



## Decree on fostering direct investment

The Decree outlines the financial incentives for new investment in Montenegro and aims to improve the business environment and enhance the competitiveness of the economy. The Decree aims to attract new investors, increase employment, in particular in the less developed areas, and balance out regional disparities. Availability of adequate incentives will directly influence the investment-related decisions of the potential investors considering positioning themselves on the Montenegrin market.

The investors implementing investment projects in Montenegro are eligible for the financial incentives approved by the Government of Montenegro.

The funds to incentivize investments are allocated following a public announcement. Eligible investment projects include those of minimum worth of €500,000 which generate at least 20 new jobs over the course of three years, from the date of signing the agreement on the use of funds (in the Capital City and the southern region), or those worth at least €250,000 which generate at least 10 new jobs (in the northern and central region, excluding the Capital City). The incentives range from €3,000 to €10,000 per new job. In addition, any capital investment in excess of €10 million and generating at least 50 new jobs is eligible for incentives of up to 17% of its worth. The Decree also envisages the possibility to reimburse the costs of construction of the infrastructure required to implement the investment project.

According to the Decree, foreign investors become eligible to access the funds if they set up a company in Montenegro.

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

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

Funds amounting to up to 17% of the total value of the investment project may be allocated for capital investments without prior scoring procedure, in line with the Decree.

More information on the Decree on fostering direct investments is available at: [http://www.srp.gov.me/naslovna/uredba\\_investicije/156942/Nova-Uredba-o-podsticanju-direktnih-investicija.html](http://www.srp.gov.me/naslovna/uredba_investicije/156942/Nova-Uredba-o-podsticanju-direktnih-investicija.html)

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

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

Large company is any company with more than 250 employees and total annual balance sheet above €43 mil.

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

At the meeting held on 29 December 2011, the Government of Montenegro adopted this Programme, which included the plan for development of Business Zones. Business Zones are unique entities at the territories of the respective local governments; they are partly or fully connected to the utilities and potential investors gain access, in addition to shared premises, to additional tax and administrative reliefs both at the national and local level. The project aims to incentivize production industries on the land plots with available connections to utilities, enhance employment in the less developed local governments, and activate the capital of the domestic and foreign investors who can identify interest in the implementation and advancement of this project at considerably lower costs.

The Decree on Business Zones has been adopted; it categorizes them as either Business Zone of Strategic Importance, designated and managed by the Government of Montenegro, or Business Zones of Local Importance, designated and managed by the local governments. The Decree also defines the model of business zone designation, establishment and management, entry requirements, eligible activities, connections to utilities, and national incentives.

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

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

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

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

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## **Cluster Development Programme in Montenegro**

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

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

The Programme aims to provide financial support to the entrepreneurs and 100% privately owned MSMEs within clusters through investment in tangible or intangible assets or operational costs, in order to strengthen the capacities of clusters and their positioning in the local and international market. This financial support scheme is based on reimbursement of a certain share of costs.

The Ministry of Economy will cover up to 65% of the eligible costs of the purchase value of equipment, excluding VAT, for the clusters operating in the less developed local governments, or up to 50% of the eligible costs for the clusters from other regions; the maximum amount per applicant is €10,000. The remaining 35% or 50% of the costs of purchase of equipment are covered by the applicants themselves. In line with the reimbursement scheme, the enterprise covers 100% of all the costs of purchase of equipment in question and gets reimbursed upon submitting relevant documents.

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

- Agricultural production and processing,
- Wood processing,
- Other manufacturing activities (except those not included in the Programme).

The Investment and Development Fund of Montenegro implements the Programme through direct loans (<http://www.irfcg.me/me/2015-01-13-12-25-17/program-podrske-klasterima>), using the European Investment Bank funds for this purpose. Loans are available at the interest rate lower by 0.50 % than the rate presented below.

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Loan terms:

- Maximum amount of up to €500,000 (exceptionally, the IDF Board of Directors may approve a larger amount, in line with the specific criteria);
- Minimum amount of €10,000;
- 00% annual interest calculated pro rata;
- Repayment term of 8 years (incl. grace period);
- Grace period of up to 2 years.

Specific terms:

- The projects implemented in the northern region of the country are approved the 3.50% interest annual interest calculated pro rata.

***Programme for Enhancing Regional and Local Competitiveness through Harmonization with International Standards of Business for the period 2014-2016***

The Programme aims to support entrepreneurs and SMEs, in particular the ones from the less developed municipalities and the northern region, to enhance their competitiveness through harmonization with the international standards related to products, management systems, staff, testing, control and certification and support for conformity assessment accreditation.

Within Component I, the 2014-2016 Programme reimburses up to 70% of the eligible costs of accreditation of the companies accredited for conformity assessment, for the standard series MEST EN ISO/IEC 17000 (17025, 17020, 17021, 17065, 17024) – accreditation of metrology and test laboratories, certification bodies, control bodies etc. The costs of accreditation for the conformity assessment bodies will be reimbursed only if the company is accredited by the Accreditation Body of Montenegro.

Component II of the 2014-2016 Programme reimburses up to 70% of the eligible costs for voluntary implementation/introduction of the following standards (with certification and re-certification): a) MEST EN ISO 9001 series b) MEST ISO 14001 standard c) MEST OHSAS 18000 series d) HALAL instructions e) MEST EN 22000 standard. Component II reimburses the costs of introduction or implementation of standards, including: hiring of consultants; assessment of situation – relations between processes and/or risk analysis with critical points, for HACCP and MEST ISO 22000; development of documents.

The organizational-operational segment of the Programme is managed by the Ministry of Economy.

All the incentives presented above are available to companies provided that all the set requirements have been met.

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## ***Montenegro's Industrial Policy by 2020***

Aiming to enhance innovation among the SMEs working in the processing industry and modernize industry, the Ministry of Economy developed two state-aid programmes, which are currently being implemented.

### ***Programme to enhance innovation in SMEs in 2016***

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

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

### ***Pilot project – Programme to support industry modernization***

Bearing in mind that the existing range and type of equipment used in the enterprises, the situation and developments on the market hinder a long-term increase in production, the Government of Montenegro adopted this Pilot Programme on 17 June 2016. It aims to strengthen competitiveness of companies and upgrade business operation, productivity and profitability by investing in equipment.

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

Such advanced level of equipment and implementation of new technologies will enable modernization of production processes, efficient use of available resources, development of new products and services, and generation of new jobs.

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