Contract Number: 169-C-00-11-00102

Project: Sustainable Local Development Project in Serbia

Contractor: Chemonics Inc.

USAID COR: Mr. Sinisa Cadjo

Issuance Date: November, 2014

Document Title: Privatization in Serbia - Case Study Summary

Author: NALED

Language (if non-English):

Makedonska 30/VII, 11000 Belgrade, Serbia
t: +381 11 33 73 063, f: +381 11 33 73 061
naled@naled-serbia.org, www.naled-serbia.org

This publication was made possible with support from the American people delivered through the U.S. Agency for International Development (USAID). The contents are the responsibility of National Alliance for Local Economic Development (NALED) and do not necessarily reflect the opinion of USAID or the U.S. Government.

CASE STUDY SUMMARY: PRIVATIZATION IN SERBIA

INTRODUCTORY NOTES

Similar to other transition countries, privatization in Serbia represented the key element of structural reforms and had several goals – those that stand out include higher economic efficiency, higher budget revenues and the development of domestic equity market. Since the early 1990s, the privatization in Serbia was performed through several different models, but up until now, more than 20 years after its beginning, the privatization has not been entirely completed. According to the latest data of the Ministry of Economy, Serbia currently has 155 companies in restructuring, and 419 are undergoing various phases in the privatization process.

In spite of relatively frequent changes of legal framework governing privatization over the previous several years, focused on accelerating and finalizing this procedure, it is obvious that there has been a halt in privatization, and that the key issues, which often had a crucial impact on the success of this process – surplus workforce, unresolved ownership issues, over-indebtedness – remain unresolved. The companies that remained non-privatized do not only mean captured equity, but also impose constant expenses to the national budget, and also constant losses for the local government budgets.

The role of local governments in the privatization process, unfortunately, often remains neglected. Management of privatization process in Serbia is highly centralized – therefore, the local governments do not entirely recognize their role in the process, and it seems that they are not fully aware of how much they are actually losing, and how much their budgets could gain, if the companies in their territory would be successfully privatized. As a consequence, the local governments do not take active part in this process.

NALED initiated the development of this publication, with financial support of USAID Sustainable Local Development Project (USAID SLDP), aiming to identify the causes of unsuccessful privatizations and their impact on the local economy and finance and, based on analysis of adequate best practice examples, perceive the potential of further privatization process. Additionally, the aim of this study is to present the overall business and regulatory environment in which these privatizations were performed, and formulate recommendations for improving the regulatory framework for a more efficient completion of the privatization process in Serbia.

Presenting case studies of five pairs of successful and unsuccessful privatizations in five selected sectors and evaluation of their effect on the local government budgets, impact analysis of various privatization models and one of the major privatization issues – land ownership – in this publication NALED gives an overview of paradigmatic examples of “good” and “”bad” privatization. The subject of this analysis are the companies operating in industries of undisputed development significance for Serbian economy – agriculture, mining and processing industries (production of pharmaceuticals, production of metal constructions and production of cardboard and paper).

The selection was very careful, so as to ensure that the examples of successful and unsuccessful privatizations are comparable (size, market share before privatization) and that they also reflect the key privatization models and main problems in this process.

Given that the new Law on Privatization, adopted in August 2014, prescribes new models of privatization, and that 31st December 2015 was determined as the final deadline for completion of privatization in Serbia, in the final part of this publication NALED offers recommendations to both national authorities and local governments, for efficient completion of this process in Serbia and achieving the best possible results for all stakeholders.

THE KEY ASPECTS OF PRIVATIZATION IN SERBIA

Privatization in Serbia has been formally going on for a quarter of a century, but the public views and attitudes on privatization have significantly changed during these 25 years[1] - from a necessary evil, as privatization was observed until the late nineties, to its treatment as Panacea, the cure to all problems of Serbian economy in the beginning of the previous decade. A short-term euphoria was followed by a disappointment with the achieved results, so there is a need to once again engage in proving that private (and privatized) ownership is more efficient than the social or state ownership. Today, the word privatization in Serbia is often accompanied with the adjective "predatory" or such adjective is implied. In this study, we try to provide an objective overview of various privatization aspects using the examples of ten case studies and determine the factors of successful privatizations.

