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## **RESTRUCTURING OF PUBLIC ENTERPRISES AS SOURCE OF INCREASING COMPETITIVENESS IN SERBIA AND SOUTH- EASTERN EUROPE REGION<sup>1</sup>**

### ABSTRACT

*In this paper we will try to identify key characteristics of public enterprises restructuring processes and analyze their contribution to overall economic competitiveness in Serbia and some neighboring countries, such as Slovenia, Croatia and Bosnia and Herzegovina. Special attention will be paid to public enterprises in the Republic of Serbia, where no major restructuring activities have been observed so far. Consequently, this sector in Serbia still faces low level of competitiveness. At the same time, a lot of challenges and open issues concerning mostly rationale for and against privatization, legal and regulatory practices, government oversight and corporate governance, transparency and accountability are present in Serbia. Last, but not least, we will try to identify key factors, on national as well as regional level, which could help increasing public enterprises competitiveness. This paper consists of five parts. The first part gives brief introduction as of changes which occurred in the region. The second part deals with the analysis of basic characteristics and some problems of public enterprises in the four observed countries. The third part analyzes the relation between the public enterprise sector and the source of national competitiveness. The fourth part treats the efforts made by the Republic of Serbia so as to restructure the sector of public enterprises, while the fifth part gives conclusions.*

**Key words:** public enterprises, restructuring, national competitiveness,

**JEL classification:** O12

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## **1. INTRODUCTION**

Huge changes in economic structures occurred in most transition countries of South-Eastern Europe (SEE) in the last twenty years. Privatization, liberalization and development of small and medium sized enterprises are some of the most important among many others. On the same time, public enterprises kept huge role in overall economic activities and the restructuring process of this sector faces numerous challenges. The evidence of the restructuring process of public enterprises sector varies from country to country within the region and has strong impact on the level of national competitiveness.

In order to reduce market failures, obtain economic development as well as municipal services and utilities, public enterprises still play significant role in Serbia, on both national and local authority level. Nevertheless, the restructuring of the (often inefficient) public enterprise sector has been also hampered by the heavy influence of political parties in the sector. As a result, in 2010 Serbia has more than 700 public enterprises, with the significant share in total economy revenues, fixed assets and employment. Almost similar situation can be found in Bosnia and Herzegovina, which has more than 300 public enterprises and over 2000 state-owned enterprises. In Croatia and Slovenia, the number of public enterprises is smaller, while the processes of restructuring have been more developed.

It cannot be confirmed that anything has been done in the field of public enterprises sector transformation in the region. In the period of transition each country tried to introduce. During the transition period, each country tried to implement various restructuring activities in this sector of the economy. Slovenia was the first to do that and the effects are visible in terms of a very high level of competitiveness at the national level - the highest of all four observed countries. Serbia and Bosnia and Herzegovina significantly lag behind the processes of transformation and restructuring of public enterprises, which results in the relatively weak competition at the national level. In these two countries during the period of transition after the year 2000, a certain number of public enterprises, particularly on national level, have gone through various forms of restructuring. Most significant activities have been focused on the start of privatization, organizational transformation (separating core from non-core activities), corporatization, downsizing and human resources restructuring, financial restructuring, etc. However, streamline of the restructuring process has been slow and main business indicators over the last nine years indicate that public enterprises lag behind the rest of the economy. Moreover, the modest short-term outlook for output and employment growth in the period of the global financial crisis underscores the imperative of further structural changes, mostly regarding the privatization and more intense restructuring interventions within the public enterprises sector.

## **2. BASIC CHARACTERISTICS AND SOME PROBLEMS OF PUBLIC ENTERPRISES IN SERBIA AND THE SOUTH-EASTERN COUNTRIES**

**Public enterprises in Serbia** - The first problem you may encounter in the analysis of public enterprises (Public Enterprises - PE) in the Republic of Serbia is their number.

According to data obtained from the Statistical Office as of December 31<sup>st</sup> 2010 there were 709 enterprises, which is 15 more than a year earlier (see Table No. 1).

