

The Scopes and Challenges of the Privatization Process: the Case of the Republic of Serbia with a Focus on the Region of Vojvodina (2002 – 2007)

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Abstract

The process of privatization of companies basically generates the transfer of ownership of companies, which leads to the change of management form to private companies and persons. The subject of this research is to determine the scopes and challenges of the privatization process in the Republic of Serbia. The goal of the research is to define the level of applicability and adaptability of privatization models under transitory conditions. The basic hypothesis of the research is that there is a correlative relationship between the numbers of offered and sold companies and the methods used. The results of this research will indicate the scopes, challenges and efficiency of the privatization processes in Serbia, appropriately providing a scientific background for further research in the area. The object of the research are the scopes and challenges of privatization in the case of the Republic of Serbia with a special overview on the Autonomous Province of Vojvodina as the most developed region of Serbia and under the hypothesis that the effects of privatization on the territory of AP Vojvodina are greatly felt on the whole territory of Serbia.

Keywords: *privatization, social capital, state capital, public companies, communal companies*

JEL Classification: L33

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Introduction

This article researches and analyses the scopes and challenges of the privatization process in the Republic of Serbia, with a special accent to the effects of privatization, supported with concrete examples from practice and with a special attention to the legally adopted methods of capital trade.

After years of decrease and stagnation in the economy of the Republic of Serbia, the year 2004 was characterized by the growth of the national product, productive activity and productivity in the processing industry, a real increase in wages and public income, but with an increase in the foreign-trade deficit, as well (Hadzic, 2000). In the mentioned period, the macro-economical stability was conserved, with an acceleration of the industrial growth and a considerable growth of the national product. The major influence on the forming of the national product has the industry, followed by agriculture and trade, which points to their high dependence on the sphere of industry (Zrnić et al., 2010). A set of considerable changes are present, demanding scientific interpretation.

The process of transition started late in the Republic of Serbia, with the adoption of the Privatization Act in 1989. The leading idea of the Ante Markovic administration was to put employees in a favorable position during the privatization process, enabling them to buy shares in installment. That model of privatization was in force until the disintegration of the Socialist Federal Republic of Yugoslavia. After the disintegration, the governments of the newly established sovereign countries set up their own laws.

The period of transition between 2002 and 2007 is characterized by the conduct of numerous reforms with a different level of accomplishment, the setting up of macro-economical stability, the restructuring of big corporative systems and privatization of companies. This period was also marked with the beginning of the process of applying for European Union (EU) membership, having as a result an intensive harmonization of legal issues in all areas of economic and social life. Although achieving important results in the process of transition and in the revitalization of the industrial activity (the constant increase of the GDP), the Serbian society is still facing with a high rate of unemployment and low life-standard. In the forthcoming period, it is crucial to finish the process of transition and to carry on with the legal harmonization with the standards of the EU, as well as generating an accelerated industrial growth. The privatization process in the AP Vojvodina, from the macro aspects, is done according to European principles. Experience shows in Vojvodina that the increase of the share of the private sector in the economic activity is good for export, productivity and domestic savings, and these are exactly the areas where central Serbia stays behind in its economic development. The analysis of big industrial systems in Vojvodina

was viewed through the structural characteristics of the economy, the position and significance of big systems. These systems represent the backbone of the economic development, because they have access to productive, technical-technological and human resources, and their adequate privatization contributes to a faster growth and development, encourages scientific researches and the application of innovations with all the positive effects they have on the increase of the competitiveness of the industry. The industrial growth and development is based on the following advantages: (1) the available research staff, (2) developed exterior communication, (3) the continuous development and introduction of new techniques and management practices, (4) financial resources and access of finance sources (5) a production based on the economy of volume, (6) a more efficient problem solving of growth through a horizontal and vertical connection with other industrial subjects and the development of cooperative collaboration with small and medium companies.

Since one of the goals of privatization is to create a competitive marked based economy by improving the macro economic and business circumstances, as well as to strengthen the institutions and the legal system and to improve the technological capacity of the industry, a special part is dedicated to the privatization of companies in Vojvodina.

