

PRIVATIZATION IN THE REPUBLIC OF SERBIA AS A BASIS FOR ESTABLISHMENT OF EFFICIENT BUSINESS

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Abstract—Privatization is the surest path to a market economy. It changes the economic logic of business, motives of business subjects, breaks up robust economic structure of social-owned enterprises, increase the level of economic efficiency, accelerates market restructuring of enterprises and creates conditions for the inflow of additional capital from country and abroad indispensable for the acceleration of economic development. The dominance of private property of the means of production is the basis of the transition process. Private ownership is only compatible with a market economy. In the Republic of Serbia has not yet been completed the economic transition, respectively not fully completed the process of privatization. According to many surveys, the main reason for slowing down the economic transition or the process of privatization is lagging behind the institutional reforms and emergence of global economic crisis. The aim of this paper is to highlight the need to establish adequate institutional solutions both for acceleration and completion of the privatization process as the main basis for the inflow of foreign investments, to maximize investments in our economy and create environment for stable economical growth, conducting efficient macroeconomic policies and strengthening of market institutions and mechanisms.

Keywords—privatization, restructuring, tender, direct foreign investment, private property, enterprise, investments, market economy.

I. INTRODUCTION

THE transition involves transformation at all levels in society. The goal which would be reached by transition is clear – it is the market economy relied on private property, rule of law and institutional stable state. The foundation of the market economy represents a rationally structured and arranged ownership basis. On that basis should dominate the private ownership that is only compatible with the market economy. The main indicators for completion of economic transition are: dominance of the private sector in the creation of the gross domestic product, a firm budget constraints at the level of state and economic subjects and radical increase in efficiency and investment.

In the Republic of Serbia, the privatization process has not been completed. Incomplete privatization and restructuring of the remaining large social-owned enterprises and public companies, insufficiently efficient process of liquidity and bankruptcy, as well as insufficient encouragement of post-privatization restructuring are the key limitations for establishment a more efficient structure of the real sector. In addition, the operations of privatized companies burdened by high indebtedness, cumulative losses and insolvency are reflected in the low production activity and insufficient competitiveness of products and services. The economic crisis has further slowed down the process of structural reforms and privatization – in 2010 and 2011, the lowest number of companies were sold and the lowest privatization revenues were achieved since the commencement of the privatization. Most of the inflow based on foreign direct investment in Serbia came through privatization in the period between 2005-2007 years. However, the process of privatization in the Republic of Serbia is significantly slowed down and has not been finalized to this day.

The study is structured in four parts. In the first part of the study is highlighted the importance of restructuring in the process of privatization. The right of restructuring of the company can be done together with privatization. In the second part of the study is pointed out the economic reasons of privatization. Our economy is in a difficult economic situation, it functions inefficiently including the losses and that's why privatization would have to be done quickly. The third part of the study deals with the basic objectives and criteria for privatization, while in the fourth part of the study are presented the effects of privatization carried out in the past decade.

II. RESTRUCTURING AS THE INEVITABILITY OF PRIVATIZATION

Without proper and complete privatization it is not possible to restructure our companies effectively in the management, organizational and financial terms. Proper

and final restructuring of the companies can be done only together with privatization, which changes the motives of business and manner of behaviour of enterprises.

„The concept of restructuring involves not only easy adaptation of enterprises to market changes, gradual adjustment of its performance, but already major changes that may be of organizational character, managerial, proprietary, technological, etc. It should be said right away that restructuring is not self-reserved „for the large state-owned or for public enterprises.“ With the law of the transformation of social capital, which was enacted in June 2001 year, Serbia was given a deadline until which the privatization process should be completed. On the other hand, however, in the text of the Act, restructuring was dedicated only two sentences, which actually need to draw more attention to this possibility.“ [11]

The restructuring in the process of privatization involves:

- status and organizational restructuring of the company, or its parts
- financial restructuring (different modalities of debt settlement)
- reducing the number of employees (preparation and implementation of social programmes)
- privatization (sale of capital)

In the process of privatization two kinds of companies are subject to restructuring: the first group is consisted of large enterprises that in its current form is not directly possible to privatize through tenders or auctions. These are generally companies that are composed of a large number of heterogeneous entities and have a very diverse production, so for them in such a form does not exist, nor is possible to find potentially interested investors. The second group is consisted of companies whose privatization in one or more attempts ended unsuccessfully after the tender or auction. This means that for these enterprises in their current form was also not possible to find an interested investor, so it was necessary to them through restructuring to get prepared for privatization.

