

**Network for Affirmation of NGO Sector  
MANS**

# MELJINE

**Case study  
2015**



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# CASE STUDY “MELJINE“

## I: Introduction

This study shows that the government favored the buyer of the military complex Meljine allowing it to pay the real estate in bonds within a year. The investor was buying bonds on the stock exchange three times lower than the price the government agreed upon during the transaction, thus generating multimillion profits, whereas, on the other hand, it damaged the public interest.

This is also another case in which the state is selling valuable assets, and immediately modifies planning documents which should ensure the new owner enormous profits through construction of buildings and at the same time significantly increase the value of the location itself.

The case also shows that the government tolerates violations of contractual obligations by the investor, which has not suffered any consequences.

## II: Background

The Center of Military Medical Institutions (CVMI) in Meljine, Herceg Novi, has a long tradition and is the first military hospital in the Bay of Kotor, which was founded back in 1668. At the end of the 18th century it ceased to have military character and became a general hospital. The entire complex is located in the park, on the attractive location, on the very coast and only three kilometers away from the Herceg Novi downtown. The complex covers an area of 50,000 square meters and has 19 objects covering an area of 24,000 square meters.<sup>1</sup>



## III: The tender for selling the military complex in Meljine

The location was in the ownership of the military until the independence of Montenegro, when it was transferred into state ownership. In early 2007, the Montenegrin government invited an international tender for the sale of the site.<sup>2</sup> The tender requested two basic conditions - the bidder had to prove that it was engaged in healthcare filed for at least ten years and had an annual turnover of at least € 50 million in the last three years, and to guarantee the continuation of providing services, while maintaining the existing number of employees.

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<sup>1</sup> Appraisal of real estate of Center of Military-Medical Institutions "Meljine" from Herceg Novi on 24 February 2010

<sup>2</sup> Public international tender for the sale of the Center of Military- Medical Institutions "Meljine"

Svi potencijalni ponudjači moraju ispuniti slijedeća dva uslova:

1. Ponudjač mora da dostavi dokaze da se najmanje deset godina bavi zdravstvenom djelatnošću i da ima godišnji obrt od najmanje 50.000.000. € u posljednje tri poslovne godine.
2. Ponudjač ponudom mora garantovati nastavak zdravstvene djelatnosti CVMU Meljine, uz zadržavanje postojećeg broja zaposlenih.

*Excerpt from the public international tender for the sale of CMVU "Meljine"*

Two bidders submitted their offers-London-based company "Belfair management", and a consortium consisting of *Invest* and *Atlasmont banka* from Podgorica, company *Atlas cap* also from Podgorica and the Special hospital for Internal Diseases "Sveti Nikola" from Kraljevo. A Serbian businessman Dusko Knezevic is behind the consortium.

According to the media, the London-based company offered to pay €15 million and invest in the military center a sum of €30 million within a period of five years. The tender commission rejected this and accepted the offer of Knezevic's consortium, as the more favorable one.<sup>3</sup> This offer implied a sum of €25 million and an investment package of €118 million, which would be implemented within a seven-year period.

#### **V: Signing the contract and payment in bonds**

The contract with the consortium was officially signed on 19 June 2008, a year after the tender commission accepted the offer and decided to enter into negotiations.<sup>4</sup> The then Finance Minister Igor Luksic signed the contract on behalf of the government as the seller.

The total purchase price amounts to €25.1 million. The contract stipulates that it will be paid in bonds, with 30 percent of the price the consortium had to pay within 7 days of signing the contract, and the rest prior to the final conclusion of the contract. This date was calculated six months from the date of signing, with the option to extend it twice by 90 days, so it appears that the deadline for payment of the whole sum was one year, i.e. June 2009.

#### **CIJENA**

##### **Član 6.**

Predmet prodaje iz člana 3 će se prodati za Kupoprodajnu cijenu od 25.100.000,00 € (slovima – dvadeset pet miliona i sto hiljada eura), (u daljem tekstu: »Kupoprodajna cijena«) na način i pod uslovima preciziranim u ovom Ugovoru.

Kupac će platiti cjelokupnu kupoprodajnu cijenu obaveznicama, na poseban račun **PRODAVCA** kod Centralne depozitarne agencije.