**Table 1: Total number of public enterprises in the Republic of Serbia  
Dec 31, 2009 – Dec 31, 2010**

	Public enterprises					
	Total		Serbia – North		Serbia – South	
	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010
Total	694	709	281	288	413	421

Source: Statistical Office, RS

By geographical distribution the greatest number of public companies is located on the territory of Central Serbia - 535, while in Vojvodina there are 230 enterprises. In terms of economic sectors majority of them operate in the production sector and supply of electricity, gas and water - 208 (29.21% of total). In the second place there is the sector of other public utilities, social and personal services with a total of 180 public enterprises (25.28%) while in the third place there is real estate sector, renting and business activities with 15.03%, that is 107 public enterprises. In Table 2 information on the structure of PEs sector in Serbia can be found:

**Table 2: Public enterprises according to the sector of activities in the Republic of Serbia – Dec 31, 2010**

Sector	Number	%
Agriculture, forestry, fishing	7	0.99%
Mining	3	0.42%
Supply of electricity, gas, steam and air conditioning	56	7.90%
Water supply, waste water management, control of the process of waste removing and similar activities	233	32.86%
Civil engineering	103	14.53%
Trade, motor vehicles and motorcycles repair	6	0.85%
Transport and warehousing	37	5.22%
Accommodation and catering	2	0.28%
Information and communications	80	11.28%
Financial activities and insurance	3	0.42%
Real estate business	21	2.96%
Expertise, scientific, innovative and technical activities	78	11.00%
Administrative and supporting services	29	4.09%
State government and defense, mandatory social assurance	10	1.41%
Arts, entertainment, recreation	34	4.80%
Other services	5	0.71%

Source: Statistical Office, RS

What is peculiar about the PEs sector in Serbia is the fact that, out of the total number of enterprises, more than 170 is not active. In other words, according to the Statistical Office there are 589 active companies. By the end of 2009 they employed 162,931 people, which is some 12,000 fewer than a year before. In terms of the total number of employees in Serbia it is around 6.60%, which is higher than in 2008 when it was 6.19%.

When the importance of PEs sector in the economy of Serbia is concerned, the share of public sector currently accounts for approximately 40% in the creation of gross value added and GDP. From year to year, the decrease of the role of this sector is evident, partly due to privatization, but also due to the importance of strengthening the small and medium-sized enterprises. However, the importance of the state-owned sector in Serbia is still higher than in the most countries in the region.

The biggest issues and challenges which public enterprises face in Serbia are as follows:

- Extremely high political influence - relating to the election of members of administrative and executive bodies. On the other hand, this results in very weak corporate governance, no disclosure, sometimes no transparency;
- Very low effectiveness and efficiency - as a result of poor management and in many cases total lack of leadership. PEs in Serbia are seen as "prey" gained by political parties after the elections, and leadership positions are often given to the obedient, and not capable human resources;
- Extremely poor financial results – many years of unprofitable operations of the five large public enterprises – Electric Power Industry of Serbia (EPS), Serbian Railways, Yugoslav Airways JAT, PEU Resavica and Roads of Serbia have not improved for years. They are the biggest "loss makers" among public enterprises, with EPS and Serbian Railways showing 76% loss of all public companies in 2009 (43% and 33% respectively). Losses in this sector of the Serbian economy are socialized, i.e. ultimately paid by tax payers;
- Cumulative losses - indicate major development problems of public enterprises. Accumulated losses in 2009 amounted to EUR 3.4 bill (68% of the revenue of public enterprises) and are one fifth of the accumulated losses of the economy (slightly less than in 2008 when it amounted to 27%);
- The financial imbalance - Public companies are operating in insolvency (below-average quality and low liquidity ratios) and debt (9.3% of liabilities of the economy). Out of the ten companies that operate in conditions of long-term financial imbalance the following three enterprises are emphasized: PEU Resavica, Roads of Serbia and the Serbian Railways. Despite the declining trend in the total liabilities since 2001 (24.5% in 2001; 14.7% in 2007; 12.8% in 2008), public enterprises are constantly exposed to credit risk - the majority has been repaying only high-interest rates for loans obtained. The largest debt (80% of total liabilities of public enterprises) has EPS, Telekom Ltd, Roads of Serbia, and Serbian Railways. Debt crisis and the lack of long-term financial balance is particularly noticeable in the PEU Resavica (no own source) and insolvent public company such as JAT (10.6%) and Srbijagas (19.3% share of capital in total resources);
- Big possible sources of corruption - especially in the field of Public Procurement;

