CURRENT SITUATION FOR INVESTMENTS IN TOURISM IN MONTENEGRO
- A QUALITATIVE GAP ANALYSIS -

2003 → 2005

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TABLE OF CONTENTS

1 EXECUTIVE SUMMARY .................................................. 6

2 INITIAL SITUATION, OBJECTIVES AND APPROACH ............... 7

3 RESULTS OF THE STUDY .................................................. 9
   3.1 Indicator I: Development of investments in tourism, 2003/2005 9
   3.2 Indicator II: Performance levels 2005 for the recommendations 2003 12
   3.2.1 Assessment of high-priority fields of activity 12
   3.2.2 Barriers to investment, 2003/2005 17
   3.2.3 Incentive structures and regulatory measures, 2003/2005 21
   3.2.4 Rankings in international indices, 2003/2005 27
   3.3 Overall assessment: position among competitors, 2003/2005 32

4 RECOMMENDATIONS FOR ACTION FROM 2005 ....................... 34
   4.1 Objectives and attraction policies: milestones and critical factors for success 34
   4.2 Prioritizing investment-process-oriented recommendations for action (AIDA) 40
   4.2.1 Attraction (attention phase) 42
   4.2.2 Information phase 44
   4.2.3 Decision 48
   4.2.4 Action (implementation phase and operations) 53
   4.3 Conclusion and outlook 58

Appendix 1: Background: the development of tourism in Montenegro until November 2003 61
Appendix 2: Background: policy goals for attracting investments in tourism 65
Appendix 3: Tourism statistics 2002 - 2004 66
Appendix 3: Attractiveness for investments in tourism – 2003 evaluation 68
Appendix 4: Quantity, quality and efficiency of incentives offered – 2003/2005 evaluation 68
Appendix 5: Doing Business 2005 – evaluation of selected areas 69
Appendix 7: Bilateral investment treaties and double taxation treaties 72
Appendix 8: Excerpt from the 2004 World Investment Report: The Shift Towards Services 74
Appendix 9: Companies and organizations interviewed 75
Appendix 10: References 76
FIGURES AND TABLES

Figure 1: Hotels by category 2005 – 175 Hotels
Figure 2: Performance levels for fields of activity I - III, recommended in 2003
Figure 3: Country rankings in the Corruption Perceptions Index for 2003 and 2005
Figure 4: Country ratings in the 2005 Doing Business index – Getting Credit
Figure 5: ICA sector comparison – Serbia and Montenegro (2003) & Slovenia (2002)
Figure 6: Montenegro in OECD Monitoring "Investment Compact for SEE" (2004)
Figure 7: Position among competitors in 2003/2005
Figure 8: Effectiveness and efficiency in the investment process
Figure 9: Priorities in the investment process
Figure 10: Process model for legal impact assessment for investments in tourism
Figure 11: Montenegro's potential demand according to number of overnight stays in 1990, 2002/2004
Figure 12: Hotels by category 2003 – 94 Hotels
Figure 13: Locations for greenfield investments, the coast of Montenegro
Figure 14: Arrivals 2002 - 2004
Figure 15: Overnight stays 2002 - 2004
Figure 16: Income, Travel and Tourism Economy 2002 - 2004
Figure 17: Effect on employment, Travel and Tourism Economy 2002 - 2004
Figure 18: Attractiveness for investments in tourism – 2003 evaluation
Figure 19: Quantity, quality and efficiency of incentives offered – 2003/2005 evaluation
Figure 20: Country ratings in the 2005 Doing Business index – Starting a Business
Figure 21: Country ratings in the 2005 Doing Business index – Registering Property
Figure 22: Country ratings in the 2005 Doing Business index – Enforcing Contracts
Figure 23: GDP, Government Expenditure and total investment in tourism, 2002 - 2004

Table 1: Privatized hotels as of May 2005
Table 2: Status of barriers to investment, 2003/2005
Table 3: Infrastructure incentives, 2003/2005
Table 4: Legal and administrative framework, 2003/2005
Table 5: Direct measures and incentives, 2003/2005
Table 6: Fiscal measures and incentives, 2003/2005
Table 7: Organizational and other support, 2003/2005
Table 8: Incentives and measures for human resources, 2003/2005
Table 9: Regulatory incentives, 2003/2005
Table 10: Policy goals for attracting investments in tourism, milestones and success factors from 2005 on
Table 11: Current potential for building hotels, 2005
Table 12: Bilateral investment treaties with Serbia and Montenegro concluded between 1995 and 2005
Table 13: Double taxation treaties with Serbia and Montenegro concluded between 1995 and 2005
LIST OF ABBREVIATIONS

- Agencija - Agency of Montenegro for Economic Restructuring and Foreign Investments
- B.O.T. - Build Operate Transfer
- B2B - Business-to-Business
- B2C - Business-to-Consumer
- GDP - Gross domestic product
- BMZ - Federal Ministry for Economic Cooperation and Development
- CAMP - Coastal Area Management Plan
- CASP - Coastal Area Spatial Plan
- CEED - Center for Entrepreneurship and Economic Development
- CIA - Central Intelligence Agency
- CIM - Centrum für internationale Migration und Entwicklung (Center for International Migration and Development)
- CPI - Corruption Perception Index
- CTT - Critical Time Bound Target
- DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH
- EBRD - European Bank for Reconstruction and Development
- ERA-RR - Economic Reform Agenda for Montenegro, 2002-07 - Report and Recommendations
- EU - European Union
- ECJ - European Court of Justice
- FDI - Foreign Direct Investment
- FIAS - Foreign Investment Advisory Service
- GDS - Global distribution system
- GRECO - Groupe d’Etats contre la corruption
- GTZ - Gesellschaft für Technische Zusammenarbeit GmbH
- ICA - Investment Climate Assessment
- IPA - Investment Promotion Agency
- IT - Information technology
- IMF - International Monetary Fund
- S - Short term
- KAP - Kombinat Aluminijuma Podgorica
- KfW - KfW Banking Group
- SME - Small- and medium-sized enterprises
- M - Medium term
- MIPA - Montenegrin Investment Promotion Agency
- VAT - Value-added tax
- NGO - Non Governmental Organization
- NMS - New Member States (EU)
- NTO - National Tourism Organisation
- OECD - Organization for Economic Cooperation and Development
- PPP - Private Public Partnership
- REC - Real Estate Cadastre
- ROI - Return On Investment
- SAA - Stabilisation and Association Agreement
- SCEPP - Savetodavni Centar za Ekonomiska i Pravna Pitanja
- SEE - South East Europe
- SSC - Site Selection Consulting
- TAIEX - Technical Assistance and Information Exchange
- TSA - Tourism Satellite Account
- UNCTAD - United Nations Conference on Trade and Development
- UNEP - United Nations Environment Programme
- UNESCO - United Nations Educational, Scientific and Cultural Organization
- USP - Unique Selling Proposition
- EIA - Environmental Impact Assessment
- VAT - Value Added Tax
- WTO - World Trade Organization
- WTTC - World Travel & Tourism Council
1 EXECUTIVE SUMMARY

Using the most recent\(^1\) analysis and recommended measures, this study has as its **objective** to help Montenegro to:

- realistically assess current efforts to obtain foreign investments in tourism,
- become a global competitor for tourism investments and continue to reduce barriers in a systematic fashion,
- and to achieve long-term tourism policy goals and optimize its use of resources.

When the **initial situation** was analyzed in 2003, Montenegro was found to have the greatest potential for tourism of all the countries studied. However, that potential alone was not enough to attract strategic investments. This lack of investment was mainly due to major deficits in the country's basic framework and general conditions. According to benchmarking recommendations, Montenegro needed to quickly improve its ability to compete with other countries.

In May 2005, two key indicators\(^2\) showed that overall Montenegro is on the road to success. The republic has improved the way it is facing the long-term goals of its tourism strategy and development policy for FDI (foreign direct investment). The country has begun to act in the interests of investors and follow the 2003 recommendations. A **comparative analysis of the tourism sector** shows that affected companies find the consistency and predictability (among other factors) of regulations to be better than in other sectors.\(^3\) Some success can be reported in **such key fields as:**

- Legislation and administrative processes (e.g., Economic Reform Agenda 2002 - 2007, OECD monitoring)
- Improvement of planning stability and investment protection (e.g., Land Register Project, Coastal Area Spatial Plan)
- Improved transparency and increased decentralization (e.g., financing of municipal tasks, PPP)
- Active support for investment and reduction of barriers (e.g., 9% tax on profits, improved infrastructure)
- Opportunities for further international integration (e.g., adoption of the EU's *Acquis Communautaire*)

At the same time, there is a need to **improve focus**, and consistently **implement** and **communicate** achievements. To meet these needs, the study provides an action model\(^4\) based on a typical investment process. In this model, an investor's **assessment focus** shifts with increasing risks as project plans become more concrete. To establish appropriate priorities, Montenegro has to prioritize its focus in the reverse order: good investor marketing (ideally using modern investor relationship management) is important; however, the most effective method is to accelerate **local implementation**, especially in terms of ownership structures, enforcement of current laws, infrastructure, workable systems for controlling taxes and environmental protection. **Efficient structures** that prepare for and support investments are another requirement. At the moment, Montenegro's greatest challenge is to develop sustainable systems and structures and provide the **human resources** necessary for implementing them.

In addition to **closing implementation gaps**, the country must also keep track of **long-term goals**. Tourism policies must receive broad support and be continuous because of their economic importance and a strong need to secure **greenfield investments**. As a result, Montenegro must use the **Master Plan** to systematically **integrate FDI into development strategies** for tourism and national policies.\(^5\) With the appropriate preparation, existing **risks** for tourism-related FDI can be kept within **reasonable limits** in relation to the recent increase in **opportunities** in the market as a whole. According to WTTC projections, Montenegro is the **destination with the largest percentage growth**. However, in the **worldwide competition for FDI**, this is only one factor among many.

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\(^1\) Comparison with Bearing Point’s 2003 benchmark analysis of seven other countries regarding incentives and general conditions for tourism investments. Both studies are based on a combination of primary and secondary research.

\(^2\) I – Development of investments in tourism II – Degree to which 34 recommendations for action from 2003 have been realized.

\(^3\) The World Bank: Investment Climate Assessment Serbia and Montenegro, in: http://rru.worldbank.org (2003 survey of 837 companies), excerpts of this survey are shown in Figure 5.

\(^4\) The action model contains a four-part recommendation catalog for each stage of the investment process.

\(^5\) In 2000, 79% of Greek hotels were in the 3 to 5 star categories. In Montenegro, 44% were in these categories (as of May 2005).
2 INITIAL SITUATION, OBJECTIVES AND APPROACH

Since 2000, DEG has been managing a project entitled “Integrated Overall Regional Approach to Reorganizing and Developing the Tourist Industry in Croatia and Montenegro” on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). Within the framework of this general approach, the DEG advises both Governments by preparing Tourism Master Plans and corresponding strategic and operational approaches for action. As essential groundwork during the transitional phase, a promising destination must increasingly attract international investors in a targeted way by employing a holistic strategy for the tourism sector and improving service chains.

The objective of this study is to use the BearingPoint analysis from 2003 to examine the current situation by comparing the actual situation in Montenegro with the plan, i.e., the results and recommendations of the 2003 analysis. At the end of DEG project, an updated action catalog will help Montenegro to do the following:

- Realistically assess the current situation
- Become a global competitor for investors in tourism
- Continue to break down barriers in a targeted way
- Achieve long-term tourism policy goals
- Optimize use of financial means to achieve these goals

As a preparatory contribution towards attracting investors, BearingPoint carried out a comparative analysis for Croatia between January and April 2003. In September 2003 Montenegro was also included in the comparison using the existing study in order to obtain an independent evaluation of the current environment for investment in tourism.

The study mainly focused on the general conditions and incentives granted by the state for international and domestic investors in Bulgaria, Greece, Croatia, Montenegro, Spain, Tunisia, Turkey and Hungary. Best practices were described after assessing the success of these measures and benchmarking incentive packages in relation to the macroeconomic importance of the tourism sector.

Specific conclusions and recommendations for actions were made based on the results of the investigation. Montenegro's position in international competition for foreign direct investment (FDI) was weak and in need of improvement. The country had to close the gap – still considerable in 2003 – between its natural attractiveness as a destination and the dissatisfaction of investors with its general conditions. The main reason for this was the country's great dependency on direct and indirect income from tourism.

Montenegro is still undergoing internal and external transitions. For this reason, any comparisons and assessments must take into account the country's special conditions as well as questions of feasibility. At the same time, global competition for FDI cannot be ignored.

The study deals mainly with the following questions:

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Current Situation for Investments in Tourism in Montenegro
- A qualitative Gap Analysis -

Initial Situation, Objectives and Approach

- Since 2003, has Montenegro continued to develop in the following ways
  - with regard to long-term objectives of policies for attracting investments in tourism?
  - from the point of view of investors?
  - with regard to the actions recommended in 2003?
- Has Montenegro increased its competitiveness in the tourism industry, especially with regard to its goal of attracting international investors in the hotel industry?
- Is the country on the road to success or is there a need for corrective measures or better focus?
- Which measures has the country implemented and which measures are forthcoming?
- Apart from following the recommendations for action already made, has Montenegro introduced other political measures to promote tourism and support the country's goals?
- How can Montenegro implement these goals faster?
- Are there actions/plans in the above-mentioned areas that might lessen the country's appeal for FDI in tourism?
- What experience do the investors have (from the attraction, information and decision-making phases right through to project implementation and commencement)?
- What kind of potential is there for greenfield investment projects? Must special requirements be met in order to implement such projects?

As a result, the focus will still be on increasing Montenegro's competitiveness for international investments in tourism. The approach was chosen to mainly produce qualitative results. BearingPoint secured suitable contacts for interviews with the support of DEG and the Tourism Ministry. Personal, partially standardized interviews (between March and May 2005) with the following key groups played a major role in achieving results:

- Foreign and domestic as well as currently active and potential investors (hotel investments, project development, financing, tour operation).
- International organizations that support Montenegro's development in local projects
- Domestic institutions

The insights gained are rounded off by a study of selected international and Montenegrin secondary sources. Statistics provide background information and supporting evidence. The analysis includes a re-evaluation of the situation for investments in tourism. It also contains prioritized recommendations for actions with the objective of closing existing gaps.

Because it covers such a wide range of topics, in many places this document uses practical information and examples. Such examples are not meant to deal with each topic (e.g., legislation) completely. Instead, they are used to convey the opinions of those interviewed, show practical experience and demonstrate results found in secondary literature. The examples serve to make the subject more tangible. For some topics, countless findings were already available, whereas for other topics special investigations will be useful. More than ever, it is up to all parties and stakeholders in the change process to create and implement positive conditions for investments in tourism.

We extend special thanks to all those interviewed. They made this analysis possible by sharing with us their time and valuable experience. We would also like to thank the employees of the Ministries in Podgorica as it was always a pleasure to collaborate with them.
3 RESULTS OF THE STUDY

3.1 Indicator I: Development of investments in tourism, 2003/2005

Until 2003, Montenegro's great potential for tourism was not enough to ensure success with FDI. Although OECD monitoring in March 2003 rated tourism as the sector with the greatest potential, in 2002, only one of the top five FDIs was related to tourism. Montenegro's rating between Under Performer (poorer countries with macroeconomic problems, those still in the beginning stages of transition) and Below Potential (relatively high potential, difficult conditions, and low performance) described the country's situation.

In the study, Montenegro came in last among other destinations with a direct need for improvement measures. Expectations, which were based on the country's natural attractiveness as a tourist destination and its strong dependency on foreign guests and investors, were not met. There was a lack of effective support for domestic and foreign direct investments in tourism.

The situation has certainly not changed completely, but the mood is different. Even though the areas in need of change have not been transformed into “an investor's paradise”, visible progress has been made and there is a positive, hopeful atmosphere among current investors. The Government is supporting investors within its limited financial scope and capabilities. In the OECD monitoring report of April 2004, four of the top five FDIs were in the hotel industry. The privatization process has gained momentum and there is increasing demand from abroad. The focus is shifting toward greenfield investments (hotels and marinas) as specified in the Master Plan.

This all took place in an environment in which FDI was stagnating or in decline around the world. From a German perspective, it also happened at a challenging time for the tourism market. In 2004, this trend began to change, and the market is expected to receive better stimulus in 2005/2006. The situation in the hotel industry in Germany partially explains the lack of German investment in Montenegro and elsewhere as conditions in the hotel investment market have been unfavorable:

- Banks have been selective in financing hotel projects
- Some imbalances between supply and demand
- Relatively low level of earnings in the German hotel industry, caused by:
  - Strong dependence on the domestic market (about 86%), at the same time characterized by
  - Price-sensitivity of domestic customers and guests, especially business travelers
  - General consumer cautiousness
  - Drop in RevPar (revenue per available room)
  - High supply levels, partial surpluses

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8 World Investment Report 2004, see also appendix 8 as well as Hunya, Gábor: Database on Foreign Direct Investment in Central and Eastern Europe with Special Attention to Austrian FDI Activities in this Region, The Vienna Institute for International Economic Studies (WIIW), Vienna, July 2004
9 TUI AG, Dr. Michael Frenzel: speech at the annual shareholders' meeting, Hannover, Germany 11 May 2005, and: "Rewe Hotels expand", in www.fvw.de, 05/18/2005
● Hotel building boom in the 90s, triggered by:
  − Tax relief and subsidies
  − Improvements in quality and increased competitiveness of old hotels in Eastern Germany
  − Shift in investment focus from 4-5 star hotels to the 3-star category
  − Fewer lease obligations, more operator and licensing agreements

● New contract models with variable, revenue-based components are replacing the traditional fixed lease agreements.\textsuperscript{10}

The stagnation in German tourism (travel propensity)\textsuperscript{11} and reluctance of tour operators to devote themselves to destinations with large-scale direct investments had intensive effects on Montenegro. As forecasted in the 2003 BearingPoint study, the sector took two years to return to summer 2001 levels.