For a successful realization of these objectives, it is necessary to define the tasks, measures and instruments for their conduct, as well as their constant monitoring.

The general characteristics of the basis for future development could be defined, as it follows:

- on the long term, the most important fact is the positive outcome of the Feasibility Study by the European Union, which led to the beginning of the negotiations about the Stabilization and Association Agreement (SAA). Of key importance was the agreement with the International Monetary Fund (IMF), as an act of accomplishing the goals of the agreed three-year-term credit arrangement;
- the successfully conducted reforms have so far provided a good base for the beginning of the second phase of the transition, which means the completion of the process of restructuring public companies into big corporate systems, making the companies more competitive and infrastructural reforms.

1. Theoretical Framework

The subject of the research, in accordance with the theme and the established problem, are the scopes and challenges of the privatization process in the Republic of Serbia, through the development of a model of transition, while taking into account the given circumstances. The goal of this research is to define the level

of applicability and adaptability of the privatization models under transitory conditions and to systematize the theoretical knowledge from the area. Also, in the empirical part of the study, the main objective is to examine the scopes and results of the privatization process in the Republic of Serbia.

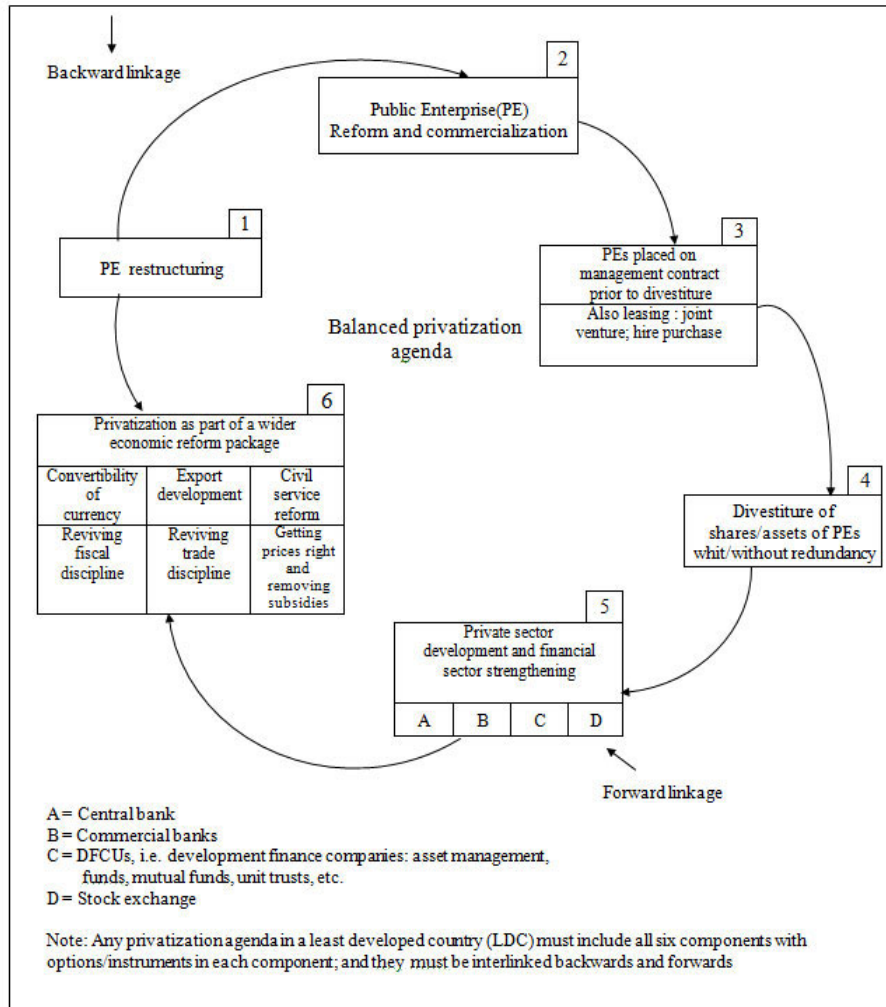
The necessity of the existence of a clearly defined state of ownership is highlighted, this being highly important in order to successfully carry out system reforms. In order to confirm or to deny the set hypothesis, the research views the changes of ownership structures during the privatization process, and the establishment of new ownership forms and liabilities of the owners. Since, these clearly defined liabilities are the demonstrative facts whether the management and the new corporate leadership performed well or not, they become responsible for their performance directly to the owners. It has been examined whether the existing model is flexible enough and if it provides a frame that is clear and visible for the public. It has been also examined whether the prices of capital shares of the privatization subjects are formed according to market forces, the stimulating effect of the privatization on the economy in general, and also the fairness of actions and legal security of affairs.

