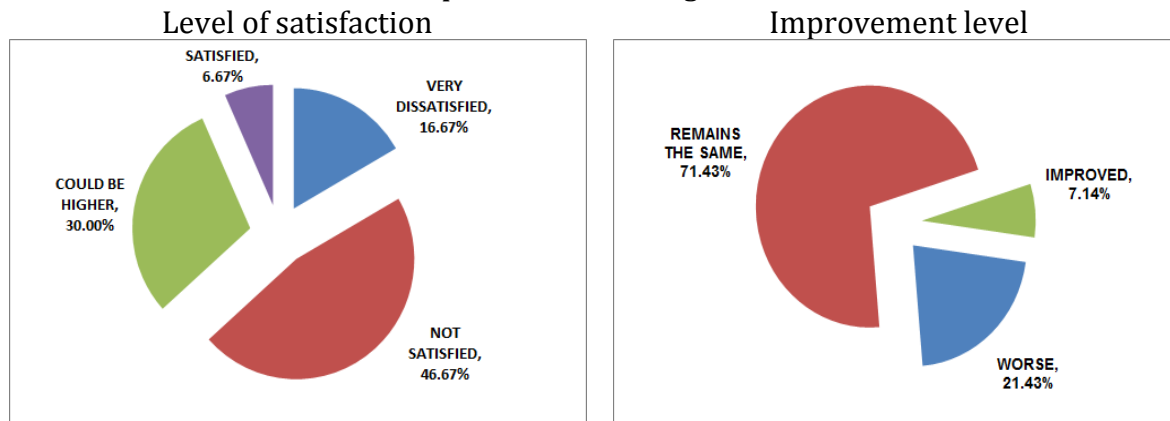


The Rule of Law presumes that all citizens and commercial entities are equal under the law and that all court cases are treated independently, equally, and in an expeditious manner.

AmCham's survey of members revealed that members are generally not satisfied with how well the Rule of Law is being applied in Montenegro.

AmCham members have experienced little or no improvement in this field since the last time they were surveyed in 2010.

Graph 2: Duration of Legal Procedures



AmCham members expressed particular dissatisfaction with the slow pace at which court cases are adjudicated as well as with the proper enforcement and/or application of judgments that have been handed down by the courts. The graphic above shows that 69% of AmCham members surveyed are either not satisfied with the pace at which cases are resolved, or think that the speed could be improved.

AmCham members perceive the fundamental problem to be an extremely large caseload and backlog at the courts, which is handled by an inadequate number of judges and

administrative staff. AmCham members' view is that these challenges must be dealt with in order to improve the speed at which new cases are tried.

Typical cases that AmCham members bring to the courts have to do with debt collection, which is the jurisdiction of the Basic Court. Members also bring cases to the Administrative Court to appeal decisions rendered by public entities. In these two courts, there are problems with enforcing decisions that have been rendered, even if a company or business has been granted a favorable decision.

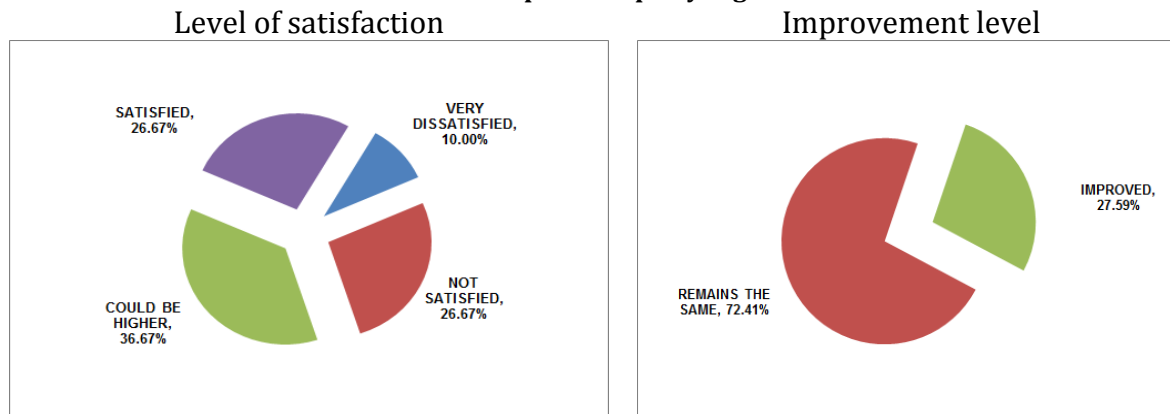
Another issue in the field of Rule of Law is ambiguous legislation and conflicting laws, procedures, and regulations. Laws are often unclear as to when and how they should be applied. This ambiguity leaves open the possibility of misinterpretation and incorrect application by companies. The companies are then left open to being penalized for non-compliance because inspectors may have a differing interpretation from the jurisdictional agency, whose responsibility it is to provide businesses with guidance and interpretation of legislation. However, when written opinions are sent to businesses, the opinions are non-binding, leaving the investor/business exposed to the possibility of penalties and fines.

AmCham members have also experienced problems with the lack of enforcement of laws and legislation. For example, members have experienced that the Montenegrin tax code is not being fully enforced, as evidenced by the existence of a large grey economy.

Many companies that are not registered - or companies that are registered but do not adhere to, or only partially adhere to, the tax codes - have a distinct advantage over companies that make it a point to fully respect and comply with the tax code. This is especially the case if there are no penalties or other negative consequences for those companies and businesses that are not fully tax compliant.

On a positive note, companies have expressed improvements in the court system over a longer stretch of time. When compared to the shape of the court system 4-5 years ago, a number of companies indicated that there have been improvements with the speed at which cases are adjudicated, which in the past could be 4-5 years. However, even with these improvements, it can take up to 2 years to see a case resolved from start to finish.

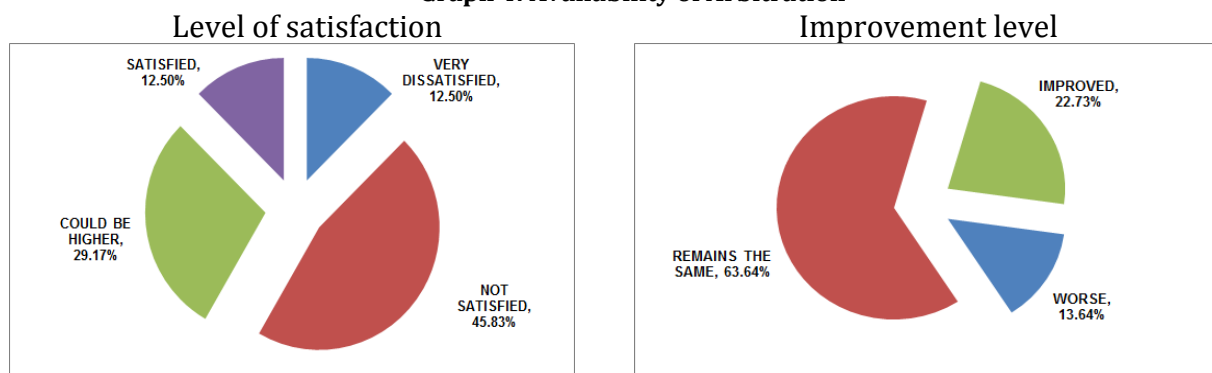
AmCham members lauded the introduction of private notaries, a move that has relieved pressure on the courts to provide these services, and allowed businesses to have notary services executed much more rapidly. However, there is still an issue with the exorbitant cost of notary services. The government, via the Law on Notaries, defines prices for notary services. The charges for notary services in Montenegro are amongst the highest in the region.

Graph 3: Property Rights

Of the areas polled in the Rule of Law section of the survey, members seemed to have the highest level of satisfaction, and perceive the greatest improvement with laws that protect property rights.

As recommended in AmCham's 2010 Business Challenges Report, our association continues to support the introduction of a comprehensive credit reporting bureau or credit reporting agency that would provide valuable information on the creditworthiness of companies and individuals in Montenegro. Such a credit reporting bureau should be monitored or operated by the Central Bank of Montenegro to provide businesses with valuable information about a potential customer's or client's ability to repay loans and meet other financial obligations.

