

MVP – specific quality of the model and further steps to be taken

Objectives and structure of the work

The objectives are to present the essence of the model of mass voucher privatisation in Montenegro, to evaluate its consequences on the economy and social life in general in Montenegro, as well as to point out expected problems during post voucher period.¹

The presentation is consisted of following parts:

1. Global model of privatisation in Montenegro;
2. Specific qualities of Montenegrin model of MVP in Montenegro;
3. Expected benefits of MVP;
4. Possible problems of MVP;
5. Work messages.

¹ There are no discussions on activities on appliance of MVP, which lasted more than two years. MVP is the one of most complicated projects ever realised in Montenegro. The implementation of this project needed both political and technical preparations.

Hereinafter you will find several basic activities on preparation process:

1. Consolidation of the data on companies on the level adequate for MVP, in most of companies the book of shares is also done.
2. The book on data on companies to participate in MVP was published, the data defined in 15 groups
3. The list of citizens for MVP finished, citizens may inquire whether on the list or not.
4. Education program and its implementation.
5. Legal framework and regulative for implementation of MVP.
6. Legal framework to regulate privatisation funds, licences and monitoring of MVP.
7. ZOP – technical provider of the project, technically, financially and with personnel.
8. Central Depository Agency has been established.
9. Software for CDA installed.
10. Law on securities adopted.
11. Securities Commission have been formed, to monitor the work of privatisation funds.
12. Dematerialisation concept adopted.
13. All forms, orders and information delivered to citizens.
14. All the conditions for foundation of management companies established.
15. Five seminars held and 40 persons were granted the privatisation manager licence.
16. Vouchers have been distributed to citizens.
17. Six management companies have been founded to manage six privatisation funds.
18. Public campaign of funds has started.
19. A Committee to monitor advertising campaign of privatisation funds was founded.
20. The Coordinative entity for operative work during the implementation of MVP.
21. Entering of the data on all companies to CDA registrar is in process.
22. Contract on purchase of software for capital market in Montenegro signed.
23. Foundation of new Montenegrin stock exchange initiated.

1. Privatisation model in Montenegro – key principles

Privatisation model in Montenegro is based on three key principles:

1. Sale to strategic partners
2. Development of entrepreneur initiative
3. Internationalisation of Montenegrin economy.

To enable implementation of these principles, it is necessary to:

1. Establish strong institutional framework for implementation of privatisation, in particular property rights;
2. Transparency of the process;
3. Restitution.

The implementation of this concept was executed during:

1. Political instability and war in the country and its surroundings;
2. Unsettled state relations between Serbia, Montenegro and Federal Government.
3. Delay and tardiness of the transition in general in Montenegro.

Privatisation is not an objective by itself. It is an **asset** to create **conditions** for more efficient operating a business, new posts, and better management of companies. Nevertheless, privatisation itself cannot solve all the problems. In addition, one often does not understand the essence of privatisation is not that somebody brings the money to the companies and solves by that all the problems (debt, wages etc.). Privatisation for companies means more work and responsibilities for everybody, starting from the managers ending up with each employee. That means, on the level of a company the privatisation is an asset to achieve new products and new markets.

Privatisation of companies has great implications on the social system in general: place and role of the Government, work of state administration, courts, and media. Privatisation of companies demands entirely new environment, new business and political surroundings.

The privatisation naturally breaks apart existing structure of interest and present groups of interests and forms new ones! The difference is that the pressure of the groups of interest would be more transparent and would have more efficient work than the present ones.

My conclusion on two important postulates of privatisation would be:

1. Privatisation means implementation of changes, risks and uncertainty;
2. Privatisation breaches the old one and forms new group of interests' structures in and around companies.
3. Privatisation increases responsibilities on all levels: individual up to the Parliament.

2. Specific qualities of Montenegrin model of MVP

Position of MVP in the model of privatisation in general in Montenegro

It is obligatory to observe Montenegrin MVP model within the complete model of privatisation in Montenegro. That means that MVP is not a separate, isolated model, not related to the other forms of privatisation in Montenegro.

| No. | Category | No companies | Value of capital in DM | % Of total capital |
|-----------|---|--------------|------------------------|--------------------|
| 1. | Already privatised | 116 | 1,971,566,566 | 22,56% |
| 2. | International tender | | | |
| 2a | To be sold by international tender | 15 | 1,281,484,486 | 14,66% |
| 2b | To be sold by international tender - Government of Montenegro and the Council will establish the privatisation strategy | 4 | 2,447,323,858 | 28,00% |
| 3. | For MVP program | 225 | 2,296,469,149 | 26,28% |
| 4. | Batch sale | | | |
| 4a | For batch sale I | 21 | 179,976,984 | 2,06% |
| 4b | For batch sale II | 7 | 87,460,471 | 1,00% |
| 4c | For batch sale – Government of Montenegro and the Council will establish privatisation strategy | 6 | 99,044,126 | 1,33% |
| 5. | For auction privatisation | 45 | 90,141,011 | 1,03% |
| 6. | For privatisation through bankruptcy | 34 | 286,016,791 | 3,27% |
| | Total | | 8,739,483,442 | 100,00% |

