

**Budapest Business School**  
College of Commerce, Catering and  
Tourism

# **Dissertation**

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**Major: Commerce & Marketing**

**Specialization: Commerce**

**2015**

**Budapest Business School**  
College of Commerce, Catering and  
Tourism




**Analysis of corruption in the process of  
privatisation in Serbia**

## Certificate of Dissertation Consultations

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**Dissertation title:** ANALYSIS OF CORRUPTION IN THE PROCESS OF PRIVATISATION IN SERBIA

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Date	Topics	Signature
21 sept. 2015.	Privatisation in Serbia purpose, institutions	
16 Nov. 2015	Types of privatisation	
4 Dec. 2015.	Privatisation in numbers state-owned companies	

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Budapest, 09.12.2015. .....

Branislav Babalic

Signature of the Author

## ACKNOWLEDGEMENT

I would like to express my deepest appreciation and give special thanks to Dr Németh Patrícia, PhD; associate professor, Dragan Bulatović and Branko Dragaš. Dr Németh Patrícia, PhD; professor at the Budapest Business School, guided and supervised me in the rightful manner and provided all the necessary help. Dragan Bulatović and Branko Dragaš provided me with detailed interviews, giving answers on all of my questions, removing any doubts and offering me new insight about the privatisation process in the Republic of Serbia.

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## Introduction

Privatisation is the word that was often heard and used in the countries which were in the transition. Furthermore it is considered as a most important aspect of transition. Countries in this part of the Europe had to privatise their companies once they wanted to move to capitalism and free markets and become rich such as the ones from the west. In some countries word transition in itself represents privatisation as it was one of the key ingredients of transition. One of these countries experiencing transition was also Serbia, my fatherland. And in fact, Serbia did not finish its transition as global crisis hit before all companies were privatised. Crisis managed to slow down process of selling domestic companies to foreign investors, local businessman and some of the biggest companies in Serbia are yet to be privatised such as National Telecom company (Telekom Srbija), Energy Company and Supplier (Elektro Privreda Srbije), National Railways (Železnice Srbije - ŽS) Nikola Tesla Belgrade Airport (Aerodrom Nikola Tesla Beograd), Agricultural Corporation Belgrade (Poljoprivredna Korporacija Beograd - PKB) and many more.

For Serbia transition began in October of 2000 and privatisation was one of the hot topics alongside “freedom of speech” and European Union integration. Serbia already had some experience in the privatisation during the nineties but desired models were far different than one in the nineties during the regime of Slobodan Milosevic. Serbia was about to sell its assets to foreign corporations.

In those times our industry was on its knees after sanctions and civil wars but still majority of companies had high capital in terms of assets such as machinery and equipment, plants and some hot real estate properties within the country as well as experienced and well trained employees. Politicians from ruling Democratic Opposition Party were promising smooth transition as we are behind 1989 for 11 years and we can learn on mistakes from other countries such as Hungary, Slovakia, Czech, Poland and many times referred as transition champion – Slovenia. Politicians said we will become once more powerful country with high industry activity. Leading politicians were promising quick growth and reaching record economic activity of 1989 in few years time.

At the time I was already showing interest in the economy and business and I



saw opportunity for my parents and many others to find jobs and that in 15 or 20 years I will be able to continue being part of the progress.

Most of the people believed that now the country was finally on the right path and that soon more and more jobs would appear with higher economic activity. With first privatisations employees encountered massive layoffs and that was sign that they were cheated once more, after the Milosevic, this time by politicians which meant to be opposite from previous regime. In fact, employees were treated much worse under the newly democratic regime than with the one of Milosevic.

15 years after the beginning of the privatisation in the Serbia, I can clearly say that not that politicians and economists only have lied and did not improve our industry but have completely destroyed it. High unemployment, many companies closed, shelves filled up with imported goods, empty plants and low economic activity are today's situation. In my opinion our industry is in the state of catastrophe. Therefore I would like to investigate and find out how and what have happened during the privatisation that have brought us to the worse position than 15 years ago and worst position since the 1989.

Although privatisation in the Serbia was mostly new to the public, there were cases of privatising companies in Serbia before 2000. Main things for all of the companies privatised in the period before 2000 were many irregularities following them. Exactly the same thing followed privatisations even after 2000. As a matter of fact, according to the member of Anticorruption League Balkan, Dr. Darko Trifunović, every single privatisation since 2000 should be investigated. He added that Serbia is country of organised crime in the last few decades which brought Serbia on the brink of collapse and that all of the privatisations were carried out with money coming from offshore companies<sup>1</sup>. In the following chapters I will refer to the documents and information provided by this team - Anticorruption League Balkan. Members are Dr Darko Trifunovic, professor at University of Security (Fakultet bezbednosti - Beograd) and Domagoj Margetić researcher and journalist from Croatia.

### **Significance of study and main research questions**

It is vital to understand how was the process carried, who was involved and

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<sup>1</sup> Tacno.net 2013

what are the results. Word privatisation was very often heard and used on daily basis appearing in the news, newspapers, discussions etc. Then In 2008 financial crisis hit the world. Serbian politicians also used crisis to blame for unsuccessful privatisations. Then Minister of Economy Mladen Dinkić was saying that crisis will surpass Serbia and that in fact we will take advantage from it meaning that world corporations will rush into Serbia and will compete for our companies, providing high income for the state budget and many work places for the workforce<sup>2</sup>. Since 2008, global financial and then global economy crisis was blamed for the failure of the privatisation in Serbia by leading economists and politicians. Nowadays no one is working on the problems and failures occurred since 2000 as well as on the aftermath of the whole process. Therefore I would like to note following questions: Why did we have to privatise? How were privatisations of companies carried out? Why are many of privatised companies out of business? Who is involved and responsible for failure in privatization? How should we solve issue of disputable privatisations? How should we privatise rest of the companies?

### **Goals for this study are as follows:**

General goals are to find consequences of the privatisation, methods, corruption processes and social effect. Work during the research was directed toward process of the privatisation so that consequences would be unveiled and explained and finally offered solution.

Social goals are to provide public with information about the processes, consequences and solutions for the privatisation in the Serbia as well as for the other countries in this part of the Europe or any other country that is currently experiencing privatisation. This is very convenient way to get insight about the privatisation in Serbia, mistakes could be avoided and hopefully this research could start open discussions.

Scientific goal is that this research could help to motivate people to get involved with the privatisation and use provided solutions for the companies waiting to be privatised as well as for the controversially privatised companies.

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<sup>2</sup> Istinomer.rs 2010

## **Methods of research**

Mainly I will use secondary sources such as annual reports, published case descriptions, articles, magazine and newspaper reports, TV shows and government web sources. Multiple sources of data will be used to increase validity and reliability. It should be stressed that the secondary data in this research will be largely in Serbian language. In addition to that I have interviews with two top economists from Serbia. Branko Dragaš, who knows well the situation and was protecting UMA (Udruženje Manjiskih Akcionara – Association of minority shareholders) from the tycoons, politicians and domestic businessman in the process of privatisation where minority shareholders were cheated and manipulated. Dragan Bulatović, chief executive and held top positions in several companies, created program for privatisation in two companies and faced all the irregularities while being CEO in two companies.

## **Structure of the research**

In the beginning are described concept and types of privatisation in Serbia. Following that are shown some interesting numbers and data related to companies involved in the process. Controversial and successful privatisations are next as well as example of the state owned company pushed into privatisation. Finally, there is explanation of the corruption process, interviews and offered solution.

# **I Concept of privatisation in Serbia**

## **1.1. What is privatisation<sup>3</sup>?**

Privatisation is the process of transferring an enterprise or industry from the public sector to the private sector. In other words it is change of ownership from state and social capital to private in the case of this research.

Government agencies are running public sector which is part of the economic system. Privatization is an ongoing trend in many parts of the developed and developing world. Some economists argue that privatisation strengthens competition in the private sector, fosters more efficient practices, which eventually yield better service and products, lower prices and less corruption. On the other hand, critics of

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<sup>3</sup> Techtargget.com 2013

privatisation argue that some services such as health care, utilities, education and law enforcement should be in the public sector to enable greater control to the government and ensure fair access of such services to the people.

## **1.2 History**

The most interesting feature of the system of the Socialist Federal Republic of Yugoslavia, later Federal Republic Yugoslavia (Serbia was sole legal successor as it was founder) was the right of use of firm's funds by the managers and workers councils, within the bounds of the laws and without the right of sale of the firm's property and assets. Yugoslav economy certainly seemed to a high degree a true market economy as opposed to a centrally planned economy. Moreover centrally planned economy was over in the 1960's.

Therefore, the most important characteristic of the Yugoslav system was that it empowered employees and provided them with the belief that they owned the corporations and the companies that they were employed in. Furthermore they were protected as they had rights to vote within the corporation on some issues or decisions and were members of the labour union. In addition to this many employees were able to enrol for the housing benefits which meant rent-free housing for the family of the employee, getting subsidies for house or flat purchase, applying for and receiving flats in permanent ownership after few years of the work for the corporation as well as the free of charge use of real estates in the summer resorts for the whole family. Comparing to the working conditions that nowadays employees got, especially workers, we can clearly see that both managers and workers had great benefits next to their monthly salaries.

## **1.3. Beginning**

Although Serbia in 2000 had chance to undergo privatisation in efficient way since many other Eastern European countries were at the end of the privatisation process, Serbia did not follow and did not learn from their mistakes. The advantage of learning from mistakes from the other countries which already ended their process of privatisation did not occur.

In 1989 started model of internal privatisation in Serbia thanks to founding stock exchange in Belgrade as well as Act on Financial Operations and Laws on

Social Capital. Employees and former employees could buy shares with 30% discount and on top of that 1% discount for each year of service in the company totalling up to 70% discount. Continued deteriorating political situation in the Serbia as well as with the other Socialist Federal Republic of Yugoslavia members lead to armed conflict, civil war and UN sanctions slowed down process of privatisation. As the country was under UN sanctions, economic activity was very low, exports stopped and domestic consumption fell, Serbia (at the time Yugoslavia consisted of Serbia and Montenegro) was hit by record hyperinflation and many companies suffered. There was adopted Law on Conditions and Procedures to transform property as property which was in the social ownership could not be privatised as it did not belong to the state. Therefore social capital or ownership could be transformed into state. State was extremely unfair where it literally punished minority shareholders when was used new Act on revaluation. This situation was used and each year where coefficients grossly overvalued social capital, drastically reducing the share of privatised capital therefore wiping the value of shares of the private ownership.

In my opinion the model had a good base as the employees would owe the company, be able to choose the management, have the right to vote in the company and would be able to protect their own interest opposing the situation now where the new owners are seeking for quick profit. And it is important to note state was involved in decreasing private share in the companies by revaluation and annulling previous efforts of employees to become owners therefore this process hardly can be evaluated as it was under specific circumstances as well as not executed properly.

Quick profit for owners, businessmen and tycoons nowadays means selling the assets of the company such as real estates, machinery and equipment, leaving the employees on the street, without jobs and little possibility of getting another for their profession in the Serbia.

As the country did not manage to avoid or solve issues and disputes with other countries and was left in the situation that had to be involved in conflicts, therefore, from this point it is difficult to see how would the process end simply because laws could not function as intended under very specific circumstances.

#### **1.4. Purpose of the privatisation in Serbia**

There are few reasons for privatisation in Serbia. After political changes in October of 2000, Government wanted to get "closer" to the European Union. Modernising our industry on the one side and high interest of European corporations to enter our markets on the other side. Another reason why politicians were ready and eager to start such an important and complex process was that they saw chance to get rich in short period of time. Their prime interest was financial gain from the privatisation and not the reforms and prosperity of the nation. We can clearly see that today as high unemployment, closed factories, low salaries and market filled with imported goods means that privatisations was not as it was promised by politicians. All of these will be discussed in the following chapters.

Perhaps one of the most honest reasons for the privatisations was revenue for the state budget and those funds would be used for increase of the salaries of the employees in the public sector as well as investment in the infrastructure, building new highways and investments in railways.

Perhaps most important purpose according to statements of the politicians and economist was to create efficient economy powered by privately owned companies rather than state owned. State owned corporations and companies were believed as not rational, not efficient, many times depending on its monopolistic position and not being able to compete, not modern etc. State owned companies were also employing in the management unskilled managers, highly paid and employed thanks to ruling political parties, many times taking wrong decisions or doing business in favour of their political friends. State was also many times paying debts for the companies, preventing them from going bankrupt and saving the jobs.

Politically popular promises regarding voucher privatisation, reforms and new work places were securing many votes in the very often held elections and were used to manipulate people as they mostly believed and voted expecting that external privatisations would bring them eagerly expected jobs and internal privatisations would deliver some capital to the employees. These were very ruthless promises helping gain votes and securing places in the parliament.

General public expected new investments, new technologies, superior management, better organisation, higher production, new workplaces, new markets,

possibilities for young engineers, career opportunities, and higher salaries leading to higher life standard.

### **1.5. Institutions involved**

Institutions involved are: Ministry of Economy, Agency for Privatisation and Share Fund. Privatisation law is stating institution responsible for the privatisation process in the country. According to the laws are defined rules and rights of the institutions from deciding which companies should enter the process, under which model, when to start process, supervising the process etc. Institution created solely for this purpose is Agency for privatisations. Ministry of Economy appoints Director of the agency and the Board for four years<sup>4</sup>.

Ministry of Economy is under jurisdiction of the Government. Hierarchically Ministry is on the top and does not interfere with the decisions of Agency but does suggest privatisations of the biggest companies if the Government decides so. It also observes work of the Agency.

Ministry of Economy created Privatisation Agency which is fully responsible for the implementation of the privatisation process and has the real power over the process. The Agency carries out the sale of state and social property in the privatisation process, as well as tasks of promotion of the privatization process, the implementation of the privatization process, control of the privatisation process, sale of public capital expressed in shares of the Share Fund. The Agency's activities facilitate a complex process of change of ownership over the capital and/or assets from public ownership into private. The Agency is committed to its fundamental objectives: to enable viable companies to remain active in the market and further develop their business through transformation of ownership, and to help unsustainable companies to solve their financial problems through reorganization, or through bankruptcy. The process of privatization is structured through key tasks performed by the Agency, such as: promotion, organization, implementation, control and representation of capital.