<sup>3</sup> Source of the Daily Vijesti (articles from May and June 2007)

<sup>4</sup> Contract on Purchase and Investment in the military complex Center of Military-Medical Institutions "Meljine" on 19 June 2008

**Član 11.**

Kupac će najkasnije u roku od 7 Bankarskih dana od Datuma potpisivanja, položiti iznos od 30 % kupoprodajne cijene na Escrow račun koji je otvoren kod Escrow banke.

*Contractual provision regarding the price*

By allowing payment in bonds, the government directly favored Knezevic's consortium, whereas on the other hand, there is serious doubt that the public interest has been damaged. Namely, in September 2007, the government issued restitution bonds with a nominal value of one euro per bond and valid until 2017.<sup>5</sup>

However, the market value of these bonds was about 35 cents, on average.<sup>6</sup> This means that companies from Dusko Knezevic's consortium had an opportunity to buy these bonds for 35 cents on the stock exchange during one-year period, whereas in transaction the state would accept the nominal value of bonds, i.e. one euro per bond.

The Central Depository Agency's data show that Dusko Knezevic's associated companies constantly purchased restitution bonds on the stock exchange. In early 2008, the associated companies had more than nine million bonds, only to reach over 16.5 million at the close of the same year.<sup>7</sup>

<i>Naziv emitenta: REPUBLIKA CRNA GORA</i>					
<i>Simbol HOV: FO02</i>		<i>Ukupan broj akcija: 46,105,690</i>			
<i>R.Br.</i>	<i>Naziv</i>	<i>Adresa</i>	<i>Grad</i>	<i>Broj akcija</i>	<i>%</i>
1	Fond za razvoj Republike Crne Gore	Bulevar revolucije 9	Podgorica	6,526,562	14.1557%
2	ATLASMONT BANKA AD	STANKA DRAGOJEVIĆA 4	Podgorica	5,852,480	12.6936%
3	REPUBLIKA CRNA GORA-MINISTARSTVO FINANSIJA	Ul. Stanka Dragojevića br.2	Podgorica	2,875,000	6.2357%
4	ŠOFRANAC PERSIDA	MIKE ALASA 36	BEOGRAD	1,963,000	4.2576%
5	COSMOS LTD	ICAZA,GONZALEZ-RUIZ,ALEMAN	INOSTRANSTVO	1,616,751	3.5066%
6	INVEST BANKA MONTENEGRO	Stanka Dragojevića 4	PODGORICA	850,000	1.8436%
7	AD JADRANSKI SAJAM	TRG SLOBODE 5	Budva	830,000	1.8002%
8	GRUJIČIĆ DRAGAN	PUT PORED BISTRICE	NIKŠIĆ	700,000	1.5183%
9	MITROVIĆ SVETOZAR	G. DELČEVA	Podgorica	653,639	1.4177%
10	IVANOVIĆ JELENA	POŽAREVAČKA 5/4	BAR	620,000	1.3447%

*Excerpt from CDA restitution bonds on 11 February 2008*

The trend of buying bonds continued in 2009, so by the end of this year the companies managed to collect over 24 million bonds.<sup>8</sup> Data show that in January 2010 the associated companies had more than 25 million bonds<sup>9</sup>, but in February this number fell to 7.8 million<sup>10</sup>, which means that in the meantime a transaction which included over 17.5 million bonds was carried out. Apparently this was the moment when the consortium paid the Ministry of Finance the purchase price for the military complex in Meljine.

<sup>5</sup> Decision on II issuance of bonds of the Republic of Montenegro on the basis of indemnities to former owners 01-704/1 on 30 August 2007

<sup>6</sup> Market value of bonds ranged from 0.10 euros to 0.48 euros per bond

<sup>7</sup> Excerpt from the register of the Central Depository Agency on 11 February 2008; Excerpt from the register of the Central Depository Agency on 31 March 2008; Excerpt from the register of the Central Depository Agency on April 14 2008 Excerpt from the register of the Central Depository Agency on 29 December 2008

<sup>8</sup> Excerpt from the register of the Central Depository Agency on 29 January 2009

<sup>9</sup> Excerpt from the register of the Central Depository Agency on 18 January 2010

<sup>10</sup> Excerpt from the register of the Central Depository Agency on 1 February 2010