While discussing on MVP, it is necessary to consider total privatisation model **in its entirety**; its connections and interlacing. **Synergy effect** of different privatisation models in Montenegro should mitigate the defaults of each model and use maximally advantages of each model. Thus the combinations of sale to strategic partners is attempted, but also to employees, citizens and small entrepreneurs; combination of sales models, discounts and free allocations; combination of fast and gradual privatisation; inclusion of buyers within and out of companies; there is a strong accent on strategic investors from abroad, but complete local population is included as well; management of the project is centralized, but there is possibility to have an impact of local, individual initiatives, from the companies level, up to concrete or potential investments.

It is important to note that complete process is being implemented on the base of essential legal framework and the process of evolution creation and development of institutions, such as Securities Commission, CDA, capital market, privatisation funds, brokerage houses, stock exchange.

The training process of young people in different areas, which means that the privatisation model allows transfer of knowledge from foreign experts to local young experts, follows privatisation process in Montenegro.

Privatisation increases **the level of the knowledge** of citizens, not only out of privatisation domain, but out of the other spheres of transition as well.

At the end, Montenegrin privatisation model is not offering any final solutions, but the aim is to create enough space for different entrepreneur's initiatives, coming from employees, citizens, managers, investors. The same is more demand oriented (future owner, his interests and rights), than by supply side (present owners, state and funds) and under its umbrella. »Demand oriented« model of privatisation creates lots of disputes in the public area, as some individuals and experts find that the interest of public (citizens) could be better protected through interests of sellers (state and quasi state) than through buyers interest.

The difference is the public protectors through protection of state interest (e.g. high prices, holding of big systems in governmental hands, no selling to foreigners...) are raising to a power the past, estimating value of our companies as very high, so one has been just waiting to give the money to the government **and who that person will be nobody knows!!!** It is not clear if it is just a revival of memories of Fund for underdeveloped areas from ex Yugoslavia, or counting on steady foreign help! That is the reason why the Government should dictate severe conditions to potential buyers to protect interest of citizens, and hence **who wants to buy can buy!**²

Montenegrin model of privatisation starts initially from the interests of buyers, which means investors and protection of their interest in a transparent **procedure**. The question is: What will happen with a company the very first day after the privatisation? Will it work, produce incomes, employ people, open new posts, have strategic partners.³

In a very simple language, is the public interest more protected if present owners insist on high prices (domination of offer) with no guarantee whether the workers will work after the privatisation, or wouldn't it be better to sell a company for 1 DM with a business plan proving that the company would work and exist successfully (domination of demand)?

² Comments on sale of the hotel "Maestral" are representative example of this approach, to enable recognition of the followers if so called "socialist transformation of the socialism" (everything according the plan, commands and orders)!

³ Montenegro is entering the phase when it will have to accept this approach (even to sell a company for one DM), instead of burring itself into a deep row of long remembrances of glorious past!

Portfolio for MVP

A part of previously mentioned may be concluded out of portfolio for MVP in Montenegro.

Table: Portfolio for MVP in Montenegro

| No | Category | No companies for MVP | Value of capital for MVP | % Of total capital for MVP |
|----|---|----------------------|--------------------------|----------------------------|
| 1. | Companies to be privatised dominantly through MVP program | 177 | 279,784,491 | 12,21% |
| 2. | Companies to be privatised by Batch sale method | 31 | 435,457,723 | 18,79% |
| 3. | Companies to be privatised through international tender | 17 | 1,581,235,736 | 69,00% |
| | Total capital for MVP | 225 | 2,291,469,149 | 100,00% |

One can see out of the above table that there are two main groups of companies to be privatised:

- a) Where MVP dominates in privatisation (177 companies)
- b) Companies participating in MVP, but a strategic partner is being expected (48 companies or 87% of capital for MVP)

Attempts to mitigate standard disadvantages of voucher privatisation on Montenegrin model of MVP

Upon implementation of this model in Easter Europe, primarily in Russia and Czechoslovakia, several standard disadvantages have occurred (Although positive sides of the process are not strongly emphasised). Experiences of MVP out of other countries were precisely analysed during long preparations for this model, so the attempt to mitigate the same in Montenegro was overtaken. Briefly on the subject in the continuation.

c) Dispersion of the ownership after MVP

Management problem after MVP is obvious, as the ownership is being dispersed to thousands of people (The same applies to some large companies e.g. `Coca Cola` has app.80 Mil. Owners). Consequently due to weak relation between ownership and management («Agency problem») problems in management of companies is high likely to occur. (I would not discuss if the dispersion of the ownership were the only reason).