Share Fund acts as a legal entity and as such sells shares which were previously transferred to it according to the Privatisation law while central register

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<sup>4</sup> Antikorupcija-savet.gov.rs (2001)

for the securities records and keeps track of all transferred shares and changes.

According to the Privatisation law, all funds collected during the process are paid into the account of the Agency. Agency is distributing them in the following order: 50% of the revenues are transferred for the financing of the recovery of the economy in the territory of the Republic of Serbia, 30% for the budget, 10% for the Fund of social and pension fund, 5% is reserved for repayments to the individuals affected during the nationalisation process after the World War 2 and finally 5% is allocated to the local council according to the location of the company, for the financing of the infrastructure investment.

## **II Types of privatisation**

There are few types of privatisations but if we would look at large number of privatisations many times would be used variations in the sense that companies would start with one model and due to some reasons such as political change, unsuccessful model or company importance to the state, privatisation would be finished in other model. Analysing different sources we can see that there are 3 main types (Internal, External and Voucher privatisations) and depending on the source, some try to define privatisation with adding more types, or dividing one of the main types in few main types. (Dhanji and Milanovic, 1991) and (Mejstrik, 1997)

We can clearly distinction first three models (Mejstrik, 1997) as they are stated everywhere and add fourth main type which would suit actual privatisations model in Serbia.

Majority of the companies were privatised using the external privatisation model which can be divided into subtypes.

It is important to note that some companies in Serbia experienced more than one model, and models deferred from company to company as sometimes some exceptions were made especially in the case of public tenders.

### **2.1. Internal Privatisation**

In the internal privatisation shares of the company are distributed within the company employees, managers and pensioners, former employees, in the most cases



completely free of charge based on the years spent in the company. There are also more calculations taken into the account in some cases such as the position of the employee with the company or income. Additional number of the shares are available for the purchase for the workers, former workers and managers, at the discounted prices. These numbers are prescribed and employees can practice this right.

Now it is clear that within internal distribution of the shares are two types: free giveaway and sales of shares.

Advantages are numerous. Company stays within the policies of its employees meaning that they will be able to decide about their own fate if they decide to stick with the shares. Employees are more determined as they are owners too. There are yields in terms of dividends next to their salaries. More rights and vote in the company. As they are owners it is believed that they care more. It is very popular with the employees of successful companies. The whole process is not difficult to organise. This type of privatisation can gain points for the Government and political parties involved.

Disadvantages are that employees with less years spent with the company will get less shares and might not be satisfied. In addition to that, if workers are not involved enough in the running the company and are not familiar with business which is doing the company, they might be cheated by majority shareholder or management which is in purpose doing harm to the business so that shares would lose the value and workers would be manipulated that is the time to sell the shares as value is going down and by that workers would be worse off. Another disadvantage and perhaps the most important, from the state budget and leaders point of view, is that in this case state budget would not receive high revenues from the privatisation and the state budget would not be increased.

## **2.2. External privatisation**

In the external model of privatisation shares are offered for the sale to the domestic and/or foreign interested individuals or companies. It is very popular as it can generate high revenue for the state budget. Mean of sale is auction where highest bidder wins the right. There might be few rounds of auction if interest is high and state determines stake. State can decide whether it will sell 100% of the company,

51%, 50% plus one share or in the case state wants to remain majority shareholder less than 50% of the shares.

Advantages are high revenues for the budget, competition within the interested parties, attracts foreign investors which are believed to bring in more experienced and superior management, new machinery, technology and markets thus increase sales, tax revenue and employment. Moreover country generates revenue in terms of foreign currency which improves balance of payments in short term.

Disadvantages are dangerous from state security point of view. If state sells national assets of vital importance to the foreigners, it no longer has the power over those assets. Often there are proposals not to privatize completely companies or assets as country is losing power. In addition to that, foreigners tend to take abroad the profit.

### 2.2.1. Public tender<sup>5</sup>

The public tender is sale of 70% of the state-owned capital by public tender in accordance with the specific terms and conditions of sale. This type was used for corporations, large companies and some medium-sized companies for which was decided to find a strategic partner.

The initiative launches for public tender is launched by: company if management decided so, Ministry of Economy, and potential investors. They need to inform the Agency for Privatisation with their initiative and follow strict procedures during the process. Employees may acquire free shares amounting to 15% of the capital to be privatised. At least 15% of the capital to be privatised is intended to be divided with the citizens free of charge. This includes citizens which enrolled voucher privatisation. The right to participate have all the adult citizens of the Republic of Serbia. This capital is recorded in the Privatisation Registry, and its division will be made 2 years after the end of privatisation.

Public tenders are organised and conducted by the Agency for Privatisation and may engage advisers which are selected again through public tenders, and play a significant role in the analysis of information of the company as well as choice of the best offer and participation in the preparation of tender documents. Tender

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<sup>5</sup> Kombeg.org.rs (2009)

Commission is formed by Minister of Economy and is monitoring the whole process. Members are: three representatives of the Serbian government, local government representative from the seat of the company and from the company.

### 2.2.2. Public auction<sup>6</sup>

The public auction is a method of privatisation where participants in accordance with the specific terms and conditions of sale are taking part in the public auction. In an auction price is determined by the highest offer and following that buyer signs the contract of the purchase of capital or assets of the company. The public auction is method of the sale of 70% of capital.

There are eight phases in the process of the public auction:

1. Initiative which kick starts a privatisation of a given subject. Initiative is launched by interested customer, the Ministry of Economy or the company decides to launch the initiative.
2. Prospectus: After launching the initiative, the company has 7 days to submit basic information about the company, balance sheet and income statement in order for the prospectus to be completed by the Agency.
3. The privatisation program: The company needs to develop privatisation program. The legal deadline by which the program must be submitted to the Agency for verification is 90 days from the date of initiation.
4. Approval (verification) The first verification level - where it is determined whether the program is fully completed. Official verification - where the program is thoroughly checked and all the documentation and on that basis determines the value of the company.
5. Preparation for auction: Agency issues the public call in the Official Gazette and the daily newspapers for the sale of 70% of the value of the capital in the company at least 30 days prior to the auction.
6. Participants of the auctions: Sale of the company with the method of auction is conducted by the Commission which is established by the Agency. Commission has

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<sup>6</sup> Kombeg.org.rs (2009)

three members which are appointed for one or more auctions. Potential buyers need to register for the auction, buy the auction documents, paid in deposit in cash or to present the first class bank guarantee.

7. Auction: Initial price at auction is 20% of the value of the capital of the firm offered for sale (of 70%). Deposit to be paid is 50% of the starting price at the auction.

#### 8. Obligations of the buyer

A buyer who wins the auction signs a contract with the Agency about the purchase of the subject of the privatisation and thus undertakes the following: investment obligation to a subject within 12 months. These investments must be made in cash or in any other material assets. Further obligation means no layoffs in the next year and to follow business continuity and to declare that they will engage in business activities of the subject in next two years. Another obligation should determine the dividend for each of the two following years from the date of fulfilment of the conditions with at least 10 percent of the profits.

Buyer shall not sell, transfer or in any other way alienate sales of new capital shares acquired or entered later in the procedure of recapitalization for a period of 2 years from the date of fulfilment of conditions. Buyer shall not sell, transfer or in any other way alienate any of the major assets of the subject in one or more transactions, in the amount exceeding 10% of the total value of the assets which are shown in the last balance sheet, for a period of 1 year from the date of fulfilment of conditions.

### 2.2.3. Restructuring<sup>7</sup>

The Privatization Law stipulates methods of privatisation which are: sale by public tender and public auction. In addition, there is also a process of restructuring that is preceding the privatisation of the company in one of the two above methods. This is the case when subject for privatisation is not attractive to the potential buyers. The aim of the restructuring is to enable successful privatisation of such enterprises.

As operators in certain phases of restructuring appear Ministry of economy as a strategist, the Privatisation Agency as an operative and controller, the company that

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<sup>7</sup> Kombeg.org.rs (2009)

is responsible for the accuracy of the information presented, the union from the company should actively participate in the design of social programs, the creditors to approve the restructuring program and significant cooperation can be established with advisors from the Agency, government institutions and international consulting institutions.

The reasons why enterprises are entering restructuring process prior to the public auction or tender are following: indebtedness, low productivity, redundancies of the workers possessing outdated skills, inadequate micro and macro organisation of companies, technical and technological obsolescence and physical resources. Often happened that these factors were accumulated.

Criteria for the identification of the company for restructuring are: lack of interested buyers, solvency, existence of production programs which can foster recovery and very often national and regional importance of the company. There should be at least one of the condition enlisted in order for the company to enrol for the restructuring otherwise is likely to enter liquidation process or bankruptcy.

#### 2.2.4. Sale of shares on the Belgrade stock exchange

Share Fund is specialized financial institution which sells the shares remaining from the previous privatisation process, on the basis of the former Law on Privatisation and other acts that regulated the ownership transformation. At the same time Share Fund contributes to the increase of trade in shares, and played a pioneering role in the formation of capital markets in Serbia. This model of privatisation was used for the companies which enrolled in the process of privatisation according to the Law on Privatisation before 2000 and affected companies which were in the social ownership. Part of these companies were privatised before 2000 and 60% of the shares were offered primarily to the employees, pensioners and previously employed workers as well as option of left shares for the general public in the form of distribution based on the years spent working. Remaining 40% became property of the state. After 2000 companies with such structure of shares were sold on the Belgrade Stock Exchange – Belex.

### **2.3. Holding companies**

Holding companies have more purposes. They are discussed as possible vehicles for privatisation. Shares of the holding companies are offered to the public as well as to the investors from abroad. Shares are purchased not only by individuals but as a fact more by institutions such as pension funds, investment institutions, banks and foreign companies. Holding company buys shares in various companies. Buyer of the shares of the holding company in this case does not depend on the business success of one certain but rather at the general result of all of the companies which are under the holding company. It is believed that holding company can maximise profit for companies as it controls financial operations and directs the managements of the companies.

Main advantage is that allows for the fast privatisation as one holding company created by state owns several companies. When shares of the holding are purchased, simultaneously are privatised all companies included at the same time. Because companies of different industries are at same place, owning share of the holding is less risky. Holding companies can cut the informal links between companies and government in communication, subsidies and tax preferences.

Disadvantages are insufficient role of the individuals owning the shares in decision making, general public are not well informed and does not know and trust much into the holdings. This model resembles of the previous situation where each company was state owned and so directly under control of one of the ministries and government. From the company point of view situation did not change much as they are still very vulnerable to mass decisions from small number of people making big decisions. Previously that would be one ministry and after the privatisation of the holding that would be board of directors. Layoffs, redundancies, restructuring and plant closures can easily affect workers.

### **2.4. Voucher privatisation**

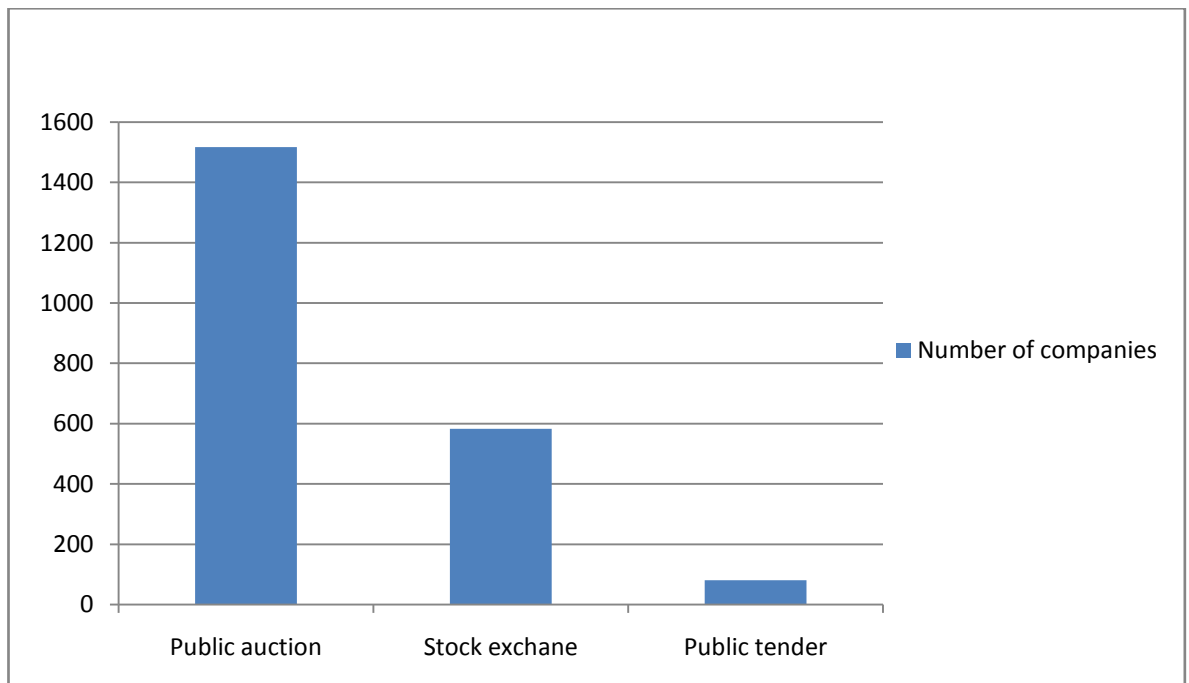
Voucher privatisation is distributing shares of ownership to all citizens, in majority cases at no cost or at very low price, less than market value. Citizens apply for book of vouchers that represents potential shares in any state owned company. (Mejtrik, 1997) They are in this case typical outside owners meaning they are not employed. Employed individuals in these companies cannot apply for the voucher

distribution as they have benefit of being employed in those companies. This model can be also classified under external privatisation with shares of the companies offered for free to the domestic individuals but is more clear and preferred by some economists if separated from other models.(Dhanji, Milanovic, 1997) As a matter of fact I have enrolled for the voucher or free shares.