The expectations from privatizations were not realistic, bearing in mind that it took place in an economy that was exposed to years of sanctions, war, and even before that, decades of socialist self-governance. Many Serbian companies were like a damaged (and some of them even non-registered) car produced in mid-seventies or early eighties, served by three drivers and two mechanics, whereas such damaged car even has a lien on it. All three drivers expect they will be driving the car again, the creditors expect to settle their claims entirely, and the state occasionally gives money for gas and salaries for drivers and mechanics, but since the car is not working, the gas money is used for salaries as well. In the meantime, the remaining parts that are actually working are running out. The drivers and mechanics wait for the retirement conditions to be fulfilled. And all of them expect a buyer who is willing to pay for the car, and oblige to keep at least two drivers and two mechanics for another three years. While, in fact, the damaged car represented negative property, as someone had to pay for the car to be taken to the car scrapyard. Of course, not all cars were damaged, nor did all of them have that many excessive drivers and mechanics, but the majority of good companies had been previously distributed (to drivers and mechanics themselves). Namely – as a rule, the better companies in Serbia, i.e. their management and employees, have used the favorable conditions and conducted privatization in accordance with the Law on Property Transformation. This auto-selection significantly contributed to later problems in the implementation of models and duration of privatization. Of course, many companies did not fit the description of a damaged car, but this example illustrates the four key aspects of successful privatization in Serbia which make up the basis for the case study analysis.

The first aspect refers to **unresolved ownership issues**. In addition to a lack of adequate legal framework that would resolve the issue of construction land, the matter of restitution was not resolved either. While the uncertainty regarding the construction land and restitution can be called a systemic risk, there was also a specific risk regarding the concrete ownership issues regarding the subjects of privatization. In most case studies, the facilities of privatized companies did not have the use permits, and in some cases not even a construction permit.

[1] The introduction will not involve reflections on the privatization waves, models and methods in Serbia – they will be discussed within the section involving case studies. For a comprehensive overview of the models, see Cerović, B. Tranzicija – zamisli i ostvarenja (Transition – ideas and achievements), Centar za izdavačku delatnost Ekonomskog fakulteta, Belgrade, 2012; Mijatović, B. "Privatizacija realnog sektora" (Privatization of real sector) in Begović.B, B. Mijatović (ed.) "Četiri godine tranzicije u Srbiji" (Four years of transition in Serbia) CLDS, Belgrade, 2005.

The second aspect refers to the **surplus workforce**. The vast majority of companies undergoing privatization had a significant number of redundant workers. In one case study, the company now has nearly 7 times less employees, but it reaches the same level of revenues as before the privatization. During the first period of implementation of the 2001 Law on Privatization, the redundancy issues were to be resolved by the buyer. Given that fewer and fewer buyers were willing to conduct *ex post* restructuring with high amounts of social programs, the state took over the obligation to resolve the redundancy issues. Two problems occurred after this – the first problem was that the reduction of the number of employees was based on the principle of voluntariness, which is why the process took a very long time (in some companies, the number of employees was cut down in four or five iterations). The second problem was the insufficient funds allocated for financing the severance pays from the so-called "Transition fund".[2]

The third aspect refers to **(over)indebtedness.** Up until 2005, privatization was facing opportunistic behavior of certain state creditors, which blocked the sale of privatization subject by imposing their conditions in order to accomplish a more favorable settlement. In order to resolve this issue, the changes in legal framework introduced a concept of mandatory discharge of debt for state creditors. Given that the discharge of debt referred only to debts by the end of 2004, and the debts once again accumulated in the meantime, the possibility of applying this institute had a limited period of duration.

The fourth aspect refers to **soft budget constraints**. While various state creditors often obstructed privatization, lacking the good will to write off old debt claims, they simultaneously enabled the same companies to borrow further. A drastic example of such approach was described in one of the case studies, when the state allowed a privatized company to be exempt from paying taxes and contribution for five years, only later to find the state "connecting the employment record gaps" (regarding taxes and contributions) for employees in the company where the state has not had a majority share ever since 1998.

Unresolved ownership issues, redundant workers, over-indebtedness and continuous soft budget constraints led to new negative effects. The risk of buying a company with the stated problems led to negative selection of investors.[3] The interest of strategic investors (the key determinants of privatization success) to perform technology transfer, conduct operational restructuring measures and invest in the equipment was limited to "companies which operated in highly profitable sectors (with an oligopolistic structure) or companies where ownership and redundancy problems were not significant". The number of such companies in Serbia was very small. Additionally, Serbia was in its transition, and a large number of such investors had already invested in the region and weren't interested in new deals.

[2] Informal name for budget appropriation 472 of the Ministry in charge of labor and employment, and previously of the Ministry of Economy and Ministry of Finance.

[3] Even if they bought the company, there was a question whether they would manage to register all property or if some other obstacle would appear. Similarly, even if the investor fulfilled the social program, he could not be sure whether the employees would dismiss their threats of strike, or they would demand that additional requirements be fulfilled.

The problem of negative selection of investors was additionally encouraged with the “preferential treatment” of Serbian nationals and the possibility of making purchase in installment payments. Even though the intention was to increase the number of interested buyers and allow the employees to participate in the privatization process, the provisions allowing installment payments actually stimulated the moral hazard of buyers. A sale with installment payments allowed the negatively selected “buyers” to pay only a portion of the price reached at the auction. After that, the “buyer” makes a decision either to continue the payments or to abandon the company if that pays off more. Before abandoning the company, the new owner “tunnels”, i.e. transfers the valuable property to another legal entity in its ownership and leaves an empty shell, which is then returned to the portfolio of the Privatization Agency. Finally, negative selection was also somewhat enabled with the elimination of already minor obstacles to money laundering within the privatization procedure of 2005.

