

Why old ways die hard in Montenegro

Cronyism, corruption and organized crime run rampant in the world's newest country.

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(Fortune International) -- Montenegro, which voted to spin out of Serbia's orbit in June, might be the world's newest country. But it is haunted by one of the world's oldest problems: corruption.

"Montenegro has a long tradition of corruption and organized-crime structures," says Vanja Calovic, who heads MANS, a watchdog group in Podgorica, the country's sleepy capital. Like many post-communist states, this Balkan nation of 620,000 suffers from opaque government decision-making and weak rule of law.

Although ostensibly a democracy, Montenegro has been run for the past 17 years by the same man, Milo Djukanovic, formerly President and now Prime Minister. Smuggling, particularly of gasoline and cigarettes, flourished throughout the 1990s as Montenegro and Serbia endured a UN embargo in response to Belgrade's barbarous wars against Croatia and Bosnia.

Corruption monitor Transparency International has yet to rate Montenegro as a separate country. But it gave the combined federation of Serbia and Montenegro a score of 2.8 (out of a maximum of ten) in its 2005 assessment of corruption worldwide, ranking it 97th of 159 countries surveyed and putting it in the same league as African states Malawi and Mozambique. If Montenegro had been judged on its own, it probably would have done even worse.

"Corruption has long been overlooked there," says Transparency International spokeswoman Conny Abel, "which led to one of the worst situations in the region."

Among the cases that ought to trouble investors is last year's privatization of the state-owned aluminum company, Kombinat Aluminijuma Podgorica, whose hulking smelter and towering smokestack dominate the landscape outside the capital.

Although the company, which is responsible for almost 15% of Montenegro's GDP and as much as half of its legitimate exports, was supposed to be sold through a competitive international bidding process, in the end just one company, Russian aluminum giant Rusal, entered negotiations with the government. Rusal paid about \$60 million for the plant and promised to invest an additional \$70 million and pay off \$110 million in debt.

That will benefit Djukanovic's cronies, who had become the aluminum company's major creditors. But it may not do much to help Montenegro's finances. That's because Rusal got a sweetheart deal on electricity rates that many economists warn will render the sale a loser for the government. Environmentalists also fear Rusal will do little to clean up the plant, which has an abysmal pollution record. When Calovic's organization asked to examine the Rusal contract, it was told the terms of the deal were a state secret.

Then there's the Russian money pouring in to refurbish Montenegro's seaside resorts. Some fear the Russians are using the hotel projects to launder ill-gotten gains. Several explosions at one site last year only served to arouse suspicions.

Djukanovic says he is well aware of Montenegro's reputation for corruption. "I can say with certainty that when you speak of such problems in Montenegro, they are not present in any way that would exceed those in other societies in transition, although probably they are not present less," he told *Fortune*.

Djukanovic blames the UN embargo for the smuggling and organized crime, claiming it is impossible to fight corruption "while you are fighting for bare survival." (That may be disingenuous; Italian investigators obtained a warrant for Djukanovic's arrest in 2004 on charges he engaged in "Mafia-type activities" related to cigarette smuggling. The charges were based in part on testimony by a former organized-crime figure who said he'd worked with Djukanovic to smuggle cigarettes through Montenegro into other European countries. Djukanovic denies the allegations, calling the Italian arrest warrant a "political game.")

Montenegro has made an effort to crack down on corruption since 2003, passing several laws that adopt European Union standards. Enforcing those laws is another matter. Calovic says the last time any Montenegrin was convicted of taking a bribe was 20 years ago. "Only outside pressure can bring about substantial change here," she says. Many hope that pressure will come from the EU, which Montenegro wants to join.

Until that happens, investors interested in the world's newest country would be wise to exercise caution. ■

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