The existence of a credit-reporting bureau would help take some pressure off of the court system since companies would have access to a valuable vetting tool for potential clients. Companies would then be able to refrain from entering into agreements with customers whose creditworthiness is considered suspect.

Graph 4: Availability of Arbitration

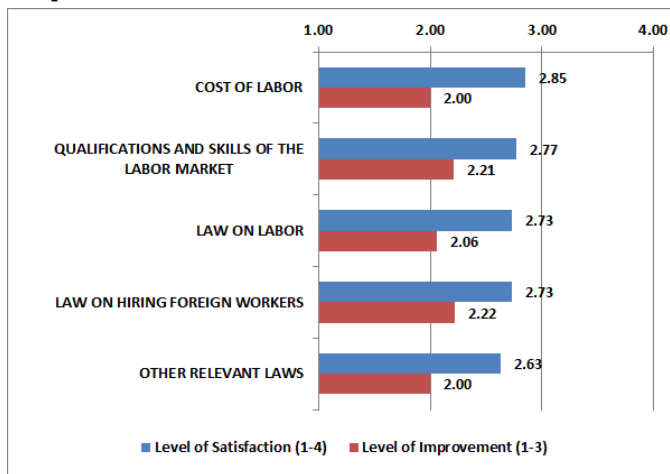
Almost 60% of members who responded to our poll were either not satisfied or very dissatisfied with the availability of arbitration as an alternative to going through regular court procedures to handle disputes. Promoting arbitration as a means to settle cases that

would normally go through the courts would be another way of relieving pressure on an overburdened court system.

The Rule of Law is a key area of concern for many businesses in Montenegro. Because of the length of time to adjudicate cases, many businesses avoid the courts altogether in order to resolve disputes. The Government of Montenegro should make improving the efficiency and effectiveness of the court system amongst its top priorities in order to help businesses collect debts and appeal decisions made by government agencies.

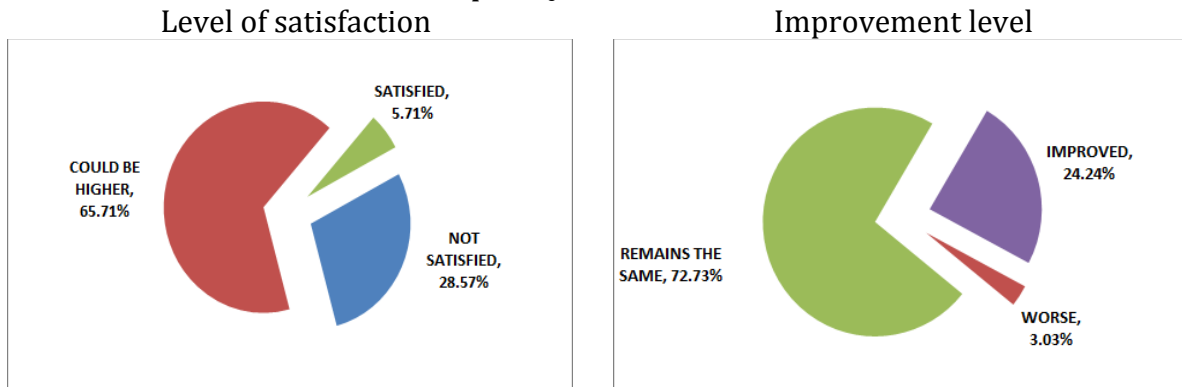
Human Resources

Graph 5: Human Resources



Labor/Human Resources are a critical area for businesses in Montenegro. Salaries represent a large portion of a company's operating budget and the time and resources exerted to train and manage personnel are also significant. Managing costs as well as a competitive, yet flexible, workforce is of utmost importance to company sustainability.

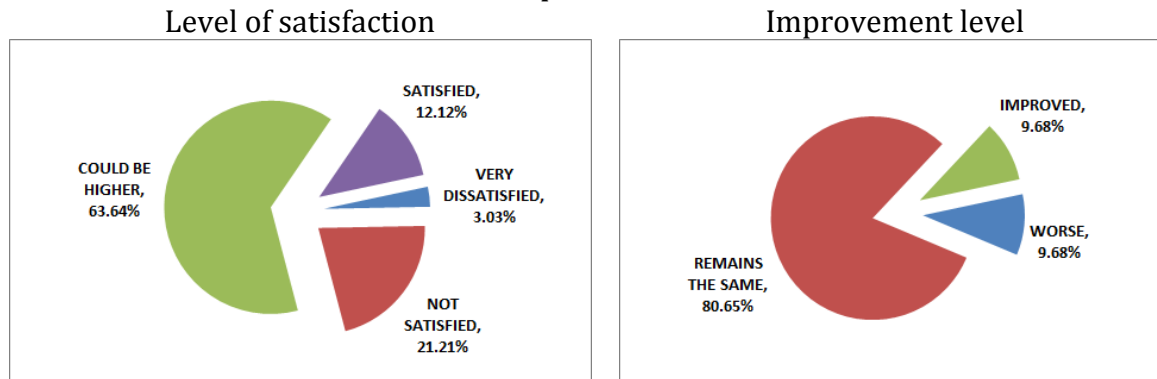
Graph 6: Qualifications and Skills



AmCham members feel that the skills and qualifications of the labor market in Montenegro have much room for improvement. Only 5.7% expressed satisfaction with the qualifications of workers, while the rest felt that the current state of the labor market needs improvement. Roughly one-quarter of members have experienced a positive trend in the availability of qualified labor versus the previous year.

One of the main complaints registered by AmCham members about the local labor market is that Montenegro does not have enough workers who have been educated or trained abroad, or that have had any international work experience. International exposure helps impart valuable knowledge about positive work habits as well as top-notch expertise that workers would then be able to apply when hired in Montenegro. In AmCham's *2010 Business Challenges Report*, the lack of a skilled labor pool was raised as one of the most significant business challenges in Montenegro.

Graph 7: Cost of Labor

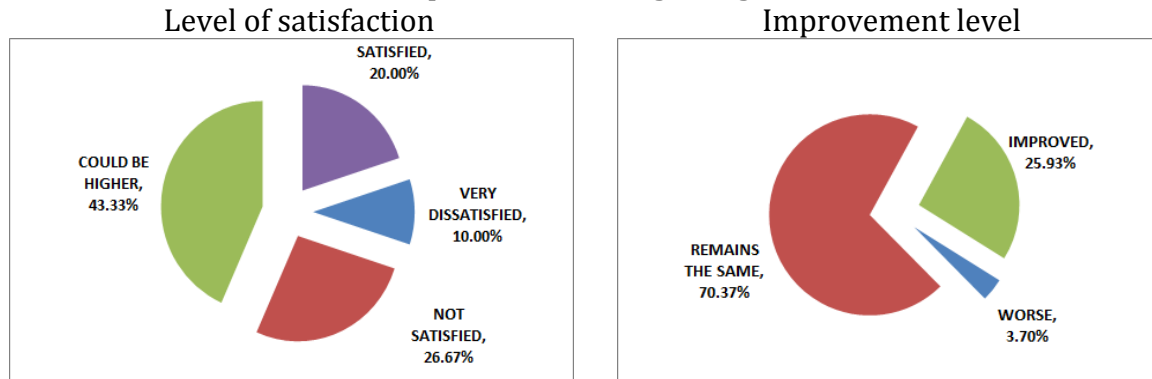


High tax and contribution rates² associated with employee salaries make the overall cost of labor high in Montenegro. Also, labor laws do not give employers enough flexibility to shape their workforce to match needs in the market. Dismissing employees if their skill-set no longer matches the employer's requirements or if employees are under-performing is a long, costly, and complex process.