In the MVP model in Montenegro the problem could be basically located to 177 companies where citizens and funds will own 40-45, workers app. 40% shares. (The rest is property of PIO and Unemployment Fund).

These companies comprise 13% of the capital to be privatised through MVP.

Actually these are smaller companies. They employ app.15, 000.

During practical implementation of the model the attention should be pointed towards these 177 companies. Although by capital and personnel these companies are not really important from the level of global economy. But in political sense and concerning the image of the companies,

privatisation is very important. In the footnote you will find some numeric characteristics of the group of the companies.⁴

⁴ **Employment in the group of 177 companies**

| No | No employees | No companies | No employees | % Total employees | Value of the capital | % Of total capital | Capital for MVP | % Total for MVP |
|----|--------------|--------------|--------------|-------------------|----------------------|--------------------|-----------------|-----------------|
| 1 | Up to 25 | 55 | 747 | 5.06% | 59,316,432 | 7.29% | 19,622,970 | 7.01% |
| 2 | 26 - 50 | 39 | 1,325 | 8.98% | 90,356,393 | 11.10% | 35,121,996 | 12.55% |
| 3 | 51 - 100 | 30 | 2,271 | 15.39% | 143,963,861 | 17.68% | 54,129,774 | 19.35% |
| 4 | 101 - 200 | 36 | 4,855 | 32.89% | 272,356,610 | 33.45% | 101,256,304 | 36.19% |
| 5 | 201 - 300 | 10 | 2,481 | 16.81% | 119,175,601 | 14.64% | 40,652,508 | 14.53% |
| 6 | 300 + | 7 | 3,081 | 20.87% | 128,994,417 | 15.84% | 29,000,939 | 10.37% |
| | Total | 177 | 14,760 | 100.00% | 814,163,314 | 100.00% | 279,784,491 | 100.00% |

| Ownership structure of 177 companies | | | | |
|--------------------------------------|-------------------|--------|-------|--------|
| Employees | Private investors | Funds | Banks | MVP |
| 30.70% | 14.14% | 19.53% | 2.00% | 33.64% |
| 28.93% | 16.49% | 19.37% | 0.64% | 34.57% |
| 25.44% | 13.09% | 24.58% | 1.73% | 35.16% |
| 27.66% | 8.71% | 25.33% | 1.08% | 37.21% |
| 27.88% | 6.47% | 29.43% | 0.90% | 35.32% |
| 31.60% | 20.74% | 13.71% | 0.00% | 33.96% |
| 28.70% | 13.27% | 21.99% | 1.06% | 34.98% |

It should be emphasized that 177 companies out of here, another 45 will be added, being through majority ownership package already privately owned.

| No | No employees | Private investors | |
|----|--------------|-------------------|-------------|
| | | No comp. | % Ownership |
| 1 | Up to 25 | 15 | 51,83 |
| 2 | 26 - 50 | 12 | 53,59 |
| 3 | 51 - 100 | 7 | 56,11 |
| 4 | 101 - 200 | 6 | 52,27 |
| 5 | 201 - 300 | 2 | 32,35 |
| 6 | 300 + | 3 | 48,38 |
| | Total | 45 | |

Amongst these companies (privately owned through majority ownership package) are as follows:

Mljekara, Podgorica; Morača trans, Podgorica; Polipak, Bijelo Polje; Centrojadranski, Bar; Intours, Podgorica Primorka, Bar; Račica IGM, Tivat; Trebjesa, Nikšić; Trgovina AD, Rožaje; Farma Moravac, Bijelo Polje; Famod, Rožaje; TP Centar, Podgorica

| No | Number of employees | Banks | |
|----|---------------------|--------------|----------------|
| | | No companies | % Of ownership |
| 1 | Up to 25 | 7 | 16,00 |
| 2 | 26 - 50 | 2 | 12,72 |
| 3 | 51 - 100 | 2 | 21,90 |
| 4 | 101 - 200 | 3 | 13,00 |
| 5 | 201 - 300 | 1 | 9,00 |

In all other companies it has been foreseen to use tender and batch sale to find a strategic investor, so the problem would be solved, at least on the level of the discussions on privatisation models. Also »opposition owners« being internal shareholders, citizens and privatisation funds would be able to create efficient balance to the strategic owner. (I emphasise this as an answer to conceptual remarks, not to practical implementation).