- Excess in the number of employees and inadequate qualification and age structure;
- Above-average salaries - constantly higher net earnings of public companies compared to the average earnings in the Republic of Serbia, except Srbijašume in 2005 and the Serbian Railways in the last five years. Despite the below-average falls in the net earnings per employee (6.9% versus 10.8% in the business in relation to 2008), the net earnings of PE in 2009 are by 43.0% higher than the average in Serbia (37.2% in 2008). The highest net income in relation to the one in business has been carried out in the following enterprises Transnafta, Ltd, JAT and Serbian Ski Paths (Skijalista Srbije) (by 2.6, 2.5 and 2.3 times respectively). This serves as a paradox - that earnings are very high and above-average in the sector which is inefficient and burdened with losses;
- Limited use of Public-Private Partnership (PPP).

In forthcoming period the PEs sector in Serbia will face huge challenges which can be summarized as follows:

- According to the Stabilization and Association Agreement (SAA) which was enforced in the Republic of Serbia January 1, 2009, by 2011 all public enterprises should be prepared for the application of the European competition rules. It was expected that corporatization of large public enterprises founded by the Republic of Serbia would be faster. However, that did not happen. It is possible that the negative effects of the global economic crisis slowed down the intentions of the Government.
- In addition to corporatization and creation of professional management, deeper organizational and structural changes are expected. There is a need to make changes in legal form - from a form of public enterprise into a public limited company.
- Increasing levels of competition, particularly in the areas of infrastructure, natural monopolies and public utilities. Public enterprises in infrastructure sectors that have the character of natural monopoly will not be privatized in majority, such as rail infrastructure, electric power transmission, international gas and oil pipelines
- Numerous problems arise in the business of PEs at the local level, and reflect mainly in technical and technological obsolescence, with many of these companies being oversized, the tendency towards irrational consumption with the simultaneous existence of high debt, high loss and budget dependency, and inability to self-fund their participation in the required large-scale investments.

**Public enterprises in Slovenia** - Identification of public enterprises in the Republic of Slovenia is done according to whether it is state-owned enterprises directly (fully or partially) or indirectly (through the Pension Fund - Kapilaska Druzba - KAD or the Restitution Fund - Slovenian odškodninska druzba - SOD). Of course, the combination of the two mentioned methods is possible.

Table 3 summarizes some data on the number of PEs in Slovenia and their total capitalization in late 2010. From it we can see that the total number of companies directly owned by the state is 50, out of which 19 of them are one hundred percent state-owned. The number of companies where the state is an indirect owner is 96, out of which 20 with 100% ownership. The total market capitalization of all 146 companies in which the state has more

than 10% ownership amounted to some 6 bill EUR. Bearing in mind that in the Republic of Slovenia currently operates more than 110,000 companies participation of this sector is not big measured by the number of companies. However, their total contribution to the creation of gross value added varies from 16-17% (*OECD Economic Surveys: Slovenia 2011*).

KAD has an important role in the PEs business operations in Slovenia. Its main function is to administer pension schemes for civil servants in Slovenia, and it also offers mandatory and supplementary pension insurance in the private sector. However, during privatization KAD has become the "co-owner" of over 1,200 companies. Over time, the strategy has changed, so that KAD reduced its portfolio from over a thousand companies, which it had after the first wave of privatization, to only 80 in late 2009. Orientation was to retain ownership share in the large enterprises of strategic importance to the economy of Slovenia. SOD was constituted to ensure the restitution to the previous owners of privatized firms.