On a positive note, the amended Law on Labor recognizes outsourcing and will formally give companies the option to outsource a portion of their work. This gives employers much-needed flexibility to outsource staffing needs that are not part of a company's core business. Outsourcing was not recognized in the previous version of the Law on Labor. However, the articles in the current version of the Law on Labor that address outsourcing are still not specific enough about its limitation, and may leave the provision open to differing interpretations.

Another provision in the recent amendment to the Law on Labor allows employers to follow an easier procedure to dismiss employees for poor performance at work. In theory, this will give employers more flexibility to manage their workforce and shape cadres that will be able to handle the latest business tasks. However, the effectiveness in practice of the new clauses on dismissal and outsourcing will only become clear over a longer period of time.

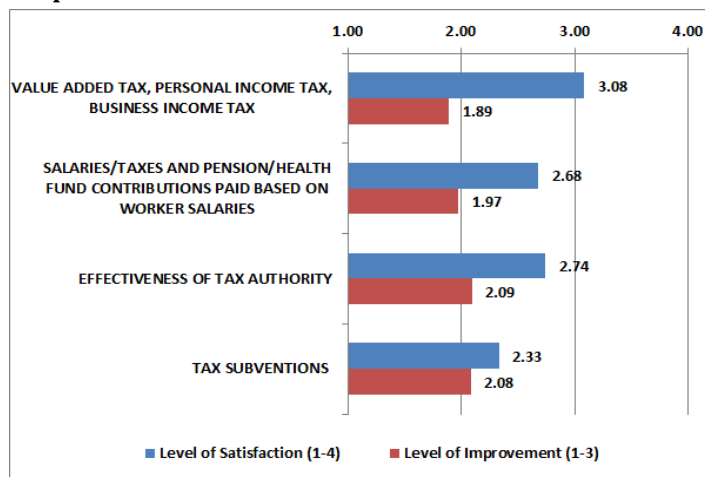
² See Appendix 3 for analysis of taxes and contributions paid based on a €500/month net salary.

Graph 8: Law on Hiring Foreign Workers

The procedure for hiring foreign workers has seen some improvement. A significant number of AmCham members have experienced expedited procedures and an overall easier process to hire workers with skills that are not available in Montenegro.

Taxation

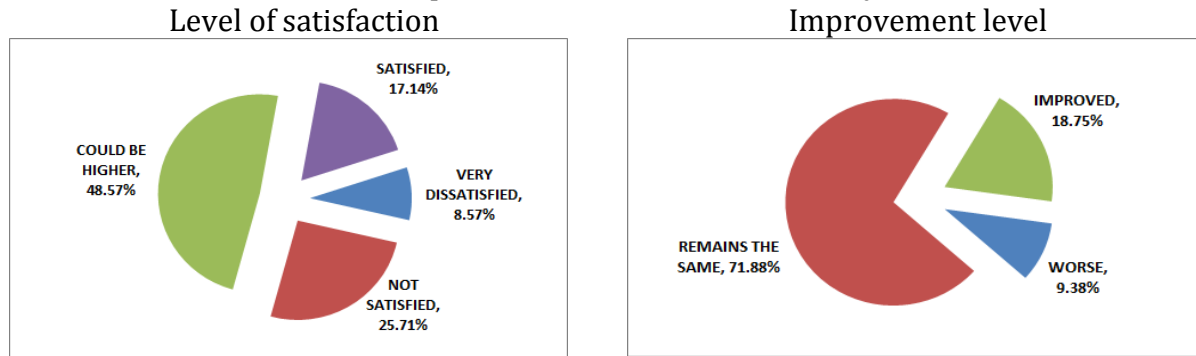
Many of the same issues remain in the area of taxation from when the last business climate survey was issued to members of AmCham Montenegro two years ago.

Graph 9: Taxation

Many members are dissatisfied with varying tax rates at the municipal level. Municipal taxes levied often do not fall into line with the favorable VAT, Corporate, and Personal Income taxes at the national level. These taxes are perceived to be a “success tax”, often targeting larger corporations that have a presence in multiple municipalities.

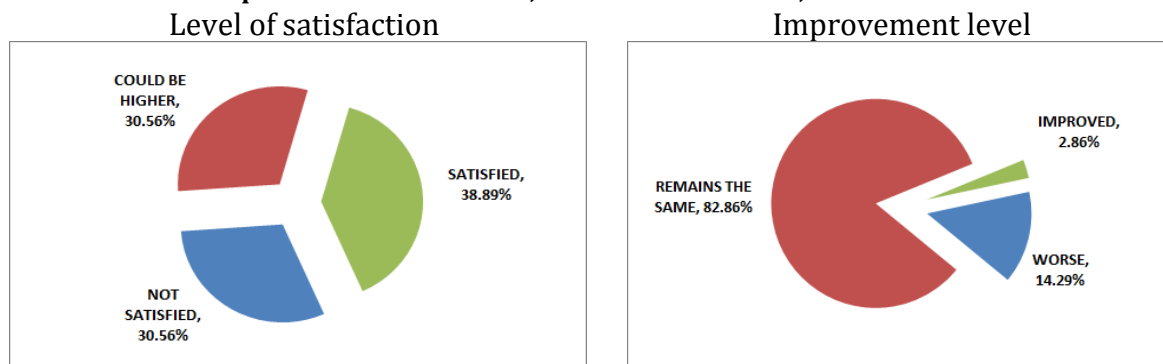
Not only does the rate of a number of local taxes vary greatly across municipalities, but assessment and payment can also be technically challenging for companies with a presence in multiple municipalities in Montenegro.

Graph 10: Effectiveness of Tax Authority

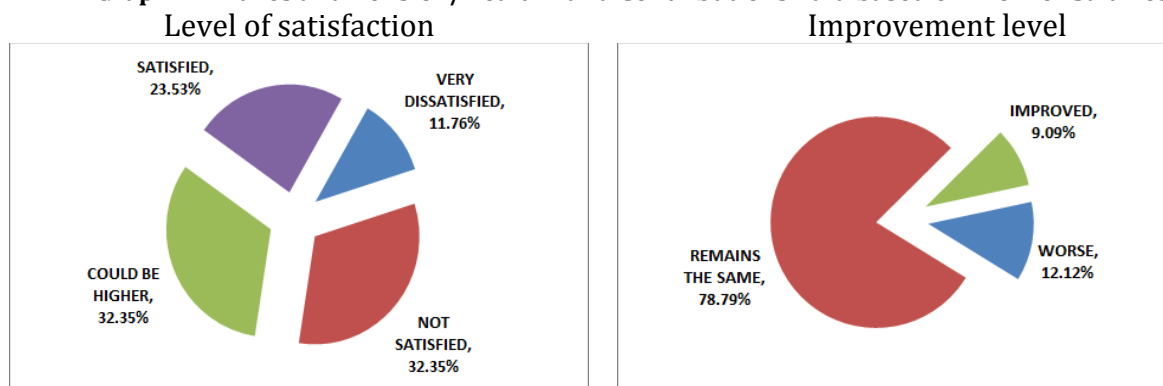


Members expressed greater satisfaction with the effectiveness of the Tax Authority, particularly with the Personal Income Tax system, because of a newly-implemented electronic reporting system. AmCham members felt that the Tax Authority has also been more expedient when responding to requests for information or opinions. The Tax Authority has managed to introduce more technology and automation in order to expedite certain procedures.

