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**MVP AS A PART OF INTEGRAL CONCEPT OF  
PRIVATIZATION IN MONTENEGRO**

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## **MVP AS PART OF INTEGRAL CONCEPT OF PRIVATIZATION IN MONTENEGRO**

### **INTRODUCTION**

MVP has been accepted as one of privatization models in Montenegro since 1996. But, basic legal infrastructure for model implementation has been adopted in February 1999. Current situations with all technical preconditions for proceeding MVP is result of hard work of group of people who were involved in preparation for MVP. Group has been consisted from foreign advisers and experts and several persons from Montenegro.

But, now all conditions for starting process with institutions, which has been formed in previous period, are satisfied. In this moment we can tell that we finished:

1. Consolidation of data for enterprises (303 enterprise) and for larger enterprises Shares book is made in electronic form.
2. List of citizens for MVP
3. Method for checking is a citizen at the list or no.
4. Software for Central Register of Shares (PRAGMA)
5. Training program for citizens, which is lead by Agency for foreign investment and economy reconstruction in cooperation with foreign consultant firm.
6. Legal frame and all legal acts which are necessary for proceeding of MVP (Privatization Law, Dematerialization of securities Act, Privatization Fund Act, Instructions for bidders...)
7. ZOP – as a technical provider is completely ready for proceeding MVP, in terms of technical potentials, labor force, equipment. Our foreign advisers have confirmed that.
8. Central depositary Agency has been formed which; in cooperation with ZOP should proceed all actions from supply side and organization of auctions also.
9. Concept of dematerialization of securities is adopted as basic principle of Capital market organization in Montenegro.
10. All forms for communication with citizens are prepared for printing (announcement, form for transfer of voucher to any member of family, privatization fund or for exchange for companies shares)
11. All legal infrastructure for management companies is finished.

12. Legal infrastructure for privatization fund is finished also (documents and forms for founding. Documents for licensing, documents for regulation and control, Statute of privatization fund, contract with privatization fund and other documents)
13. Fifty young people have been trained for MVP and whole process with great support from international experts. All of them speak foreign languages and are PC users.
14. According to Privatization Plan for 1999. And for 2000. List of enterprises, which will be privatized try MVP is defined and percentage of shares, which will be privatized try, the same method.
15. Analyze of enterprises and portfolio for MVP has been done.
16. Defined working management on decisions making roles between Privatization Council and all other institutions involved in MVP.
17. All preparation process has done with great support of international technical support from USAID and Know How Fund.
18. Management for control of process id defined and controls process of transformation vouchers to shares also.
19. Constructed web site: [www.savjet.org](http://www.savjet.org)

## **CONCLUSION**

MVP can be technically proceeded. There are some risks, but source for it is our environment, our reality, but not model itself. Model will make visible real try about us, about our enterprises, our administrative capacities, which are in shortage. But I believe all legal and technical problems out of sphere of MVP can not stopped MVP process itself. They can make it slower, harder, but they can not stop it!

## **PROBLEM DEFINITIONS**

Some people from Montenegro and abroad believe that model of MVP is too risky. Specially comments of ambassador Sklar, which he publicly presented at meeting in Njivice, in May 2000. It was first official attack on MVP process, which made delayed of auction from September/October 2000. to unspecified time. Political groups accepted necessity to discuss about arguments of ambassador Sklar with domestic and foreign experts and advisers and to make decision after it.

## **AMBASADOR SKLAR ATTITUDES**

According to Mr. Sklar's opinion:

1. MVP as a privatization model doesn't bring any capital and new management.
2. Vouchers should be distributed to citizens today and they should exchange them for shares for two years, which is period necessary for making decision where invest vouchers.
3. With this privatization model citizens will see low quality of Montenegrin enterprises and they will vote against the Government because they will believe Government is responsible for low performance of companies.
4. In Montenegro doesn't exist any privatization fund, so future privatization fund don't have any tradition, reputation and history so only fool would invest in them.
5. Financial advisers don't exist in Montenegro, which should help to citizens to make decision where to invest!