The competition for flagship investors is not going to decrease in the future. New destinations are emerging – some with more, and some with less sophisticated ways of attracting FDI.\textsuperscript{12}

On the positive side, new EU member states (EU NMS) that previously only received FDI are increasingly becoming active direct investors. In 2004, FDI outflow from these states mainly went to South Eastern Europe and reached €2.3 billion. As a result, the new EU member states are becoming a tangible economic force in the region.\textsuperscript{13} Montenegro's tourist industry has also benefited from this trend.

The following is a list of major hotel privatizations undertaken during 2003 - 2004:

<table>
<thead>
<tr>
<th>No.</th>
<th>Hotel</th>
<th>Location</th>
<th>No.</th>
<th>Hotel</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bellevue</td>
<td>Becici</td>
<td>11</td>
<td>Maestral</td>
<td>Milocer</td>
</tr>
<tr>
<td>2</td>
<td>Mediteran</td>
<td>Becici</td>
<td>12</td>
<td>Rivijera</td>
<td>Njivice/Herceg Novi</td>
</tr>
<tr>
<td>3</td>
<td>Montenegro</td>
<td>Becici</td>
<td>13</td>
<td>As</td>
<td>Perazica Do</td>
</tr>
<tr>
<td>4</td>
<td>Montenegro A</td>
<td>Becici</td>
<td>14</td>
<td>4. Jul</td>
<td>Petrovac</td>
</tr>
<tr>
<td>5</td>
<td>Panorama</td>
<td>Becici</td>
<td>15</td>
<td>Rivijera</td>
<td>Petrovac</td>
</tr>
<tr>
<td>6</td>
<td>Splendid</td>
<td>Becici</td>
<td>16</td>
<td>Podgorica</td>
<td>Podgorica</td>
</tr>
<tr>
<td>7</td>
<td>Avala</td>
<td>Budva</td>
<td>17</td>
<td>Otrant</td>
<td>Ulcinj</td>
</tr>
<tr>
<td>8</td>
<td>Centar</td>
<td>Herceg Novi</td>
<td>18</td>
<td>Jezera</td>
<td>Žabljak</td>
</tr>
<tr>
<td>9</td>
<td>Topla</td>
<td>Herceg Novi</td>
<td>19</td>
<td>Žabljak</td>
<td>Žabljak</td>
</tr>
<tr>
<td>10</td>
<td>Bjelasica</td>
<td>Kolašin</td>
<td>20</td>
<td>HTP Mimoza</td>
<td>Tivat</td>
</tr>
</tbody>
</table>

Table 1: Privatized hotels as of May 2005

The 20 privatized properties listed above – some of which are being completely rebuilt – now account for a total investment of approximately 120 million euros (purchase price and agreed investments) and are currently providing a new or updated basis for the tourism offer. From 2005 to 2007, a further 138 million euros will be invested in these properties; seven of which alone are located in Budva or Becici.\textsuperscript{14} As a result, there will be

\textsuperscript{10} See www.hotelprojects.de, May 2005, also excerpt from World Investment Report 2004, appendix 8

\textsuperscript{11} F.U.R., Hamburg/Kiel: 2002 - 2004 Reiseanalysen (Travel Analyses)


\textsuperscript{13} Bank Austria Creditanstalt: "The Central and Eastern Europe Investment Hub," press release from 04/22/2005

\textsuperscript{14} Ministry of Tourism of the Republic of Montenegro: statistics from May 2005, unpublished

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upward shifts in the percentages of 1- and 5-star hotels (Figure 1) in 2005/2006. However, these volumes are not enough to give the 10.3% annual growth forecasted by the World Travel and Tourism Council the capacity and quality it so urgently requires.\(^{15}\)

**The following figure illustrates two aspects:**

- The country's continued and urgent need to qualify for the international market. In terms of relative strength, Montenegro is lagging behind competitors. And competitors have not stood still since 2000 or 2003: Already in 2000, 79% of the hotels in Greece were in the 3 - 5-star categories. At the moment, this figure is 44% in Montenegro.

- Success with privatizations and establishment of new hotels: In 2003, there were 94 categorized hotels\(^ {16}\) – a number that increased to 175 by May 2005. Seventy-six of these hotels are classified as small hotels, and these are currently the country's only 5-star hotels.

*Categories do not include upgrades due to privatization*

**Figure 1: Hotels by category 2005 – 175 Hotels**

Up until now, most hotel investments have been financed credit-free. Occupancy rates are good and, according to investors, the peak season is not too short as long as the hotel's offerings are adequately featured.

Montenegro enjoys an especially wide range of natural conditions for investment in tourism and, unlike many other markets, is not suffering from saturation effects. Active hotel investors are welcoming additional qualified competitors to boost the overall attraction and visibility of the country as a destination from within the country.

\(^{15}\) World Travel & Tourism Council (WTTC): WTTC 2005 Tourism Satellite Account, Country Report Montenegro

\(^{16}\) Situation 2003, see appendix 1. To allow for comparisons in the market, hotel standards for classification and categorization were developed and implemented with the support of DEG and CIM.
Emphasis is being placed on private initiative and strategic product planning. *First movers* feel like they made the right decision by deciding to move into the market right now instead of a few years from now. The message to German investors was therefore very clear: "hurry up!" Montenegro is not starting from scratch. As “the old and new destination”, the country has to convince buyers and customers that they can expect better services.

As a result, German investors in particular seem to have missed several good opportunities in the past two years. They left the field open to British, Irish, Austrian, Russian, Slovenian, Czech and Hungarian competitors. The following chapters will explore to what extent this reluctance, in addition to the market situation presented above, is justified by the existence of an actual or perceived risk.

### 3.2 Indicator II: Performance levels 2005 for the recommendations 2003

#### 3.2.1 Assessment of high-priority fields of activity

According to BearingPoint's 2003 analysis, Montenegro needs to concentrate on three principle fields of activity:

I. Creating an "enabling environment" for investments in tourism

II. Choosing and implementing focused supporting measures

III. Regional and international collaboration

This section will evaluate the extent to which Montenegro has focused on these fields of activity. This evaluation is based on the 34 packages of measures recommended in the 2003 analysis. These packages have been divided into three categories:

- **Those that clearly show good progress**, even if not all tasks have been completed due to their long-term nature. This section will mainly summarize and provide examples of these types of measures.

- **Recommendations that require additional effort**. These areas may show tendencies for improvement, but not to the extent that they can be used as an argument for winning over investors. As a result, these areas require focused attention. Chapter 4 focuses on these and other areas in which there is room for improvement according to interviews and secondary sources. This includes barriers to investment to which a separate comparison was devoted (chapter 3.2.2).

- **Recommendations for action from 2003 that do not appear to have been followed or could not be started** due to budget or other reasons, even if Ministry of Tourism may have already recorded them as plans or requirements. Chapter 4 will also readdress these recommendations.

The field of activity relating to competition for FDI that was given the highest priority was the ability to increase transparency, predictability and planning stability, mainly by consistently breaking down investment barriers and enforcing laws and promoting investment security. Despite the progress made in this field of activity, the issue as a whole has to be assessed with a real awareness of history and comparable conditions in other countries. The wave of positive changes in Montenegro was also accompanied by court battles and frictional losses. For example, the privatization process in the hotel industry demonstrates that the process can also be somewhat accelerated via insolvency proceedings. Four hotels were privatized in this way.

As shown in chapter 3.1., there is a fresh supply of capital coming from abroad, even though it is less than the amount expected. Transparency has increased and there is generally a positive investment climate among
current investors. Legislation guarantees equality between foreign and domestic investors. However, in practice the attitude is that good local partners are indispensable.

The GTZ's projects are especially helpful in determining ownership terms, providing investment-related data, planning facilities, establishing building regulations. They are also active in the field of comprehensive coastal management. For example, the real estate cadastre (REC) now covers 50% of Montenegro. Apart from Podgorica, digitalization of the REC has made the most progress in the coastal region. At the moment, fundamental steps are being taken to enable both investors and inhabitants to procure valid right to build. The Ministry of Tourism's agenda for 2005 includes the establishment of a central database, which will serve as an electronic catalog for uniformly recording and managing real estate.

The Tourism Satellite Account (TSA) procedure will stabilize planning even further by providing reliable, comparative macroeconomic figures and detailed statistics about tourism. In cooperation with the World Travel and Tourism Council, the country's first globally comparable Tourism Satellite Account was presented in March 2004. The TSA appropriately treats Montenegro as an independent destination.

Montenegro is also examining bilateral investment treaties and double taxation treaties to determine whether they are relevant to the country (whether target partner countries are involved) and whether the contents of the agreements are current (see appendix 7).

The private sector has for the first time been incorporated into strategic partnerships between the Ministry of Tourism and private industry – with the financial help and organizational support of companies who stand to profit from the partnerships both directly and indirectly (e.g., hotel industry, breweries, telecommunications). In addition to encouraging valuable knowledge transfer, these partnerships will expand the Ministry of Tourism's budget and capacity to act.

With the decentralization of responsibilities and areas of expertise, municipalities have been given a simultaneous financial boost via tax income, e.g., from tourist duties and property tax. This will speed up reforms at the local level. Inclusion of non-Governmental Organizations (NGOs) has increased. These organizations are also being given organizational and financial support. There have been improvements in the way decision-making processes are communicated. In some cases, the civil society has started to become a corrective force for ensuring the transparency and legitimacy of state projects.

An investment promotion agency, the Montenegrin Investment Promotion Agency (MIPA), was established in the first quarter of 2005 and is becoming active.

Key physical areas, especially the country's infrastructure (expansion of utilities infrastructures such as water, electricity, waste, and traffic from outside and within Montenegro) have been improved and environmental standards have been introduced.

Other accelerating factors come from investment areas that have been recently privatized. For example, the recent privatization of the telecommunications industry and the planned privatization of the KAP aluminum plant near Podgorica (environmentally problematic site) will have indirect positive effects on tourism.

Service, language and management skills are being improved through training courses financed from abroad or by investors themselves. In the areas of banking and private financing, the first signs of success can now be seen in the form of credit lines, designed especially for small and medium-sized enterprises.

Montenegro has made progress in returning the large percentage of unregistered employment, which arose during its years of crisis, back to legitimate and verifiable added value. Until 2003, efforts to register and
legalize such businesses were unsuccessful. However, since 2004, these efforts have met with surprising success. For example, VAT income now makes up 34% of state income.\footnote{17}

On the whole, there are numerous indications that the \textit{enabling environment} is slowly but surely evolving in the proper, increasingly transparent direction. Furthermore, foreign investments are more than welcome: "Unlike other countries in the region where foreign companies encountered a mild xenophobia and enormous bureaucratic hurdles to investment, there is a favorable attitude towards foreign investors. Serbia and Montenegro had an active history of international commerce and once attracted a sizeable foreign company presence. On the whole, the populace is eager to reestablish international ties and revitalize foreign investor activity."\footnote{18}

In the past, competing destinations have used \textit{systematic supporting measures} to quickly increase foreign direct investment in tourism. Examples include the Greek and Hungarian hotel industries.\footnote{19} When implementing such measures, Montenegro is still required to operate within narrow limits to ensure the safety of macroeconomic stabilization measures.\footnote{20} Nonetheless, the 2003 study recommended measures aimed at \textit{clearly placing more priority} on the importance of the tourist industry in all its plans and activities. To this end, the analysis mainly recommended an internal comparison of fiscal and financial measures between sectors for bolstering tourism. In more developed tourist destinations, government expenditure rates of 4\% to 6\%, as measured by the GDP from tourism, have been reported. For 2002 - 2004, Montenegro now has a comparable basis. Montenegro's spending rate is between 7\% and 8\% – very stable levels that are commensurate with the importance of the tourist industry and the sector's development needs.\footnote{21}

Macroeconomic cost-benefit analyses\footnote{22} will be conducted before deciding on any incentives and measures. In this way, the stability of public finances will not be put at risk. \textit{As yet}, a VAT reduction to benefit tourism has not been passed. However, good conditions have been created for doing so. In terms of fiscal incentives, the greatest increase has to do with company profits: the tax on profits is currently 9\%. The cession of public properties at long lease conditions (emphyteusis) will be permitted (up to 30 years).\footnote{23}

Individual agreements require compliance with regulatory but non-discriminatory measures, e.g., through use of performance bonds. For example, in the case of hotel privatizations, transfer guarantees have been secured for employees. In practice, it is normal for such employees to continue receiving a salary even though they are no longer working as service employees, for example. To adjust to these new conditions, new employees are used,

\footnote{17}{Economic Reform Agenda for Montenegro, 2002 - 07 - Report and Recommendations (ERA-RR), Podgorica, February 2005}
\footnote{19}{FDI in the Greek hotel industry made up 2\% of total FDI in 1998. That number increased to 8\% the following year. The development program for the Greek tourist industry began in 1998 when law 2601 was passed. Source: Bank of Greece, Section for Balance of Payment Statistics, Office of Foreign Debt and Special Research: Direct Foreign Investment in Greece 1997 - 2000, in: http://www.elke.gr, 01/16/2003. In Hungary, progress began in 2002 with the Széchenyi plan, which called for direct stimulus for health, conference and cultural tourism and investments of approximately 400 million euros.}
\footnote{21}{World Travel & Tourism Council (WTTC): WTTC 2005 Tourism Satellite Account, Country Report Montenegro, independent calculations}
\footnote{22}{See OECD: Checklist for Foreign Direct Investment Incentive Policies, Geneva, 2003}
\footnote{23}{This law is currently under revision (Law on Real Estate)}
some of which come from abroad. Such companies use international accounting standards and are in the process of implementing new technologies.

In the third field of activity, regional and international collaboration, Montenegro is making good pace toward progress, and opportunities for international integration are good — despite the fact that a lot of work is still left to be done by a small number of people. For potential and activated investments, the effects of projects financed by the donor organization are mainly felt directly on location. The projects are being conducted in each of the three recommended fields of activity.

The success of the various reforms in the past two years is outlined in a comprehensive document, the Economic Reform Agenda 2002 - 2007, which also contains forecasts for the next two years. The document is the result of reporting work conducted by 20 teams consisting of some 150 experts from Montenegro and abroad.

From the perspective of investors, the most important way of indirectly ensuring planning stability is for Montenegro to prove "European Perspectives" according to schedule and begin the Stabilization and Association process using the twin-track approach with Serbia. The European Commission confirmed the commencement of the process in April 2005: "The European Commission considers that Serbia and Montenegro is sufficiently prepared to negotiate an SAA. Therefore, the Commission recommends to the Council the opening of negotiations and will accordingly present a draft mandate."

In this context, the independence referendum for 2006 is not considered a barrier. In Montenegro, the referendum is viewed as an opportunity to increase stability. According to the EU, a country's capacity for integration is not determined by its size, but rather its individual ability to meet membership requirements. Montenegro has been assured support and subsidies so that it can meet these requirements.

In addition to direct remittances, international debt remissions have also been helpful in boosting public finances. For example, Germany has relieved the confederation of 51% of its debt, and another 15% will be remitted when the IMF treaty is successfully concluded in 2005.

Again unlike Serbia, Montenegro is expected to become a member of the World Trade Organization in 2008. At a general assembly of the WTO in February, a separate task force was established for each republic. As part of the next step in the acceptance process, Montenegro submitted a memorandum about its foreign trade regime on the same day and has since met further requirements.

Montenegro met with further success in summer 2004, when it finalized a debt rescheduling agreement with the London Club. The agreement will reduce the country's debts to Western creditor banks by $2.7 billion. The completion of debt rescheduling talks means that rating agencies can lift the country's official default status for

24 Dr. Gordana Đurovic: "Montenegro – Regional Economic Cooperation and European Perspectives," presentation in Tirana, April 2005
25 Commission of the European Communities: Communication from the Commission on the preparedness of Serbia and Montenegro to negotiate a Stabilisation and Association Agreement with the European Union, COM(2005) 476 final, Brussels, 04/12/2005
27 Country data at: www.auswaertigesamt.de, May 2005
28 www.bfai.de, 02/21/2005
29 According to statement issued by the Ministry for International Economic Relations and European Integration, 05/18/2005, unpublished
loans. As a result, the confederation of Serbia and Montenegro will have access to the international capital market for future financing. However, at the time of writing, the default status had not yet been lifted.

Macroeconomic figures have improved in Montenegro. By 2003, the country was already managing the monetary system (euro), customs and economic policies on its own. International statistics for the country continue to be combined with those of Serbia, even though the two republics are developing differently in terms of politics, macroeconomics and especially tourism.