### III Privatisation in numbers

In order to get more complete picture of the privatisation process in the Republic of Serbia I would like to present data from this year which would give some interesting insights into effects of the privatisation process after nearly 15 years. Certain number of companies were not privatised during the process as contract was terminated at some point. This would happen if new owner of the company would not meet obligations such as payment for the company, social program for employees, no investment, no production etc.

Graph1: Number of privatised companies



Source: own work

In Graph 1 we can see number of “successfully” privatised companies. That means that process was not cancelled or in other words transfer of ownership was

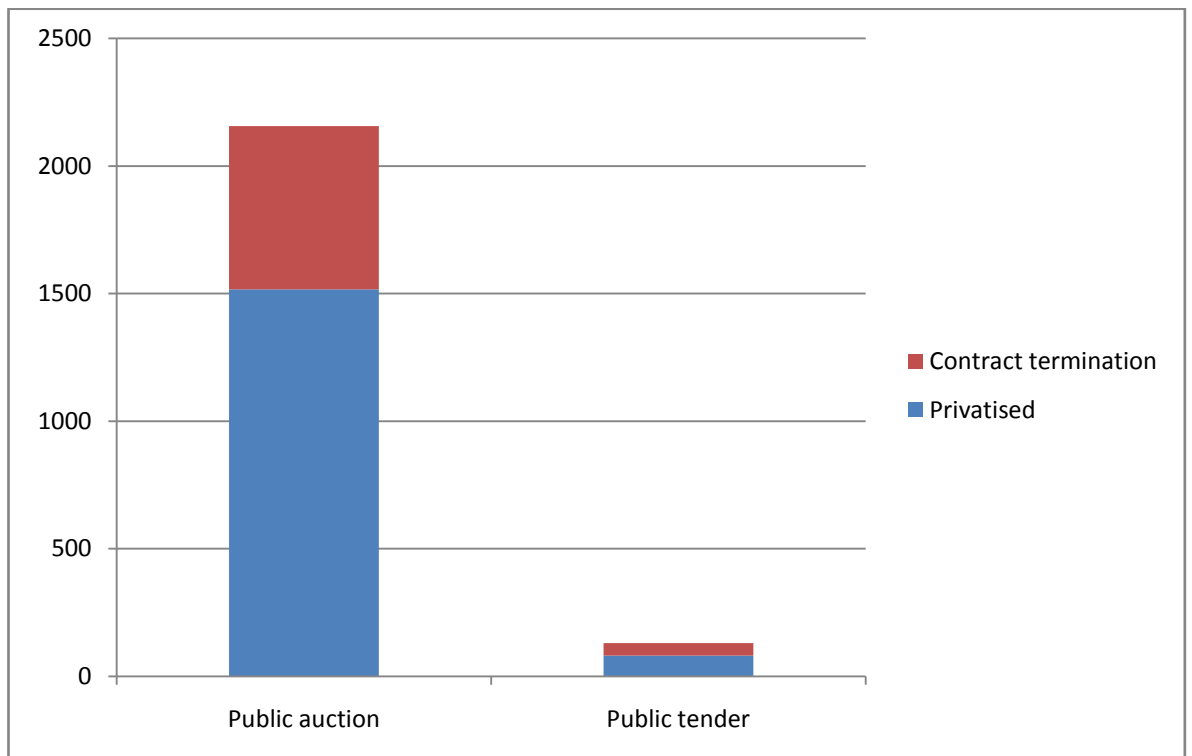
successful.

1517 companies were privatised through public auction sale

81 companies were privatised through public tender

583 companies were privatised through sale on the stock exchange

Graph2: Proportion of privatised and cancelled privatisations



Source: own work

In Graph 2 we can see that number of terminated contracts is reaching around one third of the privatisations in both, public auction and tender.

639 contracts termination in case of companies privatised through public auction sale

49 contracts termination in case of companies privatised through public tender

186 companies were privatised through sale on the stock exchange (previously terminated contract for companies privatised through public auction or tender)

1039 companies were sold through sale on the stock exchange (previously privatised companies according to the law, without termination of contracts)



3.7 billion Euros was total income from the privatised companies<sup>8</sup>

2.5 billion of Euros is expected income by the government for the privatisation of Telekom Serbia

275.000 (approximately) people are still employed in the industry

800.000 (approximately) - number of people who lost their jobs during the process of privatisation<sup>9</sup>

## **IV Controversial privatisations**

According to the investigation of the Anti-Corruption Agency of the Republic of Serbia, there were found 24 controversial privatisations. Investigation was carried out largely due to the pressure from the Serbian Government as it needs to fight corruption if desires to continue European Integration<sup>10</sup>. Anti-Corruption Agency found and pointed 24 privatisations which must be analysed and presented all the irregularities following process of privatising them. Agency in itself does not have power to find guilty subjects involved in the process but rather to provide with the facts, clues and evidence to the police and prosecutor's office. It did so, however the results of the work of the police and prosecutor's office remains very questionable. Highest ranking officials in Serbia are in majority cases members of the ruling political party. They were appointed to the position with change of the Government or they were forced to swap political party. In Serbia this is publicly known. Newspapers are reporting this but nothing happens although there might be clear political interest behind it. Why would they have to change political party if they are professional, doing their work according to their duties and laws? Answers are simple. They need to follow the orders from superior in their political parties. Not accepting change of the political party will result in termination of their work and newly hired person will take that position as financial rewards are high, new position, power status etc. To break this circle is very hard and it seems no one ever tried it. All of the political parties were using since the multiparty system was

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<sup>8</sup> Novosti.rs (2015)

<sup>9</sup> Novosti.rs (2015)

<sup>10</sup> Euractiv.com (2012)

introduced in the eighties. Therefore it is important to note that many decisions, investigations, promotions of the personnel is based on political decisions rather than on professional. How is this affecting Serbia? It is affecting strongly and slowing down true reforms as well as fight against corruption.

I would like to note that this process was started in 2012. What are the results of the investigation will be discussed in the next point. Before that I would like to emphasise that there were no true intention of fighting corruption and in that sense no true EU Integration as every point during the integration needs to be fulfilled. With this we can see that all Governments since 2000 are leading us to the EU, while on this road we had to take many painful decisions for the economy, integrity and territorial sovereignty, thus by not filling this important point of corruption we will never be part of the EU. In addition to that, this not the only point our Governments cannot fulfil. There are many more.

Therefore my conclusion is that all our Governments have strategy for the country to get to the EU but with their work we are surely not getting there. It is the same with the controversial privatisations. Government and their institutions cannot solve these 24 controversial privatisation, although they are saying it's one of their goal to fight corruption, they have not done enough<sup>11</sup>. Fighting corruption means results, such as; cancelled contract of purchase, company being returned to the ownership of the state, subject involved in this case being prosecuted and jailed.

Politicians in Serbia have only one goal. To get power in their hands, which can allow them to rule the country and get rich quickly. Getting rich is not possible by their official incomes. Several functions, opening companies which will win in the public tenders are one of the options. Privatisation process is another.

#### **4.1. What happened with 24 controversial privatisations<sup>12</sup>**

Since the European Commission requested from Serbia solving 24 controversial privatisation in 2012, only 5 of them have reached court proceedings! For four cases have been found that there were no elements of criminal offense and only six cases were indicted. There was not even one judgement. According to the documents presented to the Center for Investigative Reporting in Serbia (CINS). For

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<sup>11</sup> Javno.rs (2015)

<sup>12</sup> Blic.rs (2015)

the rest of the cases local police departments are involved in the investigation such as police units in Belgrade, Smederevo and Novi Sad, but also the Financial Investigation Unit (SBPOK).

With the beginning of this process one special unit of police was formed in order to increase efficiency and speed of the work but it was dismantled due to the cutting costs in the Ministry of Interior. In four cases, the Special Prosecutor's Office has determined that there are no elements of crime. In four additional cases other prosecutors are in charge - "Ceramics Kanjiza", "Šinvoz", "Zastava Elektro" and IP "Prosveta". In the process of investigation are still following companies and institutions: "ATP Vojvodina", "Sartid Smederevo", "Veterinary Institute", "Department of Accounting and Payments", "National Savings Company" and "Mobtel".

#### **4.2. List of the 24 controversial privatisations<sup>13</sup>**

Following companies were labelled controversial by European Commission: Jugoredmedija, Keramika, Veterinarski zavod, Sartid, Tehnohemija, ATP Vojvodina, Šinvoz, Telekom, Mobtel, C Market, Luka Beograd, Zastava Elektro, Azotara Pančevo, Trudbenik Gradnja, Del Real, Srbolek, Prosveta, Department of Accounting and Payments, National Savings Company and Nuba Invest. In addition, Ministry of Interior is investigating the case of sugar exports to the EU, the award of the concession for the construction of Horgoš-Požega motorway, as well as large mainstream Medias such as "Vecernje Novosti" newspapers and the case of the pressure and control over the printed media.

In addition to the important privatisation, such as the privatization of "C Market" retail chain, one of the largest drug factories in the region "Jugoremedija" and the takeover of the port in Belgrade "Luka Beograd", these cases involve selling company in bankruptcy or in the process of restructuring, like the steel plant in Smederevo, giving land under concession for construction of Horgoš-Požega motorway, famous case about sugar exports to the European Union (EU), the establishment of the company Mobtel, as well as free rent of national real estate space to the National Savings Bank.

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<sup>13</sup> Antikorupcija-savet.gov.rs (2011)

Anti-Corruption Agency between 2003 and 2011 submitted a series of reports to the Government and the Prosecution, indicating irregularities and pleading for immediate investigations. Even though this agency was created by the Government, its work was never taken into account and I can conclude that its function was only created to fulfil legal basis and had no impact on privatisation process. Moreover Agency had no power to prosecute subjects involved in the corruption. Therefore it turned to Brussels with following report: "The questions which have remained unanswered", after which the EU addressed Serbia to react, investigate and prosecute involved parties. The most important reports and initiatives on the phenomena of systemic corruption are part of the 24 disputable privatisations. Brief details are available to the public on the website of the agency.

### **4.3. Current status of the process**

Investigations: Keramika, Veterinarski zavod, Sartid, , ATP Vojvodina, Šinvoz, Mobtel, Zastava Elektro, Prosveta, Department of Accounting and Payments and National Savings Company

Indictments: Tehnohemija, Luka Beograd, Srbolek, Jugoremedija, Nuba Invest and HIP Azotara

No organised crime found: C Market, Trudbenik Gradnja, Del Real, sugar export to the EU, concession for construction of Horgos-Pozega motorway, Telekom Serbia

It is more than obvious that there is no real fight against corruption in the Serbia. In the late December of 2013, Prime Minister Aleksandar Vučić declared that investigation process will terminate by the end of the week and following that we can expect the Special Prosecutor's Office to continue based on the previous investigation and pass judgments<sup>14</sup>. More than 3 years passed since Government declared fight on the corruption and no judgements were passed. For me it is clear that there is no honest fight against corruption and no desire to solve disputable privatisations. Fighting corruption was only pre election promise, or in this case pure lie, as it seems that obstructions are always coming from above. From the people being part of the ruling political parties.

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<sup>14</sup> Blic.rs (2013)

In the late 2012 were held series of arrests. Richest businessman in the country, tycoon Miroslav Mišković, was arrested under allegations of abuse of the position held in the privatised company. Miroslav Mišković, alongside of his son Marko Mišković and with help of business associate Milo Đurašković unlawfully obtained 1,5 million Euros in one transaction. This trio gained over 36 million Euros with sales of assets and loan fraud of the privatised road construction companies. Miroslav Mišković was suspected that in one transaction he was reimbursed with additional 1,5 million of Euros. Previously, the Company for Roads Niš( Preduzeće za Puteve Niš - PZP Niš), for privatisation of the Company for Roads (PZP Beograd) in 2005 took 23 million loan from Mišković's company "Hemslade trading limited" from Cyprus, with an annual interest rate of three percent. However, instead of 25 million loan with interest, paid him 26,5 million and difference of additional 1,5 million was paid into his personal account.

Marko Mišković, the owner of "Mera Investment Fund BV" from the Netherlands Antilles, acquired financial gain in the amount of 18 million Euros, difference in the price of buying and selling 47.59 percent stake PZP Niš.

Milo Đurašković, owner of "Nibens corporation", "Sher Corporation" company "Emisio broker" and privatised enterprises for roads, with the abuse of official position had benefited in the amount of 12 million Euros in the purchase of shares "Nemetali Topola". On his personal accounts he received 4.5 million, while "Cher Corporation", received about 7.5 million<sup>15</sup>.

Businessmen trio had used off-shore accounts, companies opened abroad, many transactions, sales of assets, transferring funds into their personal accounts and many more illegal activities while their companies were not paying taxes, employees, suppliers etc.

Proof that there is no honest fight of the corruption in the process of privatisation is that trial of businessman Miroslav Mišković, his son Marko Mišković, the owner of "Nibens group" Milo Đurašković and other defendants for abuse in road maintenance companies is starting all over again in the Special Court

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<sup>15</sup> B92.net (2012)

in Belgrade<sup>16</sup>.

We can clearly see that arresting powerful tycoon Mišković was purely political move. Winning elections was the main goal of the current Prime Minister Aleksandar Vučić. Unfortunately many voters believed that his intentions were real, that he is trying hard to bring justice, solve disputable privatisations and to solve problems in the judiciary. Nothing of this happened. His promises that cases will be solved and that first judgements will appear by end of the 2014 were pure lie as the whole system lays in the corruption<sup>17</sup>.

From my experience and findings, Mišković, his son and their associates will not be charged. There were no true reforms and the system seems more corrupt than ever. Politicians can only try to stay as longer as they can in power and to reach that goal they will do everything, including deceiving public by alleged fight against tycoons and criminals. Moreover, EU commission orders to solve these privatisations did not help even though Serbian politicians are following most of the orders coming from Brussels.