The risk of bankruptcy exists in these companies, so the citizens would be disappointed! Past experiences out of privatisation proved that the biggest noise is produced in the public by the small and smaller companies (strikes, protests...)

To be honest, risky companies exist also in batch sale and tender groups!

Very clearly this means: what will happen with 177 companies when MVP is once implemented, as neither strategic owner showed up, or new capital or management?

Two possible answers to this question exist:

1. An answer-posing question: what is an alternative to MVP? What will happen with the companies if they are not privatised urgently? Which method would be an alternative? An auction? Or to wait for couple of years? Possibly the government could try restructuring before privatisation?⁵
2. MVP has been implemented, real restructuring begins, or the conditions are created to, supported by the state and international community, risk and uncertainty start, but something is done.⁶

b) The role of privatisation funds in the Montenegrin model

The thesis exists that privatisation funds are only passive investors, having no history in Montenegro, which disable citizens to decide where to invest their vouchers (either to some privatisation fund or to some company directly).

We have 6 privatisation funds. The truth is that they do not have their history and tradition, which makes the choice very hard to citizens: where to invest vouchers⁷ it is difficult to wait for history to

| | | | |
|---|-------|----|------|
| 6 | 300 + | 0 | 0,00 |
| | Total | 15 | |

⁵ If the MVP privatisation does not start, but is postponed, most of the companies will be destroyed and it would be not possible to keep the value of their capita. Their structure of capital is 40% privatised by the workers, 40% citizens and 20% is ownership of Pension Fund and Unemployment Fund. The request is to sell the property by auction, which would decrease their capital and jeopardise MVP. If these companies would be sold through an auction, they would be sold for very low price, causing large disappointment of the citizens. Everything will be sold for free! Wouldnt i be better to donate these companies to citizens than. The thesis is tat it is not possible to preserve the capital in the companies in the nxt two years. The capital would be devastated, and the state has no power to control on such a broad field.. »Uncontrolled« privatisaion becoms inevitable!

⁶ If the companies are to be privatised through MVP, the process of restructuring is inevitable. Who will do the restructuring? It was foreseen that privatisation funds will, in cooperation with the oher owners, start restructuring of the companies and production. (Sklar will not agree with this assumption, as in western countrise institutional owners, like funds, are only passive ownres).

happen, and to enter the privatisation then! The experiences out of other countries in the area were: to prevent speculation schemes and so-called pyramids, as in Russia for instance, by strong regulations and monitoring. Montenegrin regulative, prepared with help of USAID experts, based on expert opinions, provides that level of risk. The special importance is given to the phase of licensing of funds, so that the reputation of the founders becomes the most important information for citizens. While mentioning all the speculations in Czechoslovakia, one should consider the fact that the Securities Commission in Czechoslovakia was established only several years after MVP!

Montenegrin privatisation funds have so called investment units, which cannot be sold during the first year, to avoid possible speculations!

Experiences of other countries show that privatisation funds may become active institutional shareholder, differently than the western practise, where institutional investors are being passive owners regarding management of companies. Necessity of an active relation in management is clear to all the funds in Montenegro, expressed also in their business plans.

We assume that (as in Slovenia, Poland and Czechoslovakia for instance) privatisation funds will concentrate ownership of large number of citizens, and be »real« institutional external owner. This assumption may be disputed, but experiences of some other countries show that it works, with large or small difficulties! Those who disagree should answer the question: what is the alternative?

c) Participation of vouchers in complete privatisation of the companies

The remark is that privatisation funds profited out in other countries by selling o property or deliberate winding up of companies.

Voucher privatisation will not have a consequences privatisation of the majority parcel (over 51%). They will always need to make agreement with some of easing owners, or the privatisation funds would have to purchase shares of previous owners in the company (workers, Pension fund, Unemployment fund). This will make difficult selling of the assets of companies or forcing out the real value!

d) Trade with vouchers

»Vouchers will be sold for nothing. In Russia they were sold for a bottle of beer.«⁸

Trading of vouchers is no allowed. That decreases possibility of its selling for free, although it is not possible to avoid some term and other sales. Important is that the Government imposed rules protecting citizens. But even the best traffic signs on the road cannot prevent traffic accidents. But existence of traffic accidents does not mean that we should close the roads. Maybe some parts should be repaired!

e) Value of vouchers

»Nobody knows the value of vouchers«!

⁷ But, most of the founders of Montenegrin funds have other privatisation funds in Slovenia, Bosnia and Republic Srpska.