PEs in Slovenia which are directly owned by the state are present in the fields of energy, ports, telecommunications, post and railways, banking and insurance. Five out of the nine largest companies listed on stock exchange in Ljubljana are effectively managed by KAD and SOD. These are the following: Petrol - the largest oil and other energy products supplier in the Slovenian market, Krka - the largest pharmaceutical company in Slovenia, Triglav Insurance; Sava - holding company that operates in the areas of tire, tourism and real estate, and Gorenje - manufacturer of household devices and home appliances. From the other four largest listed companies, the two (Telekom Slovenije and the New Credit Bank of Maribor) are directly controlled by the state, while ABANKA is effectively controlled by other companies which are under the control of KAD and SOD.

**Table 3: State-owned enterprises in the Republic of Slovenia**  
 – end of the year 2010<sup>2</sup> -

	Direct ownership	Indirect ownership <sup>3</sup>	
	Number of enterprises	Number of enterprises	Value (mil. EUR)
Total	50	96	5 965
- listed	0	17	305
Per cent of state ownership			
100% state ownership	19	20	2 193
Majority control package (50-100%)	15	25	2 084
Minority control package (10-50%)	16	51	1 666
Division by investment areas			
Strategic	5	9	2 548
Marketable	5	43	614
Non-marketable	31	35	2 609
Other	9	9	194
Division by sectors			
Mining and production	6	24	755
Energy	21	21	2 308
Financial services	4	8	1 457
Transport	6	9	396
Telecommunications	2	2	724
Tourism and trade	0	12	213
Other	11	20	112

Source: OECD calculations based on data provided by national authorities

Some of the issues and problems which PEs has faced in Slovenia could be summarized as follows:

- Dissatisfaction with relatively low revenues from privatization - Between 2000 and 2007 income from privatization in Slovenia amounted to less than 5% of GDP. This is significantly lower than in other transitional countries such as Hungary (which also had a very extensive program of privatization in the 1990s and where the revenues reached 7% of GDP, the Czech Republic - 9% and Slovakia - 14% (*OECD, 2009*)).
- Low productivity and profitability - especially in banking and the utilities sector where the state sector dominates.
- Slow development of corporate governance.

<sup>2</sup> Enterprises with over 10% equity share, without companies in liquidation or bankruptcy

<sup>3</sup> Republic of Slovenia, KAD (Kapitalska družba), SOD (Slovenska odškodninska družba) and PDP (Posebna družba za podjetniško svetovanje)

- Lack of incentives for management to carry out major restructuring of enterprises - due to quite dispersed ownership structure that is created after the first wave of privatization (*OECD 2002, OECD 2011*).
- Selection of board members - Although at first sight independent of both funds – KAD and SOD are not completely immune from politics and the election of members of boards is under the influence of the ruling parties.

In order to speed up restructuring and transformation, the Government has decided to change the ways of managing such enterprises. Previously, the management of PEs directly owned by the state was the responsibility of the line ministries. In September 2010 the new Agency for managing capital investments was founded to represent property rights on the basis of the Law on corporate governance of state capital investments. Its powers include the following:

- Control of all assets that are directly owned by the Government;
- Using ownership rights relating to all direct and indirect shares in property, including the nomination of board members,
- Collecting centralized information about a property that is owned by the Government Monitoring, measuring and reporting on performances
- Development and application of the Code of corporate management which would be implemented in PEs in Slovenia.

In this way the Government of the Republic of Slovenia has tried to eliminate certain weaknesses which have been identified in managing state property, as well as improving standards of corporate governance, which represented an inevitable part of the program of reforms undertaken to join OECD. It was intended to increase protection of the minority share holders, improve capacities of judicial and regulatory authorities for monitoring and compliance with the corporate laws, and complete restructuring of funds portfolio in order to reach the level of competitiveness and efficiency of the PEs sector.

