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Travel & Tourism: Investment Potential

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TRAVEL & TOURISM: INVESTMENT POTENTIAL

FOREWORD

THE GLOBAL ECONOMIC RECESSION AND ASSOCIATED CREDIT CRISIS CREATED NEW, AND UNEXPECTED, CHALLENGES FOR MONTENEGRO IN TERMS OF ATTRACTING INVESTMENT IN TRAVEL & TOURISM. YET, DESPITE THE CONTINUING UNCERTAINTIES, THERE ARE NOW CLEAR SIGNS OF RENEWED INTEREST FROM MANY DIFFERENT SOURCES, IN LINE WITH THE RECOVERY IN TOURISM DEMAND.

WTTC's latest research also confirms our earlier optimism with regard to the longer-term potential of Travel & Tourism investment in the country. The government's foresight and careful planning over the past decade can still be expected to pay off handsomely.

Not only do we expect the country to be the fastest growing Travel & Tourism economy in the world over the next ten years – in terms of its contribution to GDP and employment – but our research ranks Montenegro in number one position worldwide for Travel & Tourism investment growth from 2011 to 2021, as well as in second position (behind Brazil) for visitor exports.

There is clearly no room for complacency, especially given the postponement and even suspension of some major projects as a result of the challenging economic and operating environment. Yet these positive forecasts – developed in co-operation with our research partner, Oxford Economics – reflect the significant progress made by the government of Prime Minister Igor Luksić, building on the successes of his predecessor, Milo Đjukanović, at moving Montenegro into a era of prosperity and long-term competitiveness.

In addition to putting in place a solid policy framework to help ensure that tourism development is sustainable, the government has made every effort to create the right business/operating environment conducive to attracting foreign investment. Indeed, in its recently published annual report on *Doing Business 2012*, the World Bank shows that Montenegro has moved up a full ten places in the world ranking – to 56th out of 183 countries.

On behalf of WTTC's Members – many of whom will, I feel sure, become key stakeholders in Montenegro's Travel & Tourism – I congratulate you and wish you every success for the future.

WTTC stands ready to work with you to help you achieve your vision – for the benefit of all Montenegrins, as well as for your country's Travel & Tourism industry and the many millions of tourists who will be flocking to Montenegro.

David Scowsill
President & CEO
World Travel & Tourism Council

Geoffrey J W Kent
Chairman, World Travel & Tourism Council and
Chairman & CEO, Abercrombie & Kent

GLOBAL INVESTMENT IN TRAVEL & TOURISM

THE DECADE THROUGH 2010 ENJOYED A RAPID RISE IN INVESTMENT ACROSS THE TRAVEL & TOURISM INDUSTRY WORLDWIDE, AS DESTINATIONS BECAME MORE COMPETITIVE IN THEIR PURSUIT OF INCREASINGLY AFFLUENT INTERNATIONAL TRAVELLERS. GLOBALLY, TRAVEL & TOURISM CAPITAL INVESTMENT ROSE BY 42% FROM 2000 TO 2010, AND BY 66% TO 2008 – THAT IS, BEFORE THE AVAILABILITY OF DEVELOPMENT FINANCE WAS HIT BY THE CREDIT CRISIS.

Global Travel & Tourism investment peaked at US$727 million in 2008 (at 2011 prices), with the Americas and Asia Pacific each accounting for a 34% of the total, and Europe for 23%.

All world regions have seen solid growth in Travel & Tourism investment since 2000, with the exception of Western Europe. In the United States, despite sluggish growth in industry GDP and employment, there has been a concerted drive in investment to remain competitive, with Travel & Tourism capital outlays up by a third in 2000-08 and by 20% between 2002 and 2010.

The highest percentage growth rates in Travel & Tourism investment have predictably been seen in Asia, some parts of Africa and the Middle East. This includes overall growth of more than 600% in India from 2000-10, and 230% in the United Arab Emirates. However, in both cases this rapid growth stemmed from a very low base, and annual investment is still, in absolute terms, a small fraction of that made in the USA or Europe.

A KEY INDICATOR OF COMPETITIVENESS

Integral to destination performance

Investment in Travel & Tourism products and infrastructure is not only essential for destinations to maintain and expand capacity, but it also allows for and encourages improvements in quality, competitiveness, productivity and sustainability. Research has proved that new capital projects and major refurbishments – both of which are classified as investment – are integral to current and future destination performance.

However, proposed capital projects may remain constrained by limited access to finance, even in locations where demand is growing strongly. In contrast there is also evidence of over-investment in some destinations despite the clear upturn in industry performance, now that the world economy has emerged from recession.

Nevertheless, even in destinations where existing Travel & Tourism infrastructure is sufficient for the current volume of demand, or even where there is excess capacity, the industry's capacity is not necessarily directly aligned to evolving consumer preferences. Emerging source markets often have distinct preferences for more mature destinations, while markets all tend to be unpredictable, with their tastes evolving over time in line with their individual definitions of both basic home comforts and luxury goods. This means that Travel & Tourism investment remains important at any stage of the global business cycle.

Research has proved that new capital projects and major refurbishments – both of which are classified as investment – are integral to current and future destination performance.

Travel & Tourism investment can take many forms, such as:

- Accommodation development and major maintenance, including new building structures, and furniture and equipment to 'fit out' or refurbish hotels and holiday homes;
- Passenger transport, such as aircraft and cruise ships, for specific tourism use;
- Capital projects and refurbishments designed to attract visitors; and
- 'Green' investments within the industry, such as solar and retrofit schemes to enhance energy efficiency.

A driver of growth in supply and demand

Travel & Tourism investment is important for a number of reasons. First, it increases the sector's capacity to support more travellers and visitors. As an example, in early 2011, some 1.3 million new hotel rooms were either under construction or in the pipeline around the world. Second, investment helps to maintain existing capacity and standards through major refurbishments. And third, in the case of 'mega-projects', such as Dubai's US$1.5 billion Atlantis Hotel or its US$3 billion Meydan sports and meeting complex, investment can stimulate completely new demand and boost market share.

Investment in Travel & Tourism is often of strategic national importance and the ratio of investment to the industry's contribution to GDP can be extremely high. Notable examples in 2011 include Qatar (where investment in Travel & Tourism was 138% of the industry's contribution to GDP), Singapore (135%, thanks in no small part to the liberalisation of gaming), and the Caribbean island state of Antigua & Barbuda (108%).

MEASURING INVESTMENT GROWTH

Close correlation with international visitor spending ...

Travel & Tourism investment worldwide closely tracked global tourism spending from the late 1980s to the mid-2000s, although it is likely that there was some dual causality over this period. The growth in spending would not have been possible without the increased capacity brought about by investment growth. This is clear from even a quick look at the growth in airline fleet sizes or hotel room supply over this time, without a significant drop in occupancy rates.

However, the immediate year-to-year cyclical movement of investment may lag total spending. As an example, investment continued to grow in 2001 when the spending cycle had already turned. This phenomenon is partly due to the nature of a lot of capital investment projects, such as hotel or resort construction, which can take several years to plan and implement.

In contrast, Travel & Tourism investment over the period 2005-08 is estimated to have grown significantly faster than global tourism expenditure, rising by 40% compared with an increase of only 11% in global tourism spending. This period coincided with the wider boom in the global economy and global investment, supported by relatively cheap and easy-to-access finance.

... until the start of the global economic crisis ...

As the global economy entered recession for the first time since World War II, and the global financial system cut back dramatically on lending and raised the cost of borrowing (despite historically low central bank interest rates), investment in Travel & Tourism is estimated to have fallen back sharply, and indeed corrected much more than the drop in global tourism spending.

In the case of hotel investment, strong growth in investment activity was sustained during the early part of the downturn due to the length of time projects take to reach completion, although this has now fallen back. Many developers still sought to complete projects in order to recoup some of their investment outlay, rather than scrapping projects completely mid-way through construction.

Furthermore, in some cases, hotel projects have been completed ahead of schedule and at a lower-than-budgeted cost. This situation has been helped by the wider downturn in construction and greater global availability of construction labour.

... and Montenegro did not escape the impact

Although a number of key projects on the drawing board in Montenegro before the global recession survived, or appear to be reviving, the economic uncertainties and inability to freely access capital – not to mention the drop in business and consumer confidence in key Travel & Tourism source markets – had an immediate, and significant impact on tourism investment in the country over the period.

CURRENT GLOBAL OUTLOOK

Annual growth of 5% forecast over the next ten years

Between 2011 and 2021, global Travel & Tourism investment is forecast to increase by an average of 5% per annum, or 73% overall in real terms – faster than Travel & Tourism GDP and employment growth – to reach US$1,490 billion by 2021. Nevertheless, the industry's share of total capital investment is expected to rise only modestly, by 0.1% a year on a global basis.

WTTC's forecasts of Travel & Tourism investment over the current decade shed light on which countries will pour most future resources into Travel & Tourism, in relative terms, to boost their global competitiveness. As might be expected, China (with average Travel & Tourism investment growth of 8.5% per annum) and India (nearly 9% per year) feature high among the world's top ten.

By far the fastest growth worldwide over the next ten years in Travel & Tourism FDI is forecast for Montenegro.

Montenegro tops the FDI growth list, despite the recent slowdown ...

But by far the fastest growth worldwide over the ten years in Travel & Tourism foreign direct investment (FDI) is forecast for Montenegro – over 16% per year – where the tourism sector, and indeed the entire national economy, are making up for lost time following the country's absence from the world tourism stage during the 1990s' Balkan War. By 2021, Travel & Tourism is expected to account for 50.8% of total capital investment in the country – a share that ranks the country second only to Macau (with 54.0%).

Top ten destinations in terms of Travel & Tourism investment growth, 2011-21 (10-year real % growth pa)

Rank	Country	Growth (%)
1	**Montenegro**	**16.4**
2	Singapore	9.3
3	Azerbaijan	9.1
4	Thailand	8.8
5	India	8.7
6	Lithuania	8.5
7	China	8.5
8	Egypt	7.8
9	Myanmar	7.7
10	Fiji	7.6

Source: WTTC/Oxford Economics

Top ten destinations in terms of Travel & Tourism's share of total investment, 2021 (%)

Rank	Country	Share (%)
1	Macau	54.0
2	**Montenegro**	**50.8**
3	US Virgin Islands	44.1
4	Seychelles	39.9
5	Maldives	37.5
6	British Virgin Islands	36.3
7	Fiji	34.8
8	Vanuatu	33.7
9	Antigua and Barbuda	33.4
10	Cape Verde	32.5

Source: WTTC/Oxford Economics

Admittedly, these forecasts were made in early 2011 and the difficulty in accessing capital has continued longer than expected – exacerbated by the global economic crisis and the continuing credit crunch. This has slowed some investment projects, and may well have a more significant impact in some countries in the short to medium term. But the longer-term outlook remains extremely positive.

… but China will lead the world, ahead of the USA, in absolute terms

The Chinese, and indeed Asian, share of global Travel & Tourism investment is growing rapidly in importance. By 2021, WTTC's forecasts indicate that China will have overtaken the USA to invest more in Travel & Tourism annually than any other country in the world (a 19% share of global investment).

In turn, India is expected to overtake Japan to become the third highest global Travel & Tourism investor (with a 5% share), while Singapore is also set to rise strongly from 13th to 6th position in the global league table ranking.

Risks of over- and under-investment

One critical concern is whether China has in fact over-invested in Travel & Tourism. This concern is based on the estimated slower growth in Travel & Tourism spending over the same period during which investment has expanded rapidly. Clearly, China has been investing for the future, since a rapidly expanding middle class and international business travel market should easily sustain strong growth in Travel & Tourism spending in the years ahead. But there is, nevertheless, still a risk of under-utilised capacity and low returns on investment.

By contrast, in Europe, where Travel & Tourism investment expansion has been much more aligned to actual demand trends that fell back sharply during the world recession, there is a risk of under-investment. This could have implications for future capacity, productivity and competitiveness. But Montenegro could well benefit from the trend.

As the global economy moves on from the important crossroads it has now reached, the implications from potential over- and under-investment in different destinations will start to be felt. Even in destinations where existing Travel & Tourism infrastructure is sufficient, or where there is excess capacity, changing consumer preferences and ageing products mean there will be a continual need for investment and re-investment.

TRENDS IN SOUTHEAST EUROPE

A challenging environment for investment

Suffering from the eurozone crisis

Central & Eastern Europe's ties with the continent's western region have been a source of both strength and weakness in recent years. Through much of the past decade, foreign investment flooded into the region, stimulating growth in Travel & Tourism but also creating imbalances and inflating asset bubbles. Yet the impact of the global economic recession on FDI was felt across the wider region – not least on the Balkans and Southeast Europe. When credit flows dried up after Lehman Brothers collapsed in 2008, the region was among the hardest hit in the world.

Although some countries bounced back and 2011 started well for the region generally, things began to turn ugly around mid-year with the escalation of the euro crisis. According to the International Monetary Fund (IMF) in its most recent (September 2011) *World Economic Outlook* update, GDP in Western Europe is now expected to increase by only 1.6% this year and just 1.3% in 2012. While its forecasts for Central and Eastern Europe (including Turkey) are more buoyant – it is projecting 4.4% for 2011, the same as last year, and 3.4% for 2012 – these have also been downgraded.

The real dangers come from outside the region with the eurozone in crisis, the IMF says. Downside risks to the outlook are significant and larger than at the time of the previous edition of the regional economic outlook. Although more sluggish global economic growth has always been a possibility, quelling the tensions in eurozone debt markets has proved increasingly challenging. If tensions were to escalate further, the economic and financial outlook for the eurozone would darken considerably and the repercussions for emerging Europe would be dire.

Exports and cross-border production chains with emerging Europe's premier partners would suffer. More importantly, much of emerging Europe's financial sector would as well. And strained banks in advanced Europe would likely scale back exposure to subsidiaries, non-affiliated banks, and non-banks in emerging Europe.

A large and sudden disengagement from subsidiaries, though, is unlikely even in a highly adverse scenario. Western banks would first turn to domestic support mechanisms, including liquidity from the European Central Bank (ECB) as collateral allows, lending of last resort from their central banks, and any government schemes that would be put in place in the circumstances.

Scope for recourse to funding from subsidiaries would be rather limited as host country regulators would step in if regulatory liquidity or capital limits were at risk.

The most likely impact would therefore be a renewed credit crunch. Subsidiaries would see a measured but persistent funding drain from their parents, and non-affiliated banks that rely on wholesale funding would have to struggle even more. Both would have little choice but to curtail their own lending activities.

Risk of financial tensions spreading to emerging European markets

The risk that financial tensions will spread to emerging Europe is heightened by a number of legacies left by the 2008-2009 crisis: fiscal vulnerabilities that were low before the crisis have increased sharply, and non-performing loans (NPLs) have shot up. And West European banks continue to play a key role in emerging Europe's financial sectors. In addition, the strong Swiss franc remains a challenge for households and banking sectors in Croatia, Poland, and especially Hungary, where a large share of mortgages are denominated in that currency.

Overall, fiscal deficits are improving, with a regional decline forecast to 2.1% and 2.3% of GDP in 2011 and 2012, from 4.5% of GDP in 2010 and 6.2% in 2009. But within this regional average are some states with budgetary challenges, including Albania, Croatia, Turkey and Russia, where the non-oil deficit is far above pre-2008 levels. Meanwhile, according to the IMF, banks have been left with the burden of non-performing loans, notably in Latvia, Lithuania, Montenegro, Serbia and Ukraine.

The report says that high NPL levels are not currently a threat to financial stability. Nonetheless, supervisors must remain on their toes as the financial turmoil in eurozone debt markets evolves and further local surprises cannot be ruled out.

But high levels of unresolved NPLs can hold back recovery because banks will be cautious about lending.

FDI across the region

The most recent year for which FDI comparisons across Southeast Europe (excluding Turkey) can be made is 2009. Figures published by Horwath Consulting Zagreb show that Greece, unsurprisingly, topped the ranking with an estimated €2.3 billion (all sectors included). Croatia attracted €1.8 billion and just over half of this amount – €913 million – went to Montenegro. FDI in other, smaller neighbouring competitor countries was much lower, eg €349 million in Bosnia Herzegovina and €173 million in Macedonia.

Hotel brand presence in Southeast Europe

Culture for management contracts is still not fully developed

A recent assessment by Horwath Consulting Zagreb, part of Horwath HTL, suggests that there are currently 20,000-25,000 branded hotel rooms in 110 properties in Southeast Europe (defined as excluding Turkey, but including the Balkans, Greece, Bulgaria and Romania). This is relatively low given the overall size of the region and its potential for development. More than 60 deals are reportedly in the process of negotiation but only one third of these have been concluded.