With respect to tourism, the cross-border collaboration in the region is also working at the micro level. Tourists do not want to deal with borders. As a result, private offerings such as round-trip sightseeing tours and day trips are on the rise, especially between Montenegro and Croatia and the other way around. Other components of regional cooperation have a stabilizing effect in terms of the first two fields of activity. The Montenegrin-Croatian Friendship Council is one example: "One of the top priority regional projects, which is important for both Montenegro and Croatia, is the Adriatic-Ionian highway, while the transport, foreign trade exchange and tourism are the priorities at the bilateral level."31

![Figure 2: Performance levels for fields of activity I - III, recommended in 2003](image)

A summary of the individual performance levels for the fields of activity recommended in 2003 reveals that Montenegro responded to individual challenges successfully when it was able to achieve success relatively quick wins or obtain considerable support from international organizations.

Montenegro met with overall success in its effort to improve public finances: tourist income has become the key equalizing factor in the country's balance of invisible trade.

---

30 Bank Austria Creditanstalt: "The Central and Eastern Europe Investment Hub," press release from 04/22/2005
31 Press release at www.predsjednik.cg.yu/eng, April 2005
Compared to many other destinations with far greater resources, Montenegro's goals are clearly defined and the country rates highly in terms of continuity of planning and realization as well as a noticeable consensus in the tourism sector. Despite administrative barriers, the Ministry of Tourism's dedication – from its declaration of intent right through to the implementation process – is a positive factor. In other areas, the presence of administrative implementation gaps shows that effectiveness must be increased. Institutions such as the Tourism Council ensure the reliability of tourism policies.

As an external accelerating factor, international donor organizations are working together locally in a harmonious, complementary and coordinated way. This has positive effects on implementation and minimizes overlaps. Montenegro can only stand to profit from this basic foundation.

Because the country's own human resources and financial capacities are limited, tasks requiring cross-sector or multilateral cooperation are of course taking longer. This mainly applies to the long-term handling of inherited burdens, including areas such as infrastructure, ownership structures or societal attitude issues (usually generational). For this reason, it is extremely important to expand Montenegro's capacity building efforts with international support, thus allowing for increased allocation of tasks on a broader basis.

From the standpoint of investors in tourism, one overall positive factor is that the Government has identified tourism as Montenegro's most important industry and has recognized the sector as the main provider for the country's overall development. However, Montenegro must still make efforts to define its focus and accelerate improvements in favor of the sector.

### 3.2.2 Barriers to investment, 2003/2005

The market has already rewarded Montenegro's consistent efforts to remove barriers to investment in a sustainable way. In the 2003 study, countries with the fewest barriers achieved the largest volume of investments. For this reason, the following table shows the barriers to investments in Montenegro in 2003 and the barriers the Government still needs to focus on in order to ensure ideal conditions. In the 2003 study, factors such as the "risk of natural disaster" or "personal and material safety" were not seen as barriers to investment in Montenegro. Such assessments have not changed.

---

32 For example, the removal of "path offerings" randomly built in a protected area (Ulcinj).
33 There are currently 50 members made up of interministerial representatives from the Government, municipalities, tourist trade associations, other companies (e.g., small- and medium-sized companies, the post office, railways and airports) receiverships, NGOs, universities and unions.
### Current Situation for Investments in Tourism in Montenegro

- **A qualitative Gap Analysis**

#### Results of the Study

<table>
<thead>
<tr>
<th>Barriers to Investment</th>
<th>Key</th>
<th>2003</th>
<th>2005</th>
<th>Notes</th>
</tr>
</thead>
</table>
| Bureaucracy, administrative burdens    | ![]  | ![] | ![] | Processes have been simplified in tangible ways.  
|                                        | ![]  | ![] | ![] | Since June 2004: TAIEX program.  
|                                        | ![]  | ![] | ![] | Long waiting periods for some authorizations/approvals, with some very positive experiences.  
| Political instability                  | ![]  | ![] | ![] | Preparations for EU membership are underway.  
|                                        | ![]  | ![] | ![] | Twin-track approach in cooperation with the EU regarding confederation with Serbia.  
|                                        | ![]  | ![] | ![] | 2006 referendum  
|                                        | ![]  | ![] | ![] | Regional collaborations and partnerships have been established (both private and public).  
|                                        | ![]  | ![] | ![] | Access to information and documents prior to investment program.  
| Legal security                         | ![]  | ![] | ![] | Step-by-step adoption of EU's entire body of legislation (Acquis Communautaire).  
|                                        | ![]  | ![] | ![] | See also "Political instability" and "Enforcement of applicable law"  
|                                        | ![]  | ![] | ![] | Foreign Investment Law: FDI legislation to promote tourism in the form of an "FDI Encouragement Law"; Make currently applicable law available on the Internet.  

---

34 The Center for Entrepreneurship and Economic Development (CEED): Barriers to doing business in Montenegro, in: Montenegro Business Outlook No. 5, Podgorica, April 2003
35 See Figures 4 and 20 - 22
## Barriers to investment

<table>
<thead>
<tr>
<th>Key</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>![ ]</td>
<td>![ ]</td>
<td>![ ]</td>
</tr>
</tbody>
</table>

### Key

- **●** = In the 2003 comparative analysis, considered a barrier by at least 20% of those surveyed who had experience with Montenegro.
- **■** = Result of CEED's 2003 Business Environment Survey

### Legal transparency

- ![ ]
- Also in Montenegro using lawyers for statutory interpretations is a must.
- Interpretations may take time, see first item.

### Enforcement of applicable law

- ![ ]
- Increase in formal prerequisites for enforcement.
- Increased registration of companies.
- Suspension of building work on/demolition of illegal buildings.
- Some problems still exist at the local and regional levels (management, inspections, courts).
- Tax administration (collection).
- Customs reform as a long-term task.
- A number of laws with a primarily indirect effect on investors have either not been implemented yet, are sub optimal, or still under revision.

### Corruption, Corruption perceptions

- ![ ]
- Activities of Agency for Anti-Corruption Initiatives.
- Heard in the field: "An exception"; "You can do without it"; "Investors also have to do their part to fight corruption"
- Removal of laws that leave room for interpretation and that can lead to corrupt activities and promote speculative interests.
- Independent evaluation of Montenegro by Transparency International.

### Insufficient infrastructure

- ![ ]
- Progress in all areas.
- Strength: telecommunications.
- Renovation of Podgorica Airport started on schedule.
- Tangible progress made in water, electricity and road/tunnel construction.
- Road construction, rapid implementation of airport plans.
- Water, waste water, waste removal.

---

38 For more information, see section 4.2.3, Footnote 101
Current Situation for Investments in Tourism in Montenegro

- A qualitative Gap Analysis -

Results of the Study

<table>
<thead>
<tr>
<th>Barriers to investment</th>
<th>Key</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>!</td>
<td>!</td>
</tr>
</tbody>
</table>

- Good progress
- ! Additional efforts necessary
- / Solved for the most part

Normal font: example of progress
Italics: example of room for improvement

<table>
<thead>
<tr>
<th>Long-drawn-out privatization process</th>
<th>●</th>
<th>● Privatization of the tourist industry is expected to be completed by 2005 - 2006. ● First flagship investors or prospective investors have arrived.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>■</td>
<td>● In 2003, single digit inflation figure for the first time since 1976 (6.2%, in 2004: 3.2%). ● Further reduce inflation and ensure long-lasting reductions.</td>
</tr>
<tr>
<td>High taxes and duties</td>
<td>■</td>
<td>● 9% tax on profits, 17% VAT. ● VAT on tourism; recognition as service export.</td>
</tr>
<tr>
<td>Banking</td>
<td>■</td>
<td>● Credit limits for small- and medium-sized enterprises promoted by the state and the KfW banking group have led to progress. ● Domestic banking still weak; unfavorable financing terms (securities, interest).</td>
</tr>
</tbody>
</table>

Table 2: Status of barriers to investment, 2003/2005

The results reveal positive achievements in breaking down barriers to investment. Today, these barriers no longer have to be viewed in terms of whether or not to invest in Montenegro at all. What were at one time absolute barriers are now factors that can be successfully confronted locally with good preparation and due diligence as well as reliable business and implementation partners. Up until now, solutions to difficult problems have been sought through Government intervention and/or good legal support. This is not uncommon in transitional countries and is well-known practice to investors with international experience. As in the past, short routes to solutions are one of Montenegro's strengths. As a result, difficulties can be resolved more quickly and effectively than in larger countries with more hierarchical and regulatory levels.

Once familiarity with formalities and procedures as well trust in the country has been established, there are no insurmountable obstacles to successful implementation of investment projects. This rule holds true for all prospective investment projects, whether in transitional or developed countries.

Nonetheless, Montenegro has one key task. It must make every possible effort to implement sustainable conditions for smooth business processes in the private sector as well as simplify administrative processes. More than ever, today's focus is on process-oriented, bottom-up implementation that fully closes every gap.

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40 ERA-RR, February 2005
41 Kreditanstalt für Wiederaufbau (KfW), Podgorica Office, Project information: energy sector, water supply and sewage system, private sector, roads sector, May 2005
between the formal requirements and fulfillment processes. For more on this subject, see sections 4.2.1. through 4.2.4.

3.2.3 Incentive structures and regulatory measures, 2003/2005

The following table begins by showing incentives and regulatory measures for investments in tourism in Montenegro in 2003. During investor interviews in 2003, these incentives and measures received an average grade based on the following questions:

- **Incentives:**
  How crucial are the following state incentives for investments in tourism?

- **Regulatory measures:**
  To what extent are the following state regulatory measures counterproductive to investments in tourism?

- **Grading system:**
  
  1 = very crucial, 2 = crucial, 3 = very important, 4 = not very important, 5 = unimportant

The incentives and measures were sorted from the perspective of those surveyed using the above grading system. As a result, the tables show first the key individual incentives for the person surveyed. In many cases, regulatory measures were not viewed as a barrier to investment. Instead, those surveyed often said that such measures provided a basis for planning stability and sustainable development and were appropriate additional measures.

The 2005 column indicates which elements with a (2003) grade of at least 2.5 have been implemented in Montenegro. Starting with table 7, elements that received a grade of up to 2.7 in 2003 are also shown due to an average grade of almost 2.5.
Current Situation for Investments in Tourism in Montenegro
- A qualitative Gap Analysis -

Results of the Study

<table>
<thead>
<tr>
<th>Infrastructure incentives</th>
<th>Average 2003 grade: 1.7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Situation in Montenegro</strong></td>
<td>2003</td>
</tr>
<tr>
<td>Complete takeover of utilities infrastructure expansion in the case of new investments</td>
<td>☐</td>
</tr>
<tr>
<td>Complete takeover of transport connections in the case of new investments in tourism</td>
<td>☐</td>
</tr>
<tr>
<td>Financial support for construction or expansion of tourist infrastructure and recreational facilities:</td>
<td></td>
</tr>
<tr>
<td>- Golf courses</td>
<td>☐</td>
</tr>
<tr>
<td>- Airports</td>
<td>●</td>
</tr>
<tr>
<td>- Roads</td>
<td>●</td>
</tr>
<tr>
<td>- Promenades</td>
<td>☐</td>
</tr>
<tr>
<td>- Bicycle paths and marked routes</td>
<td>☐</td>
</tr>
<tr>
<td>- Park facilities</td>
<td>☐</td>
</tr>
<tr>
<td>- Municipal redevelopment projects (e.g. redevelopment of old town centers)</td>
<td>☐</td>
</tr>
<tr>
<td>- Swimming pools</td>
<td>☐</td>
</tr>
<tr>
<td>- Museums</td>
<td>●</td>
</tr>
<tr>
<td>- Sports facilities</td>
<td>●</td>
</tr>
<tr>
<td>- Recreational parks</td>
<td>☐</td>
</tr>
<tr>
<td>- Resort complexes (includes privatization, development and new investments)</td>
<td>☐</td>
</tr>
<tr>
<td>- Camping facilities</td>
<td>☐</td>
</tr>
</tbody>
</table>

*Table 3: Infrastructure incentives, 2003/2005*
Table 4: Legal and administrative framework, 2003/2005

<table>
<thead>
<tr>
<th>Legal and administrative framework</th>
<th>Average 2003 grade 2003: 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>Agreement on repatriation of profits</td>
<td>●</td>
</tr>
<tr>
<td>Bilateral investment protection agreements</td>
<td>●</td>
</tr>
<tr>
<td>State financial support in the case of PPP</td>
<td>○</td>
</tr>
<tr>
<td>Interception of company risks (e.g. bankruptcy) through long-term, unlimited allowances in the case of PPP</td>
<td>○</td>
</tr>
<tr>
<td>Equality of domestic and foreign investors</td>
<td>●</td>
</tr>
<tr>
<td>Residency and work permits for investors as managing directors (freedom of movement throughout the EU)</td>
<td>●</td>
</tr>
<tr>
<td>State assistance with facilities in the case of PPP</td>
<td>○</td>
</tr>
<tr>
<td>State assistance with human resources in the case of PPP</td>
<td>○</td>
</tr>
<tr>
<td>General, legally defined promotion of investments in tourism</td>
<td>○</td>
</tr>
<tr>
<td>Easier procurement of residency and work permits for family members</td>
<td>●</td>
</tr>
<tr>
<td>Processing times in weeks for subsidy applications</td>
<td>Differences from case to case, no number possible</td>
</tr>
<tr>
<td>Reductions for certain locations, regions and/or projects</td>
<td>○</td>
</tr>
<tr>
<td>Processing times in weeks for building permits</td>
<td>2 weeks; if permit takes longer, project can still begin</td>
</tr>
<tr>
<td>Joint ventures in the case of PPP: through private sector holdings in state-run companies</td>
<td>○</td>
</tr>
<tr>
<td>Compulsory, legally defined zoning</td>
<td>●</td>
</tr>
<tr>
<td>Free importation of personal objects (in the EU: in accordance with EU market laws)</td>
<td>●</td>
</tr>
<tr>
<td>Tracking of state-run regional planning projects, using a regional plan, for example</td>
<td>Regional plan starting in 2004</td>
</tr>
<tr>
<td>Legally defined subsidies for small- and medium-sized enterprises in the tourist industry</td>
<td>Subsidy: yes, legally defined: no</td>
</tr>
<tr>
<td>Monitoring and processing of subsidy applications organized by the state</td>
<td>○</td>
</tr>
<tr>
<td>Utilization of state commodities in the case of PPP: rules and regulations in which the private sector is appointed to utilize the economic potential of state commodities/assets</td>
<td>○</td>
</tr>
<tr>
<td>General cooperation in the case of PPP: rules and regulations for cooperation between the public and private sectors, aimed at bringing about more general strategic results</td>
<td>○</td>
</tr>
<tr>
<td>Purchasing of services in the case of PPP: the state purchases services in the private sector for state companies</td>
<td>●</td>
</tr>
<tr>
<td>PPP in the tourism industry</td>
<td>○</td>
</tr>
</tbody>
</table>

Table 4: Legal and administrative framework, 2003/2005

© BearingPoint GmbH, Frankfurt/Main, 2005.
### Direct measures and incentives

**Key:** ● = available, □ = not available, NS = not specified, NA = not applicable

<table>
<thead>
<tr>
<th>Situation in Montenegro</th>
<th>Average grade 2003: 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>Investment subsidies</td>
<td>□</td>
</tr>
<tr>
<td>Promotion of accommodation projects with respect to measures for improving the quality of current accommodation offerings</td>
<td>□</td>
</tr>
<tr>
<td>Reduced purchase prices for public properties</td>
<td>□</td>
</tr>
<tr>
<td>Subsidies for tour operators</td>
<td>●</td>
</tr>
<tr>
<td>Advertising cost allowances for tour operators</td>
<td>□</td>
</tr>
<tr>
<td>Amount</td>
<td>NS</td>
</tr>
<tr>
<td>Special long lease conditions for public properties</td>
<td>□</td>
</tr>
<tr>
<td>Additional allowances for capital investment costs</td>
<td>□</td>
</tr>
<tr>
<td>Also for small- and medium-sized enterprises</td>
<td>NS</td>
</tr>
<tr>
<td>Interest subsidies for bank loans</td>
<td>●</td>
</tr>
<tr>
<td>Takeover of financial share in familiarization trips for tour operators and travel agency employees</td>
<td>●</td>
</tr>
<tr>
<td>Public property acquisition and provision of properties for investments in tourism</td>
<td>●</td>
</tr>
<tr>
<td>Investment allowances</td>
<td>□</td>
</tr>
<tr>
<td>Other bilateral incentive agreements (between public institutions and companies)</td>
<td>NS</td>
</tr>
<tr>
<td>Promotion of accommodation projects with respect to measures for increasing accommodation capacity</td>
<td>□</td>
</tr>
<tr>
<td>Interest subsidies for bank loans granted for projects in economically disadvantaged regions</td>
<td>□</td>
</tr>
<tr>
<td>Also for small- and medium-sized enterprises</td>
<td>□</td>
</tr>
<tr>
<td>Bank guarantees for venture capital</td>
<td>□</td>
</tr>
<tr>
<td>Also for small- and medium-sized enterprises</td>
<td>□</td>
</tr>
<tr>
<td>Bonds issued at low fees for bank loans or leasing transactions</td>
<td>□</td>
</tr>
<tr>
<td>Also for small- and medium-sized enterprises</td>
<td>□</td>
</tr>
</tbody>
</table>