Graph 11: Value Added Tax, Personal Income Tax, Business Income Tax



Graph 12: Taxes and Pension/Health Fund Contributions Paid based on Worker Salaries



Members expressed a relatively high level of satisfaction with the rates at which personal income tax, corporate tax and the value added tax are charged. However, companies felt

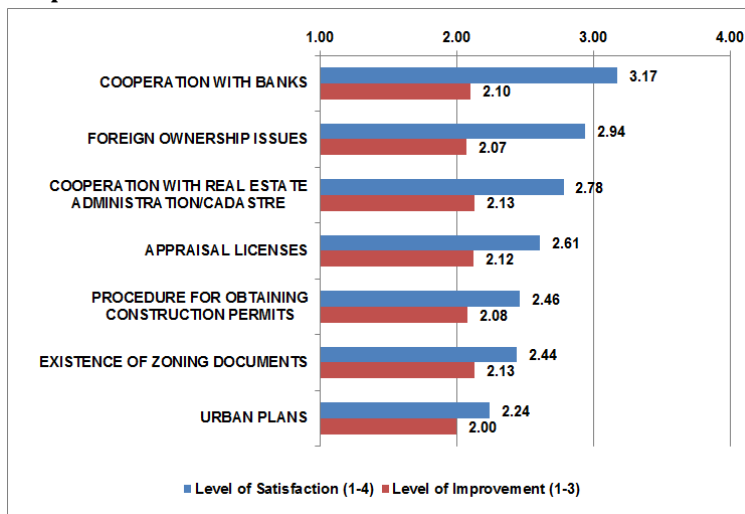
that any benefits from reduced taxes in those areas have been offset by other taxes, combined with high pension and health fund contributions paid based on employees' salaries.

New excise taxes, with extraordinarily high rates, were introduced in 2011 and the government is considering introducing more excise taxes in 2012. The introduction of new excise duties has been a serious concern for affected AmCham members. Members feel that there is not enough data and that insufficient analysis has been undertaken to support introduction of excise taxes. They also feel that their introduction, without such analysis, can drastically harm an industry's bottom line. AmCham's position is that only by maintaining the sustainability of existing businesses can Montenegro achieve mutual long-term benefit for the Government, consumers, and businesses alike.

In addition, excise taxes, as well as other taxes, were introduced in a "quick and hard" fashion, which poses serious threats to market stability and hampers predictability of Montenegro's environment for doing business.

Real Estate and Construction

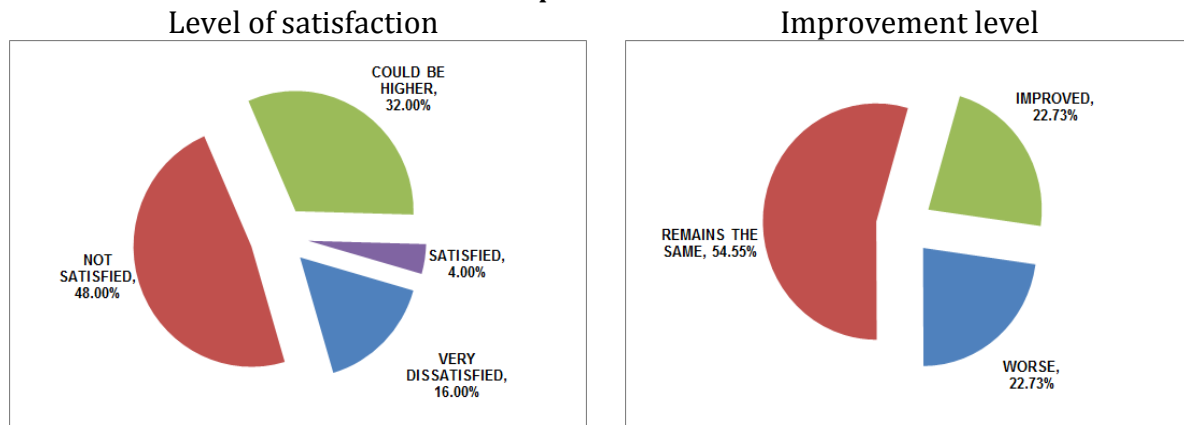
Graph 13: Real Estate and Construction



The real estate and construction industries are a very important element of Montenegro's development. This is especially true with regard to building hotels, resorts, and other attractive projects that will help Montenegro increase its capacity to handle visitors, while making it a more popular tourist destination.

Many business challenges still exist in this sector, dissuading and sabotaging investments in real estate projects.

Montenegro experienced a significant upturn in building and real estate investment from 2006 to 2008. Since 2009, however, interest in buying and developing property in Montenegro has dropped off, and attention has turned to the many business challenges affecting this sector. Some of the most significant business challenges in the Real Estate/Construction sector are as follows:

*Detailed Urban Plans***Graph 14: Urban Plans**

One of the main business challenges, as viewed by the surveyed members of AmCham Montenegro, is the lack of Detailed Urban Plans (DUP). The lack of DUPs in Montenegro's municipalities makes it more difficult for current and potential investors to understand certain building limitations. Their absence also poses a threat to foreign investors who are unfamiliar with the nuances of local laws, and who insist on operating in a more predictable environment.

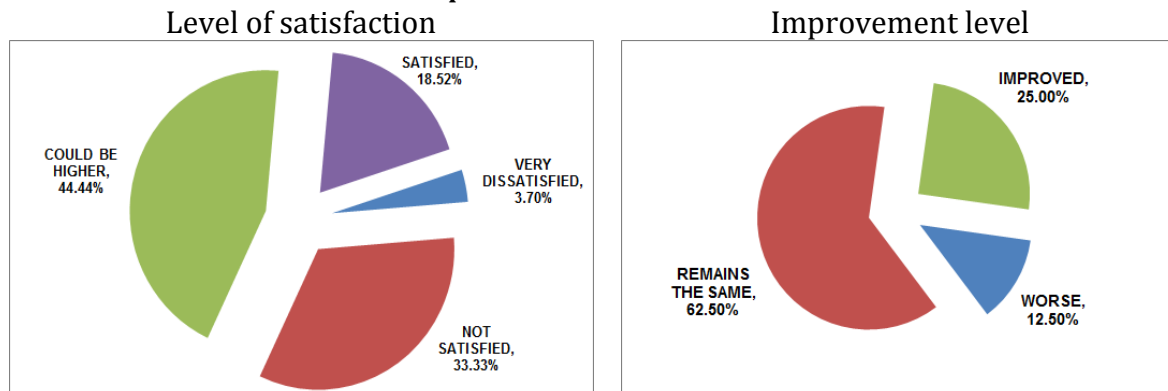
Creating and approving a DUP is a rather long and tedious process that often involves political support at both the municipal and national levels. The scarcity of DUPs in Montenegro is seen as a major business challenge, since it means there are no well-defined ground rules for smaller and medium investors, who are the majority of developers interested in building in Montenegro. The lack of DUPs also compounds the problem of obtaining building permits within an acceptable amount of time. Without a DUP in place the construction permit process can take years and opens opportunities for corruption.

Communal Fees and Taxes

Municipalities charge extremely high communal fees for new construction buildings³. These fees are levied on the developer/investor to cover the costs of connecting the constructed building to utilities (i.e. water, telephone, and electricity). These taxes can run from 120 EUR to over 300 EUR per square meter, depending on the municipality and the site within a given municipality. From time to time, these fees are waived in part or completely, depending on whether the investor has struck an agreement with the municipality, such as a traditional public-private partnership. Communal fees can account for 20-50% of the overall cost of construction for a developer/investor.

AmCham members have voiced concern with the massive expense that such fees pass on to developers and that they thwart many investors from building in Montenegro. Large buildings, such as resort hotels are practically unviable because of these exorbitant fees.

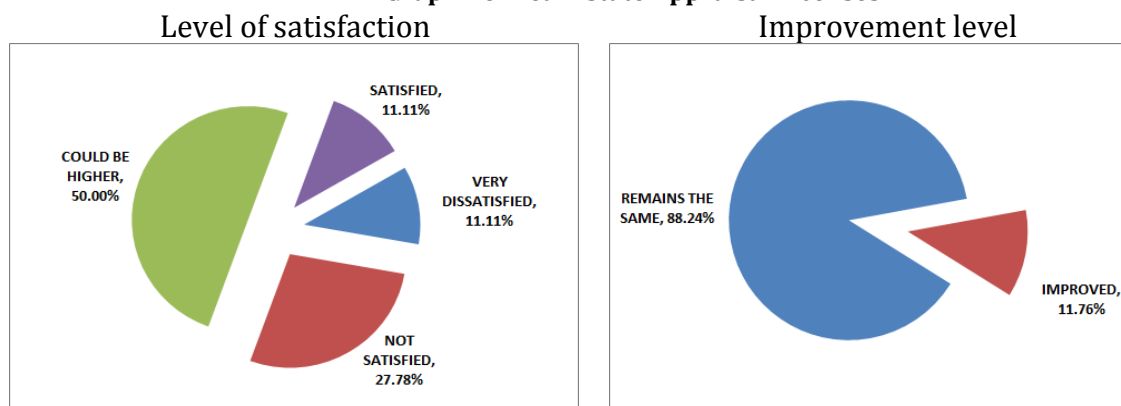
³ See Appendix 4 for a list of Communal/Utility Connection Fees in selected municipalities in Montenegro.

