

## **Montenegro: 'US Pressure' Led to Offshore Bank Blow**

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Foreign investors and financial institutions are stunned by the authorities' decision to strip the country's offshore banking network of its privileges

The Montenegrin government appears to have come under pressure from its most generous benefactor, America, to crack down on its secretive offshore banks.

The move seems to have been prompted by Washington's concerns that they might be used by terrorist organisations to launder money.

A six-year-old law guaranteeing the banks certain privileges until 2011 was revoked by the Montenegrin constitutional court in June, effectively outlawing the offshore industry that has brought millions of dollars into the economy.

As a result, banks have been shaken, large claims for compensation and several lawsuits are being threatened and the weak Montenegrin financial market is certain to suffer.

The banks have now been placed under the jurisdiction of the Montenegrin central bank and will have to operate under the same conditions as domestic financial institutions.

The 1996 law guaranteed that the central banks of Montenegro and Yugoslavia would have no control over the offshore investment industry operating from their territory, nor the right to request disclosure of clients' names or accounts.

In addition, the banks only had to provide 10 thousand US dollars founding capital, a tiny fraction of the amount required of domestic banks; and the former also paid much lower profit tax than the latter.

The legislation included a guarantee that these privileges could not be revoked before 2011.

At the time, the authorities were eager to attract badly needed foreign investment - which is still the case today.

Finance Minister Miroslav Ivanisevic said the law has been changed because Montenegro has matured financially to the point where such capital attached through offshore banks is no longer needed. But few in this cash-strapped republic accept this view.

Mirko Petricevic, a lawyer who specialises in offshore bank registration, claims that only international intervention could have forced Podgorica to squeeze the industry. "Why would a country deprive itself of that fresh capital? I believe that the government's reaction is a result of foreign pressure," he said.

David Finzer, the deputy president of Trinity International Bank, one of the offshore banks affected by the changes, told IWPR that the United States Agency for International Development, USAID, exerted pressure through the Barents Group consultancy - which is preparing legislative reforms here with money from the

American funding agency - to revoke the offshore banks' privileges.

"In Podgorica the USAID representative Andrew Vonnegut said he had come on a mission to ban the offshore system and that everything has already been worked out with the state. A month later the constitutional court revoked all our legal guarantees," said Finzer.

Washington is believed to exert significant influence on state policy largely because of its financial support for the country - only Israel receives more aid per capita than Montenegro, which looks to America for funds to offset its large budget deficit.

Vonnegut declined to reply directly to IWPR's inquiry about Finzer's claims, instead issuing a written statement:

"The United States Government, in coordination with the OECD nations and the international financial and development institutions, has long supported greater disclosure rules at offshore banking havens in order to curb money laundering.

"This international campaign has largely been successful, with most traditional offshore locations now willing to cooperate with international authorities. Montenegro has been one of the last locations where offshore banking secrecy was strictly maintained

"As part of an overall effort to integrate itself into the international financial community and move toward EU membership, Montenegro has begun to take steps to dismantle the apparatus which provides unlimited secrecy to offshore account holders."

Both US and local officials are clearly sensitive about the extent of the West's sway over Montenegrin policy. Podgorica officials, however, acknowledge the importance of international influence in the recent banking decision.

The new legislation "is, but also isn't, [a result of] pressure in a way," said senior central bank official Goran Knezevic. "We try to coordinate and base our work on the best and most current recommendations."

US consulate official Razvigor Bazala further acknowledges that recent international events have increased American focus on tracking offshore funds. "After September 11 this orientation has become stronger due to the evidence that the terrorists hide and transfer large sums of money through these accounts," he said.

It remains to be seen just how much the constitutional court decision will cost the country. Lawsuits have already been launched - the most serious so far by Trinity bank. "We will sue the state, the finance minister, the central bank and its governor, and we will request compensation of at least 100 million dollars," said Finzer.

Petricovic told IWPR that this litigation is the first of many. "We have notification of several suits by foreign banks seeking compensation for profits they estimate would have been earned in the years up to 2011," he said.

Many believe that after this move Montenegro can wave goodbye to foreign investment.

"I don't see why anyone would trust this country's legal guarantees if they can be changed overnight and privileges can be revoked at the expense of the only foreign investors in Montenegro at this time," cautioned Finzer.

Despite these warnings, Knezevic is unambiguous about the fate of the offshore financial industry in Montenegro.

"Under these (new) conditions the banks will cease to exist. However, if they so wish, they will have a chance to register as all other banks do. As for the lawsuits they have announced, I simply don't think about them," he said.

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