

Transcription of the Interview conducted by World Investment News
Report on Montenegro published in L'EXPRESS MAGAZINE and on www.winne.com

INTERVIEW WITH Mr. VESELIN VUKOTIC

VICE-PRESIDENT OF THE PRIVATISATION COUNCIL

(Podgorica, 30th June 2003)

Q1. To start this interview, could you give us a short overview of the most important steps in the privatisation process in Montenegro, since its beginnings in 1990s?

A1. I started working on the privatisation process over 10 years ago in the Yugoslav federation, at the beginning of the 1990s, as a Minister in the government of Ante Markovic. I was one of the authors of the first privatisation law in the Social Federative Republic of Yugoslavia, and although it was a short law, with only 10 provisions, it was a big step at the time, but the political parties were against privatisation. The first Privatisation Law passed in Montenegro was established between 1994 and 1996, though I personally was not involved in its creation. The following step was the establishment of the Privatisation Council as the main body regarding privatisation in 1999. I am the vice-president of the Council, which has 10 members and is presided by the Prime Minister. My role is to think about the strategy for the exercise of privatisation, while the Prime Minister's duty is to politically adjust and coordinate the process. Until now we have privatised up to 60% of our economy. We have 15 companies in Montenegro with the majority of shares, between 52% and 66%, still owned by the government, but no company is 100% State-owned. The rest of companies, about 350, are either fully privatised, or are in the process of being so. Our plan is to, through the stock exchange, have all companies fully privatised by the end of 2003. Several methods are used for implementing the privatisation process. First we have the Internal Privatisation, where workers are given between 15% and 20% shares of the company; second, the introduction of the Mass Voucher Privatisation (MVP), where we privatised 27% of all state capital, and coupons were distributed free of charge to citizens. The third, and most important, is through international tenders.

Q2. The privatisation of what company do you find as a top priority?

A2. We don't want to sell our companies; we want to buy good owners. We have moved slowly towards international tenders so far. A few years ago, we were politically unstable, but now the conditions are better, and there is an increased interest for foreign investments in Montenegro, especially after the privatisation of Montenegrobanka, but there is a great interest in other companies as well. By the end of the year KAP, and a part of energy sector, then the tobacco company, the steel company and hotels. As a matter of fact, tomorrow we have to accept the documentation and then publish the tender for the steel company. Some interest has been shown in it, but it is not as high as we would like it to be. My opinion is that it would be very profitable sell it. We have also prepared the privatisation of Podgoricka Banka, the second largest bank after Montenegrobanka, and we should have that accomplished by the end of the year. In fact, within the entire banking sector, as much as 75% of the capital is from private ownership, and the whole banking sector will eventually be privatised. It is very important to privatise the capital in Montenegro because money and banks are the main tools used by politicians for managing the

Transcription of the Interview conducted by World Investment News
Report on Montenegro published in L'EXPRESS MAGAZINE and on www.winne.com

economy since money, national currency and the banking system in general control the whole economy. The main problem regarding the full privatisation of the banking sector is that now that we have the Euro, and therefore no printing machines to manage it, if we have foreign banks here politics and economy will be strongly divided. We are trying to create an economy and a society without the direct influence of politicians, like in France, for instance, where politics and economy are independent from one another. Yet, the size of an economy is very important, and Montenegro has an economy of only 1.3 billion Euros, which is very small if it is compared to the economies of countries such as Russia, China or Japan.

Q3. You mentioned that the political stability is important, and according to many analysts, Montenegro has finally reached is now politically stable. Do you think it is the beginning of a new era in the Montenegrin economy for attracting foreign investments?

A3. It is very important to have political stability because without it we cannot assure a proper protection of property rights, and having a proper legal framework in which to work in is essential. Now we have a stable political environment regarding our relations with Serbia from the business point of view, which is very important because, for example, potential investors who are interested in purchasing Duvanski Kombinat need to know whether it will also have the same market in Serbia. However, we still need to improve our legal background.

Q4. What are the concrete measures Montenegro has to implement in order to reach economic stability?

A4. First of all, my answer would be the microstate model. This is a large concept that I have been working with for the last 3 years, and we still need 3 more years to get its full picture and its implementation, and it is a model that, together with education reforms, is an essential goal we must achieve in order to attract foreign investments in Montenegro. At present, the main problem for foreign investments is the actual Labour Law. It has two aspects. First, we have a weak protection of company employers. For example, due to the legacies from socialism, it is still very difficult for employers to lay off employees that do not perform their duties correctly. If a worker has a secure job, social security, and knows that he or she is protected from getting fired, the worker simply will not work; this creates a big problem to company managers. We have done some progress regarding this issue but much more needs to be done. Secondly, our labour force expects too much, and I believe this to be a mistake. Many people believe that we have a cheap labour force in Montenegro, but in my opinion, this is not true, because although salaries are rather low, contributions and taxes are very high. For example, if you as an employer, pay me 100 euros, you have to pay the government at least 100 euros in contributions, and all this cost is reflected on the price of the product. Furthermore, our plan also includes to restructuring the knowledge of employees, educate the workers, because right now there is a low level of entrepreneurial education among the working force; workers do not understand they have to follow the changes in business. Regarding tourism, we now have a big chance for it to flourish, but we have had that chance for a long time and nothing was done. Something has to change here; we must change our skills. I spoke to some managers of big companies about organizing courses of management training, and they either did not have the time, or they did not want to go ahead with the idea. They do not understand what it means to train the workers

