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Transparency in economy of Montenegro

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1. Basic premises of the paper

Main objective of the paper is to emphasize importance of transparency in creation of new economic system, completely and in specific area as privatization.

Hypothesis in the paper is that transparency is extremely important precondition of economic growth and democratization. Or, transparency has become more important axle for establishment of efficient economy, democratic society and improvement in level of social justice.

Basically, I connect transparency with information and freedom.

How individual receive information on »public issues“? Do all individual have the same availability of information? Can all of them use same information in process of their individual decision-making?

How freedom, political and economical, looks like in society? What are possibilities for each individual to realize (use) principles of free choice? What are possibilities for each individual to express his/her own opinions and attitudes and not to be repressed by anyone who doesn't like that opinion?

So, basic premises of transparency, I am starting with, are:

1. Integral part of system (economic and political)
2. Way of thinking is society

By transparency as integral (organic) part of the system I think of holistic approach to transparency issues, or, level of transparency is defined with basic assumption on which system relay, or with conceptual bases of the system! It is almost impossible to achieve high level of transparency in any area if complete system isn't established on transparent basis.

Way of thinking, as expression of social norms in any society and as expression of mental framework of any human community is also very important for transparency. Is it socially unacceptable to ask for protection in order to finish any administrative task? Can any

administrative task be completed according to the »good working habits« or if we »stimulate« employees in public administration? Do we sanction that "stimulation" or we accept it as normal behavior?

Transparency as term is usually understood as liquidity, visibility, accessibility, and possibility to view all pores of public life without any borders! It is scenery through public »controls health« of those who make decision which influence huge number of individuals.

In this paper will be presented cases which are known to the author as result of his involvement in processes of reforms in Montenegro, or they are not result of systems research which should be more relevant for this paper.

2. Transparency and economic development

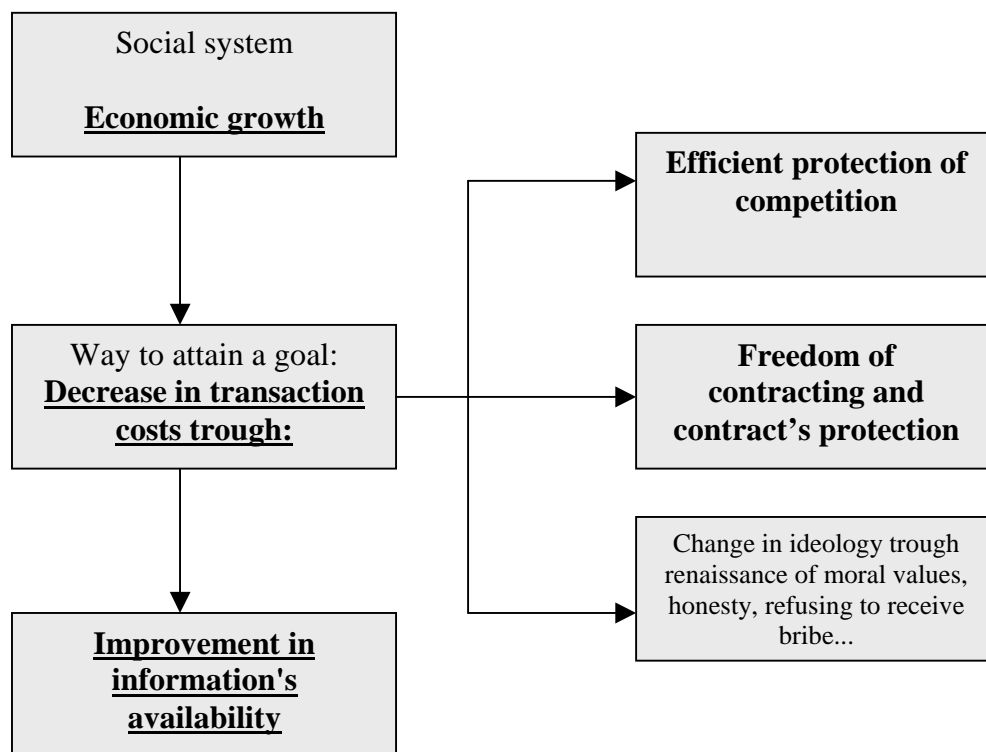
During the centuries economists have been researching barriers of economic growth. There are several theories that deal with it.¹ According to my opinion, so-called New Institutional Economics, which during last several decades of previous century has been in trend, gives some answers, which are relevant for new understanding of transparency. According to this theory main factor which influences wealth of the society is quality of "rules of game" or institutions, which is measured by costs of establishing, maintenance and appliance of those rules of game. Those cost are named as transactional **costs**.² According to this theory, societies, which provide minimization of transaction costs, are more efficient than those in which transaction costs are high and make in some cases are about 50% of GDP. New Institutional Theory also emphasizes the fact that expensive information and difficult and asymmetric approach to information availability increase transaction costs. Also, some information has character of commercial goods: they are traded, in terms of selling and buying. But information that is so called public good or should be public good - which means free and easy accessibility to all interested institutional units. Or, this part of information should be