**Public enterprises in Croatia** – Analysis of public companies in Croatia is focused on a group of 69 enterprises from a special national interest, from which in 28 enterprises the state ownership share is higher than 91%. In the 15 companies it ranges from 71 to 90%, and in 21 it is between 51-70%. Data on the number of companies and share in the ownership structure can be seen from Table 4. In most cases these are large companies that employ more than 1,000 workers. The PEs in Croatia employs over 110,000 workers, slightly more than 7% of the total number of employees. The contribution of these companies to creating GDP is just over 20%.



**Table 4: Number of enterprises with the state ownership share in the Republic of Croatia on December 31, 2009**

Percentage of ownership	Number of enterprises
0.1% -25%	2
26%-50%	3
51%-70%	21
71%-90%	15
91%-100%	28
Total	69

Source: Report on business operations of trade companies with special state interest in 2009

One group of problems faced by PEs in Croatia is connected with the influence of the global economic crisis. It reflected in the difficult access to finance, slower turnover and more difficult maintenance of liquidity. Among other problems and issues we can include the following:

- The problem of efficiency and effectiveness of business - managing internal resources and liabilities servicing. In order to reduce the negative aspects and create conditions for the efficient management of business processes, decisions were made by the Government aimed at streamlining operations and improving internal processes. These measures resulted in the fact that 21 public enterprises have saved the total amount of 1.8 bill kuna (*Report on business operations of trade companies with special state interest in 2009*).
- The slow process of restructuring, particularly in the shipbuilding industry, which has generated loss for years. For example, Shipbuilding "3<sup>rd</sup> May" generated loss amounting to 454.6 million kuna in 2009. Among the large loss makers the following large companies can be included: PE - INA Matica DD - 631 million kuna, the Croatian Post Bank - 448, Vupik - 434, Podravka - 287, Group Petrochemical - 267, Motorway Rijeka - Zagreb - 25, Croatia Airlines - 198, the Croatian Post Office - 196, etc... On the other hand there are examples of public companies that are very successful and profitable. Among these the following can be pointed out: Croatian Electric Power (Group) amounted to 154.4 million kuna, Plinacro and Koncar Electrical Industries Group amounted to 145.1 million kuna. Profit made in these three enterprises amounted to 444.7 million kuna and participates with 43% in the total profit of the analyzed 69 companies which in the year 2009 amounted to 1.024 million kuna, which is 8% more if compared with the year 2008.
- We are free to say that the larger systemic wave of public enterprise restructuring has not yet been implemented systematically. In mid-2010 the conference was organized in Zagreb on corporate restructuring with special session dedicated to public enterprises. So far, only a few of them have taken serious steps in terms of restructuring activities, first of all the Post and the Railways.

**Public enterprises in Bosnia and Herzegovina** - According to official data of the Federal Bureau of Statistics of Bosnia and Herzegovina and the Institute of Statistics of the Republic of Srpska, there are 309 public enterprises in Bosnia and Herzegovina (109 in the Federation and 200 in the Republic of Srpska), which is less than 0.05% in relation to the total number of enterprises in both entities. The number of state-owned enterprises is slightly higher - 1655 in the Federation and 1136 more in the Republic of Srpska. Information regarding the importance of this sector in the economy of Bosnia and Herzegovina could not be found in the official sources.

At the beginning it can be said that in Bosnia and Herzegovina the processes of privatization and restructuring have significantly lagged behind the other surveyed countries. The reasons can be sought in the war that burst out the mid 90's, the delicate political situation conditioned by the existence of two entities and the unwillingness of political elites to give up very powerful instrument of power. Slow restructuring of state-owned inefficient enterprises was identified in the report of the World Bank in Bosnia and Herzegovina: Investment Climate Assessment from 2008 and the report of the European Commission titled European Commission Progress Report in 2009. It is believed that currently over two-thirds of the state or mixed enterprises require rehabilitation and restructuring, of which one third would not survive on the market, i.e. it would be liquidated.

