

Business Environment  
Vision Improvements  
Conditions for business  
**Rule of Law** Efficiency  
Networking Private sector  
Public sector Stability Voice  
Predictability Leaders  
Voice **Human Resources**  
Networking Effectiveness  
International Advocacy  
Business Environment  
**Taxation** Investments  
Advocacy Improvements  
Business Environment  
Forecast Conditions for  
business **Construction**  
Networking Private sector  
Investments Advocacy  
Public sector Efficiency  
**Real Estate** Investments  
Networking International  
Effectiveness Stability  
Advocacy Investments  
Forecast **Infrastructure**  
Business Environment  
Improvements Leaders  
Conditions for business  
Vision Sustainability Voice



# 2014 AmCham Montenegro Business Climate Report





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# Executive Summary



AmCham Montenegro commissioned work on its 2014 Business Climate Report (BCR) in order to identify key areas in which to improve the business environment in Montenegro. The 2014 AmCham BCR will highlight areas where AmCham members have witnessed improvements to the business environment as well as provide recommendations to improve conditions for businesses and investors. This is the third such report that AmCham Montenegro has produced since its establishment in November 2008.

The results of this report are based on the responses of executives, employed with AmCham member companies, to a questionnaire that was distributed in the third quarter of 2014. Further details regarding current state of the business environment in Montenegro were obtained by conducting one-on-one interviews with select respondents to the survey. In general, members were asked to identify the main issues they face when guiding their respective businesses in Montenegro. Likewise, business leaders were asked to explain where they have sensed that there have been key improvements as far as doing business is concerned.



## AmCham members identified progress in the following areas:

- Court procedures have been eased somewhat with possibilities to track sessions online.
- The introduction of private notary services has contributed to reducing the workload of the courts.
- The introduction of public executors has been praised. Companies believe that the work of public executors that are not part of the court system will allow for more debts to be collected.
- The Government has prioritized reducing the rather large grey economy, as a response to the increasing scale of the grey market in Montenegro.
- The current Labor Law has improved conditions for employers somewhat when compared to prior legislation. However the labor code still represents a serious business barrier.
- Corporate income tax has remained unchanged with recent amendments to tax policies. It is still amongst the most favorable rates in the region.
- The work and effectiveness of the Tax Authority has improved.
- The legal framework in the area of real estate contributes to a favorable business environment, however, implementation and enforcement remains an issue.
- The Ministry of Finance proposed the legal introduction of international valuation standards, which will significantly contribute to development in the area of real estate.

## AmCham member companies raised concerns or saw little or no improvements in the following areas:

- Court procedures remain extremely slow when processing cases. The court system requires more efficient administrative personnel, who are able to resolve the large backlog of cases and pending verdicts.
- Generally, laws can be rather confusing and often contain conflicting clauses. Bylaws and other regulations are often not aligned with laws.
- The state of the Labor market is perceived as poor, often lacking certain skills and qualifications, particularly necessary for mid-management positions.
- The current Labor Law does not provide enough flexibility for employers, causing a serious business barrier when establishing a workforce in Montenegro.
- VAT was increased from 17% to 19%, a progressive tax was introduced to personal income, and specific industry taxes were also introduced.
- Recent changes to tax policies were introduced very rapidly and did not allow the Tax Authority to fully prepare how to enforce the changes in an effective manner. This caused problems for many businesses that were looking to maintain strict compliance.
- Current tax and contribution rates paid alongside employee salaries are very high and represent a significant business barrier, especially for small and medium enterprises.

- The Real Estate Authority faces serious cadre deficits, not providing quality services to investors in Montenegro. Local cadasters' data is not up to date, which causes many uncertainties for real estate developers.
- AmCham members raised particular concerns with regards to wastewater and solid waste treatment. Building these capacities should be intensified.
- The lack of liquidity of small and medium enterprises is a significant concern due to late or non-existent payments, which then lead to problems when planning and budgeting.

## AmCham member companies believe that the following must be done in order to improve the business environment in Montenegro:

- Reform of judicial system must continue at a more rapid pace.
- The private sector should play a greater role in drafting laws and creating policies that would significantly impact their business.
- A new Labor Law of Montenegro should be adopted. The new Law should be the umbrella legislation defining all rights and obligations of both employers and employees.
- The effectiveness of the Tax Authority should continue to be improved by improving its administrative capacities and expanded use of IT systems.
- Tax rates should remain at current levels and not be

raised under any circumstance. Tax policy should be more predictable for businesses and allow for their input.

- The efficiency of the Real Estate Authority must be improved and the capacity of local cadasters should be expanded to meet growing demand.
- A legal solution to property right issues arising from the differences between the urban and cadaster lots should be resolved as soon as possible.
- Communal fees should be gradually abolished. These charges represent a serious issue for investors and hinder attracting quality development projects in the long term.
- Lack of infrastructure is one of the major concerns in Montenegro. More should be done to rebuild existing roads as well as build new roads. Development of waste treatment facilities should be one of the priorities of the Montenegrin Government in the future period.
- The public procurement process needs to be further amended to allow for public procurement procedures to be differentiated for specific industries. Currently there is one public procurement procedure for all industries, including health care, construction, etc.

# Introduction

The American Chamber of Commerce in Montenegro (AmCham Montenegro) is an independent business association with 72 members as of December 2014. AmCham Montenegro member companies are prominent American, Montenegrin, and other international companies that operate in various industry sectors in Montenegro. AmCham Montenegro is dedicated to improving the business environment of Montenegro in order to attract more U.S. and other foreign investments. The production of the AmCham Business Climate Report is one of many advocacy initiatives of AmCham Montenegro that is geared toward improving conditions for current and future investors in Montenegro.

AmCham commissioned work on its 2014 Business Climate Report (BCR) in the second quarter of 2014. Firstly, a questionnaire was sent to all AmCham member companies with questions related to the overall business climate in Montenegro and specific industry sectors. As with the previous two Reports that AmCham produced, this report surveys several key areas of importance for business: Rule of Law, Human Resources, Taxation, Real Estate/Construction, Infrastructure as well as other areas, including public procurement procedures. Executives with AmCham member companies were asked to name where there have been improvements to the business climate in the previous two years. Likewise, they were asked to stress the areas where improvements are still needed and that would significantly improve their business opportunities.

Secondly, one-on-one interviews were organized with select members in order to obtain more precise information and experiences from AmCham members. These interviews provided significant input to understanding the everyday challenges that our members face in doing business in Montenegro.

The aim of the Business Climate Report is to present and communicate the most burning issues for the business community in Montenegro. The Report elaborates on both improvements that have been made in the past two-year period and the necessary actions for the following period. Business challenges specific to individual member companies are omitted from the report, as the report represents the overall impressions of AmCham members. This document is not a scientific study nor does it elaborate very deeply on any certain issue. The report is merely an overview of the current situation in the business environment in Montenegro and actions that member perceive as necessary in order to make further improvements to improve conditions for business.

AmCham Montenegro will present the document to the Government of Montenegro, the Parliament of Montenegro, public agencies, Government bodies, and local self-governments. Likewise, the document will be presented to other business associations, NGOs, other international organizations, embassies and diplomatic representations. AmCham will continue to advocate for improvements to the business environment stated in this document, through its advocacy committees and other initiatives.

We would like to thank to all members who provided their input for this project. Their feedback was of critical importance to producing a document that reflects the opinions of our members.

AmCham Montenegro would also like to thank De Facto Consultancy for their support in this project. De Facto produced the initial questionnaire that was sent to our members and compiled the data for AmCham's analysis.

Business Challenges Skills  
Attractive Solutions Optimism  
Education Skills Cooperation  
Cooperation Administration  
Perception Potential Growth  
Cooperation **Doing Business**  
Administration Skills Potential  
Cooperation Administration  
Solutions Change Potential  
Skills Growth Education  
**Predictability** Administration  
Skills Attractive Solutions  
Investments Skills Education  
Optimism Administration  
Business Challenges Education  
Optimism Growth **Regulation**  
Administration Skills Change  
Potential Growth Education  
Cooperation Sustainability  
Administration Education  
**Stability** Skills Expectations  
Skills Education Perception  
Education Expectations  
Solutions Change Potential  
Cooperation Administration

# Business Climate Overview



Business challenges do exist in Montenegro. However, the country remains an attractive business destination. AmCham members sensed that laws and regulations are constantly changing, either due to the reform process undergone by the Government or adaptation to the EU Acquis. In the long run, changes can be sensed and one can conclude that much has been done to improve the business environment in the country. When analyzing the prior 2-year period, one notices that companies perceive slight improvements. Roughly 30% of surveyed members have seen improvements in the business climate while about 20% stated that the business climate has worsened in the same period. About a half of surveyed members, however, do not see any changes in the business climate for the perceived period.