#### **4.4. New cases of corruption**

Anti-Corruption Agency filled in May 2015 new report to the Government of Serbia about the controversial privatisations where agency analyzes the cases of Industrija Precizne mehanike, Agro Dobanovci and Trajal Corporation Kruševac.

The report on the privatisation of the three companies has been submitted to the Public Prosecutor's Office, Ministry of Interior and Ministry of Justice. According to the latest information, these cases were submitted for consideration to the Prosecutor's Office for Organized Crime.

As we could see in previous points, with 24 controversial privatisations, we could say that Serbia was closest to reaching some justice, punishment for criminals involved in illegal activities and takeovers, but the results were missing. Many of the irregularities for hundreds of the companies around the Serbia were reported by employees, management or minority shareholders to the police but action was never taken. Criminals were not brought to justice and they will not be if same sort of

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<sup>16</sup> Blic.rs (2015)

<sup>17</sup> B92.net (2014)

politicians will remain in the power. No matter if they are left or right wing, socialist or democratic; all of them had chance in the past 15 years to prove that no one is above state and law. And all of them failed.

## **V Successful privatisations<sup>18</sup>**

There is no doubt that the privatisation process in Serbia can be evaluated as a failure. A large number of previously successful companies were ruined by privatisation; thousands of workers lost their jobs. A large number of companies were privatised enterprises with primary aim of getting rich quickly. It is not possible to turn the business around over night and become very successful but it is possible to get rich after sale of assets. New owners did not purchase companies with intention to continue and improve business, raise the standard of living and the number of workers, increase productivity, production or export, but because they knew value of the company's land, real estates, materials, machinery etc. Money was pulled out of the companies through associated companies, machinery and real estate sale, employees were not paid, very often wages were delayed for several months, not paid contributions for the workers such as health care and pension which were required by law, and such stories ended in court. Companies were going out of business, with debts that cannot be settled, workers not being paid for several months, often more than a year, companies left without equipment, with lost clients and markets...

However, not all privatisation have been as terrible and devastating as majority. On the contrary, there are companies in the Serbian market which were significantly improved by the privatisation, although, in relation to the total number of privatised companies, they are in the minority. Therefore, these successful companies nowadays, because of the privatisation, are among some of the most successful companies in the Serbia. According to the Agency for Privatisation, the best implemented privatisation include privatisation of the Rolling Mill in Sevojno,

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<sup>18</sup> Blic.rs (2012)

"Health" from Leskovac, cement factories Kosjerić and Novi Popovac, Tobacco Industry Niš, "Merima" from Kruševac, "Frikom" from Padinska Skela etc.

Some of the companies which enjoyed success thanks to the privatisation:

NAFTNA INDUSTRIJA SRBIJE (NIS): NIS was privatised in the late 2008 by the Russian Gazprom and was one of the companies making losses before entering the privatisation. In this transaction Gazprom purchased 51% stake in the company for 400 million Euros. The majority stake was sold with the obligation of the Russian partners to invest 500 million Euros in modernisation of Refinery in Pančevo which was done within the stipulated time. NIS was privatised in specific way as for it was not used one of the processes previously explained but intergovernmental agreement. Sale of NIS was part of an intergovernmental agreement between Serbia and Russia, which included the construction of South Stream gas pipeline through Serbia and the underground gas storage in Banatski Dvor<sup>19</sup>. NIS is still the most profitable company in Serbia, although its profit dropped from 427 million Euros in 2013 to 241 million Euros in 2014. NIS made profit of 442 million Euros in 2012 and is committing further investments in the company<sup>20</sup>. Biggest culprit of fallen profit for the past year was strengthening of the euro exchange rate and the dollar against the dinar as well as drastic fall in prices of crude oil in the world markets. NIS was employing 13,025 workers before the privatisation and nowadays has 7,629 employees. In the case of NIS not only the new technologies cut number of employees but also new method of employing people. Many of the redundant employees are still working for the NIS through agencies for employment whereas employees are hired for short and specified period of time, being paid with minimum wage, not having bonuses nor paid holidays or benefits for dangerous type of work.

IMPOL SEVOL: Rolling Mill in Sevojno was purchased in 2002 by the Slovenian company "Impol" for 6.5 million Euros. The company changed its name to "Impol Seval" and the customer was fully committed to the investment commitment of nearly 15 million Euros. Privatization Agency points out that production increased by more than 6 times in 2007 comparing to the year before

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<sup>19</sup> Slobodnaevropa.org (2014)

<sup>20</sup> Ekapija.com (2015)



privatisation, 2001. On the tenth anniversary of the privatization, in 2012, "Impol Seval" announced that during the 10 year period it realized more than a hundred different investment projects worth about 64 million Euros. Net income in 2013 was about 270 million, while the number of employees was 722 (before privatization was 1,123 employees).

ZDRVLJE LESKOVAC: This pharmaceutical company was bought in 2002 by Iceland "Pharmaco HF", which was subsequently renamed to "Actavis". The price was 3.5 million Euros, with investment commitment of 20 million Euros. According to the Agency for Privatization, "Zdravlje" finished in 2003 with losses of 10 million Euros. In 2013 company realized net profit of 1,2 million Euros. With 2065 employees in 2003, the number decreased to 391 in 2013. In the "Zdravlje Actavis" was invested about 35 million Euros altogether for the development of production capacities and introducing the latest technologies for the production of drugs.

CEMENTARA KOSJERIĆ: "Tithys Limited" from Cyprus purchased the company and guarantor in this transaction was "TITAN Cement Company" from Greece for 35 million Euros and investment commitment of 28 million Euros which was fully committed. Cementara has changed its name to "Titan cement plant Kosjerić". Operating revenues from 2000 to 2010 increased more than four times, and consolidated net profit in 2013 amounted to 8,7 million Euros. Number of employees decreased from 657 to 263. In the "Titan Cement Kosjerić" privatization was invested nearly 56 million Euros, much more than investment commitment and the current production capacity is about 750,000 tons of cement per year.

CEMENTARA NOVI POPOVAC: After the privatisation name was changed to "Holcim Serbia". It was sold for 45 million Euros to "Breitenburger" Auslandbeteiligungs, GmbH, Germany, with Holcim Ltd. of Switzerland as a guarantor. The investment commitment was in the amount of 75 million and it was fully committed. Operating income was increased five times from 2000 to 2007. Net profit in 2013 was almost 12 million Euros. Number of employees decreased drastically from 2408 to the present number of 288. Annual capacity of cement plants has reached 1.35 million tonnes of cement and mortar.

DIN Duvanska Industrija Niš: Tobacco Industry Niš was sold for 387 million Euros in 2003 to "Philip Morris", with an investment commitment of 64.85 million

Euros. Operating revenue almost tripled by 2008. Number of employees decreased from 2402 to 415 while net profit in 2013 was nearly 20 million Euros.

MERIMA Kruševac: "Henkel" bought Merima in 2002 for 14.4 million Euros and renamed the company into "Henkel Serbia". From the moment of privatisation total production (detergents, powders, soaps, cosmetics etc.) rose from about 39 thousand to almost 122 thousand tonnes in 2007. Net profit in 2013 amounted to 1.48 billion dinars, and the number of employees decreased from 1151 in 2002 to 432 in 2013.

FRIKOM: Frozen food industry "Frikom" from Padinska Skela was sold in 2003 to Croatian company "Agrocor" for 10 million Euros, with an investment commitment of 22 million Euros, which was committed in the first year after the privatisation. From 2006 to 2013, operating revenues went up from 57 to 90 million Euros. Number of employees at the day when privatisation process started was 762 and this number increased to 1045 in 2015<sup>21</sup>.

SOJAPROTEIN: "Sojaprotein" was privatised in September 2002, becoming an integral part of the "Victoria group". Since the privatisation factory recorded growth in production and business results: the production from 2002 to 2012 doubled (from 126,000 to 250 thousand tons), exports increased by over seven times, the total revenue from 54 million reached 133 million Euros. The biggest investment was 30 million Euros in a new plant for the production of traditional soy protein concentrates. Today "Sojaprotein" by its processing capacity of over 250,000 tons per year and by the variety and quality of products is among the most important soybeans processors, exclusively non-GMO soybeans, in central and southeaster Europe<sup>22</sup>.

GOŠA MONTAŽA: "Gosa Montaza" was successfully privatized in the 2006 by the Consortium of employees with more than 78% stake in the property. One of the very few companies which was privatised by the employees and in that sense it is one of the most successful. Company was employing 977 employees before 2006 and now employs 948. Revenue went up from 10 million in 2006 to the 24 million

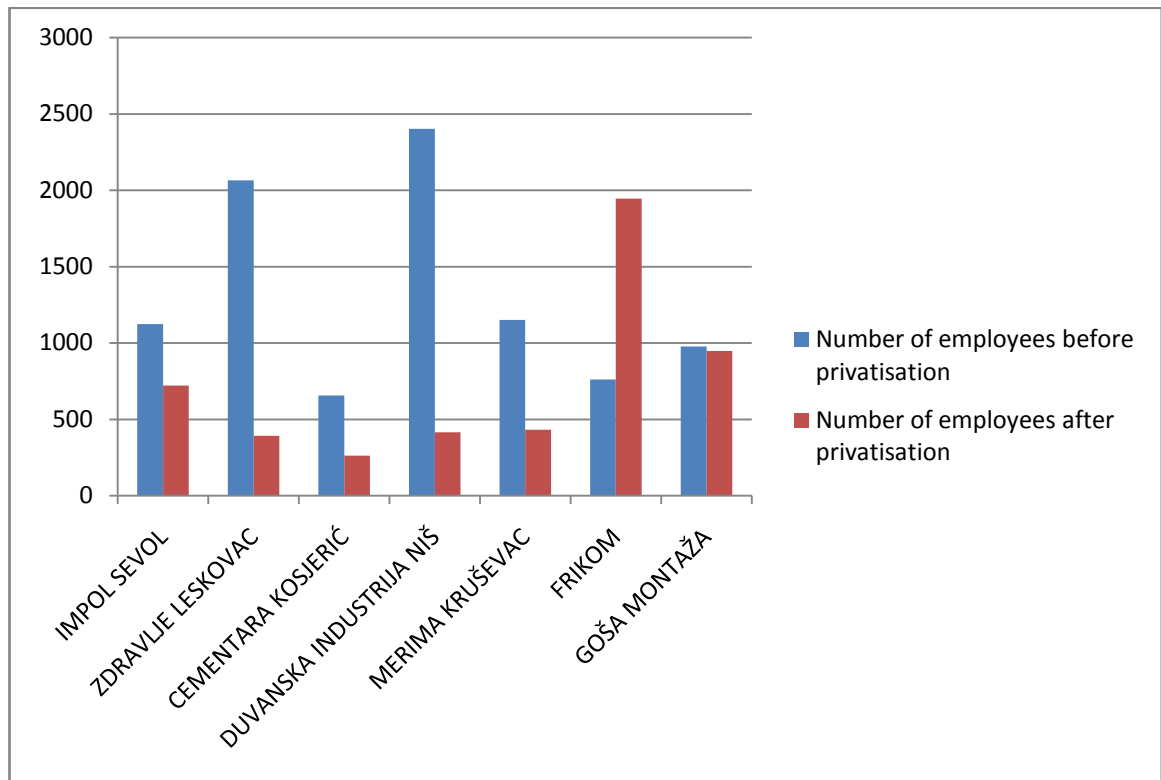
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<sup>21</sup> Novosti.rs (2014)

<sup>22</sup> Vreme.com (2014)

Euros in 2013<sup>23</sup>.

Graph 3: Number of employees before and after privatisation



Source: own work

Graph 3 represents fact that although privatisations in these companies were labelled as successful, most of them significantly reduced number of employees. It is understandable that new technologies means more efficient and less depended workforce production. Duvanska Industrija Niš has lost nearly 2000 workers, as before the process it had 2402 comparing to 415 after. Most of the other companies were in the similar situation. Goša Montaža has lost only 29 workers and only company out of this list that had increased number of employees is Frikom, which more than double number of employees from 762 to 1945 and it can be labelled as best in that term in this list.

<sup>23</sup> Gosamontaza.rs (2011)

## **VI State owned companies**

Process of privatisation in Serbia is slowly approaching to its end. Few big companies are still in the ownership of the state and very interesting to the potential buyers. Such companies are following: National Telecom company (Telekom Srbija), Agricultural Corporation Belgrade (Poljoprivrednia Korporacija Beograd - PKB Korporacija ), Energy Company and Supplier (Elektro Privreda Srbije - EPS), National Railways (Železnice Srbije- ŽS) Nikola Tesla Belgrade Airport ( Aerodrom Nikola Tesla Beograd).

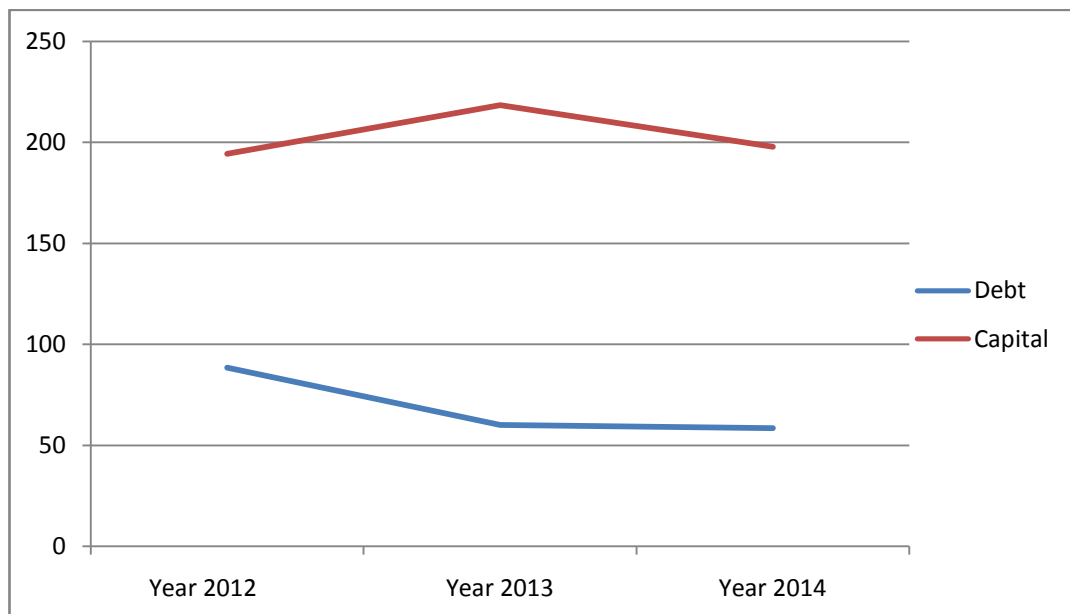
Currently first two companies are present in the media and are next to be privatised. Therefore I will present the situation in the media and opinion of the economists who are against such privatisation of successful and very important companies to the state.