Those attitudes are followed with several explanations:

1. "Privatization method which has been proceeded in Montenegro and Privatization plan suggested by professor Vukotic are among the best I have seen in transition countries for similar programs"
2. "Privatization is tool, not a goal", Stiglec
3. "I don't suggest any change of Program! I only suggest re-timing!"
4. "Help to citizens to minimize risk and make political risk lower"

## **ROBERT STONE'S OPINION ABOUT SKLAR'S PROPOSAL**

In report to Know How Fund, Robert Stone, famous British consultant for Capital Market and transition in most East-European countries, including Montenegro, writes after meeting with ambassador Sklar:

"Dick Sklar confirmed me that he asked Prime Minister and Veselin Vukotic do delay shares supply for MVP. He believes MVP was disaster in most transition countries, but he admits Montenegrin program is the best of them because most problems and mistakes have been avoided (which is encouraging, specially if we know MVP is created with support and expertise from consultants from USAID and Know How Fund)."

Stone concludes Sklar's attitudes don't reflect PVM program itself, because it is good, but he believes terms are not satisfied, and proceeding of auction in September would be big mistake.

Main Stone's attitude is: "Government of Montenegro should decide which risk is higher: disappointment caused by further delay or possible disappointment if program is applies too early".

So, he is in favor of good technical preparation, strong regulation and starting MVP process.

## **USAID OPINION ABOUT MVP**

Without detailed presentation, I can tell USAID, trough Barents Group, which is our adviser, is in favor of MVP which should start soon, as all condition will be satisfied. I can prove this attitude with lot of letters I received from them!

But, USAID also believes every new idea should be analyzed and discussed about it!

## **MY PERSONAL OPINION ABOUT AMBASADOR SKLAR'S PROPOSAL<sup>1</sup>**

### **A. BASIC APPROACH**

Questions I will discuss here probably have theoretical character, but also strong practical consequences: Should we expect from privatization to provide solutions for all transition problems!

Every Sklar's warning should be interpreted and analyzed seriously, whether or not I agree with it. He reminds he is not expert for MVP, but with sense of businessman and politician very authoritatively present all risky parts of MVP Project. Within his own practical experience, specially in Bosnia, his attitudes are influenced by article of Stiglec, ex general economist from World Bank (*left* of been fired because he didn't approve Bank policy). Article is very wide and intelligent, one of Stiglec's articles which approve he understand East excellent. Article is very chalengable for discussions and further thinking, which provide special value for it. It is strong answer to ideological principle of transition and privatization at East and jump across the hole! But on the other side, he enters in new ideology, ideology of evolutionism. Without any risk and slowly hole should be crossed!<sup>2</sup> He presents China's example, which model prefers instead of Russian.<sup>3</sup> Very short, Stigles is in favor of spontaneous privatization, decentralized privatization instead State privatization programs, like MVP. He prefers private initiatives from firms (buying shares by workers and managers) and mentions Sumpeter's "Creative destruction" (big firms should be splited to several small firms)"

Two big postulates of Stiglec's approach are:

1. Privatization isn't goal, it is tool.
2. New market oriented economy needs new economy structure (new investments for development of companies, new management, new private companies created from market's signals).

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<sup>1</sup> I will try to present my opinion so politicians can use it to make decisions easier. I will discuss Mr. Sklar'an attitudes free. I will you explication principle to present his opinion and than to aplie that on our situation. At the end I will add several personal proposals.

<sup>2</sup> Idea of evolutionism is in coalision with theory of Chaos which is related with physicians Stive Hoking, but also in collision with new holistic paradigm which is base for informational economy!

<sup>3</sup> I would add that Stiglec is great economist I listened and met in Berlin, in December 1999, when Global development Network was established. This article is translated on Serbian in newsletter Financing, Novi Sad, in issue from December 1999. and our experts already read it.

For those who understand basic transition process, it is clear importance of influence those two principles! Those principles define direction of our actions! It is the same as when you go out from your home, you decide to go left, straight or right! If you make wrong decision, you will make long term, (I don't want to be extreme) strategic mistake.

I had lucky to meet that problem in 1989. when I listened an businessman, actual Prime Minister of SFR Yugoslavia, Mr. Ante Markovic, who, among the other, told during his presentation of new economic reform program:

"Privatization of social capital isn't goal, but tool for building new efficiency economic system... Base for transition is build of new economy structure based on private ownership."