¹ Dr Mate Babić: "Makroekonomija", MATE, Zagreb, 2000 (eleventh edition)

² R. Coase: "Nature of the firm", CID, Podgorica, 1999.

provided by state administration to all citizens for free or with price, which covers only administrative costs.³

Next graph presents way of thinking according to which increase in transparency of economic processes is one of basic preconditions for economic growth.⁴



What are consequences of shortage in objective and adequate information for economic performances in any country?

There are several consequences, among which the most important are:

1. Crowding out of competition. If some groups of people and companies have better position in terms of availability of information than the other and if »no privileged« don't have any access to information than energy which create companies is

³ "... part of participants in economy don't produce something which will be used by individuals. But lawyers, bankers, accountants, clerks, managers, politicians make essential part of transactions in economic system" (Douglas North)

⁴ Emilia Sičanová i drugi: »Transparency in Slovak economy«, CPHR, Bratislava, 1998

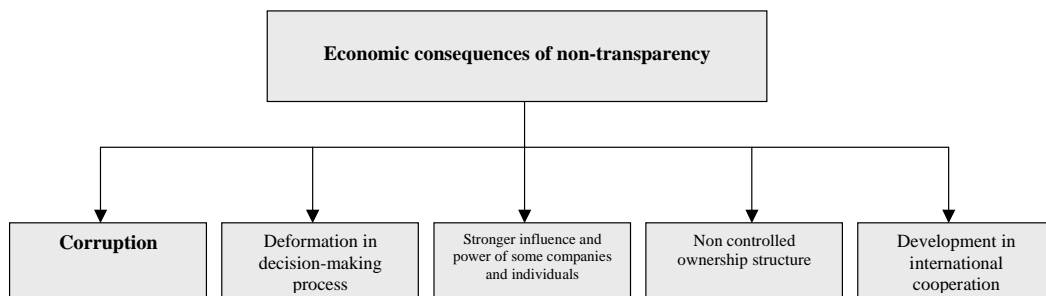
destroyed. And, as Draker says, energy of competition creates innovations and entrepreneurship.⁵ Wherever system of licensing exists, same as system of contingents, quotas, there is asymmetry of information.⁶

2. Hiding real ownership structure is also result of non-transparency. Businesses under different name violate enforcement of commercial law, or make conflict of interests in reality!
3. Non-transparency will violate reputation of state administration and confidence in it, including measures of macroeconomic policy.
4. Quality of business decisions is violated if information vacuum exists.
5. Non-transparent economy creates condition for increase in corruption. Or, non-transparency provides to individuals to use public information and authorities in private purposes and for personal benefits. Corruption always creates non-predictable distribution of wealth, or corruption increase non-efficient allocation of resources in any society.
6. Non-transparency increase closing of society and extra-rent for those who are users of closing. Result of prohibition of import of vine automatically creates extra income for domestic producers, because they have monopoly!
7. Non-transparency is a disaster for strategic investors, especially for strategic partners. In environment where rules are not strictly followed and basic standards also, serious investors don't come! Illegal capital comes! It is wrong, according to my opinion, to believe money is only important, from any source it comes. No! Dirty (Illegal) money creates dirty (illegal) society, illegal relationship between people, increase of criminal rates and violate human freedoms.