*Real Estate Administration***Graph 15: Real Estate Administration**

The work of the Real Estate Administration (REA) has improved in some areas according to survey respondents. Access to information about land ownership has been vastly improved, as has the efficiency of the main office in Podgorica in handling requests and issuing proof of ownership certificates.

However, the REA is still seen as a major problem for real estate investors in Montenegro. Amongst the chief concerns is the speed at which property and land is registered. Some members have waited up to 6 months to register land or a piece of property at the Real Estate Administration, despite having fulfilled all of the necessary criteria.

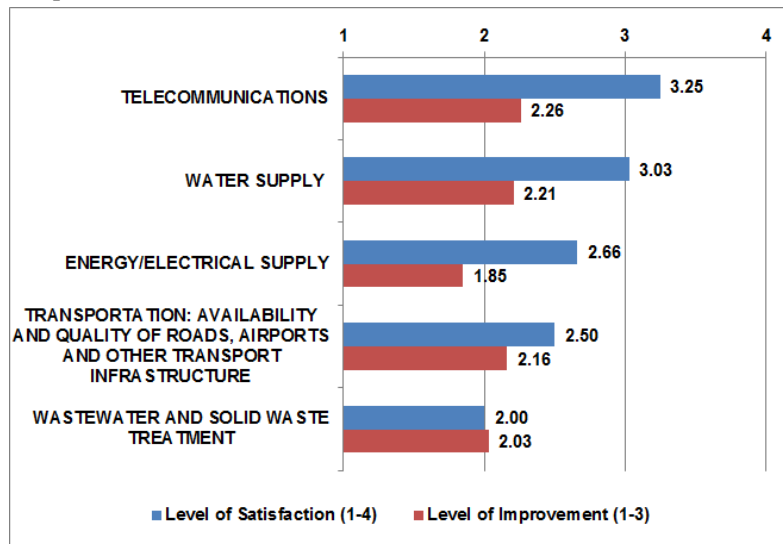
Local REA offices are believed to be the most problematic. Local offices are understaffed and, in some cases, do not have personnel with the technical background to understand more complex title issues and come up with amicable solutions.

*Real Estate Appraisals***Graph 16: Real Estate Appraisal Licenses**

Currently, there is no government regulation of real estate appraisals. Land and other real estate appraisals are conducted by appraisers sanctioned by the Association of Real Estate Appraisers. This body is not certified and does not have any oversight, which opens the industry to many irregularities.

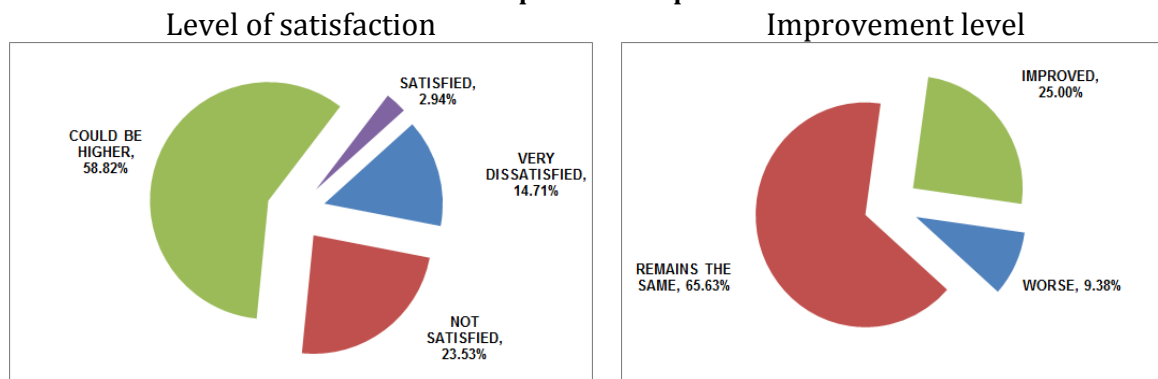
Infrastructure

Graph 17: Infrastructure



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.

Graph 18: Transportation



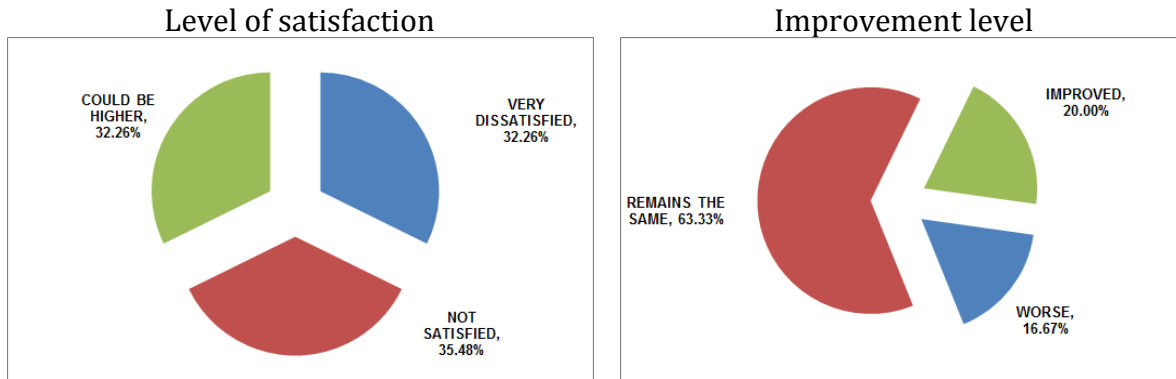
Members indicated that improvements are needed to virtually all types of infrastructure including road, rail, water supply, sewage & solid waste treatment, airports, as well as electrical supply.

Priorities for the government should be to build motorways and highways that will better link the northern and southern parts of Montenegro as well as the coastal region to the neighboring countries of Croatia and Albania. A motorway/highway network would help with the transportation of goods, greatly increase the value to the seaports and airports, and would make it easier for tourists to travel throughout Montenegro in both the winter and summer tourist seasons.

The railroad network as well as the Port of Bar must be vastly improved if Montenegro is to keep up with competing ports in the region. Development of the port and rail infrastructure would help Montenegro take advantage of its appealing geographic position, which

AmCham members believed was the most attractive element of doing business in Montenegro.