Those ideas I further developed in my policy papers and articles published in country and abroad during early nineties.

I understood Stiglec's article as confession for many mistakes which West made giving advises to East. Satisfaction is too small, but I belong to group of people who will not embarrass in front of those people who have advised us how to proceed something and now they criticize us. They direct critique to "Domestic unknowledge", and again tell us their opinion is correct again and they suggest us some new different methods and approaches.

Respect I feel to Mr. Sklar, respect and confidence is, among the other, result of his honest admission he presented at meeting in Njivice: "We (West) wanted to plant roses (capitalism) on rock ground and now we are surprised we didn't succeed as we wanted". Ambassador Sklar also said:"Without live capital and new management transition doesn't exist". I completely agree with it! But, can we expect only from privatization to provide new investment and capital! If we do, privatization would be a goal. Are only acceptable those privatization methods which bring capital and new management? Should all inefficiency from socialism be transferred to new private owners? To foreign partners, foreign investors! Should only new owners pay for system disaster? Why we should cheat our citizens that socialist companies are good and efficient, and they should get vouchers, which are profitable? No! They will get vouchers in order to invest their energy to repair system, to develop, parallel with political democracy, property rights democracy, to plant capitalistic way of thinking in brains which can accept it. Of course, all citizens can not be capitalists!

Shortly, privatization can not provide, from many reasons, capital necessary for transition in Montenegro. Necessity for capital is timely more intensive than real possibilities of privatization (especially from political reasons, state status of Montenegro,). This means privatization should become faster try the MVP, so conditions for faster change of economic system, building of new institutions and new people can be made. It means that more financial support in terms of new investments should be provided for Montenegro and that would avoid

all negative consequences of capital shortage. I think ambassador Sklar agrees with this. I believe we should provide international support, international investments in new projects and proceed privatization simultaneously. It would have synergetic effect.

I believe George Soros insists on this attitude. He really in practice applies this and he believes it is more efficient if we act to avoid crises than to finance recovering process after crises has happened. Investment in peace is always more efficient than war damages reparations. In economy is similar: it is more efficient to invest in spontaneous change of system and company restructuring than recover destroyed company. Aren't split of Yugoslavia, War in Bosnia and Kosovo good examples!

Does Montenegrin privatization program respect importance of entrepreneurship and new management?

As a part of document of Montenegrin privatization program is next: "Initiative for speedier and improved privatization process in Montenegro – entrepreneurial approach". Montenegrin model is based on entrepreneurship. Also, this can be approved by our slogan: "We don't sell companies, we buy good owners". In tourism, our slogan is: "We don't need money for tourism. We need tourists".

So, we clearly demonstrated price is not the most important element in privatization, so, privatization is not our goal. It is our tool to build new economic system, based on market, international business of firms and internationalization of citizen's way of living, transparency and political democracy. So, on this way we want to create structure of businessman and mentality, which will return Montenegro in future. As a result of this our privatization is proceed step by step and this is often criticize in public as bad (too slow) but foreign publicity support our approach and us. Also, Montenegro is only country where privatization revenues don't go to Budget (current consumption) but go for financing new entrepreneurial projects and development. Also, our privatization revenues have been invested for development of new structure (new private firms) but haven't for covering losses of bad firms.

I present this with main purpose to show that we, at the professional level and in practice, shown that we understand what means that "privatization isn't goal, it is a tool" and that this principle is base for our privatization process. Also, I wanted to present that, in terms of conceptual base, between our privatization model and attitudes of ambassador Sklar doesn't exist any difference, which will make easier process of finding solutions.



## **EMPIRICAL EVIDENCE OF MVP PROCES IN OTHER TRANSITIONAL COUNTRIES**

As an answer MVP as privatization method is not good, I will present some empirical evidences from East Europe:

1. Privatization results will be the best if in ownership structure dominate outside owners (not managers and workers)
2. Higher concentration of owners improves economic performance.
3. Privatization influence higher foreign investments. Voucher privatization influence higher confidence in Government's efforts in privatization.
4. Privatized enterprises have better economic performance than non-privatized, whatever method has been used.
5. Check enterprises, dominantly privatized (more than 51%) through MVP have problems with economic efficiency.
6. Legal framework is precondition for privatization success, specially MVP (Russian example and huge social unequally)
7. Privatization (whatever methods) needs new regulation mechanism, because private monopoly is also bad as state monopoly.
8. Slovenian example shows MVP can be good method.
9. "Privatization in Check republic is slower than in region. Many bog companies are in bad condition and it will be difficult to find buyers for them but it will be more difficult to survive as independent companies. On of the reasons why MVP took clear ownership structure (which is necessary for reforms) from companies. Another problem influenced by MVP is shortage of export base, as a result of small sale to foreign investors" (The Economist, January 2000, Analyze of Check privatization).