Transcription of the Interview conducted by World Investment News
Report on Montenegro published in L'EXPRESS MAGAZINE and on www.winne.com

once a month or to speak about new management techniques; share the information. Young people accept changes easier, but the average worker finds it hard to understand. Another problem is that we suffer with the grey economy, because this causes the GDP to decrease. Jugopetrol, the oil company, for example, has some problems with grey economy. They have official petrol stations, but in the hidden market people were selling petrol on the streets. Jugopetrol was angry with the government for allowing a shadow economy. As for me, the greater problem is the official economy because the grey one operates more efficiently. Many things must change here in Montenegro. For example, if I am an employer and I want to employ you, I am forced to pay high taxes. We have to find solutions to not pay them because it is not correct from the legal point of view. The problem to establish businesses here are the constant barriers. We also have to change our public expenditure trends. Generally speaking, we improved a lot, but it is not enough, yet this is an evolution process, not an immediate step and we must all be together in this process. For example, when I speak to some ministers, they let me know that they are against my liberal market approach, but they do not say it publicly. Some ministers from economic areas believe that the Euro is the cause of high prices and they ask me what to do if the prices of basic goods are higher in Montenegro than in the neighbouring countries. What are we supposed to do, control prices? Certainly not. If we speak about some products, such as bread for example, prices are high, but this is because it takes one full year before a new company can be established here. We have to think more about restructuring the administrative area and not about the prices. That is the job of Ministers. Again, I speak about your activity as well, you have to change something.

Q5. Do you think that Montenegro as a small country has the opportunity to go through these reforms faster?

A5. It is difficult to say, but since we cannot change the size of the country we have to use its maximum potential. Montenegro has 100 advantages and as many disadvantages. One advantage is that we can change a lot faster, yet the disadvantage is that when we have problems; it is easier to create a distorted picture. If you have an echo in a tunnel it is noisy, if it is in the street it is less noisy. There are several problems in Serbia that are not too visible in the eyes of the general public, whereas here in Montenegro each problem becomes a huge issue. If we consider Montenegro's size and GDP, our administration is way too large. If we check the expenditure, 55 % of public spending goes to the wages of civil servants and 55% of my taxes are used to pay the wages of people in the administration, and this is regardless of the efficiency of the administration, which is definitely too low. It was my proposal to introduce, as a spontaneous way to select people, English as a compulsory language, and to make all administrative employees computer literates. I have a close relation with Prime Minister Djukanovic and I asked him how could he reduce the administration, how could he lay off 3000 people? It would be unfair to leave only young people, or to take a political or for that matter any other random approach. Let's say you have to learn English and computer skills in a one-year period. If you are willing to learn you can stay and if you are not you can leave and you will have some social benefits, etc. This is a good way to deal with this problem.

Q6. In terms of economic development, what country would be the model for Montenegro?

Transcription of the Interview conducted by World Investment News
Report on Montenegro published in L'EXPRESS MAGAZINE and on www.winne.com

A6. I have been in Luxembourg, but to be honest I cannot see the real model for us in that country. Luxembourg is a country with a GDP of 50,000 per capita, but Montenegro has a different history, a different position, and the comparison would not be valid because the situation is completely different. For us, the model could be Estonia. We visited Estonia, and we consider it a good model. Bearing in mind that the geographical position and the historical background are different from ours, we can still use their main reform steps. Another model could be Ireland, an interesting country that has changed a lot in the last 10 years. I need at least 3 more years to implement the microstate model here, and we have to radically change our mentality in order to fully implement it. We have to change our educational system here to achieve this. Ireland is interesting from that point of view. They started reforms about 20 to 25 years ago, and did a lot of studies regarding the characteristics of the people because by knowing how the people are and by knowing their traditions, they were able to carry out the necessary developments in the country. For example, in my opinion, in Montenegro we possibly have weak abilities for industry but we are good for services. We should also look at countries such as Luxembourg, Malta or Cyprus, but generally speaking, Estonia and Ireland are the most important models for Montenegro; Ireland from the strategic point of view and Estonia in the light of transition.