Among numerous burning issues in the business operations of the PEs sector we can emphasize the following:

- Problems with privatization – it is the fact that in both entities there is a huge number of state-owned enterprises. Applied privatization models have enabled political elites to maintain significant positions in the economy to achieve their own interests. Here in particular we refer to all utilities, infrastructure and so-called strategic enterprises. Political structures have fully controlled the process of appointing board members and executive management functions.
- Very low efficiency - it is considered that nearly 70% of PEs incurred loss, some of which are long-term loss makers. In the private sector, that percentage is much lower, only 25%. This problem is connected with great frauds in some PEs. Reports of the main auditors in the B&H Federation and the Republic of Srpska indicate different forms of unethical, irresponsible, and even manipulative behavior that is manifested in non-transparent procurement, "creative" accounting techniques of diverting funds through illegal amortization, impairment or sale of assets.
- Very low level of corporate governance – especially in the domain of transparency of data, transparency in business, financial reporting and protection of the rights of minority shareholders.
- Lack of expert and quality human resources, especially in the field of restructuring of enterprises.

Very bad and difficult situation in the sector of state enterprises have been recognized by the authorities of both entities. Thus, the Privatization Agency of B&H Federation in its Privatization plan and program of activities stated that a particular problem is the

unregulated and poor quality management of the state capital. Also, it was noted that although the state capital is under the formal control of the representatives of the state, there are no real mechanisms for its control. There are no sanctions for the losses in the state capital, or awards for its increase. Privatization is often delayed due to various excuses, along with the accumulation of losses without any sanctions (in the period in 1999 - 2008 losses of the state capital in the B&H Federation are estimated at over 3 billion KM). In solving this problem substantial amendments have been proposed to the Law on Public Enterprises which will adapt this sector to market conditions.

The Government of the Republic of Srpska tried to solve the problem of huge indebtedness by introducing measures of financial restructuring of debt. In order to privatize successfully the non-privatized state enterprises, changes have also been made to the Law on Privatization of State Capital in Enterprises (Official Gazette of the Republic of Srpska, No. 51/06, 1 / 07, 53.07, and 41/08). It is envisaged that the financial restructuring of debt of the company is made by converting the debt into shares of the companies. Debt refers to the total debt of the company - principal and interest - formed on the basis of taxes and duties to the budget of the Republic of Srpska as well as loans and other debts to the Republic Directorate for Commodity Reserves of the Republic of Srpska. The procedure itself involves several steps - an initiative for financial restructuring (launched by the company itself, with the consent of the competent authority in the company management), preparation and approval of financial restructuring program. Investment and Development Bank gives opinion on the restructuring and submits its opinion to the Government of the Republic of Srpska for final decision. What will be the effects of these measures we would see in time that comes.

### **3. PUBLIC ENTERPRISES AS SOURCE OF NATIONAL COMPETITIVENESS**

One of the issues discussed in this paper is whether there is a connection between the situation in the sector of public enterprises and the competitiveness on national level? The answer to this question is not so easy to give. The role of the PEs sector varies between countries, there are differences in the level of economic development and there are objective problems in finding the right data source. In addition, there has not been serious research in this area throughout the region.

In an attempt to open the space for future research we will try to point out the main elements that make up the national competitiveness. To that purpose, we will use analyses conducted by the World Economic Forum (WEF). It is an institution which enjoys high reputation in the world and which has developed a special tool - the Global Competitiveness Index. "*Since 2005, the WEF has based its competitiveness analysis on the Global Competitiveness Index (GCI), a highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness.*" (World Economic Forum, *Competitiveness Report 2010/11*, p. 4). It is very important to note that here the term "competitiveness" means "*the set of institutions, policies, and factors that determine the level of productivity of a country.*"

The relative position of the four countries that we consider in this paper is shown in Table 5. Yet at first glance, it is possible to note that Slovenia and Croatia have a significantly better ranking, i.e. relative position in relation to Serbia and Bosnia. Also, it is evident that all the countries except Bosnia have lower ranking in 2010 compared to the previous 2009. B&H has improved its position for the 7 positions from 109 to 102.