A major reason for the delay, according to Horwath – over and above the impact of the difficult access to capital because of the economic downturn and credit crisis – is that the culture for management contracts is still not yet fully developed in the region.

In addition, brands – or, perhaps more to the point, the banks representing them – are hesitant to get involved in mixed-use projects, which are currently favoured by developers for the large, integrated tourism/resort projects as a means of facilitating access to capital.

Hilton International and InterContinental Hotels are currently the most active upmarket brands, but others are slowly establishing their presence in different countries. The group with the greatest number of branded properties (all franchises) is Best Western, with 26 across Southeast Europe, followed closely by Meliá (formerly Sol Meliá) with 10 and Iberostar with 8.

Numerous challenges but there are positive signs

The challenges for developers or even destinations looking for investors are numerous, not least the fact that international upscale hotel market demand has not yet recovered since the global recession. But, in addition – as already indicated – the mixed-use development concept has not yet seriously been accepted in the region, the local upscale hotel market is limited, with a predominance of seasonal leisure budget hotels in terms of existing supply, and there are dozens of distressed leisure hotels in search for buyers.

Nevertheless, things are improving. In Montenegro, projects such as Porto Montenegro and Luštica reflect the recognition of the country's long-term, upmarket tourism potential. And there are similar projects emerging in other destinations.

Croatian company Profectus's Croatian Dream is one example. The project, an 800,000 square metre resort northwest of Dubrovnik, is expected to comprise a totally new town with hotels, luxury villas, a marina, an airport and a golf course northwest of Dubrovnik.

The Croatian Government has also approved a proposal for the implementation of the Brijuni Rivijera integrated resort on the Istrian Peninsula – a major Greenfield investment project expected to cost more than US$360 million (Kuna 2 billion), and which would help create 2,000 new jobs. The increasingly positive outlook is summed up neatly by Horwath HTL's Senior Partner in the region, Dr Miroslav Dragicevic:

> "*Southeast Europe has quietly continued to present opportunities for investors with imagination and a long-term strategy. Against a backdrop of constant negative economic news, developers and developments have continued to proceed and there are indications of other international brands following Hilton into the region. The lack of supply in the upscale hotel market and a management contract culture that has yet to be fully developed are opportunities as brands will inevitably look for in areas outside primary, secondary and even tertiary markets in Europe that have achieved saturation. The risks involved should not be downplayed, but the requirements for sustainable long term growth are in place.*"

TRAVEL & TOURISM IN MONTENEGRO

IN THE 1980S, BEFORE THE FORMER YUGOSLAVIA WAS WRACKED BY WAR, THE REPUBLIC OF MONTENEGRO WAS FAST EARNING A REPUTATION AS THE JEWEL IN THE BALKAN CROWN – OR "THE BRIGHTEST HOPE FOR THE FUTURE OF YUGOSLAVIA'S TOURISM", TO QUOTE THE HEAD OF EUROPE'S LEADING TOUR OPERATOR, TUI, AT THE TIME.

Montenegro's attractions had long before been extolled by the likes of Lord Byron and George Bernard Shaw, as well as – in more recent times – by many Hollywood stars. They were primarily drawn to Sveti Stefan, a tiny former fishing village which, since the 1960s, had been one of the most exclusive and private retreats for the rich and famous anywhere in Europe.

But then came the war. And, given that Montenegro was barely touched by the violence of the Milosević years, it came off particularly badly, suffering many of the adverse consequences, such a decade of sanctions, other deprivations and an influx of refugees.

Re-emerging onto the world tourism stage ...

One inevitable result of all this was that Montenegro disappeared from the world tourism stage, with its tourism infrastructure and facilities neglected for almost a decade. Nevertheless, as soon as the Balkan war was over, Travel & Tourism was immediately earmarked as a key priority – a means of stimulating economic growth – and government policy has since focused clearly on attracting foreign investment to ensure long-term, sustainable tourism development.

Few doubt Montenegro's potential to re-establish itself as a desired tourism destination. But it has such a variety of attractions – not least its untouched nature and spectacular scenery – that it can aim even higher. Having been isolated for so many years, it has avoided many of the negative impacts of poorly planned, excessive development that has damaged a number of the popular tourism destinations on west Mediterranean shores.

... with enormous potential for diversified tourism growth

This gives Montenegro the golden opportunity of developing the right kind of tourism products and facilities to attract the discerning, higher-yield leisure traveller in search of more than just sun and beach. Independent from Serbia since 2006, the tiny country has a population of under 700,000, and is roughly equal in circumference to the island of Cyprus. Yet its surface area of 13,812 square kilometres is nonetheless quite a bit larger thanks to its little-known, pine-clad mountainous topography, which gives Montenegro its name Black Mountain – or Crna Gora, as it is known locally. The potential for developing a diversified tourism offer, appealing to many different markets and market segments, cannot be over-estimated.

Few doubt Montenegro's potential to re-establish itself as a desired tourism destination.

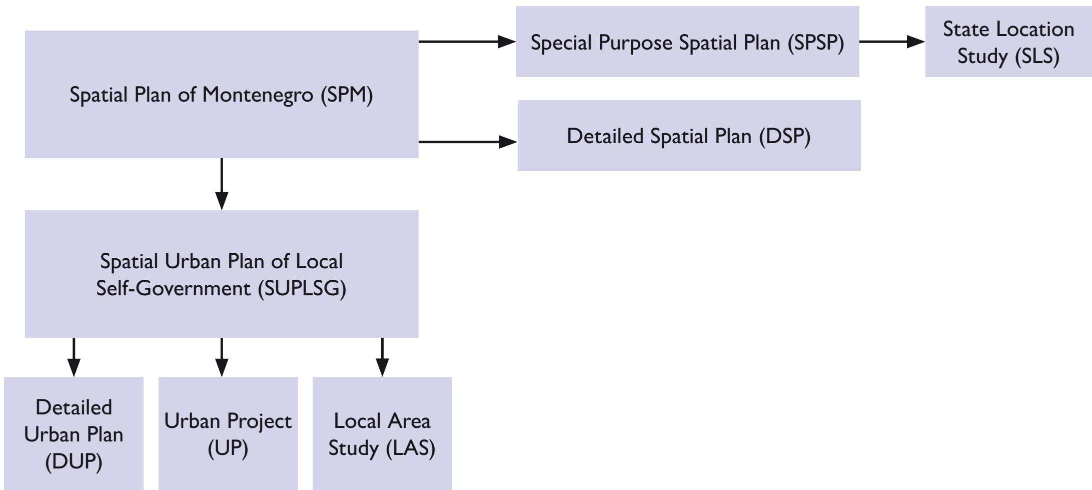
TOURISM DEVELOPMENT STRATEGY

Development of the Tourism Master Plan

In November 2001, the Government of Montenegro adopted the new Tourism Master Plan as its central strategy for tourism development. This Master Plan, updated in 2007-08, provided essential guidelines as to how a quality tourism sector should be developed to optimise the potential of Travel & Tourism to drive economic development, as well as to provide an economic stimulus for other sectors of the economy such as trade, agriculture, construction, banking, telecommunications, transport and education. Importantly, it also established a platform for the creation of small family-operated businesses.

Since the release of the Master Plan, other related plans have been developed, notably the *Tourism Development Strategy* in 2008 – closely aligned with the *National Strategy of Sustainable Development*. In addition, there are Special Purpose Spacial Plans for all individual zones earmarked for tourism development and regional Spacial Plans for the five National Parks and for the coastal and mountain regions overall, as well as Urban/Local Area Plans and Location Studies for municipalities and specific tourism zones.

Hierarchy of plans in Montenegro and their inter-compliance



A conscious decision to focus on high-quality, high-yield tourism

Even as far back as 2001, the Master Plan reflected the conscious decision by government – and not least the Minister of Tourism at the time – to shift the tourism economy from the low-budget mass tourism which had dominated during the 1970s and the 1980s to high-quality, high-yield tourism aimed at attracting mid- to upper-income markets. The main objectives were, and still are, to:

- Create quality jobs
- Generate local and state taxes to plough back into improving infrastructure, education and healthcare
- Expand the tourism season, and
- Achieve a better distribution of tourist flows between the coastal, central and northern/mountain regions.

Following an evaluation of successful tourism economies around the world, the government recognised that the hotel sector generates up to 70% of direct tourism revenues. Hence, the upgrading and expansion of hotels along the coast and in the mountain region became a top priority. And this, in turn, involved a massive privatisation programme to ensure that there would be sufficient funds to invest in carrying out the necessary work to bring the country's hotel stock up to the required standard.

The government also recognised that expansion of the tourism season and the distribution of tourist flows required different types of leisure market-oriented hotels and resorts than ones providing just the basic accommodation and food and beverage (F&B). To expand the tourism season, a complete new hotel/resort product had to be developed with the co-operation of private investors, offering a whole range of facilities for the leisure and meetings/incentive markets – including sports, recreation and entertainment, spa/wellness and conference/meeting facilities. The ageing hotel stock clearly could not be competitive.

Classification of existing hotel stock

As soon as the initial Master Plan was released, the Ministry of Tourism launched a country-wide hotel classification programme, which is now an ongoing process as existing hotels are upgraded and re-classified, and as new properties come on line. Specific Handbooks on Hotel Accommodation Design and Hotel Wellness Centre Design have served as valuable guidelines for operators and developers of a new Montenegro Brand of Hotels. A handbook for the Design of Eco Lodges and Wild Beauty Eco Resorts as a distinct Montenegro Brand for the Mountain Region was published in 2009.

The classification scheme for tourist accommodation, in particular for hotels, has been a key part of the Ministry's broader Quality Strategy for Sustainable Tourism Development, although there are now plans to optimise the categorisation process by calling on independent rating agencies to evaluate the level of service efficiency and reliability. Many hotel operators now also use guest comment cards to evaluate the overall satisfaction of their guests.

Privatisation of state-owned hotels

Transforming a state-run hotel sector into a private sector-driven industry operating according to international 'Rules of Competition' in an open market environment has proved no easy task for the Government of Montenegro, although the privatisation process has generally been considered a huge success (see box).

One major challenge in the tourism sector has been to commit all stakeholders to supporting the government's strategy for the development of a high-quality, year-round tourism offer. Too many small businesses in coastal regions have traditionally closed after the peak tourism season, leaving hotels guests with deserted beaches and a lack of facilities and services.

In order to set the required direction, the government made every effort from the start to ensure a favourable business and investment climate, to encourage small businesses to prolong the season, and to enforce the quality standards – not only in hotels and tourist apartments but also with regard to different tourism facilities and services.

The privatisation process in Montenegro

After nearly two decades, Montenegro's Agency for Economic Restructuring and Foreign Investments was closed in January 2010, with responsibility for handling the final stage of privatisations transferred to the Privatisation and Capital Investment Council, reporting directly to the Ministry of Economy.

With 86% of state capital privatised by the time the agency closed – under the slogan: *'We aren't selling our companies, we're buying good owners!'* – the privatisation process in Montenegro has been described as one of the most successful of all the countries in transition. New owners have come from a wide range of countries, including Germany, Hungary, Norway, Belgium, Austria, Greece, Italy, Russia, Japan, Singapore, France, Slovenia, Switzerland, the UK and the USA.

Privatisation began in Montenegro with the adoption of the Federal Law on the Transformation of Ownership and Management of Socially Owned Capital in 1992 (amended in 1994 and 1996) and continued with the enactment of the Privatisation Law in February 1999. According to the above-mentioned laws, there have been three phases (and three concepts) of privatisation in Montenegro:

- An insider privatisation phase based on worker shareholding (until 1991);
- The transformation of industries and privatisation of small and medium-sized enterprises' (SMEs) phase (from 1992 to the beginning of 1999); and
- Privatisation based on the mass sale of vouchers and sales to strategic partners (from 1999 onwards).

During its existence, and primarily from 2000 to 2010, the agency helped in the transformation of 390 companies worth €4.4 billion. The income from the sale of shares totalled €350 million and €930 million was collected from the sale of companies' property. Thanks to the success of the mass-voucher privatisation scheme, around 400,000 Montenegrin citizens hold, or have held, shares in privatised companies.

There is no limit to the amount of foreign investment allowed and the investment can take the form of money, securities, properties, services and/or assets rights.

PLANNED HOTEL CAPACITY GROWTH

Huge increase in capacity planned ...

Montenegro's *National Strategy for Tourism Development* to 2020, which was based on the Tourism Master Plan, clearly focused on diversifying away from the traditional low-budget European summer package tour holidaymakers to more independent, higher-yield travellers interested in different kinds of tourism – from nature-based activities, including soft and hard adventure, to cultural attractions, health/wellness and other segments. Also earmarked as extremely important for future tourism development was the meetings, conferences and incentive travel business.

The stated goal was to raise hotel capacity in the country to 60,000 rooms or 125,000 beds, with a minimum 50% in four- and five-star hotels, ideally operated by premier international hotel brands.

Modern, upscale hotels and resorts with a total of capacity of 85,000 beds were expected to be constructed to attract and satisfy new high-profile target markets. On the basis of existing data, about 15,000 beds were already available in existing resort hotels still to be modernised to at least three-star standard – according to the requirements stipulated at the time of privatisation – but some 70,000 beds were planned as part of the government strategy to develop former military sites and other state-owned land into upmarket, high-quality, mixed-use, integrated resort complexes.

The bulk of new hotels were, and are still expected to be, developed in coastal resorts – an estimated increase of 194% to 100,000 – with the mountain regions accounting for just 15,000 beds as against 2,300 in 2008 (+552%), and the central region of the country (including the capital Podgorica) for 10,000 (+365%).

Hotel accommodation capacity in Montenegro, 2008 and 2020
(% of beds)

	2008					2020				
Category	Coast (%)	Central region (%)	Mountain region (%)	Total no. of hotel beds	Share of total (%)	Coast (%)	Central region (%)	Mountain region (%)	Total no. of hotel beds	Share of total (%)
5 *****	2.5	0.0	0.0	900	2.3	15.0	25.0	10.0	19,000	15.2
4 ****	17.1	12.8	26.3	7,400	18.5	35.0	35.0	35.0	43,750	35.0
3 ***	17.2	14.1	22.4	7,450	18.6	35.0	25.0	35.0	42,750	34.2
2 **	55.8	72.0	41.1	21,550	53.9	10.0	10.0	15.0	17,250	13.8
1*	7.4	1.1	10.2	2,700	6.8	5.0	5.0	5.0	2,250	1.8
Total hotel beds	34,000	2,150	2,300	40,000	100.0	100,000	10,000	15,000	125,000	100.0

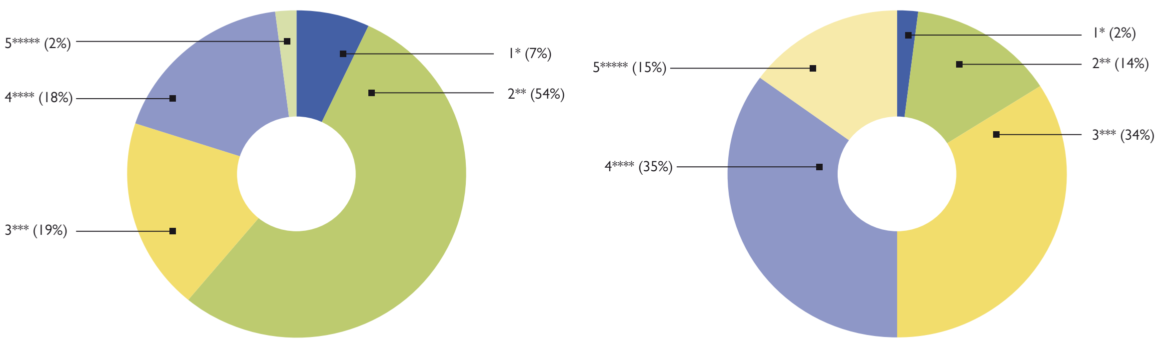
Note: Estimates for 2020 take account of all types of hotels, condos and timeshare, etc, and assume that existing 1-3-star properties will be upgraded to higher categories

Source: Montenegro Tourism Master Plan, 2001 (and updated 2008)

... with four- to five-star properties set to increase their share

As already discussed in the second report in this series, *Travel & Tourism: Trends and Prospects*, this planned increase would have the biggest impact – at least, in terms of percentage growth – on four- to five-star hotels, while one- to three-star properties should lose share of the total bed count.