Having in mind the implementation of the Law on Privatization (Official Gazette of the Republic of Serbia, No. 38/2001, 18/2003 and 45/2005), the research examines companies that were in the process of privatization in the Republic of Serbia between 2002 and 2007. Due to data availability and possibility of monitoring – i.e. the investigation of the correlative relationships between the numbers of offered and sold companies and the methods used in the privatization processes, – research specimen are privatized companies in the Autonomous Province of Vojvodina from January 2002 to December 2007. The choice of the research subjects – companies from the Autonomous Province of Vojvodina – is due to their performance and structure (developed infrastructure, favorable geographical base, correct final balance sheets, well preserved assets, fertile soil, etc.).

Privatization predominantly involves the transfer of the assets of state-owned companies to domestic and/or foreign firms (Roberts et al., 2008). As a result of the process of privatization, there exists a possibility for the growth of gross national product, productive activities and productivity, real increase of wages and public incomes (Birdsall and Nellis, 2002). Privatization agenda and its components are presented in Figure 1. Any privatization agenda must include all these components with options and instruments in each component. They also must be interlinked – such as Public Enterprise (PE) restructuring, reform and commercialization; placing PEs under management contracts with private companies at home or abroad; joint ventures with or without equity participation and with or

without management contract; leasing, as well as several other initiatives in respect of these enterprises which will remain in the public sector or be candidates for privatization at a later date (Basu, 1992; 1994).

Figure 1
Privatization Agenda with Backward/Forward Linkages



Source: Basu (1994), pp. 44 – 55.

Privatization is a precondition for the integration processes into the EU as well as for the inclusion into global economic processes and integration of the country in general. It is also a prime condition for the economic rehabilitation

and development on the long run (Carlin and Aghion, 1996). The main task of the state in this process is to create a healthy (competitive) ambient for industrial growth (Megginson and Netter, 2001).

Privatization is not a single formula, but rather a general approach, which is implemented in various ways. Four methods of implementation have been identified (Rigden and Fisher, 1995):

(1) The introduction of private finance to a public service.

(2) The introduction of private production to a service financed by the public sector.

(3) The sale of state enterprises to the private sector.

(4) The liberalization of state monopolies.

During the reform year of 1990, privatization boomed (1,200 companies shifted from state or public owned into various – mixed and private – forms of ownership). That happened partly because of the technical weaknesses of the operational model and the possibilities that left space for manipulations. The follow up of the started process of privatization happened in 1991, with the adoption of the Law on circumstances and proceedings of transforming socially owned capital into other forms of ownership. The main characteristic of this Law was its harsh approach to these procedures; but an unexpected stimulus for the privatization process had become the enormous inflation of 1993, which led to the depreciation of debts during share purchase by instalment. By the end of the year of 1993, taking advantage of the lack of regulations of the debt revalorization for the inflation rate, a great number of companies were completely privatized. In that context, a Law on Revaluation was adopted, by which all the gains of citizens through inflation were annulated, leading to the fact that by the year of 1997 there was practically no privatization in the Republic of Serbia. The Law on Ownership Transformation was passed in 1997, and it represented the continuation of the previous model of privatization. Privatization was still decentralized, not obligatory and favored employee shareholding. All present and former employees in the public and state sphere, as well as insured agriculture workers had the right to shares free of charge in the amount of 400 DEM for each year of their employment. A free distribution of shares of some 60% of corporate capital was offered in the first round, 10% of corporate capital was guided to State Pension Funds, and the rest (30%) could be purchased for a 6 year repayment period. The unsold capital became the ownership of the Share Fund. Priority was given to company employees, and the companies had the right to decide whether to step into the process of privatization or not. With the political changes of October 5, 2000, a so-called ‘temporary transitional government’ was formed, and during that administration the privatization of some 500 profitable companies

