"THE EFFECT AND INFLUENCE OF PRIVATIZATION ON TOURISM IN EX YUGOSLAVIAN COUNTRIES, MORE SPECIFICALLY SERBIA AND MONTENEGRO."

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ABSTRACT

Topic: The effect and influence of privatization on tourism in Ex Yugoslavian countries, more specifically Serbia and Montenegro

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Content: Privatization is a complex concept, which is often discussed in theory and implemented in practice. Privatization process is commonly used in countries that are transforming their market from closed to open. During the communism in Yugoslavia, private property has been abolished. When Yugoslavia ceased to exist, member states faced the property rights challenges. Privatization was one of the channels to convert collective ownership to private one. In this paper, all of the aspects of privatization are being observed. The focus is on the positive effects and successful examples of the privatization on the territory of former Yugoslavia. Side effects and negative aspects of privatization processes are also pointed out in this work. The precedent and actual situation in transitional economies is displayed for comparison, especially between Serbia and Montenegro.

The aim of this paper is to give an overview of the tourism industry in the former Yugoslavia and to explore how market transformation affected tourism in the post-socialistic economies. Several cases from Serbia and Montenegro has been studied in order to present current situation in these countries. Macroeconomic data from both communist and post-communist period are available to the reader for comparison. In several sections of this work, author’s personal opinion upon this matter is given.

Key words: privatization, transformation, tourism, Yugoslavia, hotels

Supervisor/ Promoter: Eva Aileen Jungwirth- Edelmann, MA
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1.1. MOTIVATION AND COGNITIVE INTEREST

The main reason why I have decided to write about this specific topic, is due to the fact that the results of the current processes of business transformation in Serbia and Montenegro, especially privatization (as an essential element of transformation) are very impressive and interesting, although in some cases very troubling. A lot of people are arguing about whether privatization brought more benefits or costs in Serbia and Montenegro.

Nevertheless, this thesis aims to provide a detailed insight into the tourism sector regarding privatization and also how it influences and affects the touristic/cultural values of Serbia and Montenegro. So one of the questions this thesis is facing, is whether the privatization process managed to increase the economic activities of Ex Yugoslavian states. There are plenty of examples where privatization processes did not make any visible economic growth or economies of scale, especially in Serbia. As it can be anticipated, this was mainly resulted in the growth of laid-off workers, growth of closed enterprises, and the growth of cancelled contracts. Furthermore, it also leads to a large number of companies, which still remained non-privatized but really needed to be changed regarding their managerial aspects.

Personally, I've had the opportunity to meet the people who once worked in elite hotels, which today no longer operate, due to poor privatization. This affects the reduction of national income in the whole country as well as increasing poverty due to reduced numbers of employees. In addition, there has been little change to other fields of business i.e. organizational, managerial, technological, financial and personnel, which has a very negative impact on the quality of the hotel product and the position of the hotels in the tourism market. By taking this into consideration, it can be suggested that the government was totally unprepared while dealing with such matters.

Regarding the above mentioned, the situation in Serbia is very similar to the situation in Montenegro. There has been a lot of discussion about the privatization process and why it did not achieve the desired outcome. In Montenegro, there were even examples of individuals buying a hotel for the purpose to launder money.

My personal interest in this topic comes from having visited some of these places in my childhood. When I came back to these places in 2010’s, I could hardly recognize them. Some of them were dilapidated (e.g. hotel "Niš", owned by "Serbian tourists" company), some gained a shiny and new appearance (e.g. former naval base tuned to glamorous "Porto Montenegro" super yacht port) and some of them were gone forevermore (e.g. hotel "Crna Gora" in Podgorica). I started to wonder which factors played a role in
setting the developmental course of once large and successful companies and I also asked myself why
the companies, which were managed privately became so much better than the other organizations. That
always seemed like an intriguing subject to me, as well as saving and preserving old buildings. What
conditions should be fulfilled in order to pronounce something as a historic property and to grant touristic
value to it? Everybody agrees with the fact that preserved cultural heritage and historical legacy are
magnets for tourists. By taking this argument into consideration, why than would governmental authorities
decide to give, such important touristic values up? Has the instant profit gained supremacy over long-term
heritage preservation?

I can say that I indirectly felt the effects of inefficient privatization. Acquaintances and friends of my
parents lost their jobs they had in the hospitality industry in several instances. When the hotels in which
they were employed went bankrupt, they were left without a job and a secured monthly income. Of
course, all of this aggravated their living conditions and thus had a bad influence on the education of their
children

Due to these reasons, I want to examine why and how the privatization process happened in Montenegro
and Serbia. In addition I will be reviewing examples of successful privatization of hotels and tourism-
oriented companies with emphasis on the positive effects of the privatization process.

After the disintegration of former Yugoslavia, much has changed when it comes to the tourism and
hospitality industry. Many countries that were part of the former Yugoslavia (Socialist Republic of Bosnia
and Herzegovina, Socialist Republic of Croatia, Socialist Republic of Macedonia, Socialist Republic of
Slovenia) including Montenegro and Serbia, felt the strong influence of economy transition and
restructuring.
1.2. OUTLINE OF THE RESEARCH QUESTION AND ITS LIMITATIONS

The goal of this research is to provide answer to the following question?

*How did the privatization process affect touristic values in the ex-Yugoslavian countries?*

Privatization, as an integral part of transformation, surely played a part in terms of tourism development. Further, we will see whether the influence was positive or negative. All factors that led to a good or bad outcome will be inspected.

Before I get into more detailed consideration, it is important to define privatization. Privatization is the process of converting public property to private one, for example complete or partial sale of state-controlled assets. In a wider sense, privatization process involves externalization of certain activities, previously carried out by the public sector, and entrusting these activities to the private sector, e.g. public transport and utilities.

Also, privatization is the process of moving from a government-controlled system to a privately run, for-profit system (Investorwords, 2015). This is the process of converting or "selling off" government-owned assets, properties, or production activities to private ownership. After several decades of increasing government control over productive activities, privatization came into vogue in the 1980s, along with business deregulation and an overall movement toward greater use of markets. (Econgury, 2008).

Former Yugoslavia was based on self-management system. The privatization concept was relatively unknown. The dominant form of property was state-managed public property. Privatization among former Yugoslavian countries was introduced only after its breakdown. Most countries, including Serbia and Montenegro, have used different models and methods of privatization. The most important among them are: shareholding, voucher privatization, tender sale, auction and stock exchange. In countries with stable economic conditions, privatization model is the one that defines the inflow of foreign funds.

Privatization of touristic values is sensitive matter and it takes a lot of experience and knowledge to do it right. It seems that there was no adequate national strategy for privatization of hotel and hospitality industry in Serbia and Montenegro. Probably, there were also a lack of good will, appropriate knowledge and useful skills, both on the state level and among hotel managers. They were supposed to have the knowledge, to be able to perform the essential changes in the tourism industry. Their skills at the time probably weren't good enough, so there was a poor performance in privatization field, especially in Serbia. In Montenegro, we found a few bright examples of how privatization should be done.
1.3. OVERVIEW OF THE THESIS

As previously mentioned, the hotels were mainly in state ownership but today, they are usually a property of private-owned companies. In order to improve the overall results of hospitality industry, the governments should improve and adjust legislation. All levels of existing management should additionally educated in order to achieve better performance. Despite several bad examples, it cannot be stated that all privatizations were failure. There are cases of good and successful privatization which had resulted in the recovery of the hotel's financial crisis, better performance, improved reputation, increased number of employees, etc.

As it will be shown in this thesis, transition from socialism to capitalism was not a smooth process at all for the countries of former Yugoslavia. Their economies are going through structural changes and transformation. This process is far from over. For a better understanding of this issue, overview of the tourism industry in communist times will be given. This will help us measure if tourism performed better in the communist era or in the current times.

Legal and institutional framework for tourism privatizations will also be reviewed in this work. Law on Privatization had similar solutions for both Serbia and Montenegro. The majority of shares could be sold to a single owner or to a small number of owners gathered together. The surplus of workforce is solved through social programs, which are funded by the state.

Law on privatization is designed to focus on improving the operating efficiency of privatized enterprises through:

1) The introduction of social programs for solving redundant employees issues

2) Mandatory investment in the privatized company. (Barjaktarovic & Barjaktarovic, 2010)

The privatization model is centralized, because the entire process is carried by the state authorities, i.e. the Privatization Agency. The majority of the public capital of the state-owned companies is sold in following percentage: 70% goes to a single buyer or consortium, while 30% of the shares go to employees and former employees of the company that is being privatized through auctions, or 15% of the company that is being privatized through tenders.

Sale of the company property in Serbia and Montenegro is based on two dominant models, namely through:

- model of the auction sale
Despite having similar experiences during privatization process, Serbia and Montenegro have a lot of difference. Later, we will see if variation in size, population, figures etc. will have an influence on tourism and profit from service sector. These two countries will also be compared to the other members from Ex-Yugoslavia.

Special attention in this work will be paid to tourism-related privatizations, which were successfully accomplished. The whole procedures will be shown in detail in order to perceive key factors for success. The business results of companies under the new management will be measured. Relations and cooperation between governments and investors will be inspected. The spotlight will be on evaluating benefits for the community and former workers. Part of this work will deal with the idea of protecting cultural and historical heritage, as they are rare and from a tourism point of view.
In the period after the Second World War, the "Socialist Federative Republic of Yugoslavia" went through a very dynamic economic development and large structural changes. During the war, the country was destroyed. The roads and infrastructure were seriously damaged. Industry was struggling. Despite the fact that the needed help and funds for recovery and reconstruction came from the West, Yugoslavia turned to Soviet Union. Without any connection to the West and lacking a well-planned development policy, Yugoslavia found itself on the verge of economic collapse. In that period, tourism appeared as the light at the end of the tunnel. It was a powerful and promising economic industry, capable of securing a flow of foreign currency that would make it possible for the country to engage in a trade in the international market and - more importantly - to procure basic funds to provide for the local population. Thus, tacitly and without a coherent policy, Yugoslavia latched onto tourism, although not yet completely aware of its positive economic effect that tourism would have for the future development of the country." (Vukonić, 2011)

The principles of development of socialist self-management system, were based on social property. In this, decades-long system, only some elements of a market economy was developed. Market competitiveness was low due to the fact that the domestic economy wasn't open towards world market. The labor market was not officially acknowledged because of ideological reasons which promoted equality among workers and discouraged any distinctions. The financial market was reduced to the banking system under state control. The state-owned companies with poor performance were supported by the state despite loses, because they provided artificial employment and thereby solving social problems. The political system was controlled by a single political party namely the Communist Party of Yugoslavia. This led to the fact that politics had the primary and major influence on economic aspects of the country.

The opening of borders had a good effect on promoting and developing tourism. Additionally to that, one has to say that tourism contributes a great deal to the financial state of a nation. In the 1970s, tourism received a priority status in government’s agenda. the construction of touristic capacities escalated, advertising and touristic propaganda was improved and stimulating measures were introduced on the federal level.
Since the end of the Second World War domestic and foreign tourism in Yugoslavia have not been developed equally well. In 1949 there were 1,985,630 domestic and only 31,920 foreign tourists in Yugoslavia registered. The percentage was 98:2. In 1987, there were 13,349,000 domestic and 8,907,000 foreign tourists in Yugoslavia. The percentage was 60:40. The statistics show that foreign tourism has developed faster than domestic. This is also confirmed by the data on overnight stays. In 1950, tourist realized 8,640,158 overnight stays, and foreign tourists only 178,541. The percentage was 98:2. In 1987, domestic tourists in Yugoslavia realized 57,684,000 overnight stays, and foreign tourists 52,299,000. The percentage was 52:48. (Stankovic, 1989)

Table 1: Domestic and foreign tourists in Yugoslavia after Second World War

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Foreign</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949 (tourist)</td>
<td>1,985,630</td>
<td>31,920</td>
<td>98:2</td>
</tr>
<tr>
<td>1950 (overnight stays)</td>
<td>8,640,158</td>
<td>178,541</td>
<td>98:2</td>
</tr>
<tr>
<td>1987 (tourists)</td>
<td>13,349,000</td>
<td>8,907,000</td>
<td>60:40</td>
</tr>
<tr>
<td>1987 (overnight stays)</td>
<td>57,684,000</td>
<td>52,299,000</td>
<td>52:48</td>
</tr>
</tbody>
</table>

Table 1: Domestic and foreign tourists in Yugoslavia after Second World War, data source: Stankovic, Stevan M, Savremeni problemi domaćeg i inostranog turizma u Jugoslaviji (Contemporary problems of domestic and foreign tourism in Yugoslavia) (Stankovic, 1989)
In 1989, Yugoslavia achieved total tourism turnover of 20.5 million tourists and 100.3 million overnight stays, out of which 42.4% were by foreign tourists. That year, Yugoslavia ranked in the top 25 tourist countries. (Hristov, 2014)

Table 2: Accommodation capacity in Yugoslavia in 1989

<table>
<thead>
<tr>
<th></th>
<th>Primary</th>
<th>Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hotels - 72%</strong></td>
<td></td>
<td>Private accommodation - 44%</td>
</tr>
<tr>
<td><strong>Holiday Resorts - 20.5%</strong></td>
<td></td>
<td>Camping sites - 36%</td>
</tr>
<tr>
<td><strong>Pensions, motels, hostels, other - 7.5%</strong></td>
<td></td>
<td>Retreats 16.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Spas and health resorts, mountain lodges, inns - 3.5%</td>
</tr>
</tbody>
</table>

Table 2: Accommodation capacity in Yugoslavia in 1989; data source: Hristov, Branislava, Characteristics of tourism development and the tourist policy of SFRJ, 2014. (Hristov, 2014)

As shown in Table 2, the rate between primary and secondary accommodation types goes in favor of primary, especially hotels. Foreign tourists were mainly oriented towards primary accommodation types, while domestic guest used both types of accommodation. "In this period, most of the touristic facilities were located in Croatia (65.9%), Montenegro (9.4%), Serbia (8.6%), followed by Slovenia, Macedonia and Bosnia and Herzegovina. The average annual growth rate of primary accommodation capacities, in the period from 1965 to 1989, was 6.4%." (Hristov, 2014) Most buildings have been built in the coastal area of the Adriatic Sea and on Croatian islands.