⁸ Although I find that none should restrict my freedom to control my own property. If a voucher is “my” property, I should be able to do with it whatever I want, even to sell it for a can of beer. I personally do not accept this paternalist attitude, where the state is cleverer than an individual. Shouldn’t we forbid people to sell their houses, as there is a danger that they would sell it for a beer?

»These are worthless papers!«

In the Montenegrin model vouchers do not have value and you cannot purchase shares with them, as in Federation of Bosnia. If vouchers have characteristics of money (nominal value is equal to the estimated value of shares) then different speculations may occur, as in Federation of Bosnia. E.g. purchase of Holiday-Inn-a.⁹ What that means that vouchers are **worthless**. **It is recognition that Montenegrin companies have no value at all!** That the entire job executed by directors, workers is worthless! (It is strange a bit that lot of directors or members of management are emphasising that voucher are worthless. Possible question arising is: who manages and runs those companies?)

If the statement that vouchers is worthless is for example correct, a question is arising for what the critiques for each sale that agreed price was too low. Why is hotel Maestral once worthless (voucher), and then it was sold for a mere trifle to Slovenians (9,5 Mil. DM + 14,5 Mil. Investments). Both may be correct!

f) Capital market

»We do not have capital market, so MVP is impossible«. This is one of my favourite remarks to »roving polymaths« and »wise coffee shop men«. The truth is that there is no capital market. And how should it exist? One does not launch capital market by a resolution or an order. It is being developed! And on that point the difference between those who are for **socialist transformation of socialism** and us who have taken an attitude to be for **market transformation of socialism**. The first ones find that you may establish capital market by a decree that is matter of one's **good will**.

The second ones find that capital market is matter of **a process and evolution**, gradual growth and development! There is no capital market where there is no private property, likewise that you cannot swim in the sand. Actually, with MVP development of capital market is also undertaken, but not by pressure of somebody's will, but under **the pressure of interests of increasing number of private shareholders and funds!** Why the new stock exchange was initiated? Due to the fact that new privatisation institutions have found some interest in it! The difference between the first and second concept is that the first finds that the government should create institutions and be responsible for them, and the second find that those institutions should be the result of private interest, and the government should regulate them.

Genuineness of the formation of the institutions cannot be replaced with decrees and orders. After all, artificial insemination is a solution for certain situations in the lifetime. Still, natural process of human's propagation cannot be replaced with artificial insemination. The same applies to public institutions and laws!

⁹ Privatization of Holiday-Inn- was criticized in »Dnevnom avazu« of 22.06.2000., where it says that somebody was allowed to »steel the building with false money«. Actually, the privatization was done completely legally and transparently. But, hotel Holiday inn was bought »gratis«. Its estimated value was app. 20.000.000 DEM. 35% was paid in cash, 65% in certificates. These certificates were bought by the new owner for less than 10% of its value, so that the new owner have paid completely legally, transparently, by the law, not more than 8.000.000 DEM.

These figures are only approximate, as my aim is to emphasize that defining vouchers as a currency is a very dangerous matter we have avoided. Nevertheless, once you avoid something, something else is waiting for you. That is our form of russian rullet. Invest and hope for the best!

g) *Some additional political reasons for MVP*

1. Citizens in Montenegro were promised vouchers. (1996) Unless they do not obtain them they will be mad and angry at the authorities! They are Wright! To tell the truth they would also be angry when they find out once that their vouchers, meaning our companies, are not very valuable. Will they be more angry when they get nothing, and they have been promised to, or when they get at least something, even much below expectations, that would be the job for political analysts' evaluations and for public opinion experts.
2. If the workers in factories have received shares, why the rest of Montenegrin citizens shouldn't. »Why the employee in a wood processing factory got shares, and policeman who protected the same factory have not, as well as the teacher who was educating the mechanics in the factory itself«. This has political background and political influence as well!
3. Why so much complaining on MVP when insider privatisation (workers) is forgotten. Why the workers have received their shares (insider shares) and citizens haven't theirs (vouchers). What makes the difference? Is that the continuation of the socialists practise that »working class is the source of success« (ideology), and citizen himself is always a problem for the government (democracy)? Which means, are we still in between ideology and democracy?

3. Expected benefits of MVP in Montenegro

Economic aspect of the problem always contains so called »alternative approach«. ¹⁰ That would mean what are the options to solve existing problems! One may criticize one option only by comparison of the same with some other one!

MVP in Montenegro by itself will not resolve any problem! MVP, like the privatisation in general, is not an aspirin to swallow and headache is gone! Those high expectations only of one action are the manner to discredit publicly the same action (in this case MVP).

How do we understand our own problems? What are the key problems? Maybe that's the key for understanding of differences.

On the surface the problem is to receive salary! How could it happen that somebody becomes unemployed! How to provide pensions? How to help the poor?