was started according to the Law of 1997. The Serbian Government adopted a slightly modified model of classical capital sales (Law on Privatization, Official Gazette of the Republic of Serbia, No. 38/2001). According to this method, instead of free share distribution, a model of sales was offered. The law embraces two models of privatization: the sales of public and state owned capital, and the transfer of public and state owned capital free of charge. The model was chosen with the guiding idea to find the 'real' buyers, namely to find those who will have an interest in making the companies more profitable. The second reason was to insure budget income, for funding social expenses. According to this model, the majority of the shares are sold to an investor and by that, full control over the company passes to that major shareholder. One of the most important innovations of this model was that the sales of shares were favored over free distribution of shares for the first time.

The Law on Privatization includes the obligation of free distribution of shares to all legally adult citizens of Serbia. The law provides two models of sales: auctions for smaller, and tenders for bigger companies. 70% of the capital is offered on sales, and 30% is distributed among employees and citizens. For the first time, the voluntary character of the privatization was lapsed and its durability was insured by set dates.

According to the Law, 5% of any sales are to be set aside for future provisions for nationalized property.

To start the privatization process, it was necessary to create the institutional and legal background. The institutional frame is represented by the establishment of the Privatization Agency of the Republic of Serbia, the Share-Fund of the Republic of Serbia and the Central Securities Depository and Clearing House of Serbia.

The basic law for the process of privatization is the Law on Privatization from 2001 (passed in the National Assembly of the Republic of Serbia, enforced in 2002). By this law, the general regulations are set for preparing the companies for privatization and the privatization process itself. Due to the necessity to adapt to changes in circumstances, it has been changed and amended three times.

2. The Effects of the Privatization Process in the Republic of Serbia with a Special Focus on AP Vojvodina

Privatization in post-socialist economies is not just a change in the relative mix between private and state-owned property, as it is the typical case in Western market economies. In post-socialist societies, it is a true systemic change, creating a new order, a 'private-property regime' (Frydman and Rapaczynski, 1994; p. 170).

The basic principles of the concept of privatization in the Republic of Serbia are the followings:

- To ensure publicity: the rules for taking part in the privatization procedures are transparent, by which it is enabled for the public to have information on each and every sales
- Fastness: it is planned to carry out the privatization in a short period of time. That way the transitional period would be shortened, enabling the companies to improve their performance and leaving space for opening new jobs in the future.
- Competitiveness: equality is offered for all interested subjects taking part in the process of privatization.
- Equity: not only that the process has to correspond to legality, but also to justice, as a higher moral category, by which the intention is to emphasize the necessity of this process in accordance with the highest moral standards.

The set objectives of the privatization process are the followings:

- A contribution to the economic reforms and a transition of the institutions and mechanisms to market economy;
- Regaining the lost markets and the inclusion into the international flows of capital and goods;
- The introduction of western standards and norms into business affairs;
- Ensuring assets to the state and disburdening the state budget;
- Ensuring a flow of foreign capital, in order to revitalize the economy;
- The development of competitiveness and breaking of monopolies on the market of goods and services;
- A contribution to open new jobs and positions.

A research was carried out in order to analyze the process of privatization, with an accent on testing the correlative relationships that exist between the numbers of offered and sold companies, in the period between 2002 and 2007.

The results show that the number of offered companies through the method of public tender, including the number of public invitations, was the highest in the first years of the process, while the number of realized sales was modest. The relationship between offers and sales was the most favorable in 2004, the reason being a modest level of offers in that year. After that, an increase is experienced both in the number of offered and sold companies, while in 2007, the increase of the offers continues, while the number of realizations considerably falls. During the period of 2002 – 2003, there is a high number of offered companies; while the investors show their highest interests during 2005 and 2006. The subjects in whose jurisdiction is to perform the privatization process met the biggest challenges after 2003, when it was the hardest to secure solvent investors for the

offered companies. The Government reacted with passing decrees and amendments to the Law on Privatization, in order to create a preferable ambient for the investors. The Government also introduced certain disburdening measures on the companies to be privatized (e.g. conditional reduction of their liabilities towards the state and other commercial liabilities).