Hotel accommodation capacity in Montenegro, 2008 and 2020
(% of beds)



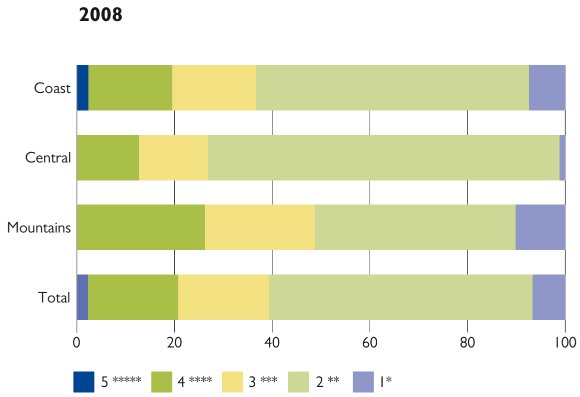
Source: Montenegro Tourism Master Plan, 2001 (and updated 2008)

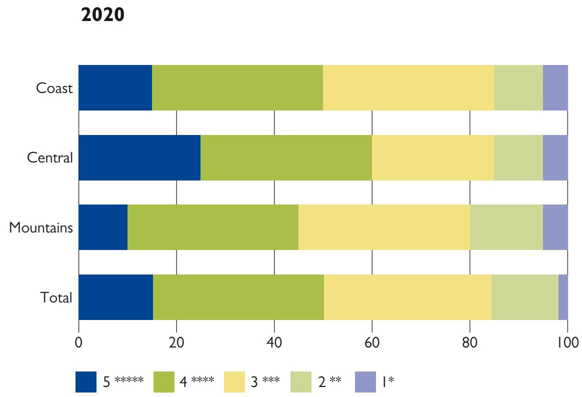
Biggest growth in share for four- and five-star properties

Although a significant share – around 40%, at least – of the hotel beds included in the 2008 count would not be considered of international standard, more than 85% of the total beds at the time were in hotels in coastal resorts. And the respective share was expected to fall by only five percentage points over the 12-year period to 2020, if the targeted capacity was achieved.

Nevertheless, the targeted four- and five-star combined share of beds by 2020 was expected to rise sharply over the 12-year period, to over 50% in the country overall, and between 42% (mountain resorts) and 60% (central region) by region, with 45% of beds in the popular coastal resorts in the top two categories.

Hotel accommodation capacity on the coast, 2008 and 2020
(% of beds)





Source: Montenegro Tourism Master Plan, 2001 (and updated 2008)

Capacity growth forecast for the coastal zone starts to look outdated

Given the new upscale Greenfield resort projects now underway on the Luštica Peninsula and other parts of the Municipality of Tivat – eg in the Orascom development and Metropol's Sveti Marko project – the initially targeted five-star hotel bed count in Tivat is beginning to look too low. Orascom says that it will have a total of 8,000 beds in its resort complex alone when it is completed – in theory before 2020.

It also seems probable that the agenda for the new Greenfield developments in Ulcinj Municipality – since delayed by the global economic recession and other factors – is also overly optimistic, with 5,500 five-star beds expected to be in operation by the end of the 12-year period, and a total of 36,000 beds in all categories in the region.

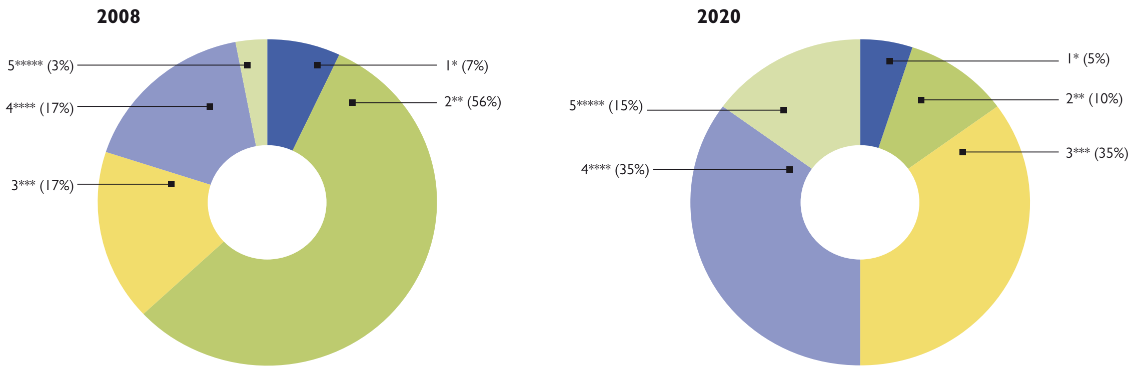
Hotel capacity planned for Montenegro by 2020 in the coastal zone by municipality and category
(no. of beds)

Location	5*	4*	3*	2*	Total
Herceg Novi	2,000	6,500	4,500	2,000	15,000
Kotor	500	2,500	3,500	500	7,000
Tivat	500	3,000	2,500	500	6,500
Budva	4,500	9,500	7,500	2,500	24,000
Bar	1,500	3,500	4,500	2,000	11,500
Ulcinj	5,500	14,500	13,000	3,000	36,000
Total	**14,500**	**39,500**	**35,500**	**10,500**	**100,000**

Source: Montenegro Tourism Master Plan, 2001 (and updated 2008)

The bulk of new hotels were, and are still expected to be, developed in coastal resorts – an estimated increase of 194% to 100,000.

Hotel accommodation capacity on the coast, 2008 and 2020 (% of beds)



Source: Montenegro Tourism Master Plan, 2001 (and updated 2008)

INTERNATIONAL HOTEL BRAND DEVELOPMENT

Missed targets and deadlines

Although there are now some exciting new projects under construction/reconstruction and on the drawing board, there has been no significant growth of branded hotels in Montenegro over the past 5-10 years. Compared with other Mediterranean destinations, the share of hotels in Montenegro managed by global hotel brands or being operated under global franchise agreements remains very low.

The key foreign managed, franchised and/or owned hotels in Montenegro, 2011

Hotel	Location	Star category	Ownership/management	No. of rooms/suites
Sun Resort	Herceg Novi	4*	Hunguest Hotels, Hungary	164
Best Western Premier	Podgorica	4*	Local	48
Maestral	Bečići, Budva	4*	HIT, Slovenia	180
Montenegro A	Budva	2*	Unis Tours, Bosnia-Herzegovina	243
Rivijera	Petrovac, Budva	4*	Perni Bau, Germany	na
As	Perazica Do, Budva	4*	Sibinergo Resurs, Russia	150
4 July	Petrovac, Budva	4*	Moskovskaja Trastovaja Group, Russia	95
Avala	Budva	3*	Beppler & Jacobson, UK	225
Bellevue	Bečići, Budva	4*	Iberostar, Spain	295
Queen of Montenegro	Bečići, Budva	4*	Korston, Russia/Adriastar Hotels & Resorts	240
Miločer	Sveti Stefan	5*	Adriatic Properties/Amanresorts	8
Sveti Stefan	Sveti Stefan, Budva	5*	Adriatic Properties/Amanresorts	50
Bianca	Kolašin	4*	Beppler & Jacobson, UK	143
Lipka	Kolašin	4*	Beppler Investments	72

Sources: Former Ministry of Tourism and Environmental Protection; respective hotels and/or owning companies

Most of the master-planned, mixed-use, Greenfield resort developments have been delayed, or even suspended, pending new public invitations to tender. Further interventions by the government will undoubtedly be necessary to speed up the process of increasing the bed supply in upscale accommodation. It is important to establish a 'critical mass' of high-quality resorts to be able to compete in the higher-yield segments.

Tour operator business continues to dominate demand …

The majority of Montenegrin hotel owners and operators are still relying heavily on regional tour operators to fill their rooms. As a result, they continue to suffer from a relatively short tourism season. Nevertheless, the situation has been improving thanks to the more recently developed larger-capacity properties, such as the five-star Splendid, the four-star Maestral, Queen of Montenegro and Bellevue in Bečići, or the Avala in Budva, which all attract meetings, conferences and other event business. This has really helped to stretch the tourism season.

The only significant international brands already established and operating in Montenegro are Amanresorts with Sveti Stefan and Miločer; Iberostar, with the Bellevue in Bečići; and Best Western (a membership franchise) with a franchised property in the capital Podgorica.

Admittedly, there are a number of other less well-known brands like the UK-registered Beppler & Jacobson with its Avala Hotel in Budva and the Bianca Resort & Spa in Kolašin, not to mention regional and national brands. These include the Hungarian Hunguest Group with the Hunguest Sun Resort in Herceg Novi; the Russian Korston Group's Queen of Montenegro in Bečići and Hotel Lipka in Kolašin, both managed by the Croatian Adriastar Hotels & Resorts; and the locally owned and managed Montenegro Stars' three properties in Budva Municipality, led by the five-star Splendid Conference & Spa Resort. But these are not really major draws, and especially not for upmarket, independent tourists.

The Queen of Montenegro was purchased by the Korston Group primarily so that it could move its casino business from Russia after 2006, when Vladimir Putin decided to close down all casinos in Russia.

… yet Iberostar is alone in having its own branded hotel presence

Despite the growth in package holiday business, the well-known European tour operator-owned brands are noticeably absent – with the exception of Iberostar. We refer, of course, to properties within the TUI group (Atlantica, Magic Life, Robinson Club, Sensatori, etc) Thomas Cook, Alltours (Club Alltoura), Rewe and even Club Med, which used to operate a resort on Sveti Marko before the outbreak of the Balkan War. Now that TUI has earmarked Montenegro as a prime growth destination, the next few years may well see some familiar tour-operator brands enter the market.

New brands now starting to come on line …

According to Horwath's Southeast Europe office, there are between 2,000 and 3,000 hotels currently under construction/reconstruction in Montenegro. These include the first phase of Orascom's Luštica development of 600 rooms (keys), the 500-room rebuild of the Plavi Horizont (Blue Horizon) also on Luštica, and the 150-room Hilton in Podgorica.

Qatari Diar, which is fully owned by the Qatar Investment Authority, has acquired the rights to the existing hotel complex Blue Horizon for €24 million. Although the company was founded to support Qatar's rapidly expanding economy and to provide structure and quality control for its local real-estate development priorities, Qatari Diar is looking to build signature projects outside the Gulf, and the Blue Horizon is one of the first. But the group is also reportedly interested in other sites in Budva and Ulcinj for the development of various projects ranging from residential and commercial complexes, to retail areas, hotels and resorts.

… including a Hilton International

The former Crna Gora Hotel is currently undergoing a major reconstruction and is scheduled to re-open in late-2012/early-2013 rebranded as a Hilton International. UTIP Montenegro, whose major shareholder is Company Normal Tours, signed the agreement for a 15-year management contract in late 2010 and work started early this year.

Reconstruction is expected to cost between €35 and €40 million and the European Bank for Reconstruction and Development (EBRD) is providing a €23.9 million loan. The renovated property is expected to have 200 rooms – up from the original 150 – as well as 900 square metres of event space (11 meeting rooms), 5,500 square metres of retail space, a spa, underground garage, plus other ancillary facilities. A few original features of the original hotel are being retained – these include the ballroom and an original grand staircase.

Other well-known hotel brands are expected shortly ...

As discussed elsewhere in this report, Kempinski and Banyan Tree have both signed firm contracts to manage hotels/resorts in Montenegro, and a whole host of other brands are rumoured to be negotiating deals with local and foreign developers and/or investors. These include Four Seasons, Marriott's W Hotels, Meliá and Radisson.

These are by no means certain, however. It is known that some negotiations have been delayed or even suspended due to owners' difficulties in obtaining finance and/or planning approvals. And there are other problems such as the fact that not all existing owners, which include funds developed at the time of privatisation, have been willing to invest to upgrade their properties, preferring to speculate on the appreciation of the real estate so they can sell their assets at a profit. Given that real-estate prices peaked in 2007, following a period of rampant, speculative investment, this is likely to take longer than expected. The bubble has well and truly burst.

... and a number of attractive boutique hotels have come onto the market

Meanwhile, a lot of the ageing hotel stock has been renovated by existing or new owners, and some will be phased out over time. Driven by local investments, more than 50 'boutique' hotels with fewer than 100 beds, largely in the four-star category, have been constructed in strategic locations. And an even larger number of small, family-owned and run hotels have been upgraded to three-star standards.

The owners of the newly emerging Small Hotels of Montenegro have introduced a number of boutique and designer hotels to the market, but none have yet opted for consortium membership in organisations such as Small Luxury Hotels of the World, Relais et Châteaux, or Preferred Hotels and Resorts, in order to expand and enhance their marketing efforts in key source countries.

Waiting for the new Greenfield developments

The inevitable delay in attracting investors for many of the Greenfield sites in Montenegro has also pushed back the expected return on investment. And the longer it takes to attract the international brands to the country, the more difficult it will of course be to ensure growth in demand from more upmarket, higher-spending tourists.

Nevertheless, the signs are increasingly positive, as reflected in the forecast investment numbers from WTTC and Oxford Economics.

Successful privatisation projects

Examples of successful case studies abound in many diverse sectors – from banking to telecommunications, the energy sector, infrastructure, ship repair, beer brewing ... As far as Travel & Tourism was concerned, the goal was (and still is) to privatise, or part privatise, all state-owned hotel groups – a process that is not yet quite complete – as well as the port of Bar, the railways and maintenance companies, and the national flag carrier, Montenegro Airlines. This last company has proved a difficult one to sell until now, as already discussed in the accompanying reports.

Among the most successful early privatisations in the hotel sector, the following should be highlighted:

- The sale of the Hotel Maestral in Bečići in 2001 to the biggest Slovenian hotels group, HIT, for €4.5 million. The investor from Nova Gorica, specialised in operating casinos as well as hotels, has invested over €30 million in the property and associated business, although the contractual obligation only required an investment of €7 million in some four years. The hotel is classified as a four-star property and has already received a number of international awards.
- Hotel group Montenegro Stars was founded in July 2003 with tourism and hotel services as its core business. The group owns and runs three hotels: the Blue Star in Budva, and the Montenegro and Splendid in Bečići. Montenegro Stars purchased the now five-star hotel Splendid for €2.4 million, but has invested well over €50.0 million in upgrading and renovations, and the project has generated about 700 new jobs.
- Although the Hotel Bianca in Kolašin, together with the adjoining land and linked facilities, was sold for just €1.6 million to the British-registered company Beppler & Jacobson, the company has since invested over €9 million in modernisation and improvements. The company has invested heavily in the Kolašin Ski Centre itself – in the reconstruction and modernisation of the ski lifts, runs and cable cars. And Beppler & Jacobson also purchased the Avala Hotel in Budva for €3.2 million, investing more than €10 million in its expansion and modernisation.

TRAVEL & TOURISM INVESTMENT IN MONTENEGRO

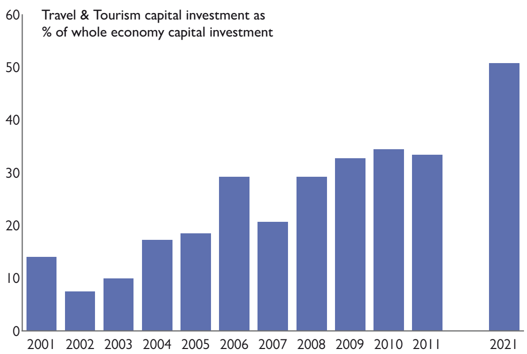
FOREIGN DIRECT INVESTMENT (FDI) IN MONTENEGRO'S TRAVEL & TOURISM ROSE RAPIDLY AFTER THE END OF THE BALKAN WAR, ACCORDING TO WTTC'S ECONOMIC IMPACT RESEARCH. BETWEEN 2000 AND 2008 – THE PEAK YEAR FOR TRAVEL & TOURISM FDI – IT MULTIPLIED TENFOLD (DESPITE ANNUAL BLIPS IN THE GROWTH CURVE), FROM AROUND €24 MILLION TO €240 MILLION (AT 2011 PRICES).

As a result of the difficult operating environment during the global economic recession – not least in terms of accessing capital – FDI in Montenegro's Travel & Tourism fell by an estimated 26.7% in 2009, with only modest annual growth (of 2.6%) in 2010. And 2011 is expected to see, at best, a stagnation (0.2%) in the FDI level, bringing the annual total for this year to some €192 million.

This puts Montenegro in 98th position in the world ranking among 181 countries for Travel & Tourism investment. Nevertheless, although the timing may prove challenging with the result that the forecasts could slip, the latest estimates from WTTC and its research partner Oxford Economics point to annual growth of 16.4% in foreign direct investment (FDI) in Montenegro's Travel & Tourism over the ten years from 2011 to 2021, rising to €876.4 million annually by the end of the period.