Several analyses, discussions with foreign experts and several visit to countries which proceed MVP shown that in those case where MVP was dominant method (at the both level of enterprises and economy) and where legal framework was undefined, result were huge problems. Diversified approach shown better results (Slovenia, Baltic countries...)

That is the reason why in our concept different methods are mixed, so some disadvantages of MVP are less present.

### **C. SOME COMMENTS RELATED WITH HUGE DIVERSIFICATION IN OWNERSHIP STRUCTURE AFTER MVP**

It is important to understand that MVP is only part of whole privatization concept in Montenegro, it's integral part! This means we can't analyze MVP out of the total privatization concept. Through MVP will be privatized 27% of total capital in Montenegro.

	<b>Category</b>	<b>Capital value in DEM</b>	<b>% of total capital</b>
1.	Already privatized	1.971.566.566	21.65%
2.	For sale at international tender	3.730.664.244	40.98%
3.	For MVP program	2.463.326.475	27.06%
4.	For sale through Batch sale	370.704.920	4.07%
5.	For privatization on public auction	282.393.371	3.10%
6.	For privatization through liquidity	286.016.791	3.14%
	Total capital in Montenegro	9.104.672.367	100.00%

Main principle of Montenegrin model is privatization through development of entrepreneurship. It means new ideas, new management, new products, new markets, new organization, and new way of thinking!

1. We can get new owners only with market and transparent procedure.

This means:

1. With competition, which is at international level
  2. Transparency means proceeding public known procedure and rules, which are equal for all participants, foreign, and domestic.
2. Privatization concept in Montenegro is based on strategic partner and strategic entrepreneur. This concept is realized through two models:
1. Model of tender sale
  2. Batch sale (sale and capital investment until control stock of share is in ownership of buyer)

Through the international tender is planned to privatize 20 the biggest companies in Montenegro, which total value represents 2/3 of total value of capital in Montenegro.

Through "Batch sale" will be privatized 34 companies, or 10% of total capital in Montenegro. This concept means that for buying 1/3 of total value of company plus capital investment to the level of control stock of shares (51%) in these companies will come foreign or domestic strategic partner or strategic entrepreneur, in transparent procedure.

So, through 54 companies will be privatized almost 2/3 of total capital in Montenegro. Free estimation of ownership structure is 51% -strategic owner; 25% - MVP; 24% - workers. Of course, in each company structure will be different, but in all of them 51% will be owned by strategic partner (through sale or sale+capital investment).

This approach is completely different than in most East countries!

So, with this approach we will avoid huge capital investment of owners. In these 54 companies, according to the model, problem doesn't exist (when we will find strategic owners depend from many factors. Formally, process has begun).

3. Portfolio for Montenegrin model is presented in next table:

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Category	Number	Capital for	% of total
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*MVP as a part of integral concept of privatization in Montenegro*

		of compane s	MVP in DEM	capital for MVP
1	Companies which will be privatized dominantly through MVP	190	323,243,883	13.12%
2	Companies which will be privatized through Batch sale method	32	475,500,257	19.30%
3	Companies which will be privatized through Tender sale method	17	1,664,582,335	67.57%
	Total capital for MVP	239	2,463,326,475	100.00%

Warning of ambassador Sklar which can be directed on problem of future strategic owner, can not be directed for those enterprises which will be privatized try Tender sale or Batch sale. Or, his suggestions are directed only to 190 enterprises, or 13,12% of total capital in Montenegro, which will be privatized, try MVP.

So, let's leave for a moment those enterprises, which will be privatized try Tender and Batch sale.

So, his warnings are directed to 190 enterprises or 13,12% of total capital in Montenegro.