FINANSIJA					
3	Fond zajedničkog ulaganja "ATLAS MONT"	STANKA DRAGOJEVIĆA 4	PODGORICA	8,082,901	10.9761%
4	NM - Zbirni Kastodi račun 1	Bulevar Stanka Dragojevića 46	PODGORICA	7,530,000	10.2252%
5	INVEST BANKA MONTENEGRO	Stanka Dragojevića 4	PODGORICA	4,332,401	5.8831%
6	COSMOS LTD	ICAZA,GONZALEZ-RUIZ,ALEMAN	INOSTRANSTVO	2,116,528	2.8741%
7	ATLAS LIFE	HERCEGOVAČKA 50	PODGORICA	987,701	1.3412%
8	ATLASMONT BANKA AD	STANKA DRAGOJEVIĆA 4	Podgorica	834,934	1.1338%
9	AD JADRANSKI SAJAM	TRG SLOBODE 5	Budva	830,000	1.1271%
10	ŠOFRANAC PERSIDA	MIKE ALASA 36	BEOGRAD	501,676	0.6812%

Excerpt from CDA on 18 January 2010 when Knezevic's associated companies held 24.7 million bonds.

This conclusion is supported by the fact that from January to February the bonds held the Ministry of Finance jumped from 18.7 to 36.2 million bonds. Thus, the consortium was over half a year late with the payment of the purchase price.

Naziv emitenta: REPUBLIKA CRNA GORA					
Simbol HOV: FO02		Ukupan broj akcija: 73,781,149			
R.Br.	Naziv	Adresa	Grad	Broj akcija	%
1	VLADA CRNE GORE-MINISTARSTVO FINANSIJA	Ul. Stanka Dragojevića br.2	Podgorica	36,277,737	49.1694%
2	FOND ZA OBEŠTEĆENJE	PODGORICA	PODGORICA	19,108,812	25.8993%
3	NM - Zbirni Kastodi račun 1	Bulevar Stanka Dragojevića 46	PODGORICA	7,530,000	10.2059%
4	ŠOFRANAC PERSIDA	MIKE ALASA 36	BEOGRAD	501,676	0.6800%
5	BAKOČEVIĆ PAŠKO	D.Štoj	ULCINJ	500,000	0.6777%
6	"FIN INVEST" DOO	Stanka Dragojevića 4	Podgorica	347,450	0.4709%
7	PREMOVIC VELIBOR	B.JANKOVIĆA	NIKŠIĆ	332,000	0.4500%

Excerpt from CDA on 1 February 2010 where associated companies do not hold majority of earlier bonds

Thus, Dusko Knezevic's consortium reaped the highest profit out of the whole business deal because it appears that it paid less than 10 million for the military complex in Meljine. In addition, the consortium was more than half a year late with the payment, since the deadline for payment expired in June 2009.

Also, it is not known whether the consortium during the signing of the contract paid 30 percent of the price in bonds, but by June 2010 the entities paid an amount of 7.5 million bonds from their the custody account, which actually represents a third of the total purchase price for the military complex in Meljine. On the basis of the Law on Free Access to Information MANS has requested from the Ministry of Finance the data on the implementation of this transaction, but has not yet received it.

## V: Investors' plans for construction

Apart from the fact that the investor was privileged when it comes to the payment, the government particularly favored the investor by stating " the adoption of local location study or detailed spatial plan in the form and with the contents acceptable to the buyer" <sup>11</sup> as a prerequisite for concluding the contract. In this way, the investor was guaranteed that the planning document would be tailored to the investor's own needs, thus completely ignoring the interests of citizens of Herceg Novi.

(b) usvajanje Studije lokacije ili Detaljnog prostornog plana koji se odnosi na celokupnu Lokaciju u obliku i po suštini prihvatljivog za KUPCA, na način koji će dozvoliti pripremu Projekta u skladu sa Investicionim planom koji je Prilog broj 2 ovog Ugovora;

Prerequisites for concluding contract (buyer is promised the planning document tailored to the buyer's own needs) Article 12 of the Contract

<sup>11</sup> Contract on Purchase and Investment in the military complex Center of Military-Medical Institutions "Meljine", on 19 June 2008.

During 2007, at the time when the negotiations on the conclusion of the contract between the Government and the consortium were in progress, it was announced that Knezevic and partners had megalomaniac construction requirements. Namely, the planned construction of a large hotel and rehabilitation center, which would be built in the form of two high-rise buildings with as many as 18 floors, which would require a radical change in spatial plans.<sup>12</sup> Thus, it is easy to conclude that the real motive of the investor was not development of medical tourism, but development of hotel facilities.