If confirmed, this would mean that Travel & Tourism's share of total national investment would rise from 33.4% in 2011, or fifth place in the world ranking, to 50.8% in 2021 – second, behind only Macau.

Capital Investment in Travel & Tourism



Source: Oxford Economics

Most importantly, as already indicated, the ten-year real growth forecast of 16.4% per annum would put Montenegro firmly in number one position in the percentage growth ranking – well ahead of its regional competitors, such as Croatia (in 58th place with 5.6%) or Slovenia (100th with 4.4%).

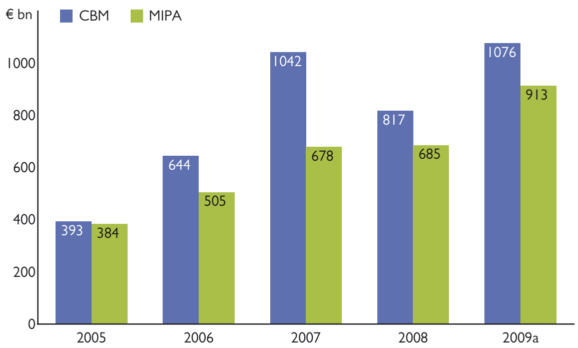
TRAVEL & TOURISM'S SHARE OF OVERALL INVESTMENT

Conflicting data complicates assessment of FDI

Two different sets of data on FDI in Montenegro make it rather difficult to assess growth trends in foreign investment overall. Both the Central Bank and the Montenegrin Investment Promotion Agency (MIPA) estimate that FDI in 2009 was around €1 billion, as the following table and chart show. This means that total FDI in all sectors nearly tripled over the four years from 2005. However, 2010 saw a decline, to an estimated €692 million (MIPA data).

Foreign direct investment (FDI) in Montenegro, 2005-09 (€ bn)

Year	FDI CBM	% annual change	MIPA	% annual change
2005	393	na	384	na
2006	644	64.1	505	31.5
2007	1,042	61.8	678	34.3
2008	817	-21.7	685	1.5
2009[a]	1,076	31.8	913	33.3



a Provisional estimate from the CBM

Sources: Central Bank of Montenegro (CBM); Montenegrin Investment Promotion Agency (MIPA)

Highest FDI per capita of all European economies …

It is important to note that, before the global economic crisis, Montenegro was a leader in Europe according to its level of FDI per capita. During the three-year period before the global economic crisis, Montenegro recorded the fastest GDP growth in the region, with the average annual growth rate reaching 9%. This led to improved social indicators with substantially increased wages and a reduction in unemployment levels in recent years. And favourable economic conditions fuelled local and foreign direct investment.

For five consecutive years, to 2009, increasing FDI made Montenegro a leader in Europe according to level of FDI per capita.

… in large part due to the governments continuing economic reforms

2009's strong result was due largely to a change in the structure of investment, with the energy sector attracting a greater share of interest. But the impressive performance of FDI overall can be attributed to the continuing economic reforms made by the government, relying on: openness; monetary stability (ie having the euro as legal tender since it was first launched in 2002); a low level of business regulation; a low level of taxation; a free regime of capital flows; and a high level of privatisation (90%), or companies in the process of being privatised.

The continuing reforms by the present government, led by Prime Minister Igor Luksić, have also paid off handsomely. According to the World Bank's recently released *Doing Business 2012* report, Montenegro has moved up a full ten places to 56th position overall (of 183 countries) in the world ranking.

Montenegro has implemented three key reforms in the fields of starting a business, paying taxes and closing a business, as well as making improvements in terms of starting a business (+4), registering property (+8), getting credits (+24), paying taxes (+31) and enforcing contracts (+2).

Within the region, only Macedonia (22) and Slovenia (37) rank higher than Montenegro in the world ranking, while Croatia (80), Albania (82), Serbia (92), Bosnia and Herzegovina (125) and Kosovo (117) rank lower.

Travel & Tourism contributes less than a quarter of total FDI …

Tourism's share of FDI was a relatively modest 22% in 2008 (the 2009 breakdown is not available but would have been equally modest, if not lower). But the share is likely to have increased – over a lower base – in 2010 and 2011 – following the launch of the Porto Montenegro development in Tivat. And it goes without saying that the real FDI potential of tourism will only be evident as all the major Greenfield projects are get underway.

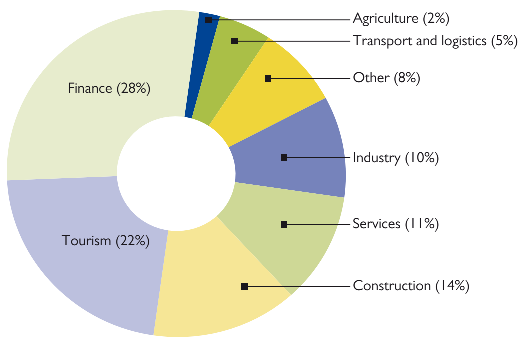
… but it has helped boost FDI in coastal regions

Although it generates a relatively modest share of total FDI at the present time, tourism projects have been especially important in the southern, coastal regions of the country, which accounted for nearly half of total FDI in Montenegro in 2008. Most of the balance went to the central region of the country – and primarily Podgorica and other cities.

The CBM breaks down FDI according to its main sources. As the following table shows, both absolute volumes and relative shares can fluctuate significantly from one year to the next. In 2009, Italy was the leading source by a very wide margin (not, however, in tourism), with Russia's share – which was boosted significantly by tourism projects in 2007 and 2008 – falling sharply over the two years to 2009 as the real-estate bubble burst and the credit crisis set in.

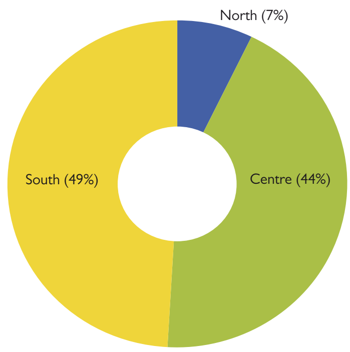
As already indicated, FDI generally has been supported by wide-ranging economic reforms and significant investment in infrastructure, including energy, transport and utilities.

FDI per sector, 2008



[a] Estimated
Source: MIPA

FDI per region, 2008



Source: MIPA

Top ten sources of FDI in Montenegro, 2007-09 (€ '000)

Source	2007	2008	2009
Italy	12,612	2,405	460,098
Austria	61,420	47,680	81,281
Russia	206,181	126,013	66,289
Switzerland	75,695	65,954	53,758
Cyprus	109,905	131,578	45,959
UK	70,431	69,410	44,892
Netherlands	17,348	27,022	35,847
Belgium	1,738	1,576	34,772
Serbia	43,010	43,542	30,879
Hungary	29,987	27,279	30,342
Total (incl other)	**1,042,308**	**816,583**	**1,076,500**

Source: CBM

INVESTMENT TRENDS THROUGH 2009

Flurry of activity slowed as the economic situation deteriorated

In the five years through 2009, over €600 million of private capital was invested in the modernisation of 23 ageing hotel complexes into modern, competitive holiday resorts and business hotels. In addition, according to data provided by the former Ministry of Tourism, 30 unique, upscale 'boutique' hotels were built by local investors, and two new business hotels were constructed in the capital of Podgorica (the Best Western Premier and the City Hotel). Renovations were also nearing completion, or well underway, on a further ten hotel complexes expected to help open up the high-end tourism market tourism in Herceg Novi, Kotor, Ulcinj, Rožaje and Žabljak before 2012.

By the time the global economic crisis and credit crunch had started to have a major impact on investment demand – towards the end of 2009 – some hotel operators were already committed to specific projects, such as Iberostar, with its Bellevue in Bečići, and Amanresorts. Nevertheless, as detailed in the following chapter, Amanresorts was struggling to finance the renovation of Sveti Stefan and the two adjoining properties on the Queen's and King's Beaches and so the Sveti Stefan project was delayed until the Greek Restis Group came to the rescue. Porto Montenegro was also a firm project but delays in planning approvals and other bureaucratic hurdles reportedly resulted in slipped deadlines.

Several other international hotel groups, including Four Season Hotels and Resorts – at the time, with a reported hotel project within the Porto Montenegro development – Sheraton/Starwood, Kempinski, Marriott/W Hotel and Hunguest, were reported to be in the final stages of contract negotiations. But some of these deals fell through or were put on ice. For many of the same reasons, public invitations to tender for the ten Greenfield sites, which had been issued in the years prior to the economic and credit crisis, were withdrawn or failed to attract serious bidders.

Waiting for the market to recover

Over the past couple of years, things have been difficult for Montenegro's hotel industry. This can be attributed in part to the slow recovery of market demand for Travel & Tourism and a difficulty for interested investors in securing finance, but also to delays in ensuring the basic infrastructure necessary, including transport, water and energy, for the planned new projects – and especially for the Greenfield developments.

Things have started to look up and there is growing confidence in Montenegro's ability to achieve its targets and attract sufficient investors of the right kind to ensure that its Travel & Tourism development is sustainable. This is a key priority if Travel & Tourism is to make a real difference – contributing significantly to the country's economic growth and stability, as well as generating new jobs and enhancing the quality of life of its citizens.

The difficulty in attracting investment to rebuild and renovate existing properties has clearly been exacerbated by the absence of international hotel chains.

OUTLOOK FOR INVESTMENT IN TRAVEL & TOURISM

Still hampered by the weak presence of international brands …

The difficulty in attracting investment to rebuild and renovate existing properties has clearly been exacerbated by the absence of international hotel chains. Financial institutions and equity investors traditionally require the security of an international hotel chain to provide a package for project financing.

For the security of their invested equity and loan capital, lenders generally have good experience with hotel chain-operated hotels that provide the necessary global marketing leverage, efficient distribution systems, generate consumer confidence, and ensure standardised designs and number and level of facilities, as well as offering operating know-how, systems for training and developing staff, and the ability to kick-start recovery in demand after major crises.

… but the situation is improving

Nevertheless, the improved economic outlook and the arrival of some high-profile mega-projects like Tivat's Porto Montenegro and Luštica's Orascom development – not to mention the much-publicised events surrounding Porto Montenegro and the completion (finally) of Sveti Stefan – have put Montenegro's tourism potential back in the news. Despite the uncertainties in Europe because of the euro crisis, there also appears to be renewed interest in investment in the country.

Above-average growth in arrivals and overnight volume …

Other signs are also promising. After clear confirmation that tourism demand had recovered, with a 4% increase in both arrivals and overnight volume in 2010, Montenegro has enjoyed above-average gains in 2011 – in line with trends generally for Southeast Europe. From January through August this year, the country recorded 1.1 million tourist arrivals, an increase of 7.3% over the same period in 2010, generating 7.4 overnights, up 9.5%. International arrivals increased by 8.7% over the eight-month period.

The number of domestic nights fell by 2.4%, while international overnight volume rose by 11.1% – a very encouraging performance. Total tourism revenues in the first eight months, meanwhile, totalled €568 million, up 5.4%.

… plus other encouraging indicators such as increased publicity …

There have been a number of other encouraging indicators, such as the growth of interest in packaging Montenegro as a holiday destination from leading UK-based tour operators, including TUI UK.

Meetings and incentive travel was put firmly back on the menu for 2011 and is expected to have accelerated through the year. Interest in Montenegro from meeting and incentive travel planners has been boosted by increased media publicity. As an example, Great Hotels of the World (GHOTW) – the sales and marketing alliance for independent luxury hotels – rated Montenegro "one of the top ten destinations of choice to provide new and memorable experiences for meetings and incentive travel" in 2011 – due in no small part to the fact that "the country offers endless experiences for incentives and team building activities, as well as excellent facilities for conferences and meetings".

Interest in Montenegro from meeting and incentive travel planners has been boosted by increased media publicity.

… and prospects of much-needed, new airline capacity …

Pending the planned privatisation and sale of Montenegro's national flag carrier, the financial problems of Montenegro Airlines will now hopefully be eased thanks to the announcement by the Government of Montenegro that it will provide state aid to write off €3.2 million of debt amassed by the national carrier between 2002 and 2006, enabling it to restore lost capacity, as well as a loan of a reported €10 million with a two-year grace period for repayment. Earlier this year, Montenegrin Airlines suspended flights to London and several other points – officially due to low customer interest, although the low interest may have been due mostly to high prices.

Turkish Airlines recently emerged as a possible contender to acquire a majority share of Montenegro Airlines, although the government is reportedly planning to restructure the company internally to make it more cost-effective before re-issuing an invitation to tender.

A change of thinking within the new government also means that negotiations are finally underway with low-cost carriers (LCCs) such as Ryanair to start scheduled services to Montenegro.

… although government demands do appear to be unreasonably harsh

However, this could prove costly as the government is pushing for year-round service between Podgorica (rather than Tivat, the leisure airport by the coast) and London Stansted and Glasgow's Prestwick airports. Another reported requirement in the negotiations is for Ryanair to carry 20,000 passengers in the first year. This would be around 5% of all passengers at Podgorica Airport.

It remains to be seen whether the proposed discount on airport fees and funding of a marketing campaign to fill seats will be enough to tempt Ryanair's usually demanding CEO.

ATTRACTING INVESTORS

Ensuring the right kind of investors

Recognising the need to attract the international brands to Montenegro – and even more so since the start of the recent global economic crisis and ongoing credit crunch – the government has continued to step up its efforts to provide incentives and ensure a favourable business and investment environment. Its unique selling proposition (USP) is that it is not just seeking investors, but is insistent on attracting the right kind of investors – in line with its strategy for long-term sustainable tourism development.

The government has adopted a five-pronged approach to marketing and promoting investment opportunities in the country:

- First, it has clearly defined which type of hotel products fit which locations and has developed a plan for a national product portfolio that is heterogeneous and appropriate to each setting. It maintains that homogeneity, or commoditisation, is the enemy of a vibrant tourism sector, leading to a homogeneity in terms of customers. And that in turn makes the destination, or hotel, vulnerable when that single set of customers moves on to the next new thing… the next destination.
- Second, the government – in co-operation with the National Tourism Organisation and the private sector – has increased its marketing and promotional efforts so as to raise awareness of Montenegro's attractions and USP.
- Third, largely through the Montenegrin Investment Promotion Agency (MIPA), the government has taken an increasingly proactive and rigorous approach in reaching out to legitimate, reputable investors – whether at specially organised conferences, real-estate exhibitions such as MIPIM (International Marketplace for Real-estate Professionals, by its French initials), or through one-on-one meetings.
- Fourth, it has remained committed to creating and sustaining a regulatory and legal environment in which the rule of law has primacy, so that investors – who clearly abhor uncertainty and environmental risk – can be assured that any disputes or issues which arise will be dealt with fairly, consistently and transparently.
- Fifth, it created a tender process for the privatisation of assets and Greenfield investments that is rigorous and consistent, and that focuses on quality – quality of the investor, of the operator, and of the proposed project.

In summary, Montenegro's USP to investors is that it offers a unique combination of forecast high, and sustained, demand growth, a shortage of high-quality capacity to meet that demand, a unique and very attractive destination product, a transparent and open financial system, and a regulatory and administrative environment that is conducive to business and supportive of high-quality investors seeking long-term, sustainable projects.

FACILITATING INVESTMENT

Pro-business policies and investment-related legislation

Details of the business operating climate and business- and investment-related laws introduced by the government have already been discussed in the third report in this series: *Montenegro's Travel & Tourism: Economic and Policy Environment*.

Strong commitment to a pro-business government is clearly expressed by the improved business climate and progressive reforms. A list of the different laws affecting Travel & Tourism investment is provided in the Appendix.

Montenegro joined the Central European Free Trade Agreement (CEFTA) in 2007. From January 2008, it has been implementing the trade-related provisions of the Stabilisation and Association Agreement (SAA) with the EU. Trade liberalisation has continued through 2010 and 2011, and Montenegro was admitted to the World Trade Organization on 17 December 2011.

The regulatory process in Montenegro is open and transparent. The business community is welcome to provide comments on draft legislation – laws before the Parliament can be found on the Parliament website. Legislation, once it is passed, is published in an *Official Gazette*. All national legislation is available via the internet, the majority of which in English as well as Montenegrin. In addition, almost all major strategies adopted by the Government of Montenegro are also available in English.

All firms registered in Montenegro are under the Commercial Court's legal authority, and the Court maintains computerised registry and provides public access to company information.

A substantial body of laws protects foreign investors. Pursuant to the Foreign Investment Law (*Official Gazette of Montenegro* No. 52/00), for example, foreign investors enjoy the same legal status and have the same rights and obligations as local investors. A foreign investor may establish a company on the territory of Montenegro or invest in a company's assets in accordance with the same procedures and meeting the same requirements as applied for the residents. According to the Business Organisation Law (*Official Gazette of Montenegro, No. 17/07*), foreigners can be directors and members of the board within the companies.

