

Montenegro

Country factsheet



European Bank
for Reconstruction and Development

EBRD financing in Montenegro includes major infrastructure loans for the transport and power sectors, investments in local banks mainly in support of small and medium-sized enterprises (SMEs), and investments in private companies and new ventures. Recent support has focused on the water supply system and the modernization of the country's rail infrastructure which is a key transport link for Montenegro and the region as a whole.

EBRD commitments in the infrastructure sector include €38.3 million in three rehabilitation transport projects: Montenegro Airports, roads and rail infrastructure and regional water supply (see below). Investments in financial institutions are at €10 million and include loans or equity investments in NLB Montenegrobanka and credit lines to Alter Modus. Several transactions supported local banks through mortgage financing, Trade Facilitation programme (TFP), and small business financing under the Western Balkans Framework SME credit line. The SME sector has also received strong support from Turnaround Management (TAM) and Business Advisory Services (BAS).

In the corporate sector, the EBRD invested in a greenfield technical gas facility (DIF) and provided a pre-privatisation loan for KAP, an aluminum combine to finance the investment advisor. Both of these transactions have been completed.

In the news

Securing safe water supplies

The EBRD is lending €15 million to the Montenegrin regional water supply company to support the rehabilitation and construction of a regional water supply system that will provide potable water from Lake Skadar to the municipalities along the Montenegrin coast.

The project, which has been developed in close co-operation with the World Bank, will provide a long-term sustainable solution to water supply requirements of the coastal cities and underpin Montenegro's expanding tourism potential.

The Bank will finance the rehabilitation and construction of the northern branch of the system which will supply Budva, Tivat, Kotor and Herceg Novi, and the World Bank will finance water extraction from Skadar Lake, water treatment, the main

continental part of the network and the southern branch supplying Bar and Ulcinj.

The borrower, "Regionalni Vodovod Crnogorsko Primorje" is a state-owned enterprise established for the purpose of providing bulk water to the local water companies serving the coastal municipalities in Montenegro.

The EBRD loan programme carries a sovereign guarantee from the Montenegrin government. It is being disbursed in two loans over two years to match the profile of the country's investment requirements.

Considering that tourism is the main growth sector in Montenegro, securing safe and uninterrupted water supply for the coastal region is of strategic importance for the country, and the government has given it its highest priority.

At a glance*

Number of projects

12

Net business volume

€51.7 million

Total project value

€114.7 million

Gross disbursements

€28.0 million

Additional mobilisation

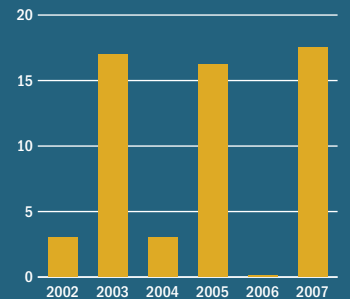
€46.3 million

Share in private sector

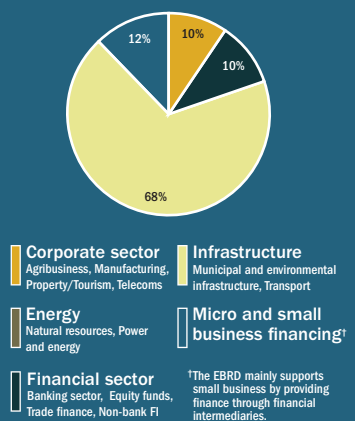
28 per cent

*Cumulative, as at 1 January 2008

Commitments by year (€ million)



Commitments by sector



Securing safe and uninterrupted water supply for the coastal region is of strategic importance for the country.

➔ Read more...
www.ebrd.com/press

EBRD strategy in Montenegro

Until recently, the Bank had been operating under the strategy for Serbia and Montenegro approved in November 2004. Following the successful membership application in 2006 of Montenegro as an independent country, the Bank prepared a new strategy for Montenegro, which was approved by the Board in September 2007. The new strategy calls for EBRD engagement in three priority sectors.

Corporate Sector

The Bank can play an important role in Montenegro's tourism and property sector by providing both funding and political comfort to foreign investors. There is significant demand for good office, retail, hotel and housing space. The Bank will actively support the chosen strategy of low density, higher-end tourism property development including ensuring positive backward linkages. The Bank also aims to increase its operations with local private corporate clients and promote investment in new technology and environmental improvements. The privatisation process and post-privatisation restructuring will be supported. In addition, the Bank will continue to support MSMEs through existing and new financial instruments like the EBRD-Italy Western Balkan Local Enterprise Facility and the MSME Finance Framework for Western Balkans and Croatia to local banks and specialised microfinance institutions.