To which extent the interests of investors affected the final planning solutions is shown by the fact that the previous spatial plan of the municipality for this location did not stipulate a tourist, but only medical purpose. A new spatial plan, which was adopted in February 2009, changed this and allowed the construction of tourist facilities- 300 beds in the hotels and 600 in suites.

Despite large disagreement of the public in December 2009 the parliament of Herceg Novi adopted the urban plan *Meljine*. The investor was permitted to build as many as 90,000 square meters of gross building area, of which 39,000 square meters was planned for tourist apartments, 24,000 square meters for hotel and 27,000 square meters for the construction of the hospital complex with seven floors.<sup>13</sup>



*Graphical representation No. 16d – Hotel 3D model*

Future hotel's guests will have only 37 square meters of free and green areas, which is twice less than the prescribed norm for a four-star hotel. Lack of green areas is even more evident when taking into account the entire complex, as it provides only 30 square meters of green area per guest. As well as being insufficient for hotel guests, this is absolutely inhumane to the patients (subsequently adopted national regulations require that 70 percent of the hospital complex are green areas).

It is interesting that at that time the mayor of Herceg Novi Dejan Mandic said that "the municipality had to accept what is economic minimum for the investor and number of floors below which is not profitable to go, because it would otherwise shut down the hospital without a chance for anyone to open it again. Acceptance of this project means to sacrifice for the city."<sup>14</sup>

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<sup>12</sup> Source: Daily Vijesti (Article from July 2007)

<sup>13</sup> Urban project "Medical and Tourist Complex *Meljine*" of December 2009

<sup>14</sup> Source: Daily Vijesti (article from December 2009)

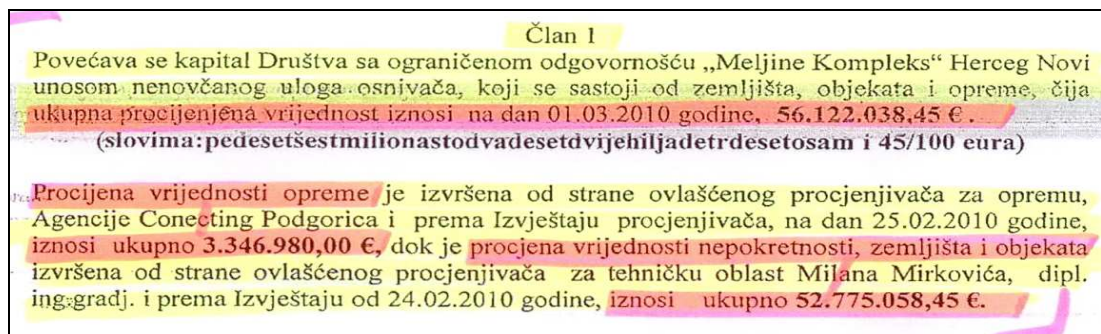


Grafički prikaz br. 17d – Apartmani 3D model

## VI: Rapid growth of the value of military complex

It is not known whether the government had carried out appraisal of the land at the time it invited tender for the sale of military complex in Meljine. However, by the end of 2009 the consortium formed a special company "Meljine complex" doo and in early 2010 hired appraisers who estimated the value of the location.<sup>15</sup> According to these reports, the total estimated value is €56.1 million, of which the value of medical equipment amounts to €3.3 million, and the rest is the estimated value of land and buildings.

On the basis of these reports, the decision was made to increase non-cash capital in the amount of €56.1 million.<sup>16</sup>



From the Decision on increasing non-cash capital "Meljine complex"

Concerning the ownership structure in "Meljine complex", Atlas cap has a 99 percent stake in, Atlasmont banka has 0.5 percent, Invest banka 0.49 and the Special Hospital for Internal Diseases "Sveti Nikola" 0.01 percent. Original capital, which is at the same time the cash capital amounts to €10,000.<sup>17</sup>

Curiously enough, the hospital "Sveti Nikola" has no right to encumber, alienate or gift its part of the property, nor automatically transfer it to the company after the fulfillment of the obligations under the contract free of charge and without written consent.<sup>18</sup>