Consequently, the process of restructuring involves organization, implementation and control of various activities aimed to enable privatization as a whole, or for parts.

The three basic stages of the restructuring process are:

- a) analysis of the situation,
- b) preparation, adoption and implementation of the restructuring programme and
- c) procedure of sale - privatization

The main objective is the successful privatization – sales of company, or its parts. Successfully implemented restructuring programme means that:

- a company, or a larger number of its independent business units
- have become market sustainable business units,

- known parts of the company, or its assets that can be sold only
- individually, outside the business units (in order to achieve sales
- target of the company without the rest), is confirmed and accepted solution for redundancy.

III. .ECONOMICAL REASONS OF PRIVATIZATION

Without privatization is not possible to create a market economic system, in which companies have real motivations for economizing means in which the company is not in need of constant care and help of the state. Without the private economy is not possible to create a market of labour and capital, without which there's no efficient allocation of resources.

Without privatization of companies is not possible to get equally involved in the global „economic competition.“ Privatization creates favourable conditions for foreign investments in our economy where the law should ensure full equality and security for all potential investors, both domestic and foreign. Only after the completion of privatization process and the improvement of the financial markets, our country could expect substantial inflow of foreign capital which mainly would come through various institutions of the financial markets.

Privatization would have to be done relatively quickly due to the fact that our economy functions extremely inefficiently and with losses. It is more than obvious that our economy is in such a difficult economic situation and cannot wait much longer to be privatized and become effective. Therefore, it appears that the rapid privatization in our case is more than justified. The concept of privatization has to balance the multitude of conflicting interests, whereby the most important attributes are as follows: political feasibility, social acceptability and economic efficiency. The concept of privatization undoubtedly represents the most important and most controversial phase of reform. The key risk constituting the model of privatization lies in its separation from the concept of total reform. “ If the concept of privatization does not correspond with macroeconomic stability, price disparity correction, eliminating the deficit at the level of company and the state, the new policy rate and interest rates and general liberalization of foreign and domestic trade, it turns into an endless series of debates about the equity ownership of the existing capital, without activating the total resource potential of society“ [12].

The main feature of the Law on Privatization is that privatization is based on the method of sale. Therefore, 70% of the social-owned (or state-owned) capital of the company is being sold, and the rest shares free to employees or to all citizens. Sale of shares of the social-owned (or state-owned) companies is carried out through auctions (tendering) or through tender (collecting offers in a competitive manner). The intention is in that way to

come to a strategic investor who will own controlling package of shares and have the interest and ability to provide and control the management of the companies.

IV. OBJECTIVES AND CRITERIA OF PRIVATIZATION

Privatization is an objective need and the basic lever of the transition. Privatization should be viewed as an economic process with which should be achieved certain economic and political goals. Objectives to be achieved by the privatization are numerous. Economic theorists who deal with the issue of privatization of non-market economies, most often cite the following objectives of privatization: a) creation of a market economy, b) improvement of economic efficiency, c) increase of government revenues and decrease of expenditures, d) attraction of foreign capital, e) development of entrepreneurship, f) technical and technological modernization of enterprises, g) reduction of political impact on companies, h) increase of individual freedom and democracy.