I will present structure of those enterprises using several criteria.

**A Employment**

									Ownership structure				
1	2	3	4	5	6	7	8	9	10*	11	12*	13	
	Number of employees	Number of firms	Number of employees	% of total of employs	Value of Capital	% of total Capital	Capital for MVP	% from capital for MVP	employees	Private investors	Funds	Banks	For MVP
1	do 25	63	780	4.90%	75,497,875	8.16%	28,206,762	8.73%	31.91%	9.80%	19.71%	1.39%	37.19%
2	26 - 50	35	1,199	7.53%	70,559,590	7.63%	24,003,291	7.43%	28.91%	21.98%	16.82%	0.64%	31.65%
3	51 - 100	38	2,861	17.97%	177,565,949	19.20%	68,502,899	21.19%	25.87%	11.68%	23.26%	1.94%	37.25%
4	101 - 200	36	4,842	30.41%	281,653,551	30.46%	107,732,474	33.33%	28.37%	7.66%	25.23%	1.08%	37.66%
5	201 - 300	9	2,213	13.90%	123,397,994	13.34%	41,537,404	12.85%	28.59%	7.19%	29.21%	1.00%	34.02%
6	300 +	9	4,025	25.28%	196,043,100	21.20%	53,261,053	16.48%	32.70%	16.13%	19.51%	0.00%	31.66%
	Total	190	15,920	100.00%	924,718,059	100.00%	323,243,883	100.00%	29.39%	12.41%	22.29%	1.01%	34.90%



All those enterprises are smaller one. Total capital value in those enterprises is 323 millions of DEM. Those enterprises have 15.920 employees: from the North of Montenegro are 79; from Central part are 79; from South (seaside) of Montenegro are 32 enterprises.

Total value of capital of enterprises from the North is 128 millions of DEM or 5,23% of total capital in Montenegro; in those enterprises work 5.896 employees,

Total value of capital in enterprises from Central region of Montenegro is 112.732 millions of DEM, or 4,58% with 6.341 employees.

Total value of capital in enterprises from South region of Montenegro is 81.560 millions of DEM, with 3.653 employees.

So, in practical realization of this model, special policy should be directed to this 190 enterprises, or 13% of capital predicted for MVP! Althout in terms of capital and number of employee those enterprises are not so important for total economy, their political importance can be significant.<sup>4</sup>

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<sup>4</sup> In those 190 enterprises are included 44 companies which are already privatized through the Control stock of shares method.

	Number of employees	Private investor	
		Number of Companies	% Of ownership
1	do 25	12	51.47%
2	26 - 50	14	54.94%
3	51 - 100	8	55.47%
4	101 - 200	5	55.15%
5	201 - 300	2	32.35%
6	300 +	3	48.38%
	TOTAL	44	

Among this 44 companies are: Mljekara, Podgorica; Morača trans, Podgorica; Polipak, Bijelo Polje; Centrojadrab, Bar; Intours, Podgorica; Primorka, Bar; Račica IGM, Tivat; Trebjesa, Nikšić; Trgovina AD, Rožaje; Export bilje, Risan; Farma Moravac, Bijelo Polje; Famod, Rožaje; TP Centar, Podgorica

	Number of employees	Banks	
		Number of Companies	% Of ownership
1	do 25	4	21.86%
2	26 - 50	2	11.20%
3	51 - 100	4	18.48%
4	101 - 200	3	13.00%
5	201 - 300	1	9.00%
6	300 +	0	0.00%
	Total	14	

In all these enterprises risk of liquidity is present, so citizens can be disappointed. Previous experience from privatization confirms that most problems in public are made by these small enterprises.

To be honest, in groups for Tender and Batch sale there are some enterprises, which are very risky!

What will happen with those 190 enterprises after MVP, because vouchers didn't bring new capital, investments, management... This is main question of Mr. Sklar!

Two answers are possible:

1. Answer with new question: what is the alternative way instead of MVP? What is going to happen with those enterprises if they won't be privatized? Which privatization method is alternative one? Auction? Or we should wait for several years more? Perhaps state should try to restructure those enterprises and then to privatize them?
2. MVP process will start, then process of restructuring, or condition for that should be provided, and Government and international community would support that.