*Table 5: Direct measures and incentives, 2003/2005*
### Fiscal measures and incentives

| Key: ● = Available, □ = Not available, NS = Not specified, NA = Not applicable |
|-----------------------------------------------|-----------------|-----------------|-----------------|
| **Situation Montenegro**                     | **2003** | **2005** | **2003 grade** |
| Tax exemptions for investments in tourism    | □         | □         | 1,3             |
| Number of years                              | NA       | NA       | NA (best number in 2003: 10 years) |
| Basic exemption for taxation of profits      | □         | □         | 1,5             |
| VAT exemption for hotel technology and appliances (not permitted in the EU) | □         | □         | 1,8             |
| Exemption from customs duties for hotel technology and appliances | □         | □         | 2,0             |
| Targeted use of tax and duty income from the tourism trade (e.g., health resort tax on visitors) to promote a tourism infrastructure that spurs investment | | | Technically yes, though insufficient in practice |
| Other incentives for investment in tourism: e.g., no taxation of added value when shares and investments are sold; tax relief for new investments (VAT and company tax), tax benefits during the first 5-10 years | □         | ●         | See footnote 2,0 |
| Tax relief for unwithdrawn profits            | □         | □         | 2,2             |
| Deductions starting the year in which tourism investment projects are purchased | □         | □         | 2,3             |
| Tax benefits for foreign consulting and management contracts | □         | □         | 2,7             |
| Double taxation agreements                   | ● / □    | ●         | See appendix 7 for additions | NA |
| Standard percentage deduction for hotel investments | □         | □         | NA             |
| Amount                                        | NS       | NS       | NA             |

**Table 6: Fiscal measures and incentives, 2003/2005**

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43 With regard to "investment allowances" in table 5: For example, there would be a VAT refund of 1.7 million euro on an investment of 10 million euros.
Current Situation for Investments in Tourism in Montenegro
- A qualitative Gap Analysis -

Results of the Study

<table>
<thead>
<tr>
<th>Organizational and other support</th>
<th>Average 2003 grade: 2.3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Situation in Montenegro</strong></td>
<td>2003</td>
</tr>
<tr>
<td>Other marketing support, e.g., publication of brochures on special topics, production of marketing material, assistance with uniform market presence/branding</td>
<td>●</td>
</tr>
<tr>
<td>Public assistance of investors through free, Web-based, continually updated information (Result of 2003 comparative analysis: the structure (portal or multiple URLs) and quality (depth, up-to-dateness) of the information fluctuates greatly.)</td>
<td>●</td>
</tr>
<tr>
<td>Number of languages</td>
<td>2</td>
</tr>
</tbody>
</table>

*Table 7: Organizational and other support, 2003/2005*

<table>
<thead>
<tr>
<th>Incentives and measures for human resources</th>
<th>Average 2003 grade: 2.4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Situation in Montenegro</strong></td>
<td>2003</td>
</tr>
<tr>
<td>Subsidies for new job creation</td>
<td>●</td>
</tr>
<tr>
<td>Public promotion of employment in the tourist industry</td>
<td>●</td>
</tr>
<tr>
<td>International schools</td>
<td>□</td>
</tr>
<tr>
<td>Different allocation of subsidies for training and continuing education according to region (e.g. according to regional rate of employment)</td>
<td>●</td>
</tr>
<tr>
<td>Subsidies for retraining programs</td>
<td>●</td>
</tr>
</tbody>
</table>

*Table 8: Incentives and measures for human resources, 2003/2005*
Results of the Study

Table 9: Regulatory measures, 2003/2005

<table>
<thead>
<tr>
<th>Regulatory measures</th>
<th>Average 2003 grade: 2.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key: ● = Available, □ = Not available, † = Not obligatory, but necessary in practice</td>
<td>2003</td>
</tr>
<tr>
<td>Regulatory measures for investments through limitations for certain locations, regions and/or project types</td>
<td>●</td>
</tr>
<tr>
<td>State requires environment impact analysis for large-scale tourism projects, (everywhere in the EU)</td>
<td>●</td>
</tr>
<tr>
<td>Environmental impact analysis paid by investor</td>
<td>●</td>
</tr>
<tr>
<td>Obligatory to establish a new corporate body for claiming incentives</td>
<td>Not obligatory, but necessary in practice</td>
</tr>
</tbody>
</table>

It is clear that positive achievements have been made in all areas. However, the Government's financial capabilities are delaying the implementation process in several important areas. As determined in 2003, the quantity or monetary amount of incentives is not the most decisive factor from the point of view of investors. More importantly, existing incentives must be efficient, reliable and non-discriminatory, yet effective in each individual case. Keeping this in mind, Montenegro must continue to focus on the high-priority issues for investors.

3.2.4 Rankings in international indices, 2003/2005

Among the countries compared in the 2003 analysis, there were huge initial differences in the countries' level of political and economic development, legal structures, internal administrative procedures, geographical location for tourism, and level of maturity with respect to the tourism product lifecycle. All these differences were taken into account when compiling the study.

These differences continue to play an important role when interpreting data, facts and market opinion patterns. They serve as a moldable framework and provide experiences from which one can learn. Despite all these individual differences, basic principles were also postulated, defined and used as a basis for individual recommendations for action.

This chapter cites and interprets studies from international sources regarding the general investment climate. The goal is to provide further information about important prerequisites and their competitiveness factors. Montenegro's position is compared to that of selected competitors in the tourist industry. The indices are from Transparency International, the World Bank and the OECD.

Montenegro's public image is mainly still burdened by the results of Transparency International studies (Corruption Perceptions Index, CPI). As long as Montenegro continues to be recorded statistically as part of...
the confederation with Serbia, achievements can only be demonstrated through cooperation, especially since corruption is more typically a problem for transitional countries and is not considered a regional tradition.

It is more realistic that next year's referendum will enable (and seriously challenge) Montenegro to significantly improve its rating independently. The confederation was ranked 106 in the 2003 Corruption Perceptions Index. Although its absolute rating has noticeably improved, its overall image remains a problem. In practice, however, local feedback confirms that it is not necessary to accept payment requests from officials. Businesses can be established and operated in a normal way.

![Shift in the Corruption Perceptions Index](image)

Figure 3: Country rankings in the Corruption Perceptions Index for 2003 and 2005

According to additional sources and in the experience of active investors, further progress has been made in several areas considered much more important by these groups. For example, Montenegro's future ranking in the World Bank's Doing Business Index will have effects on the country's ability to obtain FDI since the index examines indirect administrative cost drivers in more detail. Because they define concrete processes, the Government can use the results of the study (e.g., steps necessary for enforcing contracts) as recommendations for action. The country's current ranking for Starting a Business and Registering Property show improvements. These are combined with the ranking for Enforcing Contracts in appendix 5.

The confederation of Serbia and Montenegro already received average to good ratings in the 2004 Doing Business Index, e.g., in the regulations for working conditions (overall flexibility in the Employment Laws Index) and costs for starting a company (Starting a Business). Although the country's process efficiency could be improved, Montenegro can already focus on the OECD averages as a benchmark. In the future, Montenegro could gain a competitive advantage if costs begin to fall almost below the OECD averages.

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On the other hand, the Enforcement of Contracts, i.e., jurisdiction efficiency, is still in need of development. Not much has changed with respect to this ranking result. Whereas the average number of procedures was 23 in our country comparison, the confederation has defined 36 individual procedures. In terms of costs, Hungary enjoys the best ratings (8.1% of debt – Serbia and Montenegro: 23% of debt).\textsuperscript{46}

For credit systems, the country comparison shows a typical gap between the formal environment and actual conditions, which still require improvement. Although the basic legal conditions are in place, information, consulting and simplified credit terms must be created.

\textbf{Figure 4: Country ratings in the 2005 Doing Business index – Getting Credit}\textsuperscript{47}

The World Bank's Investment Climate Assessment (ICA) focuses on differences between sectors. Unfortunately, the 2003 analysis also evaluates Montenegro together with Serbia, and a more recent analysis has not been conducted. Due the lack of complete data for country comparisons, the assessment used Slovenia as a "sparring partner." The next figure reveals the following:

- Focus should be placed on improving training and tax administration. In addition, the current general VAT rate is not a competitive rate for the tourism sector.\textsuperscript{48}
- It is necessary to continue working on infrastructure and jurisdiction.
- Important contributions are being made in the tourism sector, some of which surpass those being made in other sectors. This sheds a different light on the country's overall image as presented in the Corruption Perceptions Index. These contributions must be transformed into sustainable competitive advantages.\textsuperscript{49}

\textsuperscript{46} Definition: "The indicator measures the official cost of going through court procedures, including court costs and attorney fees where the use of attorneys is mandatory or common, or the costs of an administrative debt recovery procedure, expressed as a percentage of the debt value."


\textsuperscript{49} See Porter, Michael E.: Competitive Advantage: Creating and Sustaining Superior Performance, New York 1992
They can be used proactively in the FDI market as supporting statements, especially since active investors mentioned similar positive experiences of the own accord during interviews:

- Unproblematic customs handling (although hotels do not receive significant customs duty relief)
- Anti-competitive or informal practices are almost non-existent. However, decisions for or against such practices are left to individual management teams.
- Consistency/predictability of officials' interpretations of regulations affecting the firm

All rankings are expressed as the percentage of surveyed companies that either reported problems in a particular area (e.g. tax administration) or made positive statements when given the option to do so (e.g. trust in the legal system). However, the factor "customs handling" is expressed as the average number of days it takes to import goods - the lower the number the better.

![Investment Climate Assessment – 2003 survey of companies](image)

**Figure 5: ICA sector comparison – Serbia and Montenegro (2003) & Slovenia (2002)**

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The ministerial declaration of July 2002, "Attracting Investment to South East Europe - Common Principles and Best Practices" represents an important milestone in creating the conditions and infrastructures necessary for attracting foreign investors and facilitating the flow of private investment.

Of the countries analyzed in 2003, Serbia and Montenegro, Croatia and Bulgaria are participating in this project. By doing this, these countries are demonstrating their strong political will to implement recognized best practices at home. The participating countries are now using the monitoring instruments and country expert teams created for this purpose as part of the investment agreement. Montenegro has received its own ranking in this index since 2002.

During the most recent monitoring process, the country achieved two of the three Critical Time Bound Targets (CTTs). Montenegro still needs to create or is in the process of implementing a new strategy for FDI (after the FDI Law), which was listed as its Most Crucial Target No. 1 with respect to the tourism industry, as well as a new Competition Law.

![Figure 6: Montenegro in OECD Monitoring “Investment Compact for SEE”(2004)](image)

51 OECD: Stability Pact, Ministerial Declaration: Attracting Investment to South East Europe - Common Principles and Best Practices, Vienna 2002
52 The Competition Law is currently undergoing public debate; it is expected to be passed in the fall.
3.3 Overall assessment: position among competitors, 2003/2005

In the industry-internal benchmarking process used in the 2003 analysis, the services and processes of competing companies or organizations are compared within a particular sector. Since the "industry" studied in the analysis included entire national economies with different levels of maturity, positions in the tourism product lifecycle and internal administrative procedures, only some of the results could be formulated at the level of individual measures.

In the following figure, the position of the countries analyzed in 2003 is presented in a matrix. The Y axis shows the national economy's dependency on tourism based on the percentage of GDP generated from tourism; while the X axis shows the degree to which the companies and organizations surveyed were satisfied with the investment incentives offered.\(^5\)

The satisfaction of current investors is shown in figure 19 in the appendix. However, due to the limited number of interviews, this is only preliminary data. Therefore the results presented in previous chapters were used in the current overall assessment:

\(^5\) Development in Montenegro 2003 - 2005, position of other countries according to results of 2003 study
Additional efforts outlined in the following activity catalog will help Montenegro improve its position further. However, the country should also observe the competition with respect to core issues (legislation, incentives, tourism policy). This is because the positions of other countries shown here have also shifted in different directions since 2003.
4 RECOMMENDATIONS FOR ACTION FROM 2005

The following recommendations for action were created from two perspectives. The first section contains an overview of long-term objectives. According to the 2003 study, these goals can be met by attracting investors in tourism to Montenegro and through development of the tourism industry as a whole.

Examples of milestones reached or activities begun between 2003 and 2004 have been supplemented with critical success factors for 2005 and onwards. In this table, the sequence of these factors is arranged according to feasibility. Short-term or intermittent focus is required for measures that cannot begin until certain regulations have been passed and implemented. Medium-term success factors are those that require additional financial means, while any factors that have process character and require networking are considered long-term.

The second section shows the view from the outside, or from the customer's perspective, by recommending short- and medium-term measures aimed at ensuring continued development of the country's current position. The action catalog deals with the specific requirements encountered during an investment process.

4.1 Objectives and attraction policies: milestones and critical factors for success

The policy goals for attracting investments in tourism are based on three dimensions of the Tourism Master Plan for 2001 - 2020. The aim of the plan is to improve quality, capacity and marketing. A country's FDI policy mainly has a direct impact on the first two factors. Therefore, destination marketing activities are discussed in greater detail in section 4.2.4 as they play a supporting secondary role in investors' operational success.

Job creation is a primary objective, which has affected most other goals ever since 2001. The country has made progress in turning unregistered employment situations into normal employment contracts. In the future, greenfield investments will play an important role in creating new jobs. By reducing VAT on tourism, the percentage of unregistered employment would also drop.

For background information on the following table, see appendix 2.55

## Recommendations for action from 2005

<table>
<thead>
<tr>
<th>Policy goals for attracting investments in tourism</th>
<th>Since</th>
<th>Milestone examples and fields of activity already initiated 2003 - 2005</th>
<th>Examples of critical factors for success from 2005 on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable overall development</td>
<td>2001</td>
<td>● National spatial plans under revision, partially completed</td>
<td>● Implementation/enforcement of Coastal Area Spatial and Management plans (CASP, CAMP) in national planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● INTERREG programs in preparation</td>
<td>● Enforcement of environmental impact analysis EIA; compulsory incorporation into spatial plans(^{56})</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Supported NGO projects</td>
<td>● Enforcement of noise abatement legislation, (semi) quiet zones</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Participated in the UNEP's &quot;Mediterranean Action Plan&quot; (UNEP = United Nations Environment Programme)</td>
<td>● Further improve quality of accommodation offerings with sustainability management and appropriate marketing</td>
</tr>
<tr>
<td>Coastal zone focus</td>
<td></td>
<td>● Coastal Area Spatial and Management Plans (CASP, CAMP) completed</td>
<td>● Traffic infrastructure, especially during high season</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Blue Flag on Montenegro's key beaches</td>
<td>● Water supply, sewage disposal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Tourism Ministry's initiative to fight noise pollution (Ministry of Health responsible for providing legal basis)</td>
<td>● Alternative transportation offerings in order to reduce use of private transportation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Coastguard</td>
<td>● Whole populace must understand goals, methods and consequences of sustainable development and get involved in the implementation process</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● Further strengthening of civil society(^{57})</td>
</tr>
</tbody>
</table>

---

\(^{56}\) e.g., for *Velika Plaza*

\(^{57}\) As exemplified by the case of the *Tara* river project in April: A dam was to be built in the region bordering Bosnia and Herzegovina. It is very likely that the project would have destroyed the natural environment for tourism in lower Montenegro. The public and the Government rejected the project.
# Current Situation for Investments in Tourism in Montenegro

- **A qualitative Gap Analysis**

## Recommendations for action from 2005

### Policy goals for attracting investments in tourism

<table>
<thead>
<tr>
<th>Policy goals for attracting investments in tourism</th>
<th>Since</th>
<th>Milestone examples and fields of activity already initiated 2003 - 2005</th>
<th>Examples of critical factors for success from 2005 on</th>
</tr>
</thead>
</table>
| Increasing quality                                 | 2001  | ● Privatization almost complete: Approximately 80% of hotels have been privatized  
● Categorization of accommodation  
● Registration and classification of all accommodation suppliers in order to remove grey market offerings  
● Foundation for implementing international standards in the camping and private room sector  
● Categorization of tourist destinations has begun  
● 24-hour tourist telephone during high season | ● Enforcement of principles outlined in the Tourism Master Plan  
● FDI legislation geared towards tourism (*FDI Encouragement Law*)  
● New buildings must comply with statutory cubic measures for each category  
● Finish privatizing all hotels still mainly owned by the state  
● Ensure sufficient quantity and quality of greenfield investments to correct the balance between supply and demand |
| Product diversification                            | 2003  | ● Development of nautical tourism (planning phase)  
● Development of mountainous region (Austrian Technical Cooperation Service)  
● Regional plan for mountainous region undergoing public consultation (e.g., developing offerings for hiking, bird watching, rafting, mountain biking and winter sports)  
● Excursion trains (panorama/adventure rides) from the coast to Kolasin (Example: *Kuranda Scenic Railway* in Australia, from the coast to the mountains) | ● Completion and integration of plans into CASP  
● Insurance expertise for yacht registrations  
● Intensive cooperation with private sector and NGOs  
● Investment capital  
● Packaging and simple booking; Expand marketing via the relevant sales channels for the offering  
● Improve travel experience through horizontal integration (events, culture, sports, agriculture)  
● Expand offerings in remote areas; the mountainous region to include Nordic walking (boom in demand in Northern and Western Europe in the last two years) |
## Policy goals for attracting investments in tourism