The main activity of PKB is production of raw milk i.e. Cattle milk which is based on a beautiful composition of milk type of Holstein-Friesian cows, enriched by the Canadian and American genetics. PKB is producing cattle food, mainly for its own purposes and partly for the external sale, as well as seeds (wheat, barley, corn, soybean and sunflower) which completes in own processing centre, both for internal use and for external sale. PKB occupies a total of 30,000 hectares and cultivates 22,000 hectares.

PKB is strategically important to the country and Belgrade as it controls large amount of food production and sale, employs 1880 people and is one of the largest company in this segment in the Balkans. Moreover, inconsiderate privatisation would threaten food production in the country. New owner could stop production of the seeds and simply import foreign seeds from companies such as Monsanto as privately owned company only cares about profit. Monsanto is producing Genetically Modified Organism seeds, which are untested and potentially very hazardous for the health of consumers and animals. Therefore company of such strategic importance cannot be privatised in the manner which is happening right now.

If we look at the financial statements by the well known professional service company KPMG (Analysed by Branko Dragaš in articles) we can clearly find misuse of the politicians in the power who are trying to pull this privatisation as soon as possible. For me, it is obvious that this job cannot be done in proper manner as for the results to be, one need to work hard. Company of such size cannot be privatised without discussion of the top economists.

Graph 4: Debt and Capital of the PKB Corporation



Source: own work

Graph 4 is showing debt and capital of the company where we can see that capital of the company have increased slightly since 2012. On the other hand, debts were largely decreased from 88,48 million Euros in 2012 to 60,00 million Euros in 2013. In the year 2014 debt was lowered to 58,42 million Euros even though company did not receive premium for the milk from the state.

Mayor of the Belgrade, Siniša Mali, is pushing this company to the privatisation. In the media he is pushing the company to the privatisation with insisting that company has debts and that City of Belgrade cannot support its losses. We can see that pattern is the same as described in the process of wrong doing before actually privatising the company as it was described before. There is always only one solution and that is privatisation. There are no other discussions, there are no other

possibilities but company is making losses and it needs to be sold. Usually regardless of the price, someone else needs to take over company and debts. What is interesting, that mayor is only able to say that company needs to be sold as it has debts of 60 million Euros. There is no other explanation, there is no analysis of the business, there is no public discussion and there are no alternatives. Notorious lie is that company keeps making losses year by year as claimed by the mayor! He also added that Town hall in Belgrade has neither resources nor people who could manage the company. It seems that mayor of Belgrade forgot possibility of advertising necessary role in the company and that there are people who could fill that position. As Siniša Mali decided to privatise PKB, it seems that everyone needs to obey<sup>24</sup>.

In the case of PKB corporation, there are several possibilities as company is not in bed shape and not hopeless. PKB decreased losses significantly from year 2012 to the year 2013, cutting its debt by one third. Company in the following year lowered its debt by only 1,68 million Euros. However we could add to this sum more than 3 million Euros of premium for milk production which state did not pay to the PKB and in that case we could have nearly 5 million Euros lower debt comparing to the previous year of 2013 which is around 8%. Mayor of the capital is not mentioning fact that only PKB did not receive premium for milk, unlike privately owned companies, competitors. In my opinion it is obvious part of the plan to worsen the financial picture of the company. Moreover Siniša Mali was involved in numerous privatisations which were failures and this company is just another possibility to earn money. He keeps mentioning that company had debts of 60 million Euros and that company must be sold<sup>25</sup>. Furthermore Siniša Mali somehow forgot to mention fact that company made operating profit of 232 million RSD which is 1,97 million Euros. And we could add here missing 3 million Euros of the premium for the milk. That would made 5 million Euros operating profit<sup>26</sup>. There was not even a single word about this and that is simple because there is no strategy to privatise this firm in the manner which would be good for the company or the state or Belgrade. Only strategy is to sell as soon as possible so that involved politicians could made high commission fees in their wrong doing.

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<sup>24</sup> RTS.rs (2015)

<sup>25</sup> Lobi-info.rs (2015)

<sup>26</sup> Dragas.biz (2015)

Professor in the University of Agriculture in Belgrade-Zemun, Miladin Ševarlić said that the PKB Corporation is the largest agricultural business of its type in Europe and therefore has to be under the special care of the state and the public and to see what is the public interest in the sale of the company. "I agree that the PKB should experience a change, but not in this way. Only those who know nothing about the agricultural business or may have some other intentions may propose this method of privatisation," said Ševarlić. "The proposal of the sale of PKB is an example of losing the national sovereignty. No government in the world would allow the proposed method of selling something 'on a plate', near the capital, and which provides food security," he said. Analyst Đorđe Vukadinović said that the sale of PKB is issue of national importance and that, according to the ancient custom, "if someone is not crazy or a gambler, he sells land only if it befell some big trouble." He said that economic arguments are being invented for the sale of PKB and described them as "an insult to the common sense"<sup>27</sup>.

Economist Branko Dragaš is arguing that company is not valued at 197,8 million Euros but much higher. He and his team of experts valued PKB in the 2007 at 648,9 million Euros and he is saying that company is of a much higher value nowadays. Furthermore Branko Dragaš is commenting that only one part of the land of the company is valued at astonishing 201 million Euros. Little more than value of the whole company.

Calculation for such a high value of the land is following: There is a new bridge passing over the Danube river in the Belgrade, near Borča, which increased the value of surrounding land PKB, which is the agricultural land but it can be turned into building land which is more expensive. In the vicinity of the bridge are 300 hectares of the PKB land. Here is the most recent data. PKB has sold 5 hectares of land, which was renamed into construction land. The state estimates that a square meter of construction land costs - 8,000 dinars. Computed in the Euros it is 67 Euros per square meter. This means that a hectare of land costs - 670,000 Euros.

Land surrounding the bridge is 300 hectares big and if we multiply it with the

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<sup>27</sup> Novimagazin.rs (2015)

previously stated price result is 201 million Euros! Price is based on the price already used in for the sold land. Tycoons are buying this land because they have information from politicians. They know what are the plans to build around the bridge such as new shopping malls etc. according to Dragaš.

By sale of the land around new bridge “Mihajlo Pupin” PKB could receive 201 million Euros, could pay out its long term and short term debts and still have over 140 million Euros for investments<sup>28</sup>. It is simply incredible amount of the lies and corruption involved in the activities before privatisation. General public is not informed, media is not covering facts, data and experts’ opinion, mayor is the only major figure when it comes to the PKB and media. For me, personally, it is painful to find these shocking details.

Trade Union and workers need to work together and fight against this privatisation which will see company being sold for much lower price, in my opinion nearly 10 times less and hundreds will be made redundant. President of the trade union of the PKB is Milisav Đorđević and he is saying that PKB is being privatised only due to the land next to the new bridge. He added that Belgrade received PKB company from the state as gift and that now Belgrade is not legitimate to sell the company<sup>29</sup>.

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<sup>28</sup> Dragas.biz (2014)

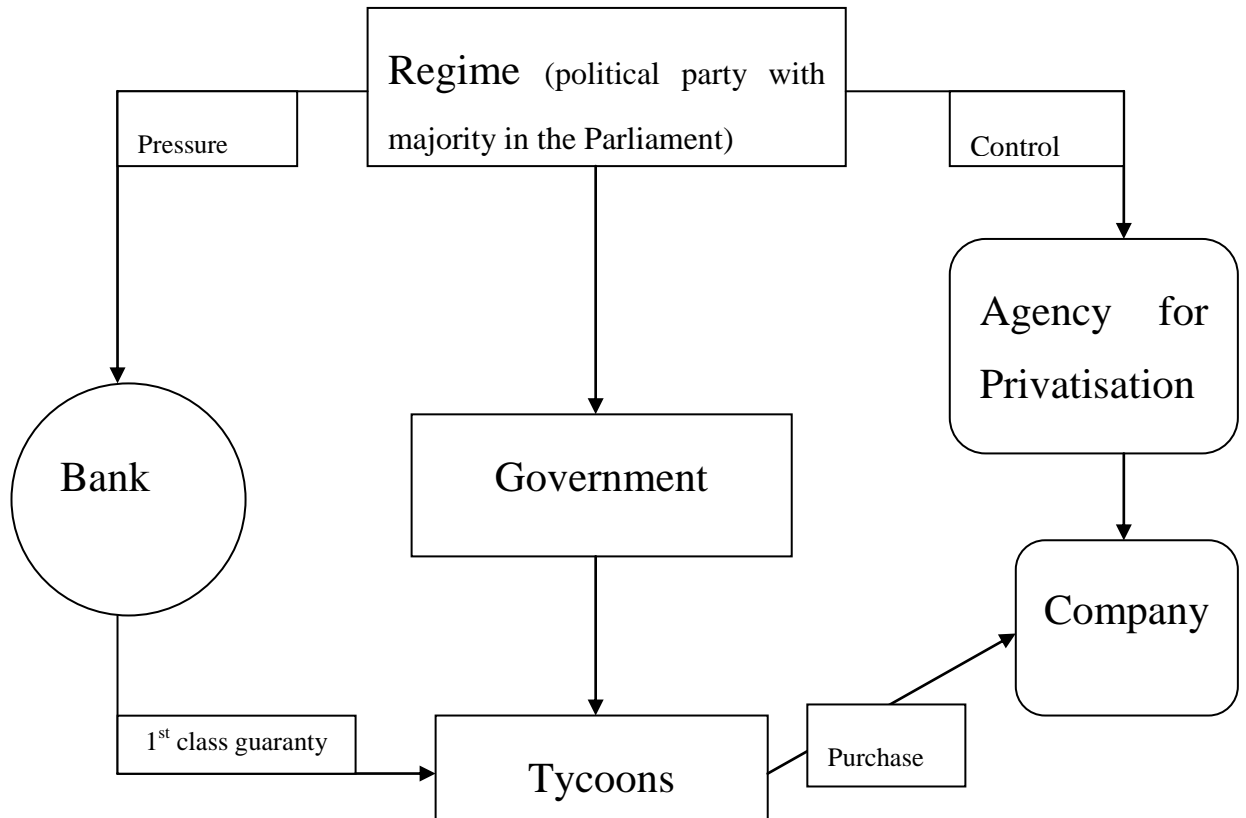
<sup>29</sup> B92.net (2015)



## VII Corruption process

### 7.1. Corruption process through auctions<sup>30</sup>

Graph 5: Corruption process through auctions



Source: Revolucija (2014)

State can privatise state companies or state-owned capital. However it is question if the state can privatise social capital. Many privatised companies were actually social capital from the legal point of view. With the help of the state were created companies which in fact were built by management and employees for decades. Companies have paid back their loans as they were successful and profitable. Profits were used to pay dividends and in the new investments. During the entire process state was not involved or at a very low level. The company was built, loans repaid, markets and clients secured. So it is fair to say that those involved in the process had the most rights to decide on the future of the company. But the state from the 2000 completely neglected fact that from the legal point of view, company belongs to the employees, previous employees and management to much greater extent than it was decided by the state where only 30% of the shares were divided within all those who built company and the rest was offered for the sale, mostly in terms of public auctions with very few interested buyers, close to the regime.

I would present model of the privatisation robbery through one example

<sup>30</sup> Revolucija (2014)

shown by the economist Branko Dragaš, presented in the television channel “Happy Tv” in Serbia, in the show called “Revolution” which was forbidden and cancelled without any explanation.

As we have discussed previously social capital in enterprises was from legal point of view belonged to the ones who built the company and they had the least voice and rights in this process.

According to the law of the public auction, 30% of the shares were distributed to the employees, previously employed and pensioners, 70% of the shares of the companies were offered for the sale with initial price of 20% of the capital offered for sale (70% of the social capital value) of the company.

Example: Market value of the subject of the privatisation is 3.000.000 Euros in 2004. Market value was used from the year 1994 when the company had to operate in the harsh business climate when state was in the civil war, under sanctions, low production, no exports etc.

There is no revaluation of the company which according to the real terms at the market has value of 30.000.000 Euros according to the group of experts representing the minority shareholders. 70% of the capital for sale 3 million is 2.1 million Euros.

Starting bidding price for the company according to the law is 20% of the capital value offered for sale- 20% of the 2.1 million Euros - 420.000 Euros.

Deposit for the participants is 50% of the starting price for bidding – 210.000 Euros

Company can be bought with six instalments, where potential buyer needs to pay first instalment after winning the bidding process. In certain number of cases there was only one interested buyer and in this example we will use it.

Interested buyer wins the public auction and needs to pay 100.000 Euros to the accounts of the Privatisation Agency. To enter the auction tycoon had to pay deposit or provide proof of first class bank guaranty which he could get thanks to his friends in crime even without having sufficient deposit.

After winning the bidding process he is legally entering the company as majority shareholder owning 70% in the company valued at 30 million Euros for the one payment of 100.000 Euros.