Q7 As for you, what is the overseas perception of Montenegro as an investment destination for FDI? Is Montenegro sufficiently perceived as a potential destination for investment?

A7. Montenegro is too small for foreign investors who want to sell their products only on the Montenegrin market. Why would foreign investors come here? Apart from tourism, I am not sure of why they would be interested in the Montenegrin market. Big companies need a market outside Montenegro as well. They will come here only if they encounter fewer barriers, and a friendly business environment. Then, it is a competition between Montenegro and our neighbours; an institutional competition.

Q8. Therefore, Montenegro could be considered as a strategic platform?

A8. Yes, absolutely, that is my vision of Montenegro. I cannot see other reasons for big foreign companies to invest here. Why was a foreign investor interested in Jugopetrol? Because it had a regional market, not only a local market. In addition, Jugopetrol had some storage in the Port of Bar, which is the base for export for the entire region. The Port of Bar is one of the major resources for Montenegro; it is a window.

Q9. So, you think that Montenegro has the resources to become what we were talking about- the strategic platform for investments. What would be this specific advantage?

A9. I think that the key approach is the institutional framework solely. We cannot consider Montenegro as France. This is because France has 16 million inhabitants, a different history, and a central position within the continent, and a strategic role in the EU. Here we need a different approach. 600,000 people forget that we are not Central neither in export, nor in oil production. Then, we have to liberalize, because we have good position, near the coast. People could come here, live here, and we have to reduce all barriers to expenditure, reduce the administrative

Transcription of the Interview conducted by World Investment News
Report on Montenegro published in L'EXPRESS MAGAZINE and on www.winne.com

costs, and be competitive. We have to do this if we want to establish foreign companies in Montenegro. We are expecting Japanese companies to invest here because Japan is the second biggest economy in the world. If one company comes here, the others will follow. When we finished the privatisation of Jugopetrol, I asked the General Manager why he came to Montenegro. I thought that he would give me a specific reason, but his answer was very simple; he said that “Montenegro is in the heart of Europe and we want to sell our product in Europe, and it is cheap here now. It will be more expensive in a few years.” When I speak about big companies investing in Montenegro I do not think that we will have 100 of them here, but 3, 4, or 5 would be enough.

Q 10. You said the privatisation is not a name, it is just a tool. My last question would be – what is your aim? Your vision of Montenegro?

The privatisation process is very interesting, since there are lots of offers. I was asked to become a minister, but I do not want to. I accepted a role in the privatisation process because private property is important for the way of thinking. If we change the property rights, if we change the state shares, it is a way to change the mentality. I think that accepting privatisation means a change in the way of thinking. As for now, Montenegrin people do not like private property. I had a lot of discussions with some SDP (Social Democrats Party) members because they say they support private ownership, but in a lot of spheres, such as in the electric industry, they believe state ownership is essential. When you compare it, it would be 70% public, and 30% private. This is why privatisation is a tool to change the organization of the economy and the way of thinking. It is the main goal of privatisation. For that reason I support the Mass Voucher Privatisation (MVP), because it is important for the people in Montenegro to increase their knowledge of market economy. Can you imagine my mother saying “I sold my shares from Telecom.” She accepts the MVP. It is unbelievable. For you it is a normal situation, but we have to go step by step. The difference between me and my team and other people is that we understand privatisation is an evolutionary process. I do not believe in final solutions. My main target is not privatisation; the goal is to change some traditions. For this reason I established the special economics studies, which is a new concept, that involves new and prepared people. Today, we have about 200 people involved. I had invited some major professors from Italy, US UK and France to give lectures for privatisation in 1993 and 1994. Now this looks easy and normal, but at the time it was a whole new concept. The main thing is the human capital in Montenegro. It is an important step; to change from within. Our understanding of the economy is completely different than that of the majority of the people in Montenegro of the entire region. We are recognized as a Montenegrin economic school because we have a new liberal theoretical approach. This might not be something new in France, or in the US, but here it is. Young people accept that approach, and the faculty also. The faculty has 1000 people, out of which 75% are market oriented. Changing traditions is more important than privatisation itself.

Q11. What is the relation between the Privatisation Council, and the Agency for Reconstruction?

A11. The Agency does the administration of the Council. The daily work is managed by it, such as preparation meetings, etc. At the beginning, we had about 100 people of whom none was a full time employee. Imagine the MVP, one of the greatest projects in my life. 4000 people had

Transcription of the Interview conducted by World Investment News
Report on Montenegro published in L'EXPRESS MAGAZINE and on www.winne.com

to distribute shares, and we had no one. I wanted to show that we did not need full time employees, we needed contracted people. People from the government worked 24 hours a day without a contract. Ministers and professors called me to find out how I motivated these people. It was not about the money, since their wages were low, but if people honestly believe what they are working for, they expect some results. If you have too much control, or an excessive administrative approach, motivation is impossible.