Failure to resolve these issues led to a high number of terminated agreements, but it also enabled companies to remain in restructuring for years, and according to World Bank estimates, this costs Serbian economy as much as 0.6% of GDP a year. However, this value is underestimated, as it does not include the company debts to local governments and local utility companies. Terminated privatizations, companies staying in restructuring for years, a large number of insolvency procedures, represent a potential source of fiscal imbalances and social issues on the local government level. In order to perceive the extent of this matter, there is a need to consider the framework for the analysis of privatization effects on the local government’s financial position.

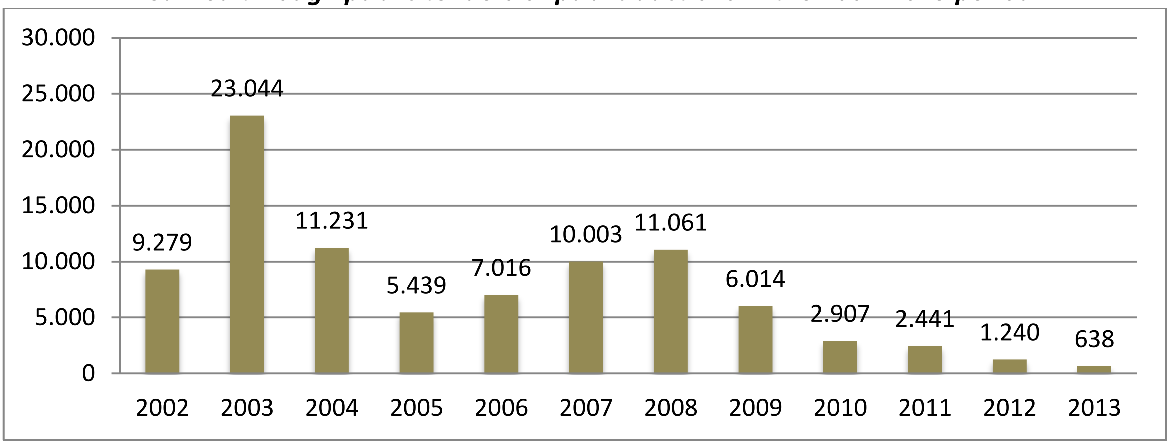
METHODOLOGICAL FRAMEWORK

Privatization and local revenues

The privatization effects are highly complex and influence all aspects of economic life on the local level. In addition to its effects on employment, privatization imposes a significant impact to the local government's fiscal position. The effects of privatization for the fiscal position of a local government can be instant and continuous (occurring as a result of company's business operations and performance after the privatization).

The act of privatization itself initially brought (instant) revenues to the local government. Article 61 of the 2001 Law on Privatization prescribed that 5% of the funds obtained through sales of equity in the privatization process (upon settling the costs of sale and commissions) shall be allocated for the development of infrastructure in the local government where the privatization subject is seated. In the 2002-2013 period, according to the data on the privatization-related funds paid to the budget upon the completed sales through auctions and tenders, the local governments received EUR 90.3 million, i.e. EUR 7.5 million a year.[4] **Considering the number of local governments, this is basically a symbolic amount per one local government.** Additionally, the distribution of stated revenues is highly unequal, as the number of privatizations, the size of companies and achieved revenues in the local governments have drastically differed. Furthermore, the amount of EUR 90.3 million should be increased, adding the funds from the sale of shares or charged dividends by the Shareholder Fund, which are also distributed in accordance with Article 61 of the Law on Privatization, but this amount is not enough to change the adopted conclusion either. One of the national authorities' important explicit goals of the 2001 privatization models was (instant) increase of public revenues, but observed on the level of the local government, this goal has certainly not been achieved (with the exception of some individual local governments).

Illustration 1 The amount of funds allocated to local governments (in 000 EUR) for privatizations realized through public tenders or public auctions in the 2002-2013 period



Source: Authors' calculation based on the data from Privatization Agency

[4] For data up until 2004 see IDOM/Seecap "Impact Assessment of Privatization in Serbia", Belgrade, October 2005, contains and overview of local government revenues by 2004. The date for the given period differ from the data presented in this study. However, there were substantial flaws and discrepancies of certain individual and aggregate data in the stated study. The study is available at http://www.priv.rs/upload/document/Impact_Assessment_of_Privatisation_Final.pdf (12 September 2014).

In addition to the methods of public tender and public auction, there was an opportunity to sell the privatization subject as insolvency debtor (sale of a legal entity) or to sell its property within the insolvency procedure. In this case, the local government would only be settling the existing claims. The revenues from the sale of property or sale of insolvency debtor as a legal entity are not distributed in accordance with the Law on Privatization – in this case, the local government's claims are settled as the claims of insolvency or priority creditor, in the same manner as the settlement of other creditors' claims. Basically, this means that, as a rule, the local government revenues are higher in case of privatization than in the case of insolvency.