Tycoon is now doing the new valuation of the company which results in new value of 30 million Euros. He is not continuing running the business as usual nor is investing, modernising or implementing new strategy. Tycoon is selling the assets, equipment, real estate of the company, taking new loans etc. Only goal is to take out as much cash as possible and as soon as possible which is used to pay politicians and bankers their fees for collaboration.

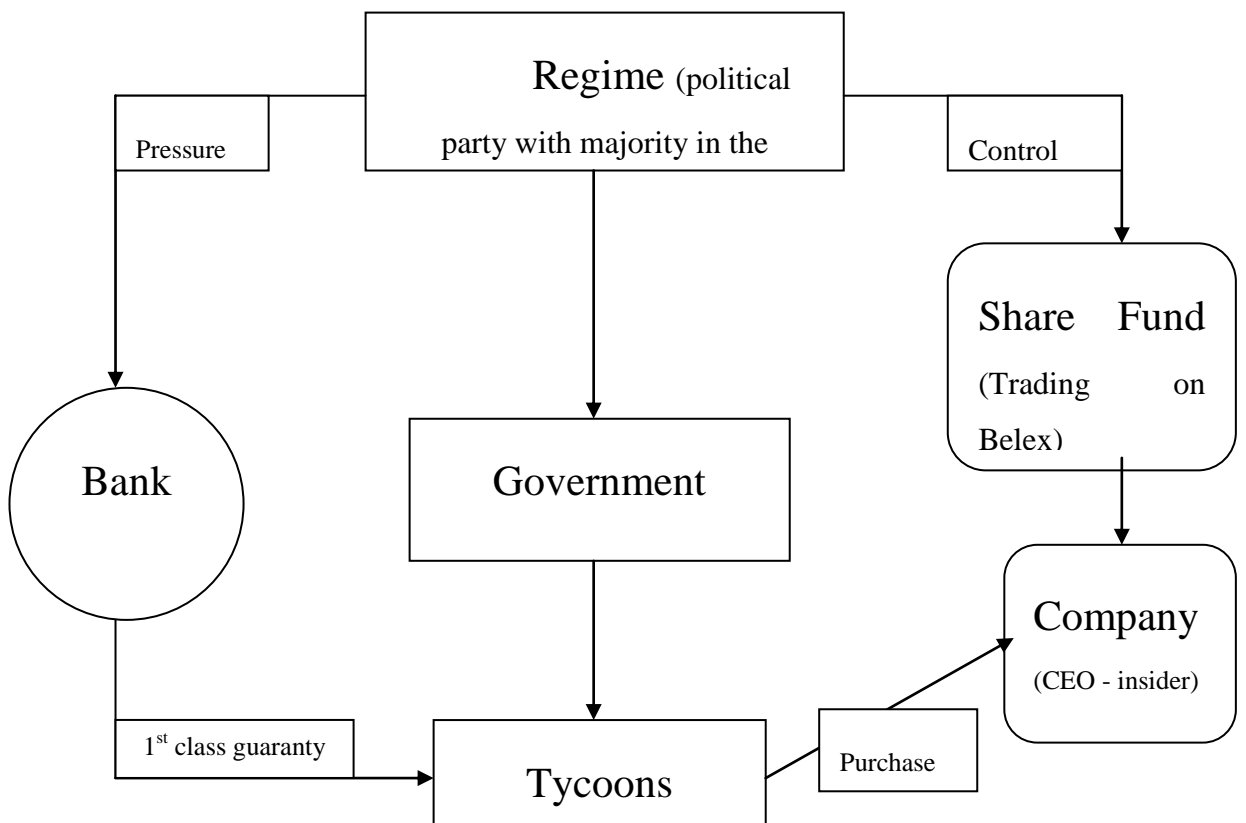
Minority shareholders are helpless in many cases, protesting against the crime. Many times tycoons were sending their own security to physically confront with the protesting employees. Minority shareholders are experiencing catastrophe, loosing the jobs, loosing value of their shares and seeing companies go bankrupt and return to the state completely destroyed and in debts.

Some of the tycoons in Serbia were buying tens of companies in this way and were getting rich in no time. Mr. Dragaš is calling this model of robbery “tunnelling”. Tycoons were only getting money out of the companies which they have bought for ridiculous prices.

Interested buyer, in this case tycoon, who worked together with regime, ministers and bankers to go for this model. Regime was created by Democratic opposition which had majority in the Parliament and they created Government. Government is putting pressure on of the national banks to allow loans to the tycoon or to provide him with first class bank guaranty. In fact, tycoons did not have sufficient funds to privatise their first company. Tycoon promises to ministers and politicians to finance their political party and to give them part of the profits made out of the privatised company. Politicians in the Parliament are voting as requested by the political parties leaders and not according to their on belief and not according to the promises they gave to the voters prior to the election. Politicians in the Parliament are voting according to the wishes of the tycoons and the Privatisation Law was partly created by their requests. Politicians need money from tycoon because only strong and expensive campaign can assure they will remain in the power. Losing the power represents threat as their previous acts were illegal and they might be in danger. Today tycoons in Serbia are very powerful and super rich.

## 7.2. Corruption process through stock exchange<sup>31</sup>

Graph 6: Corruption process through stock exchange



Source: Revolucija (2014)

<sup>31</sup> Revolucija(2014)

Belgrade Stock Exchange – Belex was place of trading the shares where uneducated, manipulated and deceived minority shareholders were left to sell their shares. Mr. Dragaš was suggesting to the state institutions and National Television RTS (Radio Televzija Srbije) education of the minority shareholders. Proposal was necessary as they did not know what is share, that it is not some package or some paper but share of the company, share with ownership rights, and that as owner you have the right to decide what would you like to do.

This model of privatisation is specific as some companies with social capital were privatised during the regime of Slobodan Milošević before 2000 and 60% of the shares were offered primarily to the employees, pensioners and previously employed workers as well as option of left shares for the general public, where they were distributed to the interested people based on the number of the years spent working.

Rest of the shares – 40% became property of the state. After 2000 companies with such structure of shares were sold on the Belex. Companies of such shareholder type were mostly successful at the time. This process is very similar to the previously explained, however it differs slightly. Tycoon is looking for the insider in the company and that is usually chief executive who will help him in the process. Tycoon is offering money to the chief executive in order to help him to lower the value of the firm as much as possible by adding that if he would reduce, other person can be appointed as a chief executive and will do anyway the job. If tycoon is rejected, he is starting the war in the media against the chief executive ruining his name and career, blackmailing him, putting under pressure to resign, threatening etc. Tycoons were presenting this as two options to the chief executives. First to agree to the terms, depreciate the company and earn money or to be forced out of the company knowing that he cannot stand against powerful tycoon. Most of them agreed on terms and accepted offer.

First step is media where company is presented in bad manner, that company is not efficient, business is not running smoothly, company is in downfall, collapsing, company is refusing sales to the clients and sound business, financial statements are forged, therefore drastically lowering the value of the company. In this way tycoons managed to lower value of the companies tens of times, some even up to around 50 times, which was record.

In the board of directors are economists and university professors which are paid by

tycoon not to hinder chief executive in wrong doing and not to say that company is of higher value. In some cases companies were not distributing millions of Euros of profit in forms of dividend.

In this example, share price was 100 Euros and tycoon would love to lower it to 10-15 Euros. Tycoon could already have earned million from previous privatisation but if he didn't he will get the loan from the banks which were under pressure from the government.

As the share prices are dropping during the process, minority shareholders are panicking, as they keep losing on value. They are not well informed, they do not know what to do and mostly they are following advises from the management to sell the shares as they will keep falling and that company is in the difficult place. They do not know that share prices can go up and down, that real value is much higher. Some minority shareholders decided to seek professional help from UMA (Udrženje Manjinskih Akcionara - Association of Minority Shareholders) which is educating them, explaining them the real situation and problem and advising to stay strong and not to sell shares as they are underpriced.

Tycoon is buying 40% of the shares with the help of Share Fund and politicians.

Next step is to acquire at least 11% of the shares which will make him majority shareholder and give total power in the Serbia, although there are still some rights and possibilities on the side of the minority shareholders which they cannot practise partly as they are not informed and mainly because tycoon has such power that he cannot be beaten not even in the court.

As soon as he reached 51% of the shares he will bring new Board of Directors. Medias are involved even more, misinformation are spread, rumours that company is worthless etc. Shares are falling even dipper and scared minority shareholders do not want to lose anymore and keep selling their shares.

In most cases only small number of shareholders kept strength and faith in the UMA which was presenting to them that company share is valued 400 and not 15. They simply could not believe as they saw prices going down from 100 and would not believe that share value can be 400.

At the end of the process, after couple of years of the battle, in some cases only toughest 5-6% of the minority shareholder kept fighting with help of UMA till

the end when tycoon could not wait any longer and decided to sit down and negotiate share price which he at the end paid, at the price of 400, requested by UMA.

This process was not easy and proof is only handful of people managing till the end. This involved protests, getting beaten by tycoon's security, calling gendarmerie and police in help, submitting a lawsuit. This model was successfully used till the World economic crisis in 2008 where tycoon would resell company to foreign investors and corporations at the real market value thus making extra profit.

## **VIII Primary research**

### **8.1. Interview with Dragan Bulatović**

1. What do you think, why did we have to privatise majority of our companies? Was it influence of the foreign capital, domestic businessmen or politicians?

The Constitution of the Republic of Serbia stipulates besides private forms of ownership also social and state forms of ownership. There is general opinion that society (owner of social capital) and the state are not good holders of property rights, are not good hosts or business entities. In his opinion, there is truth in this, but we had to transform the economy in terms of ownership, to create better hosts in any form. The process of ownership transformation of socially owned enterprises in our country began in 1989 with Law on Social Capital. Ownership transformation was approached very cautiously, not imperiously, knowing that it is a sensitive issue for the community, all the people in the Republic of Serbia. Therefore according to the law companies, issuers of the shares, issued internal shares for the recapitalisation or sale. Internal, because they could not be in circulation at the securities stock exchange. That means that transition of our economy, the economy of the Republic of Serbia has started in 1989. In addition to that, instead rushing, activism and privatisation at any cost, advocating the need for a gradual approach to establish adequate institutions and legislative regulations as a prerequisite for reform and change in ownership structure in the economy. With that purpose is brought the 1991 Law on conditions and procedures for transforming social ownership into other

forms of property and in 1997 The Law of Property transformation. Large part of the companies privatised by this law are now successful companies, for example Apatinska Brewery. To summarize, in the development of society in the reform of the economy, it was necessary to convert social ownership form to another form of ownership which will protect the interests of those who created those business entities which will be sold and to ensure proper distribution of the income generated by the sale. So, privatisation was needed but not in the manner of implementation and the legislation by Law on privatisation from 2001 which was under the influence of external political factors, foreign capital, which were exerting pressure on domestic economy policy to destroy private property at any cost. He was personally told, by operatives and employees of the Agency for Privatisation in Belgrade that they're not personally interested in effects but that they are given the task to destroy the social sector at any cost. It means it was operational plan by the employees in the Agency for Privatisation. Large part of the domestic business was close to the government and therefore they were selfish and they only cared about acquiring huge assets for little cost.

## 2. Why did we have to privatise successful companies (especially profitable)?

In the previous question he said that it was necessary to transform social ownership form to another ownership form. State as an initiator, solely responsible for the process of transition, did not fulfil at all role of being representative of the people on its territory. It had to create mechanism and "climate" where people that are successful can remain successful and be even more successful during the process of transition. Transition and privatisation process, in his humble opinion, should not have been restricted (limited time to end privatisation as it was prescribed by the law of 2001), but the procedure has its goal and that it should time until the goal is reached. That was not done in the Republic of Serbia. There was only one selfish goal to have income for the budget so that bureaucracy could operate carefree. It means that we should have privatised successful companies as well but also providing mechanism to survive, if the market continues to accept those companies. The state and the government at that time did not want to do so.

## 3. Plenty of the companies were making losses and that was one of the

reasons for privatisation. Instead of selling those companies, don't you think that employing new, superior management would be less risky? Management that would be paid based on the performance of the company?

There is an old proverb “While the thieves steal, people shout catch the thief!” Well, operating with a loss in the economy is an integral part of the economic climate and developments in the economy. If the management is bad it should be changed. That was done in Serbia when there was a social form of ownership and it is logical to change management in private ownership if company is not making profit. Those companies making losses should be restructured, stabilized and only after that put in a process of privatisation. In that case the state would have had numerous benefits. Firstly, it would have business entity operating in the market which could pay taxes and thus contribution for the employees. By sale of such restructured entity operating in the market, state could obtain more money and state budget would be higher. That would lead to higher investment in the economy and especially in the infrastructure. There would be higher volume of employed people. Higher purchasing power of the population and greater spending which again is a prerequisite for the development of economy. To conclude, attitude and the view by then political leadership towards loss-making companies and their privatisation is short-sighted, unprofessional, hypocritical and vassal. They had goal to sell out companies for peanuts and benefit from it. To be more simple he use an old example in folk which says: “Before sending bride to be married, she should be showered, nicely dressed and only then sent to get married, if she must get married.”

4.If privatisation was about modernising industry, increasing productivity, bringing new technologies, why are the shelves in the shops filled up with imported goods?

Nowhere is explicitly mentioned, nor did Mr. Dragan Bulatović heard somewhere during the seminars about privatisation, which he attended, that the goal of privatisation is what I have stated in the question. There was the only subject method, procedure and persuasion that we should not slow down the privatisation. Who was interested from organisers of privatization in higher production and new technology from their own investments? Nobody! Only goal was to sell companies as soon as possible to fill the budget so that bureaucracy could spend money and



beg for foreign investment. To reap the individual benefits as well, as some kind of investment advisors, individuals close to the agencies and institutions that had been created for the privatisation and foreign investments. Foreign imported goods on the store shelves is simply “collateral damage” of the privatisation and a result of import lobby, which flourished during the privatisation and decay of Serbian economy. It was much easier for the individuals close to the government to get rich by importing goods rather than organising production.