In accordance with the Law on Foreign Current and Capital Operations (*Official Gazette of Montenegro* No. 45/05, 62/08), foreign investors in Montenegro can acquire ownership and are disposed upon means of payment denominations in currency other than euro, and to perform business and payment operations in currency other than euro.

Montenegrin Investment Promotion Agency

The Montenegrin Investment Promotion Agency (MIPA) is the national investment agency set up by the Government of Montenegro in 2005 to promote foreign investment and facilitate economic development in the country.

Its mission is to partner with foreign and domestic investors, the public and private sectors, international organisations and private individuals in order to boost and facilitate business opportunities and foreign direct investment (FDI) in Montenegro, thereby raising Montenegro's profile as a global competitor. The government's ultimate goal is to improve the quality of life of all Montenegrin citizens through economic development.

MIPA promotes business ventures of particular interest to foreign investors and brings such projects to the attention of the international marketplace. It offers a range of services to assist potential investors, including:

- Business co-operation and business start-up services;
- Providing information on local investment within the institutional framework;
- Consulting in local customs and laws;
- Assisting in gaining permits and licenses on national and local levels;
- Developing specific strategies for specific sectors and countries;
- Assisting in the location of Greenfield and Brownfield site options according to specific requirements;
- Providing initiatives while supporting co-operation with domestic supplier companies and other local partners;
- Maintaining an investment database;
- Identifying potential challenges to business co-operation in Montenegro and alerting local officials to make the necessary systematic changes;
- Promoting business ventures by connecting local companies with foreign investors.

The Labour Law has also been brought more in line with EU requirements: employment made more flexible, and restrictions on redundancy dismissals have been eased, with the notice period for redundancy dismissals shortened. Most importantly, Montenegro offers a very favourable tax climate for investors, with the lowest rate of corporate income tax in the region (9%), personal income tax (9%) and lower rate of VAT for tourism and other services (7%). Investors are able to remit dividends and interest profit in the full amount, without any restrictions.

One-stop shops for company registration

The government has taken a number of additional steps to stimulate and facilitate investment. One example is the launch in May 2011 of one-stop shops for company registration, with the prime aim of simplifying administrative procedures and removing business barriers. New companies can now be registered in eight regional Tax Administration units, instead of only the Commercial Court in Podgorica, as was previously the case – thereby saving valuable time and money. This includes application for general tax registration and VAT, excise and customs code.

The new prime minister's aim is to create an environment that sends out a message: 'Welcome to Montenegro'.

Investment incentives

A number of incentives also exist for investors in Montenegro. These include:

- **Tax credits** – The amount of tax due can be reduced by 25% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 30% of the total tax liability.
- **Incentives for non-developed areas (northern part of the country)** – New founded companies, in the area of production, are corporate tax-free during the first three years of operation.
- **Carrying loss** – Losses resulting from business relations, excluding those resulting in capital gains and losses, may be transferred forward to offset profit generated in future calculations periods, but not exceeding five years.
- **Investments in securities** – If profit from capital investment is used for purchase of new securities, such profit is not taxable under to condition that it is reinvested within 12 months from its arising. Profit from sale of securities held by a taxpayer for more than two years in his portfolio is exempt from taxation.
- **Import of equipment as the equity of foreign investor** – customs duty is not payable, although VAT is.

KEY PROJECTS AND NEW INVESTMENT OPPORTUNITIES

TRAVEL & TOURISM IS, UNARGUABLY, THE MOST DYNAMIC DEVELOPMENT SECTOR FOR MONTENEGRO. IT OFFERS A WIDE RANGE OF OPPORTUNITIES FOR INVESTMENT – FROM GREENFIELD SITES IDEAL FOR LARGE-SCALE, MIXED-USE RESORTS TO SITES INCLUDING HISTORIC LANDMARKS, OR WHICH ARE THEMSELVES HERITAGE BUILDINGS.

The diversity of Montenegro's natural resources – a unique blend of plateaus, high mountains and sea within a compact area – represents huge potential for diversified tourism products and facilities. One can swim in a lake or the Adriatic Sea, go rafting down a river and ski on mountain slopes – all in the space of a day.

Recognising this potential, the government's strategy for tourism development includes a wide range of quality accommodation – from luxury sun & beach resorts to authentic mountain eco-lodges – with opportunities for yachting, golf and other adventure and less active sports, as well as health/wellness, culture and nature-based tourism. Six clusters have been identified that reflect the potential and the diversity of Montenegro's tourism offer:

- **Budva to Bar**: beach tourism, supplemented by meetings, conferences, incentives and exhibitions (MICE) business to stretch the season beyond the peak summer months
- **Ulcinj**: beach and nature-based tourism, largely for international tourists on a year-round basis
- **Kotor Bay**: beach tourism, largely for independent travellers, plus health/wellness, and cultural and sporting activities
- **Lake Skadar** and **Cetinje**: Nature-based, rural tourism, including active sports and cultural pursuits
- **Bjelasica & Komovi** and surrounding area: mountain region with national parks, offering soft- to hard-adventure sports, wellness and MICE-related activities, and
- **Durmitor to Sinjajevina,** plus **Žabljak** and surrounding area: mountain region with the Tara Canyon and national parks offering nature-based and family tourism, plus a range of sporting activities.

GREENFIELD TOURISM INVESTMENTS

Some €12 billion forecast investment, boosting exports, jobs and taxes

Most future tourism development in Montenegro will be spurred by Greenfield investments and these are expected to progressively contribute to a far higher standard of accommodation facilities. This in turn will boost demand from high-yield tourists and generate greater revenues – both from tourists' spending, but also through increased taxes (such as on imported goods and hotel and other company turnover), as well as induced spending by the growing number of employees and their families enjoying better jobs and, therefore, higher standards of living as a result of the new developments.

More than 100 hectares of land available ...

In total, more than 10,000 hectares of land reserves have been made available for new holiday resorts at different sites, mainly in coastal regions suitable for sun & beach and nautical tourism. The majority of sites are decommissioned military bases, or military holiday zones (following Montenegro's independence from Serbia).

Major Greenfield tourism projects under development or planned

Project	Investment[a] (€ mn)
Porto Montenegro	600
Velika Plaža	6,500
Ada Bojana	150
Valdanos	150
Kumbor	90
Luštica	2,500
Skočidjevojka-Budva	200
Maljevik-Bar	500
Bigovo-Traste	40
Bjelasica	600
Flower Island (Ostrvo Cvijeća)	200
Žabljak	50
Total	**11,580**

[a] Minimum expected
Source: Ministry of Tourism (former), 2010

Some of the sites – Greenfield and other – are ecologically valuable and require protection and preservation, so the government has rightly decided that they can only be put to limited use. These include Ada Bojana, Velika Plaža, Valdanos and Buljarica. The government is anyway insisting that one of the quality features of all the new Greenfield developments will be a generous ratio of green space per guest/bed for outdoor tourist amenities. The regional master plan for Velika Plaža, for example, provides for 100 square metres of green space per guest/bed with a total of 30,000-40,000 beds.

... in the mountains as well as along the coast

In addition to the coastal sites, there are opportunities for Greenfield developments in the mountains, such as in Bjelasica and Komovi, and Žabljak in the Durmitor mountain range.

Of the total Greenfield developments planned, the most important in terms of investment is Velika Plaža, which will likely involve investment of between €6.5 and €10.0 billion overall over the next 10-15 years. But the search for the appropriate developer/s is still pending. Orascom's Luštica complex, already signed and sealed with construction work scheduled to start before the end of 2011, is expected to cost around €1.1 billion but, by the time all the infrastructure and facilities are completed, it could represent a total investment of more than €2.5 billion.

The cost of Porto Montenegro – more of a Brownfield than a Greenfield development – is almost modest by comparison, but the overall investment in terms of the mega-yacht marina, real-estate developments, residential and entertainment facilities, could far exceed the currently estimated €600 million.

The following highlights the most important investment projects under construction or on the drawing board, as well as new emerging opportunities, and also developments that have stalled or been suspended – whether through lack of access to capital as a result of the global economic and credit crisis, inadequate interest from potential investors, or public opposition and other disputes.

If all the different projects do finally take off, there will clearly be no difficulty for Montenegro to achieve the growth in Travel & Tourism investments forecast by WTTC and Oxford Economics.

FIRM GREENFIELD PROJECTS

Porto Montenegro, Tivat

The Mediterranean's 'New Port of Cool'

In late October 2006, the Government of Montenegro concluded a deal with octogenarian billionaire, Peter Munk – one of Canada's leading industrialists and the chairman of the world's largest gold producer, Barrick Gold. The deal agreed was for the purchase of the former shipbuilding and naval yard once controlled by the Yugoslav Army, at a superb location on Kotor Bay with easy access to Tivat airport. The agreement paved the way for the development of a major marina and related residential and holiday resort in the coastal town of Tivat – which included a massive, five-year clean-up of the shipyard.

The Porto Montenegro project, developed in association with Adriatic Marinas, included investors such as banker Jacob Lord Rothschild and his son Nathan, French luxury goods magnate Bernard Arnault and – until he pulled out of the project following financial difficulties – Russian mining billionaire Oleg Deripaska. The first phase, estimated at €150 million, was completed in summer 2009. This largely involved the marina and the first apartment building. But substantial progress has been made since then and the marina and resort are now fully functioning, and attracting huge interest. Porto Montenegro was recently dubbed the Mediterranean's 'New Port of Cool' by the UK's *Financial Times*.

A year-round local and international community ...

The overall development will eventually cover 24 hectares located in the centre of the town of Tivat, along a 1-kilometre stretch of waterfront. It was planned as a residential, year-round community with medical and fitness facilities, an international school, restaurants and other amenities. A 150-room waterfront hotel facing the marina was due to be completed by 2011, but this was postponed and negotiations with Four Seasons to manage the property appear to have been suspended. (Four Seasons is anyway reported to be discussing an alternative property with Orascom for its Luštica development.)

Nevertheless, a boutique hotel (no indication as to any brand links) is now under construction, scheduled to be open in 2013, although no details are yet available as to the likely management group linked to the property.

... offering a wide range of facilities

Other key facilities include/will include:

- The marina: When fully completed, the marina will have 650 berths, with 130 reserved for yachts of over 30 metres in length – and the largest accommodating mega-yachts of up to 180 metres. Some 185 were ready for summer 2011. Services provided to the marina include a 24-hour concierge, duty-free fuelling, dockside provisioning, high-speed WiFi and a marina club. The marina is divided into six areas: the gated sports club marina, the heli-pad, a superyacht harbour with a 64-metre infinity pool (completed in 2011), an inner harbour with access to the promenade, an exclusive and secure south harbour and a square for drop-off and pick-up. The Yacht Harbour Association recently awarded Porto Montenegro with the '5 Gold Anchor Award – the highest achievement obtainable in the marina industry, recognising high standards of operations and customer service, as well as the exceptional design and construction that make it all possible.
- Hotel and apartments: A total of 114 residential units out of 129 were sold in the space of 24 months when the residential development was launched, making Porto Montenegro the fastest selling real-estate project in the Mediterranean. With three apartment buildings completed and open, and the fourth nearly finished, the fifth building Tara was launched in June 2011 with 47 units – and it has already sold over 70%.

- Restaurants, bars and clubs: A number of restaurants, bars and clubs are already in operation, or planned, along the quayside next to the marina, both in town squares and along the main street.
- Casino: The master plan includes the development of a casino, although no information is available on this at present.
- Golf: At least one, and perhaps two, 18-hole golf courses are planned a few kilometres from the site (see Montenegro's Strategy on Golf Development below and the recent public Invitation to Tender).
- Sailing: The Porto Montenegro yacht club already offers sailing and 'learn to sail' programmes.
- Tennis: The development will be home to the Porto Montenegro tennis club.
- Skiing: A helicopter or shuttle service is being planned that will connect Porto Montenegro residents directly to the ski slopes of Kolašin and Žabljak. Porto Montenegro has a ski chalet/mountain retreat in/near the town of Kolašin, on the slopes of its ski resort and on the border of the national park. The chalet is available free of charge for all crew staying in the marina through the winter season.
- Shopping: The shopping facilities at Porto Montenegro combine local stores with global brands and restaurants. The developers report that they are working directly with regional farmers to provide produce grown locally using traditional, organic methods.

The site of Porto Montenegro is easily accessible, only 7 kilometres from Tivat airport, which includes VIP facilities for the handling of private jets. The site is also located close to the Adriatic highway, Montenegro's main coastal road. The marina is, or will be, an official port of entry, providing customs services and clearing vessels into and out of Montenegrin waters. In addition, a high-speed ferry service with its hub in Porto Montenegro will transport residents and visitors to all parts of the Bay of Kotor by sea.

Positive environmental impacts ...

Adriatic Marinas has made every effort to ensure that the design and construction are as efficient as possible in order to attain LEED accreditation. Construction has involved the following practices, for example:

- Old timber and stone from buildings dismantled on the site are being used to construct jetties and walkways;
- Grit found on site containing copper and lead residues (from the former naval base's previous sandblasting activities) has been recycled into aggregate;
- Sea-bed and land remediation;
- Timber used in construction is either recycled or from sustainable sources;
- Special water flow systems on tap nozzles reduce water pressure by 30%;
- Solar panelled and low voltage lighting are being used wherever possible;
- Cavity wall insulation and thermal window units will reduce the need for heating and cooling;
- Nautical access, air links and the development of a fast ferry service between coastal towns will ease the burden on roads in the Kotor Bay region.

... together with significant social and economic impacts

In addition to the significant environmental benefits of the major clean-up and recovery effort, there is also expected to be a local social and economic impact, particularly in terms of job creation. The potential for economic growth is also significant, partly because Porto Montenegro is well positioned to grow by virtue of the impediments facing established marinas and boat yards in the region, including open-sea access and a shortage elsewhere of dockage and moorings for larger mega-yachts.

The development has rapidly become a state-of-the-art marina with boat-repair facility, which will not only be able to berth, provision, paint, refit and repair the world's largest yachts but also, through related services and onshore development, it seems to be proving itself an asset to Tivat and the Kotor Bay region, as well as to Montenegro's revitalisation overall.

From a community development and support standpoint, some activities to date include:

- The Peter Munk Scholar Program, offering financial support to gifted undergraduate students, enabling them to pursue their studies in Montenegro or elsewhere in Southeast Europe. Some 155 students were awarded scholarships in 2007 to 2009;
- Donations for Tivat's public institutions and non-governmental organisations (NGOs), including the purchase of medical equipment for Tivat Health Centre, upgrading Tivat Music School and support to different cultural and sporting organisations;
- Free wireless internet network set up for the entire town of Tivat;
- Free 'English for Tourism' language courses, aimed at members of the community involved in the tourism sector;
- 'Service and Professionalism' Workshop held by professors from Ryerson University, Toronto, for students at the Faculty for Tourism & Hotel Management at the University of Montenegro. A total of 55 students attended the course in 2007-09;
- An art exhibition with the local culture centre celebrating the industrial heritage of Porto Montenegro; and
- The donation of a boat, especially adapted for cleaning seawater, to Kotor Port.

Luštica Development, Tivat

Launch of the biggest Greenfield tourism investment to date in Montenegro

The site on the Luštica Peninsula, around Trašte Bay, which was acquired by Orascom Development for a major integrated tourism resort is – and will likely continue to be – one of the most significant and substantial Greenfield investments – not just in Montenegro, but on the whole Adriatic coast.

Swiss-based Orascom Developments and Hotels (ODH, or Orascom Development) and its Montenegrin subsidiary, Luštica Development, are part of the Orascom Group, an Egyptian conglomerate owned by the Sawiris family, which also includes Orascom Telecom Holding (OTH) and Orascom Construction Industries (OCI).

Orascom Development is run by Samih, the second son of Orascom Group's founder and chairman, Onsi. It is a leading developer of fully integrated towns that include hotels, private villas and apartments, leisure facilities such as golf courses, marinas and supporting infrastructure. Originally based in Egypt, it moved its headquarters to Switzerland in 2009. It also has projects in Egypt, Jordan, the UAE, Oman, Switzerland, Morocco, the UK and Romania,

Publication of the tender for the Luštica development was marked by protests from a group of citizens in the local village of Krtole. They claimed that almost 2 million square metres, out of 6.4 million on offer, were under dispute and that the government had registered this land to its name illegally. Court proceedings were launched to prove their claims and the project was subsequently delayed. But these were reportedly resolved, the last remaining necessary permits have been received, and construction of the €1.1 billion development is due to start before the end of 2011.

