

Professor Veselin Vukotic

Vice-President of Privatization Council of the Government of Montenegro

vukotic@cg.yu

Privatization in Montenegro

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Overview of privatization process in Montenegro

There is no company in Montenegro today which is not owned, at least partially, by private owners, or, there is no company which is 100% owned by state, other than Montenegro airlines. For example, in structure of capital of Electricity power plant, private ownership makes 30%, in Port of Bar as well!

In Montenegro, several large companies were privatized through international tender: Brewery in Niksic, Jugopetrol, Steel company, Furniture manufacturing companies, approximately twenty hotels, among which Maestral and Avala; Paper manufacturing company; etc.

Beside domestic investors, we have foreign investors; majority of them from Slovenia (Hit-Nova Gorica, ERA, several privatization funds); from Greece-Hellenic Petroleum, from Belgium-Inter Brew; we are the only state in the region with foreign investor from Japan (Daido Metal).

Ten banks operate in Montenegro. The largest bank: "Montenegrobanka" was privatized and bought by Nova Ljubljanska bank. There is still one bank owned by Government – Podgoricka bank, and privatization procedure starts this year.

One insurance company operates in Montenegro and it is dominantly owned by state, but company Triglav from Ljubljana has 25% of shares in it.

Two months ago, Law on Investment fund passed Parliament. Law provides establishment of investment funds, which can invest up to 80% of its portfolio abroad (out of Montenegro).

Privatization is important, but establishment of new companies is even more important. This is the reason why we encourage entrepreneurship in Montenegro. Business establishment procedures have been simplified: company can be founded for 1 EURO; these days Law on electronic registration of company will be adopted.

This is visible side of privatization! For beginning, it is enough!

In Montenegro, 2/3 of capital was privatized. Currently, privatization of the largest companies, Aluminum Plant (KAP) and Telecom, are under procedure, as well as privatization of several hotels. After these privatizations are finished, Montenegro will reach the final stage of privatization process.

In Montenegro, several privatization models have been used:

1. Internal privatization – approximately 15% of state owned capital
2. Mass Voucher Privatization - approximately 28% of state owned capital
3. Auction - approximately 2% of state owned capital
4. International tender - approximately 15% of state owned capital
5. Stock market sale - approximately 3% of state owned capital

In accordance with Law on Privatization, Government of Montenegro operates privatization process, while direct operations have been conducted by Privatization Council, which has eleven members and work under presidency of the Prime Minister.

Administrative and expertise work, on behalf of Privatization Council, have been conducted by Agency for Reconstruction and Foreign Investment.

Privatization Council has several committees, as Committee for tender sale, Tender Committee for tourism, Tender committee for privatization of aluminum plant (KAP) and Electricity Power Plant, Tender committee for enforced (fast) tender, Committee for auction. Members of these committees, other than Government representatives, are individuals from business, university, labor unions, and business associations!

Privatization Council has task to encourage creation of favorable business environment. That task is delegated to Commission for Economic freedoms, where members are representatives from different government agencies, business associations, entrepreneurs, NGO's, foreign and local consultants...

Main objective of the Commission is to provide consistency among different laws and regulations and to emphasize problems related to business barriers incorporated in different laws. This is enormously huge task and our legislators do not like Commission too much!

More or less, all Capital market institutions were established!

We have six privatization funds, five brokerage firms, two stock exchange markets, central registry of securities. Work of all institutions is regulated by Securities Commission in Montenegro! Trading at Montenegrin stock market is conducted on daily basis, and having in mind size of Montenegrin economy, our stock market is the most frequent in terms of size of trade in the region.

After long debate, Law on restitution was adopted. Physical restitution of asset will not be conducted. But, truth is that at the beginning of nineties, 90% of previously nationalized land was returned to original owners.

- Expectations from privatization process are high! Opponents of privatization expect from company to make large profit immediately after privatization. Everyone usually forget how those companies conducted their business before they were privatized. In that period, losses they made were not important! Opponents usually do not want to accept that privatization is only one of the tools to increase economic efficiency.
- All transactions done in Montenegro were done in professional manner! Contracts were prepared by experienced and respectable lawyers from Montenegro and abroad. Each contract has item related to protection by international court. I do not expect than any privatization in Montenegro can be annulled, as each was conducted in accordance with international tender rules. Fact that 80% of capital will be privatized under governance of current political coalition, that 70% of citizens in Montenegro own shares, makes belief that critical mass asking for annulment of privatization won't be created. Of course, some NGOs in Montenegro would like to do that! But, that would need new revolution, which is really difficult to happen in such small locality as Montenegro is!
- **Only fast privatization will make results! This is out mistake and our problem!**

Similar approaches exist in Montenegro! But, in Montenegro we build institutional system and legal framework equal for everyone, no mater on citizenship or nationality! All players would play under same rules! When rules are equal for everyone – why nationality is important? As long as someone want to make one nation preferred than others, such system is based on discretionary powers but not on institutions which can be easily integrated into European environment! Such behavior is inherited from planed economy and desire to control everything.

- **What are our biggest problems?**

Our biggest problems are labor force and management. It is very difficult to abandon old habits. Employees and managements are more focused on government than on market. My view of problem is big government administration, which is expensive and at the same time is trying to introduce more administrative barriers.

- My advise is:
 - To have good legal and financial adviser
 - To take care of employees, to have friendly approach toward their problems
 - To take into consideration informal rules (culture, custom, etc)

- Not to make any “agreement” with politicians and to make sure that process is transparent as much as possible
- Goal of privatization in formerly planed economies is different than in western economies. Privatization has to create private ownership, and based on private ownership new institutions and new economic system has been built.

If we want market – private ownership is necessary. Privatization creates environment for new private companies and new foreign investors. I believe that other than to increase budget revenues, more important aspect of privation is to provide profitable work of company, to increase employment, to make new markets. That is why investment in company is important. I would sell most of the companies for 1 EURO, but for lot of investment.

Our motto is: “WE DO NOT SELL COMPANIES, WE BUY GOOD INVESTORS”!

Lot of people does not like this motto. But, this is reality. For example, in steel company Government wrote off and took responsibility for 60 million EURO of old debt of company.

I expect privatization in Montenegro of:

- Aluminum plant – KAP: tender has been launched
- Telecom – tender has been launched
- “Korali”, Sutomore
- hotels: Galeb and Otrant

Under procedures are tenders for:

- Tobacco company in Podgorica
- Podgoricka bank

Next year we will launch tenders for:

- Plantaze

Why investors should invest in Montenegro?

- Montenegro has liberal economic system
 - Tax rate is low
 - Custom rates used to be aprocsimately 2.5% before harmonization process with Serbia. Now they will be revised and increase to 20%
 - Montenegro has EURO as only legal tender. Inflation rate is 2% and there is no dangerous that money will be printed.

- Montenegro wants to become business platform in the region: to make conditions for establishment of companies and export out of Montenegro.
- After KAP, Telecom and several hotels are sold, we will have privatized economy, and possibility of political influence into business will be minimized. Some politicians asked why they should continue work in politics after privatization is finished!
- Even Montenegro looks as small market, we should not avoid the fact that it is tourist destination which is visited by more than half of million of tourist a year. Montenegro has coast long almost 300 km.
- Foreigners are welcome to come to Montenegro
- In Montenegro, we do not work hard – and foreigners usually accept that quickly and enjoy being in Montenegro. We have ten commands, one of them state that if you see someone resting, you should accompany him/her.