The continuous effect of privatization means that the privatized company continues its operations and regularly settles its obligations towards the local government (and local utility companies). To answer the question – which sources of revenues the local government achieves in case of business operations continuity after the privatization - we start from the classical division of revenues to direct revenues, ceded revenues and transfers. According to the Law on Local Government Finance, the main sources of local government revenues are direct (or own) revenues, revenues distributed from a higher level of authority (ceded revenues) and earmarked and non-earmarked transfers. Additionally, the local budget inflows also include the inflows based on debts and inflows based on the sale of financial and non-financial property of the local governments.

Direct revenues in the Republic of Serbia are taxes, fees and charges whose basis is determined by cities and municipalities, (whereas the law can limit the amount of rate). Direct revenues include:

a) Taxes – property tax (excluding the tax on the transfer of absolute rights and inheritance and gift tax)
b) Fees - administrative, utility and residence fee
c) Charges – land development, environment protection and improvement (up to 31st December 2013, direct revenues also included the land use fee which was later integrated in property tax)
d) Revenues from – lease of real estate property; sale of movable property; local government operations; interest rates
e) Self-contribution, grants, donations and other sources

In practice, this means that a privatized company pays for at least some of these revenues and directly influences the fiscal position of a local government.[5]

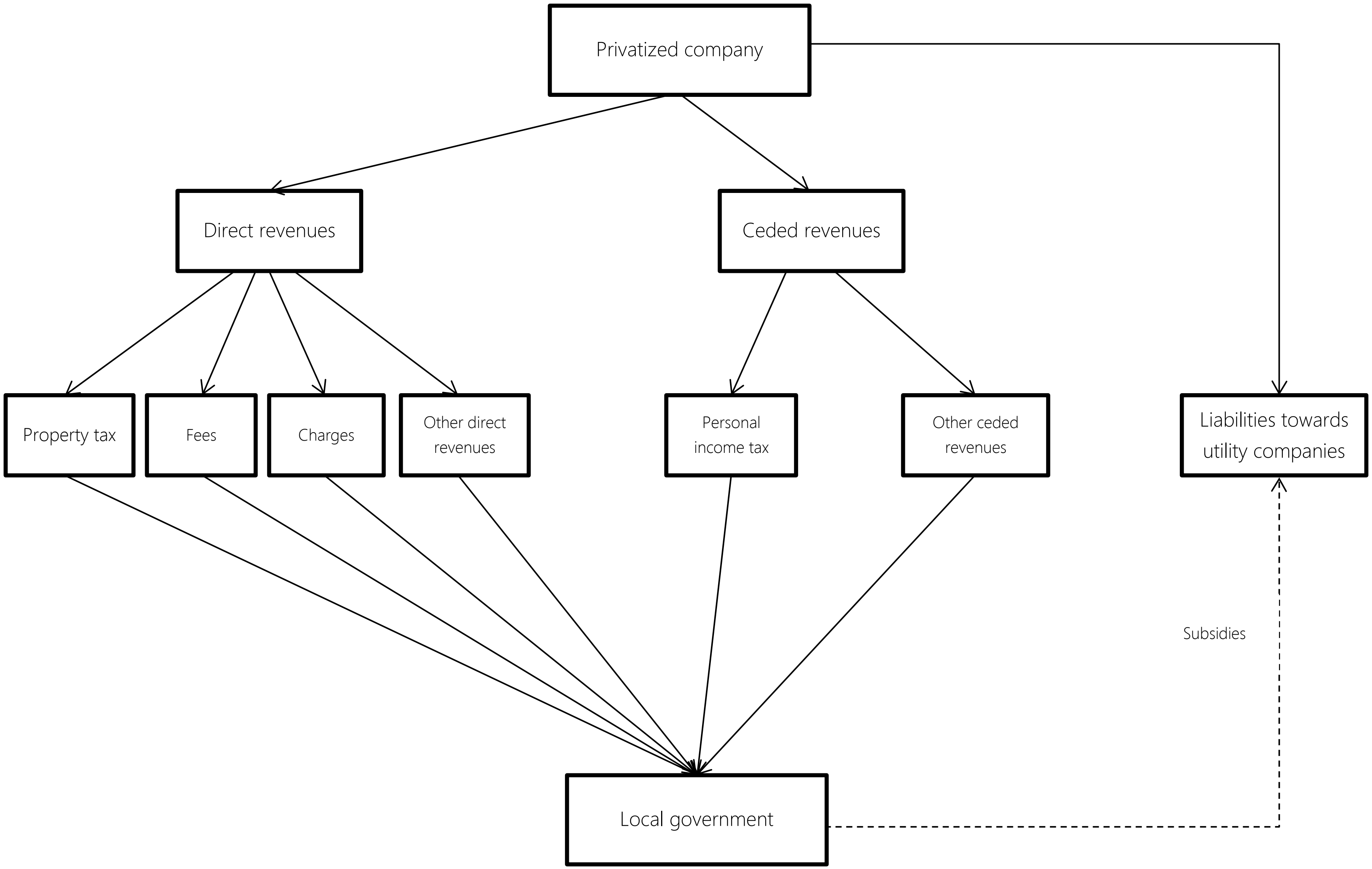
[5] For the development of case studies, we limited the analysis only to the most common sources of direct revenues.