1. If MVP will be canceled, or delayed, lot of enterprises will go to bankruptcy and it will be difficult to save their capital. If we concern current ownership structure: 40% are privatized by workers; 40% is predicted for citizens; 20% is owned by pension fund and unemployment fund. There are more and more requests for selling assets of those enterprises, which devastate capital and influence MVP. If those enterprises should be privatized through auction sale, price will be significantly low, which will also disappoint citizens. So, is it better giving those enterprises to citizens? So, we can not save capital in those enterprises for the next two years. Capital will be devastated, and state can not control everything. "Uncontrolled" privatization is unavoidable.

2. If those enterprises will be privatizing through the MVP, process of restructuring is unavoidable. Who will restructure enterprises? It is real to expect that privatization funds do that. Assumption is that privatization funds together with all other owners, will start process of restructuring of management, production. (Mr. Sklar will not agree with this, because in West institutional owners are only passive owners).



In this case, is it possible that State provide support to privatization funds to start process of restructuring? Probably, some special loan schemes can be made, especially for those enterprises, which are very important for the Country.

Is it possible that international support will be present and involved in this?

But, my personal attitude is different. I believe we should help to those enterprises to find market for their goods and services. Market incentives can be provided with:

1. Faster privatization of bigger firms
2. New Projects (Water supply industry, Sozina...)
3. Special arrangements for some enterprise

So, MVP doesn't have any chance to be leader of privatization process in Montenegro. But it can make good conditions for following leaders!

### ***3. Role of Privatization Funds in Montenegrin model***

Sklar's attitude is that Funds are only passive owners, without history, which make more difficult for citizens to make investment decision.

True is we still don't have any privatization fund, that privatization funds don't have any history and tradition, which make more difficult for citizens to decide where to invest. But, it is difficult and complicate to wait history has happened and than start privatization process. Experience from other countries shows that with strong regulation and control speculative actions can be avoided. Montenegrin regulatory framework, made with experts from USAID, provide low risk in terms of speculative actions. Especially attention has been given to phase of getting license for founding privatization fund, and also, rating of founder will be measured separately.

Montenegrin privatization funds will have special investment units, which can not be sold during the first year, in order to avoid speculations.

Experiences from other countries shows that privatization funds can be very active shareholders, which is completely different in Western practice, where institutional investors are passive owners in terms of management of companies.

We assume that (as in Slovenia, Check republic and Poland) privatization funds will concentrate ownership of great proportion of citizens and as institutional investors will be

"real" outside owners. This assumption can be critiqued, but some experiences from several countries shown it is work.

#### ***4. Proportion of vouchers in total privatization of company***

There are some suggestions that in other countries privatization fund extracted revenues from companies selling asset of it or making bankruptcy with specific purpose.

Except several cases, MVP will not provide control stock of shares (51 %) in one company. For making decision will be necessary to provide coalition with some other owner or privatization fund have to by on market share of company to become dominant owner. This makes some speculative actions more difficult.

#### ***5. Transactions with vouchers***

"Vouchers will be sold for low price. In Russia are sold for one beer"<sup>5</sup>

Transactions with voucher are not allowed. This make possibility of selling it for low price lower, but still some future transactions can not be avoided.

#### ***6. Value of vouchers***

"No one doesn't know what is value of vouchers".

In our model voucher don't have value and for them people can not buy shares like in Bosnia and Hercegovina. If vouchers have money character (nominal value is equal with estimated value of shares), different types of speculations are possible. As example, there is privatization of Holiday Inn in Bosnia and Hercegovina.<sup>6</sup>

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<sup>5</sup> I personally believe that no one have right to make decisions related to my ownership. So if voucher is only mine, I can do with it whatever I want, even if I want to sell it for one beer. So, why we should limited people to sell their houses, because maybe there is risk it will be sold for one beer?

<sup>6</sup> Sklar attack privatization of Holiday Inn in daily newsletter "Dnevni avaz" from 22. June 2000. And said that someone is allowed to "steel building with fake money". Or, privatization process has been done completely according to the Law and in transparent procedure. But, hotel Holiday Inn is bought for really low price. It's estimated value is 20.000.000 DEM. 35% of it is paid in cash and 65% in certificates. Those certificates owner bought for 10% of their real value, so new owner paid for hotel only 8.000.000 DEM. Again, everything was transparent and according to the Law.