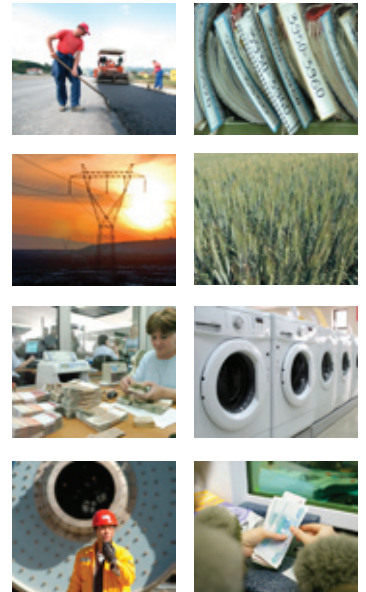
Infrastructure

The Bank will, in cooperation with the EIB, the World Bank and the EU, continue lending for key infrastructure projects where clear transition impact can be achieved and with an emphasis on involvement of a private sponsor wherever possible. Priority will be given to projects with a material impact on tourism and/or a strong regional dimension. The Bank will support corporate restructuring in the electricity, gas and oil, roads and railway sectors, and will attempt to advance commercial financing to municipalities. Future sovereign projects will be limited by the tight fiscal space. This will require a selective approach and the need to phase infrastructure projects over several years to make them viable from a sovereign borrowing point of view.

Financial Sector

The Bank will focus on the following areas:

- Cooperation with strong local or foreign banks looking for opportunities to increase market share by assisting in further consolidation.
- Continued support to commercial banks and micro-lending institutions, especially in the field of MSME and mortgage lending through existing products and facilities.



Key dates

Joined the EBRD	June 2006
Current strategy	September 2007
Next strategy	2010

➔ Read the full strategy here:
www.ebrd.com/montenegro

Building stronger businesses

The EBRD's TurnAround Management (TAM) and Business Advisory Services (BAS) Programme consists of complementary programmes that work directly with private enterprises, helping them to adapt to the demands of a market economy. While TAM has a broad approach focusing on substantial managerial and structural changes within the company, BAS supports projects with narrowly defined objectives and a rapid pay-back.

At the same time the programme aims to develop a sustainable infrastructure for business advisory services and

provides input into the EBRD's policy dialogue activities. TAM/BAS is now fully integrated into the EBRD's activities, alongside banking and investment.

TAM/BAS in Montenegro

BAS Montenegro was awarded a 'Certificate of Appreciation' for its support to and development of small and medium-sized businesses. The certificate was presented by the Director of the Small and Medium Enterprise Development Authority (SMEDA), Mr. Zoran Vukcevic.



➔ For more on TAM/BAS:
www.ebrd.com/tambas

Economic overview

Enterprise sector

Privatisation is well advanced. Over the past year one of the biggest sales was that of Nikšić steel mill, which had been effectively renationalised by the government in 2006. Four companies made bids for the 67 per cent stake on offer and the company was taken over in January 2007 by Resource Capital and Management, which pledged a substantial investment programme over the next few years. However, a number of large companies are yet to be sold. In July 2007, the government approved a privatisation programme for the rest of the year, but large state-owned enterprises in the energy, airports, post and wine-producing sectors were not included.

Energy/Infrastructure sectors

Privatisation of the telecoms sector is complete and the government recently awarded a new mobile phone licence to a subsidiary of Telekom Srbija, which began providing services in July 2007. However, reforms in other infrastructure sectors, where the state remains dominant, have a long way to go. Privatisation of the power sector is at an early stage, with preparations under way to implement a pre-privatisation agreement associated with the unbundling of the state-owned power company, Elektroprivreda Crne Gore. A proposed tender for the sale of the thermal power plant in Pljevlja was cancelled in June 2007. Road and railway sector reforms have progressed slowly.

➔ For more research and statistics visit: www.ebrd.com/economics

Financial sector

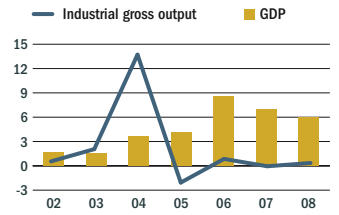
Performance and supervision of the banking sector have improved significantly in recent years. At the end of 2007, 11 banks were operating in Montenegro. All the banks have now been transferred to private hands and by the end of the year less than 5 per cent of bank capital belonged to state-owned companies. Credit and deposits have grown rapidly over the past 18 months. In the year to October 2007 total credit rose by 165 per cent and bank deposits by 155 per cent. In the non-bank financial sector, there has been significant growth in turnover and capitalisation over the past year on the country's two stock markets – NEX Montenegro and Montenegroberza. The exchanges had a combined market capitalisation of more than €8 billion by the end of April 2007 but the overall contribution of equity markets to economic development remains small.

Investment climate

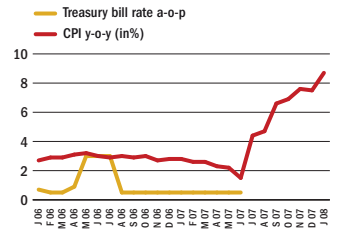
Montenegro's business environment is quite liberal, with nearly 37,000 registered businesses (as of November 2007) – a high number given the country's population, reflecting the relative ease of registration. The corporate tax rate, at 9 per cent, remains the lowest in the region and a flat personal income tax (set initially at 15 per cent) was introduced in the first quarter of 2007.