## VII: Investment obligations and their violation

<sup>15</sup> Appraisal of the value of real estate of Center of Military-Medical Institutions "Meljine" from Herceg Novi on 24 February 2010

<sup>16</sup> Decision on increasing capital on 1 March 2010

<sup>17</sup> Statute of the limited liability company "Meljine complex" from Herceg Novi on 1 March 2010

<sup>18</sup> Contract on Purchase and Investment in the military complex Center of Military-Medical Institutions "Meljine" on 19 June 2008

According to the business plan, referred to in the contract, the investor has committed to invest €119.4 million over a seven-year period, out of which the required five-year investment amounts to €99.4 million. This period is calculated from the date of concluding, and by way of exception to the very day of adopting the planning document.<sup>19</sup> As the urban plan "Tourist Complex Meljine" was adopted in December 2009 it means that the investment period starts from the end of 2009.

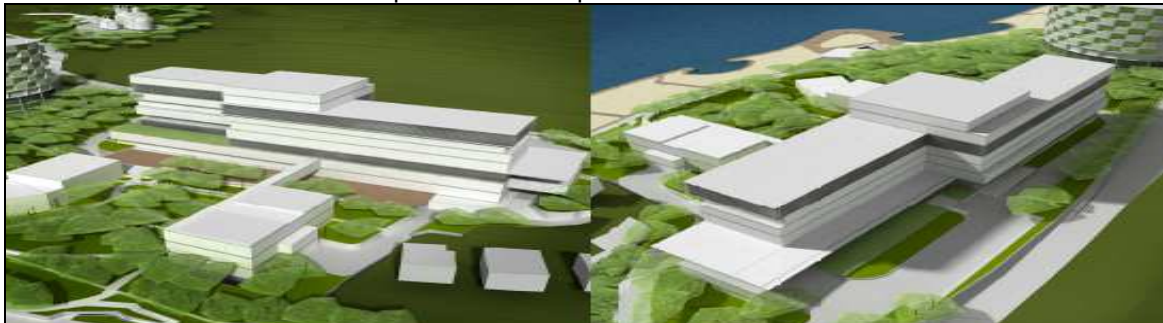
#### **OBAVEZE KUPCA PO OSNOVU INVESTIRANJA U CVMU MELJINE**

##### **Član 20.**

KUPAC je dostavio PRODAVCU Biznis plan u kojem je predvidio da će ukupno ulaganje u Imovinu za period od sedam godina iznositi 119.400.000,00 EUR, stim što će se odredbe ovog Ugovora o kontroli izvršenja investiranja, prava PRODAVCA na naplatu činidbene garancije i prava prodavca na raskid ugovora usled neizvršenja Investicionog programa, primjenjivati samo na obavezu KUPCA da u petogodišnjem investicionom ciklusu investira 99.400.000 EUR

#### *Investments*

During the five-year investment period, the consortium has not fulfilled most of the obligations. Construction of hotels and apartments has not yet begun, but the medical service of the hospital remained. According to data from the website of the hospital in September 2015, it has 136 employees, of which 24 experts with PhD degrees.<sup>20</sup> The investor committed itself to keep all permanent employees, and that within a period of seven years the number of the staff will not drop more than 10 percent.



*Graphical representation No. 14c – Hospital I phase*

The contract clearly stipulates that it will be terminated if during one investment year less than 65 percent of the investment obligations for the given year is implemented. It is not known whether the Ministry of Finance warned the consortium about the violations of contractual obligations, and whether the annual investment reports were submitted at all, which is clearly provided for in the contract.

#### **VIII: Contractual obligations have not been implemented**

According to the contractual obligations the buyer was supposed to invest €11.2 million euros in 2008, in 2009 22.7 million, in 2010 18.5 million, in 2011 17 million, and in 2012 as much as €30 million, in 2013 and 2014, each investments had be €10 million. So far, the majority of funds should be invested in the building of cardiac surgery, plastic surgery and diagnostics, whereas renovation of the rehabilitation facilities should have been completed, the surgery building reconstructed and otorhinolaryngology building finished.<sup>21</sup> Out of 120 million worth investment, envisaged by the contract, only three million have been invested and only in medical equipment.