Impact of transparency on economic growth is more detailed in following graph.

⁵ P. Draker "Innovation and Entrepreneurship", Privredni pregled, Beograd, 1992.

⁶ In researching transparency in Slovakia, only 10% of questioned person thought system of licences is optimal. 96% of questioned persons believe information offered by state administration is insufficient!



For easier understanding of transparency, I will present attitudes of several famous theoreticians. Or, I am trying to emphasize question: is transparency problem of today or it is problem, which has been present in reality from the past?

One of the basic forms of fight for transparency is freedom of speech.⁷ According to J. Stiglitz, classical fight for freedom of speech had been born in Milton Aeropagitica (1644). Jeremy Bentham based his legal and constitutional system on motive of »personal interest corrected by public«. He treated public as way of control of acceptability of personal interest. John Stuart Mill in his famous book »On Freedom« (1859) points that »Publicity and Freedom of discussion« increase personal freedom.

Walter Bagehot in The Economist emphasizes in modern **economy of information** that when knowledge is made public, than it becomes public good and cannot be private good any more. According to him, there is no freedom of choice without objective and adequate information. For Stiglitz transparency and openness are precondition for democracy, because only informed individuals can participate in democracy. That is the reason why Stiglitz says that information given by public employees belongs to the public! Public is the owner of them! Stiglitz connects this with intellectual property rights. Information »produced« by public employees are intellectual public property, nothing less than patents and licenses are intellectual property of entrepreneurs. Modern societies recognize importance of information for management in such societies. With more information-produced value added will be higher in any activity! This is reason of great importance of influence from public choice into economy.⁸

⁷ See: Joseph Stiglitz: "On Liberty, the Right to Know and Public Discourse: The role of transparency in Public Life", Oxford, 1999

⁸ See: Miroslav Prokopijević: "Konstitucionalna ekonomija", Beograd, 2000

This small digression I have used to emphasize importance of introductory hypotheses that transparency is constitutional approach to economic and political system, that transparency is part of base of the system, not only cosmetic way to introduce transparency into system!

What are sources for non-transparency?

Non-transparency is caused, from one side with defects in formal (institutional) framework and on the other side, culture, way of thinking and tradition, as informal elements, may be also sources of non-transparency.

Legal framework and Laws usually offer theoretical possibility to each citizen to have access to information. In reality, access to information is reduced, or state administration creates barriers for access to information, or information isn't objective and adequate. Increase in access to information needs time. It is process! Takes decades. This cannot be done for several weeks! But this needs to be started now! Truly there are some experiences from some states struggle for higher transparency can be expensive in short term (Hong-Kong, Singapore).

If we consider this aspect, increase of transparency isn't possible without civil (citizens') initiatives that represent and start politicians and non-government organizations (NGO). Public in total isn't so great organized to protect its interests, especially in situations where state administration doesn't provide relevant information.

Also, culture, way of thinking and tradition are highly important.⁹ Or, mental constitution is important! It is not so easy increase transparency in environment where »even small fraud« is commonly accepted!

⁹ See: "Transparency in Slovenian Economy", 1999

3. Problem of transparency in Montenegro, with special emphasis on privatization process

One of the main objectives of reforms of economic and political system in Montenegro is to improve transparency, or to open »black box« which was the main base for behavior and attitudes of state administration in all socialist countries. Non-transparency was the characteristic of old system. Basic characteristics of that system were protection of information (»Government secret«), decision making process out of the legal procedures (non formal meetings), fear that some information can go out of the specific groups of people and institutions, personal agreements instead of decision making inside and between institutions, high regulation of economy (prices, quotas, rates...), special phones, controlled media, fear in communication with foreigners...