Graph 19: Wastewater & Solid Waste Treatment

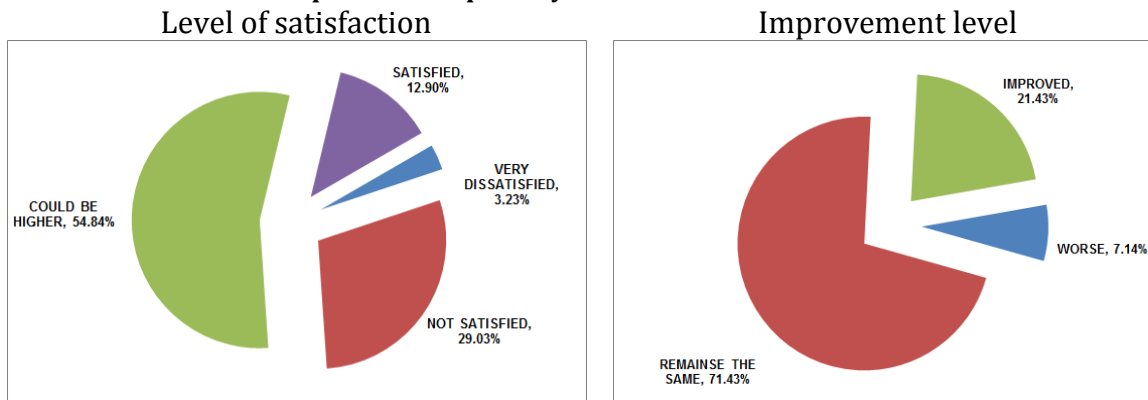


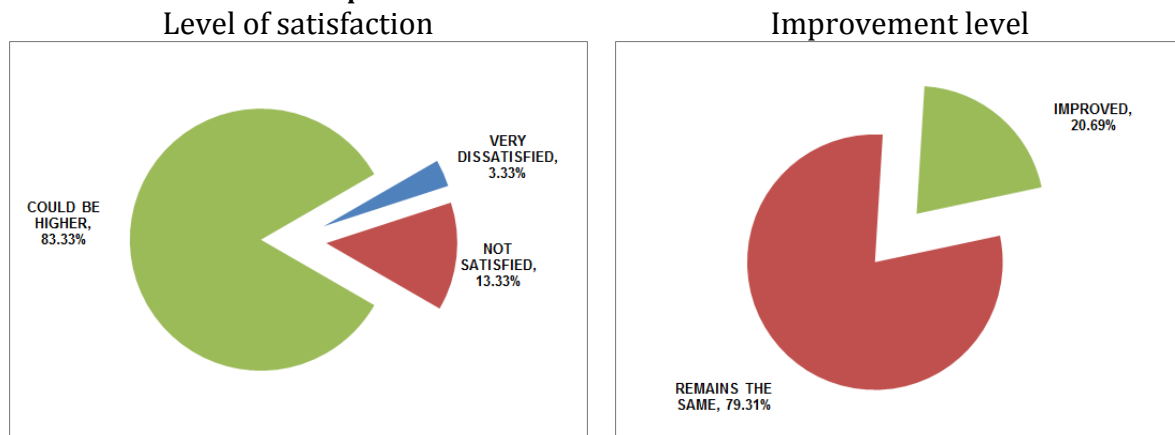
AmCham members expressed dissatisfaction with the treatment of solid waste and sewage in Montenegro. Almost 68% of those surveyed had a low or very low level of satisfaction with how solid waste is currently handled. No respondents expressed satisfaction in this area; and, as in AmCham's 2010 Business Challenges Report, members felt that in order to maintain Montenegro's attractiveness more attention should be given to protecting the environment by building more recycling and solid waste centers. Protecting the coastline by expanding wastewater treatment is also of vital importance.

Public Procurement

The public procurement process has received much scrutiny from AmCham member companies in the past. There is the sense that many public tender procedures are not implemented with complete transparency, and that corruption permeates public procurement procedures. While it is very difficult to show evidence of "pre-qualified" public procurement tenders, many members indicated that they had observed unethical behavior in public tendering.

Graph 20: Transparency of the Public Procurement Process



Graph 21: Fairness of the Public Procurement Process

One of the tactics that procurement officials have been known to utilize in order to help steer a tender in the direction of a particular supplier is to draft the tender documents and the conditions of a tender in such a way that only one supplier could possibly win. Another method is to seek a service or bundle of services in the public announcement that only one possible company/supplier can provide. This goes against all competitive principles and is seen as a way to divert public procurement opportunities to “pre-qualified” companies.

According to the survey of AmCham members, there have been improvements with respect to information about public procurement opportunities. Members mentioned that companies can now register with a central website where all information about open public tenders is available and easily accessible.

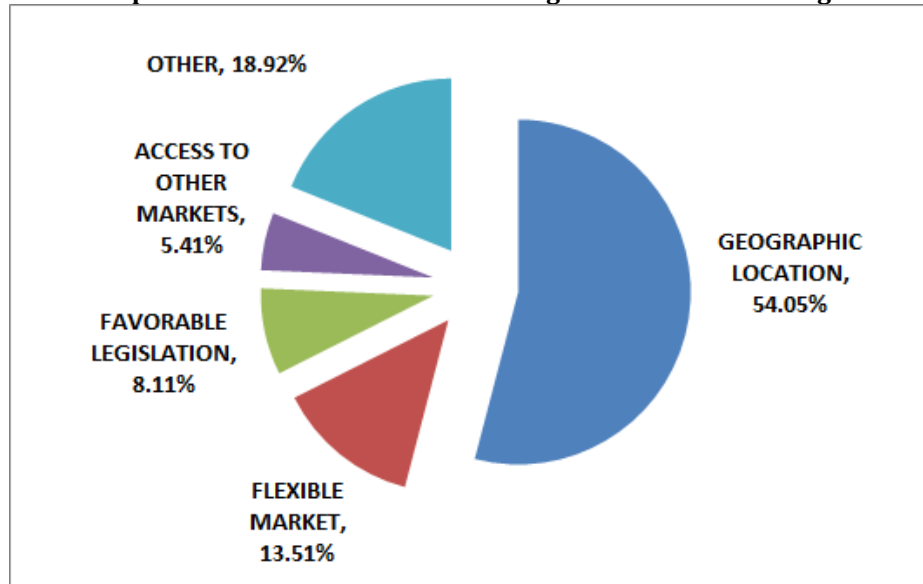
There is also significant concern over the appeals process when a competitive bid is not chosen. Many members have stated that their complaints enter into an extremely slow process and, in some instances; they never receive a response from the responsible authority. Furthermore, some complaints that have been sent to the Administrative Court are not properly processed. One such example is by the time a public tender appeals case is heard, and the Administrative Court makes a favorable ruling for the complainant, the tender would have already been awarded, and the services rendered. In other instances, tenders have been cancelled altogether rather than award them to the bidder who best fulfilled the tender criteria.

Repetitive filings of basic documents are burdensome for companies that frequently submit bids for public tenders. These documents can include proof that a company’s account is not being blocked by the Central Bank, and so on. Such certified documents take time to produce, and should not need to be produced and submitted repetitively. Companies should be able to register for public procurement opportunities, and the registration should be valid for 3-6 months. This would help reduce unnecessary paperwork and procedures for the public procurement purchaser, as well as the supplier and regulators.

An amended Law on Public Procurement took effect as of January 1, 2012. The amended law is supposed to help close some of the loopholes in the previous version of the law. AmCham Montenegro will closely follow implementation of the amended Law on Public Procurement. Additional statements and comments will be made during the course of the year, as the law comes takes full effect.

Conclusion

Graph 22: Attractive elements of doing business in Montenegro



A majority of AmCham members feels that the most attractive element of doing business in Montenegro is its geographic location. Montenegro's geographic position gives it a competitive edge over other countries in the region in the area of tourism, transport and logistics. Further, its relatively small size should make it easier to implement and put policies into force that will further improve the business environment in Montenegro and attract foreign and domestic investments.

AmCham Montenegro offers here some key recommendations that would improve the business environment and attract foreign and local investments:

- ❖ Develop transportation routes and hubs aggressively in order to take advantage of the country's favorable geographic position. AmCham Montenegro recommends that public investments be made to improve civil infrastructure, including highways, roads and railroad. Seaports and airports must also be developed and updated in order to improve capacity. This would send a clear signal to investors that Montenegro is positioning itself as an attracting place to do business. It would also open the door for investments in production and manufacturing as well as distribution to the Southeast European region.
- ❖ Reduce public administration and bureaucracy by making further investments in technology in order to improve transparency and efficiency of bureaucratic processes. Notable progress has been made in this area but this should be continued in all aspects of public administration. The government should set a 7-year goal to automate every administrative procedure by 2020.