The existing concept of privatization proceeds from the breakup of the past and pave the way for Serbia's economy to stability and growth. Its goal is not to maintain the existing inefficient and outdated facilities, but to establish a new competitively capable economic structure for competition in foreign markets. The current concept of privatization serves as an assumption for unavoidable reforms and acceleration of transitional processes in general. Pretension of solutions on privatization is to enable majority sale of both social-owned and state-owned capital, inflow of foreign investments and maximize investments in our companies. Privatization is based on the creation of conditions for economic development, in adopted solutions acquire mandatory attributes and timely depositions.

Privatization allows the creation of conditions for foreign investments in our economy, in which the law must provide full equality and security to all potential investors, both domestic and foreign. Our country could expect enormous inflow of foreign capital which would mainly come through various institutions of the financial market, and after the completion of the privatization process, reforms and modernization of the financial markets.

The privatized economy can be effectively managed by economic policy as social enterprises generally inadequately respond to the measures of economic policies, while private, based on the policy of maximizing profit demonstrate the positive reactions.

V. EFFECTS OF PRIVATIZATION

According to the data of Agency for privatization in March 2011 in the period from 2002 to March 2011, in the Republic of Serbia totally were privatized 2.392 companies. At the auctions were sold 1.572 companies including 130.175 employees. Total revenue of sales for

these companies was 881,1 million euros, and the required investments amounted to 202, 5 million euros. At the tender has been sold 93 companies with a total number of 74.145 employees. Revenue from the sale of these companies amounted to 1,1 billion euros. In the same period due to non-compliance with contractual obligations, resulted in termination of buying and selling contract for 616 companies. The most common reasons for termination of contracts were: non-payment of installments, failure of social programmes, non-investment, disrespect of business continuity, availability of assets contrary to provisions of the buying and selling contracts.

The global economic crisis has caused a reduction in available capital and therefore reduction of investments, both domestic and foreign investors, which had an effect on the slow process of privatization in Serbia. In 2010, was sold the lowest number of companies (38) and achieved the lowest privatization revenues. (18,8 mill. euros). Due to non-compliance of their contractual obligations, totally 127 sales were terminated. The main reason for increased number of termination is a decline in liquidity and financial burden of customers due to the impact of the global economic crisis. The privatized companies to a large degree are burdened with development problems and unfinished process of post-privatization restructuring which reflected to the business activity.

As stated in the paper, most of the inflow of foreign direct investments in Serbia so far, as well as in other countries in the region came through privatization. Most activities related to privatization in other countries were realized in the second half of the nineties of the twentieth century, during a period of rapid growth of foreign investment in the world.

Inflows of foreign direct investments in 2007 were close to the amount of 2,5 billion dollars, thanks to the sale of banks. However, such a low (at regional level) general level inflow from privatization, in the medium-term, is not sustainable. In order to attract significant amounts of new foreign direct investments, it was necessary to accelerate and complete the privatization.

It should be noted that some companies, factories and banks, which are now operating in Serbia, were in ownership of foreign companies, even before the sale. During their sales money has gone to the accounts of foreign owners and can not be considered as inflow into Serbia.

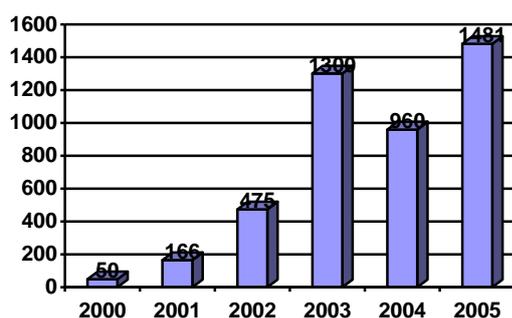


Figure 1: Foreign direct investments in Serbia (in millions of USA dollars) 2000-2005. – annual inflows. Source: Encouraging and developing strategy of foreign investments, Official Gazette of the Republic of Serbia, no. 12/06, pg. 50.

Table 2: Overview of privatized companies by sector (since 5 March 2006.)