These are huge problems both on personal and public level! But, most of the people consider it carefully. Especially politicians out of all the parties!

But this is just **appearance of the problem!**

Underneath, less visible problems are, **having nature of essence.** ¹¹ **Problems of the appearance cannot be solved without solving essential problems!** Our main problem is that the majority of

¹⁰ Remember the literature. A man convicted to execution by firing squad, stated on the spot of execution `chains are golden` (compared to the bullet). Later on Van Gouge used the motive in his work.

¹¹ A high temperature is always a sign of decease. What is the cause?

people do accept propaganda (not solutions) of so-called populists, which means »floating polymaths«.¹²

Our problems are slightly deeper. Firstly:

1. **Problems of management of companies.** Montenegrin economy is understood by lot of people as that here is one company to be governed by the Government of Montenegro. Consequently the Government becomes responsible for all the problems in the company. Here we come to an absurd situation those managers of companies with huge losses, being subsidized by the Government, blame the Government that their workers do not receive wages. The question is a general, should ministers or managers manage companies?
2. **Problem of knowledge in companies:** Domination of so-called negative knowledge governs complete Montenegrin society, which means constant critiques and accusations, everything new has to be destroyed!
3. **Problem of market and new products** Companies in Montenegro are more or less within the cave of the old technology, lost markets with no newly found one, with old products. How to reach new market, new partners, and new products?
4. **Corruption problem.** Analyses indicate that the problem of corruption as general social problem is on the 4th position in Montenegro.¹³ Corruption exists inside the companies, on the level of companies and out of them. Corruption is especially strong on the level of public companies.
5. **Transparency problems.** Especially transparency of political parties. Political parties have absolute monopoly! There is no control over their funds and financing. Who are the donors? What could be the balance to the dictatorship of political parties in Montenegro? Nothing!
6. **Problem of understanding of the word freedom!** People as individuals are not accustomed to freedom as an individual value, to consequences of freedom, which is individual responsibility. Individuals are escaping of the risk of decision-making. They rather transfer it to the collective, to somebody else, to the state!
7. **Problem of institutional framework.** The old institutions are formed in accordance with the interests of certain groups (not only political) and with the same way of management of companies. How to achieve new institutional engagement?
8. **Problem of protection of property rights.** A system for complete protection of property rights does not exist, as well as the one to protect safety of investments and equities, banks or bonds. Isn't it confirmed by the claims of certain politicians that there is 200 Mil DM in Montenegro hidden in mattresses? How to expect that somebody could invest in a company (and privatise it) when local citizens keep their money in pillows, as they do not have trust enough to invest it?¹⁴

¹² Everything that floats have no character!

¹³ Analyse of the transition Centre, Podgorica, 2000th

¹⁴ Problem of legalising the pillow money is not a problem related to inquiries on the origin of the property (legal and moral question), but to create the conditions for its investment. I do actually support creating of the conditions where the citizens would voluntarily and according to their own interest "take money out of the pillows" and invest it in shares, bonds and banks in Montenegro.

So, instead of the term "to legalise" the term "investment" should be used! Big difference!

Safety and security of investments in Montenegrin economy is an economic problem. Rather than accusing people who have the money equalising them with criminals, politicians and other wise journalist should think what was the institutional framework created to invest the money, to persuade people to take the money out of mattresses and invest it! Once the money is invested (shares, property) it is not out of economy! It becomes than from economy aspect "public property"!!!

9. **Problem of unemployment.** Regardless the »general« care on employees by all the »subjects« of the society (Government, union, political parties, populists, corrupted strike boards,...) their situation is harder and harder. Is it possible to establish a situation that nobody cares about employees, but the care is replaced with adoption of rules (rights and obligations of employees) and then to protect the rules instead of protection of people?
10. **Problem of understanding of employment and posts held.** »I have a good job; I am not working at all« was the proverb used by the old regime. How to change the mentality? How to reach the proverb: »I work a lot, thanks to mighty God, and as far as I see there will be enough work in this company in the future couple of years«.
11. **Problem of understanding of business operation by new entrepreneur class.** The base of a business is still cooperation with the Government (not with market / the consumer) and the workers are treated as low class, their basic rights being neglected. (Of course there are 40% of privately owned companies which do not refer to the previous statement). How to understand that each employee is a resource for the owner and managers? But not political resource (a voter), but economic (producer) and that the higher wages of employees the higher the profit of the owner! How to reach the philosophy the better situation the workers have, the better for the owners.
12. **Problem of institutional constructivism.** Building up of a new system is based more on assumptions of experts and political establishment, than clear interest of the ones whose interests should be built in an institutional framework E.g. if new law on companies is being adopted whose interests should have been protected in it? Interests of entrepreneurs and managers, employees or the government?
13. **Problem of trusting the Government and »post in the government.** Most of the people believe that the state and people employed in state entities create a source of personal and family happiness and power. The safety of governmental posts is preferred to uncertainty of the post where you have to earn your salary on the market! What would happen if all Montenegrin employees would work for the Government and for quasi-governmental institutions? Who would produce? Who would offer services? How could the government provide the money to pay the army of employees?