- ❖ Pursue greater centralization of administrative authority to address the problem of inconsistent laws, taxes and administrative procedures at the municipal level. Municipal governments currently have far too much authority to levy taxes on investors, which undermines the favorable tax policy implemented by the Government of Montenegro. Municipal tax rates and the services and goods that are taxed vary greatly from municipality to municipality. Taxes are often introduced and passed in a quick and non-transparent fashion without input from the public or the business community.
- ❖ Introduce tax incentives for companies willing to hire and train workers for the future economy of Montenegro. Teaching useful skills, such as English and technical skills, to unemployed workers should be encouraged by the Government through a series of tax breaks. The Government of Montenegro should also promote a greener economy through tax breaks and other incentives. Many energy efficient or renewable energy programs are only made viable through tax incentive programs.
- ❖ Provide businesses with more accurate and robust information about the financial health and credit worthiness of companies and individuals. The Central Bank of Montenegro should offer access to basic information about the financial well being of companies and individuals in order to avoid lending or entering into agreements with those that are in poor financial standing. A credit scoring system, such as the one used in the United States, and in other countries, would be a useful resource.
- ❖ Because the Rule of Law is a key area of concern for many businesses in Montenegro, the Government of Montenegro should make improving the efficiency and effectiveness of the court system one of its top priorities. This would help businesses collect debts and appeal decisions made by government agencies that were not in accordance with Montenegrin law. Currently, many businesses avoid the courts altogether in order to resolve disputes because of a lack of confidence due to the length of time to adjudicate cases.
- ❖ A standard method for appraising real estate should be introduced in Montenegro for the purpose of consistently appraising the value of property. Currently there is no oversight or regulation of real estate appraisals in Montenegro. Government oversight of this practice will protect citizens as well as banks, insurers, businesses, municipalities, and the government from corrupted practices involving real estate appraisals.
- ❖ Consistent application of laws and regulations that govern public procurement procedures and public tenders must be followed if Montenegro is to become a more attractive place for foreign investments. Increasing inspections of public tenders, responding to every complaint registered against a public tender, and applying rulings made by the Administrative Court are necessary steps toward improving the credibility of the public procurement process.

APPENDIX 1

AmCham Montenegro 2012 Business Climate Survey Questions

GENERAL QUESTIONS ABOUT COMPANY:

Company/Member name:

Name of Contact Person:

Contact Phone and Email:

To which industry sector(s) does your company or organization belong?

A. GENERAL QUESTIONS ON BUSINESS ENVIRONMENT

1. How would you describe the business environment in Montenegro?
2. What do you consider to be the most attractive element of doing business in Montenegro?
3. Do you find AmCham to be a valuable representative of your business in front of the Government?
4. What do you expect from AmCham in terms of improving the business environment?

B. HUMAN RESOURCES

How would you rate:

1. The overall qualifications & skills of the labor market in Montenegro?
2. Cost of labor (value for money)?
3. Labor law?
4. Law on Employment of Foreigners?
5. Other relevant legislation. Please name law/legislation.
6. Please, list 3 major challenges in the area of Human resources.

C. TAXATION

How would you rate:

1. VAT, Personal Income Tax, Profit Tax level?
2. Wage/payroll taxes and contributions (Taxes & contributions paid for worker salaries)?
3. Tax administration efficiency?
4. Tax subsidies?
5. Please, list 3 major challenges in the area of Taxation.

D. REAL ESTATE/CONSTRUCTION

How would you rate:

1. Urban planning?
2. Existence of zoning documents?
3. Procedure for obtaining construction permits?
4. Issues related to foreign ownership?
5. Cooperation with the Real Estate Administration/cadaster?
6. Cooperation/satisfaction with banks?
7. Appraisal licenses?

8. Please, list 3 major challenges in the area of Real Estate/Construction.

E. RULE OF LAW

How would you rate:

1. Legal remedies?
2. Duration of legal procedures?
3. Availability of arbitration?
4. Property rights?
5. Please, list 3 major challenges in the area of Rule of Law.

F. PUBLIC PROCUREMENT/TENDER PROCEDURES

How would you rate:

1. Transparency of the public procurement process?
2. Access to information?
3. Fairness?
4. Please, list 3 major challenges in the area of Public Procurement/Tender procedures.

G. INFRASTRUCTURE

How would you rate:

1. Energy: electrical supply?
2. Telecommunications?
3. Water supply?
4. Waste water and solid waste treatment?
5. Transportation (Availability and quality of roads, airports and other transportation infrastructure)?
6. Please, list 3 major challenges in the area of Infrastructure.

H. BUSINESS CHALLENGES TASK FORCE

1. Rate AmCam's impact on the improvement of the business environment in Montenegro?
2. Do you think your company has enough information available regarding establishing working groups and task forces to address specific business challenges in Montenegro?
3. List any particular improvements that you would like to introduce to AmCham so that working groups could be formed to address those issues.

APPENDIX 2

AmCham Montenegro 2012 Business Climate Survey Result

Company									
Name of Contact Person									
Contact Phone and Email									
How would you describe the business environment in Montenegro?	AVERAGE (1-3)	2.08	ATTRACTIVE	27.03%	FAIR	37.84%	RISKY	35.14%	
What do you consider to be the most attractive element of doing business in Montenegro	GEOGRAPHIC POSITION	54.05%	FLEXIBLE MARKET	13.51%	FAVORABLE LEGISLATION	8.11%	ACCESS TO OTHER MARKETS	5.41%	OTHER
Do you find AmCham to be a valuable representative of your business in front of the Government?	YES	97.30%	NO RESPONSE	2.70%					
	Satisfaction rate level					Improvement level in comparison to last year			
	AVERAGE (1-4)	Very dissatisfied = 1	Dissatisfied = 2	Could be better = 3	Satisfied = 4	AVERAGE (1-3)	Worse =1	Same =2	Improved = 3
B1 How would you rate the overall quality of doing business in Montenegro?	2.77	0.00%	28.57%	65.71%	5.71%	2.21	3.03%	72.73%	24.24%
B2 Cost of labor (value for money)	2.85	3.03%	21.21%	63.64%	12.12%	2.00	9.68%	80.65%	9.68%
B3 Labor law	2.73	6.06%	21.21%	66.67%	6.06%	2.06	0%	93.55%	6.45%
B4 Law on Employment of Foreigners	2.73	10.00%	26.67%	43.33%	20.00%	2.22	3.70%	70.37%	25.93%
B5 Other relevant legislation	2.63	6.25%	25.00%	68.75%	0%	2.00	33.33%	33.33%	33.33%
C1 VAT, Personal Income Tax, Profit Tax	3.08	0.00%	30.56%	30.56%	38.89%	1.89	14.29%	82.86%	2.86%
C2 Wage/payroll taxes and contributions	2.68	11.76%	32.35%	32.35%	23.53%	1.97	12.12%	78.79%	9.09%
C3 Tax administration efficiency	2.74	8.57%	25.71%	48.57%	17.14%	2.09	9.38%	71.88%	18.75%
C4 Tax subsidies	2.33	18.52%	37.04%	37.04%	7.41%	2.08	0.00%	91.67%	8.33%
D1 Urban planning	2.24	16.00%	48.00%	32.00%	4.00%	2.00	22.73%	54.55%	22.73%
D2 Existence of zoning documents	2.44	8.00%	40.00%	52.00%	0.00%	2.13	4.35%	78.26%	17.39%
D3 Procedure for obtaining construction permits	2.46	11.54%	34.62%	50.00%	3.85%	2.08	16.67%	58.33%	25.00%
D4 Issues related to foreign ownership	2.94	12.50%	6.25%	56.25%	25.00%	2.07	6.67%	80.00%	13.33%
D5 Cooperation with the Real Estate Administration	2.78	3.70%	33.33%	44.44%	18.52%	2.13	12.50%	62.50%	25.00%
D6 Cooperation/satisfaction with banks	3.17	6.67%	13.33%	36.67%	43.33%	2.10	17.24%	55.17%	27.59%
D7 Appraisal licenses	2.61	11.11%	27.78%	50.00%	11.11%	2.12	0.00%	88.24%	11.76%
E1 Legal remedies	2.63	3.33%	33.33%	60.00%	3.33%	2.04	7.41%	81.48%	11.11%
E2 Duration of legal procedure	2.27	16.67%	46.67%	30.00%	6.67%	1.86	21.43%	71.43%	7.14%
E3 Availability of arbitration	2.42	12.50%	45.83%	29.17%	12.50%	2.09	13.64%	63.64%	22.73%
E4 Property rights	2.8	10.00%	26.67%	36.67%	26.67%	2.28	0.00%	72.41%	27.59%
F1 Transparency of the public procurement process	2.77	3.23%	29.03%	54.84%	12.90%	2.14	7.14%	71.43%	21.43%
F2 Access to information	2.74	0.00%	32.35%	61.76%	5.88%	2.28	3.13%	65.63%	31.25%
F3 Fairness	2.8	3.33%	13.33%	83.33%	0.00%	2.21	0.00%	79.31%	20.69%
G1 Energy: electrical supply	2.66	14.29%	20.00%	51.43%	14.29%	1.85	21.21%	72.73%	6.06%
G2 Telecommunications	3.25	2.78%	16.67%	33.33%	47.22%	2.26	8.82%	55.88%	35.29%
G3 Water supply	3.03	5.88%	17.65%	44.12%	32.35%	2.21	6.06%	66.67%	27.27%
G4 Waste water and solid waste treatment	2.00	32.26%	35.48%	32.26%	0.00%	2.03	16.67%	63.33%	20.00%
G5 Transportation (Availability and quality)	2.50	14.71%	23.53%	58.82%	2.94%	2.16	9.38%	65.63%	25.00%
H1 Impact that AmCham Montenegro has on your business	3.36	0.00%	2.78%	58.33%	38.89%	2.66	0.00%	34.48%	65.52%
H2 Do you believe that your company has enough information on establishing Working Groups and Teams for resolving business challenges in MNE									
Yes	21	56.76%							
No	11	29.73%							
No opinion	5	13.51%							