**Table 5: Relative position of the observed countries according to The Global Competitiveness Index 2010–2011**

Country	Rank 2010/11	Rank 2009/10
Bosnia and Herzegovina	102	109
Croatia	77	72
Slovenia	45	37
Serbia	96	93

Source: World Economic Forum Competitiveness Report 2010/11, p.16

If we analyze deeply the data presented in Table 5, we can see the relative ranking of each of the four countries observed according to separate pillars which make up the national competitiveness. These data can be found in Table 6.

**Table 6: Relative ranking of the observed countries according to pillars of competitiveness**

Pillars	BiH	Croatia	Slovenia	Serbia
I – Institutions	126	86	50	120
II – Infrastructure	98	41	36	93
III – Macroeconomic environment	81	51	34	109
IV – Health and primary education	89	48	23	50
V - Higher education and training	88	56	21	74
VI – Goods market efficiency	127	110	39	125
VII – Labor market efficiency	94	113	80	102
VII – Financial market development	113	88	77	94
IX – Technological readiness	85	39	35	80
X – Market size	93	70	78	72
XI – Business sophistication	115	92	36	125
XII – Innovation	120	70	34	88

Source: World Economic Forum Competitiveness Report 2010/11, pages 18-22

From the analysis of the tables we can see that Serbia and Bosnia substantially lag behind Slovenia and Croatia in terms of development of Pillar I - Institutions (120<sup>th</sup> and 126<sup>th</sup> place in relation to 50<sup>th</sup> and 86<sup>th</sup>), Pillar II - Infrastructure (93<sup>rd</sup> and 98<sup>th</sup> place compared to 36<sup>th</sup> and 41<sup>st</sup>) and Pillar IX - Technological readiness (80<sup>th</sup> and 85<sup>th</sup> place compared to 35<sup>th</sup> and 39<sup>th</sup> place). Three countries - Serbia, Bosnia and Croatia significantly lag behind Slovenia

(which has been the EU member state for 7 years now) in terms of the two pillars, namely: Pillar VI - Goods market efficiency (110<sup>th</sup>, 125<sup>th</sup> and 127<sup>th</sup> place in relation to 39<sup>th</sup> place where there is Slovenia) and Pillar XI - Business sophistication (92<sup>nd</sup>, 115<sup>th</sup> and 125<sup>th</sup> place compared to 36<sup>th</sup> in which Slovenia). With respect to Pillar No. VII - Labor market efficiency – among the analyzed countries there are not significant differences - all are within the range of 80<sup>th</sup> to 113<sup>th</sup> position.

Taking into account that public sector enterprises have a major impact on general economic trends in Serbia and Bosnia, and that the number of these companies is relatively high, we can conclude that there is a certain degree of correlation between the general situation in the field of PEs and the relative level of national competitiveness. In addition, in Part II of this paper, we have identified a number of issues and problems in the functioning of the PE sector in Serbia and Bosnia. Still unfinished privatization, lack of true incorporation, a large influence of political structures, low efficiency and other problems have their implications on the level of national competitiveness, which is significantly lower in the observed two countries in relation to Croatia and Slovenia in particular.

#### **4. EFFORTS MADE BY THE REPUBLIC OF SERBIA IN RESTRUCTURING PUBLIC ENTERPRISE SECTOR**

In this part of our paper we would try to point out the efforts that are made in the Republic of Serbia in order to resolve some of the problems identified in terms of PE sector so as to raise both its efficiency and effectiveness.