➔ Find out more about the EBRD's Legal transition programme at: www.ebrd.com/law

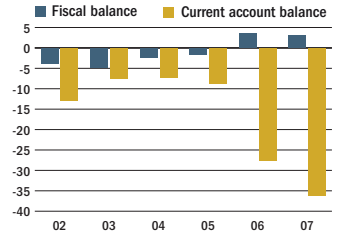
Output and expenditure % change



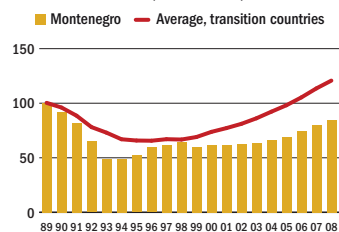
Interest rates and inflation



Fiscal and current account balance %GDP



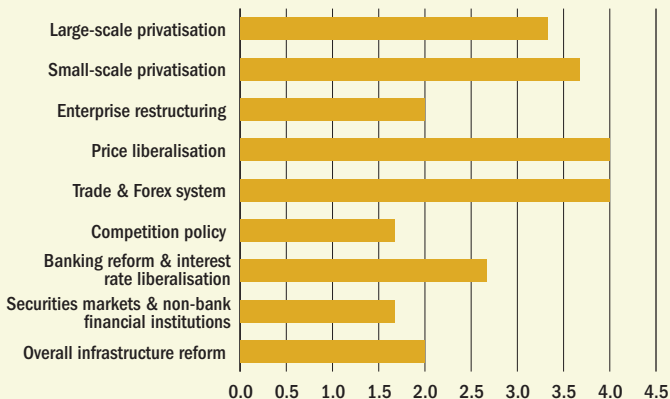
Real GDP (1989 = 100)



The 'cut-off' date for data was mid-April. Data for 2008 are projections.

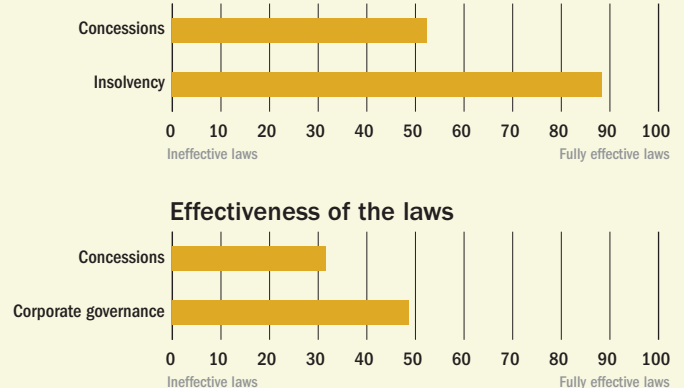
Transition progress

Transition indicators, 2007



The transition indicators range from 1 to 4+, with 1 representing little or no change from a rigid centrally planned economy and 4+ representing the standards of an industrialised market economy.
Source: EBRD Office of the Chief Economist

Effectiveness of the laws



Measuring effectiveness of the law using specific case studies as proxies for the relevant sector
Source: EBRD Office of the General Council, Country law assessments

Project showcase

Sector:	Transport
Project name:	Montenegro Rail Infrastructure
Private/Public:	Public
EBRD financing:	€15 million
Total project value:	€15 million
Signed:	March 2007

Description and objectives

The proposed project will consist of two components:

- implementation of the priority track rehabilitation programme to ensure adequate rail track safety standards
- a labour severance programme to support the restructuring programme of ZCG Infrastruktura

Transition impact

- transfer and dispersion of skills in the areas of strategic planning
- transfer of modern rail track maintenance planning and practices
- setting standards for corporate governance and business conduct.

EBRD finance

The EBRD will provide a sovereign guaranteed loan of €15 million.

Sector:	MEI
Project name:	Montenegro Regional Water Supply Project
Private/Public:	Public
EBRD financing:	€18 million
Total project value:	€52 million
Signed:	October 2006

Description and objectives

The proposed project is for a regional water supply scheme that will provide potable water from Lake Skadar to the municipalities along the Montenegrin coast. The EBRD will finance the northern branch of the regional water supply system which will supply Budva, Tivat, Kotor and Herceg Novi. The World Bank will finance the southern branch supplying Bar and Ulcinj.

Transition impact

The proposed project will contribute to the transition process by: commercialisation through introduction of commercial contracts between the Public Enterprise for Regional Water Supply and the local municipal water companies; tariff setting based on cost recovery principle; sector reform linked to technical assistance programmes, which already have yielded significant results.

EBRD finance

The EBRD is providing a loan of up to €18 million.



How to obtain EBRD financing

Large private sector projects
www.ebrd.com/apply/large

Small projects
www.ebrd.com/apply/small

Trade
www.ebrd.com/apply/trade

Complementary schemes
www.ebrd.com/apply/tambas

Application form
www.ebrd.com/apply

Today the EBRD uses the tools of investment to help build market economies and democracies in countries from central Europe to central Asia.



European Bank
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➔ For more projects visit:
www.ebrd.com/projects

Contacts

Information requests

For information requests and general enquiries, please use the information request form.
www.ebrd.com/inforequest

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Exchange rates

Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2007. (Approximate euro exchange rates: £0.73, US\$ 1.47, ¥ 164.87.)

www.ebrd.com/montenegro