

CASE STUDY: MORE FAVORABLE IDF'S LOANS AND NEW SUPPORT PROGRAMS IN ELECTION YEAR



Investment and Development Fund has a budget of €100 million in 2016

I: INTRODUCTION: In the election year of 2016, the Investment and Development Fund (IDF) has a budget of €100 million to support development of small and medium-sized enterprises, and in the same year it has envisaged credit arrangements under much more favorable conditions than was the case in the previous year, which was non-election. In addition, a special program for employment of university graduates has been envisaged for the first time in the election year, along with granting agricultural loan through the MIDAS program, despite the fact that it is contrary to the Law on State Aid Control. The Law on State Aid Control does not apply to agricultural subsidies and aid, whereas the IDF funds are exactly the state aid.

II: €100 MILLION FOR LOANS IN 2016: The Investment and Development Fund has planned to invest €100 million in the development of small and medium-sized enterprises in the election year.¹ Of this amount, €50 million is earmarked for long-term loans² (€30 million through the Fund's direct loans, and €20 million through arrangements for which commercial banks provide part of the money), and €50 million for short-term loans³ and factoring arrangements.⁴

Credit lines of the Investment and Development Fund are aimed at four target groups such as developing entrepreneurship,⁵ supporting existing micro, small and medium enterprises,⁶ then supporting micro, small and medium enterprises through maintaining or improving the liquidity of a company, and finally

¹ Summary of the Annual and Financial Work Plan for the business year 2016 of the Investment and Development Fund link: http://www.irfcg.me/images/documents/DokumentaDesniMeni/Dokumenta2016/Godisnji_plan_za_2016_godinu.pdf

² Long-term loans have maturity date of more than one year; they are high-risk loans, in terms of collectability.

³ Short-term loans are given to companies with a repayment period of up to one year, and they can be used for buying short-term securities as well.

⁴ Factoring services are aimed at business entities which seek to enhance their liquidity on the basis of creditworthy customers and quality products or services; the program is aimed at providing conditions for improving liquidity of micro, small and medium-sized enterprises and entrepreneurs.

⁵ Entrepreneurship development is planned through supporting special target groups: young entrepreneurs, start-up companies, innovative and research companies, encouraging online and ICT business, women in business, farmers, and cluster production, the disabled, unemployed graduates, etc.

⁶ Support is envisaged through encouraging their further growth and development, with particular focus on the priority sectors of the Montenegrin economy: tourism and hotel industry, agriculture and food production, manufacturing, services, ICT, and support to maintain and / or improve the liquidity of companies: short-term loans, refinancing existing loans, factoring, permanent working capital, etc.

supporting infrastructure and environmental projects of local and national importance, including projects in the field of energy and energy efficiency.⁷

III: FAVORABLE CONDITIONS FOR OBTAINING LOANS IN 2016: The envisaged conditions for loan arrangements in 2016 are much more favorable than the conditions of the previous year 2015, which was a non-election year. Users will be able to obtain loans of maximum three million, with a repayment period of up to 12 years, grace period of up to four years, the interest rate of 5.5 percent per annum and a loan processing fee of up to one percent of the approved loan. When it comes to infrastructure and environmental protection and renewable energy projects, the maximum loan amounts five million, the repayment period is up to 15 years, grace period up to five years, the interest rate is up to five percent per annum and a loan processing fee is one percent of the approved loan amount. Finally, the IDF will approve factoring for amounts of up to five million, with the repayment period of up to 12 months and the interest rate of up to 5.5 percent.

Loan terms for Business Support	Loan terms for infrastructure , environmental and renewable energy sources projects	Factoring
Maximum amount €3 million	Maximum amount €5 million	Maximum amount €5 million
Repayment period 12 years	Repayment period 15 years	Return period - 12 months
Grace period 4 years	Grace period 5 years	
Interest rate 5.5 percent	Interest rate 5 percent	Interest rate 5.5 percent

Table 1: IDF loan arrangement conditions in 2016

On the other hand, in 2015 the IDF approved maximum loans of three million, with the loan repayment period of up to 10 years, grace period up to two years, interest rate of up to seven percent and a loan processing fee of one percent of the loan amount, with a mandatory participation of investors in a project.⁸

IDF Loan Conditions in 2015
Maximum amount €3 million
Repayment period 10 years
Grace period 2 years
Interest rate 7 percent
Participation of investors 50 percent

Table 2: Conditions for approval of loan support of IDF in 2015

Thus, the conditions that had to be met in 2015 were much more rigorous, i.e. the loan repayment period and grace period were shorter, while the interest rate was higher. What is particularly interesting is that since 2016 the IDF has no longer been requiring participation of investors in projects, which was previously required in the amount of up to 50 percent of the estimated investment value.

