

STATE OWNED ENTERPRISES IN MONTENEGRO – PUBLIC MONEY FOR PERSONAL AND PARTY NEEDS

Severance pays or party decorations



Thanks primarily to the writing of the daily *Vijesti*, the public learned about a series of facts related to the policy and practice of rewarding public



by Stevo Muk

officials from the ruling parties who happen to be directors, presidents and members of the boards of managers of public enterprises and enterprises in which the Government has majority ownership.

First the State Audit institutions found, in its "Audit Report on the Financial Statements of the Railways of Montenegro for 2007", that the Assembly of shareholders approved in 2005 payment of 18 gross wages to the president of the Board of Directors after the expiry of his or her term.

Railways of Montenegro is a company that at the end of 2007 fiscal year had 104.5 million euro losses. The management that came to the helm of the company two years ago "finished" its mandate in mid-summer last year, by distributing severance pays. President of the Board of Directors received 120 000 euros, and other members got 25 000 each. The next President of the Board of Directors after only half a year of working for the Railways got 180 000 euros, while the old-new members of the Board received each 45 000.

In another company controlled by the Government – Coal Mine "Pljevlja" – a former president of the Board of Directors and MP of the Democratic Party of Socialists (DPS) received around 58 000 euros, and another MP and port-parole of DPS 40 000.

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amount to 1 926 euros per person.

Directors, presidents and members of the management boards (boards of directors) of public enterprises owned by the Republic of Montenegro are also entitled to numerous privileges – salaries, per diem travel expenses, covered expenses of their official mobile phones, use of the company vehicles (with covered gas expenses), severance pays, costs of representation (restaurants etc.), business credit cards with a certain limit and others. According to the publicly available information, salaries of the presidents and members of the boards of directors in public enterprises range from 800 to 3 000 euros. Salaries of the directors of public enterprises can be up to 4 000 euros. Nearly all members of the management of these companies are also members of the main boards of the ruling parties – DPS and SDP.

In spite of the leagues of experts available to it in the country, and even within the ruling parties, the Government insists on appointing appoint to the management of its

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enterprises only a handful of the highest party officials, for several mandates on the same boards, and until recently even in several companies at the same time. After they complete one mandate in an enterprise they go to replace other members of the boards of another enterprise, which often operates in an entirely different branch of business.

What is really a "severance pay" and is it possible for someone to legally receive such a huge amount of money?

The labour code prescribes that "an employee that has been declared redundant and is not being transferred to other tasks with the same employer in line with his or her qualifications, full or part time; and is not being transferred to another employer in line with his or her qualifications, full or part time; and is not subject to further training or retraining for another job with the same or other employer or other measures in accordance with the collective agreement or the

employment contract, is entitled to a severance pay from his or her current employer amounting to a minimum of six average wages in Montenegro".

Secretary general of the Association of Free Trade Unions **Srđa Keković** correctly observes that "the purpose of the severance pay is to provide the employee with some income in the period until he or she is able to secure another job. In other words, in order to be entitled to the severance pay the directors must first be declared redundant, i.e. his or her employment must be terminated". This is obviously not the case, and the motives for distributing severance pays are very different.

The intention of the Government and the ruling parties was, among other, to assist their loyal cadre in "improving" their living standards by allocating them to the leading positions in important public companies. MP **Džavid Šabović** (SDP) confirms this conclusion when he claims that "if MPs in the Parliament had decent wages, they would

not have to seek additional jobs". Minister of Interior and Public Administration **Jusuf Kalamperović** (member of SDP presidency) said for TV *Vijesti* that "while he was a member of the management of Montenegro Airlines, he gave one third of his salary to his party (SDP), since this was the internal party regulation". Director of DPS also admitted to the media that their cadres are obliged to transfer 10% of their incomes to the party coffers.

Once this topic raised some dust in the media, the Government of Montenegro first studied the "Information on severance pays in the Railways of Montenegro" and concluded that all members of the Board of Directors should return severance payments they received on the basis of the decision of the assembly of shareholders of this company. However, the Government also found that it had no means of forcing anybody to return the money, and while some yielded under

public pressure and returned the payments, others simply ignored Governments' recommendation and some even categorically refused to do so. Soon after, the Government also established a working group whose task was to reevaluate the policy of severance payments and compensations in public enterprises.

It is evident that the practice of exorbitantly high salaries and other compensations for directors and managers of state owned enterprises dates back for decades in Montenegro. In June 1996 the media reported that "in unregulated environments, like it is the case with Montenegro in the process of transformations, management positions in public companies become very attractive. One should not, however, disregard the material aspects. Membership in the management boards became, for those who can get hold of it, a very solid source of income. There is no law or regulation that would clearly prescribe compensation rates for the management, except for the general recommendation of the Government of Montenegro that such work should be remunerated".

Causes of such perennial tendencies lie in the lack of clear legal procedures and regulations that would limit the policy and practice of exorbitant incomes and in the lack of sanctions for such decisions; in the absence

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of a responsible, rational and ethical handling of public resources, and in the lack of political accountability for such behavior.

The Government behaves as if it were a few isolated cases and recent practices and proclaims its intent to quickly eradicate it. Its report also deals with establishing more realistic maximum salaries for directors and management.

However, instead of commissions, working groups and reports, there are clear indications that this may be a matter for courts and that a series of criminal acts and violations of different laws have occurred. It should be the task of the Police Authority and State Prosecutor to establish whether the decisions and actions taken in these cases amount to criminal acts.

In addition to this, labour inspectors should conduct necessary investigations in order to establish whether such decisions on the part of the shareholders' assemblies, boards of managers and boards of directors have violated the Labour Code and undertake certain measures accordingly.

Overall, the state ought to take a more radical stance towards public enterprises and



enterprises where it has majority ownership. The new policy would include not only a new law on public enterprises but also a clear ethical codex for the government representatives in all bodies and organisations where they represent and guarantee implementation of the Government' policies.

As for the transparency of their work, annual reports of all economic subjects, their statutes and other general acts of the companies in majority state ownership ought to be available via Internet, as well as the policy of remunerating directors, members of

various boards as well as other management. The Government should define a clear, transparent policy of rewards and bonuses for the successful, profitable companies in its ownership. Such a policy must be related to objective criteria of business development, a substantiated link between decisions and results and directed primarily at the management, not at directors. A policy like that would only apply to those companies that participate in

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the market competition.

Unfortunately, Montenegro's Constitution fails to define the office of an MP as professional employment and thus incompatible with other public jobs, i.e. positions, especially such demanding jobs as should be creating business policy for the companies where the state is a majority owner and pub-

lic interest is paramount. There may be other ways to professionalise management of public companies, either through amendments to the Law on the Prevention of Conflict of Interests, which unfortunately supports the option of an MP's membership in one board, or by adopting a moral codex for MPs or via government decree that would define the criteria for persons who may be appointed to the managing boards of public companies on behalf of the state.

State Audit Institution (SAI) should continue with regular audit of public companies and companies with majority or substantial ownership by the state. To date, such financial audits have been an exception. The companies should be obliged to provide a timely response to SAI's recommendations and make the reports on the implementation of these recommendations public.

Commission for the Conflict of Interests will have to answer why there is no information on income and property of a number of presidents or members of managing boards appointed by the Government of Montenegro on its website, and take adequate measures to ensure respect of the law.

Until then, the protection of public interest will remain obscured by party and personal interests, which is never a guarantee of societal progress, in spite of all attempts to find excuses.

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