Ceded revenues include taxes and fees whose basis and rates are determined by the Republic, where the revenues are distributed between the Republic and the local governments (cities and municipalities). In other words, the revenues achieved on the local government territory are entirely or partially ceded to the local government. According to Article 35 of the Law on Local Government Finance, these revenues include:

a) Revenues from ceded taxes (personal income tax, inheritance and gift tax and tax on the transfer of absolute rights)
b) Revenues from ceded fees and charges (annual charge for motor vehicles, fees for use of goods of general interest, fees for use of natural resources etc.)

The single most important ceded revenue for local governments is personal income tax which is paid according to the employee's place of residence. All local governments, except for the City of Belgrade, receive 80% of collected personal income tax at their territory. In this case as well, successful privatization means that a company keeps paying at least one part of payments to the local governments, where the amount of revenues depends on the number of employees and their salaries.

Aside from the duration of influence, the effects of privatization on the local government budget can be divided into direct and indirect. Both instant and continuous effects arise directly based on the impact to direct and ceded revenues. Indirect effects are caused by privatized company's operations with public utility companies. The effects can be illustrated in the following manner.



NAL

Illustration 2 Privatization effects on the fiscal position of the local government

The types of levies and their significance differ from one local government to another. The number of levies paid by businesses was reduced following the reform of para-fiscal charges in 2012, and the largest burden was taken by the budgets of cities and municipalities. The local governments tried to compensate for the lack of budget funds by focusing the financial burden on a small number of large businesses-taxpayers.[6] This is particularly visible in the cases of certain less developed local governments. For approximation of burden, we used utility company name display fee (signage fee), as its accurate share is easy to single out in the local government budget. The table shows that in 2012, smaller local governments rely more on the signage fee, so their share in total revenues was higher. In other words, less developed municipalities often have much higher share of these revenues in the total budget, to compensate for the reduction of other revenues.

Table 1 Share of personal income tax, signage fee and non-earmarked transfers in total local government revenues in 2012

Group of municipalities – (inter-municipal cooperation)	City/municipality	Fiscal autonomy LSU (FA)	Share of personal income tax	Share of signage fee	Share of non-earmarked transfers
IMC KV	Čačak	87,02%	46,8%	2,9%	12,4%
IMC KV	Gornji Milanovac	81,21%	43,2%	2,7%	17,6%
IMC KV	Kraljevo	69,78%	44,7%	2,0%	23,0%
IMC KV	Raska	76,28%	24,8%	2,0%	21,1%
IMC KV	Vrnjačka Banja	74,81%	31,0%	1,8%	14,1%
IMC NI	Doljevac	46,36%	29,4%	2,5%	47,2%
IMC NI	Gadžin Han	27,93%	15,3%	0,6%	52,9%
IMC NI	Leskovac	66,63%	41,2%	1,6%	32,0%
IMC NI	Merošina	39,18%	25,4%	0,6%	58,2%
IMC NP	Novi Pazar	66,04%	33,6%	2,4%	29,8%
IMC NP	Sjenica	30,06%	21,1%	0,9%	58,5%
IMC NP	Tutin	36,68%	17,1%	0,7%	59,1%
IMC NS	Beočin	80,85%	33,3%	0,9%	0,0%
IMC NS	Sremski Karlovci	81,97%	43,5%	0,5%	13,3%
IMC NS	Temerin	80,00%	51,9%	0,7%	16,6%
IMC SU	Kanjiža	89,12%	22,8%	0,3%	6,9%
IMC SU	Sombor	78,50%	43,3%	1,5%	16,3%
IMC SU	Subotica	86,73%	43,6%	0,8%	8,8%
IMC UE	Čajetina	89,36%	16,5%	0,5%	10,1%
IMC UE	Nova Varoš	55,60%	24,5%	3,7%	32,1%
IMC UE	Priboj	46,64%	29,8%	3,1%	50,2%
IMC UE	Prijepolje	47,58%	29,8%	3,0%	45,7%
IMC UE	Užice	83,76%	54,7%	1,7%	10,7%
IMC VR	Bujanovac	43,09%	26,0%	3,4%	45,0%
IMC VR	Preševo	32,10%	16,6%	1,6%	51,3%

[6] NALED (2014) „Non-tax and para-fiscal charges in Serbia 2014, Belgrade.

