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KPMG Consulting
Barents Group

Final Summary Report for the
Montenegro Economic Stabilization and Privatization Support

Performed by the Barents Group of KPMG Consulting

Contract Number: PCE-I-02-97-00037-00

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I. INTRODUCTION

The Barents Group of KPMG Consulting has completed its contract on Montenegro Economic Stabilization and Privatization Support as of February 28, 2001. All benchmarks are addressed in this report and reference to the documentation to support the deliverables will be made with regard to the monthly submissions sent to the COTR on February 28, 2001.

Table 1 below is a summary of the benchmarks already agreed with USAID as completed. This was documented in Modification 7 of October 15, 2000. Supporting documentation on these has been provided to both the counterpart governments and the USAID COTR over the life of the project. This report will focus on the benchmarks that remained to be delivered as stipulated in Modification 7.

The focus of the effort in the last six months of the project was in the area of monetary and fiscal policy, and banking. Other areas that were also completed were securities market development and capital market software recommendations and carry-on advice.

There were two important aspects of the contract as it wound down was two issues. First was the carry-over to the new contractor. KPMG Consulting did everything in its power to insure a smooth transition to the new contractor, providing advice and even subcontractor relationships to insure continuity of human capital. Second was the banking crisis that emerged in December 2000 and required KPMG Consulting to respond very quickly.

II. COMPLETED BENCHMARKS AS OF MODIFICATION 7

Below is a listing of the completed benchmarks as agreed upon by USAID and KPMG Consulting in Modification 7 negotiated on and around October 15, 2000. Reference materials have been submitted over the life of the project. Summary Monthly Reports are file at KPMG Consulting referencing these materials. Table 1 is a summary of these.

Table 1: Completed Benchmarks

No. As of Mod. 6 Benchmark

**Mass
Privatization**

- 1 Finalize Data Base/inventories of companies shares and current shareholders
- 2 Consolidate company share registry data (contingent on counterparts)
- 3 Verify registry data (contingent on counterparts)
- 5 Finalize database/inventory of participating citizens
- 6 Finalize eligibility criteria for participating citizens (contingent on counterparts)
- 7 Design procedures to ensure accuracy of list
- 8 Finalize financial data and offering materials on 70% of participating companies.
- 9 Reissue letter to companies to authenticate data
Complete collection of manager signatures (subject to counterparts and companies providing information). 2 weeks after passage of decree - Finalize procedures for distributing vouchers, collecting bids and recording results (preparing for implementation).
- 10
- 11 Provide an auction manual for MVP implementation (if deemed necessary
Draft voucher/auction decree (final auction procedures). 2 weeks after passage of decree -c Provide final recommendations to the Privatization Council on MVP implementation
- 12
- 13 Finalize preparation, agreement and financing for public information campaign
- 14 Provide Parents PE Plan
Complete final PE plan in conjunction with Agency (subject to willingness of Agency to cooperate)
- 15
- 16 Commence execution of PE program and provide on going support

Secondary

Trading System

- 19 Review Laws/regulations affecting share transfer and clearing and settlements
- 20 Implement initial registrar software solution
- 21 Complete software installation (part of 20)

- 22 Full roll out of registrar, including operating procedures and training

- 23 Complete recommendations on Registrar/CDA organizational and staffing structure, code of ethics, operational readiness checklist (part of 22)
- 24 Complete operations development plan (part of 22)
- 25 Provide draft membership rules for CDA (part of 22)
- 26 Provide procedures for day to day operations (part of 22)

- 27 Complete standard operating procedures manual(part of 22)

Clearing/Settlement/Depository

- 30 Review options for clearing and settlement and finalize clearing and settlement strategy
- 31 Develop standard operation procedures for depository

Trading System

- 37 Review options for an electronic trading system

Privatization Funds

- 55 Submit to Privatization Council guidelines on regulation of PFs
- 56 Develop recommendations for privatization fund regulation
- 57 Discuss recommendations with counterparts

- 58 Provide any recommendations for privatization fund decree necessary
- 59 Prepare a draft privatization fund regulation decree

- 60 Submit to privatization council guidelines on action to launch PFs

- 61 Complete training seminar for interested parties on Privatization Fund establishment
Provide assistance to privatization council on marketing to prospective fund
62 management companies

**Economic
Reform/Fiscal
Management**

- 63 A new budget classification scheme consistent with international best practices
presented

Tax Policy

- 66 A comprehensive analysis of the major distortions in the tax policy framework
(including personal income tax, payroll tax, sales and trade tax) and tax
administration system presented.