"Five types of tourist areas can be recorded. Most foreign tourists go to coastal places (almost two thirds of all tourists); sustainably fewer go to republic and provincial administrative centers, winter sports and mountain resorts, spas, and other tourist areas. In 1985 the following pattern was observed (Gosar, Structural impact of international tourism in Yugoslavia, 1989):
Table 3: Regional distribution of foreign visitors to Yugoslavia

<table>
<thead>
<tr>
<th>Regional distribution of foreign visitors to Yugoslavia</th>
<th>Guests</th>
<th>Bed nights</th>
<th>Municipalities in named region</th>
</tr>
</thead>
<tbody>
<tr>
<td>The coastal region</td>
<td>67.5%</td>
<td>90.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>The karst region of the coastal hinterland</td>
<td>5.4%</td>
<td>1.6%</td>
<td>1.1%</td>
</tr>
<tr>
<td>The alpine region</td>
<td>3.5%</td>
<td>2.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Republic centers</td>
<td>16%</td>
<td>4.2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Transit region along Yugoslav motorways</td>
<td>4.4%</td>
<td>0.9%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Other regions attracting tourists or business travelers</td>
<td>3.3%</td>
<td>1.4%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Table 3: Regional distribution of foreign visitors to Yugoslavia; data source: Anton Gosar, Structural impact of international tourism in Yugoslavia, 1989. (Gosar, Structural impact of international tourism in Yugoslavia, 1989)

THE ROLE OF STATE IN DEVELOPMENT OF TOURISM IN COMMUNIST YUGOSLAVIA

Domestic tourism in Yugoslavia, under Communism, evolved from the popularization of holiday tourism among Yugoslavian citizens in the 1950s and 1960s to the consumer practices of the 1970s and 1980s. Up until the establishment of the socialistic state, recreational travel in Yugoslavia had been the prerogative of a small urban upper and middle class of educated professionals and trades people. Collective holiday trips organized after 1945 for workers and peasants represented an unfamiliar and sometimes even unwelcome experience to people unused to travel and relaxation away from home. When Yugoslavia was recreated as a socialist state in 1945, the new leadership defined holidays with pay and recreation for workers as crucial elements of the new state's social projects. (Grandits & Taylor, 2010)

The state also had major influence on promoting tourism outside the national borders and attracting foreign tourist. Despite having their economic focus on heavy industry, factories and constructions, the state organs, also put an effort into the creation of a positive image of its tourism values spots for the purpose to make Yugoslavia a more attractive destination. The main idea of this was to attract foreign tourists. Regarding that, state organs were able to establish contact with foreign travel agencies and organizations in order to negotiate sales with them.

The most important sources of tourist arrivals in 1989 were:

1. West Germany
2. Italy
3. Great Britain
4. Austria
5. Netherlands
6. Czechoslovakia
7. France
8. Switzerland

"In the 1950s, millions of Brits had their first taste of going abroad in the then president’s state-planned "workers' paradise". Tito’s centrally-planned and brazenly political grab for the Western tourist market set the agenda for how Yugoslavia holiday today. Karin Taylor, co-editor of Yugoslavia’s Sunny Side, says: “Yugoslavia was the first country to realize the importance of foreign tourism for the creation of highly needed revenue and for generating hard currency. “This had to do with the "1948" break from Moscow when the country desperately needed to aid its struggling economy, as well as to establish itself independently on the international stage.” Lured by low prices (Tito devalued the dinar to make Yugoslavia cheap for Westerners) stunning coastlines, and the intriguing invitation to "Come and see the truth for yourself," Brits flew in from all corners of the UK to savor the sunny socialist paradise. By the end of the 1980s, before Yugoslavia’s decay, the country was the UK’s second most popular overseas holiday destination." (Grey, 2014)

The 1950’s and 1960’s were key years for forming tourist market in Yugoslavia and attracting tourists from foreign countries. "As a Mediterranean holiday destination catering to low-income tourists, Yugoslavia benefited from the European mass tourism in the 1950s and 1960s. It can be said that tourism contributed to the popularization of Yugoslavia as a country and thus attracted many other European people. One of the key factors in Yugoslavian tourism policy was the actual knowledge the government had about tourism, which lead to the enlargement of foreign revenue. However, as domestic tourists increasingly travelled the country under their own steam, bus, motorcycle, and from the 1960s frequently in their own cars, the government acknowledged their role in developing the tourism industry outside the social tourism program." (Grandits & Taylor, 2010)

When it comes to company laws and property rights, the most important feature of this system was the right of use of firms’ funds by managers and workers’ councils, within the bounds of the law and without the right to sell of the firms’ property and assets. It is also well known that there were various forms of political control and some elaborate plans to introduce a certain degree of planning through so-called 'social compacts' between firms. Nevertheless, the Yugoslav economy certainly resembled to a high degree a true market economy as opposed to a centrally planned economy. After all, central planning had been abolished in the 1960’s. Therefore, the most important characteristic of the Yugoslav system was that it empowered employees and provided them with the belief that they "owned" the enterprises they
were employed in. One cannot stress this feature enough, as it proved to be the single largest constraint at the beginning of the process of privatization. (Vujačić & Vujačić, 2011)

2.2. THE DISINTEGRATION OF YUGOSLAVIA AND EFFECTS ON TOURISM

The decay of Yugoslavia occurred as a result of political upheavals and conflicts during the early 1990s. After a period of political crisis in 1980s, constituent republics of the "Socialist Federal Republic of Yugoslavia" split apart, but the unsolved issues caused bitter the inter-ethnic Yugoslav wars. (Wikipedia, Yugoslavia, n.d.).

The war had a devastating effect on all aspects of economy, tourism included. After the decay of former Yugoslavia, former member states - Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia - acted independently in the tourism market. "Between 1991 and 1995, tourism collapsed completely. Ethnic violence and war have caused reductions in international arrivals. Although Yugoslavia was perceived by many tourists as one of the best destinations in Europe, the tourism performance of Yugoslavia started to struggle. Where peace was established relatively soon, for instance in Slovenia, the present-day situation (arrivals and receipts) is finally comparable to the mid - 1980's, as close to 90% visits in the most prosperous years are registered." (Gosar, The Recovery of Tourism in Slovenia).

Nowadays, all of the former FYRJ countries are developing national tourism strategies, attempting to participate on the international market and to attract foreign tourists.

However, there have been a lot of constraints regarding the growth of tourism, such as inadequate infrastructure, insufficient supply of luxury accommodation and the poor quality of the actual tourism product/service. The injections of the Western capital incorporated things like better education and training, expertise through joint ventures and improved marketing for the purpose to promote the various tourism attractions. Those injections have the core aim to overcome the problems, which were faced in the communist regime. It must be recognized that tourism will only flourish in the atmosphere of stability and safety. The political and economic instability (in some cases leading to war) which have resulted in the disintegration of the former Soviet Union and the former Yugoslavia, together with the decay of law and order which is occurring in many of the former communist countries, could be disastrous for the future of tourism in these destinations. Above all, tourists value their personal safety and the ability to travel around within a destination without the feeling of threat and insecurity ". (Theobald, 2013)

In the table below, the factors and events that affected tourism and the number of tourists arriving in Serbia and Montenegro are outlined.
### Table 4: Serbia and Montenegro: tourists* and stability/instability** factors

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Tourists*</th>
<th>INSTABILITY CAUSES AND RESOLUTIONS IN THE REGION OF WESTERN BALKANS**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>2,549.000</td>
<td>Serbian nationalistic agitation for a unified Yugoslavia. Slobodan Milosevic gaining power.</td>
</tr>
<tr>
<td>1989</td>
<td>2,372.000</td>
<td>The Fall of the Berlin Wall (November 9).</td>
</tr>
<tr>
<td>1990</td>
<td>2,093.000</td>
<td>Start of the rebellion of Serbs in the Croatian Krajina Province. Yugoslavia - end of communism: free elections in Slovenia and Croatia.</td>
</tr>
<tr>
<td>1992</td>
<td>156.000</td>
<td>Declaration of independence by Bosnia &amp; Herzegovina (January 9th). Subsequent war.</td>
</tr>
<tr>
<td>1993</td>
<td>276.000</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>247.000</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>301.000</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>298.000</td>
<td>Soldiers of the UN initiated ALBA (Dawn) mission, arrived in Albania (April 15 – August 12) to make ground for free elections and democracy.</td>
</tr>
<tr>
<td>1998</td>
<td>292.000</td>
<td>Expulsion of rebellious Albanians from the Province of Kosovo (Serbia &amp; Montenegro) (Aug. – Nov.).</td>
</tr>
<tr>
<td>1999</td>
<td>152.000</td>
<td>NATO bombing campaign on Serbia &amp; Montenegro (March – May). The Kumanovo Accords (June 10th): Serbia &amp; Montenegro agrees on peace terms for Kosovo Province.</td>
</tr>
<tr>
<td>2000</td>
<td>239.000</td>
<td>Democratically elected government of Serbia and Montenegro (October 5th).</td>
</tr>
<tr>
<td>2002</td>
<td>448.000</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>481.000</td>
<td>Assassination of Serbian Prime Minister Zoran Djindjic (March 12th). Serbia &amp; Montenegro - Croatia: Agreement on borders, border regimes and border crossings (December 10th).</td>
</tr>
<tr>
<td>2004</td>
<td>577.000</td>
<td></td>
</tr>
</tbody>
</table>

* No. of foreign visitors.

** Major political and other events which have caused violence, wars and general instability by which major positive developments were implemented to stabilize the region.

2.3. CURRENT PERFORMANCE OF EX-YU COUNTRIES

Figure 1: Income from international visitor arrival; source data.worldbank.org (WorldBank, International tourism, receipts (current US$), 2015)

The chart above shows the profit recorded from international visits in 2014. International inbound tourists (overnight visitors) is the actual number of tourists who travel to a country which is not their usual residence. It is often not exceeding a period of 12 months. (WorldBank, 2015)

Croatia has a far better performance than other countries. In the next chart, we will compare Serbia and Montenegro.

Figure 2: International tourism, number of arrivals; source: data.worldbank.org (WordBank, 2015)

The international traffics are rising rapidly in Montenegro, but Serbia also has an increasing numbers of international arrivals.
With Serbia and Montenegro being the subject of our interest, the next table will point out more differences between two countries.

<table>
<thead>
<tr>
<th>Table 5: Differences between Serbia and Montenegro</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014</strong></td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td><strong>Area</strong></td>
</tr>
<tr>
<td><strong>Inhabitants</strong></td>
</tr>
<tr>
<td><strong>GDP</strong></td>
</tr>
<tr>
<td><strong>GDP per capita</strong></td>
</tr>
<tr>
<td><strong>FDI</strong></td>
</tr>
<tr>
<td><strong>Arrivals (2013)</strong></td>
</tr>
<tr>
<td><strong>Income from arrivals (2013)</strong></td>
</tr>
<tr>
<td><strong>Leading investors</strong></td>
</tr>
<tr>
<td><strong>Hotel chains</strong></td>
</tr>
</tbody>
</table>

Serbia is bigger country than Montenegro, with significantly bigger population. Despite that, the GDP per capita is higher in Montenegro. Income from arrivals is slightly higher in Serbia, but Montenegro has more international visits. Serbia has a bigger inflow of foreign direct investments, as shown in Table 6.

**Table 6: Comparison of Serbian and Montenegrin GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>1,340,194,855</td>
<td>2,700,435,377</td>
<td>1,185,768,461</td>
<td>1,974,338,182</td>
</tr>
<tr>
<td>Montenegro</td>
<td>758,407,500</td>
<td>556,257,883</td>
<td>618,367,296</td>
<td>446,490,330</td>
</tr>
</tbody>
</table>


**Figure 3: GDP in Serbia and Montenegro graph; source: data.worldbank.org (WorldBank, Montenegro, 2015) (WorldBank, Serbia, 2015)**
According to the Government of Serbia’s Tourism Development Strategy 2006-2015, the vision of development of Serbia’s tourism, is to implement Serbia as the Danube Basin, equally positioning it as a Central European but also Balkan country, that appreciates its natural and cultural resources. The aim of this vision is to illustrate that Serbia as a country accepts guests from all over the world, through tourism, which expresses its pride, identity and all its cultural and historical value and uniqueness. Serbia aims to become the country that international market accepts as a safe, interesting, credible and above all clean tourist destination with a recognizable identity.

“Strategic advantages:

Serbia’s population generally has a positive attitude towards tourism

• The geographical position of Serbia lies at the borders of several historical cultural circles

• Great unused potential of underground and surface waters, starting from rich thermal sources and traditional Serbian spas, to the Danube, Sava, Tisza, Morava and other rivers which represent a unique structural attraction in this part of Europe;

• Untouched vastness of mountains, forests, agrarian regions,

• Inherited heritage of monuments of different cultures,

• Serbian affection for festive activities.

Strategic Disadvantages:

• No national tourist brand

• Lack of generally accepted national vision of tourism in Serbia, the lack of national (regional) visions and lack of tourism structuring in Serbia

• Inadequate protection and maintenance of main national natural and cultural resources/attractions, uncontrolled "wild" construction activities, and lack of law enforcement of control and sanction policies regarding the incidents in the field of environment (wild dumps);
• Inadequate awareness and/or understanding of the importance of the system of tourist experiences and the establishment of a complete value chain in the majority of the present products of Serbian tourism;

• Limited access to Serbia,

• Lack of internationally qualified managers in the tertiary sector in new tourism professions.” (Ilic, 2013)

Table 7: Serbia - international tourists ‘arrival/income from International tourism

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrivals</td>
<td>453,000</td>
<td>469,000</td>
<td>696,000</td>
<td>646,000</td>
<td>645,000</td>
<td>683,000</td>
<td>764,000</td>
<td>810,000</td>
<td>922,000</td>
</tr>
<tr>
<td>Income</td>
<td>308,000,000</td>
<td>416,000,000</td>
<td>1,016,000,000</td>
<td>1,133,000,000</td>
<td>989,000,000</td>
<td>951,000,000</td>
<td>1,149,000,000</td>
<td>1,083,000,000</td>
<td>1,221,000,000</td>
</tr>
</tbody>
</table>

Table 7: Serbia international tourists ‘arrival/income from International tourism, receipts (current US$); source: http://data.worldbank.org (WorldBank, International tourism, receipts (current US$), 2015)

3.2. PRIVATIZATION OF TOURISTIC VALUES IN SERBIA

Serbia is currently in the process of transition from capitalism to socialism. The country is in the middle of macroeconomic stabilization, liberalization and microeconomic restructuring. The government is trying to provide institutional framework for these processes. The process of ownership transformation began in the early 90s of the last century, by the "Yugoslavian federal regulations". The "Law on changing the value of social capital" announced the first signs of market orientation and turning to corporate management of the economy. Hotel and catering companies were among the first organizations that have begun the process of changing ownership structures.