If we evaluate the effects of restructuring activities undertaken so far it can be concluded that the greater effectiveness of the restructuring process was achieved in the following areas:

- In many of the PEs at the national level there has been some progress. The use of some measures of organizational, financial and production restructuring (such as separation of non-core activities, the settlement of old debts, modernization of production and technological processes), improved the economic and financial performances in many of these companies.
- The downsizing was made, through the application of passive, and recently active employment policies, which contributed to better qualifications of employees
- In some PEs the process of incorporation has started and enhanced their development performances
- Liberalization of infrastructural activities has been completed by introducing competition in the areas of production and distribution of electricity, fixed telephony, transport of passengers and goods by rail, postal services, air traffic and oil imports.
- Financial consolidation of certain public companies was undertaken (e.g. EPS, Serbian Railways and Roads of Serbia).

The results indicate that the activities undertaken by the Government and individual public enterprises to reduce their long-term accumulated problems have some positive effects.

However, it is evident that effective incorporation of these enterprises, and above all privatization, requires changes in the existing legal framework and adoption of new laws such as Law on Assets Owned by the Republic of Serbia, Law on Public Enterprises and Performing Activities of General Interest, the Law on Public Utility Services, amendments to the Law on Privatization, etc.

In restructuring, especially in privatization of local and public utilities satisfactory results have not been achieved. In Serbia, still there is no clear concept of privatization of local public utilities, which would provide for, on the one hand, the protection of public interest, and on the other improved effectiveness and efficiency of these enterprises. Using the experience of the countries in transition, the strategy for the transformation of local public companies and determination of the ways and modalities of the involvement of private capital in the sector is being developed.

In the next period the strategy would be adopted in terms of restructuring the local public utility enterprises owned by the local self-governments. The aim of the Serbian Government and other relevant institutions is to implement a model of transformation of public enterprises, in order to preserve the public interest and also ensure their effective operations, in line with EU standards.

## **5. CONCLUSIONS**

From the analysis of the four observed countries of the SEE region, the conclusion can be drawn that the less issues we have in functioning of the public enterprise sector, the higher the level of competitiveness is at the national level. This is especially important for less developed countries such as Bosnia and Herzegovina and Serbia, which have a long way towards the European Union. Reluctance or slowness in addressing the perceived problems can only cause harm to these countries. The dominance of narrow, particular interests of political elites and the struggle for "prayer" after elections can be extremely costly for the citizens and the whole country, which results in a low national competitiveness. Hence, for Serbia and Bosnia and Herzegovina it is extremely important to complete the privatization process in the sector of state-owned enterprises and to implement real, fundamental and radical measures of restructuring in other PEs.

During our research we have identified certain common problems in all observed countries of the SEE region. Those differences are as follows:

- The lack of uniform and unique terminology which defines the 'public enterprise';
- The lack of uniform and harmonized methodology of the research in the sector of public enterprises. From this problem arises the problem of publicly available data. This greatly limits the approach to the analysis. One of the problems is the low level of transparency, especially in the case of Bosnia and Herzegovina and Serbia.

The problem of availability and later data processing regarding public enterprises is a general consequence of the fact that in most countries in this part of Europe there is no

central government agency or other organizations engaged in the systematic monitoring of this type of enterprises. Slovenia was the first country in the region to establish a special agency for the monitoring of public enterprises. The primary data sources are extremely difficult to find. Even with international organizations, such as the OECD it takes a long time to collect and process data. The OECD has spent two years to make a serious comparative study of public enterprises for its members.

The problem of inefficient and ineffective operations which reflects in high losses has been identified as a separate issue which at the same time is the key issue treated in this paper. This is particularly evident in Serbia and Bosnia and Herzegovina, as well as in a number of companies in Croatia. The problem has broader implications, since these losses must be socialized, that is, have to be covered by taxpayers' money. In this way, social wealth is not used rationally; the less is left to develop new technologies and innovation, which in turn has negative effects on overall national competitiveness.

In order to avoid being pessimistic at the end, we have to point out that the authorities of almost all countries, either individually or through international institutions and organizations, recognize the problems associated with the PEs sector. Let us remind that the recognition of the problem is the first step towards solving it. We therefore hope that a comparative analysis of the situation in the PEs sector in the SEE countries presented in this paper represent a contribution towards the search for ways to improve the efficiency and the effectiveness of this important sector in all national economies.

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