Hereinabove mentioned questions were aimed to point out my way of thinking on the essential problems of the transition in Montenegro. Certainly, number of questions could be enlarged.

But, all the questions may become one question:

Which interest groups want and have an interest to introduce the capitalism to Montenegro? It is certainly the first, of course bared question! The fact that the question is packed as market economy or democracy is less important! There is no transition, which will result in reviving the old system out of the memory! Transition refers to the future not to the past!

Adequately MVP is an attempt to direct **the frozen institutional, mental, political and economical situation to change!** To transform the balance of weakness, being the trademark of Montenegro nowadays, into **imbalance of** the power! To enable citizens and their interests to gain the power in economy sphere! To disable political manipulations of the economy!

That is the chance for citizens to implement their »brain and expert opinion« proved in politics to the economy!

MVP is a chance that citizen as a consumer may protect himself from himself being in the same time citizen-voter! Nowadays citizens jeopardise themselves by voting, as well as its economic interest, which means citizens-consumers!¹⁵

What could MVP initiate (not solved)?

1. **Process of creation of the competence for political sphere.** That means that strengthening of the »block« of economic interests. Should for instance economy interest allow superiority of the politics over longer period of time, which would lead to deterioration of the private capital?
2. **Creating of holes in the frozen state of relations** amongst the government, union, existing management, employees. That means to break the frozen stage amongst different group interests (»disturbance of the balance of incompetence«) will be broken by MVP!
3. **Introduction of young people to Montenegrin economy.** For example each privatisation fund (driven by private interest) had to employ analysts, young experts (knowledge o English, computer skilled, experienced) to position them as managers and members of managing boards in companies where obtained ownership, and the same has to be done in accordance with the knowledge (the profit is objective) not with political references (obedience as objective)
4. **Introduction of the foreign partners into Montenegrin economy.** Present founders of the management company for managing of privatisation funds show that several foreign banks, investment funds and insurance companies entered through MVP in the transition process in Montenegro. Such a participation of foreign companies was not possible by batch sale and tender model. Their introduction in Montenegrin companies is a sort of transfer of technology and organisation.
5. **Montenegrin companies and regional market.** (Ex SFRJ and Balkan). The fact that some privatisation funds have their net and market in the part of ex SFRJ planning to expand within the region includes Montenegrin companies in the process.
6. **MVP opens the integration process of Montenegrin economy.** Unless Montenegrin economy is open, meaning earning its profits on the markets outside of Montenegro, there will be no development in Montenegro. That means that MVP should contribute to the opinion that most of large and foreign investors (investing in Montenegrin economy) do not count on the profit out of Montenegrin market (too small), but relay on the profit out of Montenegro. MVP s the only guarantee that Montenegrin Government has decided seriously to be on the side of privatisation.
7. **Pressure to create new institutions and new system.** It should be expected that the ownership of 450,000 citizens to sell their shares received from their companies or funds, might influence foundation of new institutions of the capital market. Should the civilian-owners interest unit, lot of institutions, the state, courts etc. would have to be transform accordingly.

Consequently, while discussing on MVP, following matters should be clearly understood:

1. The character and essence of the problems to be solved is much deeper and complicated than it looks on the surface.
2. That MVP is only a manner or a way to start solving problems.

MVP is not an aspirin to solve a single headache! Our problem is much deeper!¹⁶

¹⁵ Each citizen is a voter on the political market (elections), and consumer and entrepreneur on the market of capital, goods and services.

The expectations of MVP **could be fulfilled only if we do understand the problem to be solved**, which means that the problem is much deeper and larger than the power of MVP! **That is the reason why the expectations of MVP should be replaced by the activities in different areas to enable MVP success.**

4. Potential problems of MVP

During the implementation of MVP itself (distribution and investing of vouchers) no special problems are being expected. The preparation executed as well as technical possibilities of ZOP, together with management of the process, should guarantee successful finalisation of the process in technical manner.

The problem is essential in its nature: Could introduction of citizens as owners (directly or indirectly through the funds) improve the economy?