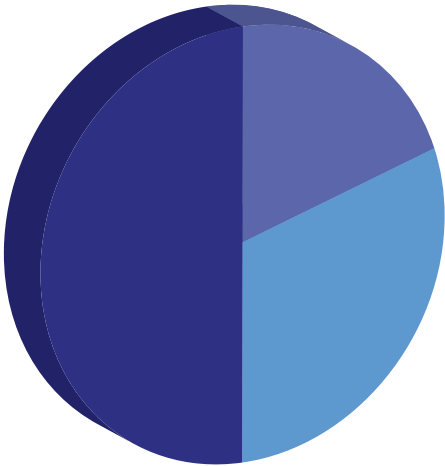
Our members generally perceive Montenegro as an attractive destination for investments. Some of the most attractive elements of doing business in Montenegro encompass natural assets like the environment and the climate, agriculture potential. Low tax rates and EUR as a currency are favorable for investors. Likewise, the geo-strategic position of Montenegro is important to businesses, as well as the EU and NATO integration.



**Business climate in the last 2 years**  
In the last 2 years would you say that the business climate in your industry sector has...

**30%**  
**Improved**

**Stayed the same**  
**50.0%**

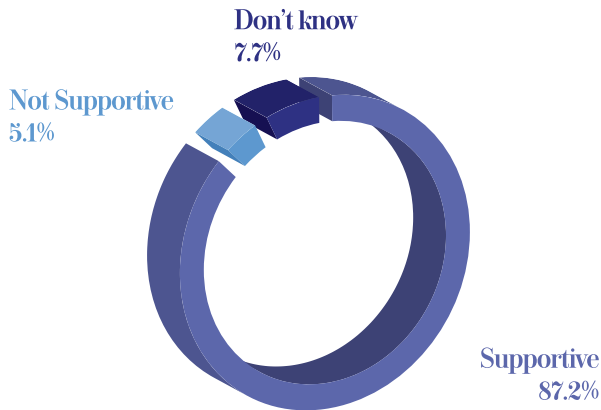


**Worsened**  
**20.0%**

**Improved**  
**30.0%**

## Montenegrin membership in EU

What is your company's attitude towards Montenegrin membership in EU?

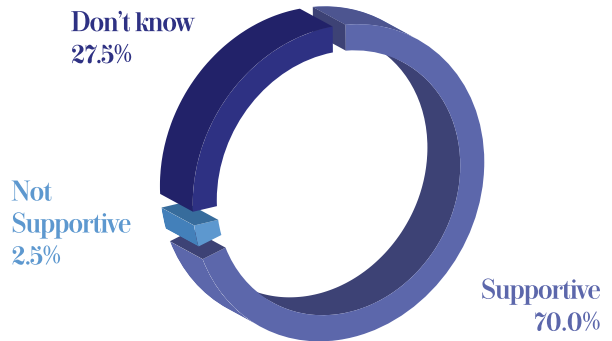


When it comes to the EU, 87.2% of our members support membership. Likewise, 65% of our members think that Montenegro is capable of meeting the criteria for joining the EU, while 12.5% are of the opposite opinion.

*“The majority of members believe that both EU and NATO memberships will have a positive effect on the business environment.”*

## Montenegrin membership in NATO

What is your company's attitude towards Montenegrin membership in NATO?



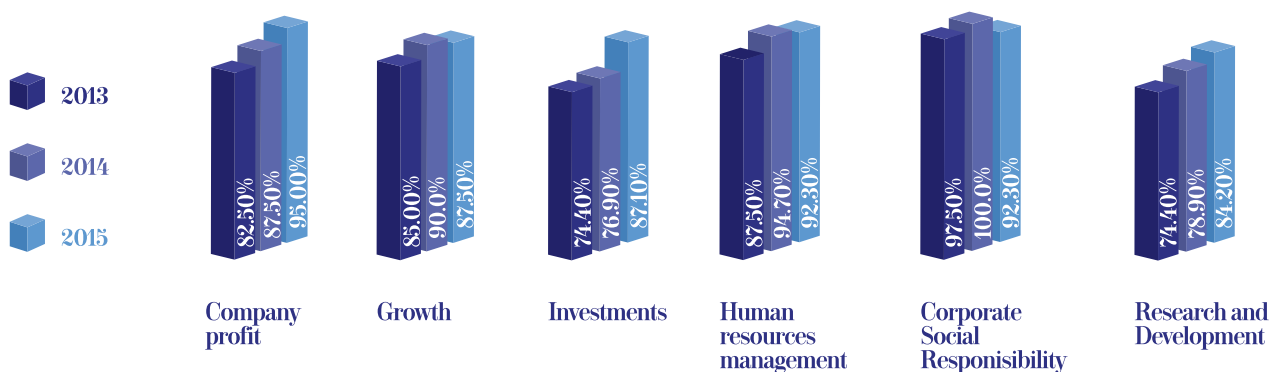
When asked about potential Montenegrin membership into NATO, 70% of AmCham members were in support of joining the alliance, with 27.5% not having an opinion about NATO membership. About 57% of our members believe that Montenegro can meet the criteria for joining NATO, with about 35% believing the opposite.

The majority of members believe that both EU and NATO memberships will have a positive effect on the business environment. 87.5% believe this to be true for the EU membership, while almost 77% believe the same for the NATO membership.

AmCham members were also asked to assess their results in the previous, current and next year in areas of importance for their business. When observing the profit of the company, steady growth is perceived. 95% of AmCham members believe that their profits in 2015 will be good, signaling optimism for the upcoming year. On the other hand, 82.5% and 87.5% of our members marked their profits as good in 2013 and 2014 respectively. The number of members rating their investments and research and development rise in a similar pace. On the other hand, the number of companies rating their HR Management as good rises from 2013 to 2014, but declines slightly in when rating their expectations for 2015.

## 2013/2014/2015

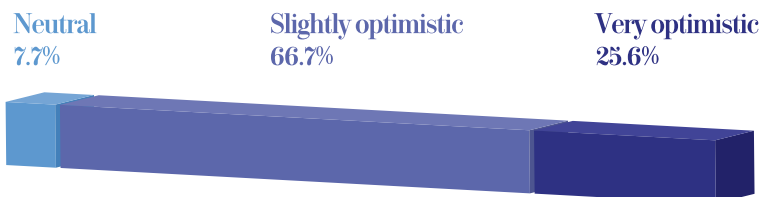
Comparative evaluation of results for the following years



In the survey, members were also asked to describe their five-year business outlook for Montenegro. It is interesting to see that more than 90% of our members are generally optimistic about their business outlook in the next five years.

### Five-year business outlook

How would you describe your five-year business outlook for Montenegro?



When discussing the grounds for their optimism, members stated that they expect Montenegro to continue with further reforms that will lead to improving the business environment. EU integration is also a very important component for investors. Even though it is likely that Montenegro will not join the EU by the end of the decade, the country is continuing with serious reforms and adopting international and EU standards. This contributes to Montenegro being more attractive for foreign investors and for development of businesses. Likewise, the geographical position and the potential for new investments are very favorable for members.

*“AmCham members see slow government administration and bureaucracy as some of the major risks facing their business in the upcoming period.”*

AmCham members see slow government administration and bureaucracy as some of the major risks facing their business in the upcoming period. Unpredictable business environment, as well as grey economy and liquidity of enterprises are also foreseen as some of the risks that private entities in Montenegro might face in the future period. Montenegrin Government must work intensively in the following period to educate its administration and improve their skills in order to provide both businesses and citizens with quality service.