IMC VR	Vladičin Han	37,80%	21,3%	2,5%	45,5%
IMC VR	Vranje	77,41%	45,9%	3,4%	19,5%
IMC ZR	Kikinda	86,49%	34,8%	0,4%	10,3%
IMC ZR	Novi Bečej	72,41%	31,9%	1,0%	22,5%
IMC ZR	Zrenjanin	89,46%	46,7%	0,8%	7,4%

Source: Treasury of the Republic of Serbia

Note: We excluded two cities from the analysis – Niš and Novi Sad, which are also part of inter-municipal partnerships formed by USAID SLDP

According to NALED's study on non-tax and para-fiscal charges, the local governments made further efforts to expand the number of taxpayers and reach of certain forms (property tax above all) in order to compensate for the lost revenues when certain fees were eliminated. The effect of unsuccessful privatizations is very similar to the stated consequences, given that they lead to a loss of taxpayers or tax reach. Unsuccessful privatization can have particularly negative effects on the local finance, especially in case of large privatized companies. Given that failed privatizations lead to a reduced number of significant taxpayers, they often result in measures whereby the local government tries to compensate for the loss of direct revenues, such as introduction of para-fiscal charges imposed to the remaining businesses. Additionally, indirect pressure occurs given that the utility companies lose regular users of their services, which can largely impact their performance.[7] An additional effect of failed privatizations is the reduction of LG's fiscal autonomy, as they lead to a significant drop in employment, and therefore a drop of personal income tax share in total revenues and increased share of transfers from the national authorities.

Table 2 Success of privatizations in the selected cities and municipalities (May 2013)

Inter-municipal cooperation	City/municipality	Number of privatized companies	Terminated	% of terminated out of total number of privatized companies	Non-privatized	Insolvency
IMC KV	Čačak	42	10	23,8%	2	21
IMC KV	G. Milanovac	13	5	38,5%	1	9
IMC KV	Kraljevo	25	10	40,0%	8	5
IMC KV	Raška	5	6	120,0%	2	7
IMC KV	Vrnjačka Banja	9	5	55,6%	3	2
IMC NI	Doljevac	2	1	50,0%		1
IMC NI	Gadžin Han	2	3	150,0%		6
IMC NI	Leskovac	38	23	60,5%	4	35
IMC NI	Merošina	2	1	50,0%	1	1
IMC NP	Novi Pazar	19	4	21,1%	4	9
IMC NP	Sjenica	4	3	75,0%		2

[7] The regression equations using the share of terminated privatizations or the ratio between the privatized and companies in insolvency procedure to explain the share of utility fees in total revenues are not significant. One of the reasons is that, based on the available data, it was not possible to allocate appropriate weights to the privatized companies (according to the size of assets, number of employees, sales revenues etc.).

***IMC NP**	Tutin	3		0,0%	1	
IMC NS	Beočin	4	1	25,0%	0	
IMC NS	Sremski Karlovci	3		0,0%	0	
IMC NS	Temerin	8	2	25,0%	2	2
IMC SU	Kanjiža	18	3	16,7%	1	7
IMC SU	Sombor	41	12	29,3%	8	14
IMC SU	Subotica	76	16	21,1%	7	30
IMC UE	Čajetina	6		0,0%	1	3
IMC UE	Nova Varoš	7	1	14,3%	1	9
IMC UE	Priboj	5	1	20,0%	2	3
IMC UE	Prijepolje	8	4	50,0%		7
IMC UE	Užice	34	12	35,3%	2	19
IMC VR	Bujanovac	2	1	50,0%	7	1
IMC VR	Preševo	4	2	50,0%	2	1
IMC VR	Vladičin Han	6	3	50,0%	1	2
IMC VR	Vranje	12	6	50,0%	7	10
IMC ZR	Kikinda	32	4	12,5%	2	10
IMC ZR	Novi Bečej	15	3	20,0%	1	3
IMC ZR	Zrenjanin	59	8	13,6%	5	15

Source: Regional Atlas of Serbia (2014) and Privatization Agency of the Republic of Serbia
Note: Certain cases enable double calculation, given that the terminated of privatization can be followed by insolvency – such cases therefore include both Terminated and Insolvency columns

Certainly, the privatization effects also depend on the significance and contribution of privatization subject compared to other businesses. The share of terminated contracts significantly differs – in some local governments it has a range of 0% - 20%, while in other LGs it reaches a share of more than 50%.[8]

The selection of case studies and the aim of study

Given that the estimation of total debt owed to the local government by privatized companies, companies with terminated sale contracts or companies undergoing insolvency or restructuring would be highly complicated and subject to errors, the study analyzes ten privatization cases that allow calculation of concrete effects on the local government.[9]

Ten privatized companies include five companies that were relatively successful in their business performance, and five companies undergoing insolvency or restructuring procedures due to termination of contract. For a visible effect, we selected large or medium companies that either had high importance for the local government or they illustratively

[8] In some local governments, the share reaches more than 100%. The reason is that some of the companies privatized in accordance with the 1997 Law on Ownership Transformation, were partially privatized under the new framework, but the privatization was later terminated. See case study of "Jugoremedija" AD.