<table>
<thead>
<tr>
<th>Policy goals for attracting investments in tourism</th>
<th>Since</th>
<th>Milestone examples and fields of activity already initiated 2003 - 2005</th>
<th>Examples of critical factors for success from 2005 on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational qualifications</td>
<td>2001</td>
<td>● InWent language training</td>
<td>● Long-term staff requirements planning; vocational training and training course plan, harmonized with European system</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Decision to introduce quality management program for hotels based on the Swiss model</td>
<td>● Regional hotel and tourism college meeting international standards (ideally a joint venture)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Joint project with the Koblenz (Germany) chamber of commerce for sanitation facility builders and construction workers</td>
<td>● Introduce an enhanced, auditable service quality model (examples: Spain's &quot;Q&quot; model and the Switzerland's &quot;Quality Label for Swiss Tourism&quot;) for the entire sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Internships initiated for young travel industry professionals at German companies</td>
<td>● Continuous service training courses for all those with contact to tourists</td>
</tr>
<tr>
<td>Market and adopt national features and styles</td>
<td>2001</td>
<td>● International marketing of Montenegrin cuisine</td>
<td>● Long-term promotion of internships and language courses abroad, e.g., by introducing sponsoring and scholarship models in cooperation with schools and companies, offer these courses for administration employees as well</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● New and extensive cultural calendar</td>
<td>● Implement regional tourism concepts right through to the level of municipal spatial planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● Enforce building standards and codes at the municipal level (^{58})</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● Strengthen regional and domestic suppliers in the construction and furnishing sector (qualification and assistance as contractor)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● International marketing of events via <em>appropriate</em> sales channels</td>
</tr>
</tbody>
</table>

\(^{58}\) For example, in the case of *Buljarica*, a large building project was prevented with the help of DEG and the Ministry of the Environment. This project would have violated the rules of the Master Plan.
<table>
<thead>
<tr>
<th>Policy goals for attracting investments in tourism</th>
<th>Since</th>
<th>Milestone examples and fields of activity already initiated 2003 - 2005</th>
<th>Examples of critical factors for success from 2005 on</th>
</tr>
</thead>
</table>
| Regional promotion                               | 2001  | • Signpost the most important tourist municipalities and attractions (see photo on cover)  
• Simplify border crossing procedures and improve border crossings  
• "Let It Be Clean" program  
• Beautification of coastal region (in planning) | • Stop chaotic waste disposal, continue public education  
• Realize plans for transport connections  
• National Park management  
• Electricity and water  
• In coastal, remote and mountainous regions: small-and medium-sized enterprises important for tourism and accommodation offerings  
• Strengthen NGOs and tourism information  
• Expand and market cross-border tourism offerings |
| Promotion of small- and medium-sized enterprises (SMEs) | 2001  | • Credit limits successfully subsidized by the state and KfW, as well as SME programs refinanced by DEG 59  
• SME consulting in tourism-related areas (marketing, service)  
• Association of Small Hotels established | • Increased availability of loans and insurance  
• Enable easy booking of tourism-related SME offerings  
• Intensive collaboration with business associations for SMEs |

59 Ministry of Tourism of the Republic of Montenegro: Overview of Summer Tourism Season 2004, Podgorica 2004
Current Situation for Investments in Tourism in Montenegro
- A qualitative Gap Analysis -

Recommendations for action from 2005

<table>
<thead>
<tr>
<th>Policy goals for attracting investments in tourism</th>
<th>Since</th>
<th>Milestone examples and fields of activity already initiated 2003 - 2005</th>
<th>Examples of critical factors for success from 2005 on</th>
</tr>
</thead>
</table>
| Development of cross-season offerings            | 2001  | ● Nationally coordinated development of cultural tourism with NGOs and municipalities  
● Manual for creating wellness and health resort offerings | ● Sustainable improvement of tourism SMEs, PPP, and the NTO (central and regional)  
● "Open skies"  
● Expand marketing via appropriate sales channels relevant for the offering |
| Maintenance of historical and cultural sites     | 2001  | ● Law on Historical Capital Cetinje, ("pending" status in parliament)  
● Add Decani Monastery to the list of UNESCO World Heritage Sites (2004, other entries are from the 70s and 80s)  
● Revise, pass and implement appropriate laws  
● Increase protection measures, e.g., within historical buildings and museums  
● Design innovative and protective usage concepts  
● Promote investments that guarantee the maintenance of such buildings; support regional styles in the case of new buildings  
● Provide populace and tourists with information  
● Cooperate with Ministry of Culture and Media to integrate cultural and tourism policies |

Table 10: Policy goals for attracting investments in tourism, milestones and success factors from 2005 on

Conclusion: On the one hand, the objectives provide a framework allowing investors to become active in Montenegro. The objectives also inform investors where their constructive commitment is urgently needed. On the other hand, success factors for tourism policies are also prerequisites for the success of the investment, and are measured by this success at the end of the day. For example, measures that support product diversification boost the investor's ability to increase the average annual occupancy rate and to get more independent of season. As a result, all activities that serve to consolidate state goals and investor expectations are correct steps in terms of the 2003 recommendations.

60 ERA-RR, February 2005, page 144  
61 The UNESCO World Heritage List at: www.unesco.de, April 2005  
62 ERA-RR, February 2005, page 164  
63 From the National Report on Cultural Policy: "Montenegro, according to its possibilities, is striving to nourish and improve a range of international cooperation because it wants to show its cultural resources to the world and to build cooperation and partnership with the countries in the region and wider. Considering modest artistic market in terms of quantity, this kind of cooperation would be an imperative in the field of cultural industry and cultural tourism." in: www.gom.cg.yu/eng/minkult, 02/06/2004
Due to complex dependencies between strategic goals for tourism on the one hand and public and private sector activities on the other, we recommend to introduce a Balanced Scorecard as management system. It has proven to be a practical tool for planning, implementing and monitoring strategic performance goals in functional and quantifiable activity units.\textsuperscript{64}

4.2 Prioritizing investment-process-oriented recommendations for action (AIDA)

The following action catalog is based on a general consideration of how to achieve \textit{effectiveness} ("do the right thing") and \textit{efficiency} ("do things right") from the point of view of \textbf{both investors and the Government} when planning general measures and incentives. Montenegro's narrow budget constraints do not allow for another action model, e.g., one in which scattered losses could be openly acceptable. Direct subsidies similar to those employed in other countries are not feasible at the moment and would not be constructive.\textsuperscript{65} Throughout the investment process, Montenegro must rely on other qualities in order to prove itself.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure8.png}
\caption{Effectiveness and efficiency in the investment process}
\end{figure}

\textsuperscript{64} See Kaplan, R.S. and Norton, D.P.: Using the Balanced Scorecard as a Strategic Management System, 1996

\textsuperscript{65} Exception up until 2003: Incentives for tour operators were mainly used by companies from South East Europe. These incentives were cancelled due to questionable effectiveness; to avoid misunderstandings the 2003 version should be removed from Ministry of Tourism's website.
The investment process is characterized by four key phases. Each of these phases contains sub-phases. Although it is worth learning about these sub-phases in more detail, they are beyond the scope of this study.

- **Attraction** or attention phase
- **Information** phase
- **Decision** phase
- **Action** or implementation phase, including operation

In this model, an investor's assessment focus shifts along with increasing risks as the project plans become more fixed. In order to establish appropriate action priorities, Montenegro has to prioritize its perspective the opposite way around. **This means:** although it is important to reach an outstanding position during the attraction phase and ensure good investor marketing, it is now more important to actively trigger positive decisions and obtain assurances for local implementation.

---

**Figure 9: Priorities in the investment process**

This approach is most effective in the case of **greenfield investments**, where the chances for developing a unique selling proposition (USP) are generally far greater than in the case of acquisitions (attraction phase). But in Montenegro, where individual barriers appear surmountable (information phase), reasons for adopting a wait-and-see attitude may also delay the decision phase. Greenfield investments can rarely be reversed. Therefore, when estimating risks, extremely solid arguments are often required in order to finalize the investment in cases where it is possible to further prolong and ensure the safety of the decision.

---

Furthermore, cultural differences also account for different decision-making behavior, even if the information provided is exactly the same. It is wise to be well prepared for such differences to ensure adequate local support (facilitation).  

69 For example, in the introduction to "Competent Law – Basic Legal Regulations:" "Although a special law was passed that regulates foreign investments, the regulations that settle issues linked to such investments cannot be found in one legal source. This is not a good solution, as the Foreign Investment Law cannot show the right picture of the situation in this area to foreign investors. This law is not sufficient, it might even be said that it represents only a small part of the regulations that refer to that legal relation." This is followed by a list of 37 laws that must be observed. There are also inexplicable breaks in content later in the document.

The following additional action recommendations for the four investment process phases are divided into action items that can be planned and implemented on a short-term (S = starting immediately, lasting up to 18 months) and medium-term (M = up to 36 months) basis. These are suggested time frames only. Each recommendation is preceded by a summarized justification based on interview results and secondary research. These summaries are consecutively numbered.

4.2.1 Attraction (attention phase)

1) During this phase, potential investors examine sources of information that are open to the public. In the case of pure FDI, there is still no dialog with the country at this point. For this reason, it is important to ensure that internally produced sources of information offer consistent, non-redundant, complete and correct data. Overall, the amount of information in English has increased in both Montenegrin and international sources – a positive development. In terms of content, privatization plans have become clearer, for example. But in terms of quality, much needs to be done to increase the transparency of information that can be accessed at any time: "first impressions are decisive, while final impressions are the ones that last."

Systematically examine, update and, if necessary, correct all information on the www.agencijacg.org website. Priority should be given to the information directed at investors, or transferring this information to MIPA, depending on which process structure is desired in the future. The quality of information in certain documents is in great need of improvement. All laws and documents should be checked for quality and professionally translated and formatted before they are posted to the site. For example, the agency's website contains FDI information under Privatization laws. 68 Even though this information was probably provided with the best of intentions (i.e. with the goal of providing realistic and comprehensive information), some of it leaves a somewhat unfavorable impression. 69 Furthermore, contact data is missing under E-mail. Although 22 contact addresses are listed (ministries, banks, funds, employment office, etc.) in a separate file on another part of the site, it is still not clear when and why these entities should/can be contacted. The site also contains several dead links or links that lead to unexpected content. In addition, there are still references to www.savjet.org, a site that is no longer active.

Coordinate the above contents with MIPA's planned website and the Ministry of Tourism's site. The decision regarding which content to use and how it is presented should be made from the point of view
of potential investors. The emphasis should be on customer orientation, not product orientation. Information should **support actions**. In other words, it should answer the question (though ideally the question should not even arise) of which action is necessary in relation to certain information. (The next stage of development would be electronic workflows in an extranet: e.g., an investor's decision would automatically trigger the next action on the administrative side.) Overall, it is more cost-effective to invest in consistent optimization of digital content and phase out printed materials because they quickly become outdated.

E-mailing lists must be used and requirement profiles (focuses of interest) not only save costs but help to serve target groups according to their individual needs.

This goes hand in hand with the need to provide simplified, Web-based access to information about achievements in fields important to investors (**infrastructure, legal situation, land management, national economy** (Monstat figures) and **political development**) as well as information about which **strategic projects for tourism** have been implemented and when and which projects have yet to be realized. This means that a lack of information is no longer the problem. Instead, the information must become easier to locate and be geared to the needs of investors. One long-term solution would be to implement a user-oriented **content and document management** system that can be maintained locally. Such a system would serve all active and prospective parties both at home and abroad.

In the case of information on the current legal situation, we recommend establishing a close connection to the database through use of the TAIEX program: **status of conformity** with the EU's **Acquis Communautaire**. For this reason, current double taxation laws and bilateral investment treaties (as well as those currently pending negotiations) should be published as soon as possible.

Results of the privatization process (ideally database-supported) are also of interest to potential investors. For example, a list of privatized regions indicating the percentage of development in terms of quantity and quality. This would allow investors to determine which opportunities are still available and maintain an overview of the ownership structure.

A clear list of references helps both internally and externally. Each document a Ministry produces and uses as a work aid or publishes should undergo quality control before it is published on the Internet or elsewhere. Each document should specify the date, the source and contact person (in the case of internal documents, the author and the digital and/or physical place of storage should also be indicated). Document names should also follow a logical pattern.

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70 For more information on MIPA, see the "Information phase" section
71 For example, information on further steps toward WTO membership: "One of the topics on the next General Council meeting, which will be held on 26-27 May 2005, will be establishing of the Working Group for Montenegro’s accession to the WTO. The Government of the Republic of Montenegro established the Commission for Coordination of the Process of Accession to the WTO in August 2003. Members of this Commission are representatives of competent Ministries." (from a statement of the Ministry for International Economic Relations and European Integration)
72 Ministry for International Economic Relations and European Integration: "EuroMont," 30 March 2005
73 Neither the Government's web site nor the site of the Agency of Montenegro for Economic Restructuring and Foreign Investments contain information on these treaties. The UNCTAD's overview contains only treaties that Serbia and Montenegro concluded with other countries between 1995 and 2003, and the new countries listed in appendix 7 are not mentioned.
74 Example: "MainCode_Content_YYMMDD" (YearMonthDay, e.g., 051231)
"Do good, prove it and let others know about it." In international sources, some information is still missing or it is often obsolete. Montenegro should systematically find these gaps as well as constantly close and update them. It is important for Montenegro to be perceived as an independent tourist destination and location for investments.\textsuperscript{75} As a result, a key factor is the targeted delivery of with secure, neutral information on the country's political and economic development to international databases and country analyses. "The Confederation's unclear political future is the main impairment to domestic and above all foreign investors…."\textsuperscript{76}

2) Compared to other countries, Montenegro's and Serbia's corruption perception ratings are very poor and have a direct effect on their image abroad. Corruption is a typical problem for transitional countries; it is not considered a regional tradition. However, the experiences of investors in tourism do not support this negative perception. When sectors are compared (Figure 5), other problems are more important.

Quickest possible implementation of the Anti-Corrupt Practices Law.\textsuperscript{77} At the same time, it is important to indicate what is actually being done to stop corruption (participation in GRECO, Groupe d'Etats contre la corruption, cooperation with the US Treasury, membership in the Council of Europe).\textsuperscript{78}

4.2.2 Information phase

3) During this phase, investors examine the country more closely as a potential FDI recipient. Data, figures, facts, and status reports that directly affect the prospective project are used as a basis for dialog. At this point, the type, content and speed of reactions to the potential investor's information needs become an important factor. Key factors in every investment project are the definition of ownership structures and binding spatial plans. Modern land register management is a prerequisite for both of these factors. The situation in Montenegro is still difficult and is not unusual in comparison to other countries in the same position.\textsuperscript{79} The problem is that the national land register authority manages graphical data as well as property-related data but is (still) unable to guarantee that the data is up to date.

At the moment, it is important to provide a reliable planning basis for the coast region using the Coastal Area Spatial und Management Plans, i.e., to link these plans with strategic plans for tourism in a nationally binding way.

\textsuperscript{75} Examples: The confederation is not even included in the UNCTAD FDI Performance / FDI Potential Index. In the Economist Intelligence Unit, information under "Industry Overview" / Tourism are from 6 October 2004 and is superficial and sometimes negative. There is no sector information at all under "Industry." On a web page last updated on 21 April 2005, the CIA specifies the country's 2004 as 8.8% - tourism is not even mentioned as a sector. United Nations Conference on Trade and Development (UNCTAD): FDI Performance Index / FDI Potential Index in: http://www.unctad.org/Templates/Page.asp?intItemID=2468&lang=1, April 2005, The Economist Intelligence Unit: Serbia and Montenegro economy: Budget deficit reduction agreed, 27.04.2005 as well as www.cia.gov/cia/publications/factbook/geos/yi.html, Mai 2005

\textsuperscript{76} Bayerische Landesbank: Country analysis: Serbia and Montenegro, March 2003

\textsuperscript{77} According to ERA-RR of February 2005, page 55, the parliamentary process and implementation have been in planning since 200.

Other related law packages were passed between 2003 and 2004 (Anti-Money Laundering Law, 2003 and the Law on Conflict of Interest, 2004).

\textsuperscript{78} www.gom.cg.yu/eng/antikorup, May 2005

\textsuperscript{79} A realistic timeframe for land management process (i.e., until everything is consolidated) is one or two generations.
As long as information cannot be accessed locally, quick, nonbureaucratic access to documents and information from the central land register must be provided as a service (for a fee) prior to the investment project. On the other hand, notifications regarding ownership changes and building permits must be made at the local level in order to ensure that data remains up to date.

To ensure that current data actually corresponds with the current situation, intensive clarification must be carried out "in person" in many cases. Investors cannot do this without a great deal of assistance. As a result, they need nonbureaucratic assistance which is unaffected by particular interests. Important groundwork has been and is being laid for this purpose, at both the legal and implementation levels at the land registry office, in town councils and municipalities. When in doubt, the Government will continue to provide guarantees of residual risk if ownership issues cannot be settled within a reasonable period. Because contracts can be disputed at any time, a guaranteed legal basis should be provided for those issues that were settled on a contractual basis in the past.

According to the current Restitution Law, 10% of all privatization income was transferred to a restitution fund. In a first step, data stored in public offices on paper, in digital or any other form will be collected. The focus will be on the coastal region because the pressure for development is greatest in that area. If this effort goes according to plan and the planning offices and property tax offices are linked to land register data, all data will have to be consolidated (with the next question being which data is up to date and which data should only be digitalized at first).

It will be a long time before a Web-based land register management system can be implemented as an eGovernment service. However, one approach would be to implement an economical, interactive system that uses stored data to show prospective investors which areas are available for investment. A similar system can be found on the Greek IPA's site under Online Databases. Next, and even more important than this information (which is mainly advertising information), is binding information for investors. This information lets investors know which institution(s) can provide them with up-to-date data during the various phases of the process in the future.