IV: NEW CREDIT LINE FOR UNIVERSITY GRADUATES: In 2016 IDF envisaged for the first time that university graduates who are registered with the Employment Agency of Montenegro are eligible apply for loan arrangements,⁹ justified by the need to reduce the rise in unemployment of that target group. It was announced that an interest-free credit line would be provided for university graduates, but the amount earmarked for this purpose was not specified.

⁷ For these projects in 2016, the IDF will use credit instruments relating to short-term, medium-term and long-term loans.

⁸ Annual Work Plan for business year 2015 of the Investment and Development Fund; link:

http://www.irfcg.me/images/documents/DokumentaDesniMeni/Godisnji_plan_rada_za_2015_godinu.pdf

⁹ Annual Work Plan for business year 2016 of the Investment and Development Fund.

In addition, 2016 brings a possibility to support projects in the field of information technologies (ICT), which includes an online business and e-business. The support will be primarily related to new entrepreneurs (start-ups), provision of ICT infrastructure, including computer equipment, but also to support students who intend to launch a business in ICT, such as e-commerce, e-marketing and other forms of online organization.



Ivanovic and Vukcevic used to grant numerous loans in election periods

VI: IPARD LIKE PROJECT CONTINUED: The IDF will continue granting loans to farmers within the IPARD-like project in 2016, which is implemented together with the Ministry of Agriculture, despite the fact that the funds of the IDF, which are fully owned by the state of Montenegro, are state aid. Since the Law on State Aid Control does not apply to agriculture, the IDF's funds should not be used for agricultural subsidies or loans.

Earlier data from the MANS Investigation Center showed that the IDF intensified granting loans during election periods, in particular allocation of agricultural loans, which could have been a form of influence on the electoral will of citizens in favor of the ruling party. Thus, in the period prior to the local elections in May 2014, nearly €800 thousand were granted for 35 agricultural loans in six electoral municipalities, of which half of the money was allocated to farmers in the Capital Podgorica, while in the same period, in other municipalities where there were no elections, only eight farmers received loans.¹⁰

Agricultural loans were provided within the MIDAS project¹¹ implemented by the Ministry of Agriculture and the World Bank in the past years, and were aimed at to strengthening agriculture and rural development. As a continuation of this loan arrangement, the IDF, in cooperation with the Ministry of Agriculture, continues to provide loan support through the IPARD like project,¹² which is implemented with the support of the European Commission. In October 2015, the Minister of Agriculture Petar Ivanovic announced that through this project 500 new jobs were supposed to be created, of which at least 320 in the north.¹³

Furthermore, the IDF, together with the Ministry of Agriculture and with the support of the Abu Dhabi Fund for Development, participates in the implementation of the project "Abu Dhabi to Montenegro Agricultural Support" project (ADMAS).¹⁴ The aim of the project is to increase production and processing standards, strengthen competitiveness, contribute to sustainable use of natural resources and improve living standards in rural areas.¹⁵

¹⁰ <http://www.mans.co.me/wp-content/uploads/mans/publikacije/sprovodjenjeizbornihzakona/SprovodjenjeizbornihZakona.pdf>

¹¹ "Montenegro Institutional Development and Agriculture Strengthening" - MIDAS project.

¹² Grant of non-refundable support for investments in family farms "IPARD-like 1 is part of the EU / IPA project for institution building in agriculture and rural development in Montenegro, funded by the EU under the Instrument for Pre-Accession Assistance (IPA), co-financed by the Montenegrin Government.

¹³ Portal of the Daily Vijesti "Providing 500 jobs announced through IPARD-like" , 2 October 2015, <http://www.vijesti.me/eu-vijesti/najavljeno-otvaranje-500-radnih-mjesta-kroz-ipard-like-854014>

¹⁴ The development objective of the ADMAS is to increase competitiveness and strengthen integration within the food chain in Montenegro. This requires more sophisticated supply chains and quality as well as alignment at both levels-production and processing. This should contribute to sustainable use of natural resources and improvement of living standards in rural areas.

¹⁵ Website of the Government of Montenegro: www.gov.me; Tender for financing developmental projects in agricultural from the Abu Dhabi Fund for Development, 31 August 2015; <http://www.gov.me/naslovna/vijesti-iz-ministarstava/151922/Javni-poziv-za-kreditiranje-razvojnih-projekata-u-poljoprivredi-iz-Razvojnog-fonda-Abu-Dabija.html>

The head of the IDF is Zoran Vukcevic, an official of the Democratic Party of Socialists, one of the participants in the notorious "Tape Recording" affair, which was uncovered in early 2013.¹⁶

*Author: MANS Investigation Center
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¹⁶ The "Tape Recording" affair was launched in early 2013 and refers to the transcripts of the conversations from the sessions of the highest party bodies of the ruling DPS held on the eve of the parliamentary snap election in 2012; On this occasion, the highest DPS officials exposed some of the mechanisms the ruling party used in pre-election periods, such as paying welfare benefits, severance payments, granting loans or creating employment.