By increase in transparency we mean of change of way of thinking, attitudes and behavior, which represent above mentioned cases.

It is not difficult to make conclusion that inertia from old system is too strong so it will be difficult to make any changes.

But it is important that Montenegro has started with increase in transparency and openness. It is important that all segments of reform emphasize importance of transparency and openness!

Transparency is important for each society and especially for small ones as Montenegro is. In such societies, if there is no transparency, freedom and their protection, »pressure per head« is bigger than in bigger societies and it is difficult to be changed. In small societies is more difficult establishment of institutional relationship (which is important characteristics of transparency) because there are strong interpersonal relationships, "everyone knows everyone «.

Also, Montenegro has tradition of using private relationships in conducting business and solving personal problems. This is manifested in high rating of individuals who are willing to make a favor, or to do something out of the procedures and rules.

Or, willingness to "make a favor" is one of criteria for defining someone as "good person"!

So, how we can promote non-making favors (higher transparency) in traditional environment in which making favors (non-transparency) is positive value? That is the problem that can be solved only with establishing new institutions, with better access to information for all citizens, with involvement of NGO and especially with democratization of political sphere.

It is important to destroy illusion non - transparency is synonym for corruption and bribery. As we saw, there is only one of the negative consequences of non-corruption! There are lots of other consequences that are result of reality but are in area of human rights. For example, does policeman have right to take driver's license from me if I make offence, or it is only right of Judge? Are state media transparent if they don't announce »tricky« events or opposite opinions and attitudes? Rough look from the policeman and his impolite behavior are result of non-transparency, either behavior of state administration clerks and employees who drink coffee while line in front of the desk becomes longer and longer! Do we have transparency if people with special ID cards can make traffic offences and not be punished for that because they are member of »privileged group«? Purposely I presented those cases from real, common life! They present philosophy of transparency in one system!

Or political parties. All parties are in favor of transparency but only of the other parties and citizens, institutions and agencies. But there are few evidences they are transparent themselves. For example, do any political party publish auditing reports of their financial reports? Who are main donators to their parties? Do they publicly announce criteria for selection of candidates for different positions? How and in which procedure selected president and other members of the party?

My point is transparency need holistic approach and it should be present in all areas of society (policy and economy, position and opposition, state employees and citizens, famous persons and those who are less known). My basic understanding of transparency is how to avoid these consequences on special groups and their interests. Or, transparency cannot be only tool for fight against the others, but also tool necessary to change our own behavior.

I see transparency as protection of freedom of individuals!

This is one of problematic aspects in increase of transparency in Montenegro and Serbia.

New economic system and principle of transparency

New economic system that has been created in Montenegro is based on following criteria:

1. Private ownership in all areas where private interest exists
2. Freedom of contracting
3. Protection of private ownership and protection of contracts, including international courts involvement in first step
4. Open economy (cancellation of all import-export barriers) and national treatment of foreigners
5. Reduction and more professional state administration

Transparency is essential part in base of such economic system. Any of these principles cannot be enforced at any level without transparency. Is it possible freedom of contracting if both sides don't have all relevant and necessary information? Is it possible to have open economy without good access to information? Smaller and more professional state administration isn't possible without transparency.

So, concept of new economic system, if it wants to be truly conducted, has to include high level of transparency.

Based on this, we can say (partly) transition is transformation from non-transparent economic system to the new one, transparent economic system. It is not possible to keep non-transparency, which is characteristic of planned economy and socialism in new market system. Non-transparency destroys market logic, pushes competition as energy of market and private property!

Based on principles for building new economic system, we can conclude transparency is highly rated in Montenegro.