<sup>19</sup> Contract on Purchase and Investment in the military complex Center of Military-Medical Institutions "Meljine" on 19 June 2008

<sup>20</sup> <http://www.bolnica-meljine.me/index.php?action=sluzbe>

<sup>21</sup> Knezevic prefers better conditions for Meljine, on 11 February 2014



Atlas Group has requested amendments to the contract because after taking over the complex a need to change the valid planning documentation has arisen, as well as because property rights issues have not yet been resolved.<sup>22</sup> However, the local government announced that there are no disputed property rights issues, while until recently the head of the Secretariat for Spatial Planning and Construction of Herceg Novi Milovan Bazdar stated that urban and technical conditions for the realization of any phase of the investment in the hospital complex *Meljine* were never requested, which is a requirement for the start of construction, as well as that the urban project was adopted. In addition to the changes in the purchase and sales contract for the hospital in *Meljine* concerning the reduction of average earnings, Dusko Knezevic's Atlas group has asked the Privatization Council to count the investment from the day of obtaining the new building permit.

### **IX: Hospital's property in Meljine mortgaged**

Most of the buildings of the General Hospital *Meljine* owned by the consortium led by Atlas Group, are mortgaged due to taking out several loans worth €11.5 million. The loans have been mostly granted by Knezevic's *Atlas banka* and *Atlasmont bank* and *Invest Bank Montenegro*.<sup>23</sup>

"Meljine complex" doo had the tax debt of €497,800, while it also owed €167,400 of taxes to Montenegro. According to the data from the Cadaster of Immovable Property, the company "Meljine complex" doo Herceg Novi<sup>24</sup> has a mortgage of €1.5 million with *Atlasmont bank*, based on the mortgage agreement from October 2010, and a mortgage of €2.1 million with *Invest banka Montenegro*, according to the mortgage agreement from December 2011. The same month, in 2011, there were another mortgages recorded - €2.2 million and €660,000 with *Invest banka Montenegro*. A mortgage arrangement worth €500,000 was made with *Atlasmont banka AD Podgorica*, on the basis of agreement dated April 2010.

Among bigger mortgages is the one worth €589,100 the basis of several agreements on the loan and the refinancing of current concluded with *Atlas bank* in February 2014.<sup>25</sup> Another mortgage with same bank, on the basis of the agreement on short-term revolving loan, was made in April 2010 and the value was €600,000. A mortgage of €710,000 on the basis of the short-term loan from September 2014 was also registered.

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<sup>22</sup> Contract for *Meljine* unsustainable, Vijesti, on 6 December 2014

<sup>23</sup> Real estate folio No. 3078 KO Topla, Municipality of Herceg Novi on 28 September 2015; List of immovable property No. 3124 KO Topla, Municipality of Herceg Novi, on 28 September 2015

<sup>24</sup> Real estate folio No. 3078 KO Topla, Municipality of Herceg Novi on 28 September 2015

<sup>25</sup> Real estate folio No. 3124 KO Topla, Municipality of Herceg Novi, on 28 September 2015

## **X: The Privatization Council does not end purchase and sales contract**

At the beginning of September 2015 the municipality of Herceg Novi submitted the initiative for the termination of the contract for the former military hospital "Meljine" and performance bond to the Privatization and Capital Investment Council.<sup>26</sup>

In mid-September 2015, the Ministry of Health's in its official letter to the Privatization and Capital Investment Council stated that the buyer invested only 2.3 million, far below the agreed financial investment.<sup>27</sup> However, the letter points out that, despite the undoubted obvious lack of fulfillment of contractual obligations, the hospital was extremely important when it comes to access to healthcare, and therefore it opposed the termination of the purchase and sales contract.

At the same time, the Ministry of Finance, in its official letter sent to the Privatization and Capital Investment Council, from September 2015, indicated that despite the evident delay in the implementation of investment obligations, the possibility of fulfillment of contractual obligations was supposed to be considered once more by the buyer of the hospital in Meljine.<sup>28</sup>

So, despite the fact that the money envisaged in the investment plan has not been invested in the military-medical complex, the government hesitates to terminate the purchase and sales contract with the consortium in question.

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<sup>26</sup> Initiative for Termination of the Contract for former Military Hospital "Meljine", No. 01-1-1554/15, on 1 September 2015

<sup>27</sup> Official letter of the Ministry of Health No. 011-235/2015 on 14 September 2015

<sup>28</sup> Official letter of the Ministry of Finance No. 01-11246/1 on 15 September 2015