# Rule of Law

Quality Concerns Investors  
Grey Market Improvements  
Predictability Grey Market  
System Property Rights  
Courts **Grey Economy**  
Investors Equal Uncertainties  
Regulation Investors Law  
Law Predictability Judicial  
**Implementation** Business  
Equal Barriers Grey Market  
Investors Equal Uncertainties  
Regulation Investors Law  
Investors **Administration**  
Equal Judicial System  
Uncertainties Regulation  
Investors Law System  
**Debt Collection** Barriers  
Predictability Law Investors  
Property Rights Business  
Uncertainties Regulation  
Investors **Legal Remedies**  
Equal Uncertainties Law  
Property Rights Judicial  
Investors Equal Uncertainties  
System Property Rights

*“The main issues perceived as business barriers are the judicial system, the scale of the grey market, as well as the issue of debt collection.”*

AmCham member companies have raised concerns about the quality of the Rule of Law in Montenegro. The main issues perceived as business barriers are the judicial system, the scale of the grey market, as well as the issue of debt collection. Likewise, a rough majority of surveyed members do not perceive the law implementation as equal.

AmCham members are generally not satisfied with the Montenegrin judicial system. Some improvements have been detected, such as the possibility to track court sessions via the Internet. However, the courts are too slow in processing cases and reaching verdicts. This can take as much as several years, which contributes to serious losses for companies and individuals. In one such example where slow court proceedings can hamper an investment, an investor can take out a loan in order to realize their business plans. Once they get in front of the court their investment is stopped, and they still have to pay the loan and are responsible towards their consumers.

Members believe that courts have problems with administrative capacity, although they perceive some courts to be more efficient than others. Courts must employ more professionals who will be able to deal with the huge caseload still pending for verdicts. The introduction of notary services has been praised by AmCham members and has significantly contributed to reducing pressure from the court system.

AmCham members have raised concerns about the scale of the grey economy in the country. About 80% of our members have rated the scale of black/grey economy as poor. Current tax and contribution rates are perceived as significantly contributing to increasing the scale of grey market in the country. Our members are satisfied with the legislative

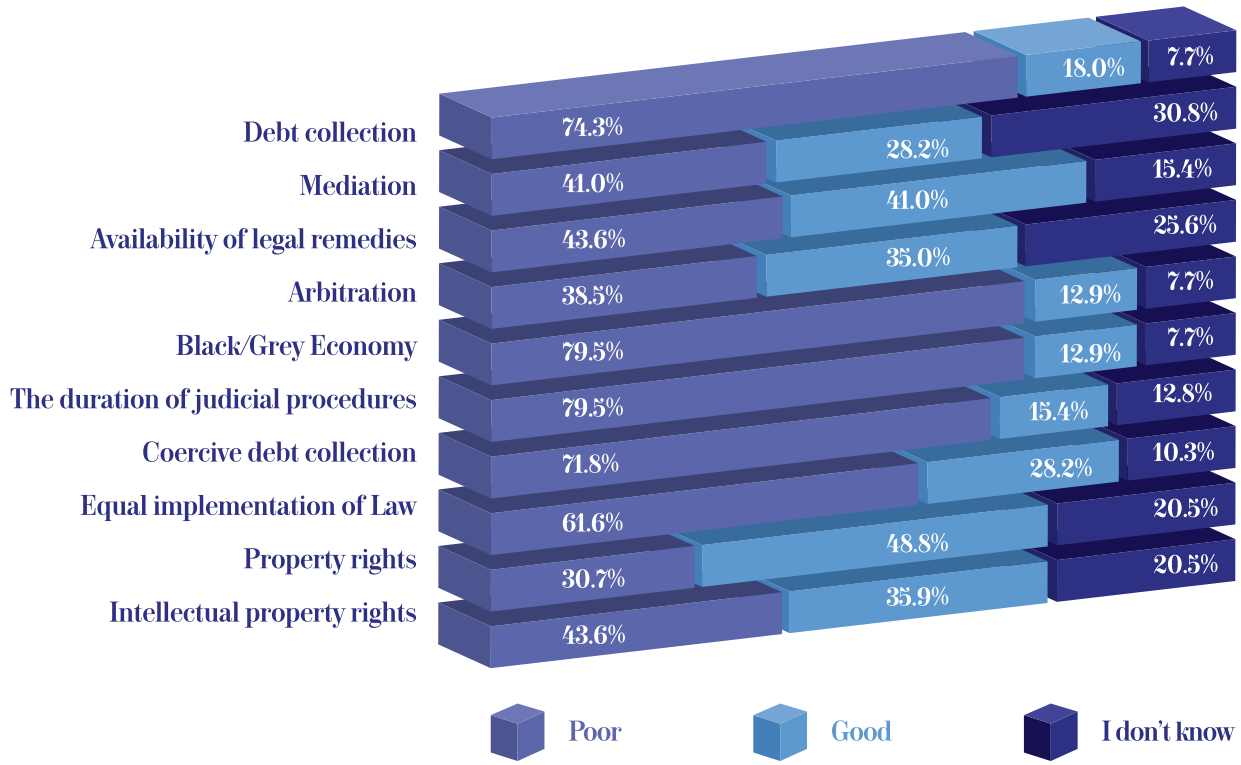
framework, which is aligned with European and international regulations. The main issue is the implementation of the laws that regulate this area. The Government itself has recognized this problem and placed it higher up the agenda, by forming the Commission for Fighting the Grey Economy. Our members believe that clear and consistent legal implementation will contribute to reducing the grey market in the country.



*“Current tax and contribution rates are perceived as significantly contributing to increasing the scale of grey market in the country.”*

# The Rule of Law Conditions for business

In the area of the Rule of Law please rate conditions for business for several items:



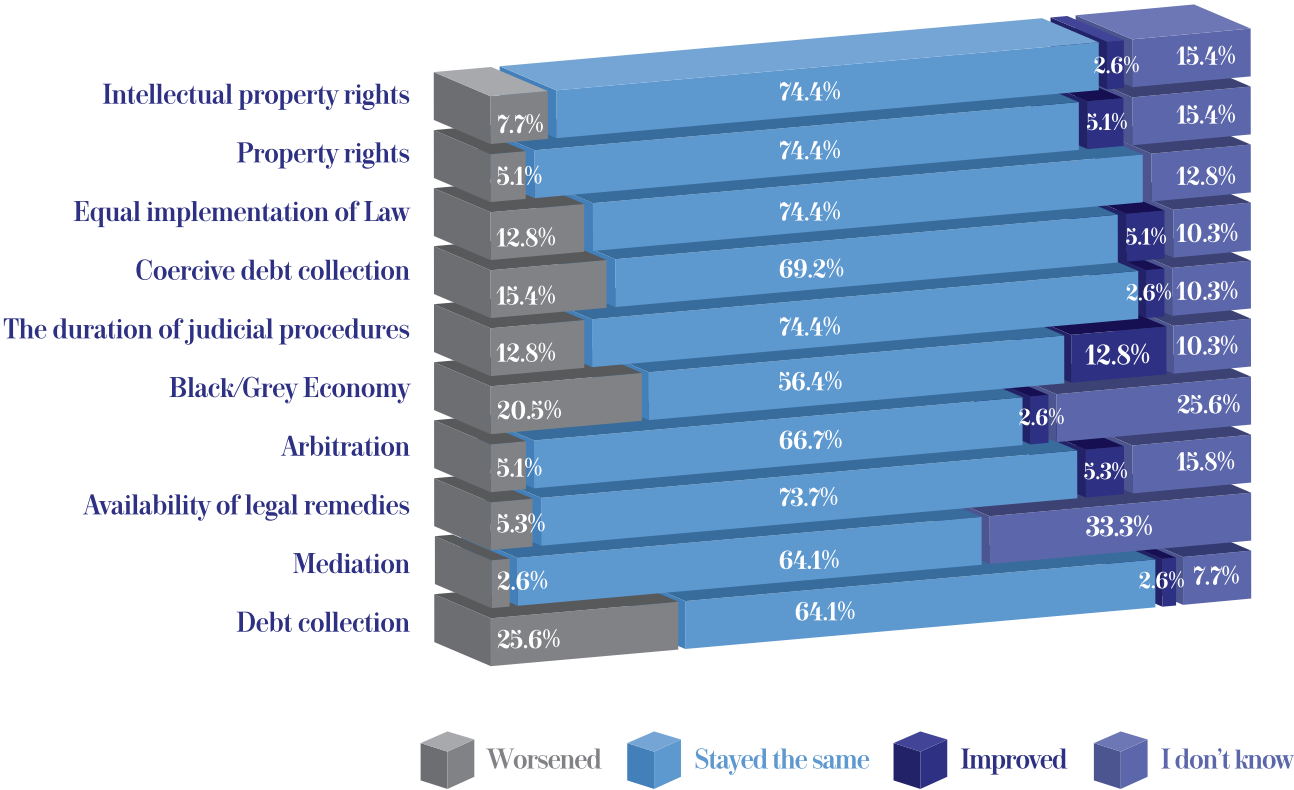
*“When comparing this and previous 2 business years, our members perceive little or no change in the conditions for business as regards to the Rule of Law.”*

Many AmCham members face issues with debt collection. More than 70% surveyed in this year’s BCR marked debt collection as being poor. A good step in tackling this problem is the introduction of the institution of public executors. Members strongly believe that this will contribute to improving debt collection in the future.