Given the conflicts, sanctions, and demise of the Yugoslav federation, all of the republics embarked on their own paths to privatization, by passing their own laws in order to regulate this process. In 1991 Serbia adopted a Law on Conditions and Procedures to Transform “Collective Property” into other "Forms of Property". This allowed for the privatization of 'social capital' and non-state-owned firms, whose ownership was 'transformed' into ownership by state or local privatization authorities. The privatizations begun under the previous law had to adjust to the new legislation. From August 1991, when this new law came into effect, until the spring of 1994, only 668 enterprises had commenced the privatization process. (Vujačić & Vujačić, 2011)

The radical push for privatization began only after the interim government was formed, after the democratic revolution in October 2000. Between that time and the formation of the new government, by the Democratic Opposition of Serbia (DOS), another 350 enterprises chose to enter the privatization
process, bringing the total to 778, under the 1997 privatization procedures. The Privatization Law passed in 2001, was heavily influenced by the leadership’s perception of the political nature of the process. Firstly, the privatization process was seen as an opportunity for a clean break with the past system of self-management and the ensuing models of insider employee privatizations, which had been judged as inadequate up to that point. Furthermore, privatization was seen as crucial in making the process of reform irreversible. (Vujacic & Vujacic, 2011)

The models of privatization in Serbia are:

- **Shareholding**: free distribution or sale of shares to employees, managers, former employees and retirees.

- **Voucher Privatization** (free distribution of vouchers): enables grouping of small owners in order to create a significant block of shares for the purpose to control companies that were privatized.

- **Sale of state / social enterprises**: completely ownership and corporate restructuring, which countries use to fulfill their budgets, while employees and investments are of secondary importance.

- **Conversion of debt to assets**: a model where the property is given to the creditor instead of repaying the debt. This model makes sense only in the case of foreign creditors. In the case of domestic lenders and banks, this model is applicable only on the basis of their previous privatization.

- **Re-privatization**: the return of confiscated property to the previous owners. If it is not possible to return the property, its estimated market value should be returned. (Barjaktarovic & Barjaktarovic, 2010).

Privatization Agency is the central institution for operating and managing the process of privatization in Serbia. It is responsible for organizing, implementing and controlling these processes. The activities of the Privatization Agency were determined by: the "Law on Privatization Agency" and the "Law on Privatization". The Agency is in charge for promoting privatization and informing all interested parties about the rules, legislation and institutional framework. (Pavlovic, 2015)

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**3.3. PRIVATIZATION OF HOTEL METROPOL**

Hotel "Metropol" was designed by the architect Dragiša Brašovan in 1953 and constructed in 1957. The hotel consisted of six apartments, 215 double and single rooms, with a total of 257 beds. During the "Non-Aligned Nations" summit held in Belgrade, on the 1 September 1961, hotel "Metropol" hosted 30 presidents and prime ministers with a total of 3000 guests.

Hotel "Metropol" was sold in 2006 for € 27.4 million. It was sold for 11.4 million more than the initial price was. The buyer of the hotel "Metropol" was "Kokari limited", a member of the Greek hotel group "N. Daskalantonakis” owned by "Joanis Nikolaos Daskalantonakis". (Pavlovic, 2015)
Former workers of hotel "Metropol" received severance payments averaging more than € 11,000. This amount is significantly bigger than the usual severance pay in the Serbian tourism industry. Not only did the new owner purchase "Metropolis", he also seeks to acquire two more hotels in Belgrade. Those hotels will be a part of their project to create a line of professional hotels in Southeast Europe’s capital cities. Investors suggested that "Metropol" is one of the best hotels in Belgrade and that once it has been renovated, it will be perceived as a luxury hotel, by tourists and business people alike.

In 2007, the hotel was closed due to reconstruction. However, the planned revitalization, renovation, adaptation and partial upgrade was postponed because of the financial crisis, which started in the beginning of 2008. The Serbian "Institute for Protection of Cultural Monuments" protected "Metropol" as a significant building. The exterior of the hotel was not substantially modified after the renovations. Important details of the hotels exterior and interior are being preserved and integrated into the new design. For example, the 50 square meters large stained glass window, a masterpiece of artist Stevan Simonovic, has been restored and displayed in its original place. After finishing the renovation, the redesigned hotel named “Metropol Palace” was opened on September 10th 2012.

In autumn 2012 it officially joined the "Starwood" hotel chain, which is known as a very strong “Luxury Collection” brand-category. The newly renovated hotel will significantly improve the hospitality infrastructure of the city of Belgrade, offering unique facilities that will enable Belgrade to attract important international events. The complete cost of the restoration, including the purchasing price was approx. 70 million EUR, ranking it as one of the largest foreign direct investments in Serbia. (Wikipedia, Metropol Palace Hotel Belgrade, 2015)

3.4. EXAMPLES OF UNSUCCESSFUL PRIVATIZATIONS IN SERBIA’S TOURISM

The total number of privatized enterprises in Serbia regarding the tourism sector, is about 150 organizations from the hotel and catering industry, which represents about 70% of total capital operators in this sector.

Restructuring was proposed for a number of companies ("Vranje" "Europe", "Mataruška and "Kablar", "Lepterija", "Soko Banja" and others). The goal of restructuring was to separate bad and inefficient parts of the company from functional ones, which could later be privatized. The total amount of funds from the sale of companies in this sector is around €500 million, which is below the expectations from both, the governmental and managerial perspective. The largest cash inflow came from selling the hotel "Continental" for €148.8 million, followed by TP "Putnik" for €44 million, the hotel "Yugoslavia" sold for €31.1 million and the "Metropol" sold for €23.7 million.
The results of the privatization process in Serbia showed that many social and economic issues were not handled properly. This has had a negative effect on the quality of hotel product and the position of domestic hotel business in the tourism market. The total financial performance of hotels, which were privatized are far below the actual expectations people had. Taking that into consideration, it could be suggested that the inflow of funds in the state budget were rather low. Furthermore, employees became very disappointed and dissatisfied due to inadequate social programs and massive job releasing.

Some hotel privatizations failed to fulfill their purpose. E.g. hotel “Yugoslavia”, despite being privatized years ago, still waits for renovation and opening.

Instead of five-star hotels, top-quality service and numerous facilities, on the one floor of hotel “Yugoslavia” there is a casino and an improvised room for graduation celebrations. Expectations failed especially when it comes to the most attractive hotels in Belgrade downtown, such as the hotel "Majestic", "Moscow", "Kasina", “Balkan”. These deals are expected to bring partners from the famous hotel chains like "Hilton", "Sheraton" etc. When it comes to managing privatized hotels, there were also many problems, which had to be faced. The main constraint was the actual lack of educated and skilled personnel. Additionally, management, which operated privatized hotels needed experienced guidance in order to perform in a good manner. The frequent changes of hotel managers had a very negative impact on the image of the hotel, the staff, the quality of services and the products, and hence on the overall performance. Due to the absence of state evaluation, in a number of privatized companies there has been a contract breaching with regard to prior commitments of investment and fulfillment of social programs.

Results of the business transformation process, especially its key element - privatization, is cause for concern. The number of laid-off workers, the number of extinct companies, the number of cancelled contracts and the number of non-privatized companies are basically only confirming this assessment. (Barjaktarovic & Barjaktarovic, 2011)

At the moment, there are 14 spas and special hospitals in the portfolio of the “Privatization Agency”. The ministry in charge of privatization launched initiative for privatization on January 16th 2008. The Serbian Government approved the initiation of privatization procedure on February 21st 2008. Privatization of these entities could not be implemented because of unresolved proprietary disputes between the Serbian Government and the Pension and Disability Fund of the Republic of Serbia (PIO Fund). Because of the dispute with PIO Fund and objections of the Ministry for Labor and Social Issues to the privatization, special hospitals are still in the preparatory phase of the privatization procedure.
CHAPTER 4

4.1. TOURISM AND PRIVATIZATION IN MONTENEGRO

During the Socialist Federal Republic of Yugoslavia era, the overall tourism performance of Montenegro was always one step behind than the tourism performance of Croatia. After the disintegration of Yugoslavia in 1990’s and final separation from Serbia in 2000, Montenegro’s tourism became the country's most important economic branch. On May 21, 2006 Montenegro renewed its independence after 88 years, thus becoming the world’s youngest state. Its independence was recognized, for the first time, at the Congress of Berlin in 1878.

In 2013, travel publisher "Lonely Planet" named Montenegro one of its top 10 must-see destinations – and over one million people heeded the call. During the peak season, 35,000 tourists are arriving in the country each day. This number is predicted to increase by 16.4 percent over the next seven years. That makes Montenegro the fastest-growing tourist market in the world. (Riggins, 2014)

Table 8: Montenegro - international tourist’s arrival/income from International tourism

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2010</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrivals</td>
<td>984,000</td>
<td>1,031,000</td>
<td>1,044,000</td>
<td>1,088,000</td>
<td>1,201,000</td>
<td>1,264,000</td>
<td>1,324,000</td>
</tr>
<tr>
<td>Income</td>
<td>660,000,000</td>
<td>859,000,000</td>
<td>792,000,000</td>
<td>765,000,000</td>
<td>926,000,000</td>
<td>860,000,000</td>
<td>929,000,000</td>
</tr>
</tbody>
</table>


One of the basic preconditions for tourism development is high quality of natural resources combined with adequate quality of services. Thanks to numerous positive trends of development, tourism in Montenegro has become one of the most dynamic branches of economy, having various positive influences on the country. For Montenegro, tourism is a very important economy booster and generator of employment. Montenegro offers numerous possibilities for development of tourism, with almost 300 km long Adriatic coast with lots of beaches and bays, four national parks and rich natural heritage. Tourism is also the sector with most attractive investments possibilities in Montenegro. In privatization process in tourism,
focus is not only on price of privatization objects, but also on increase of volume of investments and number of employees. (Radunovic, 2005)

Montenegro is a regional leader in attracting foreign direct investment. More than 80% of the state capital is privatized. In 2015, the Privatization Plan of Montenegro was announced, which included 28 companies and locations (shown in Appendix 2). Out of those 28 companies, 27 managed to gain the status of "touristic value".

Figure 4: FDI in Montenegro

Figure 4: FDI in Montenegro; data source: [WorldBank, Montenegro, 2015](http://data.worldbank.org)

The most important models of privatization being currently used in Montenegro are the following:

- **Public tender**: Tender sale is a tool often used for privatization purposes, which consists of gathering bids made by potential buyers. The “Tender Commission” carries out preparation of the tender. Tender conditions must be defined quantitatively, in terms of value and they also expire after defined date. The Tender Commission determines the criteria of tender sale, as well as the timelines, deadlines and the actual terms for carrying out the tender procedure.

- **Auction**: Is the Privatization model that includes public competition of potential buyers, on the basis of the highest price offered. Public auction sales are organized and conducted by the “Auction Commission” appointed by the “Privatization Council”. The decision to sell company shares or property can be decided on by the owner, or the company’s authorized body. The Commission publicizes an invitation for the participation in the auction in the “Official Gazette of the Republic of Montenegro”.

- **Stock Exchange**: In cases in which the state is the direct owner, sale at the stock exchange is within the authority and responsibility of the state and the state funds. Any of the state funds, or
the state itself, can sell their shares independently, in a way and for a price that do not have to be harmonized with other state funds. (Montenegro G. o., 2006)

Mass voucher privatization and internal privatizations were mainly used in the past decade. The process of mass voucher privatization in Montenegro, distribution of shares to all-mature citizens for free, was completed in 2002. Internal privatizations are rarely used nowadays.

Nowadays, no Montenegrin company, except the Montenegrin airlines, which is 100% state owned, is completely in state hands. In Montenegro, several large companies were privatized through international tender. For example: Brewery in Niksic, "Jugopetrol", Steel company, furniture manufacturing companies, approximately twenty hotels, among which are the "Maestral" and "Avala"; paper manufacturing company; etc.

![Figure 5: Structure of privatization models in Montenegro](https://example.com/figure5.png)

According to the Law of Privatization, the Government of Montenegro is working on implementing the privatization process, while the “Privatization Council”, which has eleven members and work under presidency of the Prime Minister, has conducted direct operations. Administrative and expertise work, on behalf of "Privatization Council", is conducted by "Agency for Reconstruction and Foreign Investment". (Vukotic, 2015)
The process of privatization in tourism is intensified and becomes a very important factor relating to the overall development of Montenegro. Montenegro expressed particular interest for the involvement of potential partners and investors. The partners and investors should acquire hotels and other touristic facilities and also invest in their refurbishment. The adaptation and reconstruction of the current and new objects is conducted in accordance with the government’s Master plan and regional projects.

4.2. PORTO MONTENEGRO CASE STUDY

BACKGROUND

One of the most interesting cases of privatization is "Porto Montenegro". Before 2005, Tivat was just a small, quiet town in the Bay of "Boka Kotorska". The economy of the town relied on tourism, trade, fishing and sailing. There was almost no industry or factories. 800 out of 10,000 inhabitants were employed at the Naval Repair Facility "Sava Kovacevic", so called "Arsenal". Its touristic offer contained a few modest hotels a small, poorly developed private accommodation and a few beaches without accompanying facilities. But, Tivat possessed what happened to be the most valuable asset – untoucched and, almost intact shoreline. The Montenegrin most famous touristic towns Budva, Petrovac, Kotor and Herceg Novi have been destroyed by massive construction of touristic facilities. Tivat remained relatively spared of mass construction and kept its unique Mediterranean charm.
No wonder that Piter Munk, Canadian billionaire, owner of the largest global gold mine corporation "Barrick Gold" and yachting aficionado, spotted that Tivat has many perks. In the summer of 2005, Munk and his friends were cruising through the Croatian part of the Adriatic Sea, anchoring his super yacht `Queen of Drachs` near the famous old town of Dubrovnik, Croatia. They asked the yacht skipper if there are more places to explore nearby and he proposed the visit to the Bay of "Boka Kotorska", just around the Croatian - Montenegrin border. (Frank, 2013). "Boka Kotorska" is known as Europe's southernmost fjord, but truthfully it is an inlet formed by a partial submergence of a river valley, surrounded by high mountains. Mr. Munk noticed that the natural position of the bay is perfect for a seaport. He realized that the ships are protected from the weather by the surrounding mountains and a very calm sea, therefore he started to develop investment plans to build a super-yacht marina in that area.