Increase in transparency is not one step process, it is evolutionary process, which is followed and need establishment of new institutions.

Some short remarks for some parts of economic system will be presented below.

Privatization

There is opinion in the public, that transparency as principle is solely connected with privatization. No matter this approach relating other areas, this opinion of public is additional request for transparency of privatization.

Concerning privatization process in Montenegro, two phases can be differentiated. The first, from beginning of privatization till 1999 and second, from 1999 (when the new Law on privatization passed).

Few elements can have influence at privatization. I am stating:

1. Method of privatization and transparency
2. Organization and decision making in privatization process
3. Efficiency of state administration
4. Know how and communication with potential buyer
5. Clearness of procedure
6. Control of controllers
7. Publicity and privatization

(1) Method of privatization and transparency: Each method of privatization, by its essence, doesn't have the same measure of transparency. Insider privatization, we can consider as transparent only from the aspect of those that have right to participate in it. Other layers, respectively public, no matter how much is directly out of this process, is getting any information. Everything is done locally, inside the firm.

In Montenegro, measured by system of utilization of right for internal shares, and understanding transparency as equal approach to information, we can make conclusion that this process is done transparently. At the same, this process was completely clear and without appeals. 15% of total capital in Montenegro was privatized at this way.

Auction is model that is, by its nature, one of the most transparent methods of privatization. Auction understands the sale to the most convenient bidder, and compared to other methods it can be said that public offers of shares at auction is more transparent method than tender. However, this was the case only in countries where capital market

is well functioning, but it is not the case in less developed countries where purchase power is very low.

Experience from Montenegro is exactly showing that is hard to provide transparency where capital market is not functioning. Insufficient transparency is reflected in few forms, even though it is not about large number of cases:

- (1) The right information about firms are not given and there were trying that certain parts of property are not shown as part of assets, respectively that debts of company are not shown, depending who intends to buy the firm (for example. Crnagorakoop, Mašinopromet)¹⁰.
- (2) Price at auction was published and if nobody had applied, at next round (at least one month after) price was reduced for 20%. So the particular buyers were, »well informed« and waited for moment when to apply.
- (3) Permitting the sale of shares at public auction and that price reduces till lowest limit (now it is 5% of estimated value) also can be insufficient transparent, if the information memorandum is not prepared, respectively if complete public (not just those directly and latent interested) doesn't have available indicators about the firm. So, for example, the dispute concerning the sale of »Južni Jadran« from Herceg Novi, which has been, thoroughly done completely legally, in clear procedure, at base of advertisement published in daily newspaper and at Web site. Firm of estimated value of about 4 million DEM has been sold for 5% of value. Formally, everything was OK! The rules of auction sale were completely respected! However, workers union required to repeat the procedure, and there are notices from public that information were not complete!
- (4) The technique of auction sometimes can reduce price (at; least two participants) that can make agreement! However, the cases of stubbornness were more often in Montenegro then that competition led to high price, for example 1 m² of business premises was sold for 5,000 DEM, what is twice as expensive as

¹⁰ The debts were purposely hidden the firm is bought, and after the recognition of debts is asked. The procedure seems logical. But, the question is raised whether they knew that information before auction. It is very hard to prove "a posteriori" where it was an intention or bad documentation.

usual price in the city center. The same case is with sale of some restaurants in Budva.

Montenegrin experience, is showing that neither auction, in conditions when capital market is not functioning, cannot be completely transparent, no meter how much the ascribed technique is respected.

Respectively, transparency of auction is endangered in the cases when:

- (a) The firm is not in order and doesn't have orderly documentation;
- (b) When the complete information memorandum is not provided and available for public;
- (c) Montenegrin experience is showing, because the auction procedure was conducted maximally according to the ascribed rules, and at that way is reflecting the essential missing of auction model that at auction only assets should be sold, but not the shares of the companies. Shares should be sold thorough stock exchange, with participation of brokerage firms and according to the stipulations of the Securities Law. Having in mind that rules, transparency is increased, but neither in that case is ideal.