When comparing this and previous 2 business years, our members perceive little or no change in the conditions for business as regards to the Rule of Law. More than 60% of our members believe that the equal implementation of law is poor, and about 70% do not see changes in the previous 2 years. These numbers stress the importance of a more intense reform regarding the Rule of Law in Montenegro.

# The Rule of Law Conditions for business

In the areas bellow, would you say that in the last 2 years conditions for business have improved, stayed the same or worsened?



*“AmCham members believe that the private sector should be more involved or consulted in drafting laws and regulations.”*

Even though much has been done on improving the regulations in Montenegro, laws are still confusing and contain conflicting clauses. This contributes to uncertainties with investors when doing business in Montenegro. It is often the case that inspectors have conflicting opinions when applying certain provisions. This is particularly obvious in the area of taxation.

AmCham members believe that the private sector should be more involved or consulted in drafting laws and regulations. Private companies can provide their comments, opinions, best practices, hence aid in making these processes more transparent. This would also contribute to a better law implementation and reducing the grey economy in the country.



# Human Resources

Youth Qualifications Skills  
Labor Pool Skills Employer  
– Employee Relations Skills  
**Labor Market** Complicated  
Youth Experience Tax and  
Contribution Foreign Labor  
Complicated Experience  
Skills Labor Pool **Labor Law**  
Youth Tax and Contribution  
Foreign Labor Youth Work  
Agreements Qualifications  
**Flexibility** Skills Cost of  
Labor Youth Qualifications  
Skills Employer – Employee  
Relations Agreements Youth  
Agreements Skills **Challenge**  
Qualifications Complicated  
Youth Qualifications Skills  
Cost of Labor Experience  
**Collective Bargaining** Work  
Agreements Complicated  
Labor Pool Cost of Labor  
Youth Experience Tax and  
Contribution **Human Capital**  
Complicated Experience



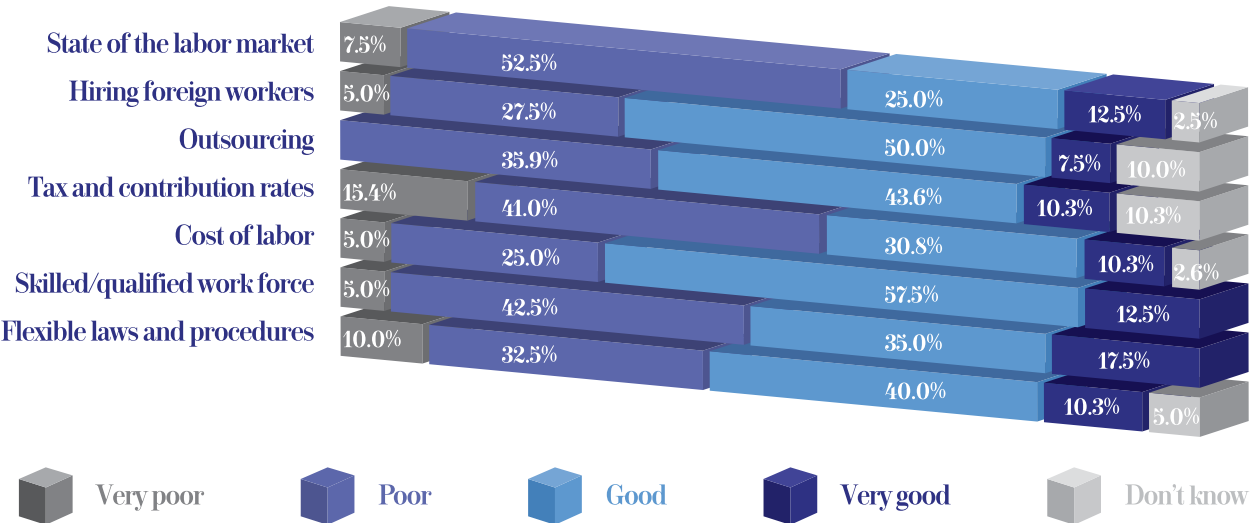
Human Resources in Montenegro is an area with significant business barriers to both private companies and state authorities. Since we issued the 2012 Business Climate Report little has changed in reducing the cost of labor or, more importantly, improving the skills and qualifications of the labor market.

Private entities are not pleased with the current state of the labor market in Montenegro. Roughly 60% of members view the state of the labor market as very poor or poor. The two main barriers are the Labor Regulation of Montenegro and the lack of qualified/skilled labor force.

## Human Resources Conditions for business

In the area of human resources please rate conditions for business for several items:

*“Private entities are not pleased with the current state of the labor market in Montenegro.”*



*“The current Labor Code of Montenegro is perceived by members to be a relic of the past, socialist system. The Labor Law is not flexible, thus making employers very hesitant to hire more people in their companies.”*

The current Labor Code of Montenegro is perceived by members to be a relic of the past, socialist system. The Labor Law is not flexible, thus making employers very hesitant to hire more people in their companies. Likewise, regulation is often very confusing because of the existence of the Labor Law and various layers of Collective Bargaining Agreements<sup>1</sup>. AmCham's position is that the Labor Law should be the first and most important legal act defining labor relations in Montenegro and that all other agreements should be aligned with the Law.

<sup>1</sup>There are three types of collective agreements in Montenegro: General Collective Agreement, signed and valid on the national level; Branch Collective Agreement, signed and valid for various industry sectors; and the Employer's Collective Agreement, signed and valid within one company.

The main issues in the current Labor Law, as defined by AmCham members and AmCham's Labor Relations Committee are the procedure for firing workers and the definition/calculation of salaries. The procedure for firing workers is described by our members as a “mini-tribunal”, which severely affects the working atmosphere, office culture, and positive office relations.

The Labor situation becomes further complicated when presented in front of a court. When delivering a verdict, the judges often focus on formalities and technical errors. Employees win the vast majority of court cases brought against employers, usually due to a technicality - some formal procedure was not completed - while the meritum (the essence of the case) is not taken into consideration.

*“The majority of AmCham members would prefer executing a permanent “unlimited” contract with their employees prior to the required 2-year window, but are discouraged because of the aforementioned provisions of the Labor Law.”*

The majority of AmCham members would prefer executing a permanent “unlimited” contract with their employees prior to the required 2-year window, but are discouraged because of the aforementioned provisions of the Labor Law. Because of limited ability to maintain flexibility, employers are often faced with no other choice but to seek loops or provisions in the Labor code that allow employers to keep their options open.

The definition or the calculation of salaries is unnecessarily complicated. This provision is one of the relics of the socialist system and does not comply with the market economy.

A new Labor Law is expected to be drafted in the forthcoming period. AmCham member companies expect that the mentioned inconsistencies will be tackled with the new legislative solution.

*“Finding skilled middle managers represents a serious challenge for members.”*

Skills and qualifications of the Montenegrin labor pool are a significant business barrier. Finding skilled middle managers represents a serious challenge for members, so they are often forced to employ people from outside of Montenegro for these positions.

More has to be done in order to improve skills of Montenegrin youth. When obtaining their Bachelor degrees, youngsters in Montenegro have little or no work experience. Likewise, their English language skills are moderate and they lack other language skills.



On a scale from 0 to 10, Montenegrin human capital holds the average of a strong 5. AmCham members are of the opinion that Montenegrins are the strongest when it comes to health, optimism, communication and loyalty. On the other hand, it is difficult to recruit talent and many candidates lack initiative and foreign language skills (other than English).