The Agency of Montenegro for Economic Restructuring and Foreign Investments (Agencija), a transition and privatization center, has until now worked along with one other department (Foreign Investment Center) as a central contact, promoter and data manager for FDI. The Ministry of Tourism is an equally important contact for the industry and the MIPA should provide further stimulus on the promotional side.

Responsibilities and lines of action for investor relations should be defined and communicated in a way similar to listed companies. To prevent prospective investors from going from one institution to the next out of ignorance (various Ministries, Agencija, MIPA, lawyers, CEED), tasks must be clearly defined between the Agencija, the Ministry of Tourism and MIPA. Next, the allocation of tasks must be quickly communicated to internal and external bodies. A step-by-step roadmap (who to contact in which situation) would be an important practical aid.

Because resources are still scarce, MIPAs recommended scope of services will not be that of a full-service agency. As studies and experience show, it would be more important to provide policy

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81 Part of the old law was declared unconstitutional
82 See www.bund.de
83 www.elke.gr, April 2005
advocacy support services than promotion services only. Also in the future, companies will not be able to offer such services alone.84

S A new identity, "MIFEPA, Montenegrin Investment Facilitation, Enabling and Promotion Agency," would be highly recommendable, especially given Montenegro's current level of development. This would be based on the "end-to-end" services model85, proposed in the 2003 study, only the focus would be on a development agency. From the point of view of foreign investors, it would be most helpful to employ centralized "facilitation" and "enabling" through targeted elimination of administrative barriers at the local and regional levels. This action model is also feasible in light of MIPA's organizational position and cooperation structures.

S This would support FIAS's recommendation of establishing an inter-ministerial, private public Steering Committee86 to find administrative barriers and quickly remove them. This recommendation agrees with the recommendation in the 2003 BearingPoint study, which calls for addressing potential problems or mistakes already perceived by investors and communicating them to government, local and regional bodies as well international support organizations. However, subsequent processes, including responsibilities and timeframes, still have to be defined.

S A mentoring model is also recommended in order to promote dialog between active and future market players (both domestic and foreign) and speed up the integration of foreign investors. Business associations can play a supporting role under the overall facilitation of the MIPA.

7) The learning curve which Montenegro is currently experiencing not only affects the administration when permits and licenses take additional time to process: investors and management teams must also understand, accept and actively promote the process of change towards a regulated setting. It is much easier to follow simple, plausible and transparent laws and rules. For this reason, it is essential to employ constructive communication models between the private and public sectors in order to close the current implementation gap.

S Therefore, best practice services adapted to Montenegro's capabilities would be as follows:

- Cost-free, confidential and non-discriminatory investor support - from the information phase right through to the post-investment phase
- A website that is attractive, informative, clearly structured, (bilingual at first, later multilingual) and interactive
- Establish contact to potential business partners, authorities, scientists and other appropriate partners
- Consolidate and provide a wide range of information and analyses important to all investors regardless of sector
- In addition to the "policy advocacy" services mentioned above: cost-free arrangement of consulting services to ensure efficient administrative processing of permits
- Organization of site visits and investor relationship management, presentations key platforms for FDI abroad and attendance of individual events

85 From preparatory information and measures to follow-up support services
86 Foreign Investment Advisory Service (FIAS): Montenegro Investment environment diagnostic, February 2004
Current Situation for Investments in Tourism in Montenegro - A qualitative Gap Analysis -

Recommendations for action from 2005

- Nonbureaucratic assistance during conflicts
- Build knowledge and network with IPAs abroad (e.g., at www.ipanet.net) and in the region

Medium-term actions, provided MIPA's personnel capacities can be increased to allow for additional services that uphold expected quality standards:

- Organization of regional investor conferences
- Identification and arrangement of new business opportunities for both current and new investors
- Departments for different sectors and company sizes
- Support business networks, such as a future association of investors
- Expand into a *one stop shop* – not a: *one more stop* – i.e. only if this concept still has facilitating effects in Montenegro's future administrative landscape. This should no longer be the case if the market is able to offer cost-effective, optimum-quality services.
- Provide practical support during a company's startup phase
- Provide certified suppliers and subcontractors

**Marketing** aimed at winning over selected FDI quality partners is a strategy task and must be planned accordingly. How can FDI in tourism be professionally promoted? By whom? How, where and when? By what means? Who is in the target group? Which other ambassadors, information disseminators and networks should be considered? How are individual activities tracked and measured in terms of their success? A prompt *"Second Contact Service"* should be planned right from the start: what additional information has to be procured, what happens next, e.g. after an investor conference? How do prospective investors define their shortlist procedures and selection process?

**International Site Selection Consultings (SSCs)** are an example of a key multiplicative target group. SSCs provide consulting services for business expansions, company relocations or new business developments: "When IPAs typically think of whom to target, they typically think in terms of industries or investor companies. Not targeting the SSC can be a major oversight. Why? With the restructuring and downsizing, which has taken place over the past decade, more and more corporations are now "outsourcing" the site selection process ... The biggest international SSCs represent hundreds of projects annually. In addition, they can provide insights regarding the activities of corporate investors and they will be eager to use your agency as an information resource and facilitator. However, be sure you provide good information and good service, because they can also exclude you from short lists."99

From the point of view of market-oriented investors, market size is an important factor. Resources and efficiency play an important role for FDI in tourism.90 It is important for IPAs to cooperate in the SEE region in order to increase visibility and make the best use of scarce financial resources. If the countries in the region define different areas of focus, competition can be put into a relative perspective. For

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87 The credibility of such conferences can be increased by inviting not only potential investors, but also active investors, who can be quoted on the Web, for example. In addition, the conference should be coordinated with other events in the region in the future in order to avoid overlaps and increase resource efficiency.

88 "It is true that some sophisticated IPAs try to do more: some aim at increasing the quantity as well as the quality of FDI, where quality might be measured by investments impact- in terms of job creation, exports or technology transfers." Morisset, Jacques: Does a country need a promotion agency to attract foreign direct investment? A Small Analytical Model Applied to 58 Countries, World Bank Policy Research Working Paper 3028, Washington D.C., April 2003

89 www.ipanet.net, May 2005

90 See 2003 BearingPoint Study, section 3.6.1
example, it could be useful to **schedule and group marketing activities in a coordinated way**.  
“SEE countries need to become more competitive and proficient at attracting mobile FDI and in understanding and meeting investor expectations. The need for a SEE regional perspective, regional approach and regional cooperation by all SEE countries is underscored by the determinants of FDI.”

8) For the investors active there today, the natural attraction of Montenegro as a "Sleeping Beauty" was the main reason for selecting the country. Strategic comparisons were not conducted. The main focus was on maximizing opportunities and entering the market on time. Since 2003, demand has mainly increased in the coastal region. International invitations for tenders are receiving more bids than in 2003. There are certainly enough prospective investors. However, these applicants are not always the strategic partners so urgently needed by the Government and the private sector.

S In order to ensure that the **principles of the Master Plan continue to be enforced**, Montenegro should use the second phase in the investment process to examine the quality of prospective investors in an effective and efficient manner. For example, **systematic risk and quality management** for investments in tourism would address issues of investor appropriateness in terms of plans, investment sustainability, performance guarantees, financing sources, capacities and references. The goal is not to create an additional barrier for strategic partners, but to ensure transparency and eliminate speculative interests. Investors will welcome such restrictive quality control measures because they ensure exclusiveness.

4.2.3 Decision

9) The section deals with factors that influence the decision for or against a prospective investment. For investors, the key factor is whether sustainable **return on investment** (ROI) can be achieved within a suitable timeframe and whether **direct and indirect costs** are reasonable. Multinational corporations and trusts have different **decision-making structures** than private shareholders, who also function as decision makers. Global strategies, quarterly results and shareholder value are what count for corporations. As a result, they are strong partners, but not necessarily the easiest ones to deal with. Familiarity with these differences – as in the case of cultural differences – is the first step toward improving one's own bargaining position.

10) Countries with well-trained staff as well as the necessary **infrastructure** and **administrative support** at every level are those that mainly stand to profit from premium FDI, especially greenfield investments (though not exclusively). For international companies, the presence of these factors is increasingly decisive in their choice of location. Greenfield investments usually require more work during the first phase. However, they offer the possibility of building a **Best in Class** facility. When building new hotels and other tourist facilities, the **flagship** factor, i.e., quality attracts more quality, is especially

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91 Holding a presentation at the Hotel Investment Forum in Berlin in March 2006 would be one such opportunity.
92 See OECD: Stability Pact South East Europe Compact for Reform, Investment, Integrity and Growth - Progress in Policy Reform in South East Europe - Monitoring Instruments, January 2004
93 See the results of the 2003 BearingPoint study
94 For example, the European Court of Justice's proposal of early April could benefit corporate FDI in tourism and other areas. According to this proposal, a corporate deduction rule practiced in the past is not compatible with EU law. The rule states that a parent company may never deduct the losses of its subsidiaries established abroad. See the European Court of Justice: Press releases/cases at http://curia.eu.int/de/actu/communiques/index.htm, Nº 29/2005 07.04.2005 (EuGH C-446/03)
important for Montenegro. They are constructed with state-of-the-art environmental technology and the latest business and architectural know-how. Greenfield investments are preferable to acquisitions when penetrating the market in locations where the intensity of competition is low and growth rates are high.95

Proactive efforts should be made to meet the information needs of potential investors by creating quality-controlled information packages that answer essential project-related questions in advance. Once equipped with such packages, individual meetings with "preferred partners" can be arranged. It is important that such packages support the dialog and provide a foundation for subsequent steps (information, actions, inquiries).

In addition to providing investment protection, the Government's key task is to supply the supporting infrastructure in advance. The infrastructure affects all aspects of the implementation process for investments in tourism – from costing right through to operations. The Government's capabilities are limited because the country's infrastructure is currently undergoing a complete overhaul, which is of the highest priority for the overall environment, however. At the moment, a global agreement cannot be made, (e.g., for a complete takeover of the expansion of the utilities infrastructure in the case of greenfield investments) and the Government's abilities must be compared to the specific requirements of investors on a case-by-case basis (i.e. on a project basis) in order to sound out alternatives.

The following remain essential for Montenegro: clearly defined ownership structures, actual availability of land (protection and exclusiveness), a good administrative (public services, lawyers) and private-sector environment (e.g., quantity and quality of local building contractors – currently insufficient for greenfield investments) and sustainability of national economic, tourism and foreign policies.

The usability of properties, e.g., for a new hotel building, must be correctly assessed. A good hotel product is not always successful – the location is one key factor. Prerequisites include an exposed location, good accessibility, the ability to undergo intensive development, a suitable environment, an experienced operator and a qualified management team. First and foremost, the price of the property determines the type, category, capacity and potential yield of the hotel. All these success factors must be harmonized. The following rule applies: the more expensive the property, the higher the quality category of the planned hotel. However, experience shows that the property price should not exceed 10% - 15% of total investment costs.96

The Discounted Cashflow procedure is normally used to evaluate properties and forecast ROI. It is important to have a good command of this procedure in order to maintain realistic price expectations. To ensure transparency during property negotiations, an "open book" procedure could be used (i.e., both sides provide details of their calculation methods). This procedure is common in other industries for business-to-business (B2B) activities.

The ROI potential of the hotel planned for each site is a crucial factor for investors. For this reason, the justifiable total investment amount is calculated based on financial revenue potential and existing figures in order to determine the plausibility of the hotel project. Room rates are defined by the

investment required and the expected ROI. Are the targeted room rates sustainable in terms of the market \(^{97}\) and what are the alternatives in the case of a negative assessment? Here is a list of selected aspects to consider during negotiations with potential greenfield investors:

- Would a smaller property suffice for the planned hotel development? Can the property be divided? What forms of complementary use are conceivable?
- Do the location and the property allow for a mixed development with multiple uses (hotel, retail, offices, apartments, etc.) and could the hotel development be cross-financed as a result?
- The property owner (state or private) reduces the sale price. What other benefits and advantages are there?
- What are the VAT rules? If VAT is applied to the sale or lease of the property, could it be eliminated?
- In terms of timeframe and volume, can losses carried forward be planned to the investor's advantage?
- Are there alternatives for potential locations? High-class hotel projects demand high-class locations.
- When planning a hotel, the investor increases room capacity, depending on the extent to which the capacity can be utilized from an economic standpoint. \(^{98}\)

Greenfield investors generally tend to form their competitive advantage more strongly than “merely modernizers”. \(^{99}\) As a result, it is important to develop support services at the same time (public services and infrastructure, qualified tourism-related SMEs, and targeted clustering efforts) \(^{100}\).

Just as importantly, the populace must comprehend, support and overcome these changes. Reservations about greenfield investments will not arise if their soundness and benefits can be proven and communicated. It is crucial to appoint a central contact person for the investor at the location. This person must be familiar with the location and help shape and implement the information strategy right from the start.

11) **Formal legal certainty and transparency** is becoming less of a problem for potential investments in Montenegro. However, legal relevance and interpretation, as well as continued uncertainties when interpreting laws or determining the actual scope for interpretation still tend to be a problem. In the medium-term, there is a definite fear that the government pendulum will swing in the complete opposite direction and begin to paralyze private-sector initiative, reduce positive flexibility and make it easier for the administration to "hide" behind regulations. Maintaining a balance between legal reliability and reduction of bureaucracy is always a challenge – even within the EU.

We recommend establishing a tourism-specific working group for assessing the impact of laws. This group would mainly consist of members from the private sector (hotel representatives, tourism agencies, restaurants, etc.), administration (all levels of government, including the local level), NGOs and international organizations. The current Tourism Council could form the basis of this team, with the

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\(^{97}\) A hotel operator's targeted room rate (net rate without VAT) is approximately 1 % of the investment per room

\(^{98}\) See Kehrer, Axel: in the place cited


\(^{100}\) See Nordin, Sara: Tourism Clustering and Innovation, European Tourism Research Institute, Östersund, 2003
addition of EU and legal experts for each area. However, the working group would have to be officially recognized as an advisory authority (Figure 10).

**Dialog with active investors:** Feedback should be regarded as a permanent debt to investors and could be enhanced by means of a bi-annual survey based on a representative spot check in which practical experience, expectations, suggestions and requests are compiled. Public events and meetings are suitable for exchanging ideas. However, surveys are more appropriate for systematic monitoring.

![Figure 10: Process model for legal impact assessment for investments in tourism](image)

12) The **Foreign Investment Law**\(^{101}\) has been in effect since 2000, was supposed to be revised in 2003 and has clearly not been finalized. It primarily illustrates the ways in which foreign investors can become active in Montenegro. Investors can establish companies and holdings in existing companies, create contracts, purchase real estate, make BOT investments\(^{102}\) and obtain licenses. The law guarantees the protection of investments, the use of international accounting standards, and the transfer of resources and profits. From the perspective of investments in tourism, the law has only been changed minimally since 2000. However, it continues to lack **regulations that clearly promote policies for tourism and attracting investments in tourism.** Such regulations are common in competitor countries.

**FDI legislation** must be revised so that it is clearly viewed by investors as an "investment encouragement law." In other words, it must be cast from the same mould as the objectives in order to

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\(^{101}\) See: Official Gazette of Montenegro, 52/00: Foreign Investment Law, November 2000 and the revised English version for 2003. At the time of writing, this version could be obtained directly from the ministries. Once again, it would be useful to keep the latest version online and note that the law is pending revisions. The Ministry of Economy's website contains the following dead link: Updated on: "June, 19 2003." Source http://www.vlada.cg.yu/eng/minekon/vijesti.php?akcija=rubrika&rubrika=53, April - July 2005

\(^{102}\) In expanding their basic tourism infrastructure, countries such as Turkey use the BOT model for building marinas. Similar projects have been advertised for Montenegro, such as the Nautical Tourist Centre Kotor, which has an investment value of 8.5 million euros, www.agencijacg.org/tenderi, April 2005
support them. The FDI legislation still contains an uninviting passage stipulating that the property of a foreign investor cannot be expropriated unless there is a legally defined public interest in the property. Another example, though certainly considered a protective measure, is the maximum interest share of 49% for investments in border regions and national parks, where a special licensing procedure is required.

Efforts to strengthen investment-promoting attitudes apply to all laws and mandates that support FDI. Before they are passed, they should be thoroughly analyzed and revised in coordination with all involved so that they invite investment.

Architect rights that forbid modifications (in many cases building exteriors would certainly benefit) are an example of the obstructive legal situation. These rights are passed on to successors. Although this problem was solved through mutual agreements in the past, the vote on this poses an additional risk for properties yet to be privatized and must be resolved.

The tax and duty situation has generally improved. A 9% tax on profits is viewed as beneficial, but VAT on tourism must be reduced – incoming tourism is a service export. As a continued recommendation, Montenegro should implement a regional vote for the introduction of new measures regarding the way the fiscal framework is designed. In this way, there would be no need to wait for other countries, but also no great increase in price rivalry.

The advantages of a zero-percent solution for VAT outweigh its disadvantages: it would secure the ability to compete at the European level, demand would be stimulated as a result of high price flexibility in the tourism industry, unregistered businesses and employees would be registered. As an additional advantage, this form of accounting would in no way permit increased refunds. The only danger would be a rise in bogus tourism businesses. Experience shows that additional revenues offset financial losses, which are comparatively small. Customers based abroad with disseminating abilities would have priority when narrowing down the scope. This includes not only traditional tour operators, but also hotel portal and direct marketers (mentioned below) with a business-to-consumer focus as well as global distribution systems such as Amadeus, Galileo and Sabre.