Sale of control package and ideal part of the companies

There comes again the problem of insufficient demand.

Actually, this way puts in favor existing management in companies. Even these models of privatization, especially control package, were regularly published, those were models that were adjusted and preferred existing management (characteristic at sale of ideal part of company).

Rarely, there was competition of the programs.

After finished privatization, two problems were coming and are coming:

- (1) Non-regular payment of credit installments.
- (2) Non-conduction of development program of firm.

Both cases have relation with transparency, because in both cases initial conditions of privatization are changed. Respectively, whether other

investors knew that it is possible to change the conditions of transaction after its end, maybe they would be more that they are buyers?

Tender sale. Prior to 1999 there were no tender rules. That is, probably, one of the reasons that there were many stories about non-transparency of certain procedures in Montenegro. The example of sale of 33% of "Institute dr Simo Milošević" from Igalo was especially emphasized. Even in this privatization was present foreign financial advisor (EPIC from Vienna) and company was sold at estimated value, the procedure is characterized as insufficiently transparent (to short terms, non-precise information memorandum), and as method of payment compensation was accepted, what has caused special doubts and discussions in Parliament.

The case of »Trebjesa« was also present in public. The problem is that workers as minority shareholders were not familiar with contract, and beside they were given certain promises about salaries that were not fulfilled later on. It is hard to say that procedure was sufficiently transparent, but obviously was insufficiently public.

Concerning tender sale special discussion were led by the end of 1999, raised by selection of financial advisors for sale of »Telekom«. Actually, there was question did the Tender commission made the right decisions and in accordance with tender rules when it made the selection of financial advisors at base of invitation tender, that was sent to 33 companies from all over the world, of which only 6 expressed interest or it should publish the tender in the press? International expertise has shown that selection of financial advisors can be made at basis of invitation tender, and that sale of companies is done at basis of published tender, and that procedure conducted by Tender commission was transparent and in accordance with Decree of tender sale and in accordance with international standards. No meter of correctness of decision, public had this case at scene for almost three months. Actually, it was trying of certain group of people that wanted privatization of Montenegrin Telekom at Serbian way, to break down privatization at start. Interesting is that appeal was only for selection of financial advisor for Telekom, and not for Elektroprivreda, even they were selected at the same way.

No meter who was right, all of this had negative influence at image of privatization and from then, beside invitation letter and the tender for financial advisors is published, even though it is in majority of countries

done by invitation, because there is a fact that just few companies in the world are in that business.

Publishing tender for Tobacco Company was a good example of principle of transparency. Actually, after publishing the tender, 3 companies have expressed interest, and just one submitted bid. After due diligence the audited accounts for 2000 were required, what was not obligation according to the tender rules. However, it was clear that potential buyer would quit if his requirement is not accepted. Tender commission has accepted the requirement for auditing of accounts with condition to inform the other two companies that have not submitted the final bid and to give them chance to again submit the bid. The reason was: change of tender rules (audit of accounts) that could put in favor one buyer, respectively we started from assumption that other two companies would submit the bid if they knew that there would be audited accounts. As expected, the other two companies didn't submit bid, but they expressed satisfaction with transparency of tender.

This case, as transparency in the case of selection of financial advisor for »Plantaže« and tourism, as well as sale of hotel »As«, »Maestral«, and publishing the Batch sale tender for 17 companies, had influence at increase of transparency of privatization in Montenegro. It can be considered one of the big results of privatization after 1999.

(2) Organization and decision making in privatization process. Non - clear procedure and mixed authorities of bodies are always leading to non-transparency!

The case of sale of hotel »Mogren« from Budva and management contract with ACCOR is well known.