APPENDIX 3

Payroll Tax Table: Based on € 500/month Net Salary

Month Net Salary = € 500.00

Gross Salary 1 = Month Net Salary * 1.4925
= € 500.00 * 1.4925
= € 746.25

Example: € 500/month Net Salary	Tax	Contributions paid by the employee			Gross 1	Contributions paid by the employer			Additional contributions			Local Municipal Tax ⁴	Gross 2
Types of Taxes and Contributions	PIT	PDI	Health	Unemployment		PDI	Health	Unemployment	Labor Union	Chamber of Commerce	Labor Fund		
Tax base	Gross 1	Gross 1	Gross 1	Gross 1	Gross 1	Gross 1	Gross 1	Gross 1	Gross 1	Gross 1		PIT	
Tax Rate	9%	15%	8,5%	0,5%		5,5%	3,8%	0,5%	0,2%	0,27%	0,2%	15%	
Total Tax(€)	67.16	111.93	63.43	3.73	746.25	41.04	28.36	3.73	1.49	2.01	1.49	10.07	834.44

Gross Salary 1 = Month Net Salary + Personal Income Tax (PIT) + Contributions paid by the employee
= € 746.25

Gross Salary 2 = Gross Salary 1 + Contributions paid by the employer + Additional contributions + Local municipal tax
= € 834.44

⁴ Local municipal tax on personal income for the Municipality of Podgorica

APPENDIX 4

Communal/Utility Connection Fees by Municipality⁵

The municipality/city	Unit of measure	Facilities	ZONE							
			Exclusive /first/ A / extra	I ZONE	II ZONE	III ZONE	IV ZONE	V ZONE	VI ZONE	VII ZONE
PODGORICA	€/m ²	Residential	141.87	137.59	89.76	75.89	64.86	50.39	0.00	0.00
		Business	181.71	172.68	113.04	92.95	77.68	58.75	0.00	0.00
		Intended for production and processing agricultural products in procedure DUP "Agro -industry zone"	72.68	69.08	45.22	37.18	31.08	23.50	0.00	0.00
		Intended for industrial production in cut DUP "Industrial Zone A"	90.86	86.34	56.52	46.47	38.84	29.37	0.00	0.00
		Intended for storage and services and open semi-open	136.29	129.51	84.78	69.72	58.26	44.07	0.00	0.00
		Hotels with 5 stars and more	154.46	146.78						
BAR	€/m ²	Residential		140.00	126.00	112.00	98.00	84.00	70.00	56.00
		Business		196.00	176.40	156.80	137.20	117.60	98.00	78.40
		Hotels		168.00	151.20	134.40	117.60	100.80	84.00	67.20
BUDVA	€/m ²	Fair facilities, shopping malls and spa centers, apart-hotels, condo-hotels, Hotels	256.30	205.04	170.87	145.24	119.61			

⁵ Fees are calculated per m² of the net area of the building, based on current standards of preliminary and detailed designs. Open space is also calculated per m² if the associated structure is designed for performance activities.

			Exclusive /first/ A / extra	I ZONE	II ZONE	III ZONE	IV ZONE	V ZONE	VI ZONE	VII ZONE
		Hotels, fair facilities, shopping malls and spa centers that are an integral part of the hotel complex, which already has a separate building permit	128.15 ⁶	102.52	85.43	68.34	59.80			
		Residential, residential and business, travel, apartments, villas ,etc. up to 500 m ²	213.58	170.87	142.39	113.91	99.67			
		Residential, residential and business, travel, apartments, villas, etc. 500 m ² to 1.500 m ²	277.66	222.13	185.11	148.08	129.57			
		Residential, residential and business, travel, apartments, villas, etc. over 1.500 m ²	320.38	256.30	213.58	170.87	149.51			
TIVAT	€/m ²	Residential		105.00	81.00	69.00	47.00	35.00		
		Business ⁷		158.00	122.00	104.00	71.00	53.00		
ULCINJ	€/m ²	Hotels	250.00	160.00	130.00	108.00	72.00	54.00		
		Residential		50.00	39.00	33.00	22.00	17.00		
		Business		100.00	78.00	66.00	44.00	34.00		
BIJELO POLJE	€/m ²	Residential		40.00						
		Business		100.00						

⁶The decision provides significant reduction in utility when it comes to hotels with 4 and 5 stars that should be built in the exclusive and the first zone, and fair facilities, shopping malls and spa centers that are an integral part of the hotel complex, and for which it was issued separate building permit. Thus, for high-quality hotel in the exclusive zone, instead of € 128.15 per square meter, the investor must pay € 32, while the cost of utilities in the first zone to be even lower, amounting to € 25.63. This reduction of utilities will not apply to apart and condo hotels. Discount of 75 percent of the calculated value of the consideration shall be granted only if, within 18 months from the date of the Decision compensation agreements with investors who want to build and if the payment is made in full.

			Exclusive /first/ A / extra	I ZONE	II ZONE	III ZONE	IV ZONE	V ZONE	VI ZONE	VII ZONE
KOLAŠIN	€/m ²	For construction, extension and upgrading office buildings		85.00	70.00	45.00	20.00			
		For the construction, extension and upgrading of housing-collective housing		65.00	55.00	35.00	15.00			
		For the construction, extension and upgrading of housing-family residential buildings		45.00	35.00	25.00	8.00			
HERCEG NOVI	€/m ²	Residential buildings up to 4 units		150.00	120.00	90.00	70.00	50.00	30.00	20.00
		Apartment buildings with 5 or more housing units		180.00	144.00	108.00	84.00	60.00	36.00	24.00
		Business Objects		225.00	180.00	135.00	105.00	75.00	45.00	30.00
KOTOR	€/m ²		222.60	167.10	133.70	104.00	78.00	55.70		
NIKŠIĆ	€/m ²	Business		152.00	142.00	132.00	82.00	50.00	25.00	
		Residential		80.00	70.00	60.00	40.00	20.00	5.00	
PLJEVLJA	€/m ²	Family structures up to 500 m ²		76.00	64.00	56.00	40.00	36.00	12.00	
		Multiple family residential structures		98.80	83.20	72.80	52.00	46.80	15.60	
		Business		129.20	108.80	95.20	68.00	61.20	20.40	