A fully integrated tourism resort and a new town for local Montenegrins

The integrated tourism resort will comprise a wide range of facilities including eight hotels, 1,600 apartments, 750 villas, a downtown area with all the necessary infrastructure and amenities, such as shops, schools, medical services, two marinas, water sports, a conference centre, Thalassotherapy (seawater therapy) centre and golf course. ODH has committed to completing at least three four- to five-star hotels within 12 years, as well as yacht moorings, golf and town-centre amenities. The first phase of the development should be completed in 2015 (accounting for some €750 million).

When all eight hotels are up and running, together with the serviced real-estate, there will be a total room capacity of 3,310, or 7,500 beds 60% of which in five-star or higher categories. ODH expects the hotels to generate 1.2 million bednights a year and some 240,000 guest stays.

Ensuring the buy-in of local Montenegrins

ODH has a 90% stake in Luštica Development AD, with the Government of Montenegro holding the remaining 10%. But there are also plans to sell shares to local citizens to provide them with the incentive for a real buy-in. All Montenegrin citizens over the age of 18 will have the possibility of taking in the planned recapitalisation of the Greenfield site (with a valuation of €30 million) through the purchase of shares.

Orascom Development's main attraction for Montenegro

One of the main attractions of the Luštica development is that ODH is more than a conventional investor and developer in the traditional sense. It is well-known for its long-term approach to its business operations, based on the principles of sustainability. Already at the development phase it engages actively with the local population, the authorities and environmental organisations and NGOs.

Orascom remains the owner of the infrastructure, leisure facilities and the hotel properties it develops, and it takes responsibility for maintaining and modernising these facilities because it believes this is the only way of creating long-term value. It implements its projects through a local project company, in this case Luštica Development, employing local staff and it believes in working closely with locally and nationally based suppliers and contractors. In this way it generates local value added and creates new jobs.

A strong focus on the environmental and social benefits …

Most importantly, Orascom's vision for tourism development – which aligns closely with that of the Government of Montenegro – is to ensure long-term environmental and social benefits. In summary:

Environmental benefits:

- A low-density approach, preserving the beauty of nature and the landscape, green areas and green spaces
- Low-carbon energy supply, renewable energies (water, geothermal heat, solar, wind)
- Eco-friendly architecture and building methods
- Ecological supply and disposal concepts, and
- Optimum transport links.

Social benefits:

- Co-ordinated, co-operative planning processes in close concertation with the authorities and with the involvement of the population and environmental organisations and NGOs
- Improved development and infrastructure
- Optimum transport links
- Public squares and amenities
- Kindergartens, schools
- Medical Services
- Sports facilities
- Open, transparent communication, engaging actively with the environment.

… as well as on the economic impacts

At the same time, the economic benefits are not to be underestimated:

- Creation of new jobs
- Generation of local value added
- Working together with local suppliers and contractors
- Pledging Orascom's long-term commitment as investor, developer and operator.

OTHER MAJOR DEVELOPMENTS

Sveti Stefan, Villa Miločer and Queen's Beach (Kraljičina Plaža)

Amanresorts, first leading international brand in the country …

In late 2006, one of the world's most respected hoteliers, Adrian Zecha, founder and Chairman of Amanresorts, signed a landmark agreement with the Government of Montenegro for a 30-year lease of the former fisherman's village of Sveti Stefan – once a favourite summer haunt of the world's rich and famous – as well as two adjacent properties, the Villa Miločer, a former royal villa, and the Queen's Beach Hotel.

The first two were to be managed by Amanresorts, and Queen's Beach (Kraljičina Plaža) was to be branded a GHM Hotels property after a complete rebuild. Four beaches were included in the €40 million investment deal and the three resorts were due to open some time in 2008 and/or 2009, with Amanresorts paying an annual fee of €2.1 million to the government.

… thanks to the arrival of the Restis Group with Adriatic Properties

Then came the financial and economic crisis and Amanresorts was unable to respect its investment commitment with the result that reconstruction was halted. After a couple of years of uncertainty, a rescuer emerged in the form of the Greek shipping group Restis, which agreed to take over the whole project under condition that the Singapore-based Amanresorts remained as managers of the project. Restis created a special purpose vehicle, Adriatic Properties Doo – in effect, a Montenegrin company – to handle the deal, and this company now holds the development, operating and leasehold rights for the project.

Restored to all its former glory …

In a country famed for its beauty, the most iconic images associated with Montenegro are of the tiny islet named Sveti Stefan overlooked by Villa Miločer, a graceful stone mansion turned into a luxury resort hotel, set on a pink sandy curve of beach. Once the summer residence of Queen Marija Karadordevic of Yugoslavia (the great grand-daughter of Queen Victoria) and later of Marshall Josip Tito (leader of Yugoslavia until 1980), was renovated from head to toe, re-opening its doors in January 2009, only four months behind schedule.

The island of Sveti Stefan, located across the bay and connected by a small causeway, was rather more delayed, staging a partial re-opening in 2010, but only coming fully on line this year. Restored to its former glory, the hotel has already re-established its pre-eminent position as one of the jewels of the Mediterranean.

… at a much greater cost than initially expected

Not surprisingly, the overall cost of the project has escalated considerably. Adriatic Properties puts the figure at around €100 million, with a €37 million loan being provided by the European Bank for Reconstruction and Development (EBRD).

EBRD approved the long-term debt facility to Adriatic Properties because "the development is expected to set the benchmark for low-density, sustainable tourism in Montenegro". The project is located on a land plot of 68,000 square metres, which includes the Sveti Stefan peninsular village and some additional area along the Montenegrin Adriatic sea coast.

The final phase of the project will consist of the demolition of the existing Queen's Beach hotel and subsequent redevelopment of a new Queen's Beach hotel with up to 60 hotel rooms, as well as 60 villa apartments and a

Queen's Beach spa to be operated under the Chedi (GHM Hotels) brand. Completion of the work is scheduled for some time in 2012.

According to the EBRD, the whole project is expected to generate strong transition impact due to the following:

- The demonstration effect in setting a market benchmark for low-density and sustainable tourism. Due to its high visibility, the project's impact is expected to reach beyond Montenegro's borders and set quality standards for the tourism industry in the whole of the Southeast Mediterranean region. Furthermore, through its public-private partnership structure, it will set an example for future tourism privatisations in the region.
- Increased competition in the region's hospitality market, which suffers from a significant lack of quality tourist accommodation.

Skills transfer deriving from the hotel manager's undertaking to retain part of the company's existing staff (in the total staff count of 275, of whom 204 Montenegrins) and the development of specific training programmes for them, as well as for new employees (mainly hospitality-related and managerial specialisations).

Sveti Marko Island

A luxury, 'ecological' resort to be managed by Banyan Tree

In 2009, the Russian Metropol Group announced the details of its planned 'ecological' resort complex on the island of Sveti Marko in the Municipality of Tivat – the site of the former Club Med closed at the outbreak of the Balkan conflict in the early-1990s. This luxury development, for which construction was due to start in late 2010, will take up 16% of a total area of 30 hectares.

The master plan for what will be, according to Metropol, Europe's first integrated six-star island development, was carried out by a group of renowned international consultants – including Savills, Woods Bagot, Arup, Bovis Lend Lease, Davis Langdon, HBA and EDSA – and total investment in the project is estimated at between €300 million and €450 million.

The resort will include a luxury 60-suite (120-room) hotel and 60 bungalows to be managed by Banyan Tree Hotels & Resorts, 108 private villas, a protected quay for yachts with 140 berths, a yachting club, restaurants, shops, boutiques and servicing facilities. No details are available as to the expected completion date.

Blue Horizon (Plavi Horizont)

Qatari Diar, which is fully owned by the Qatar Investment Authority, has acquired the rights to the hotel complex Blue Horizon on the Luštica Peninsula for €24 million. Founded to support Qatar's rapidly expanding economy and to provide structure and quality control for the country's real-estate development priorities, Qatari Diar is also building signature projects in Qatar and abroad. These range from affordable housing schemes with joint-venture partner, Barwa, to the new Doha Convention Centre and Tower, a new landmark on the Doha skyline, the Ras Al-Haddeco-tourism resort in Oman and the giant Lusail project in Qatar.

Blue Horizon is owned by HTP Primorje. The EDESSA group has been retained by Qatari Diar to look at other sites in Budva and Ulcinj for the development of various projects ranging from residential and commercial complexes to retail centres, hotels and resorts.

Dr Simo Milosevic Medical Institute, Igalo, Herceg Novi

Expression of interest from the Compagnie de Vichy, France ...

The French Compagnie de Vichy recently expressed an interest in the purchase of the Dr Simo Milosevic Medical Institute in Igalo, Herceg Novi. Negotiations are currently underway but no dates have been given for any final decision.

The Compagnie de Vichy, based in the French spa town of the same name, was created in the middle of the 19th century, when Napoleon III gave the operation of the thermal baths to the company Lebobe, Callou et Cie. It is one of the oldest companies in France, today a subsidiary of the Castel Group, which acquired it from Perrier in 1992, and it specialises in both medical treatment and health/wellness tourism.

The company has an operating concession from the French Government until December 2030. This covers management of the buildings in Vichy and its surroundings, as well as 11 thermal springs including Vichy Célestins. Outside the scope of the concession, the company also runs a number of hotels: the 139-room, two-star Ibis Callou, the 139-room, three-star Thermalia, the four-star Hôtel les Célestins and the Thermal Spa les Célestins. With around 300 employees, the Compagnie de Vichy is the largest private employer in Vichy.

Since 2008, a subsidiary of the Compagnie de Vichy has been developing and operating spas outside France under the brand Vichy Spa Hotel & Resort.

… after many unsuccessful efforts to privatise the institute

Over the last several years, there have been a number of interested bidders, including Filip Zepter's Home Art and Sales Services (HASS) and the Austrian Kristof Group in association with the Russian chain of medical centres, MedSwiss. However, all the earlier attempts to sell the institute were unsuccessful.

The medical institute of Dr Simo Milosevic in Igalo is the biggest and best-known institute for multidisciplinary spa treatment in the Mediterranean. In the decades before the Balkan War, it was a favourite holiday resort for many Europeans familiar with spa treatment – both preventative as well as curative – and in particular with Norwegians. The local mud has curative properties that are reportedly second to none. Among the illnesses/ medical problems treated by the institute are psoriasis, rheumatoid arthritis, polyarthritis and other connective tissue diseases in children, and spinal disease.

A potentially major attraction for health/wellness tourism

The institute has a capacity of 650 beds in 352 rooms, located in two high-rise buildings, as well as all the necessary equipment and facilities. It even has a special unit for children, with 160 beds in 21 rooms, plus classrooms so that children receiving treatment do not have to stop their regular schooling.

There is a separate facility within the institute with total floor area of 50,000 square metres and accommodation for 800 patients/guests in 405 rooms and apartments. This offers spa treatment, catering and recreation, sport activities, conference halls, and it has a separate unit for curative mud production.

In addition, the institute owns the luxury villa 'Galeb', which was built in 1979 exclusively for the President of the Former Republic of Yugoslavia, Josip Broz Tito. The villa has 22 luxury rooms, indoor therapy pools, an indoor swimming pool and a conference hall.

Northstar development, Luštica

In late 2010, it was announced that the Finnish-British Northstar Company had bought 2 hectares of land on the northern coast of Luštica for the development of a four- to five-star hotel complex – an investment estimated at some €15 million. This was followed, in 2009, by the signing of an agreement with the Government of Montenegro for a 90-year land lease for a 52-hectare plot designed for a mixed-use development. No further details are available.

Wild Beauty Resorts and 'Zero-Carbon' Eco-Lodges

Increased focus on the mountain regions

Montenegro's Strategy for Tourism Development to 2020 includes a target for increasing tourist accommodation capacity in the Central and Northern regions of the country by about 12,000 beds in new hotels and similar accommodation. In line with the government's commitment to sustainable tourism development, the aim is not only to expand and enhance tourism facilities in these largely poorer rural regions of Montenegro, but also to stimulate new opportunities for employment for local people, and to attract new target groups of tourists who seek active, nature-based holidays.

Integral to the plan for new accommodation is protection of the natural environment, integration of developments into the landscape and indigenous architecture of the respective regions, and investment by government – with the support of donor agencies – in the overall infrastructure, including access roads and a comprehensive network of marked and maintained hiking, biking, and nature-education trails of about 5,000 kilometres in length overall.

Both government and the private sector are also contributing to the development of lift transport systems and snow-making equipment for the new ski resorts in Kolašin and other planned winter sports' centres.

A new brand of tourist accommodation

Private investments will drive the development of a new brand of tourist accommodation: Wild Beauty Resorts and 'Zero-Carbon' Eco-Lodges – to be located at the crossroads of the mountain trail system (which now comprises 5,000 trails) and in distinctive, rejuvenated and new tourism settlements in and around the national parks. The government is also encouraging private-sector efforts to modernise existing hotels in the Central and Northern – mainly mountain – regions, according to new ecological guidelines.

The concept for the new Wild Beauty Accommodation was developed with funding from, and within the German Technical Co-operation (GTZ) Project on Economic Development and Employment Promotion in Montenegro, commissioned by the German Federal Ministry for Economic Co-operation, in partnership with the former Ministries of Tourism and Environment of Montenegro.

The resulting guidebook under the same name provides investors, architects and planners with clear guidelines as to how such resorts can be developed in accordance with typical building styles and architecture of the regions, with preservation of the natural environment as key. Similar guidebooks/brochures have also been produced through co-operative ventures between the Government of Montenegro and GTZ for other products and regions: namely the *Eco-Lodge Concept for Montenegro*, *Architectural Heritage of the Skadar Lake Basin*, and the *Architectonical Atlas of Montenegro.*

Wild Beauty Accommodation guide-book

The *Wild Beauty Accommodation* guide-book highlights ten basic principles for the development of Wild Beauty accommodation:

- Support the conservation of the surrounding flora and fauna
- Minimum impact on the environment during construction and operation
- The architecture of building and recreational areas should complement the specific physical and cultural context in terms of landscape, form and colour
- Sustainable means of water acquisition and water consumption
- Modern technology for collection, treatment, disposal of sewage and solid waste
- Energy efficiency through passive design and alternative energy
- Use of traditional building architecture and building material of the region
- Close interaction with the local community
- Nature education and nature-interpretation programmes should be an essential part of the offer, and
- Support sustainable development through educational programmes and research.

GTZ says that at least five of the ten principles should be observed during the construction and operation of Wild Beauty Accommodations. For Eco-Lodges, it is also important that these principles embody ecotourism – conservation of nature, providing benefits to local communities as well as rich, interpretation experiences for guests.

In addition to the requirement for would-be developers to follow standard procedures in terms of applying for building permits and undertaking environmental impact assessments, there are very stringent site assessment and product criteria covering such issues as impact on the local community, landscaping, water supply, waste disposal, etc.

Wild Beauty resorts can be from three- to five-star in terms of category, but must be open year-round and have a capacity of 50-250 rooms allowing for 300 square metres per guest bed, and 100 square metres for employee housing in the resorts. The resort should have a distinct village centre with shops selling locally produced food, beverages and souvenirs, as well as cafes, restaurants, etc.

Resort facilities should be focused on environment-friendly sports and recreational experiences in the natural setting of the site, in addition to the traditional recreational infrastructure required for a year-round operation, such as indoor-outdoor pools, wellness centres, entertainment, conference facilities, children's clubs, and a variety of restaurants.

The use of alternative technologies – such as solar, wind, thermal, low-wattage light fittings, roof gardens, non-HVAC air conditioners and heaters – are to be incorporated as basic standards, together with water conservation techniques (rainwater harvesting, grey-water irrigation, no-water toilets, low-flow showers, tap aerators, etc), environment-friendly sewage systems, the use of native plant species, and environment-friendly materials, not only for the building but also for the interiors (recycled carpets. non-VOC paints, organic 100% cotton for the bed linen, etc).

Wild Beauty Eco-Lodges, meanwhile, are designed to be more luxurious – small, four- to five-star properties only with 7-50 spacious guestrooms and en suite bathrooms – and located either inside or overlooking National Parks.

PROJECTS STILL UNCONFIRMED, OR ABANDONED

Bigovo-Trašte, Luštica Peninsula

The cove of Bigovo is located between the cities of Budva and Tivat on the Luštica Peninsula, adjacent to a historic fishing village. The Greenfield site, Bigovo-Trašte, is a former military base and the Government of Montenegro's initial concept plan envisioned a €40 million luxury tourism development within the existing, protected natural surroundings.