S E C T O R	NUMBER OF PRIVATIZED COMPANIES
Industry and mining	521
Construction industry	183
Trade	178
Agriculture and fishery	104
Financial and other services	100
Crafts	89
Catering and tourism	78
Transport and communication	61
Education and culture	12
Housing and utilities	7
Waterpower engineering	6
Socio-political communities and organizations	4
Health and social care	1
TOTAL	1.344

Source: According to the report of the Privatization Agency, Belgrade, March 2006.

Almost the entire inflow of capital from tenders comes from foreign investors, while it is completely opposite in case of auctions, whereby the dominant inflow of capital comes from domestic investors. Privatization inflows that come through capital markets are equal in terms of origin of the capital. Foreign buyers are mostly transnational companies.

Many foreign companies have estimated that the general conditions for investment in Serbia are relatively independent from political uncertainty, and therefore ignored the tremors on the Serbian political scene. Questions of uncertain political status did not

significantly slow the economic development of the country.

Bearing in mind the number of privatized companies, investors were most interested in the manufacturing industry, followed by construction industry and trade. Privatization Agency since the commencement of the privation process until the end of January 2006, due to non-compliance with the contractual obligations initiated termination of buying and selling contracts for 194 privatization enterprises; in the same period, 70 legally binding buying and selling contracts were terminated.

Looking at the course of the privatization process, 2003 year is imposed as the period with the largest number of offered and sold companies, as well as the income level from sales. Decline recorded by these indicators in 2004, partly is a result of political tremor and instability from 2003 and first months of 2004. Also, in 2003 were sold some of the most attractive companies that have brought the largest inflow of money (like the tobacco industry, more successful companies in the food and brewing industries, as well as parts of the retail of petroleum industry). The government, in order to speed up the process of privatization in 2005, proposed, and National Assembly adopted, amendments and supplements of relevant laws (on privatization, Privatization Agency and Stock Fund). Competencies of the Privatization Agency are supplemented, then it performed the tasks of the bankruptcy trustee if the bankruptcy panel appointed to conduct those activities, in accordance with the law regulating the bankruptcy procedure. Some believe that the changes in the law of stock fund and the Law of the Privatization Agency threaten the property rights, enhancing the already excessive influence of the bureaucracy over the companies, concentrate power in the hands of bureaucrats and maintain a conflict of interest (Privatization Agency prepares the companies for sale, sales them and monitors the sales procedure).

VI. CONCLUSION

At the end of this study should be noted that the private ownership of resources and natural interest for rational use of its assets and its increase represents a development engine in the market economy. Superiority of private enterprise over social-owned or state-owned has been definitely defined at the theoretical plan, as well as empirically and there is no more dilemma or disput about it. There are at least four reasons why private enterprise is more efficient than social or state: 1) private property means that the interests of capital are better represented than in other forms of ownership; 2) private companies are more exposed to the discipline of commercial-financial market than state-owned or social-owned; 3) private company is more capable to offer a decent income in order to attract and retain good

managers and 4) private enterprise is less susceptible to political influence than social or state enterprises.

Since the process of privatization is a focal point in creation of the economic system and to a large degree is relied on new investments, there is no doubt that the central government must regulate uniquely the institutional environment for privatization guaranteeing a stable and equal conditions to all investors. Local barriers to capital movement to a large degree will suspend the inflow of capital and reduce the effects of restructuring.

Also should be speeded up the restructuring process of public enterprises of national interest and make their preparations for privatization, as well as preparation for restructuring and privatization of public utilities, which will require improvement of institutional and legal framework for the privatization of these companies. Increasing the role of the private sector is one of the top priorities in the next-coming period. Completion of the privatization of all remaining companies with social and national character of the property has a decisive role in ensuring the growth and development of the national economy in the future.

In order that the privatization of remaining social and state property should provide the expected effects, regardless of the model or combination of privatization model, must work intensively on organizing all market segments, with the efficient operation of the rule of law. In the next-coming period will be necessary enough knowledge and efforts to persevere on the difficult path of transition and arrival to the track of the modern market economy.

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