At the same time, the Tivat-based Naval Repair Facility "Sava Kovacevic", after many years of doing business right, had begun to fail. It was founded in far 1889, when Austrian Admiral Maximilian von Sterneck, during large-scale maneuvers of Austro-Hungarian Navy in the Adriatic, noticed the convenience and strategic importance of Tivat for the construction of Naval Arsenal. The town mayor Marko Filipov Krstovic decided to donate the plot to the navy for the Arsenal and signed an agreement stating the transfer of Land to the Command of the Austro-Hungarian Navy. His aim was to create more job opportunities for the domestic population. (Mornaricko tehnicki remontni zavod "Sava Kovačević" 1889. – 1941., 2012). Ever since then, the Arsenal has been the main employer for the Tivat-based male
inhabitants. As a company with long tradition and competitive prices, the Naval Repair Facility “Sava Kovacevic” was the regional leader in the ship repairing business, for many years. Experienced workers and highly educated engineers offered a wide range of support: from ship repairing and overhaul, to modification and modernization of electronic equipment and command and control system. The services were available to both naval forces and merchant fleets worldwide, from submarines and frigates to container ships and tourist yachts. (Aleksic, 2009)

PRIVATIZATION PROCESS AND ITS CONTROVERSIES

The downfall of “Sava Kovacevic” begins in 1990's at the same time when war swept over former Yugoslavia. With Serbia and Montenegro being under UN's tough trade, financial and political sanctions, ships from other countries weren't allowed to sail into Montenegrin territorial waters. Due to this fact, the amount of ships coming to the Naval Repair Facility “Sava Kovacevic”, for repair or maintenance, drastically decreased. The profit of the facility was so low that workers were left without their salaries for a couple of months in a row. In 2000's, the situation slightly improved, but the management was constantly struggling with insolvency, lack of business arrangements, excess workers and salary payment delays. Over the years, two additional significant problems appeared: one was pollution and the other was safety related. The first problem was brought to public attention when it was announced that sandblasting and painting ships has a bad influence on sea life and the environment. Elevated pollution levels alarmed eco-oriented individuals and organizations. First rumors about shutting down Arsenal were voiced. The other problem came into public focus after an underwater research project discovered a large number of unexploded bombs, weapons and other military equipment in the sea around the Tivat area. Even still intact bombs from the World War I were found. These findings increased the public concern on many levels. It seemed that the shining days of a once beloved and famous facility were over.

In 2007, the Government of Montenegro decided to sell "Sava Kovacevic", in order to solve problems accumulated at the naval base during the last decades. Montenegrin Prime Minister Milo Djukanovic had a meeting with Mr. Piter Munk; on that occasion Djukanovic gave Munk a helicopter tour over the bay of "Boka Kotorska". "Mr. Munk" noticed that “Sava Kovacevic’s” seashore property could be a perfect site for his super-yacht port project. He knew that more and more yachts needed anchoring. He had a vision of how to turn Montenegro into a homeport for yachts. Together with Lord Jacob Rothschild, Russian oligarch Oleg Deripaska and Bernard Arnault, founder of luxury conglomerate "Louis Vuitton-Möet Hennessey" (LVMH), he decided to bring the project to life.

In the signed contract 2005, between the Government of Montenegro and Mr. Munk, it was stated that his company "P.M.Securities Inc" will lease the site for the next 99 years, buy the naval base for € 23 million and invest an additional € 106 million into its development in the first 4 years "P.M.Securities Inc" became the owner of "Sava Kovacevic " with the total land area 307.000m2, 118 buildings surfacing 116.120m2,
and the former Army House in Tivat, whose total area is 37.495m² plus additional 7.115m² for accompanying installations and property.

"PM Securities Company", for the purchase of the subject property, initially proposed an amount of €20,115,300. During the negotiations the total amount was increased to €29,164,068, which includes:

- The social program - €15,100,000
- Environmental interventions - €6,245,485
- Remediation of the location - €4,554,415
- Purchase price - €3,264,168

Figure 6: Porto Montenegro investment volume; data source: Parliament of Montenegro (Montenegro P. o., 2011)
During the negotiations, it was agreed that the "P.M.Securities Inc", in addition to its investment obligations, will further finance the implementation of a joint project with the municipally of Tivat, to the sum of €5,000,000, which will be used exclusively for infrastructure projects Tivat region. So far, €109 779 904 million has been invested in the construction of Porto Montenegro marina and tourist village. Constructed capacities include 400 berths in the marina (many of which are for super-yachts, i.e., ships more then 24-meter long), three residential complexes (Teuta, Zeta and Ozana with a total of 74 residential units), 2,500 m² of retail space, marine museum, sports and yacht club, Olympic-sized swimming pool, facilities for loading ships with fuel, etc. (Montenegro P. o., 2011)

"Before Porto Montenegro’s appearance, the Arsenal was an abandoned wasteland which was polluted with heavy metals and nearly a century of detritus that had accumulated in the shipyard. Additionally, the marketing manager for the project, Matt Morley, stated that unexploded munitions from the World War I and also the Balkan wars were discovered in the ocean. Managers of the project worked with Montenegrin officials as for example with the Vice Admiral Dragan Samardic, chief of the military's general staff, in order to win their cooperation in deploying United States Navy-trained dolphins to echo-locate unexploded ordnance on the harbor floor for the purpose of defusing them. “Before a single foundation was poured here, we spent nearly two years and invested millions to clean up a slew of environmental and safety concerns,” Mr. Morley said, “not to mention removing an untold tonnage of 64 rusted ships, submarines — more or less the bulk of the former Yugoslavia's naval fleet — and related shipbuilding materials, polluting the surrounding waters.” (Casale, 2014)

Picture 2: The difference between "Sava Kovacevic" and "Porto Montenegro"
The construction of Porto Montenegro began in 2006, yet the "Ksenija residences" are currently under construction. "Reardon Smith Architects" (UK) and the interior designer Tino Zervudachi of "Milinaric, Henry & Zervudachi" (FR), designed residential complexes (Teuta, Zeta and Ozana). The designers tried to follow the old Mediterranean architectural templates and to blend the design into nature, but also to keep a dash of modern and contemporary styles. Prices of condos in Porto Montenegro are ranging from €350,000 to €2,200,000, while penthouses prices are starting from €4,200,000.

**OPENING OF REGENT HOTEL**

In summer of 2014, the main attention was on the opening gala of the luxury "Regent Hotel", associated with the Regent Hotels & Resorts, consisting of 51 double rooms and 35 one- to three-bedroom suites. The majority of the accommodations offer a unique view on the seaside and marina, whilst others overlook the lush greenery of the surrounding sinuous mountains. The establishment's masterpiece – the Regent Residence – is a supreme example for luxury standards, offering up to 402 square meters of lavish indoor space and 200 square meters of multiple terrace space. Regent Residence features three bedrooms all with king-sized beds, a full kitchen, spacious dining and living rooms, four and a half bathrooms and on top of it all it also incorporated breath taking panoramic views of the Bay of Kotor, even from the residence's own private outdoor Jacuzzi."

(Regent Porto Montenegro Due to Open, 2014)

**Picture 3: Regent Hotel**

![Regent Hotel](www.portomontegro.com) (Montenegro P., 2015)
Considering the above mentioned, my opinion is that the privatization of Naval Repair Facility "Sava Kovacevic" illustrates a successful example of privatization. The Naval Repair facility of "Sava Kovacevic" was considered to be the pride of the local community due to it providing income for many generations of employees. Unfortunately, due to 90's Balkan war followed by UN sanctions and NATO bombing, "Sava Kovacevic" turned out to be another ruined company. Many of the state-owned companies didn't make it through the post-war era. The politics prevailed the economic matters, therefore the economy stagnated and only recuperated slowly. The majority of factories and production-oriented companies were shut down or have become examples of bad privatizations. At the time of announcing "Sava Kovacevic's" sale, it was another dysfunctional organization. It was hard to restart business operations because the payment of wages was so seriously overdue that the workers stopped showing at work. The Government required from the facility buyer "P.M.Securities Inc" to resolve all the social issues and help the workers who would lose their jobs. An agreement was reached, and "P.M.Securities Inc" paid fair severance pay to approximately 450 workers who were employed at Arsenal at that time. The new owner also granted a certain amount of money to former workers and pensioners. This is the first positive difference because many of the privatizations at that time left workers without job and without severance pay.

The second positive difference I'd like to acknowledge is the good influence that opening of "Porto Montenegro" had on the city of Tivat. Before the construction even begun, Mr. Piter Munk donated €5.000.000 to Municipality of Tivat to resolve the city sewage problem and to invest in other infrastructure issues. Before this donation, the city maintaining problems were piled up, because the local government didn't have enough funds to solve them. After a while, all citizens could see the benefits of this donation. In the first year after opening, Mr. Munk gave a €1000 scholarship to all college students who were Tivat residents and continued to give scholarships to all local students with high grades. His company is sponsor of many local artist, happenings and nonprofit organizations. I would like to emphasize the fact that the management of "Porto Montenegro" paid a lot of respect to local community and their past. The museum "Naval Heritage Collection" is opened in the marina; so many artifacts from rich history of Arsenal are saved and displayed. "Reflecting the area’s rich maritime tradition, the Naval Heritage Collection is housed in a beautifully restored building and showcases over 300 artifacts, from Yugoslav submarines to the diaries of Montenegro’s Princess Ksenija, Austro-Hungarian ship equipment and industrial machines." (Museum, 2015). The residents Teuta, Zeta, Ksenija and Ozana are named after princesses and female rulers from Montenegrin past.

The third benefit of creating "Porto Montenegro" is a massive promotion of "Tivat" as a touristic center. In spite of the fact that "Tivat" is considered to be a strong and serious touristic center in Montenegro now, in the past it was quite underestimated and was not considered as an attractive touristic destination in Montenegro. Its touristic offer was really basic, without any major touristic attractions. Simple, outdated
hotels without variety of services and modest private accommodation were enough to attract the tourist from Serbia and Montenegro. But when the "Porto Montenegro" opened it gates to the world's richest and most famous people and their yachts, "Tivat" suddenly got into an international spotlight. It instantly became a new Mediterranean hotspot, not only for the rich and powerful but even for those who like to be at the same place as they are. Every relevant media outlet issued an article related to happenings on Montenegrin shore. "Tivat" could be seen in all prominent touristic magazines and websites. "Porto Montenegro" acted as a magnet for thousands of people who wanted to see the new glamorous harbor. Middle class people could not afford a yacht or luxurious condo, but they could afford a walk and a coffee or lunch. It seemed that everybody wants to experience what media called a "new Monaco". The number of visits to "Tivat" dramatically increased and its touristic offer blossomed. Many new and contemporary hotels, bars and restaurants were opened. The managers of these shops and restaurants tried to keep up with the world's hottest hospitality trends, thus "Tivat" had to offer a lot more than just the harbor "Porto Montenegro". Thanks to the vision of the Canadian businessman, "Tivat" is now recognized as one of the world's top destinations. The Yacht Harbor Association awarded "Porto Montenegro" with the Super yacht Marina of the Year award in 2015. By taking this award into consideration, Montenegro will be highlighted on every contemporary nautical map and recognized as a must-visit place among super-yacht owners.

When it became evident that Mr. Munk investment will become highly successful, the other prominent investors from round the world decided to invest in capital touristic projects in Montenegro (e.g. Qatari Diar, SOCCAR etc.).

The fourth advantage of Porto Montenegro over naval facility "Sava Kovacevic" can be seen if we review environmental issues. The facility used sandblasting and painting methods, which caused chemicals to pour out to the sea, harming sea animals, plants and whole eco system. This was bad news, considering the fact that Montenegro was declared ecological state in 1991. On the other hand, Porto Montenegro management states that it guaranties sustainable development and that good environmental practices were used during construction.

One interesting fact is that the gates of Arsenal were always closed for everyone except their workers, no trespassing allowed. The geographic position of Arsenal divided the natural Tivat coastline in two sections; people couldn't walk through the facility so it seemed that the city has two promenades. Now, when Porto Montenegro is open for visitors all year round, it connected the once separated promenades into unique long and beautiful seaside walk path.

In the end of this section, I would like to show possible downsides of this projects. In my opinion, Montenegrin Government could have more proactive approach and maybe offer some sort of private-public partnership to Mr. Munk, in order to provide long-term income from marina. Another option was to
try to save and modernize old ship repairing facility, to regain clients and introduce eco-friendly ways of ships repairing and maintaining. This would help local population to keep family tradition of being mechanicals and repairmen working in naval repairing sector, just like their fathers and grandfathers. A part of local community still can't get over the fact that Arsenal is gone and that the only job they can possibly land in "Porto Montenegro" is in the hospitality sector. Besides evident progress that Tivat has made, many locals still think that their town became nothing but the playground for rich people and that it can be bad influence on youth.

My overall impression is that, besides listed downsides, this privatization is the brightest example in Ex-Yugoslavian countries. It seems that the whole country, not only the town of Tivat and its inhabitants, is experiencing benefits of particular foreign investment. On the other hand, investor can also be satisfied, since its investment will be highly successful and lucrative.
TAKING OVER OF HOTEL "NIKSIC" - SUTOMORE

Purchase of the hotel and taking over ownership over its assets consists not only of providing funds for these investments, it is also a very complex and complicated process that begins with deciding whether to buy an existing hotel or build a new one.

Investing in hotels is generally profitable. In this thesis I will give an example of successful privatization of hotels in Montenegro. I opted for former hotel "Niksic".

Location: Sutomore

Bought by: Sato Limited Liability Company

Bought: 2013

Price: € 2.3 million

The hotel was part of the assets of bankrupted, state owned company HTP "Onogost". The "Sato" company, in cooperation with its partner from Finland, accomplished all of their privatization goals. The reconstruction of the hotel "Niksic", which occupies an area of approximately 5,000 square meters, was conducted according to urban development plans. The hotel rating was improved and it went from a stars (*) to the four stars (****) category.

During the negotiations, it was stated that the dimensions of the renewed hotel must be identical to the old hotel. After the “Sato” company accepted this condition, the sales process continued between the customer and HTP "Onogošt". After paying the negotiated price of €2.3 million, reconstruction and adaptation started. This was followed by the selection of a designer and contractor; the hotel was renovated in several phases, within seven months from the acquisition.

GETTING STARTED

Since the beginning of 2014, hotel "Niksic" is being operated under the new name - "Sato Resort Sutomore". It has 274 beds in double and triple rooms with bathrooms. Rooms are air-conditioned and with satellite TV. The hotel has a restaurant, a café, a bar and a large parking area.

"Sutomore", with its 1200 meters long sandy beach and a promenade along the coast, offers great opportunities for recreation and entertainment. "Sato Resort Sutomore" is 6 km distant from the port of Bar, 30 km from Podgorica airport and 54 km from the airport Tivat.
Since the acquisition and reconstruction, the highest numbers of tourists come from Poland, the Czech Republic and Russia. Steps are being taken to increase the number of tourists from Scandinavian countries (Norway, Sweden, and Finland). In 2014, there were a significant number of visits from Greece. The hotel has already sold its capacities for the season’s peak for this year (June, July, and August).

All of the above mentioned, confirms that the hotel is performing well and that this case should be considered as a successful implementation of privatization.