The site, which is easily accessible from Tivat airport (20 kilometres away), as well as from the international airports at Podgorica (90 minutes) and Dubrovnik (90 minutes), is located on a peninsula and extends from the sea coast inland, almost fully across the peninsula to the Kotor Bay side. It encompasses 38,940 square metres of land overall, with leisure facilities currently on 2,873 square metres.

The government launched a public Invitation to Tender for a long-term lease of Bigovo-Trašte in November 2009. Austrian company Robert Placzek Holding was the sole bidder but said it was not interested in a long-term lease, preferring to purchase the site or enter into a joint-venture agreement with the government.

Although the Tender Commission assessing the bid ruled that it was not in compliance with the rules of the tender, the Austrian company has still been invited to negotiate since it owns 92% of the land at Cape Trašte and was the sole bidder on this tender. The bidder has since suggested that the entire development concept for Bigovo be rethought, allowing for a broader development plan for the whole Cape Trašte. This is currently being considered by government.

City-Club Astra Montenegro, Budva

In 2007, the Russian group Mirax was reported to have reached an agreement in principle with the Municipality of Budva to build a major tourism resort, the so-called City-Club Astra Montenegro, on 50,000 square metres of land at Cape Zavala. Plans called for two hotels – one in the style of Dubai's Burj et Arab, and which was reportedly going to be managed by Hyatt – villas and apartments to cater to 4,000 guests, as well as a host of related facilities, such as a marina, health/fitness and spa centres, an entertainment complex, restaurants, shops, a parking, swimming pools, etc.

The first phase, which essentially comprised the villas and cost some €170 million including the land, was due to open in 2009, and some 60% of the properties were pre-sold. However, by the time the first villa owners were due to move in, the company was in financial difficulties and eventually crashed.

The project was the subject of much criticism and investigations from the start, since official approvals were reportedly never granted and limits regarding building regulations were clearly exceeded. More seriously, the Municipality of Budva, which had initially issued the Invitation to Tender for the site, was heavily involved through Budva Holding, a company formed and entrusted with management of many attractive lots along the Budva Riviera/Budvanska Rivijera. Unconfirmed media reports suggest that upwards of €11 million were siphoned off the project.

All construction work appears to have been suspended – although there is no indication as to whether buyers of the villas have ever been able to move into their properties, and even whether they have been completed. More significantly, as reported by the local media, the mayor and deputy mayor of Budva were imprisoned in late December 2010, soon after the new government came to power. Planning permission for the main hotel, which was considered to be totally inappropriate for the setting, was never granted.

Royal Montenegro Grand Resort, Skocidjevojka, Budva

The Royal Montenegro Grand Resort was a proposed development at Skocidjevojka, 8 kilometres south of Budva, 4 kilometres north of Petrovac and 1 kilometre from Sveti Stefan.

Backed by Joud Real Estate Funds and Monte-Mena, both of which are subsidiaries of Osoul Fund Management, an Egyptian group, the Royal Montenegro Grand Resort was scheduled to open in 2010. Covering 6.6 hectares, the development was to be divided into four distinct sections: a 220-250-room hotel and conference centre, villas (of 200 to 480 square metres each), lodges and condos (2- to 3-bed apartments), as well as a luxury spa, casino, yacht marina and a number of restaurants. There is no indication as to why the project has stalled.

Sveti Nikola Island

Different attempts have been made to find a buyer for the island of Sveti Nikola in Budva Municipality – both through public auction and an out-of-court sale – since the current owner, Serbian businessman Stank Subotić, has defaulted on his loan from the First Bank of Montenegro (Prva Banka Crne Gore). The island, also known as Hawaii, is located less than a kilometre away from Budva and it has three sandy beaches spreading of a total 840 metres long. There has been some speculation that the former Thai Prime Minister, Thaksin Shinawatra, who holds a Montenegrin passport, is interested. Nevertheless, the island is still mortgaged and the owner remains unchanged. The asking price in 2009 was reported to be €28 million.

Subotić, who only bought the island in 2007, had big investment plans for it, including connecting the island with the mainland, building hotels, villas, a marina and additional facilities.

Mimoza, Cape Kobila, Herceg Novi

Another project that appears to have bitten the dust is the Atlas Group's planned construction of the Mimoza, a hotel and resort complex on Cape Kobila, Herceg Novi – nothing to do with the Mimosa Park development in Kumbor. The original project, estimated at €170 million in value, which reportedly dates back some 20 years, was for the construction of two luxury hotels with 500 rooms, plus suites, a business centre, casino, disco, sports grounds, marina and supporting infrastructure.

The Atlas Group, which was the main investor with an 85% share in the proposed project – to the Municipality of Herceg Novi's 10% and 5% with the Coastal Zone Management – is a major Montenegrin group comprising 30 companies, from banks, finance and real estate to construction, a brewery, tourism and media companies. It developed the Atlas Capital City business and residential complex in Podgorica.

New Fjord Developments, Kotor

Former Irish Nationwide Chief Executive, Michael Fingleton, reportedly invested between €5 million and €10 million in a stalled hotel development project with another Irish businessman, Louis Maguire, in Kotor. The investment was part of a joint venture to build a €200 million luxury hotel.

Fingleton was/is the sole director and authorised representative of New Fjord Developments in Petrovac. Maguire's investment vehicle was listed as the co-founder of the company. Separately, Fingleton was/is also listed as a director of another company – Paradise Bay Resort – with Maguire and Svetlana Zenovich.

Maguire's firm bought three buildings in Kotor for a total of €12.4 million in 2005. The three Kotor buildings were acquired from a collapsed state leisure company and a shipping company, and formed part of the government's drive towards privatisation.

The URC Slavija hotel and leisure centre was bought by Maguire for €1.8 million and the purchase of the second property, Hotel Fjord, which cost €5.5 million, was backed by Fingleton. During the Montenegrin property boom Maguire even announced plans to set up his own airline flying directly from Dublin to Montenegro.

Kempinski, Smokvica, Budva

In 2009, it was announced that VAS Invest, supported by Renaissance Capital, the largest bank in Russia, had signed a memorandum of understanding with Kempinski to manage a luxury hotel in Smokvica, 12 kilometres south of Budva and 5 kilometres from Sveti Stefan. Building was expected to start in March the same year.

VAS Invest reportedly purchased 200,000 square kilometres of land for €30 million in the bay of Smokvica, and a further €70-€100 million was expected to be invested in developing a city hotel with villas over the bay, together with sport grounds, a wellness and spa centre and other facilities. No announcement has since been made by Kempinski, and local experts claim there are still problems accessing capital to complete the project.

Stella del Mare, Maljevik, Bar

The Russian Alt Corporation is reportedly developing a €300 million luxury resort in Maljevik, neat Sutamore, in the Municipality of Bar – in co-operation with the Montenegrin company, Sonuba Montenegro. Completion appears to have been delayed – possibly even suspended – but the luxury resort was expected to include two 150-room hotels, two private villas, shopping and entertainment areas.

Both Alt Corporation and Sonuba Montenegro represent the interests of large Russian and Moscow-based investors. Sonuba Montenegro had already acquired the land in Maljevik for €30 million some time ago.

Jaz Beach

Located between Budva and Tivat, Jaz Beach is considered to be one of the most beautiful on the Montenegrin coast. Plans for the development consist of an urban development concept, including a village complex offering accommodation including hotels and pensions, a water sports centre, wellness facilities, food and beverage services, etc. No further details are available.

Slovenska Plaža, Budva

In 2008, the Abu Dhabi royal family was reportedly planning to invest €2 billion in the construction of a five-star hotel on Slovenska Plaža Beach in Budva – a hotel that would be managed by a leading international brand. The hotel, which was due to be completed in 2010-11 was expected to have two towers, one with 27 floors and the other with 25. According to the agreement signed with the government, the land was to be provided by the state but, in return for their investment, the Abu Dhabi royal family was to be granted a share of ownership. No further information on the project has been forthcoming.

Buljarica, Budva

The 3.5 million square metre (350 hectare) Bay of Buljarica, located between the cities of Bar and Budva, is made up of mostly private land, and the majority of owners are members of a local landowners' association interested in creating a joint venture with potential strategic partners participating as shareholders. The development concept for this 1,800-long bay surrounded by sloping hillsides, includes high-quality residential accommodation, four- to five-star hotels and a tourist village with some 6,500 beds. A marina is also planned, as are a business centre and 18-hole golf course.

NEW OPPORTUNITIES FOR INVESTMENT

Ada Bojana

Nature reserve with a rich biodiversity

Located at the southernmost tip of Montenegro, Ada Bojana is a 494-hectare island flanked on two sides by the Bojana River, connecting directly to Lake Skadar and to the Adriatic Sea on the other side. Because of the site's unique natural environment and secluded private setting, the Government of Montenegro is seeking investors to develop an exclusive four- to five-star star hotel/resort/village complex, reflecting contemporary Montenegrin architecture and including recreational facilities and services.

The exceptional feature of the island is a nature preserve of more 400 hectares, which is home to a unique species of turtles, birds and dolphins passing by the beaches, and fauna and flora that provide opportunities to experience living nature within the immediate vicinity. Understandably, there are concerns that the site be developed by experts in the field of biodiversity. At the same time, the government wants to provide visitors with easy access to information about the island preserve and the possibilities for exploring it, such as by offering educational tours and guides to the different wildlife, fauna and flora.

Conceptual framework of the planned development

Given its rich biodiversity, the government recognised that Ada Bojana needed very careful development – an exclusive resort destination offering year-round facilities in harmony with the natural surrounding and managed by a leading international hotel brand experienced in 'green' hotel operations.

The Master Plan for Ada Bojana envisions a capacity of up to 2,500 hotel beds within the current area designated for tourism development, and the government expects that the resort, once developed, will be listed as a leading world nature resort. At least nine companies, including two from the USA, submitted expressions of interest in 2008, but different tenders have since been annulled.

The government is limiting constriction to 100 hectares out of the total of 520 hectares of island area. The island has a natural beach with fine sand commanding a marvellous view of the open sea. The development is expected to have at least one, maybe more, hotels to be managed by well-established and reputable hotel brands.

Velika Plaža

One of the longest stretches of undeveloped coastline in Europe

The 13-kilometre long, 16 to100-metre wide Velika Plaža (Beach) is located in the southernmost part of Montenegro, between the town of Ulcinj and the nature reserve and resort of Ada Bojana. The Bojana River, navigable along its total length, connects Velika Plaža with Lake Skadar, one of the largest lakes in Europe and an important bird habitat designated as a Ramsar Site.

Velika Plaža is an exceptional site offering a unique opportunity for the development of an exclusive large-scale resort of great natural beauty, easily accessible and with good visibility. Not surprisingly, its development is a top priority for the government – not least because it is expected to represent, on completion, upwards of €6.5 billion in investment for the country.

The development of Velika Plaža is a top priority for the government – not least because it is expected to represent, on completion, upwards of €6.5 billion in investment for the country.

Sustainable development is key

The government is looking to enter into a 90-year lease agreement for Velika Plaža as a whole, or for five separate parts – whichever is deemed more advantageous – with the right to develop and operate a unique selection of upscale resorts with a range of leisure and recreational facilities. It is expected that the resort will be a flagship project in which the natural surroundings and leisure facilities co-exist and complement each other. Its key objectives for the development, as for Ada Bojana, are to:

- Develop a world-class, exclusive and upscale market resort;
- Create a model development that is environmentally, socially and economically sustainable in the long term;
- Ensure that the architecture, design and engineering are of the highest international standard and are in accordance with the highest international building and environmental standards, enabling both current and future generations to enjoy this unique scenery;
- Provide facilities that are conceptually, aesthetically, functionally and environmentally in harmony with the beauty of the natural surroundings and the environmental richness of the sites;
- Provide a wide range of sports, leisure and recreational activities;
- Include modern congress and meeting facilities;
- Develop a year-round resort business;
- Create an enjoyable holiday, living and working environment;
- Partner with a renowned international hotel or tourism group brand/s; and
- Provide links for visitors to the rest of the country.

Still no successful tender

The first tender for the development of Velika Plaža, launched in March 2009, was annulled due to a lack of interest. The UAE-based Hydra Properties (owned by the Abu Dhabi Royal family) was the only company to have purchased the tender files, but it decided not to submit a bid at the time.

Since then, although nothing concrete has materialised, potential new models for the development of both Velika Plaža and Ada Bojana have been sought and an international master-planning competition was launched under the theme 'A Sustainable Waterfront Community'. The competition attracted submissions from more than 20 world-renowned architectural/ planning companies from the USA, Italy, the Netherlands, UK, Portugal, Spain, Australia, Russia and Norway.

All participants offered, in an innovative way, a vision of Velika Plaža, Ada Bojana and Port Milena for the next 30 years, including resorts, residential and apartment settlements, entertainment, recreational and sports centres, educational and cultural facilities, plus commercial facilities for about 50,000 users, both tourist and residents. Most importantly, all agreed that any developments should be built in harmony with the unique natural environment of sand dunes, forest and wetland ecosystem rich with rare plant and animal species. Energy efficiency and other environmental concerns were also addressed.

HTP Ulcinj Riviera

In September 2011, the Montenegrin Government issued a public Invitation to Tender for the purchase of 63.52% of the shareholding of the state-owned hotel company, HTP Ulcinj Riviera, as well as a 90-year lease of the Ulcinj Riviera – the stretch of land above the town of Ulcinj. The deadline for responses has been extended to 4 November.

The company in question owns a few tourist facilities but a lot of land. Apart from the land sale and simply just buying the company, bidders have the option of buying the right to use the land for 90 years. The land includes areas where many hotels are already built and are paying to lease the land, but also it includes areas where hotels and other tourist facilities will be built in the future, according to the Spatial Plan.

Valdanos, Ulcinj

Valdanos Bay, which is located at 4 kilometres northwest of Ulcinj, southeast of Bar, is considered to be one of the most attractive sites in Montenegro as it is the largest preserved olive grove in the whole of the Mediterranean. The inlet is also officially recorded as an underwater archaeological site, where important submarine remains are located.

This former military holiday camp, with a 100-metre long pebble beach, boasts an unobstructed ocean-front view with exclusive privacy, a Mediterranean climate and an average of over 240 sunny days a year. It is 68 kilometres from Podgorica and 86 kilometres from Tivat airport.

The conceptual plan for the Greenfield development included a five-star resort – expected to be managed by Sol Meliá (now Meliá Hotels) – in buildings of a maximum four storeys high, with up to 100 square metres of green surface per bed to protect the coastal area. An 18-hole golf course was also planned, with Robert Trent Jones linked at one time to the project.

The first, unsuccessful, tender was opened in 2009. Since then, three more public invitations to tender have been issued – the latest in August 2011. Conditions for participation in the most recent tender reportedly remained unchanged except that the period of the lease was extended from 30 to 90 years. In addition, although the land is currently 100% state-owned, it was suggested that part-privatisation was possible.

The tender apparently failed for the fourth time because no bids were submitted before the September deadline. The third tender reportedly collapsed due to a public outcry regarding the decision to award the project to UK-based Cubus Lux. Although the government had stipulated that a maximum investment of €225 million was permitted – so as to limit the impact on the natural surroundings – Cubus Lux was opposed to this. And there were rumours that the company would have been allowed to ignore the restrictions imposed.

One of the major objections to the proposed development of the site is that the diversity of flora and fauna, centuries-old olive groves and natural springs are what makes this cove so unique. And many international ecotourism organisations, as well as local environmentalists, believe that for these reasons Valdanos should remain a protected area.

Lastavica/Mamula Island, Kotor Bay

Lastavica Island – frequently referred to as Mamula Island – is a popular destination for one-day excursions from Tivat and Herceg Novi, located at the entrance to Boka Kotorska (Kotor Bay), 3.4 nautical miles (6.3 kilometres) from Herceg Novi, between the peninsulas of Prevlaka and Luštica. This small islet is circular in shape, 200 metres in diameter, topped by the Mamula Fortress, and has a rocky coast with a small beach area.

Built by the Austro-Hungarians in 1853 as an important fortification – one of the best-preserved in the whole Adriatic. It was never in fact used for this purpose, but it was turned into a prison during both World Wars. Never put to intended use.

The Montenegrin Government first issued a call for Expressions of Interest in late 2008 with 10 February 2009 given as the deadline for submitting documentation. At the time, a public-private partnership was sought for developing and operating a luxury hotel with full catering and wellness facilities, as well as berths for small and medium-sized yachts. Admittedly, the tender process was complicated by the fact that the whole location belongs to the maritime zone and needed an Urban Plan compliant with the stipulations of the Special Purpose Plan for the Maritime Zone and conservation requirements.