Additional ways of creating reserves should be provided as soon as possible through tax relief for retained profits, preservation and quality investments in the hotel industry, in the catering industry as well as for incoming agencies (transfer vehicles, provision of technology). Given the current situation, such reserves could also be especially useful for training staff, providing better pay for good employees and retaining these employees longer. Such measures would serve to counteract the "brain drain" and staff turnover.

Customs duties are an example of a situation that can be optimized from the standpoint of attracting FDI in tourism. Exemptions have been established for the import of building materials. Introducing

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103 Described in the law dated 12/22/2004, State Union Official Gazette 61/04
105 See Ministry of Tourism of the Republic of Montenegro: The Influence of Value Added Tax (VAT) on the Tourist Sector in Montenegro, working paper, unpublished
exemptions for hotel technology and furnishings would encourage investment and should be highlighted (in a version published in English).  

**M** Regional promotion: As a medium-term goal, Montenegro should investigate ways of promoting investments in tourism for new facilities and operations in the start-up phase in remote, disadvantaged regions and in the mountainous region (examples: Greece, Hungary, Poland). Possibilities include **discounted building plots**, **tax-free capital investment reserves**, tax credit (up to 50%) for investments (can be carried forward over 10 years) **exemption from profits tax** (10 years), exemption from **property tax**, increases in **subsidies for job creation**/advanced vocational training and subsidies for qualifying investments. It is useful to prescribe minimum investment amounts. These should of course be lower in developing regions.

S In regions with electricity and water supply problems, it would be helpful to offer tax exemptions to hotels that purchase and (when needed temporarily) install their own utility facilities.

**M** To preserve **cultural heritage structures** and encourage traditional regional development styles, it would be more useful to provide investments with supporting measures that serve this particular purpose. In the case of new buildings, **traditional regional** styles, materials and furnishings should be supported.

**4.2.4 Action (implementation phase and operations)**

14) During the implementation phase, **practical implementation and processes** from the field of activity "enabling environment" take on an increasingly important role. These activities serve to **minimize risks** (e.g. due to unjustifiably late permits) ensure the **success of operations**. In terms of information and integration, domestic investors have an advantage, especially in transitional countries. For foreign investors, it is easier to fill gaps in information than deal with integration disadvantages. For this reason, Montenegro should focus on measures aimed at increasing the **speed of implementation and integration**.

15) Although progress has been made in the **enforcement of applicable law**, this should still be the primary area of focus. The **interpretation of laws** is still considered a somewhat problematic area. The **logic** of many regulations has been questioned and "good relationships are helpful, even if they don't have to be bought." The impression arises that in some cases regulations are used in a "freewheeling" or even random way (one way, then another). **Local collaboration** is ideally very good. Other times, those involved do not seem to have the decision-making abilities to cope and might rather make decisions over their limits. This is not conducive to predictable planning stability. In other cases,
it takes too long to obtain permits (facing the fact that current regulations forbid constructions work on the coast during the summer tourist season, which lasts from mid-May until the end of September).  

Furthermore, the equal treatment of foreign investors must also be practiced at the regional and local levels. The goal should be to rule out clear or latent unequal treatment of investors - without the intensive and costly use of lawyers.

The above-mentioned working group for assessing the impact of laws should examine laws and mandates to determine whether they unnecessarily complicate routes to investment through their wording, jurisdictions and application, increase investment costs, reduce the scope for interpreting the law and create room for corrupt practices. Appropriate corrections should then be made as soon as possible.

Sustainability, investment protection and exclusiveness: Measures encouraging sustainability of investor attraction policies help to ensure exclusiveness, which in turn benefits investors. Chaotic structural growth, some of which has been successfully combated, will remain an acute danger until zoning is firmly in place. In addition, the use of private transportation and noise levels (still very much a problem in certain locations at certain times) are on the rise. Once the cross-border transportation infrastructure undergoes further development, the flow of traffic will be greatly improved. However, at the same time, the vacuum effect, especially from the north, will increase (Adriatic Ionic Highway), thus intensifying local parking space problems.

Consistent prevention and elimination of buildings without building permits as well as increased efforts to teach the populace that buildings such as private apartment buildings are one-time spends from a private and overall economic perspective. There is a need for sustainable qualification and employment opportunities for wide cross-sections of the population.

Protection against noise must be ensured through appropriate legislation and enforcement of the law. In response to feedback from tourists, the need for noise protection was already included in the Ministry of Tourism's plans for last year and was to be resolved by the 2005 season.

Attractive public transportation offerings should be planned. In this way, even tourists will not feel forced to use cars. Locally, traffic-free areas can be expanded in coordination with the local representatives of the private sector. In the future, it would also be worth considering the implementation of toll systems to bring in additional revenues and regulate traffic on valuable main routes.

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108 However, from an investor's point of view, there may be a form of relief by granting special permits. A pause in construction work during fixed periods only makes sense in the most visited tourist areas.

109 Examples: different jurisdictions for issuing building permits according to the building's size in square meters. The different handling of processes and costs for adaptations (license is free of charge) and reconstruction (additional cost: 42 euros charged per square meter) is viewed as indirect penalization of additional investments ("Law on Reconstruction," zakon o izgradnji objekata, is a Federal Law that regulates all adaptations and additions to existing properties. (New) owners must submit an application for §34 "Reconstruction in existing volumes" – for larger projects, applications must be submitted to the Ministry for Environmental Protection and Spatial Planning. Upon approval, an additional building permit is issued according to §37.)
17) There is an urgent need to **further increase capacities**. In the future, the countries sponsoring foreign direct investments should also assist with policy reforms and help develop staff and institutional capacities. Further efforts should be made to link FDIs and public development assistance.

S For example, as part of the TAIEX program, **specially targeted training courses** could be implemented for positions responsible for managing matters of importance to investors in tourism (and other investors). They have to be actively demanded: "TAIEX is demand driven. The main principle is...of responding to requests for technical assistance with the view of resolving concrete problems in the beneficiary countries..."10

S **Training** must be improved in terms of international competitiveness. Short-term solutions can mainly be achieved through partnerships with foreign schools and with the tourism industry itself. These include scholarships, exchange programs and continuing education measures outside the high season, management training in the international hotel industry, coaching by (temporary) foreign employees in Montenegro. As an additional component, the state should temporarily assume wage and incidental wage costs.

M As a medium-term challenge, **professional education and training plans** could be harmonized with the European system in order to increase the current training rate in companies and ensure competitive quality requirements for such training programs (e.g. through dual training).

S In addition, employees in the **administration** with constant contact to the private sector (and hence with citizens) as well as foreign investors should see the broader importance of their tasks and be paid accordingly. Due to current low salary levels, this is an additional challenge to be faced in the medium term. Alternative short-term motivational measures could include paying from language courses and other types of vocational training. Today, **project management skills** are worth more than knowledge orientation alone.

18) **Product development**: creation of basic legal and regional framework e.g., for nautical tourism: turn over development plans to building regulations to pave the way for initial investments plans. To ensure international competitiveness, continued qualification of hotels and other service providers in the areas of product diversification and packaging of offerings.

M It is important to match the country's **own strengths with customer requirements** in order to create distinct, competitive products. Copying the competition is not enough. As a result, close cooperation is necessary at the regional level between the private sector, the National Tourism Organization (NTO), public offerings and NGOs. PPPs aimed at specific tourism target groups are difficult to build at first. However, they offer the strongest competitive advantages.111

M Given sufficient hotel, airport and other capacity, the way should be paved for **low cost carriers** ("open skies") in a systematic fashion. Increasingly, these are being combined with hotel and rental car bookings according to travelers' needs. The current trend among experienced travelers is toward online bookings and hybrid behavior (i.e. they spend less for the journey and spend more at the destination).

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10 Ministry for International Economic Relations and European Integration: "EuroMont" 30 March 2005

111 Especially relevant to future plans, such as those for creating and marketing sports tourism offerings.
Furthermore, studies on this market show that such offerings stimulate **new demand** instead of simply causing a shift in volume.\(^{112}\)

19) **Destination marketing** is definitely viewed as a weak spot and should not be neglected, especially at the present time. There is an urgent need to **update the destination marketing strategy and improve its orientation toward the source market** in order to publicize upcoming tourism products, better inform the foreign public and allow products to be booked **through the appropriate sales channels**. Competing countries receive support from the EU. However, Montenegro does not have time to wait for similar comprehensive financial assistance.\(^{113}\)

**S** **Strengthening the NTO:** a benchmark for measuring the NTO's service requirements vs. service profile, as well as its objectives and methods of measuring success is recommended:\(^{114}\) organizational assessment and development of the **entire bundle of marketing instruments** for external marketing (Montenegro's PR image abroad, sales and bookability through appropriate channels, monitoring and customer relationship management) in close collaboration and **in dialog with the foreign and domestic tourism industry**. For all those involved, customer-oriented **topic-specific marketing** will open up more possibilities than the "scenic advertising" which is currently predominant.

**S** It is especially important for hotels to view traditional **tour operators** as strategic partners. Hotels should allow for booking through **GDS** and utilize modern forms of direct marketing (hotel portals, virtual tour operators and dynamic packaging). The Ministry of Tourism can work with the NTO to provide essential stimulus and active advice in this area.

**M** Continued development of **new financing options** via marketable **services, PPPs, and IT support** as well as efforts to develop the service offerings of local tourist information offices through introduction of European **quality standards** in order to increase performance and service quality. In this context, we continue to recommend the integration of **marketing, PPPs**, as well as **generation of additional financial resources** and increased **registration of accommodation capacities** through the introduction of an innovative guest card concept.

**M** Bolstering of **cross sales**, e.g., in the Ministry of Tourism's network of strategic partnerships, and aimed at multiplicative customer segments that can be explicitly targeted (business travelers, conference delegates, conferences, company visitors, product presentations, incentive trips, training courses).\(^{115}\)

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\(^{112}\) For example, in Krakow, Poland, the number of air passengers rose to 179,000 (an additional 65%) in 2004. The Polish Tourist Office attributes the increase mainly to low cost carriers, who have added Poland to their itineraries since it joined the EU. "Poland Profits from Low Cost Carriers," in: www.fvw.de, 05/10/05.

\(^{113}\) TUI and Hapag-Lloyd Express (HLX) are creating their first joint vacation offering. At the beginning of the summer season, the two companies presented their first catalog for low-cost package vacations. The slogan is "fly for the price of a taxi ride – stay at the hotels you dream of" and combines low-cost flights to vacation destinations in Austria, Italy, France and Croatia with stays in TUI hotels. TUI AG: press release, 04/18/2005

\(^{114}\) From a current procurement notice for the Bulgarian Tourism Agency under the Ministry of Economy, with a budget of 1,450,000 euros: "Institutional support to the Tourism Agency through consultancy, elaboration of procedures for business planning, concept for a set up of paid services, development of a pilot model of marketing strategy for specialized tourist product, support to the Agency’s staff in the organization of marketing and promotion activities; Provision of assistance in designing, setting-up and operation of an Integrated System for the Tourist Information for the Tourism Agency."

\(^{115}\) From a current procurement notice for the Bulgarian Tourism Agency under the Ministry of Economy, with a budget of 1,450,000 euros: "Institutional support to the Tourism Agency through consultancy, elaboration of procedures for business planning, concept for a set up of paid services, development of a pilot model of marketing strategy for specialized tourist product, support to the Agency’s staff in the organization of marketing and promotion activities; Provision of assistance in designing, setting-up and operation of an Integrated System for the Tourist Information for the Tourism Agency."

This is another area where a Balanced Scorecard would be a helpful tool. See the introduction to chapter 4.

The new members of the EU and the Eastern European capitals demonstrate this. In 2004, for Kiev Vilnius and Tallinn alone, flights from Germany increased by over 20 percent over the previous year – and the trend is increasing. There was
As a prerequisite for efficient marketing activities, **market research** must become more professionalized, and the different needs of tourists must be **monitored** continually and in greater detail.

**M** In order to increase the **range and depth of quality policies**, an enhanced, auditable service quality model (using Spain's Q model and Switzerland's Quality Label for Swiss Tourism as an example) should be introduced for the **entire industry** in cooperation with the private sector. In addition, continuous service and language training courses should be offered for all service providers (including the police) that have contact with tourists.

**M** Despite the successful introduction of a Tourism Satellite Account, **statistics** could still be improved. This would enable achievements to be proven and presented in a reliable fashion in the form of **key performance indicators**. What were the effects of individual measures? What benchmarks and critical factor for success do other comparable destinations use? At the same time, additional reporting tools for the purpose of regularly examining **performance levels and monitoring success** should be implemented at the same time. Staff and technical capacities must be further qualified in order to perform analyses, examinations and modifications.

**M** Further **increase in the ability to act and internationalization**, **business-to-business** (B2B) and **business-to-consumer** (B2C): Local hotel managers should be able to travel in and out of the country more easily. Current visa processes slow down or even obstruct B2B activities. Visa regulations for entering the country from abroad should also be examined. They are undoubtedly a hindrance to tourism. It would also be very helpful if the German Federal Foreign Office were to distinguish more between the regions in the safety warnings on its website, which travelers often use as an information source. Yet another requirement is that all the major credit card companies are represented in tourist centers.

***also an increase in the number of business flights to countries whose number 1 trading partner is Germany. The leader was Slovakia, where the number of flights increased threefold. Newsletter AirPlus, April 2005***

116 For example, job market effects, or as defined in the approach, the classification of capital investment as either private or public within the Tourism Satellite Account, see Figure 23

117 Once again, different sources give different information. For example, according to the Ministry of Foreign Affairs of Serbia and Montenegro, German citizens are permitted to stay in the country for up to 90 days. According to the NTO, they are permitted to remain only 30 days: www.mfa.gov.yu/Visas/f_without_visa.htm and www.visit-montenegro.cg.yu/germany/mntoday/mntoday.htm, May 2005

118 At the moment, the website refers to the security situation, which remains tense under the surface, and mentions frequent automobile thefts and break-ins, as well as the casualties of the unrest in Kosovo in March 2004 - without any mention of the situation in Montenegro, which is 200 km away. For current safety warnings, see www.auswaertigesamt.de, last updated on 27 April 2005

119 For example, American Express and BarclayCard are not yet taken
4.3 Conclusion and outlook

The central question of this study is whether Montenegro is well on the road to meeting its long-term policy goals for tourism and attracting investments in tourism, and whether it is acting in accordance with investor needs as well as the recommendations for actions in the 2003 study. The answer is yes. However, the country must improve its focus as well as implement and communicate improvements in a more consistent way.

In the benchmarking process, Montenegro took its first steps toward becoming a learning destination. On the one hand, the country has experienced important changes that benefit today’s potential investors. Those in charge are aware of remaining impediments to investments, and these barriers are ready to be eliminated. However, this knowledge must be transformed into a systematic and continual process of improvement. Also in the future, that cannot happen without strong international assistance.

On the other hand, the country has made real improvements in important areas; and although these achievements fall short of becoming best practices, the overall direction is right. From a current perspective, it is most important to keep track of long-term goals. It is not necessary to make compromises regardless of the cost – that can actually be a dangerous practice. Montenegro must transform its current achievements into sustainable improvements until they become part of normal everyday life and are less and less politicized. In this way, even difficult, long-term issues can be tackled: "Think big – start small – implement quickly."

In terms of tourism, Montenegro is not a "developing country" where one might adopt the simple view that more beds mean more income for the municipalities. Montenegro should already be planning for the second and third waves of investment to prevent future slowdowns. It can learn how to do this by listening to the dialogs currently taking place at many other destinations. Montenegro has to improve and adjust quality on a regular basis in order to respond to ever changing focuses in demand.

Positive economic, political and legal conditions are still a prerequisite for attracting foreign investors. FDI requires a macroeconomic framework in which fair competition, legal certainty and stability are guaranteed and profits can be remitted. Montenegro has fulfilled most of the formal requirements for this framework. A great source of hope is the country's stabilization and association process with the final goal of EU membership. It will have an accelerating effect on reforms and the general willingness to invest.

In addition, national and local regulatory systems must be fully functioning in order to prevent abuses (with respect to taxes, environmental protection, licensing procedures, etc.). At the institutional level, Montenegro must establish efficient structures that prepare for and support investments. These systems and structures are Montenegro's largest gap.

Direct incentives for FDI would be counterproductive for Montenegro. Its scarce resources should be used for making other improvements in this field: solving infrastructure and environmental protection problems has the highest priority. Montenegro must still ensure the continuity of its tourism policy from a financial standpoint, however, and it should maintain the current ratio between Government Expenditure and GDP from tourism (see Figure 23).

120 See BearingPoint-Study 2003, pages 122 - 124
Efforts to promote tourism must be noticeable at all levels. As was already the case in 2003, everyone involved has to pull together and in the same direction. The Ministry of Tourism is dependent on the work of others – spatial planning, health, environment, finances, international politics, and culture, to name only a few. **Whether the tourism industry is successful or not revolves around the support – or lack of support – of each area involved.**

Everyone agrees on one thing: simply putting up buildings is easy, but it is much harder to ensure proper management and service skills and a continued willingness to learn. Innovative approaches to human resources are needed in order to maintain new quality levels. Montenegro must guarantee this type of continuity for the *people's business* tourism on a long-term basis through farsighted human resources planning and knowledge management for both the public and private sectors.