**RESULTS FROM THE FIRST BUSINESS YEAR (2014)**

Sutomore-based hotel "Sato" entered the summer season of 2014 in the best possible way. Excellent offers, good service and reasonable prices enabled this hotel a competitive advantage towards its competitors on the Montenegrin coast. At the beginning of the 2014 summer season, the hotel was filled up to 80 percent capacity, while in the rest of the summer it achieved 100% occupancy.

Since in the beginning of the operation, the hotel is specialized in coastal and maritime tourism. In the budget for the first year of operation, this type of tourism appeared to be the most powerful source of income. Already in the second quarter, the repayment plans proved to be successful since the current revenues are sufficient for covering fixed costs and monthly rate loan debt.

<table>
<thead>
<tr>
<th>Achieved turnover at the start of operation</th>
<th>Achieved turnover at the end of 2014 summer</th>
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<tr>
<td>80% occupancy</td>
<td><strong>100 % occupancy</strong></td>
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Table 9: Montenegro Hotel “Sato” - 2014 occupancy; data source: hotel Sato management (Durovic, 2015)

In its first year, hotel "Sato Resort Sutomore" the government, ministries and various professional associations recognized this project as a valuable and successful one.
Podgorica is the capital city of Montenegro. The city is relatively small but it is perceived as a fast growing center for political, cultural and business happenings. Its area covers 1.441 km², with approximately 180,000 inhabitants. During the Ex Yugoslavian era, "Podgorica" was officially named "Titograd" after "Josip Broz Tito" who was the former leader of Socialist Federal Republic of Yugoslavia. After the disintegration of Socialistic Federal Republic of Yugoslavia, the city restored its previous name - Podgorica. From the aspect of touristic valorization, Podgorica was always interesting. It is situated in the central part of the country; the city is only 60 km far from the coast and 70 km from mountain resorts and ski centers. Podgorica lies on six rivers (Morača, Zeta, Cijevna, Sitnica, Ribnica and Mareza). It is located in the famous vineyard region and near Skadar Lake. Skadar Lake is the largest lake in Balkan and also happens to be a national park. During the communist era, there were two main touristic spots, which were important for both locals and tourist namely: Hotel Crna Gora and Hotel Podgorica.

**HOTEL PODGORICA**

Hotel “Podgorica” was built in the 1967 by Svetlana Kana Radovic who was the first female architect in Montenegro and she also earned an award for that. Taking this fact into consideration, hotel exterior has been preserved by law. The hotel is situated at the confluence of the rivers Morača and Ribnica. The building is surrounded by beautiful nature and it had a great view on the landscapes.

In 2004, Montenegrin government announced its plan to sell hotel “Podgorica” for €2.45 million; if the plan for sale had failed, the government would have been ready to lease the hotel for several years. “Normal Tours Company” bought the state owned hotel for €840.000, with the obligation to invest €3.4 million into the project in the next 4 years. After the renovation, the hotel went from previous 2-star rated hotel (**) to four-star rated hotel (****).

**HOTEL CRNA GORA**

Hotel "Crna Gora", which is situated in the heart of Podgorica, was built in 1953. It was the first hotel built in Podgorica after the Second World War. For decades, the hotel was a spot where local people and their guests met, due to the fact it was very striking and prominent. Moreover, many local people favored the hotels terrace because they could easily grab coffee before work there and because they could bring
their children for a delicious portion of ice cream. Communist officials also preferred the hotel. The interior had an amazing art collection, which included artworks from the finest Ex–Yugoslavia artist.

"Mikan Zec", who was the former hotel director in the year 2004, told to local newspaper "Vijesti" the following about the art collection: „Luxuriously built hotel with facilities that were unimaginable and advanced at that time, under the suggestion of Blazo Jovanovic, who was the President of Montenegro, received a valuable collection of 30 paintings of the most prominent, famous Montenegrin artists Milunović, Lubarda, Vušković ... " he stated that the expanded collection contained 60 artworks of prominent Montenegrin, Serbian and Croatian painters; the Montenegrin art experts estimated that the whole collection is worth near €5 million." (Nikolić, 2014).

In the year 2011, public discontent in Podgorica was caused by the announcement that the old hotel "Crna Gora" should be demolished in order to build a new Hilton on that spot. The new hotel owner, "Normal Group" promised that the new hotel will resemble the "Crna Gora's style and that the actual trademark, namely the four main stone pillars by the entrance, will remain indefinitely.

Local people were talking about hotel “Podgorica” as a historical and traditional hotel, but did it really have such a historical value for Montenegro?

According to the Historic Preservation Division, " To be considered "historic," a property must have three essential attributes:

1. sufficient age
2. a relatively high degree of physical integrity
3. historical significance.

Generally speaking, this means that a property must be at least 50 years old, but this is just a general rule of thumb. In addition to having sufficient age, a property must retain its historic physical integrity, meaning: structure, landscape feature, historic site, or historic district. In other words, the building or hotel must have remained unchanged during the years. Additionally, the hotels essential features, which basically define the reputation or brand of a certain hotel, must be present during its lifetime. Finally, a property must be significant in order to be considered as historic. Significance is defined in three ways:

(1) through direct association with individuals, events, activities, or developments that shaped the history

(2) by embodying the distinctive physical and spatial characteristics of an architectural style or type of building, meaning structure, landscape, planned environment, method of construction or by embodying high artistic values or fine craftsmanship
(3) by having the potential to yield information important to the understanding of the past through archaeological, architectural, or other physical investigation and analysis. " (GHPD G. H., 2015).

ADVANTAGES AND DISADVANTAGES OF PODGORICA’S HOTEL PRIVATIZATION

I will give my scope on hotel privatizations in Podgorica, capital of Montenegro. In my opinion, bringing a famous brand like "Hilton" into one country's capital cannot have a negative influence on tourism in that city; every major city around the globe has a "Hilton" hotel. The "Hilton" hotel chain is highly recognizable; it has certain standards and customers know what kind of service they can expect in a hotel that operates under the "Hiltons" brand. For a new, small and relatively unknown capital like Podgorica, having a "Hilton" hotel means keeping up with the other capital cities. It is a clear sign that the tourism market is developing in the right direction and that supply could respond to the international demand. We could see this as an evidence that the globalization has influence on the Ex Yugoslavian markets even in the hospitality segment. A lot of tourist and business people are coming to Podgorica every year; regarding that fact, building a world class hotels is a logical outcome. The local authorities showed that they understand the concept of contemporary city tourism and that they are ready for cooperation.

On the other hand, the officials and investors showed zero sensitivity to the local history, customs and inhabitant's habits. It seems that hotel "Crna Gora" was targeted to become the next "Hilton" due to its location. No one paid attention to the fact that the hotel was also incorporated in the hearts of Podgorica’s people. I believe that "Hilton" could be built on a different location near the town center, so the hotel "Crna Gora" could be preserved. Of course, the citizens of Podgorica have plenty of other bars, coffee shops and restaurants at their disposal, but I think that this place should have been preserved because it was the favorite meeting spot of all people who lived and also who had business to do in Podgorica. In general, it seems like a good idea to keep places that have history and charm of the past era, because those places tend to increase their touristic and historic value as times goes by. Hotel "Crna Gora" was one of the most influential reminders of Montenegro’s Communist era architecture and lifestyle. The soviet ideology disappeared from Montenegro 20 years ago. That may be too soon to pronounce the socialist-realist structures as unsightly and unworthy. “It has been said that at its best, preservation engages the past in a conversation with the present over a mutual concern for the future.” (Murtagh, 2013)

From the economical point of view, the intervention on replacing hotel "Crna Gora" with "Hilton" will probably be lucrative and successful. It will help Podgorica to be perceived as a city, which incorporates businesses and organizations with high brand value. But in terms of historical preservation, hotel "Crna
Gora" may had the chance to be left as it was. The hotels building fulfills all conditions for preservations given in section 4.4: it is more than 50 years old (built in 1953); covered in authentic Montenegrin stone tiles, it remained unchanged over the years and represented the symbol of city's social life. It was a place where artist, politicians and bohemians mingled and chatted with ordinary people. It has outgrown its hospitality function and became an omen of old Podgorica, a loved reminiscence of past times. It simply wasn't ripe for destruction; it shouldn't have gone without a trace.

In section 4.4. I have given two scenarios of hotel privatization in the capital of Montenegro. In both cases, hotels were built during the existence of former Yugoslavia and managed in socialist style. After the democracy replaced socialist self-management, both hotels were put up for sale and transformed from public to private property. In the case of hotel "Podgorica", it was decided that the awarded and praised exterior of the hotel should be saved and the investors should also respect that decision and act accordingly. Hotel "Podgorica" got a total renovation and interior reinvention and received the twenty-first-century style management, followed by significantly improved hotel rating (from two to four stars). It was updated at all necessary levels, but without compromising its original aesthetics and harmony. It is still widely recognizable due to its preserved exterior. In other situations hotels were torn down in bits like in the case of hotel "Crna Gora", despite taking the fact into account that the building was a symbol of a whole town and a monument of past times. In my opinion, it is always better to follow the first scenario and try to preserve valuable heritage. Giving up on architectural and cultural legacy seems unreasonable, especially without giving it a try. From a touristic standpoint, I would opt for places that respect their traditions, values and legacy rather than those which sacrificed their local, authentic goods in favor of new ones.

4.5. THE UNSUCCEFUL PRIVATIZATIONS IN MONTENEGRO

An important fact, which has to be mentioned in the thesis is that many towns in e.g. northern Montenegro suffered due to failed privatization. Poor privatization of hotel facilities in that region completely destroyed tourism as an economy branch.

I will give an example of the municipality of Berane in northern Montenegro, the town where only four hotels existed during the Second World War. Today, the modern hotel "Il Sole" is the only one that has remained. Under strange circumstances the recently privatized "Jelovica" hotel on the namesake mountain, which was renovated, remained without an owner. A Russian citizen, who bought the hotel from the previous owner, simply and suddenly "disappeared" from Montenegro. The state authorities have to resolve this peculiar and curious case.

For many years now, the formerly famous ski center "Lokve" and namesake hotel in Berane area have been closed. After the primal privatization, "Lokve"’s first owners - the "Eurotourist GMBH" from Bijelo Polje - resold the resort to Alan Alikov, who was a businessman. After partial renovation, the hotel situated near
the main road to Serbia and Kosovo was closed. There has been rumors that the works on the reconstruction will be resumed. (Sekulovic, 2010)

In the small town of "Rozaje", also situated in northern Montenegro region, there is a hotel called hotel “Turjak”. This hotel was privatized five years ago, but it is still not renovated and available to the ski-lovers.

In Rozaje, there is also a privatized motel, capacity of approximately 250 beds. The new owner, the “M petrol” company, is working on motel refurbishment very slowly. That is not necessarily a bad thing, considering the fact that the same company previously also bought state-owned hotel "Rozaje" and turned the old ruin into the contemporary mansion, which could satisfy even the standards of more developed touristic regions.
CHAPTER 5

METHODOLOGY

5.1. THE AIM OF THE THESIS

The purpose of the bachelor thesis is to outline the process of transferring touristic values from state-owned to the private sector and to measure the effects it had on tourism.

The question this research is answering is the following:

**How did privatization affect touristic values in the ex-Yugoslavian countries?**

The hypothesis, which were used here aim to support the following:

**Hypothesis 1:** Privatization on touristic values is achieving positive effects in the countries of former Yugoslavia. Privatization has a concrete impact on tourism and economic growth.

**Hypothesis 2:** Privatization can increase the attractiveness of tourist destinations. Local heritage and touristic values can be preserved through privatization.

The explicit aims, which support this research, are as follows:

1) To analyse the main components of the privatization process, with special focus on Serbia and Montenegro
2) To inspect the main foreign investors in tourism sector and to analyse their performance
3) To examine all advantages and setbacks of foreign investments in the transitional phase.
4) To research the aspect of heritage preservation during privatization
5) To draw conclusions regarding the importance and necessity of privatization in the tourism sector.
5.2. RESEARCH DESIGN

The research data used in this thesis consists of both primary and secondary data that are qualitatively and quantitatively examined. I used descriptive and explanatory research.

In the case of primary data, I used informations gathered from several interviewees. These interviews provided useful data and valuable overviews. The interviewees were carefully selected and are respectable representatives of their areas of expertise. Their statements were helpful in answering the research question. My intention was to question both hotel managers and state authority members, in order to get more insightful survey. Attention has been paid to both privatization processes and the management of hotels. Furthermore, I tried to focus also on the actual influence of privatization on other touristic values.

Secondary data was used for the literature review. For my research, I have been gathering information from relevant books, journals and online sources. In order to prepare myself for writing this thesis, I have read material that addressed this topic. The plan was to obtain all significant facts and opinions through the research for the purpose to generate a greater understating of my topic. First of all, I needed to examine the origins of tourism in former Yugoslavia and to update my knowledge upon this matter. This part of research included reviewing materials from ex Yu bureaus of statistics and reclaiming macroeconomic data from that era. The next step was to introduce the facts that led to transforming economy, meaning from state- governed to market-oriented economy. Several books and articles from university professors and prominent authors were used in this phase. To describe the present-day situation in Serbia and Montenegro, I used publications from national governments. Some material has been provided by the Serbian Privatization Agency, Chamber of Commerce Montenegro, and international organizations. Online articles and Internet pages were used through all the various stages for the purpose to complete this thesis/ research.

The research conducted for this paper had the aim to use reliable references and bring up new information from the tourism sector. Due to the fact that most of the material used in this paper was provided by relevant sources, I consider this research reliable and valid.

5.3. UNIT OF ANALYSIS

The main reason why my thesis is incorporating interviews is because I had the freedom to choose the questions. Taking this into consideration, I was able to ask my respondents questions, which would provide efficient source for writing my bachelor thesis. Not only was this important for the bachelor thesis, it was as well important for myself because I was very interested in the topic and thus I wanted to create a
better perception of it. All questions in every interview were open-ended questions for the purpose to give the interviewee the freedom to express themselves. The open-ended questions were an effective approach due to it; I was able to collect a lot of information from the respondent because they gave me full and long answers. During the process of writing my bachelor thesis, I established respect for those respondents because I could sense a lot of experience and knowledge from their side while undertaking the interviews.

Interview 1 – Dejan Pavlovic

The first interview I have conducted was with Dejan Pavlovic who was the project manager at the Privatization Agency of Republic of Serbia. Mr. Pavlovic was in charge of privatizing the hotel “Metropol”. I wanted to show Hotel “Metropol” privatization as a positive example in Serbia’s transitional phase, therefore I got a lot of information from Mr. Pavlovic. The entire interview was held in Serbian via telephone, as it is the respondent’s mother tongue as well as mine.

Question 1: The first question, which I asked to Dejan Pavlovic was rather extensive. The purpose of this question was to gather an insight about the Serbian Privatization Agency, in order to understand its importance, aims and tasks.