A research was carried out to see the results of the privatization process by the method of public auctions, as well. The results show that the number of companies, both offered and sold, was the highest in the first years of the process. The relationship between the numbers of offered and sold companies has not changed considerably since then; not even in the years of lower offer. In the forthcoming period, the officials will have to deal with the challenge of finding solvent investors, who are willing to invest in the companies that will be on offer, and which are by their performances in a more complicated situation than those that had already been sold, i.e. most of these companies are heavily indebted, with a number of surplus manpower and unattractive physical assets to offer.

The relationship between the actual model of privatization and the achieved effects (in the terms of contracted investments and realized budget incomes from the sales of companies) has also been studied.

With research, it has been defined that the method of public tenders are proven to be more successful, both in the cases of investments and the achieved incomes of sold companies in the Autonomous Province of Vojvodina, compared to the total number of the sold companies in the Republic of Serbia. The reason for this tendency lies in the characteristics of the companies that are offered on sales by tenders (big corporate companies with lots of employees and high value of assets). The sales made by the method of auctions, thus investments, are dependant upon the accumulated amortization. The nearly same amount of budget incomes realized by both of the methods is due to the fact that there are more companies sold by public auctions than by tenders.

The research also included an analysis of the sold companies according to their business activities. Research results show that the most sold companies are from the field of industry, followed by agriculture and the construction industry. The reasons for such results lie in the characteristics of these companies (reliable business results, being in possession of land and assets), and that they represent the majority in the total number of offered companies.

The structure of subjects which are in the process of privatization is similar to the structure of those companies that have already been privatized.

With research and analysis of the regional disposition of the privatized companies in the Autonomous Province of Vojvodina, it has been established that the biggest number of sold companies are in the Backa South District, due to the fact

that in this district the companies have performed well (developed infrastructure, favorable geographical base, correct final balance sheets, well preserved assets, fertile soil).

It has been established, that not only the majority of sales occurred in the Backa South District, but also the biggest budget incomes are achieved from this district.

The results of the finalized privatizations in the Republic of Serbia in the period between 2002 and 2007, show that 1 992 companies were offered to be sold by the auction method, out of which a total number of 1 835 companies were sold, and a sum of 1 149 628 EUR was gained as privatization income, and 259 076 000 EUR were foreseen as investments (Table 1).

Table 1

The Statistics of Sold Companies in the Period between January 1, 2002 and December 31, 2007 with the Method of Public Auctions in the AP Vojvodina

Year	No. of offered -without repetition	Percentage of companies	Percentage of success	Number of employees	Achieved price	Obligatory investments (in thous. EUR)
2002	211	207	98.10	15 313	60 709	14 452
2003	712	680	95.51	59 858	242 724	61 660
2004	300	257	85.67	28 351	122 766	48 872
2005	228	201	88.16	22 857	174 449	42 794
2006	230	208	90.43	22 124	160 738	42 192
2007	311	282	90.68	22 144	358 242	49 106
Total	1 992	1 835		175 647	1 149 628	259 076

Source: On the basis of the data of the Privatization Agency.

By the method of tender sales, a total number of ninety-nine companies were sold from the number of 177 offered companies in the period between January 1, 2002 and December 31, 2007. The achieved income from these sales is 1 137 740 EUR, and a sum of 1 064 075 EUR was foreseen for further investments (Table 2).