**Monetary and
Fiscal Policy**

- 68 A detailed analysis of the monetary management and currency management policies
associated with the introduction of the DM developed

- 69 Systematic recommendations for improving the design of currency and monetary
management policies in a manner that promotes macroeconomic stability and
improves the foreign exchange liquidity of the financial system made

- 76 Monthly economic indicators covering fiscal, monetary and banking, trade and
production data developed and released by the National Bank

- 77 Systematic recommendations for improving the revenue and expenditure system and
the grant allocation system in a manner which improves: (1) the targeting of cost-
efficiency of public expenditure programs, and (2) local revenue-raising incentives,
provided.

**Financial Sector
Stability/Bank
Supervision**

78 An analysis of the current status of bank reporting and performance requirements and enforcement policies prepared. Systematic recommendations made to improve prudential oversight requirements and enforcement practices. (Done - incorporated in the Law on Bank of Montenegro)

**Payments
System**

84 Systematic analysis of the impact of the current set of institutional arrangements governing the operation of the payments system on (1) the cost-efficiency of financial transactions; (2) GOM revenue intake; and (3) levels of financial intermediation prepared.

**84
RTGS**

88 Systematic recommendations for licensing standards and technical specifications for an RTGS system provided to the National Bank.

Clearinghouse

97 Completion of a comprehensive draft law on payments system reform.

**Business Law
and Regulation**

98 A comprehensive analysis of the obstacles posed by the business legal and regulatory regime for the setup and operation of private business; and the cost-efficient conduct of market transactions, is carried out.

99 A prioritized set of comprehensive recommendations on legal/regulatory reforms in the corporate law, property law, contract law, and trade law areas required to facilitate higher levels of private investment prepared and presented.

102 Systematic analysis of the major elements of the customs administration system (including classification rules, valuation and processing procedures, and inspection guidelines) completed.

**International
Tenders**

- 111 A comprehensive review and analysis of the current strategic approach to and plans for privatization of the telecommunications sector provided.
- 113 A comprehensive telecommunications law establishing the framework for a market-friendly regulatory regime in the telecommunications sector developed.

III. FINAL BENCHMARK DELIVERABLES AND COMMENTARY

One of the distinguishing features of this contract was the inability to always gain access to the country and thus the counterparts. Under these conditions KPMG Consulting continued to deliver advice from remote locations in Dubrovnik and Igaloo. With the fall of the Milosovic regime in October advising became much easier and access to the Montenegro was renewed.

Table 2 is a summary of the benchmarks as of Modification 7 with a commentary column referencing the monthly report the deliverable on the benchmark is recorded.

Table 2: Benchmarks for Modification 7 to January 31, 2000

Benchmark No. under Mod. 6.	Supervision and Regulatory Capability	Deliverable Location or Reference
50	Present to Government a draft Republic - level decree for securities market oversight	Astin work documented in October 2000 Monthly Submission.
	Review securities laws and related decrees affecting secondary trading. This includes a set of regulations setting out accounting rules, business regulation, Prospectuses, investment schemes, Advertising, takeovers, dematerialization, continuing publications of regulations (provide a good start for transfer to new contract)	Astin work reviewed in November 2000 Monthly Submission.
51 (revised)	Review the FRY Enterprise Law	Rezick work on FRY law in October 2000 Monthly Submission.
Economic Reform/Fiscal Management		
63a (new)	As follow on the international classification of budget standards presentation on the expenditure procedures necessary for the operation of international based best practice	Work by Clark reviewed in November Monthly Submission, work by Lewarne on budget law in January

- expenditure control procedures. Provide Training to Ministry of Finance Staff in the area of international best practices of expenditure control procedures.
- Analysis of the budget cost of all consumer/producer subsidy programs, social assistance programs and social insurance programs prepared. Special focus on pension reform and actuarial calculations for new contract to receive and use.
- 64 (revised)** 2001 Monthly Submission, and work by Moore reviewed in Clark weekly in January 2001 Monthly Submission Work completed by Fowler reviewed in January 2001 monthly submission and by Lewarne in February 2001 submission
- Recommendations made in Fowler/Lewarne in February 2001 monthly submission. See also Lewarne-Dabovic correspondence January 2001.
- 65 (subset of 64)** Systematic recommendations for streamlining of these programs prepared and presented.