Likewise, our members state that skills specific for some industry sector are lacking, like telecom expertise, pharmacy, tourism and construction. Member companies from the mentioned sectors often employ foreign, mostly regional labor on these positions. The official number of unemployed individuals in Montenegro is nearly 30,000 and there are roughly 20,000<sup>2</sup> vacant positions which are provided to workers who are not from Montenegro due lacking interest of domestic labor.

It is widely mentioned in business circles that Montenegrin youth is more interested in working for the State, than for the private companies. This phenomenon may also be attributed to the previous system, but this issue must be tackled in the future period. Private companies must do more to promote themselves as attractive employers. Our members are of the opinion that both the state and the private companies have the main role in this process. Likewise, universities and schools can contribute significantly.

*“Private companies must do more to promote themselves as attractive employers.”*

# Quality of available human capital

How would you describe the quality of available human capital in Montenegro, 0 being very dissatisfied and 10 being very satisfied?



<sup>2</sup> The Government of Montenegro adopted a Decision on Determining the Number of Working Permits for Foreigners for 2015, determining the quota of 23,400 working permits.

# Taxation

Authority VAT Stimulating  
Changes Solutions Income  
Tax Authority Stimulating  
VAT Measures **Progressive**  
Authority VAT Stimulating  
Measures Barriers Excises  
Changes Solutions Income  
Tax Authority Stimulating  
**Policy** VAT Changes Income  
Tax Authority Stimulating  
Measures Barriers Excises  
Changes Solutions Income  
Tax Authority Stimulating  
Barriers **Local Taxation**  
Excises Changes Solutions  
Income Tax Authority VAT  
Stimulating VAT Changes  
Changes Income Measures  
**Corporate Income Tax** Tax  
Authority VAT Stimulating  
Measures Barriers Excises  
Changes Solutions Income  
Income Tax Authority VAT  
Stimulating **Predictability**  
Implementation Income

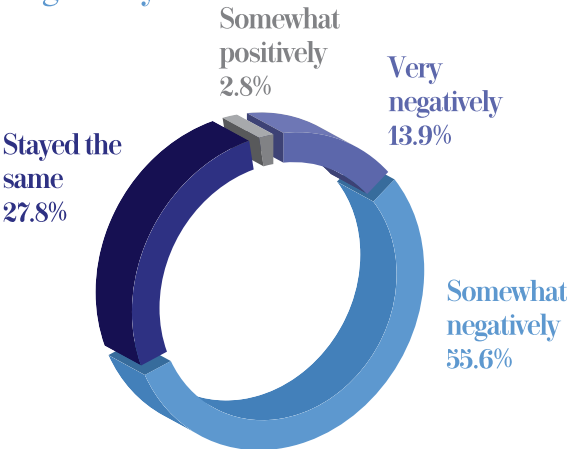
Much has changed in the area of taxation since AmCham published its last Business Climate Report in 2012. The Government of Montenegro has introduced various tax changes in this period. The VAT was increased from 17% to 19%, a progressive tax was introduced to personal income above the national average, and specific industry taxes were also introduced. The changes were introduced rapidly and the Tax Authority itself was not fully prepared to provide solutions for problems arising from such rapid changes.

### Increased Value Added Tax

To what extent has the increased Value Added Tax (from 17% to 19%) affected the business environment in Montenegro?

**69.5%**

**Negatively**



*“The current tax and contribution rates associated with employee salaries are a significant business barrier, especially for small and medium enterprises.”*

The current tax and contribution rates associated with employee salaries are a significant business barrier, especially for small and medium enterprises. Likewise, the personal income tax was increased in mid-2013, with introducing the progressive taxation to salaries higher than 720€ gross.

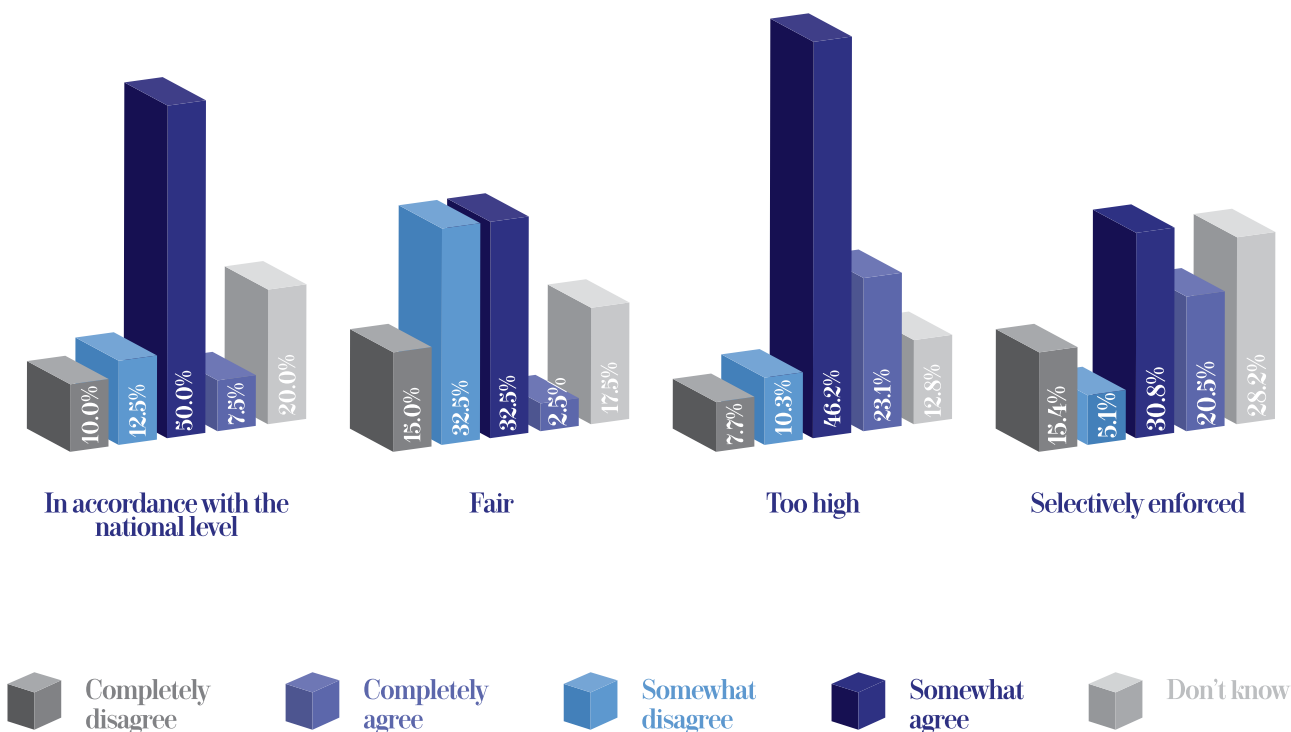
*“AmCham members believe that the Corporate Income Tax is competitive when compared to other rates in the region.”*

AmCham members believe that the Corporate Income Tax is competitive when compared to other rates in the region.

Taxation and the method by which municipalities levy taxes pose a significant business barrier. AmCham members feel that there is a lack of coordination between the Montenegrin Ministry of Finance, the Tax Authority and local authorities when it comes to harmonizing tax policy. It is our members' experience that local inspectors often do not interpret or implement regulations in the proper manner. AmCham members believe that a uniform tax strategy on the local level should be adopted in order to prevent municipalities from adopting ad hoc decisions that will hinder their long-term economic development by creating unpredictable conditions for investors.

## Taxation on the local level

Would you agree that taxation on the local level is:



*“AmCham members are, however, of the opinion that the effectiveness of the Tax Authority (TA) has increased in the past period.”*

AmCham members are, however, of the opinion that the effectiveness of the Tax Authority (TA) has increased in the past period. The official opinions of the TA are more concise and clear, providing companies with more specific information in response to their inquiries. On the other hand, members often experience problems with the Central Register of the Commercial Court, which is a database of great significance for business. The database is often outdated and the IT system is often out of order.





AmCham members believe that in overcoming the problem, a better IT system should be introduced. Likewise, the TA needs more qualified personnel, trained to provide high quality services.

The Government of Montenegro has made several changes in excise policy in the previous period. Excise tax rates are extremely high in Montenegro. Likewise, the policy is so often amended and there is a lack of communication between the Ministry of Finance and private companies.