[9] We tried to design the case studies based on Gilson, S:C. "Creating Value through Corporate Restructuring Case Studies in Bankruptcies, Buyouts and Breakups" 2nd ed. John Wiley & Sons (2010), but instead of tables we used graphs. Additionally, with regards to the aims of this study, all case studies involve the same structure and common topics.

show the specific privatization aspects. The freedom in the selection of companies was limited. First of all, each selected privatization case (successful or failed) needed to have an adequate counterpart – a company with the same prevailing activity-sector, of similar size and similar characteristics before the privatization. Secondly, preference was given to companies seated in municipalities covered by USAID Sustainable Local Development Project (USAID SLDP). These include 32 local governments organized in 8 groups (so called inter-municipal partnerships).

Based on the performance of successfully privatized company, we calculated the opportunity cost for the peer company (failed privatization) as an alternative scenario, that is, we tried to provide an answer on what would have happened with the "bad" company if it had operated like the "good" one. The case studies include a detailed analysis of direct effects on the direct and ceded revenues in the previous 5- years, as well as the debts owed by companies to local utility companies. We collected the data for most case studies, except when no consent was provided or when data was not available due to change of accounting software or other reasons.

Sources of information

For the purpose of developing cases studies, the authors obtained financial statements, privatization programs, information memos, reports on conducted control and other documents regarding privatization, restructuring or insolvency, as well as other relevant data, information and documents on the selected companies. The financial analysis of business operations used the data from regular financial statements, registries and other available sources. To obtain further required information and documents, the authors used additional sources of information, such as official websites of the analyzed companies, business news portals, sent questionnaires and tried to establish direct contact with analyzed companies. In the collection of data on direct and ceded revenues of local governments where the companies operate, the main sources used were the data of companies and local governments' finance departments. In certain cases the authors had to give up the analysis of certain privatization cases due to a lack of or limited information.

The depth of performed analysis of business operations, market and financial position of the selected companies was limited to information available and the quality of data and documents provided to authors for insight for the purpose of developing the case studies.

The case studies were prepared according to the best knowledge and belief of the authors and they are derived from the conducted analyses in accordance with the aims of this study. The authors' starting assumption in the course of developing the case studies was that the presented information and documentation, as well as the information such as financial statements, national authorities' websites, and data obtained through authors' independent research, were true and valid. The authors did not control nor review the data and information presented to them or which they obtained by themselves. The authors do not express opinion, or in any other manner provide assurance in terms of validity, comprehensiveness and regularity in presenting the received data or data obtained through authors' independent research.

Due to frequent and sometimes major changes of the "Rulebook on the content and form of financial statements for businesses, cooperatives, other business entities and entrepreneurs" in the period for which selected companies were analyzed, certain balance positions of the balance sheets and income statements are not entirely comparable in all analyzed years. The changes of "Rulebook on the content and form of financial statements for businesses, cooperatives, other business entities and entrepreneurs" occurred in the following years: 2001, 2004, 2006 and 2011.[10]

For the purpose of developing these case studies, the financial data on business operations of selected companies are indicated in EUR. The values of companies' balance sheet and income statement were transferred to EUR, using the middle exchange rate of NBS on the adequate date for balance sheet, and average annual exchange rate of NBS for income statements. The table below lists the RSD-EUR exchange rates used in the development of case studies for the period 2000-2013.

Table 3 Used rates - average exchange rates RSD/EUR and exchange rates on 31st December in the 2000-2013 period

Years	2000	2001	2002	2003	2004	2005	2006
Exchange rate RSD/ EUR on 31 December	*58.675*	*59.7055*	61.5152	68.3129	78.8850	85.5000	*58.675*
Average annual exchange rate RSD/EUR	*50.1931*	59.5000	60.6940	65.1170	72.6937	82.9904	*27.9351*
Years	2007	2008	2009	2010	2011	2012	2013
Exchange rate RSD/ EUR on 31 December	79.0000	79.2362	88.6010	95.8888	105.4982	104.6409	113.7183
Average annual exchange rate RSD/EUR	84.1101	79.9640	81.4405	93.9517	103.0431	101.9502	113.1277

Source: National Bank of Serbia

[10] Additionally, upon finalization of case studies, the Statistical Office of the Republic of Serbia performed a revision i harmonization of the system of national and regional accounts with the new European System of National and Regional Accounts (ESA 2010). Following these changes, there were significant discrepancies between the macroeconomic indicators used in this work and newly established macroeconomic indicators of the Statistical Office of the Republic of Serbia.