Question 2: Mr. Pavlovic was asked to state his opinion about the privatizations of hotels in Serbia. This was done to gain a practical view on these processes. More specifically there are three main reasons for this type of questioning. Namely: a) in order to find out when privatization started; b) which persons are buying hotels; c) what strategies are being implemented when developing

Question 3: It was then asked: “Can you explain why the decision was made to sell Hotel Metropol”. Personally, I found this question very interesting and appropriate because it provided answers to why the Metropol was actually sold. Furthermore it should also provide information whether it was an efficient approach to privatize the hotel.

Question 4: Similar to question 1, inquiry number four can also be considered as an extensive question: Can you unveil the privatization process to us? The main reason why I have asked this question is to collect general facts and data about the privatization process, which is highly needed for the thesis.

Interview 2 – Mr. Veselin Vukotic

The second interview was done with Mr. Veselin Vukotic, who was an economy professor at the University Donja Gorica, Podgorica, Montenegro. As in the first interview, the whole conversation was held in Serbian via telephone upon the respondents wish. I have chosen Mr. Vukotic because he was the Vice-President of the Privatization Council for the Government of Montenegro at the time when most of the Montenegrin companies were privatized.
**Question 1:** Considering the fact that Mr. Veselin Vukotic was the Vice-President of Privatization Council of the Government of Montenegro at the beginning of the privatization process, it was quite obvious that the first question would be to describe how it all actually started. The reason why I chose this specific question is because I wanted to gather an insight about the conduct of the privatization process in Montenegro.

**Question 2:** "Which state authorities are involved in the privatization process in Montenegro". The reason why this question was implemented in the interview is in order to determine, which operations are being done by which state authority. In other words, it was important for the thesis to determine the tasks of the government of Montenegro and the tasks of the privatization council.

**Question 3:** The third questions emphasizes on the separation of Serbia and Montenegro in 2006. The question is basically explaining how the separation of Serbia and Montenegro in 2006 influenced investments in Montenegro and whether the political stability was related to privatization.

I decided to ask this question for the purpose to investigate whether the separation had a negative influence on investments for Montenegro. Furthermore, the question would provide answers whether Montenegro has a stable political environment regarding the relations with Serbia, which is very important. For instance, if investors buy a company in Montenegro, they will expect from the company to operate in similar manners also in Serbia.

**Question 4:** What are the biggest problems and challenges that investors faced during and after privatizations in Montenegro?

In my opinion, the fourth question is one of the most important questions asked during the interviews due to it is providing answers about the biggest problems and challenges investors have to face during and after privatizations in Montenegro. The main reason why I consider this question as a very important is because it provides an insight about the main problems and challenges Montenegro is facing in economic terms. This has to be taken into account when conducting business transformation.

**Question 5:** The last question, which was asked is about the certain differences between privatization in market-orientated and planned economies. The reason why this question was implemented is in order to investigate whether privatization processes have developed compared to previous periods.

**Interview 3 – Mrs. Marija Durovic**

The third interview was done with Mrs. Marija Durovic, manager of hotel "Sato" in "Sutomore" Montenegro. It gave me an insight into the operations of the hotel after its privatization. Her point of view was important in order to understand how hotels are operating after privatization. This was the most
crucial interview to me, since it gave me a practical example of how operations work prior, during and after privatization.

The interview was also held in Serbian via telephone. The respondent addressed that she wanted to be interviewed in Serbian due to the fact that she did not know some technical words in English, which were very important for the conversation, according to her opinion.

**Question 1:** "Can you please describe the acquisition-auction process of former state-owned hotel “Niksic”?

The purpose of this question is not to explain why the hotel was sold but rather to say how it was sold. Since I mentioned the hotel in my thesis, I also needed information about how the acquisition-auction process was undertaken, meaning what the actual price was, which bidders showed interest in the hotel and how the payment procedure looked like.

**Question 2:** "What plans did the Sato Company have for hotel “Niksic”?

This question was basically asked for the purpose to understand the whole reconstruction process and how that actually contributed to the success of hotel "Niksic". It was of crucial importance to examine the components of the hotel, which were renovated and how they were actually refitted.

**Question 3:** "Tell us more about the work structure regarding the guest and occupancy” ?

I decided to implement this one due to it giving an overview about the market segmentation of hotel "Sato-Sutomore". In other words, the question provides answers to where the customers of "Hotel Sato-Sutomore" come from and on which customers the hotel is focusing most. Furthermore, the question is also very crucial because it provides a brief insight how the occupancy of the hotel is developing after the reconstruction and refurbishment-process.

**Question 4:** "Your hotel has a commendable employment policy”?

During the research for my bachelor thesis I discovered that hotel "Sato-Sutomore" is employing many students and graduates from the local schools of tourism and hospitality management. The reason why I decided to put this question in the interview is because the hotel is granting local students and graduates the chance to put their knowledge obtained from university into practice, which I personally find very commendable. I wanted to gather more information about that and I also wanted to see which positions students and graduates people are getting during their internship/work.

**Interview 4 – Mrs. Kristina Skanata**

The fourth interview with Mrs. Kristina Skanata, PR of Porto Montenegro, gave me an insight about Porto Montenegro and how it affected the local community. This interview was slightly different than the
previous interviews because it was conducted via e-mail. The respondent did not have time to do the conversation face to face or by telephone and thus we have decided to do it just via e-mail. I sent the questions in Serbian to her e-mail address and then she just sent me the answers.

**Question 1**: “How would you evaluate the privatization of former naval base “Arsenal” and turning it into super yacht port? Was it a successful privatization?

This question had the aim to provide information for the case study of "Porte Montenegro". Not only did I focus on general data with this question, I wanted to reassure myself whether this whole action is causing jobs, governmental revenues and investment opportunities. Additionally, it was important for the interpretation to examine whether the privatization of former naval base "Arsenal", turning it into a super yacht port, was successful or not.

**Question 2**: It’s been seven years since Porto Montenegro was established; could you please tell us about the current situation in Porto Montenegro?

The main reason why this question was also implemented in the interview is because the answer to it provides data about the growth of "Porte Montenegro" further construction and overall performance during the years, which is very important for the interpretation and evaluation part.

**Question 3**: What do you think how Porto Montenegro will impact the tourism industry in Montenegro in future?

I assumed that it will have a positive impact and thus, the emphasizes lies on discovering and commenting on factors which will contribute to this positive influence. Taking this into account, I am able to draw a proper conclusion.

**Question 4**: The fourth question in the interview concerns itself with how "Porte Montenegro" contributes to the local community.

This was a very important question because I wanted to receive an insight how the whole project of "Porte Montenegro" is coping with the local community and which approaches and methods the corporate managers are using in order to be favored by the local community. Not only is it important to perform efficiently, it is also of crucial importance to be perceived as a company which is emphasizing on corporate social responsibility.

**Question 5**: Do you have a good cooperation with local authorities? Have you faced any business barriers on local or state level?
The purpose of this question was to collect information about certain limitations and obstacles with state authorities during the establishing process of "Porte Montenegro". Furthermore, it was also crucial to know whether some laws and regulations had to be implemented during the establishing process and whether local authorities were willing to promote the project and thus the growth of nautical tourism in the country.

**Interview 5 – Mrs. Sanja Markovic**

The fifth interview, with Mrs. Sanja Markovic, head of Tourism Department in Chamber of Commerce Montenegro, was a good resource of how Montenegrin tourism is perceived on a state level. It was also conducted in Serbian.

**Question 1:** Can you compare tourism before and after Montenegro regained its independency? In which period did tourism evolve more?

This answer should provide information in order to compare the performance of Montenegro and Serbia.

**Question 2:** How do you evaluate the privatization process in Montenegro when it comes to tourism facilities?

The main benefit of this question was to hear the opinion of the respondent whether the privatization process has caused developments regarding the quality of tourism facilities in Montenegro. Meaning: whether Montenegro is being perceived as an attractive investment opportunity by foreign investors.

**Question 3:** The third question is as follows: Is business climate in Montenegro investment-friendly? Can you single out the positive and negative examples of privatization in Montenegrin tourism?

Since I mentioned the business climate and some positive and negative examples of privatizations among Montenegro, this question basically acted as a direct source of information for my thesis and the reason why I have implemented it is because I needed information.

**Question 4:** The very last question was that Mrs. Markovic should explain the actual role of the Chamber of Commerce in the development of the tourism industry. I decided to incorporate this question into the interview because I wanted to know how and which influence it has on tourism.

For my work, I used macro-economic data, which were obtained from both the Statistical Office in Serbia and Montenegro and from the World Bank.
SELECTION AND CRITERIA

The selection and criteria was mainly based upon the working experience and knowledge gained out of the respondent’s careers. Furthermore, I focused to find people who were working in specific organizations, which were related to the privatization processes. All participants in the interviews had very high positions in the hierarchy of their organizations and this guaranteed me a reliable source of information.

5.4. INTERPRETATION AND EVALUATION

The “Serbian Privatization Agency” plays a key role in the privatization of Serbian state-owned companies. Privatization in Serbia had two major phases. The first phase was from early 1990s. Second wave of privatization was after the year 2000. In my first interview, I discovered that the privatization of hotels started in 2002. The plan was to privatize all hotel companies in the state’s privatization portfolio until 2007. In that period, Serbia was going through democratic changes and economic recovery. The Serbian Privatization Agency was in charge for monitoring and supporting privatizations. According to Mr. Pavlovic, government had a clear vision about privatizations in the tourism sector, but it wasn’t backed up with concrete plans. He noted that the government’s privatization strategy had its weaknesses. It seems that both institutions and investors were not prepared enough for what happened. Institutions faced challenges in preparing legal framework and company valuation, while investors experienced operational and managerial problems. Therefore explaining a large number of unsuccessful privatizations in tourism sector.

When it comes to noteworthy privatizations among touristic companies, my interviewee agreed that the case of hotel Metropol could be served as a bright example. But, in that particular case, we can also see how unregulated property rights can expel investors. Namely, "Kempinsky" hotel chain was one of the potential investors, but then gave up due to unresolved ownership issues. One of the curiosities related to hotel "Metropol" is that no one answered the first public invitation for its privatization. This was probably due to the unclear property rights of the hotel’s prior owner, "Dunav insurance". After resolving ownership problems and legally separating hotels "Jugoslavia" and hotel "Bristol", both got a new owner. This is a strong signal to institutions to work on creating transparent and clear legislative, as it will attract long-term investors.

From the conversation with Mr. Pavlovic, I could suggest that the whole process of finding new owners for state capital is not that easy. Sometimes, like in a case of hotel "Metropol", it takes lot of time and commitment to obtain a good final result. When it comes to the privatization of touristic values in Serbia, my opinion is that the whole process had a lower outcome than expected. After the turbulent 1990’s,
Serbia had a new path. Changes affected all areas of economic and social life. The process of transformation in Serbia lasted much longer than in other former socialist countries. The reason for this can be found in the geo-political and economic circumstances in which the country found itself after the collapse of the former federal state.

Many issues followed regarding privatization in Serbia. For example, the intentions of the “Law on Privatization” were aimed at attracting foreign capital. Despite this fact, a very little amount of foreign capital inflow was recorded on that basis. In the first years of transformation, new hotel owners were usually domestic businessmen without hotel management experience. This resulted in new problems, like poor quality of service in newly privatized hotels. In my opinion, hotel managers play a key role in transferring hotels from the communist way of management to the contemporary one. Professional managers are the ones to carry out the overall process of hotel transformation. They are the ones who should adapt the hotel operation to market conditions and make changes in the organization. Professional managers play a role in hotel operations and performance, the introduction of new technologies, motivating workers. By taking all these characteristics into account, the company can become profitable and successful.

I think that one of the issues lies in the fact that Privatization Agency of Serbia has both an organizing and controlling role in the privatization process. Apparently, controlling mechanism have failed, leading to the breach of contract in which investors had the obligation to undertake investments and social programs. If the whole privatization procedure was not centralized, there would be less cancellation of the contracts on privatizations in Serbia. A model where one state body organizes the privatization and the other authority controls its results and contract compliance might be a better solution for transitional economies.

The third issue I would like to point out is that politics sometimes plays a very unfair role concerning economic affairs in Serbia. It is suspected that many privatizations in Serbia are politically determined. The ties between politicians and businessmen are strong, which can lead to corruption and unfair market competition.

My observation, regarding both Serbia and Montenegro, is that successful privatizations usually happen in the major cities or in the coastal region. The most unsuccessful privatizations are located in the province or in the mountains. This is so, because provinces and Mountain areas in Serbia and Montenegro have a lower frequency of visitors.

In Montenegro, the “Privatization Council” and the “Agency for Reconstruction and Foreign Investment” are carrying out privatization processes. Mr. Veselin Vukotic was the Vice-President of "Privatization Council" of the Government of Montenegro at the beginning of the privatization process. Given that, he was the right person to talk about the upsides and downsides of privatization process in Montenegro. One of the key data I collected from this interview is that, nowadays, no company in Montenegro is 100%
state owned. This means that the country is surely leaving past ownership models behind and turning to contemporary ones. Mr. Vukotic confirms that the privatization process in Montenegro is, to a large extent successful. Another interesting finding is that, in Montenegro, experts and professionals are invited to be part of the Privatization Council and its Committees. This shows that the government has a responsible approach and that it enters carefully into the process of selecting investors.

Mr. Vukotic introduced political stability as an important factor in attracting FDI’s(?). Protection of property rights and providing adequate legal framework seems to be crucial for both attracting investors and keeping them. Despite the political separation, Serbia and Montenegro should stay well connected in business and market terms. This kind of unity could bring economic benefits to the both countries, in the long run.

Mr. Vukotic gave an interesting scope about the problems and limitations all investors were facing in that time regarding the implementation of the privatization process and also after the implementation of the privatization process in Montenegro. He stated that all investors were struggling with the fact that Montenegro was not efficiently adapted to the capitalistic system. I believe that investors who are investing in Serbia have similar problems. The reason for this lies in the fact that state authorities, workforce and the market overall wasn’t completely adapted to capitalism. The process of business transformation is long and complex.

In the end, privatization can help a country to enforce its institutions and build a market based on private ownership. This is important for the former communist countries that are on their way of becoming EU members. Respondent’s last remark – “We do not sell companies, we buy good investors” can be accurate if we keep in mind that a good investors can really make a difference and improve a business climate, especially in small countries like Montenegro.