Board of directors of HTP »Budvanska rivijera« has published without due time agreement of Privatization Council the advertisement for sale of hotel »Mogren«, that should have been done in the sort term and without appropriate information about (for example that hotel was under lease till 2005). There was one bid and offered amount of money (around 8 million of DEM) was about 25% above estimated value. Even, Privatization Council, just from reason that the rules of tender procedure were not respected, no meter of high price canceled the procedure. There always could be question: would that price be higher that sale was prepared by tender rules? Probably it would be lower, but doubt would always remain!

At published tender for six hotels at Montenegrin coast, famous French firm ACCOR applied. Contract with ACCOR was negotiated for almost a year. Negotiating team of Montenegrin Government was enforced with two international legal advisors: Denton Hall Lupicinio from Madrid and »Mark W. Harrison« from London. After signing contract, that has passed complete procedure, Board of directors of "Budvanska rivijera" and workers Union was against. The main reason was fear what will be with workers, with remaining part of company etc. Arrangement is still on and the problem is how Government will provide money for reconstruction of hotel before ACCOR would include them in his network of 3.600 hotels all over the world (about 350.000 rooms).

In merit of these cases public was under great political tension and many politicians gave negative information. Discussion in public were more motivated by political struggle then struggle for establishing transparent procedure. In the middle of political discussions the starting problems were lost. So, at the end of discussions there was not a word about mistakes in procedure but that hotel is sold for "small money" and it is precisely known which »politicians and domestic businessmen bought it". Inclination to "mythology" was also expressed here! It is too expensive, because foreigner seriously takes statements of the people that have serious positions in state hierarchy.

It is interesting that neither one politician, position and opposition, in decision of Privatization Council to cancel the decision for sale of hotel "Mogren" because of non-transparency, hasn't seen nothing positive nor stressed the power of institutional framework that already exists in Montenegro and forces all initiatives in area of privatization to the system of prior familiar rules.

- (3) **Efficiency of state administration.** Different state bodies always have to give part of information for conducting privatization. If under transparency we consider giving all necessary information to potential investor, respectively information he asks for in phase of due diligence, then inefficiency of state administration is creating non-transparent conditions. So for example, at sale of hotel "Albatros" few weeks were needed to get information about sewage and water supply system in the part from main channel to hotel! Or, for

the plain data concerning the regime of use of land, way of paying and level of taxes etc, local or republic administration needed much more time than potential buyer can financially stand.

Increase of transparency from aspect of this dimension means that state administration should understand that potential buyer is not there because of her (administration), but that she has to give him fast service and to understand that spending time causes real expenditure of money to those who are earning it at market. It is not case with our administration (not only with it), because she is still far away from logic to earn money by selling services, and not by enforcing taxes and duties, respectively that "state has to have money no meter how she works, because she is form of higher interest". (She is given to us by God, and not in function of our interest).

(4) Know how and communication with potential buyer. Process of privatization of a firm, no meter of method, is not easy and simple, how it looks like to people without experience in this area. An enterprise cannot be sold by logic for selling lettuce at green market: you enter garden in the morning, pick up the lettuce and take it to market. Each enterprise is, in its invisible essence, expression of different interests, behind which are people and institutions. For example, employees, Union, minority owners, state, politicians, local authority, managers, former owners, potential buyers. Changing the property unavoidably makes new configuration of powers between different interest groups.

In order to come to the new interest equilibrium, the great knowledge is necessary, to do this hard and sensitive job with least conflicts and costs.

Beside that, in privatization and communication with potential buyer already exist written and non-written standards at international level, which if you don't respect you are breaking down transparency again.

It means, knowledge of all participants in (bodies for privatization, enterprise, state administration, courts, journalists,...) influences its transparency.

(5) Clearness of procedure. It is very important to establish the institutional way for bringing decisions and its checking (control) that is completely clear priory.

(6) Control of controllers. It is necessary that decisions that the highest authority in privatization is making (Privatization Council, respectively Government in Montenegro) are controlled by higher instance. It is Parliament of Montenegro, respectively its Parliament Commission.