I presented this example just to demonstrate dangerous of nomination vouchers in money value. But, when you avoid one dangerous, you will meet another. Our model is as Russian gambling. You invest, and you will see what you will get.

## **7. Auction**

"Citizens don't have enough information to decide at one auction where to invest their vouchers".

Our model of one auction simplify realization, avoid speculations, but on the other side has several disadvantages in terms of information's which citizens have to make decision where to invest their vouchers. So, from this side, it is similar as Russian gambling!

## **8. Some additional political reasons in favor of MVP**

8.1. Vouchers have been promised to citizens. If they don't get it, they will be disappointed and angry. Also, they will be angry when that realize their vouchers don't have big value. But, will they be more angry if they don't get vouchers or if they get something (which is not too valuable, but it is still better than nothing) should be analyzed by political annalists and analyst for public opinion!

8.2. If workers in factories already got shares, why shouldn't other citizens get it? "Why worker from factory got shares but policemen who protect that factory didn't or teacher who teaches mechanist". This also has political background and political influence!

## **D. PROPOSALS**

1. Ambassador Sklar warnings influenced discuss and us to discuss about program once again all risqué points.
2. Planed auction has been already delayed, so we have already confessed we don't want to start process without international political and technical support. There is no any MVP process, which is 100% with no risk, even in institutionally mature economies.
3. Until when process could be delayed:

Answer on this question has to concern two important moments:

- a) Delay will be followed by capital devastation and there will be more difficult to save capital value.
  - b) Political factors – parliamentary elections in Montenegro in 2002.
4. What should be done before MVP?
    - a) Several privatization processes should be started, before all privatization of Telecom, several hotels, production capacities;
    - b) Management contract in tourism (several hotels);
    - c) All enterprises predicted for Batch sale should be offer before MVP;

Precisely, more strategic partners should be attracted to come in Montenegro and privatization process should be started..

5. Restitution law

Government of Montenegro should adopt next decisions:

- a) No physical return;

- b) Government will guarantee return of all assets to those who have property rights;

This means that restitution should be separate from operative privatization, because otherwise would make process more slower.

#### 6. Privatization funds

This process has to be started and sponsors have to be found. Also, training has to be done.

Without precise terms they will not be found.

#### 7. Foreign consultants

I wouldn't proceed process of MVP without foreign consultants. It will be too risky. They should be present in Podgorica!

#### 8. Public campaign

Plan has been adopted. Foreign consultant is important here and they should be engaged.

#### 9. Capital market

Software has to be provided. It would be the best if we provide Slovenian as a part of Stability Pact for South-Eastern Europe.

#### 10. Proceed two auctions

First auction will be finished for those firms in which demand for shares is in range from 80-120%

This means if company has 100.000 Dem of share value predicted for MVP, auction would be finished if firm collect 80.000-120.000 points.

All companies, which don't collect points in this range, will be sold at second auction when they will be definitely sold, for any price. We will use Holland model.

Those two auctions should be proceeding in short period of time, one after other. For example: first auction – 4 weeks; second – 2 weeks.

At this way, in some parts we respect warnings of Mr. Sclar that only one auction will represent blind game. According to two auction proposals, in first auction will be sold only companies with balanced supply and demand.

For second auction everyone will have information about demand for shares of specific company, which is additional and valuable information for making decision.

**If this proposal is acceptable, I propose next schedule:**

1. Registration of management companies – until the end of September 2000.
2. Registration of investment funds and their campaign – until February 2001.
3. Coupons sharing – November 2000.
4. Transmission of coupons to privatization funds and family members – November-January 2001.
5. First auction – march 2001.
6. Second auction – April 2001.
7. At the same time, citizens will be in position to check are they at the list or not (September, October) and to get coupons if they didn't (December).
8. All process will be followed with public campaign. Plan for that has been already adopted and it will last 4-6 months, from September to February.

According to my opinion, this will provide transparency!

If these terms will not be accepted, then we should seriously think about canceling whole operation. I don't see any other alternative way!

11. Proposals risks

Debate about federal election has started again and pressure to Montenegro also, which make tension stronger!