The interview with Mrs. Marija Durovic, manager of hotel “Sato” in Sutomore, was a practical example of how the privatization process looks from the beginning. It was a valuable review of steps that a company must undertake in order to succeed. First, there is participation on auction and dealing with other competitors, but that is just a beginning. Hard work follows after the company is formally privatized. Obtaining necessary construction permits from state authorities can be time consuming. The construction and renovation alone are expensive and takes a lot of planning and good organization. According to Mrs. Durovic, "Sato Company" went through all the phases smoothly, with the help of their foreign partner – "Sato Group" from Helsinki. This shows that its good idea for startup companies like Sato to use the support from their larger and more experienced partners. Sato Company managed to upgrade the hotel from one to four stars and they also managed to attract tourists from new countries. Their accommodation capacities for the summer season of 2015 are already sold, which is very interesting because they only reopened the hotel a year ago. Obviously they must perform very well, since they attained such outcomes in just one year. They also try to employ and train tourism students from the local high school.
and faculty, which is in my opinion is a very humanistic approach. In my opinion, the actual reason for such success is responsible and effective management of human resources and mutual cooperation between investor and locals.

In her first sentence, PR assistant at Porto Montenegro, Kristina Skanata, stated that the goal of her company is to create a new Montenegro. This statement is credible, since Porto Montenegro project gave Montenegro an image it never had before. The focus is on developing nautical tourism and activities but in a sustainable way. Mr. Vukotic’s remark about not selling companies, but buying good investors can be related to Porto Montenegro. Mrs. Skanata claims that the management constantly works on improving and updating their project. The impression is that Porto Montenegro has done a lot in promoting Montenegro. This is one very desirable side effect of privatization – it can be good marketing for the country and a very good signal to other investors. Porto Montenegro is supporting the local community from day one, which is an additional benefit of successful privatization. The information gathered through this interview helped me to support the above given statement that: local heritage and touristic values can be preserved through privatization. In this particular case, it has been done through opening the Naval Heritage museum. It was also a reminder that Porto Montenegro still takes care of the local community; despite it is not legally obligated. When it comes to relations with local and state authorities, Mrs. Skanata has only words of praise for local authorities, legal practice and the institutional framework. This may be good indicator that cooperation between community and investors is productive, when they have mutual goals.

The interview with Mrs. Sanja Markovic, head of the Tourism Department in the Chamber of Commerce Montenegro, offered a good opportunity to see privatization from the standpoint of state authorities. If we look at the data provided by my interviewee, we will see that the separation of Serbia and Montenegro had a good impact on tourism revenues. Even higher growth rates are predicted in the next ten years. It shows that resolving political issues in certain areas can boost economic growth and development. Further, we see that the privatization of former state-owned hotels and other tourist facilities have been completed with a 95% success rate. In this case we can state that the privatization policy of Montenegrin government is justified. But, most of the success stories take place in the south of the country. Uneven development of country regions can cast a shadow on an otherwise good privatization plan. Mrs. Markovic list obstacles that investors are facing with Montenegro; there are: property rights, obtaining building permits, infrastructure and communication with state authorities. The Chamber of Commerce of Montenegro is working on resolving these issues and creating a good investment climate. Their focus in the next period will be on harmonization of the Montenegrin legislation with the EU’s. In my opinion, this is very important step, because investors will more likely invest in areas whose laws and customs they know. This interview showed that state bodies are interested in intervening in tourism sector. The definite
conclusion I draw is that Montenegro is doing better in capitalism then in socialism, when it comes to tourism-related revenues and growth. Since great deals of FDI in Montenegro are related to hotel industry, hypothesis number 1 is proven. Montenegro is benefitting from several capital investment projects, which involve foreign capital.

Table 9: Key Factors for successful privatization

<table>
<thead>
<tr>
<th>Driving factors</th>
<th>Mr. Pavlovic (Serbian Privatization Agency)</th>
<th>Mr. Vukotic (Privatization Council of the Government of Montenegro)</th>
<th>Mrs. Durovic (Hotel Sato Manager)</th>
<th>Mrs. Skanata (Porto Montenegro PR)</th>
<th>Mrs. Markovic (Chamber of Commerce Montenegro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate legal framework</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
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<tr>
<td>Property rights protection</td>
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<td>☑</td>
<td>☑</td>
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<td>☑</td>
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<tr>
<td>Cooperation with local/state authorities</td>
<td>☑</td>
<td>☑</td>
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<td>☑</td>
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<tr>
<td>Foreign capital</td>
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<td>☑</td>
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<td>☑</td>
</tr>
</tbody>
</table>

Table 9: Key Factors for successful privatization; data source: Appendix 1, 3,4,5,6 of this paper

We can conclude that all the drivers mentioned legislation and legal framework in their answers; this is essential precondition for the beginning of privatization processes. All the driving factors also point out the importance of property rights and its protection. Protection of property rights is the postulate on which all modern legal systems are based. Every privatization-oriented transition country should work on resolving property rights issues in order to attract investors. Respondents were generally satisfied with the communication and cooperation with local governments and state authorities. This indicator shows that the governments recognized the potential and importance of maintaining good relations with investors. All the drivers stated that foreign capital plays a role in privatization processes.
Two out of three investors (in hotel "Metropol" and hotel "Sato" cases) were not the only interested parties on tender sale auction; there were three candidates interested in purchasing hotel "Metropol" and one more candidate for hotel "Sato".
8.1. CONCLUSION

If we compare Serbia and Montenegro to other countries that replaced socialistic self–management with capitalism, we will see that the progress in two ex Yu countries is slower. This may be attributed to the 90's war and subsequent political turmoil. In less than two decades, Serbia and Montenegro went through the disintegration of Yugoslavia, war in Bosnia and Croatia, conflicts in Kosovo and Metohija, NATO bombing, international sanctions and finally the separation of Montenegro from Serbia in 2006. All these events had serious impact on the economy, which is still recovering. The governments are still seeking to implement structural reforms. This series of political events had negative effects on tourism. In 1992, when Bosnian war got underway, the number of foreign tourist was only 156,000 in Serbia and Montenegro (one country). In 1999, during the NATO bombing, that number was 152,000. But, in peaceful 2004 that number rose to 577,000. The conclusion, which can be drawn from these figures is that political stability is a precondition for attracting tourist. Hopefully, these countries will leave outdated ideology behind and turn to establishing secure and profitable markets.

In 2007, Montenegro registered 984,000 international tourist’s arrivals and that number has a tendency of growing every year. Serbia is also on the right path when it comes to attracting foreign tourist, as their numbers are increasing year after year.

Tourism–related privatizations in both countries were only partially successful. The situation is slightly better in Montenegro, due to several factors. Unlike Serbia, Montenegro is a Mediterranean country, with long coastal tourism tradition and facilities. When it restored its independence in 2006, many foreign investors and international visitors rushed into Montenegro. The Montenegrin Government took a set of measures to improve the business climate and make it investment–friendly. Inflow of foreign direct investment (FDI) in Montenegro in 2009 has set a record - over one billion. Almost all companies from the Government’s privatization portfolio are touristic complexes or spas. Tourism plays a key role in Montenegrin economy, therefore both state bodies and investors are interested in a positive outcome. Serbia, on the other hand, had a bad start and troubled times privatizing its touristic values. The main problem was that Serbian hotels and catering companies were not perceived as an attractive investment

1 See Appendix 8

2 See Appendix 2
opportunity by foreign investors. Domination of politics and corruption aggravated the situation. The role of privatization should not be fulfilling the state budget, but enabling healthy and productive companies. At the beginning, the institutions in both countries were slow and inflexible. The government relationship with economy and investment should be more supportive in future. A lesson should be learned from failed privatizations. Both countries should work on:

- finding thorough controlling mechanism
- providing reliable institutional framework
- preventing layoffs
- preparing better strategies for future,
- require sustainable development
- preserving heritage

Despite numerous weaknesses in the process so far, there are a number of hotel companies, which have successfully overcome those difficulties. They are examples that can serve as a model for other hotels, which did not enter into the process of transformation. The effects of good privatization are far reaching. Primarily, it can create a good reputation and attract other investors. It can increase effectiveness and productivity of the usually troubled company. Modernizing operational processes and including IT solutions are often part of privatization. Contemporary styles of management can also be included. New owners often offer trainings and skills-building options to workers. Opening new work places leads to decreasing unemployment. Local budgets can profit from taxes. When done properly, privatization can truly provide various benefits.

Investments are one of the most important issues of macroeconomic policy of a state. Therefore, it is very important to define and implement a clear and consistent policy that will comprehensively treat this area. The aim of Serbia and Montenegro should be to make their markets the ultimate destination for foreign capital. At the same time, the focus should be on avoiding any negative consequences discussed in the work. Future privatizations will be successful only if the mistakes from previous ones do not repeat themselves.
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**APPENDIX 1 - INTERVIEW WITH MR DEJAN PAVLOVIC**

*Interview with Mr. Dejan Pavlovic, project manager, Privatization Agency, Republic of Serbia*

1. **Can you tell me more about the Serbian Privatization Agency?**

Privatization Agency is the central institution for operating concept of privatization in Serbia. It is responsible for organizing, implementing and controlling processes of privatization. The activities of the Privatization Agency was determined by the "Law on Privatization Agency" and the "Law on Privatization". The Agency is in charge for promoting privatization and informing all interested parties about the rules, legislation and institutional framework. The Agency also has a rule in educating public, attracting foreign direct investments and creating a favorable business climate. We try to make the most out of every privatization, so that all participants can be satisfied.

2. **What do you think about the privatization of hotels in Serbia?**

The process of hotel privatization in Serbia started in 2002. I must admit that, at that time, there was no clear, defined strategy of privatization. Therefore, we had large scale of successful and less successful privatizations in tourism industry. Hotels and spas are rare resources and work on their privatization requires a lot of knowledge and skills. In the beginning, we had businessmen from other branches who decided to buy a hotel, without having background knowledge. They were coming back to us, asking "What to do now?" because they had no experience in running the hotel business. Good news is that the situation improved, so now we have world class hotel operators in Serbian hotels and spas.

3. **Can you explain why the decision was made to sell hotel Metropol?**

In 2005, the Minister of tourism and trade Mr. Bojan Dimitrijević held the meeting of the Committee for Tourism and Hospitality at the Chamber of Commerce of Serbia. On that occasion, it was announced that all hotel companies which are in the state's privatization portfolio should be privatized not later than first half of 2007. The companies which remain without new management in the stated period will be declared as bankrupt. I think we can all agree that privatization was obviously a better choice, because Metropol today is a successful and recognized city hotel.
4. Can you unveil the privatization process to us?

In 2002, hotel chain Kempinski was interested in buying the hotel, but they gave up due to unresolved ownership issues. Hotel Metropol and Hotel Jugoslavija were both property of Dunav insurance and they wanted to sell both hotels at the same time. No one appeared at the first public call for sale announced in 2005. There were no interested investors. On the second call, Hotel Jugoslavija was sold for €31.3 million, which is considerably more than the other privatized hotels in Belgrade achieved.

Hotel "Metropol" was sold for €27.4 million, or 11.4 million more than the initial price. Total starting price for both hotels was €42 million. The auction is obtained €58.7 million, i.e. 16.7 million more than was planned when announcing sales. This was significant investment injection in Serbian tourism market.

The buyer of the Hotel "Metropol" was Kokari limited, member of Greek group “N. Daskalantonakis” owned by Joanis Nikolaos Daskalantonakis. Three other candidates appeared at the second sale: "Baltenjon limited" Nicosia "," Intereal estate trust "from Brussels and "KLC holding" from Luxembourg.
## Locations/companies to be valorized through public-private partnership

|   | List of Locations                                                                 | revenues
|---|---------------------------------------------------------------------------------|---
<p>| 1 | Island &quot;Lastavica&quot; with fortress Mamula                                            | 184,751,000 |
| 2 | Barracks &quot;Mediteran&quot;- Žabljak                                                   | min 432,481 max 1,255,590 |
| 3 | Location &quot;Donja Arza&quot; Herceg Novi Municipality                                   | min 3,080,671,500 max 8,943,885,000 99,800,000 |
| 4 | Tourism valorization of location Vranjina with Lesendro, as well as of other locations from the Special Purpose Spatial Plan for Skadar Lake | min 407,092 max 1,181,880 2,157,488 |
| 5 | Tourism valorization of locations included in the Special Purpose Spatial Plan &quot;Bjelasica and Komovi&quot; - 1600 | 65 do 75 mil. Euro |
| 6 | Tourism valorization of Velika plaža /The Great Beach/ through development, construction, financing and management of exclusive tourism complex and long-term lease of land at Velika plaža | 3-4 billion |
| 7 | Tourism valorization of location Ada Bojana through development, construction, financing and management of exclusive tourism complex and long-term lease of Ada Bojana island | cca 200,000,000 |</p>
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<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Minimum Cost</th>
<th>Maximum Cost</th>
<th>Estimated Value</th>
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<tr>
<td>8</td>
<td>Location between Njivice and mouth of Sutorine in Herceg Novi Municipality</td>
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<td>9</td>
<td>Military-Tourism Complex &quot;Bigovo&quot; - Trašte, Kotor</td>
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<td>6,032,340</td>
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<td>Locations within the State Study for the Location &quot;Sector 16&quot; in Kotor, envisaged for nautical-tourism complex (NTC Marina Kotor)</td>
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<td>Masline Valley- &quot;Utjeha&quot; for Bay Odrač in Bar</td>
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<td>Military-Tourism Complex &quot;Valdanos&quot;, Ulcinj</td>
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<td>14</td>
<td>Barracks &quot;Gornji Klinci&quot; - Herceg Novi</td>
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<td>Military-Tourism Complex &quot;Ostrvo cvijeća&quot; /The Island of Flowers/and land of Prevlaka</td>
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<td>Warehouse &quot;Rakite&quot; - Herceg Novi</td>
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<td>21</td>
<td>Motel Šas with Vladimir cooperate - Ulcinj</td>
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<td>Ski Resort&quot;Savin kuk&quot; Žabljak</td>
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<td>23</td>
<td>Location &quot;Buljarica&quot;, Bar and Budva municipalities</td>
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<td>Location &quot;Gornji Ibar&quot; Rožaje</td>
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<td>25</td>
<td>Location &quot;Kabala for&quot;, Herceg Novi Municipality</td>
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<td>Tourism valorization of locations included in the Special Purpose Spatial Plan &quot;Bjelasica and Komovi&quot; - Cmiljača</td>
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<td>27</td>
<td>Construction of golf terrain in Tivat (Montepranzo)</td>
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<td>28</td>
<td>Pošta Crne Gore AD - Podgorica /Post Office/</td>
<td>up to 11. mil Eur</td>
<td>around 6 mil. Eur</td>
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1. Estimate of revenues expected from leases and investments was made on the basis of data from the Planning Documents

2. Investment and lease amounts for locations that do not possess such data shall be known after engagement of specialized institution to perform estimate thereof
APPENDIX 3 - INTERVIEW WITH MR. VESELIN VUKOTIC

Interview with Mr. Veselin Vukotic, UDG University, economics professor and former Vice-President of Privatization Council of the Government of Montenegro

1. **You were the Vice-President of Privatization Council of the Government of Montenegro at the beginning of privatization process in the country; can you describe how it started?**

   I started working on the privatization 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 privatization 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 privatization. The first Privatization Law passed in Montenegro was established between 1994 and 1996, though I personally was not involved in its creation. In the beginning of privatization process, we had 15 companies in Montenegro with the majority of shares, between 52% and 66%, still owned by the Government, but no company was 100% State-owned. The rest of companies, about 350, were either fully privatized, or are in the process of being so. Our plan was to, through the stock exchange, have all companies fully privatized by the end of 2003. The plan was mainly successful. Several methods were used for implementing the privatization process. First we have the Internal Privatization, where workers are given between 15% and 20% shares of the company; second, the introduction of the Mass Voucher Privatization (MVP), where we privatized 27% of all state capital, and coupons were distributed free of charge to citizens. The third, and most important, is through International Tenders. We also had Auction and Stock market sale. Approximately 15% of state owned capital was privatized through Internal privatization; 28% through Mass Voucher Privatization, 2% through Auction, 15% through International tender and 3% through Stock market sale.