Other industries, like telecommunication and insurance have suffered from introduction of new taxes on their services. The “1€” for telecommunication services was abolished in 2014. On the other hand, the tax on insurance premiums has a significant impact on an industry which is not much developed in Montenegro. Instead, the Government should adopt stimulating measures, in order to have more citizens insuring their assets and lives.

Projects Utilities Communal  
Fees Tourism **Development**  
Projects Investments Tourism  
Rights Regulation International  
**Investments** Municipalities  
Projects Construction Permits  
Tourism International Projects  
Local Cadasters **Cadaster**  
Planning Procedures Property  
Regulation Tourism Projects  
**Law Implementation** Local  
Cadasters Rights Investments  
Tourism Utilities Procedures  
Local Cadasters **Restitution**  
Regulation International  
Projects Utilities Real Estate  
**Construction Permits** Real  
Estate Administration Tourism  
Construction Local Cadasters  
Local **International Valuation**  
Property Rights Regulation  
Tourism Projects Investments  
**Administration** Communal  
Utilities Projects Construction  
Communal Local Cadasters

# Construction and Real Estate



A significant amount of investment, both foreign and domestic, is placed in the Montenegrin tourism industry. The majority of the real estate development projects are based in the south of the country and in the capital of Podgorica. There is continued interest for investments in this sector. However, there are many serious business barriers that remain despite many efforts to reform laws and procedures regulating development projects.

AmCham members are of the opinion that the legal framework is in order, but the implementation of

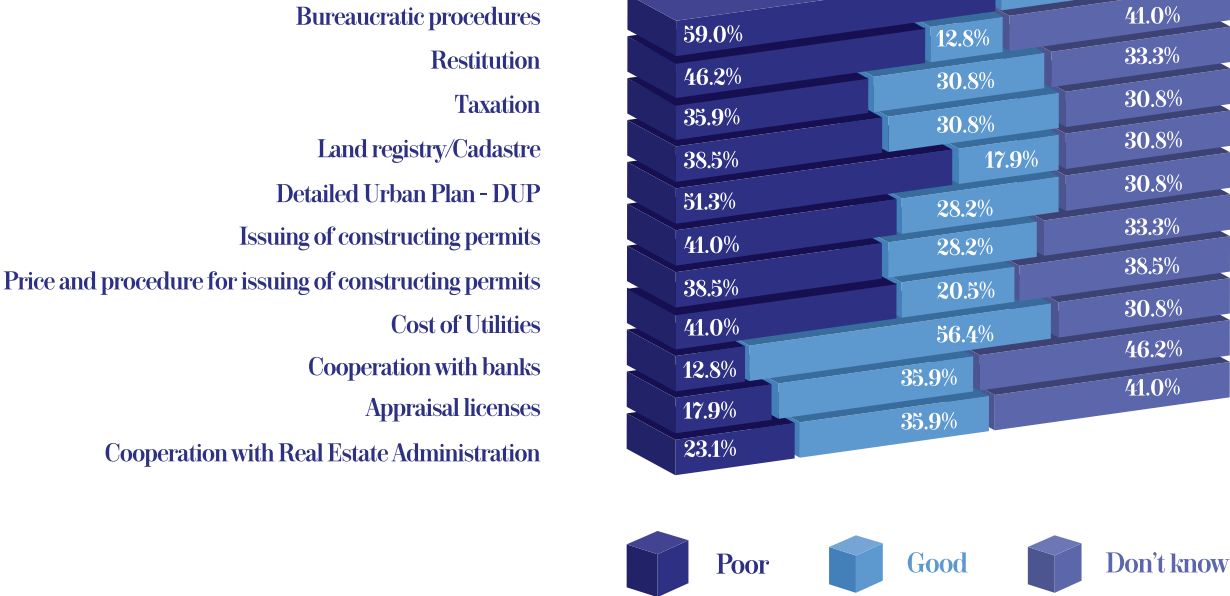
laws and stipulated procedures represents a serious issue for businesses in Montenegro. The Law on Construction and Spatial Planning stipulates realistic deadlines and procedures, which, on the other hand, are not implemented in practice. Likewise, there is a lack of accountability of civil servants who do not respect the deadlines stipulated by the Law.

The problems investors face are mostly caused by unsolved property rights and inefficiency of the Real Estate Administration and local cadasters.

*“AmCham members are of the opinion that the legal framework is in order, but the implementation of laws and stipulated procedures represents a serious issue for businesses in Montenegro.”*

## Construction and Real Estate

In the area of Construction and Real Estate please rate conditions for business for several items:



The most serious issues in the real estate sector in Montenegro are property issues and restitution. Many investors have significant problems with completing their urban lots. Hence, they face problems when applying for building permits and realizing their projects. The Law does not provide a legal basis for the situation when the owners of one urban lot (which usually consists of several cadaster lots) cannot reach an agreement about selling their property. It is often the case that minority owners have unrealistic requests when selling their property to investors or even refuse to sell their property, preventing the investor from realizing his plans. This issue should be resolved with the new Law on Construction and Spatial Planning, which is currently drafted by the Ministry of Sustainable Development and Tourism. Likewise, the procedure of restitution should be more precisely defined by the Law.

*“Bureaucratic procedures and skills and qualifications of civil servants on national and local level also pose problems for businesses.”*

Bureaucratic procedures and skills and qualifications of civil servants on national and local level also pose problems for businesses. This is particularly valid for the Real Estate Administration (REA). Investors in Montenegro are far from satisfied with the efficiency and work of the REA. Some of the issues they face with this institution include the unreliable data and the local cadasters which are not regularly updated. Likewise, it takes too much time for the cadasters to determine detailed urban plans and other documents important for realizing an investment. Our members state that the REA lacks the administrative capacities to be able to provide professional service for big international projects in Montenegro. This is particularly valid for local cadasters which cannot

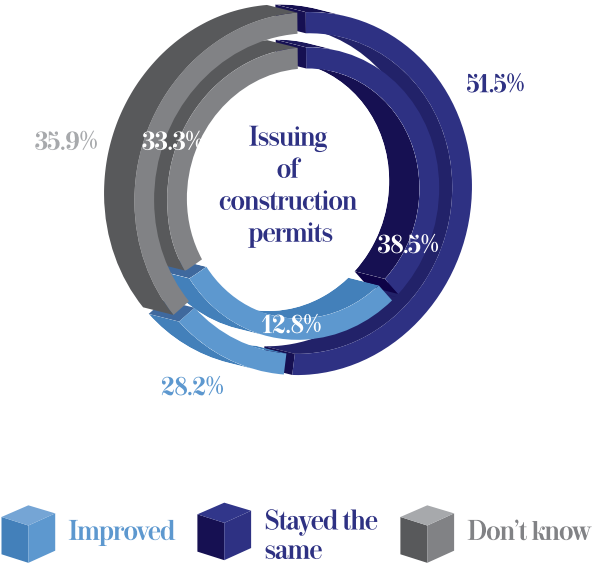
perform on the level that international investments require.

Another issue with the REA is the principle of trust in the cadaster data. This principle implies that the buyer of the property trusts that the data given by the cadaster or the previous owner are true. Currently, investors face problems with buying property and later discovering that the data does not correspond to the cadaster data. This causes uncertainties and prevents investors from deciding to invest in Montenegro.

### Issuing of construction permits and price and procedure for issuing of construction permits

For several items would you say that in the last 2 years conditions for conduct of business have worsened, stayed the same or improved?

Price and procedure for issuing of construction permits



*“AmCham's BCR 2012 stressed the communal fees as an important business barrier.”*

AmCham's BCR 2012 stressed the communal fees as an important business barrier. Still, these costs represent a serious issue for investors and developers in Montenegro. These taxes are charged for connecting the building/project to utilities. The most confusing fact is that these costs are the highest in city centers and town parts which are the most developed. The investors then raise questions about the purpose of this payment, which is very high.

Montenegrin municipalities are the strongest opponents to the idea of reducing or removing the communal fees. This is understandable, having in mind that communal fees represent a significant amount of their income. Nevertheless, the municipalities need to find a more suitable manner for having sustainable finances. The Government of

Montenegro proposed the abolishment of these fees by the year 2016. AmCham Montenegro had a significant part in advocating for this proposal, with playing an active part in the Governments Council for Improving the Business Environment, Regulatory and Structural Reforms.