#### 5. Who is responsible for the failures in the privatisation process?

There is an old proverb which says: “What was created weak it will grow the same way”. In reality, which is the worst, it was true in relation to the privatisation in Serbia at the beginning of the XXI century. Only naive people claim that before them nothing was right and that with them begins prosperity and future. Responsible are all people involved in process who brought, conducted and supervised Law on privatisation. At the end of the day, nation is responsible as well as they let them do that. In the Privatisation Agency, an institution that has been authorised to carry out the privatisation process, people were employed based on political recommendations who neither knew nor felt the economy and life in it. Their task was to sell everything in a few years what the generations were creating. They only knew to insist that managing body as soon as possible makes decision to privatise, to carry on valuation by dubious methods and schedule auctions and tenders. Declaratively advocated for transparency but did everything opposite. They were advocating for justice and law but justice was at the hands of a stronger and those who were at the source of information. Subject of privatisation when starts the privatisation process becomes object. No one longer cared nor was interested in how will that entity work and function till is not privatised. Enormous damages and debts were created to them during the process of privatisation. To summarize, responsible are those who led Serbia, as the political elite, the ministries of economy, finance, justice and police which were required, in his opinion, to create mechanisms that would prevent robbery conducted through privatisation.

6. Do you have any insights into the capital used in privatisations? There are certainties that capital used for purchasing of many companies belongs to the state,

cash that was taken out of the country during the civil war and hyperinflation to the off shore accounts...

Mr. Dragan Bulatović does not have accurate information on the origin of capital used in the privatisation. But yes, there were assumptions and media claimed that in one part of the privatisation money involved was taken out of the country and returned to the legal flows by privatisation. In addition to that, there were news and talks about money laundering, that money gained from criminal activity, in particular from drug trafficking, entered into the legal system by privatisation. He believes that there is truth and he is sure that the state and its institutions, governing bodies and banks all failed. They could largely prevent and sanction such intentions because they had legal methods and tools to do so. It could also be that individuals from the state and political structures were accomplices to benefit and had interests in such processes. Before beginning of privatisation there was introduced bankruptcy in the biggest Serbian banks which to this day has not ended. As we say in Serbia, through little doors, was pushed private, exorbitant banking system. In his opinion this was done to facilitate illegal money transaction that would be harder to conduct in state banks. He is not sure but he thinks in the Privatisation Agency and in the Ministry of Finance they were not checking the origin of money that was involved for purchase of enterprises. They were together with the Ministry of Internal Affairs and other relevant departments obliged to do so by law. Many times in various transactions during the privatisation it seemed like they looked on the other side and turned back as if there was a warrant to do so: "Do not touch it, let it go!" After all only what is left is a suspicion and privatisation failed. Today are only few cases in the procedures in the justice system, only to whitewash eyes of the public. Only when there will be some kind of revision of privatisation and the society must force it sooner or later, we might get answers. Those answers in my opinion are essential for the society in order to get to the right way. It must be sanctioned if someone used illegal money in the privatisation process with the aim of acquiring capital and ownership in the subject of privatisation.

7. Have you tried to stop illegal privatisation and what was the result of it?

Yes and he found out that a person with a criminal record and criminal

activity in the business, against whom the litigation is pending participates in privatisation. He had copies of documents from the court and verdicts. Copies of the same documents with suggestions he forwarded to the responsible person in the Agency for Privatisation. He has never received a response nor was that person prohibited from participating in the process of privatisation. Furthermore when he expressed the opinion that it is not the right time for the privatisation of the subject where he was chief executive, one person came from local government who was in charge of privatisation, to draw attention to him that: "It may happen that the Ministry of Interior will check why is Chief Executive sabotaging privatisation process!" Very same person has often been his "guest" in the company, to "help" the process of privatisation. In the first round of the auction of my company, we got new owner who from went on winning from the vanity, as he offered highest bid, 63 times higher value than the company was estimated. Two fools found each other who forced each other to bid till the exhaustion. Contract was signed with the customer who was obliged to pay part of the final bidding value of the contract within the set deadline. After the expiry of that deadline he asked the agency, because he was still the responsible person in the company, with the owner who could not start operations on registration of the shares in the equity fund because buyer did not pay off part of the value prescribed, either to terminate contract with the owner or to remove his duties and competencies as he was responsible person for the company. Owner was trading, selling and making business for himself while Mr. Bulatović was the one in charge and responsibility. He made a decision as only authorised person in the company that the owner cannot manage and make decisions in the company until he fulfils payment for the ownership in the company. That decision I sent by special guaranteed delivery post and also by fax to the agency. In the morning when he came to work, at the gate of the company there was car waiting for him from the Privatisation Agency and the two lawyers from the agency to let him know what are my rights and authorities. I had strong principles and soon the contract with the owner was terminated as he failed to pay part of the final bidding amount.

8. Did you receive any offers to enter the privatisation process and why you did or did not?

Yes, he participated in two privatisations in that initial part, period 2002 – 2005. In one of them he was directly involved in the public auction and making of a plan for the company and in the second just working on the plan of privatisation. Working on the plan is to work on the harmonisation of documents and harmonisation of financial, property and operating documents. When the plan is adopted by governing body, it decides on the beginning of privatisation. That plan is basic document on which the privatisation of subject will be carried out. Based on the data from the document, it is estimated initial value at which is sold subject of privatisation. Property, financial status, litigations as well as the structure of employed workers are all taken into the account. Plan is made only by legal entity, in conformity with the law of privatisation and the ordinance on the implementation and progress of privatisation, in coordination with the Agency for privatisation. Later on, when the bureaucracy realised that even more money could be made out of privatisation, with the aim of transparency they introduced many newly registered companies in Belgrade and Novi Sad as privatisation advisors. Those privatisation advisors are closely related, legally and illegally, with employees in the agency. In this way there were, he thinks various options for corruption. He claims that as one of the “famous” privatisation advisors offered him the option if he want to get the ownership of the subject for privatisation that he should have prepared 100,000 DM. That is how adviser answered on my question on how to get to the subject of privatisation, the answer was to prepare mentioned amount of money and there will be no problems. Of course, he rejected that offer because the money he was asked for he did not have nor he thought that it was worth engaging. His participation in the auction with the intention of purchase of the legal entity of which he was the chief executive was attempt to come into the possession of the company, where he was temporary director, and then chief executive. Companies which he literally started after two years of inactivity and employing fifty workers. Also it was to preserve jobs of fifty people as well as all his. Of course, all legally employed workers with the payment of all fees that are charged to the employer. Mr. Bulatović to stressed that because, in his humble opinion, the gray economy flourished during and after the privatisation. This privatisation and suppose many more were accompanied by various dirty and unlawful acts. Firstly by using marketing in the process of privatisation which created official and unofficial public opinion created more difficult working conditions for subject of privatisation. Company had to

continue to work, to acquire goods, produce and distribute salaries and meet taxing obligations to state. After company was advertised for a public auction, it becomes excruciatingly. Company is visited by many different potential owners, different stories are told to the workers, creating confusion and one uncertain working atmosphere. Incoming calls are numerous and contacts from a variety of interested clients which are offering indecent offers, threatening, blackmailing, promising etc. That lasted for about ten months from the start of the privatisation because first auction was unsuccessful. It failed because the potential buyer and the first to reach him in the competition have raised sixty five times price of the starting price in order to satisfy vanity and try to cut out each other out of the game acquiring the company. He was third at this auction because he participated in it as well, in my opinion until some tolerable value that made sense, to a value which can cover a profit in the following five years which is how long the repayment period of company is. Both candidates gave up by all means because they bided enormous figures which were absurd. Second auction was published in which did not have the right to participate the first two ranked candidates who refused or were unable to pay the final price of value of the company. After some time was issued a second auction and it was attended by the same candidates from the previous auction, with other persons who are represented by their interest. He reacted and contacted the agency, as an interested person for the purchase of a company and as a responsible person who cares about the continuation of legal work and business of the company whose chief executive he was. On my reaction nobody had understanding in agency. Second auction was conducted in the same atmosphere where he gave up in order to sustain the company, and the first two potential buyers agreed to a joined appearance for the bid. It was very bad period in his life, full of stress, which subsequently directed his destiny. As it directed his destiny, so it directed destiny of many people from the “transition” period.

9. Would nationalisation in the Serbia solve the problem and how could we nationalise illegally privatised companies? What kind of picture would that send to the rest of the World? That we are dangerous place to invest or that we will not accept corruption and criminal, from both, domestic and foreign companies?!

Privatization in Serbia was such as an “Eldorado” in the Old West in America. All

legal and illegal means were allowed. Illegal means were allowed if they did not directly counter the law in order to acquire property and ownership of the subject of privatisation. “Trigger was pulled” for “initial accumulation” and the acquisition of something that someone else has gained, acquiring property through the privatisation by the legal and illegal means. He claims that the illegal means were much more used. He heard in the offices of Privatisation Agency attitude, that every manipulation is permitted in the privatisation except the one that prohibited by law. Prohibited and punishable means only if they caught you or if it was simply too much and too visible. Who realised this and had the means for corruption, or knew successfully to promise, he successes in the privatisation. Therefore nationalisation or any other form of review of the process during the privatisation in the society and social community of the Republic of Serbia “would come as a medicine on the wound” (old Serbian proverb). With the world there would not be a problem because at least more powerful, formally and declaratively advocates justice. To be more precise they gave task to the political ruling elite as a condition to join the European Union to review a number of privatisation, those which are important to the EU and to prosecute culprits if there are grounds to do so. Given that people who are close to the political elite and have an influence on it, will never pass a law that would see reviewing of the privatisation because it would mean they would cut the branch on which they are sitting. Those people had direct or indirect benefits from privatisation. The whole genesis of the society should change so that something would be done in that field. It will not be easy. If we want to progress as a state we must become lawful state . So to win the right and the justice. Legally acquired property must be respected and “To separate the wheat from the cockle”(old Serbian proverb). It is necessary to reduce corruption and crime to zero tolerance and everything that was acquired by using corruption and crime must be returned back to those who were creating. And that again privatise by legal means. Fair foreign capital will not come to the state if it is not settled and if laws are written by those who have no moral principles for doing such work. We must tear out roots in every capital, regardless of whether it is domestic or foreign, which is based on criminal. When it comes to investments, every capital will be happy to come here if there is security and assuming the profits. To summarize, it is necessary to adopt a law on the origin of assets which could review origins of illegally acquired assets and revoked if it proves to be illegally acquired.

10. What would be successful privatisation for you?

The goal of privatisation, in his opinion, should have been turning social into private form of ownership. In addition to that, strengthening the economy, increase in production, employment and standard of living. If there is no higher standard of living, no higher gross domestic product there is no consumption, which weakens economic cycle. Investments in the infrastructure and modernisation technologies are a necessity that had to follow privatisation. More correct and equal distribution of shares as well as opportunity to get shares in the legal entity. Prevention of bribery and corruption in the process of privatisation.

11. Can you please share your model for the privatisation for Serbia?

In our economy we had to strengthen and to carry out the employee shareholding in the segment of the economy which have been created by generations of workers and direct sale of the state companies. Share to be distributed with discounts corresponding with reasonable repayment terms, and limit them for the employees and former employees in a given enterprise. Meanings of repayment, with appropriate compensation to the state which services the entire process, remain within the company for investments and operation. That would result with shareholding being spread and intensified which would empowered and strengthened the middle class through the distribution of profits. Shareholders would elect competitive and professional management. On the stock market shareholders would have pre-emption rights to purchase additional shares. Direct sale of the state enterprises to private entities. Sale would be realised through tender or direct negotiations with interested investors. Possibility to participate would also have persons with foreign capital.

12. What is synonym for the privatisation in Serbia for you? How would you name it?

Arrogance, imperious, bribery and corruption. Theft and robbery. Economy

of the state was destroyed which is the backbone of a society, all in order to finance short-term nice living of the state and state bureaucracy. It is completely not understandable to me absence of vision by the “smarter” political elite. Even more unclear is that no one is responsible and that no one is punished. Closing down, literally demolition and devastation of factories and workers who lost their jobs and were left on the street. Creation of “elite” without social responsibility and morality, only few were exceptions. Selfishness and to steal as much as possible as soon as possible. Completely unfair distribution of wealth. Overnight were acquired assets created by generations by using bribery, connections and corruption.

## **8.2. Interview with Branko Dragaš**

1. What do you think, why did we have to privatise majority of our companies? Was it influence of the foreign capital, domestic businessmen or politicians?

We are not supposed to privatise the enterprises of strategic importance for the country. It is to impose a neoliberal concept, which has ruined us. It was based on three main pillars: foreign trade liberalization, privatisation and attachment of the local currency to the foreign. This is the recipe for economic killers to kill domestic production and destroy local companies. Bandit privatisation was designed in the economic program of neo-liberals in Washington who have devoted such privatisation for the world. Objective of their privatisation was that the rich become even richer while the poor become poorer. Privatisation was imposed as a salutary remedy for all the ills of societies in transition, but it was forced to open space for multinational corporations to loot the national economy. Governments that were brought to power, which boasted themselves that they are reformist and good hosts, were, in fact, servile and obedient servants of a monstrous economic concept without perspective. Few of us experts saw that deception, and an even smaller number began to speak publicly about it. In privatisation, hectares of the best land in Vojvodina was sold for 200 Euros, while the most lucrative office space in Knez Mihailova in Belgrade was sold for privileged customers through rigged tenders and auctions, for only 300 Euros per square meters. Over 2,500 companies were privatised leaving Serbia damaged for, according to his estimates, 30 billion Euros.



That is how it was finally destroyed the middle class, who no longer had a place to work and found herself in the misery. Privatisation was carried out by politicians, tycoons and bankers, who were the financial support of plundering the state and nation. That is why he advocates for a Law on the revision of privatisation and to confiscate the property of all who participated in proven robberies. Also a revision of bankruptcies, recapitalisation and restructuring has to be made. These were forms of plundering social and state property.