- a) **Very skilled political propaganda against MVP**, and against many company managers, might create the feeling with citizens that maybe they should also join to some “modern critiques”. To create inconvenient environment that citizens may and want to “enter” the companies. That has been done in a very perfidious method! We can only think that the process of discouraging the citizens to invest in companies will be even tougher. Everything will be done with excuses of criticism of the privatisation method, its implementation, internal party critiques etc.
- b) The idea of MVP is not to educate citizens-owners to become experts for corporate management, but to **enlarge the control function of the citizens**, to prevent possibility of manipulations and to increase transparency. We shall have more motivated workers and citizens rather than relation state – potential buyer. Consequently the problem is whether the citizens will adopt active role as owners or not!
- c) Problem can be aroused by the **unstable political situation**, especially the fact that the answer on the state status of Montenegro is being postponed (regardless the result)! Political instability could eat MVP!
- d) In the companies (and in the state) there is **complete information chaos**. MVP will force companies to clean their balance sheets, with assets and liabilities. “Suddenly” (for the public sector, but not for experts) the true data on assets and liabilities will show up, as well as the atmosphere that MVP is “guilty” one, so MVP will be accused for all the troubles! It can be compared to a situation when one switches on the lights in a messy flat, being than accused to be the one who have crated it (like it have not existed before)! The ones with “long memory mentality” will claim: haven’t I said that we should have cleaned everything before entering MVP! It sounds to as if a surgeon would tell to a patient who has a gallstone: “take out that stone and come back tomorrow to sew the wound”!
- e) Privatisation funds, driven by private interests and motive to increase the value of its portfolio, will have to make painful cut of **restructuring of companies**. There is a real danger that the state, union, chamber, being still in the old non-profitable way of thinking, will start to blame privatisation funds for the conditions existing before their foundation.! Inadequate support to funds could be a reason of the disaster of MVP!

¹⁶ We should give up the logic similar to the logic of team of surgeons during an operation. We, who advise (government, experts, consultants, unions, chambers, management, private entrepreneurs) are healthy and we operate sick people (companies, unemployed...). At least that’s how I find some speeches of officials. It seems that it is not understood that we are all, more or less, on an operation table. We are the patients ourselves!

- f) Inadequate understanding of internal shareholders (workers) as nowadays, as it happens now, its role and obligation to manage companies may create a conflict amongst internal shareholders (workers) and citizens (directly or through the funds). A degree of its coalition (workers and citizens) in smaller companies is essential for the success of MVP!
- g) **Protection of ownership rights** – whether the courts are able to protect the citizens – owners or they would just persuade them that they should have been protected as citizens - voters?
- h) **Attitude of the state, Government and banking sector towards privatisation funds**. Will a reasonable credit line be offered to a privatisation fund to enable them to restructure companies? Will the state develop the mechanism for social welfare of the employees in the restructuring process?
- i) **Development in other areas of the transition**. Will a new institutional framework be established, together with new system, open economy?
- j) **Growth of the efficacy of the state administration and modernisation of the governmental functions**. To keep paternal role and traditional way of work of the government would be detrimental for MVP¹⁷.
- k) All other problems (**dispersion of the ownership, no money, employment problems...**) related to MVP.
- l) The speed of tender privatisation and introduction of strategic partners, depending essentially on interest for investments to Montenegro.

Generally, **the main problem is if it is understood that MVP creates conditions for new proves and whether all the participants in the reform process would give their support or not!**

¹⁷ A young minister in the present Government have told me that he will introduce Internet to the Ministry, stating it as an epoch-making one. I do understand my young colleague, but I do not understand how comes that in such a modern building as “Vektra” is they have not had any computers up to now. Or there was enough money, but nobody has asked for Internet?

5. Messages of the presentation

This presentation was aimed to consider MVP broadly, **within the system**, not as a technical matter. MVP will not solve any problem in Montenegro. But, MVP within the complex of the other reforms creates conditions to solve the problems during the time!

MVP problem was initiated early enough, as certain conditions (firstly political) do not allow it to give the best possible results. This is opposite to the opinion that it is too late for MVP! But there are opinions that even under these conditions the decision makers will be forced to increase the influence of MVP in the future.

MVP will exert pressure upon all participants in the transition (especially politicians and opposition parties) to prove its reform orientation! After the implementation of MVP not only citizens-voters will be in front of them, but citizens-consumers as well! Citizens wanting higher salaries and hope to find a job, not just promises, “Glorious pas will continue in the future, if we cut of the present”.

Have all the citizens been prepared to prefer their own interest to the political ideology? Will citizens place economy over politics?

MVP gives us a chance in that sense!

Maybe therein lays the strength of this model or it might be that we have made a conceptual mistake. Time will show!

Transition needs a critical number of individuals who want to create their own destiny. Does Montenegro have it? MVP might increase the number of these people and therein lays its strength!

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