*“Another good step towards improving the conditions for business in the real estate area is the introduction of international valuation standards.”*

Finally, another good step towards improving the conditions for business in the real estate area is the introduction of international valuation standards. The procedure for adopting the Law on Accounting is undergoing. The introduction of international valuation standards will significantly ease the procedures for obtaining bank loans for investors and prevent any possible frauds in the real estate sector.



Technology Important Roads  
Business Railways Airports  
Important Energy Supply  
Challenges Development  
Important **Transportation**  
Telecommunication Roads  
Airports Business Railways  
Energy Supply Important  
Development Challenges  
**Regional Connectivity** Roads  
Supply Telecommunication  
Business Railways Airports  
Important Energy Supply  
Challenges Development  
Business **Waste Treatment**  
Telecommunication Roads  
Airports Business Railways  
Energy Supply Important  
Development Challenges  
**Connectivity** Roads Airports  
Business Railways Energy  
Supply Important Challenges  
Roads Telecommunication  
Business Railways Airports  
Important **Environment**

# Infrastructure

Well-developed infrastructure is very important for doing business and investing in a certain area. Montenegrin Government has much work in that respect.

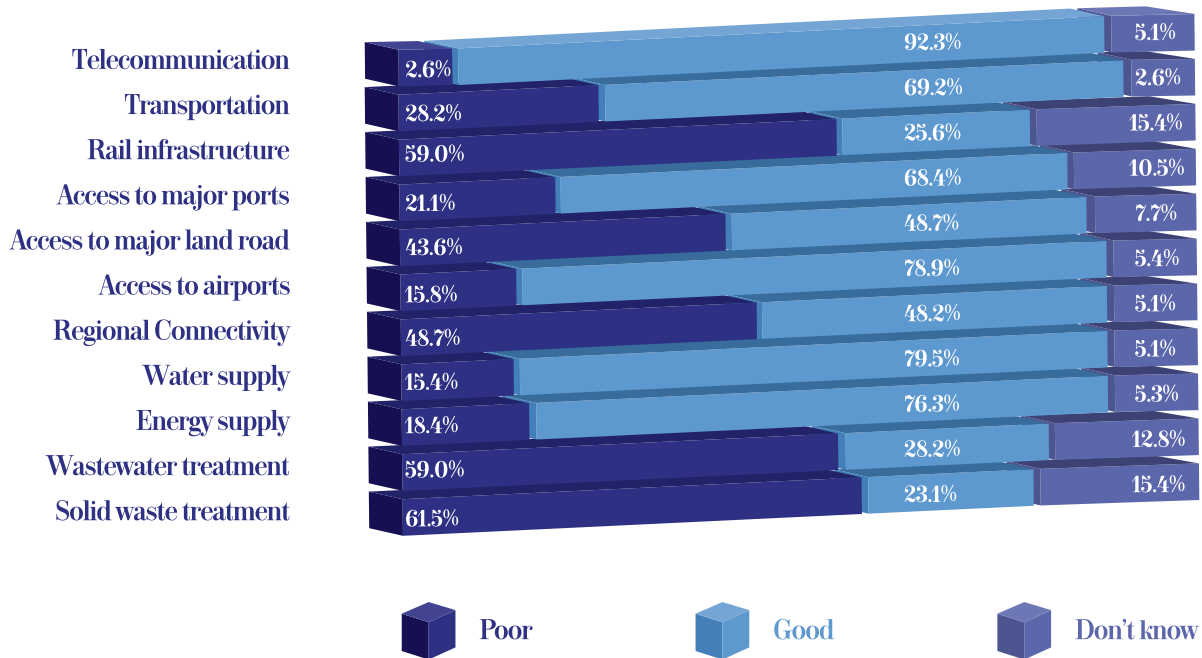
The majority of AmCham members are satisfied with the telecommunication infrastructure, i.e. 92% of surveyed members. On the other hand, rail infrastructure and waste management raises concerns.

Both solid waste and wastewater treatment is seen by about 60% of surveyed members as poor. Members strongly support infrastructure development in this area. AmCham stressed its members' concerns about the environment protection and preservation in both previous reports (BCR 2010 and BCR 2012). This is particularly important due to the fact that the environment is one of the reasons that investors decide to invest in Montenegro.

## Infrastructure Conditions for Business

In the area of Infrastructure please rate conditions for business for several items:

*“Solid waste and wastewater treatment is seen by about 60% of surveyed members as poor.”*



*“Members believe that roads must be improved, as well as the regional connectivity in order to enhance trade and commercial development.”*

When discussing the changes in the previous 2 years, AmCham members feel that there has been little or no change in the area of infrastructure. Members believe that roads must be improved, as well as the regional connectivity in order to enhance trade and commercial development. Regional initiatives, such as the Adriatic-Ionian motorway will significantly contribute to improving the conditions for businesses.

Factor SME **Business Plans**  
Procedures Development  
Business Plans Procedures  
Special Procurements Business  
**Liquidity** Factor Business  
Plans SME Development  
Conditions Business Plans  
SME Special Procurements  
Factor **Financial Sources**  
Business Plans Development  
Special Procurements SME  
Factor Business Conditions  
**Public Procurement** SME  
Development Business Plans  
Special Procurements SME  
Procedures Business Plans  
Development Business **Price**  
Plans Special Procurements  
Procedures Business Plans  
Special Procurements SME  
**Competition** Development  
Procedures Business Plans  
Special Procurements SME  
Procedures Business Plans  
Factor Business Conditions

# Additional Important Conditions for Business



*“AmCham members are concerned about the liquidity of small and medium enterprises (SME).”*

AmCham members are concerned about the liquidity of small and medium enterprises (SME), with more than 70% members being very or somewhat unsatisfied with the liquidity of SME's. Economic development contributes heavily to this issue as well as the lack of financial sources and unrealistic business plans.

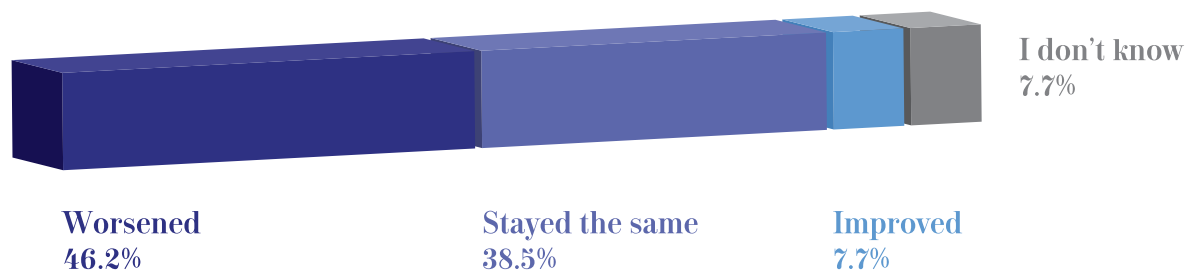
*“With regards to the public procurement process, little has changed in the previous two years as far as members are concerned.”*

With regards to the public procurement process, little has changed in the previous two years as far as members are concerned. The legislation amendments have been put on the public discussion in 2014, but they have not still been officially adopted.