For investors, information on Montenegro has been either unavailable, hard to find or of poor quality, and the harmful effects of this are now becoming apparent. While a country has to gradually develop a positive image, its reputation can be quickly destroyed. For this reason, Montenegro must make great efforts to improve investor relationships management as well as tourism PR and marketing (B2B and B2C).

With respect to FDI, another challenge for Montenegro is to systematically incorporate foreign direct investments into its development strategy for tourism and the national economy. The Master Plan provides a foundation for such efforts. However, the issue is how to incorporate foreign investors into the national economy on a long-term basis in order to make sustainable use of the possibilities offered by their presence.

For this reason, Montenegro should bring aboard domestic industry and foreign investors when designing targeted supporting programs and new rules and regulations. As a continued goal, Montenegro must enhance the abilities and capacities of the local economy so that the country is able to generate other services required for tourism (not only for tourists, but above all for investors) independently and with high added value. A wide-ranging, institutionalized inclusion of the private sector is also important because companies share responsibility for implementation. They are the first to notice the effects of legislation on their business activities and can put this knowledge to use through appropriate management practices.

In terms of FDI in tourism, current risks can be reasonably contained within available opportunities. Good preparation and close dialog are important to ensure that indirect project costs are correctly planned.

According to WTTC projections, Montenegro will continue to be the destination with the largest percentage growth. As general conditions are continually improved until they have created an absolute "paradise for investors," the price of lucrative locations may increase, or the choice of interesting opportunities will diminish – especially in the coastal zone.

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123 ERA-RR, February 2005, page 222
As a continued challenge for the coming years, Montenegro must integrate its current learning curve into strategies and processes on a sustainable, long-term basis. If it succeeds, Montenegro already has a great opportunity to become one of the futures "Leading Small Destinations of the World".

As a matter of fact, it would be best for Montenegro to establish such a new brand and community of interests independently.

"We don’t get to know people when they come to us; we must go to them to find out how they are doing."

Goethe (1749 - 1832), Maxims and Reflections
Appendix 1: Background: the development of tourism in Montenegro until November 2003

Natural conditions for successful tourism...

Montenegro is a small nation in Southeast Europe (13,812 km², population of about 663,000) with the following features:

- Excellent climate and scenery, offering a bathing season from late April to early November, similar to that of the Balearic Islands, and allowing for diverse offerings that meet the needs of target groups in the areas of cultural, health, sports and agricultural tourism.

- Extraordinary natural beauty and diversity characterized by the "most beautiful and longest sandy beach" on the east Adriatic coast on one side of the country, and mountain ranges and ravines, untouched glacial lakes and four national parks (7% of its total area) on the other side.

- Cultural heritage treasures that are well worth seeing, thanks to its ethnic groups, religions and thousands of years of history.

...are no longer sufficient without good offerings

Montenegro was once before a popular destination on the international tourist map – its most recent heyday was in the 1980s. Although the country was not involved in the Balkan conflicts of the 1990s, those events meant heavy setbacks in terms of supply and demand for Montenegro's tourism industry. It was subjected to the international embargo against Yugoslavia. As an immediate consequence, cross-border traffic came to an almost complete standstill for about 10 years. The country's isolation eliminated settings needed for the type of development that other transitional countries had already undergone in the 1990s. It also encouraged black markets and corruption.

Montenegro disappeared as an international vacation destination. Although the country drew on demand for beach tourism from neighboring Serbia, which was just as isolated, the season was limited to only a few weeks. Suppliers fetched extremely low prices that allowed for no reinvestment whatsoever. With its offerings, the country was unable to adapt to the new expectations of potential tourists from other countries, nor could it keep up with developing competitors. Furthermore, there was no way it could build on its own strengths. Most of its current offerings are outdated and worn out. In terms of quality and content, they are unable to meet the needs of the type of tourist structure so essential to the country’s macroeconomic development. Added to this are infrastructure problems, such as water supply, sewage disposal and the lack of air traffic connections.

Reorganization with international assistance...

Montenegro was included in subsidies through the Stability Pact and receives substantial support, mainly from the EU125, the USA and Germany, including projects for improving the coastal infrastructure, a program for assisting small- and medium-sized enterprises (SMEs) and the creation of Tourism Master Plans by the DEG. These plans were passed in 2001 and lay the groundwork for a new and sustainable tourism industry with ambitious qualitative und quantitative goals.

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125 In 2003 via the CARDS program: €229 million in Serbia and €13.5 million in Montenegro for reforms and modernization of economy and society
...can only succeed by strengthening the private sector and proactively enabling pioneering investments in tourism...

Montenegro is not strong enough to restructure its current offerings by itself. Apart from beach destinations and small ski areas, its potential has not been fully exploited. When the Master Plans were approved, there was a complete lack of tourism infrastructure, e.g., accommodation, recreational and activity offerings, road networks, control systems, vista spots, maps, restaurants, car rental companies, banking services, and sports and entertainment. Some of these shortcomings have been dealt with in the meantime. But the most significant problems can still be found in the hotel industry (the service industry that tourists patronize the most); mainly because state-run hotels are being privatized at a dragging pace.

...and by achieving a complete about-face in terms of supply and demand structures

The following figure (and several others in the appendices) illustrates the dilemma. At the same time, it uses numbers to show Montenegro's future potential if it can shift the weighting and close the gap between supply and potential demand according to the goals of the Master Plan. In the comparison, some of the potential demand for hotels and other accommodation that Montenegro lost in the 90s has since moved to other countries.

This applies in particular to domestic tourists from Serbia, who mainly visit Turkey, which is not only nearby but also a much more attractive sell in terms of cost-performance ratio. Montenegro's currently has an unfavorable tourist structure because it lacks marketable accommodation capacities and can therefore cover only a fraction of tour operator demand.

A far-reaching increase in quality cannot be achieved without investments that help redevelop existing capacities, strengthen SMEs and implement large-scale greenfield projects (for the hotel industry, see Figure 13 and Table 11).

Figure 11: Montenegro's potential demand according to number of overnight stays in 1990, 2002/2004
Figure 12: Hotels by category 2003 – 94 Hotels

Figure 13: Locations for greenfield investments, the coast of Montenegro
### Table 11: Current potential for building hotels, 2005

Source: Ministry of Tourism of the Republic of Montenegro, dated 05/19/2005
Appendix 2: Background: policy goals for attracting investments in tourism

The quantitative goal defined in the Master Plan of generating 11.4 million overnight stays by 2010 corresponds to levels reached between 1985 and 1987, but shows significant differences in terms of source markets and offering structures: the percentage of non-domestic tourists is to increase from 25% in 1985 to 45% in 2010 and predominate slightly at 65% in 2020 (already the case once before in Croatia, where levels reached 62% in the mid-1980s). The primary markets will be Western and Northern Europe until living standards in Eastern Europe have increased to the point where the region can become a primary source market.

In terms of overall accommodation capacities, the percentage of hotels should increase to 30% (1985 - 87 levels) to 57% in 2010 and finally 78% in 2020. The number of guests using private accommodations is to remain constant, as is the number of camping tourists. To compensate for lower capacity in this segment, quality improvements and other measures aimed at attracting mobile home travelers will be introduced. There will be a decrease in the number and volume of other types of capacities formerly more suitable for use as collective accommodation.

These goals can only be achieved if new hotels reach an average seasonal occupancy rate of 150 days (41%) by 2010 while older hotels achieve a 20% rate and camping grounds and private accommodations reach the 16% mark. By 2020, occupancy rates in the hotel industry are planned to reach 150 - 165 days (40 - 45%).

Qualitatively speaking, Montenegro's tourism industry must do the following:

- Create and secure jobs
- Open up long-lasting perspectives for current society and future generations
- Help improve public finances, income and quality of life
- Focus on and further develop factors of regional identity
- Preserve, utilize, maintain and promote the potential provided by the country's landscape, culture, history and natural environment

Key areas of focus include sustainable, high-quality tourism as the country's primary branch of industry, regional integration of the tourism industry with other sectors as well as cross-border cooperation wherever tourists perceive administrative borders as impediments.

At the regional level, natural strengths must be transformed into distinct offerings and brand identities. The Ulcinj region not only has the potential to become a first-class beach destination, it also presents lucrative opportunities for other target groups such as fitness and wellness enthusiasts, culture lovers, and yachters. It could also cater to small niches in demand for nature and adventure tourism. A wide range of experiences and an extended season are the key attractions of Boka Kotorska. However, in order to attract additional target groups such as hikers, mountain bikers, and water sports enthusiasts and ensure that they return, the structure of offerings must be improved and reoriented.

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126 BearingPoint study 2003
127 See DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH: Touristic Masterplan for Montenegro, Cologne, 2001
Appendix 3: Tourism statistics 2002 - 2004

Figure 14: Arrivals 2002 - 2004

Figure 15: Overnight stays 2002 - 2004

Figure 16: Income, Travel and Tourism Economy 2002 - 2004\(^{129}\)

Figure 17: Effect on employment, Travel and Tourism Economy 2002 - 2004\(^{120}\)

\(^{129}\) World Travel & Tourism Council (WTTC): WTTC 2005 Tourism Satellite Account, Country Report Montenegro
Appendix 3: Attractiveness for investments in tourism – 2003 evaluation

![Figure 18: Attractiveness for investments in tourism – 2003 evaluation](image)

Appendix 4: Quantity, quality and efficiency of incentives offered – 2003/2005 evaluation

![Figure 19: Quantity, quality and efficiency of incentives offered – 2003/2005 evaluation](image)
Appendix 5: Doing Business 2005 – evaluation of selected areas

Figure 20: Country ratings in the 2005 Doing Business index – Starting a Business

Figure 21: Country ratings in the 2005 Doing Business index – Registering Property

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Figure 22: Country ratings in the 2005 Doing Business index – Enforcing Contracts

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Appendix 6: GDP, Government expenditures and investments in tourism

In the graphic below, Montenegro's Government expenditures between 2002 and 2004 are compared with GDP from tourism and total public and private-sector investments. Corresponding growth rates from 2002 to 2004 are shown in the inserted diagram.

Figure 23: GDP, Government Expenditure and total investment in tourism, 2002 - 2004


Regarding the definition of GDP shown here: “...two different and complementary aggregates of Travel & Tourism Supply: the Travel & Tourism Industry and the Travel & Tourism Economy. The former captures the explicitly defined production-side ‘industry’ equivalent, direct impact only, for comparison with all other industries, while the latter captures the broader ‘economy-wide’ impact, direct and indirect, of Travel & Tourism. Through this process, the Satellite Account is also able to determine that portion of supply, which it imports from abroad.”

Government expenditures represent the sum of two components: “Government Expenditures (Individual) by agencies and departments which provide visitor services such as cultural (art museums), recreational (national park) or clearance (immigration/ customs) to individual visitors. Government Expenditures (Collective) made by agencies and departments associated with Travel & Tourism, but generally made on behalf of the community at large, such as tourism promotion, aviation administration, security services and resort area sanitation services.”

Capital Investment encompasses both public and private investment activity and is not yet available in separate form for Montenegro: “....by Travel & Tourism providers (the private sector) and government agencies (the public sector) to provide facilities, equipment and infrastructure to visitors.” source: www.wttc.org, April 2005
## Appendix 7: Bilateral investment treaties and double taxation treaties

### Table 12: Bilateral investment treaties with Serbia and Montenegro concluded between 1995 and 2005

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* Signed but not yet ratified.

1 Validity has been prolonged by note exchange.

2 The unilateral agreement has been signed and it’s expected to initiate negotiations with the view of signing bilateral agreement.

NA: Final data could not be obtained within the timeframe of this study.


*Updated by the Ministry for International Economic Relations and European Integration, Montenegro, on 05/18/2005*
## Double taxation treaties, Serbia and Montenegro 1995 - 2005

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<tr>
<td>Greece</td>
<td>1997</td>
<td>Switzerland</td>
<td>2005</td>
</tr>
<tr>
<td>Guinea</td>
<td>1996</td>
<td>Czech Republic (revised)</td>
<td>2004</td>
</tr>
<tr>
<td>Iran</td>
<td>2004</td>
<td>Ukraine</td>
<td>2001</td>
</tr>
<tr>
<td>China (revised)</td>
<td>2000</td>
<td>Hungary (revised)</td>
<td>2001</td>
</tr>
<tr>
<td>Croatia</td>
<td>2001</td>
<td>Belarus</td>
<td>1998</td>
</tr>
<tr>
<td>Kuwait</td>
<td>2002</td>
<td>Zimbabwe</td>
<td>1996</td>
</tr>
<tr>
<td>Macedonia</td>
<td>1996</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 13: Double taxation treaties with Serbia and Montenegro concluded between 1995 and 2005**
Box III.2. Transnational hotels: non-equity participation on the rise?

Hotels with foreign names remain one of the most visible symbols of FDI in global tourism, especially in developing countries. But appearances can be misleading: there is increasingly less reason to assume that, just because a well-known chain runs a hotel, it also owns it. As in many other service industries, franchising, leasing and management contracts are becoming more popular forms of TNC participation while equity purchase and ownership are declining. The Intercontinental Hotels Group (IHG) (annex table AIII.5), for example (which claims to be the world’s most global hotel company and the largest, with 3,500 hotels and 535,000 rooms), has sold for sale almost $1 billion of its total $6 billion portfolio since April 2003. The move is part of a wider strategy to reduce its capital investment and increase the spread of its operations by management contracts and franchising.

Even TNCs that historically eschewed non-equity participation seem to be moving towards it. Shangri-La Hotels and Resorts, for example, which was the second largest global hotel TNC in terms of foreign assets, currently owns 90% of its 20,000-plus hotel rooms, one of the highest proportions of equity ownership among the top hotel TNCs (box table III.2.1). However, its annual reports indicate that the company’s planned expansion into China and other parts of Asia will rely heavily on non-equity modes. Plans include management contracts for another 6,145 rooms, plus ownership of another 5,646 rooms, taking the total proportion of rooms owned down to 80% (and those managed, up to 20%) by 2007.

At the same time, hoteliers make every effort to ensure that quality and reputation are not compromised. One reason for the growth in non-equity participation seems to be the extent to which a hotelier’s service is standardized, as opposed to customized. For example, even hoteliers with a general preference not to own the “hardware” will make an exception when the building in question is famous or a landmark. Similarly, hoteliers tend to retain ownership of their luxury or highest quality ranges. Reflecting such factors are the high ownership ratios of Asian TNCs’ hotel chains such as Orient-Express Hotels and Shangri-La. They are firms that target small numbers of high-end properties and clients.

Box table III.2.1. Selected leading hotel chains: modes of operation, 2003

<table>
<thead>
<tr>
<th>Hotel group</th>
<th>Home economy</th>
<th>International hotels as % of total rooms</th>
<th>Full or partial equity</th>
<th>Management contract</th>
<th>Franchised, leased or other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starwood Hotels &amp; Resorts</td>
<td>United States</td>
<td>34</td>
<td>24</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>Accor</td>
<td>France</td>
<td>74</td>
<td>23</td>
<td>17</td>
<td>62</td>
</tr>
<tr>
<td>Orient-Express Hotels Ltd</td>
<td>Bahamas</td>
<td>60</td>
<td>92</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hilton Group plc</td>
<td>United Kingdom</td>
<td>80</td>
<td>17</td>
<td>22</td>
<td>60</td>
</tr>
<tr>
<td>Shangri-La Hotels and Resorts</td>
<td>Hong Kong, China</td>
<td>97</td>
<td>96</td>
<td>18</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: UNCTAD, based on annual company reports.

1 Includes leased rooms.
2 Figures based on reported revenues and earnings, not hotel rooms.
3 Management decisions are made in the United Kingdom.
4 Based on numbers of hotels, not rooms.

In terms of country and regional patterns, different TNCs follow different strategies. For example, IHG follows a predominantly franchising model in the United States, an ownership model in Europe, and a management model in Asia and the Pacific. Accor, by comparison, relies more on ownership models of operation in the United States, and on franchising in Europe (including France). In Latin America, its most common mode of entry is via management contract.


1 IHG divested itself in April 2003 from the United Kingdom brewing, pub and hotel group Six Continents (www.6cplc.com, accessed July 2004).

2 Factors such as perceived risk seem to appear to prompt non-equity modes, but there is evidence of a positive association with the level of GDP per capita (Contractor and Kunda 2009).

Appendix 9: Companies and organizations interviewed

Between April and May 2005, personal interviews and ongoing meetings about the topics of this study were conducted with the following companies and organizations. They also provided some secondary sources that are not available to public.

- Bellevue Hotels Group / Iberostar, Montenegro
- DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Tourism Development Competence Center (TDCC), Croatia and Montenegro
- Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, Montenegro
- EBRD, Turn Around Management Programme, Switzerland
- Grand Hotel Avala, Managed by Beppler & Jacobson, Montenegro
- Hochtief AG, Essen, Germany
- HTP Springer & Pletzer, Montenegro
- Hunguest Hotels, Montenegro
- Kreditanstalt für Wiederaufbau (KfW), Montenegro
- LTU Touristik GmbH, Cologne, Germany
- Ministry for International Economic Relations and European Integration of the Republic of Montenegro
- Ministry of Finance of the Republic of Montenegro
- Ministry of Tourism of the Republic of Montenegro
- Montenegrin Investment Promotion Agency, Montenegro
- Montenegro Stars Hotel Group, Montenegro
- Pemi Bau GmbH, Berlin, Germany
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- A qualitative Gap Analysis -

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