## 2. Why did we have to privatise successful companies (especially profitable)?

We should not have privatised any successful company and any company of national interest. Incorrect was the privatisation of the tobacco industry, sugar refineries, cement factories, the Port of Belgrade, NIS and agricultural goods. These are national resources and should have never been sold. He does not mind for a state to be majority shareholder and our citizens from the country and abroad to have minority packages. That would be the capital of the citizens in the amount of 8.6 billion Euros kept in parasitic banks conveyed into the economy. Citizens were able to buy all successful companies in Serbia and to be minority owners in companies of national importance. That would do the wise government, but we have traitors, dilettantes and sloths in power who sell state resources so that they would become capitalists. During those years he has proposed completely different model of privatisation, but the market criminals and neoliberal fundamentalists were given the task to destroy the economy of Serbia and today, after all, we can conclude that they have succeeded. Unfortunately, people did not recognise and permitted the politicians to lead us into a national tragedy that has not yet ended. The worst is yet to come.

3. Plenty of the companies were making losses and that was one of the reasons for privatisation. Instead of selling those companies, don't you think that employing new, superior management would be less risky? Management that would be paid based on the performance of the company?

That is a political lie. They were intentionally talking that just before they

sold the company and took commission. His proposal was to make the analysis of all Serbian companies at the end of 2000. He had a professional team which wanted, without any compensation, to help Serbia and, right after fifth October, to participate in a economic revitalisation of troubling companies, which have had great resources. He visited for three months companies around Serbia and making analysis of those companies. People on the market were delighted to talk, for the first time, with the man they know from the industry and the business and who knew more than them. For three months they have provided 4.6 billion Euros of profitable projects. Unfortunately, this model did not suit the economic killers in power: Labus, Dinkić, Đelić, Vlahović, Pitić, Đunić. Prime Minister Đinđić had fallen for their jokes and let them blow the Serbian economy and destroy banks. Their slogan was: “Why should we produce when we can import?” It was an operation without anaesthesia. The Serbian economy has been brutally robbed, politicians and tycoons got rich. The people fell into the misery, the nation has been occupied and people were left without work. We never found ourselves in this kind of disaster.

4.If privatisation was about modernising industry, increasing productivity, bringing new technologies, why are the shelves in the shops filled up with imported goods?

He repeated that the strategy was - why should we produce, if we can import? So we have lost on foreign trade deficit from 2001 to October 2015 around 76 billion Euros. That's five real GDP's of Serbia. Substitution of import of 50 percent, for example, from that incredible number 38 billion Euros would remain in the country. This money would return all the debts of 24.6 billion Euros, and the remaining difference of 13.4 billion Euros, we could retrain and employ 3.3 million people and Serbia today would have an annual GDP of 240 billion Euros. What does that actually mean for the citizens? This means the average salary - 1,900 Euros and the average pension of 1,100 Euros. Why do we don't have that? Because Serbia was led by fraudsters and thieves. The stable exchange rate has served importing lobby, which is enriched by the destruction of domestic production.

#### 5. Who is responsible for the failures in the privatisation process?

Mr. Dragaš said if I meant personal responsibility, then Zoran Đinđić. He had the historical opportunity to be the person to drive great modernisation and reform in Serbia. An opportunity to overthrow a totalitarian system and become the biggest democratic reformer in Serbian history. Prior to him Milošević had the same opportunity in 1989. Unfortunately neither of them took things in the right direction. They decided to keep the totalitarian system and that shown that they were not worthy of the historical opportunities that presented themselves to them. They were small, provincial, players in the large goings on of history. His departure from the friendship with Đinđić, in February of 2001, after 20 years of work against the totalitarian regime came about precisely because of the thuggish approach to privatisation. Hindsight is always 20-20.

6. Do you have any insights into the capital used in privatisations? There are certainties that capital used for purchasing of many companies belongs to the state, cash that was taken out of the country during the civil war and hyperinflation to the off shore accounts...

Partially it was that capital which was legalised through privatisation and then taken out of Serbia by selling the privatised firms to foreign entities. The rest was taken out via banks, which bought firms at low prices using credited money. After being bought the firms were dismantled and sold off. I've had the opportunity to see the destruction of these firms, and how they were later sold to the state. They looked as if barbaric hordes had run over them. Cables were ripped out of the walls, wooden beams were taken out of the roof. Horrific! Unfortunately, to this day, there is still no book describing the results of such a savage privatisation process. A process which left over 600,000 people without a job. On the other hand, the process made tycoons even richer, which they stated publicly. They had nothing, because they were paying a racket to the politicians and could rob the country blind lawfully. This is very important to point out, they boast they were doing business lawfully, but the laws were put in place by a corrupt parliamentary majority.

#### 7. Have you tried to stop illegal privatisation and what was the result of it?

In February 2001 he parted with Đinđić, because he did not want to participate in this state-planned robbery. For an entire decade we have worked to overthrow the totalitarian regime and create a true direct democracy, free and fair Serbia, rich and socially secure country. Unfortunately, after the Fifth October, the new government has maintained the totalitarian system, tycoons and their criminals. Thus, the reforms failed to start. He has published many articles in those years about what would happen, but the market fundamentalists persuaded the people that they made real reforms. People have crossed the street in fear to not meet with Branko Dragaš because they considered him anti-reformer. He had, after a big request of the citizens, who knew nothing about the shares, the Stock Exchange, their rights and laws, organized UMA - Association of Minority Shareholders, which did financial analysis of companies before the privatisation, capital assessment and education of capital owners about their legal rights. Hundreds of companies have passed and tens of thousands of people were trained in shareholding, because the state did nothing to educate citizens. On the contrary, a sturdy criminal alliance between politicians were created, tycoons and bankers who bought up companies cheaply and reselling them, or dismembering them and selling them in parts. In those five years he went through whole Serbia and saw how robbery takes place. He only had the courage to publicly confront these bandits and to collect all the documents on their criminal actions. All the expert analyses were sent to all state institutions and they have evidence of executed robbery. He hopes that one day some economist and historian will find all that, who will study it, systematize and publish. It will be a capital work as a contribution to the history of our doom. He will have to write his story about those times, because that job no one in the market didn't want or didn't know how to do.

8. Did you receive any offers to enter the privatisation process and why you did or did not?

Dragaš said that he stood up against such privatisation and that he was the biggest critic of the proposed model. He was not at all interested to take part in robbing our state. It did not fit into my moral principles. Since he started to protect minority shareholders in the privatisation process, then he confirmed he is up against a state thieves, tycoons and criminals. There were, of course, attempts to bribe him, but he did not agree to sell himself.

9. Would nationalisation in the Serbia solve the problem and how could we nationalise illegally privatised companies? What kind of picture would that send to the rest of the World? That we are dangerous place to invest or that we will not accept corruption and criminal, from both, domestic and foreign companies?!

He was suggesting for years the Law on revision of privatisation, bankruptcy, restructuring and recapitalization. He is suggesting to pass the Law of origin of Capital for the politicians, tycoons and all public figures from 1990 till November 2015, Law of the confiscation of assets acquired resulting from the privileges and monopoly position, Act on political lustration, Law on protection of minority shareholders and thus to achieve so much desired catharsis.

The people would welcome the willingness of the new government to deal with organised crime. This would also be welcomed by all of our partners around the world. In that way we would show that we are determined in the fight against crime and corruption. Everything else is just a political talk.

10. What would be successful privatisation for you?

Oh, that's a big topic. There is all written since 1990 and after 2000, but there has never been a public debate on the privatisation model. That is why his ideas are rejected. Briefly, the essence of his ideas was that national resources cannot be sold, but that the state has a majority ownership in these companies, while a minority package of shares would be offered to the public. So that citizens could become shareholders and that would have developed a National Capitalism with a strong middle class. In companies which are not of national or strategic significance, state would withdraw and sell them to the citizens in the country and citizens living abroad. If citizens are not interested, then it would be sold to foreigners. Such privatisation would lead to the start of production and increasing employment.

11. Can you please share your model for the privatisation for Serbia?

Dragaš said that he already have explained it previously.

12. What is synonym for the privatisation in Serbia for you? How would you name it?

Robbery.

## **IX Solution for unsuccessful privatisations**

Unfortunately there are many unsuccessful privatisations in the Republic of Serbia. I would recommend following model, based on my findings and the interviews from the two top economists who were involved in the process of privatisation and tried to protect companies, employees and shareholders from corrupted participants involved in the entire process.

Any company of the national interest or strategic importance to the state should be majority owned by the state with at least 51% of shares. 49% percent of the shares should be distributed to citizens of the country in the following order. Numbers should vary from the company to the company but as a guidance:

15% of the shares for the Serbian citizens - distribution of free shares (voucher privatisation); Certain % to the employees and pensioners based on years of service; Certain % of shares left to be sold on the Stock Exchange, Belex; to the citizens of Serbia who have citizenship and domestic companies in manner that none of the related parties cannot have more than 3-5%. After the distribution of the shares domestically, foreign investors would be welcome to join privatisation. Companies would be in the structure of a joint stock company.

For the medium sized and not of the high importance to the state companies would be allowed to privatise entirely, meaning that companies should firstly use the model previously described, and allow for the complete transition of the capital into the private ownership only after certain number of years when company would operate successfully thus increase value. Majority of the shares - 51% would be offered then for the sale with pre-emption right to the employees, management, citizens of the Serbia and then finally to the foreigners. Moreover shares to be distributed with discounts corresponding with reasonable repayment terms to the

employees and former employees.

I would like to emphasise that demanding on domestic shareholders, does not mean that I personally or the Republic of Serbia has something against foreign capital but rather importance to grow middle class, to allow people to have shares in the companies, to yield from that, increasing income and motivating them to invest in growing companies rather than worth of their money being lost through inflation or keeping at very low interest rates for deposits in the banks. Foreign capital would be more than welcome, in terms of new investments as if country would reach this level, it would show economic stability, corruption at the level of most successful countries in the Europe.

However illegally privatised companies should be returned to the state and re-enter process after new and rigorous laws would be established. Police and judiciary would have most important role in order to implement and strictly follow new laws. Therefore new laws should be established which would investigate the whole process and bring culprits to the justice.

Following laws would be necessary for such process:  
Law on revision of privatisation (bankruptcy, restructuring and recapitalisation)

Law of origin of capital for the politicians, tycoons and all public figures from 1990 till November 2015

Law of the confiscation of assets acquired resulting from the corruption, privileges and monopoly position

Law on protection of minority shareholders

## **Conclusion**

According to the politicians and governments since 2000 privatisation should have brought us higher standard of living, transforming state companies making

losses into privately owned profitable companies and better economy overall. Privatisation process was entirely followed by corruption and result is opposite from the promised. Small number of people got rich while majority have lost their jobs. In the corruption process were involved politicians, bankers, executives, board members, tycoons, privatisation advisers and members from Agency for privatisation. Every position in the process had its own and important role. If not helping directly, members would help indirectly meaning that they would not consider irregularities, would look away and would not report illegal actions. Therefore I would like to conclude that privatisation process was organised in such a way that small amount of people involved could get rich in short time, state would get funds to operate for a while, economy suffered and there was no honest intention of stopping this process and bringing culprits to the justice.

We can conclude that revision of the entire process is necessary in order to set things right, return illegally acquired companies and assets to the state, enact new laws and privatise rest of the companies according to the new laws and use completely new model for the privatisation which should be discussed by top economists in the country.

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#### TV Shows

30. Revolucija, Happy TV (Boris Malagurski – Editor and host) – Season 2, Episode 8, Guest Branko Dragaš, Februar 2014

31. Revolucija, Happy TV (Boris Malagurski – Editor and host) – Season 2: Episode 9, Guest Branko Dragaš, Februar 2014 (Forbidden-censored on Happy TV)

## Appendix

Graph 1 – own work from data provided in an Excel file by Privatisation Agency

Graph 2 – own work from data provided in an Excel file by Privatisation Agency

Graph 3 – own work from data provided in articles included in the chapter

Company	Number of employees before privatisation	Number of employees after privatisation
NIS	13025	7629
IMPOL SEVOL	1123	722
ZDRAVLJE LESKOVAC	2065	391
CEMENTARA KOSJERIĆ	657	263
CEMENTARA NOVI POPOVAC	2408	288
Duvanska Industrija Nis	2402	415
MERIMA KRUSEVAC	1151	432
FRIKOM	762	1945
GOSA MONTAZA	977	948

Graph 4 – own work from data provided in the listed articles for the PKB

Consolidated financial statement data for PKB Corporation, represented in million Euros

	Debt	Capital
Year 2012	88,48	194,4
Year 2013	60,00	218,4
Year 2014	58,42	197,8

Graph 5: graph used as explained in the TV Show by Branko Dragaš

Graph 6: graph used as explained in the TV Show by Branko Dragaš

Interviewed participants:

Dragan Bulatović – Chief Executive and Director in several companies, creator of privatisation programs for companies: “Napredak” and “Agrosavez”

Branko Dragaš – President of Balkan Business Centre, Consultant, One of the founders of the Belgrade Stock exchange, created first private bank in the Balkans, youngest director of private bank in Eastern Europe, with group of experts created „Plan how to save Serbia“ in 1999, Founder of „Economic Movement“

- **Changes after the last consultation in person (consulted via email)**

Mr. Branko Dragaš answer on question number 3 and I added official positions of the people mentioned in the interview

Miroljub Labus (Deputy PM of Serbia, 2004-2006), Mladen Dinkić (Governor of NBS 2000-2003, Mnister of Finance 2004-2006, Minister of Economy 2007-2011 and 2012-2013, Deputy PM 2008-2011), Božidar Đelić (Minister of Finance and Economy, 2001-2004, Deputy PM 2007-2011, Minister of Science 2008-2011)

Aleksandar Vlahović (Minister of Privatisation and Economic reconstruction 2001-2004), Goran Pitić (Minister of Foreign Economic Relations, 2000-2004) and Danko Đunić (various positions)

Data used in chapter “III Privatisation number” is from Excel file received from Privatisation Agency via email in the name of “MEGA\_2878456.xls”