Due to hyperinflation and significant devaluation of the RSD exchange rate in 2000 and later major volatility of RSD exchange rate compared to EUR, certain years show significant discrepancies observing the change of balance position values indicated in RSD and the amounts denominated to EUR. For this reason, for some years, entirely different conclusions are derived regarding the changes of some balance sheet positions expressed in RSD and the changes observed expressed in EUR.

STUDY CONCLUSIONS

Based on the analyses of case studies, we may conclude that “good privatizations are all alike; every failed privatization is bad in its own way”.

The case studies clearly indicate that the crucial factor for privatization success is the role of strategic investor which is able to perform transfer of technology, conduct measures for operational restructuring and invest in the equipment. In the conditions of unfavorable business environment, such investors are mostly not ready to take additional risk in case the issues of redundancy, unregulated ownership and financial obligations arise.

The local government interest is to have the resources of privatized company efficiently utilized as soon as possible. Case studies show that one of the effects of unsuccessful privatizations is the accumulation of debts towards the local governments and public utility companies. As a rule, in such cases the local governments had a passive attitude. Bearing in mind that they most frequently act as insolvency/unsecured debtors, the local governments and public utility companies experience a very low level of debt collection when the debtor goes bankrupt. However, compared to a lost opportunity to gain a new taxpayer and user of utility services through sale of insolvency debtor as a legal entity, a low rate of debt collection is a less significant effect of the delay in initiating insolvency procedure.

The effects on the local government vary regarding the company’s relative position. In certain cases, the contribution of such companies to the local government budget is highly significant and makes up for several percent, but an even higher cost is the opportunity cost of failed privatizations, accounting for millions of EUR. Comparing the alternative scenarios in the case study of pharmaceutical industry privatizations only, such cost in the 2007-2013 period was EUR 31.6 million.

The new regulatory framework mitigates only some of the problems (for example, the problem of over-indebtedness, i.e. the debts towards state creditors), but not the issues of redundant workers and land. Regarding redundancy issues, there are two situations – when the number of employees needs to be reduced before privatization or insolvency procedures, and when the obligations towards employees can be settled through insolvency. The first situation occurs in companies that can be privatized, but the issue of redundant workers needs to be resolved prior to privatization, i.e. in companies where the obligations towards employees need to be settled before insolvency due to company’s regional significance or other (economically justified) reasons. The second situation occurs in cases when the insolvency procedure is inevitable. To allow the issue of redundancy to be resolved smoothly in companies in the portfolio of Privatization Agency, there is a need to amend the Decision on determining a Program for resolving the redundancy issues in the process of rationalization, restructuring and preparing for privatization and increase the amount of budgets funds allocated for the “Transition fund”. According to the proposed budget rebalance, this amount is RSD 2.8 billion, i.e. ca. EUR 23.5 million, which is not enough to settle the redundancy issues in companies in restructuring, and this questions the entire process of issuing an open call to interested investors. To make a comparison – in 2011, the fund involved ca. EUR 50 million.

One of the key unresolved issues regarding the rights of privatized businesses entities and their owners: Will the state recognize and acknowledge their right over land, and to what extent, given that in the moment of privatization, they had the widest possible extent of rights – the right to use, which allowed them to construct facilities on the land? This question arises from the moment when the Constitutional Court's Decision of 10th October 2013[11] abolished the provision of Article 103 Paragraph 1 of the Law on Planning and Construction[12], which basically prevented further conversion of the right to land use to ownership right. Given that the right to construction based on the right to land use was disabled after the change of ownership regime over land, which also allowed the conversion of the same right to ownership right (with payment of a fee), the stated Constitutional Court decision made the entire process pointless, and construction land was *de facto* blocked for investments.

Except for several large companies in restructuring, it is not realistic to expect larger brownfield investments in Serbia. The business environment is crucial in the course of making investment decisions, both in case of privatizations and for new (greenfield) investments. Whereas many business environment components are exogenous for the local governments (defined on the national level or determined by external circumstances), some of the very important factors are endogenous – the local government has the crucial impact on them. Even though a number of municipalities improved their business environment, there are numerous options for further upgrade. One of the key factors on the local level is the land development fee, as well as other fees such as the local signage fee (company name display fee). While the land development fee represents a significant source of municipal revenues, other funds such as utility fees do not account for a major source of local budget revenues, and their amount is often arbitrarily determined. Further elimination of para-fiscal burden to businesses in the local government level could significantly reduce the cost of doing business, particularly for small and micro enterprises.

---

[11] Decision of the Constitutional Court No. I Uz-68/2013 of 10/10/2013 ("Official Gazette of RS", No. 98 of 08/11/2013)

[12] Law on Planning and Construction ("Official Gazette of RS", No. 72/09, 81/09, 64/10, 24/11, 121/12, 42/13, 50/13, 54/13, 98/13)