There was subsequently a change of thinking and the Invitation to Tender was withdrawn. A new Invitation to Tender was issued in September 2011 by the Council for Privatisation (with a deadline for submissions on 14 December) for the long-term (30-year, with a possible extension to 90 years) rental of the island, together with the military barracks, Orjenski Battalion, in Kumbor (for which an immediate 90-year lease is possible). The value of the whole complex is estimated at around €8 million.

Kumbor, Herceg Novi

The public Invitation to Tender for the Orjenski Battalion in Kumbor is for the lease, construction and management of a mixed-use tourism resort for a period of 90 years. Kumbor, whose name derives from the Italian word 'conborg', or suburbs, is located on the sunny side of the Kumbor Strait, at a relatively short distance from the open sea, yet well protected by the Luštica Peninsula.

This former barracks encompasses an area of 241,695 square metres, with construction planned over one quarter of this. Not all the land will be leased out, however. As an example, the church Sveti Neđelja is excluded.

Ostrvo Cvijeća (Flower Island), Bay of Tivat

This 100% state-owned island was the subject of a public tender in 2008, but there has been little news since then about the government's initial vision to develop it into an exclusive village resort involving an estimated €200 million investment. The island is 300 metres long and 200 metres wide with 1,200 square metres of sandy beach ideal for water sports.

Mountain tourism in Bjelasica and Komovi

The region of Bjelasica and Komovi offers a great development opportunity, both for the Northern region of Montenegro and the country as a whole. The Special Purpose Spatial Plan for Bjelasica and Komovi, which covers an area of about 1,090 square kilometres, includes settlements within six municipalities: Andrijevica, Berane, Bijelo Polje, Kolašin, Mojkovac and Podgorica.

The plan calls for the Bjelasica and Komovi region to be recognised as year-round tourism and recreational area linked to Durmitor and Žabljak. Although tourism and, in particular, skiing and other mountain sports, are seen as the engine for development of the region, other small industry business will also be catered for, such as agriculture, forestry/wood products, cultural activities and public services.

The plan envisages the development of eight new Greenfield developments, including six ski resorts:

- Žarski ski resort: with a capacity of 7,000 beds, and catering to 8,000 skiers a day
- Torine ski resort: 5,000 beds, able to receive 7,500 skiers a day
- Two ski resorts at Kolašin, at 1450 metres and 1600 metres: offering a total of some 4,500 beds, and able to handle 8,000 skiers a day
- Jelovica ski resort: 3,000 beds, and 5,000 skiers a day, plus golf course and facilities
- Komovi mountain centre and eco-adventure park: accommodating 2,000 visitors a day
- Cmiljače ski resort and village centre: final details of which are still to be determined.

Biogradska Gora, the national park, is located in the heart of the region, encompassing 5,650 hectares, and is surrounded by mountains whose peaks exceed 2,000 metres, nine glacial lakes and one lowland lake called the Biogradsko Lake.

The detailed Spatial plan for the Bjelasica and Komovi region was won by a consortium of the Republican Bureau for Urbanism and Planning from Podgorica, Ecosign Mountain Resort Planners from Canada, and Horwath & Horwath International. Ecosign is a world specialist in the area of mountain, resort and physical planning and is leading the planning team for the Winter Olympics in Sochi in 2014.

The main objective of the Plan is to create formal and planning requirements for the conceptual development and organisation of the area of Bjelasica and Komovi in line with basic development commitments, and according to the principles of sustainable development.

Mediteran resort, Žabljak

The city of Žabljak is located at the highest altitude of any city in the Balkans – at 1,456 metres, in the centre of the vast Durmitor mountain range – an ideal location for winter mountain tourism close to the Tara River canyon, which is the deepest in Europe, and second deepest in the world. White-water rafting on the Tara River is a major attraction for hard adventure enthusiasts. Surrounded by numerous lakes and mountain peaks, the region is covered by 1,500 species of plants, and it also boasts a number of cultural tourism attractions such as monasteries and churches, all of which attract a large number of visitors during the summer.

The Mediteran complex in Žabljak, which is part of the Spatial Plan for the sustainable tourism development of the Žabljak and Durmitor mountain region, covers an area of 14,000 square metres. It is a former military tourism resort/rest home. While it is directly accessible by paved road, its location – 200 metres away from the Black Lake and surrounded by pine trees – evokes a feeling of isolation and connection with nature. Views from the site are of forest and mountains.

As already discussed in the third of this series of four reports, in the context of the *Economic and Policy Environment* for Montenegro's Travel & Tourism, the Italian Government has made a long-term commitment to supporting the different mountain tourism projects to encourage the right kind of tourism in the country, ensuring economic as well as environmental sustainability, as well as for the benefit of local communities. The intention in Žabljak is to create a world-class resort that is intimate in feel, as well as conceptually, aesthetically, functionally and ecologically in harmony with the natural physical location of the region.

The existing complex comprises 26 buildings with an overall surface area of 971 square metres. They include a reception with a restaurant, boiler room, auxiliary building and 23 independent multi-bed bungalows with bathrooms built in chalet style, each with a capacity of 2-4 beds.

The estimated value of the property (land and buildings) is around €2.6 million, but no Invitation to Tender for purchase of the property has yet been issued.

Montenegro's Strategy for Golf Development

Although a number of private golf courses already exist in Montenegro, golf tourism as a market segment is still undeveloped. Yet it was long ago identified by the government and potential investors as an attractive proposition for Montenegro's Travel & Tourism growth. The country's topography lends itself to the sport – with many suitable sites with magnificent views and a potentially abundant water supply for irrigation thanks to hydro-electric power. Just as importantly, golf has proved to be a successful, high-yield segment in many other countries, attracting strong growth in demand.

Indeed, when completed, the new Brownfield and Greenfield developments currently underway or in planning are all expected to include one or more 18-hole golf courses.

A guide for potential investors

In December 2009, a consortium comprising Hurdzan Fry Environmental Golf Design Inc and Golf Project Doo was awarded a contract for the development of the Strategy for Golf Development in Montenegro by the then Ministry of Sustainable Development and Tourism. The strategy was adopted by the Government of Montenegro in 2011. The main goals, which are to be achieved without any degradation of the natural environment, are to:

- Make golf accessible to all Montenegrin citizens in all regions
- Enable Montenegro to become a high-end international golf destination, and
- Use golf as a means of encouraging tourism development in the country.

The resulting *Montenegrin Investment Golf Guide*, which is currently being prepared, provides information on the opportunities for investment in golf tourism, including possible locations for golf courses, with clear instructions on the procedures to be adopted by would-be investors and the criteria laid down by the government for its support of suitable projects.

Proposed locations

Possible locations for golf projects were analysed according to a prescribed set of criteria, including: the size of the local and tourist population, land suitability and water quantity, terrain accessibility, infrastructure, weather conditions, length of the prospective season, geological conditions, the environment, valid planning documentation, and ownership property rights. The intention is to develop golf facilities in locations with magnificent views, with services and facilities suitable for all levels of golf players, and at a 30-minute drive away from the main tourist centres.

A total of 68 proposed locations were analysed and, of these, 25 were short-listed for further analysis. This resulted in a final selection of 15 locations considered as optimal for golf development. Investors are currently showing interest in five: Tivat-Orascom (which would be a championship gold course), plus four proposed full-sized courses – Ulcinj-Šasko Jezero, Nikšid-Grahovo, Tivat-Montepranzo (see below) and Danilovgrad-Viško Polje. Eight are newly identified locations and two have been included by the state through the planning documentation.

The application process and incentives for investors

As some of the land in question is in private hands and either needs the owners' involvement, or their agreement to sell the respective plots of land to the government, this could delay approvals for planning and construction permits. But the whole process from application to opening of the respective courses will likely take upwards three years.

Incentives for investors currently envisaged by government are likely to include:

- Exemption from payment of tax on the imports of products during the golf course construction phase;
- Permission to the golf course contractors to transfer tax losses for a period of seven years;
- Exemption from payment of annual land taxes during the development phase and the first five years of operations;
- Reduction of, or exemption from, the obligation to pay the land development construction fee on green areas of the golf course during the development phase;
- Provision by government of infrastructure to support the golf courses, in accordance with current plans, policies and strategies; and the
- Granting of special, lower rates for golf course irrigation, where applicable.

In exchange for providing tax and other incentives for an indefinite period of time – so as to speed up the development of golf tourism – developers will have to commit to investment in marketing and promotions, as well as opening up the golf facilities to the local population, without discrimination.

Tivat-Montepranzo: first public Invitation to Tender

The first public Invitation to Tender was issued in September for a golf course near the coastal town of Tivat in the Kotor region – a priority project calling for a 90-year lease of 786,685 square metres of land owned by the Montepranzo-Bokaprodukt company. The land, in the Tivat Mrsevac zone, lies north of the Adriatic main road from Budva to Tivat across from Tivat Airport – 2.5 kilometres from Tivat and 700 metres from the sea.

The land in question is about 1.8 kilometres long and, variously, from 180 to 700 metres wide. The submission deadline for bids is 4 November 2011, and Raiffeisen Investment has been named project advisor. There are already reports that Canadian businessman Peter Munk is interested in the 90-year lease as the golf course development would complement his Porto Montenegro marina project nearby.

Other golf course projects

Among other reported golf course projects in Montenegro, Limon Investments – a Dutch company specialising in the development of golf courses and more comprehensive golfing resorts – is reported to have three projects currently in Montenegro, and is looking for partners. The developments are located at the following sites:

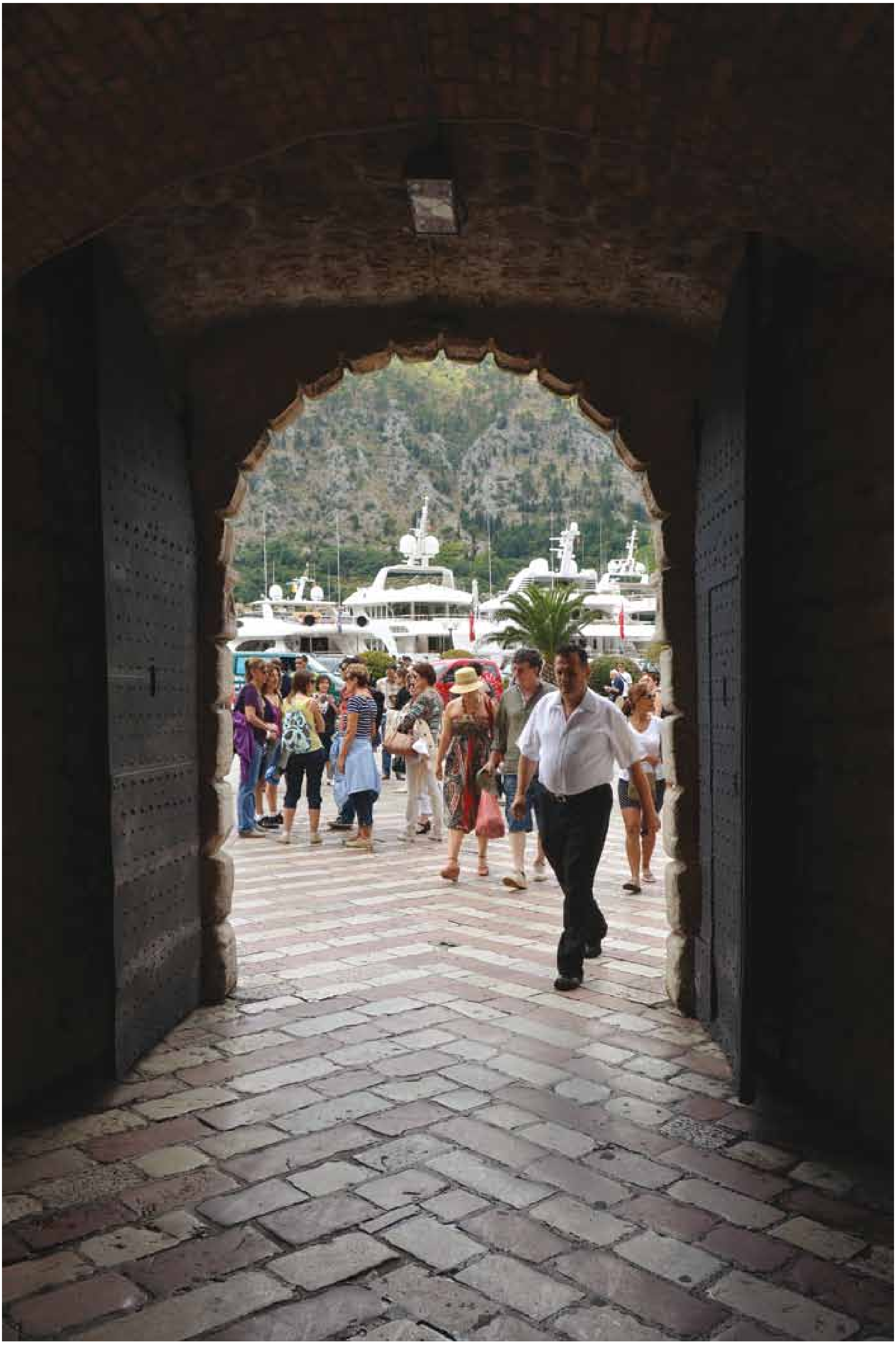
- Dobrsko Selo – between Budva and Podgorica
- Lovćen – a National Park in the mountains of southwest Montenegro
- Danilovgrad – northwest of Podgorica.

In line with its golf development initiatives, Limon Investments has also been involved in the creation of a golf school at the University of Podgorica. But this is not yet operational.

LEGISLATION AFFECTING TRAVEL & TOURISM INVESTMENT

COMMERCIAL AND COMPANY LAWS:	ADOPTED
Foreign Investment Law	November 2000
Foreign Investment Law Amendments	June 2007
Business Organisation Law	February 2002
Law on Participation of the Private Sector in Delivery of Public Services	June 2002
Accounting and Auditing Law	November 2005
Law on Amendments to the Law on Accounting and Auditing	2008
Law on Foreign Current and Capital Operations	July 2005
National Payment System Law	October 2008
TRADE LAWS:	
Customs Law	February 2002
Free Trade Zone Law	June 2004
Customs Tariff Law	December 2005
TAX LAWS:	
Law on Tax on Profit of Legal Entities (Law on Corporate Profit Tax)	December 2001
Tax Administration Law	2001
Personal Income Tax Law	December 2006
Law on Tax on Turnover of Immovable Property	2003
Value Added Tax Law	December 2006
Excise Tax Law	November 2004
Law on Real Estate Tax	December 2001
SECURITIES LAWS:	
Secured Transaction Law	July 2002
Securities Law	December 2000
Law on Public Internal Financial Control System	2001
Deposit Protection Law	July 2003
LAND AND BUILDING LAWS:	
Financial Leasing Law	December 2005
Law on State Property	March 2009
Law on Spatial Development and Construction of Structures	July 2008
LABOUR LAW:	
Labour Law	July 2003
BANKRUPTCY AND COLLATERAL LAWS:	
Bank Bankruptcy and Liquidation Law	2001
Business Organisation Insolvency Law	January 2002
Law on Bankruptcy and Liquidation of Insurance Companies	December 2007

BANKING AND CREDIT LAWS:	ADOPTED
Law on Banks	July 2000
Law on Central Bank of Montenegro	November 2000
CIVIL PROCEDURE CODES:	
Law on General Administrative Procedure	October 2003
OTHER LAWS AND DECREES:	
Budget Law	2001
Tourism Law	May 2002, updated 2010
Public Procurement Law	July 2006
Decree on the Sale of Shares and Property by Public Tender	June 2000
Decree on the Sale of Shares and Company Assets by Public Auction	1996
Electronic Signature Law	September 2003
Electronic Commerce Law	2004
Energy Law	April 2010
Energy Efficiency Law	April 2010
Law on Telecommunication	October 2000
Law on Insurance	December 2006
Decree on the Proclamation of the Inspection Control	June 2003
Law on Health Care	2004
Law on Investment Fund	July 2004
Law on Limiting Use of Tobacco	2004
Law on Local Self-government	July 2003
Law on Non-governmental Organisations	March 2004
Law on State Administration	June 2003
Regulation on the Procedure for Licensing of Bankruptcy	June 2002
Law on Health Insurance	June 2004
Law on Restitution of Property Rights and Compensation	March 2004
Law on Registers of Temporary and Permanent Residence	February 2008
Law on Employment and Work of Foreigners	March 2008
Environment Law	December 1996
Concession Law	January 2009



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