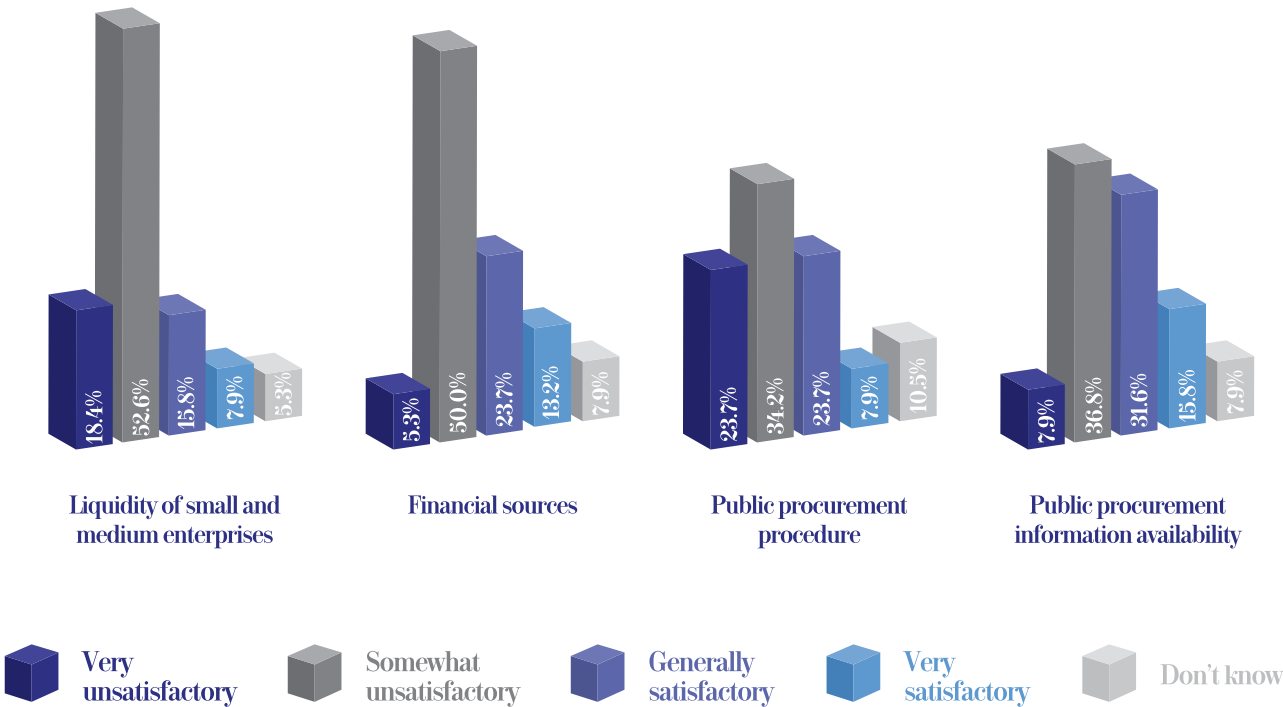
## Liquidity of small and medium enterprises

For several items would you say that in the last 2 years conditions for business have worsened, stayed the same or improved?



# Other conditions for business

Please rate conditions for business for the listed topics:

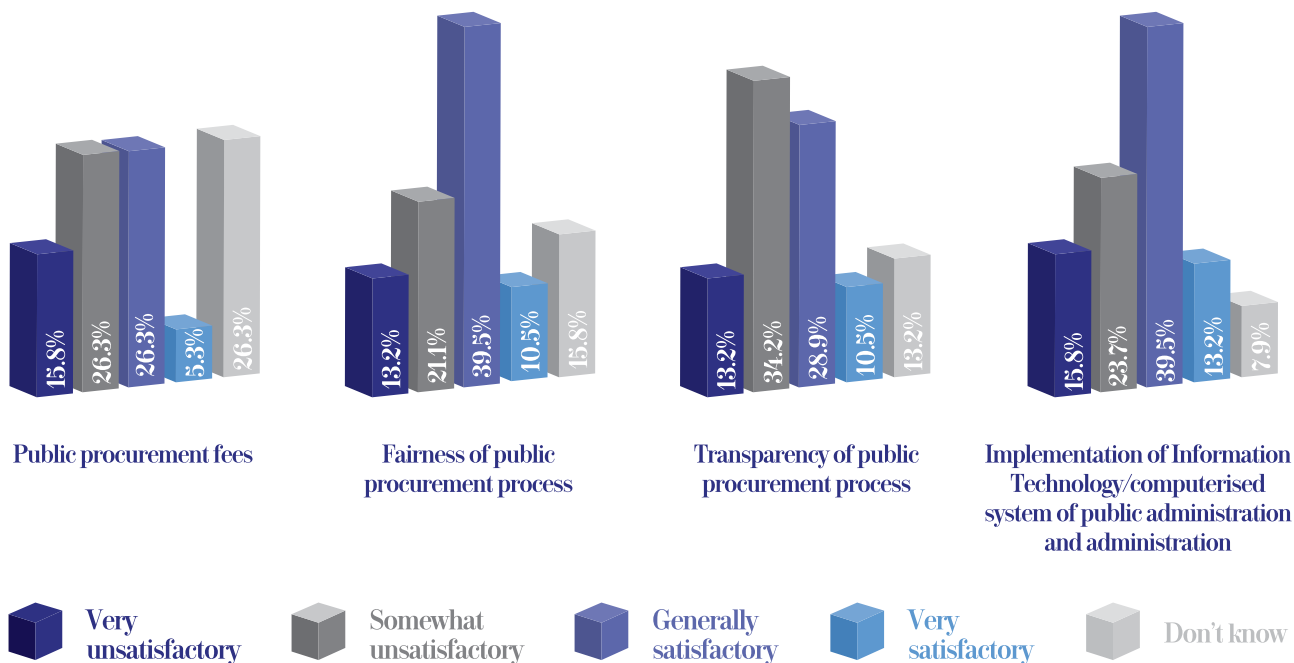


AmCham members are generally not satisfied with the public procurement procedure, with about 58% rating them as very or somewhat unsatisfactory. Likewise, our members perceive public procurement fees as very high, i.e. unsatisfactory.



## Other conditions for business

Please rate conditions for business for the listed topics:



*“The same criteria cannot be used for procurements of medical equipment, construction procurements or for supplying the state authorities with office material.”*

One of the main issues that our members find problematic with the public procurement process is the fact that procurements are not differentiated. For example, the same criteria cannot be used for procurements of medical equipment, construction procurements or for supplying the state authorities with office material. Likewise, the price should not be the main criteria. It should, of course, be taken into consideration, but it should not be the predominant factor when deciding upon the best bid.

*“Procurement planning should be improved, in particular medical procurement.”*

Procurement planning should be improved, in particular medical procurement. AmCham members are satisfied with the regulation in respect to procuring drugs and medicines, but they emphasize the problems that arise from bad planning. This should be improved in the following period in order to have medicine available to patients in Montenegro in a timely manner.

# Conclusion

Montenegro is an attractive destination for investments. The geographical position of the country, being on the doorstep of the European Union and gradually implementing EU's regulation does contribute to more interest and potential investments. Even though much does not change in a 2-year scope, when analyzing a longer period, the picture is different. In the period of eight years, since its independence, Montenegro has undergone some serious reforms. Still, there is a lot of work to be done in order to make the country more attractive to investors. More importantly, Montenegro is competing on the world investment market and it has to change fast in order to stay competitive and attract much needed foreign investments.

In order to improve the business climate in the country, AmCham Montenegro suggests the following:

1. The judicial system must be improved. Courts must be more efficient and resolve disputes in a more efficient and timely manner. The laws have to be more clear and concise, with the private sector providing their input when drafting certain laws that will seriously affect their business.
2. The Government bureaucracy has to be more efficient and provide for a more professional service to citizens and companies. Redundant bureaucratic procedures have to be made simpler, with fewer steps necessary for obtaining permissions, documents, etc.
3. A new Labor Law has to be adopted. The new Labor Law should be the most important legislation, stipulating all rights and obligations for

both employers and employees. This legislation should be more flexible and concise, leaving no space for misuse from both sides. Likewise, a comprehensive education strategy should be adopted, in order to improve the education and skills of labor in Montenegro. Likewise, compulsory practices and internships should to be introduced in order to train the Montenegrin youth and prepare them for the labor market. The private sector should be promoted as a more attractive work environment for the youngsters in Montenegro.

4. Montenegrin Tax Policy should be more consistent and predictable. When introducing changes, a reasonable period for implementation should be provided. In this manner, both the Tax Authority and private entities can adapt to the changes. The Tax Authority should be made more efficient, with better administrative capacities and modern IT system. The private sector should be more involved when drafting laws in this area, as they are the ones mostly affected by these policies.

5. The implementation of the Law on Construction and Spatial Planning should be improved. The Real Estate Authority should be more efficient. Local cadasters have to be more reliable and provide for a more efficient service to investors. The issue of property rights has to be resolved as soon as possible, in order to ease the realizations of plans and investments in the country.

6. The infrastructure priority for the Government should be wastewater and solid waste treatment facilities. The environment is one of the principle assets of this country and it has to be preserved.





AMERICAN CHAMBER OF COMMERCE IN MONTENEGRO  
AMERIČKA PRIVREDNA KOMORA U CRNOJ GORI

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