2. **Which state authorities are involved in the privatization process in Montenegro?**

   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.

3. **Serbia and Montenegro separated in 2006. How did this affect investments? Was the political stability related to privatization?**

   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 e.g. Tobacco factory need to know whether it will also have the same market in Serbia. However, we still need to improve our legal background.

4. **What are the biggest problems and challenges that investors faced during and after privatizations in Montenegro?**

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 advice to foreign investors was: 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.

5. **Is there a certain difference between privatization in market-oriented and planned economies?**

Goal of privatization in formerly planned 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 €, 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.
Interview with Mrs. Marija Durovic, manager of Hotel Sato - Sutomore

1. **Can you please describe the acquisition-auction process of former state-owned hotel “Niksic”?**

   The hotel “Niksic” was bought on auction held in Montenegrin Commercial Court in Podgorica on 19.04.2013. The hotel building was part of the assets of the bankrupt state-owned catering company “Onogošt”. The initial price of the facility was € 2 million. Two bidders have shown interest for the hotel – Sato Company and Lakovic Company, both situated in Podgorica. The 40 minutes long auction went through the nine rounds of bidding. Participants were conditioned by the rule that they may offer cost for at least €10,000 higher than the other competitor. After five rounds, the representative of Lakovic Company have raised the stake first from € 2.15 million to € 2.21 million, and then to € 2.29 million. The representative of Sato Company gave the last bid - € 2.3 million. After that offer, Lakovic Company gave up on bidding. Sato Company has pledged to pay the bid price within 30 days.

2. **What plans did the Sato Company have for hotel “Niksic”?**

   The company’s priority was to repair and refurbish the hotel whose categorization fell so low that, at the time of privatization, it had only one star (*). With the help of our partner- Sato group from Helsinki – we were planning major reconstruction of the hotel. The reconstruction was conducted in accordance with local urban development plans. We had no problems with obtaining permits from local authorities. Next in line was obtaining more hotel stars and setting up new level of service.

   In the first phase of renovation, the hotel lobby and the first eight floors were refurbished and ready to take the guests. Each floor has 11 rooms and two suites. The rooms are now taking 25-30 square meters and apartments are 60 square meters large. That room size meets the requirements for four stars categorization. Each floor has 11 rooms and two suites. € 1, 3 million was invested in the first phase of renovation.

   In the second phase, we are planning to equip the hotel with the wellness, spa, pool, and some additional content. Finally, we have special plans for the last, eleventh floor of the hotel. The construction of panoramic restaurant and luxury rooms with sea view is envisaged for the last floor.

3. **Tell us more about the work structure regarding the guest and occupancy.**

   The most numerous are the Poles, Czechs and Russians. We are becoming a part of the group “Sato resort” from Helsinki, with aim to attract visitors from Scandinavian countries. We are
already in negotiations with their tour operators. Our goal is to be the exception. Last year we got the Greeks as a guest, which is not typical for our area. The group was impressed. They are not interested in sea activities, but other facilities – boat tours and trips on Lake Skadar, visiting monasteries. Next year we will also have organized trips.

The hotel has already sold its capacities for the summer months of this year. We have arrangements with local guests, the workers of Trade Union of Education, for example. Last year there was a lot of interest from Bosnia. They love this area and we had the agencies with which we do business quite well.

4. **Your hotel has a commendable employment policy.**

Yes, thank you. We are hiring young students from the local Faculty of Tourism and Hospitality. Graduates from that faculty are working at the reception desk and as my assistants. As for the waiters and chambermaids, I wanted them to be the most from this locality due to higher employment of the local population. Registration of foreign workers lasts fifteen days, which does not work in our favor. It is easier and better to use domestic workforce, whenever possible. We've hired a few people from the north of Montenegro and central parts. We have also signed an agreement with local Tourism High School; their students are offered apprenticeship in our hotel. 
1. **How would you evaluate the privatization of former naval base “Arsenal” and turning it into super yacht port? Was it a successful privatization?**

Porto Montenegro is a transformational development that is committed to its contribution towards the realization of a new Montenegro. The development draws on Montenegro’s great nautical attributes and will create a lasting, sustainable industry generating jobs, government revenues and investment opportunities. Porto Montenegro has transformed an unused commercial yard into a resourceful state-of-the-art marina. Before construction Adriatic Marinas spent millions of Euros on seabed and land remediation, working with top consultants such as Arup and Mace Group to ensure efficient design and construction.

I can assure you that our work here was very successful. It’s not only my opinion – many received awards confirm my statement. Porto Montenegro has become a member of Sustain Worldwide, a membership organization comprised of the world’s leading sustainable residential and leisure tourism developers and professionals. In 2011, Porto Montenegro marina became a proud recipient of the prestigious granted by the UK-based Yacht Harbor Association. Whilst following the UNI EN ISO 14001 environmental standard, the ISO 9001:2008 standard in quality management, THYA 5 Gold Anchor accreditation and has been awarded candidate status for the prestigious Blue Flag for sustainable environmental excellence.

2. **It’s been seven years since Porto Montenegro was established; could you please tell us about the current situation in Porto Montenegro?**

The marina opened with 85 berths in summer 2009, and has since grown to the current capacity of 400 berths, 107 of them are for super yachts. Following the completion of the recent expansion, in October 2014, the marina can now accommodate the largest yachts in the world with berths up to 180m. This is a huge step forward. Further construction works are planned summer 2015 to increase the number of berths to 450 and will take the total number of super yacht berths to over 150. The Regent Porto Montenegro Hotel and Residences opened August 1st 2014. Regent Pool Club Residences, the latest addition to Porto Montenegro’s residential collection, were released for sale January 2015. The building will offer 1, 2 and 3 bedroom apartments ranging in price from €409,000 to €3,720,000. Connected via a private walkway to The Regent Porto Montenegro, residents will have access to all the hotel’s five-star facilities plus their very own residents-only pool deck with leisure, lap and children’s pools. In time, the development will grow to include a casino complex.

3. **What do you think how Porto Montenegro will impact the tourism industry in Montenegro in future?**

With our result in mind, I can assure you that the impact will be very positive. We have created a visionary marina and homeport that offers land-based services, facilities and amenities to captains and their crew that mirror the standards that guests would expect to receive on board. We have the fanciest hotel and residential offer for rent and sale. Leisure facilities include a Sports Club, Yacht Club, Naval Heritage Collection Museum, International Boarding School and Lido – a 64m infinity...
pool with restaurants and night club. Porto Montenegro has done a lot in promoting Montenegro on world tourism market, more than any other project in the whole region. We raised the level of services to the highest level and urged the other tourism subjects to do the same. Due to our project, Montenegro will be in the spotlight of the world elite.

4. **How does Porto Montenegro contribute to the local community?**

Porto Montenegro, since its opening, was passionately dedicated to contributing local community. We created the Peter Munk Scholar Programme, offering financial support to gifted undergraduate students, which started in 2007 and has since granted 155 scholarships. We dedicated over EUR 1,900,000 to Tivat's public institutions and NGOs, including the purchase of medical equipment for the Tivat Health Centre, upgrading Tivat Music School and various cultural and sporting organizations. Free ‘English for Tourism’ language courses are held twice a year for members of the local community - 400 people have participated so far. Investment in Tivat’s cultural scene are made through annual support of the Tivat Cultural Centre, as well as individual cultural projects: Festival of Mediterranean theatre Purgatorije, co-production of the Penelopiad play, co-production of an art exhibitions and a host of independent art sport and culture events onsite. We have donated a boat adapted for cleaning sea water to Kotor Port. Sponsorship of EUR 60,000 to the National Montenegrin Water Polo Team is granted. We have provided free of charge internet signal at the value of EUR 60,000, through the free Wireless Network project with Tivat Municipality. The Porto Montenegro Foundation in partnership with Tivat Municipality is established, providing financial support to all not-for-profit organizations or citizens registered at Tivat Municipality.

5. **Do you have a good cooperation with local authorities? Have you faced any business barriers on local or state level?**

I must say that we always had good cooperation with Tivat Municipality and its former mayor Mr. Dragan Kankaras. We found a comprehension on the state level as well. The government recognized the full potential of our project. We never have obstacles with the administration. Yacht-friendly laws have been implemented, illustrative of the government’s desire to promote the growth of nautical tourism in the country. With the rate of tax applied to basic goods and marina services already capped at just 7%, the plan for the future is to create an incentivized flat tax regime across all taxable areas. Whilst Porto Montenegro residential properties are sold with a secure freehold title with no regulations on the resale of apartments or berths once the owner is a titleholder. Porto Montenegro became an official port of entry in summer 2010, allowing customers to complete customs clearance hassle-free. Vessels must purchase a vignette (permit) to use Montenegro’s navigable waters which allows unlimited access from one week up to one year. Unlimited vignettes may be issued in any single year, each allowing the captain to change the crew and guest manifest multiple times. This is very convenient to our guest. We appreciate the fact that authorities showed awareness and were ready to cooperate upon this matter.
Interview with Mrs. Sanja Markovic, head of the Tourism Department in Chamber of Commerce Montenegro

1. Can you compare tourism before and after Montenegro regained its independency? In which period did tourism evolve more?

The successful development of tourism has multiplicative effect on other economic sectors - trade, agriculture, transport etc. Tourism is recognized as a priority economic sector because of its importance for generating employment, increasing standards of the population and balancing regional development. The strategic goal of tourism development is to make Montenegro one of the most important, high-quality tourist destinations of Mediterranean and Europe.

According to the Central Bank of Montenegro data, tourism revenues from 2001 to 2007 were increased from €86 million to €480 million. The growth rate of revenues from tourism in 2009 was 1%, in 2010 and 2011 of 6.4%, while the growth rate in 2012 was 4.3%. Taking into account all the contributions (direct, indirect and induced), it is estimated that the total contribution of tourism in 2013 totaled €714.2 million, or 20% of GDP. Estimated revenues from tourism in 2014 amounted to €733 million.

After regaining independence and before the global economic crisis, Montenegro has positioned itself as a fast-growing and attractive investment destination. Tourism's contribution to the gross domestic product of Montenegro is continuously growing. The realization of the announced investments is expected to contribute to this sector even more in the future. For the next ten years period, a growth rate of 8.8% per year is projected (€1877.3 million total contribution of tourism in the year 2024, i.e. 37.2% of GDP).

2. How do you evaluate the privatization process in Montenegro when it comes to tourism facilities?

Although small in size, Montenegro has so far represented a very attractive destination for foreign investors, because of clearly discernible potential for tourism development, but also because of the numerous investment opportunities in other sectors. This is corroborated by the inflow of FDI since gaining independence until today. Despite the worldwide economic crisis, Montenegro was able to maintain the level of foreign direct investment at a high level, and position itself as a regional leader in FDI per capita. The development of tourism is recognized as one of the priorities of the Montenegrin economy. New, high-quality accommodation and increasing the share of total hotel capacity is a fundamental objective that will allow an increase in the quality of the tourism offer. The privatization of former state-owned hotels and other tourist facilities is a process that has so far been completed with 95% success. The northern part of the country still lags behind central part and seaside. Thanks to investments, primarily in the tourism sector, coastal part of Montenegro improved its position in relation to the others.
3. Is business climate in Montenegro investment – friendly? Can you single out the positive and negative examples of privatization in Montenegrin tourism?

Montenegro is undoubtedly an attractive destination for investment, primarily in the areas of tourism, infrastructure and energy. Its basic goals cover increasing the competitiveness and efficiency of companies, encouraging foreign investment and entrepreneurship, stimulating economic growth, creating jobs and improving living standards. For the realization of these goals, structural reforms and measures to improve the business environment will be taken. This implies the removal of barriers for new investments.

In most cases, investors are faced with the problems related to legal treatment property. The resolution of these problems is one of the basic requirements for applying for a building permit and begins construction. Other problems are insufficient compliance of spatial planning documents with the requirements of investors, the lack of adequate infrastructure, tardiness and low level of cooperation and communication in relation investor - state authorities - local government.

Positive examples so far are “Porto Montenegro” in Tivat, “Porto Novi” in Kumbor, “Lustica Bay Resort”, the Bjelasica and Komovi project, valorization of the island Lastavica with fortress Mamula etc. Negative examples are among hotel and tourism enterprises “Boka” and “Berane”.

4. Can you explain the role of Chamber of Commerce in developing tourism industry?

The Chamber of Commerce of Montenegro is integrating and representing the interests of the Montenegrin economy. Guided by the interests of the state, Chamber continuously monitors economic trends and prepares substantiated proposals for the creation of conditions for faster economic development. Activities of Chamber of Commerce of Montenegro are aimed at continuously monitoring the implementation of existing legislation.

Association of Tourism and Hospitality works within the Chamber. Its activities are implemented through the work of the Board of the Association. The primary task of the Association is to initiate, discuss and addresses issues in the field of tourism and hospitality in order to achieve better results on the state level. In addition, Association gives opinions on issues of common interest for the tourism of Montenegro. The process of European integration brings significant changes in the legislative part. Therefore, the role of Chamber in the future will be to participate in the process of harmonization of the legislation with the EU. The aim will be protecting the interests of economic entities.
## APPENDIX 7 - COUNTRY-LEVEL TRANSITION INDICATORS 2014

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<th>Price liberalisation</th>
<th>Trade and foreign exchange system</th>
<th>Competition policy</th>
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### Appendix 8 - Sector Level Transitional Indicators

Sector level transitional indicators 2014; Source: EBRD

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