(7) Publicity of privatization. There were lots of notices. However, problem at publicity is for example, making contract, where is the limit between public information and business secret. Certain buyers are insisting that some elements of contract shouldn't be published, even if they can be available to all individuals and bodies authorized for that area. At question why buyer doesn't want that public knows all elements (behind which there is a thought that something is dirty) actually can be business secret, respectively wish that competition doesn't find out some parameters. The greatest problem when transparency and publicity are mixed, what was the case with sale of "Trebjesa", because transparency means protection of interests. In order to increase publicity, Privatization Council has prepared document: Annual report 2000, that contains 19 subdocuments (books) and that is related to work of all bodies and commissions in area of privatization and includes all minutes, decisions, agendas, information memorandums etc and weights about 23 kg. All material is at CD that is publicly distributed to all journalist and interested individuals and parties. It was very critical step that put away many doubts.

Characteristic of Montenegro in domain of transparency is improvement of this process, starting from principle of recognizing the mistake and learning at mistakes. In this phase, privatization in Montenegro has image of transparent privatization and increased trust of foreign advisors in this process. Gradually, it is happening with domestic public, which is under great influence of politics. However, transparency is like flame of candle that is sensitive at least blows of wind. And in economic system, that doesn't generate transparency with its unity, those winds are blowing from each side.

3.3 Transparency of budget

Bringing organic Law on Budget, the transparency of budget is significantly increased. Actually, obligation of strict respect of expenditure side is introduced, respectively taking any kind of discretionary right of Ministry of Finance and Government concerning »adjustment of expenditure side to new circumstances« (as are the changes of planned structure of expenditures justified at the end of year).

At the same way, Budget of Montenegro, respectively its execution is monthly published (not at the end of year as earlier), what is increasing information in public and decreasing the discretionary right of Ministry and Government.

This is large step toward increasing total transparency, because secret ness and discretionary rights are decreased. Assumption for this is stable currency, what Montenegro has through DEM. In inflation conditions, it is impossible to provide transparency of budget, because the question is set how to provide transparent distribution of inflation losses and gains, respectively how to conduct real control of budget.

3.4. Public procurement

With lots of storm, Government of Montenegro has adopted draft of Law of public procurement. Actually, the obligation and clear procedure is introduced how for example the state is buying paper, computers, school chairs, medicines, tourist services.

All procurements above 50.000 DEM are the subject of tender procedure. At that way, the conditions are created to avoid so called. AIT system (»Am I there?«), which is necessary consequence of right for making discretionary decisions that many state officers had.

3.5. Relation of public and private sector

The law regulating the relation between public (public rights, state bodies at all levels) and private sector has been prepared concerning investments, renting, concessions, BOT system. For example, renting parking space by municipality to private person, building the school, giving concessions!

This is very important law because it is settling the area or arrangements between public and private at complete, transparent way and what is important establishes clear mechanisms by which public can control each transaction in this domain.

4. Instead of conclusion

The thesis presented in this paper is that character of economic and political system and its institutional realization is generating or decreasing the transparency!

Transparency can be guaranteed only with settled rules, procedures and institutions; their consistent application and maximal control from the widest public!

Transparency by itself is immanent to neither one individual nor political party. Only institutions can provide it, because institutions (laws, rules, customs, moral norms, tradition) are cleverer and more honest than any individual.

The impression that transparency is only related with corruption is wrong. No! It includes corruption, but it is much wider. It includes everything concerning availability of information, its relevance, respect of the rules of game and procedure, as well as control. At transparency, as nowhere else stands Judas rules that confidence is important thing, but control is hundred times more important!

Shortly, I consider transparency as the principle of protection of interest of all participants in the game, no matter of their conflict.

Transparency establishes new interest equilibrium with lowest costs.

Constant increase of transparency in privatization and economic system of Montenegro is prove of increased mature ness of institutional and legal framework and level of protection of economic and legal freedoms. However, that is process that will never reach maximum!

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