Tax Policy

- 67** Systematic recommendations for improvement of the tax system and a draft tax reform code prepared.
- Anderson work on tax review and tax diagnostic study in November monthly submission.

Monetary and Fiscal Policy

- 70** Systematic recommendations related to ongoing refinement of the foreign exchange management regime and related reserve risk management practices provided.
- Lewarne report January 2000 and Bierman report on DM in monthly submission October 2000.
- 71** The National Bank has in place a systematic database sufficient to generate basic budget, monetary and banking trade and national income accounting statistics
- Bierman consolidated report in November submission (Bierman Nov. Update.zip).
- 72** A comprehensive analysis and assessment of operations of Montenegro's central bank structure, assignment of department responsibilities and reporting human resource needs and hardware and software needs carried out
- Seminar for the Bank of Montenegro at the Bank of Slovenia. Work completed by Bierman and Fauber reviewed in October and November monthly submissions.
- 73** A comprehensive set of back office procedures for National Bank core operating functions (covering at a minimum fiscal agency, budget and finance, accounting and personnel management) and corollary hardware/software recommendations, prepared.
- Seminar for the Bank of Montenegro at the Bank of Slovenia. Work completed by Bierman and Fauber reviewed in October and November monthly submissions.
- Thompson recommendations in November 2000 monthly submission.
- 74** Detailed implementation instructions on the draft Central Bank law and commercial banking decree provided. (In cooperation with EU)
- Also see McSpadden contributions in McSpadden Law on National Bank in November 2000 submission. See also

- 75 Comprehensive training provided in applied statistical analysis for the National Bank research section
- McSpadden reports in December 2000 monthly submission under McSpadden Central Bank of Montenegro.zip.
- Bierman work in November 2000 monthly submission

Financial Sector Stability/Bank Supervision

- 79 A complete bank licensing manual covering, among other things, standards for interim operations of banks and systematic recommendations for bank supervision practices, prepared.
- 80 Detailed by-laws (regulations) for the Office of Bank Supervision within the National Bank provided. (Get a reasonable start)
- 81 Complete specifications of financial reporting formats for commercial banks provided.
- 81a (new) Bank training seminar for supervision
- See submissions from McSpadden in November monthly submissions. Also see Examinations manual also in November 2000 monthly submission. See also Thompson work in October 2000 monthly submission. Thompson material on bank licensing and capital adequacy requirements in October 2000 monthly submission. See McSpadden files under McSpadden Summary Files.zip in November 2000 monthly submission. Seminar conducted in November 2000 at Igaloo and reports filed under McSpadden in November 2000 monthly submission.

Business Law and Regulation

- 100 Systematic recommendations and a draft foreign investment decree covering required improvements in the foreign investment regulatory regime prepared.
- 101 Systematic recommendations and a draft decree covering required improvements in the time-efficiency and cost-effectiveness of the business registration system developed.
- 103 Comprehensive recommendations and draft decrees on required improvements in the trade registration and licensing and customs administration regime developed.
- Reznik Foreign Investment Law revisions filed in November 2000 Monthly submission. Earlier recommendations under Reznik in October 2000 monthly submission. See series of Reznik laws on business regulation in October 2000 monthly submission. See also Reznik weekly report in September 2000 monthly submission. See Irvin's trade registration law (decree) in October 2000 monthly submission.

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| 106 | Appropriate implementing instructions and an operational time-phased implementation strategy provided for the draft decree on foreign investment provided. | See Reznik in October and November 2000 monthly submissions. |
| 107 | Appropriate implementing instructions and an operational time-phased implementation strategy provided for the draft decree on business registration | See Reznik September 2000 monthly submission. |
| 108 | Appropriate implementing instructions and operational implementation strategy provided for the draft decrees on trade submissions, registration and licensing and customs administration prepared. | See Irvine October 2000 monthly submissions. |

Finally, in addition to the specific benchmarks identified above there were several deliverables that came in as finalizations of previous benchmarks and provisions for carry on work for the new contract. In particular there see the work of Ree and Burkhardt on RTGS systems in August, September and October 2000 submissions.

There was also enhancement of capital markets work preformed by Tim Smith and Ian Gilhooley—particularly on selection of the appropriate trading system. Also Paul Jones provided deliverables on the procedures for CDA and brokers guidelines. These can be found in the September 2000 monthly submission, while Gilhooley and Smith are in December 2000 monthly submission.

As with every part of this contract we have on file all complete documents in the delivery of our advice to the Montenegro Government.