Table 2

The Statistics of the Sold Companies in the Period between January 1, 2002 and December 31, 2007 by the Method of Public Tenders in the AP Vojvodina

Year	No. of offered -without repetition	Percentage of companies	Percentage of success	Number of employees	Achieved price	Obligatory investments (in thous. EUR)
2002	28	12	39.29	11 977	220 771	305 152
2003	38	19	42.11	15 927	600 361	318 612
2004	11	9	72.73	12 499	15 205	75 007
2005	22	16	59.09	9 372	96 591	73 719
2006	29	25	75.86	21 633	101 202	206 463
2007	49	18	34.69	14 593	123 610	85 122
Total	177	99		86 001	1 137 740	278 731

Source: On the basis of the data of the Privatization Agency.

The main difference between the liabilities of investors made by contract of capital purchase by public tenders and public auctions is that public tenders foresee taking over the realizations of social programs, as well. In the mentioned period, the worth of these social programs realized by sales of public tenders is 278 731 000 EUR.

By the method of public tender the following companies were sold: *Beocinska Fabrika Cementa* (Beocin Cement Factory) – Beocin, *Sajkaska* – Zabalj, *Rumaguma* – Ruma, *Secerana* – Crvenka, *Polet* – Novi Becej, *Livnica* – Kikinda, *Sever Holding* – Subotica, *Hipol* – Odzaci, *HIP Azotara* – Pancevo.

Beside the mentioned legal obligations, the Privatization Agency has the jurisdiction and the control over the obligations of the buyers of company assets. By this, the control of payment of the negotiated price of the sales contract is its jurisdiction, as well as the control over the obligation of maintaining the continuity of the basic economic activity (usually for two years), the control over assets alienation, the control over investment obligations and the control over the respect of norms in labor legal affairs. The percentage of contract cancellation is 18.5% in the sphere of auctions, and 12.12% in the sales contracted by tenders (Table 3).

Table 3

Cancelled Privatization Contracts in the Republic of Serbia

Year	Cancelled contracts – auctions	Cancelled contacts – tenders
2002	52	1
2003	154	3
2004	62	1
2005	34	3
2006	27	3
2007	11	1
Total	340	12

Source: On the basis of the data of the Privatization Agency.

In the Republic of Serbia, according to the Law on Privatization, it has been determined that the process of privatization has to be finalized by 2008 for subjects which have a majority of assets in public control, while the date of the process finalization for subjects whose assets are mainly being controlled by the state is not determined. There is a great possibility that in the forthcoming period the trend of unfavorable auctions and tenders is going to continue, because companies that are less attractive for privatization are on offer now.

Research subject was also the number and analysis of privatized companies in the Autonomous Province of Vojvodina (Table 4). The number of sold companies was the highest in 2003, while the highest sales price was achieved in 2007.

Table 4
Sold Companies in the AP Vojvodina by the Method of Auction

No.	Year	The number of sold companies	Achieved price (RSD)	Achieved price (EUR)
1.	2002	70 companies	1 271 529 374	20 729 404
2.	2003	222 companies	4 656 368 169	71 118 348
3.	2004	104 companies	4 375 381 000	59 788 032
4.	2005	75 companies	4 863 877 240	57 891 956
5.	2006	62 companies	5 066 628 000	61 775 111
6.	2007	76 companies	8 997 478 000	112 322 200
		Total: 609	29 231 261 783	383 625 051

Source: On the basis of the data of the Privatization Agency.

The reason for this can be found in the structure of the offered and sold companies in 2007 (attractive companies from the field of agriculture), even though the number of the companies was not the highest in that year.

In order to draw conclusions on the flows of the privatization process, the number of sold companies by the method of public tenders were also viewed and analyzed in the Autonomous Province of Vojvodina (Table 5) Analysis show that the most of the companies were sold in 2006, and the achieved gains were the highest in 2002 (the first year of the privatization).

Table 5
Sold Companies by the Method of Public Tenders in the AP Vojvodina

No.	Year	No. of sold companies	Achieved price (RSD)	Achieved price (EUR)
1.	2002	5 companies	3 608 830 549	60 127 009
2.	2003	6 companies	1 160 230 118	17 943 473
3.	2004	3 companies	514 463 000	6 800 000
4.	2005	5 companies	2 827 649 522	32 947 931
5.	2006	8 companies	4 480 590 363	53 453 034
6.	2007	4 companies	895 586 538	11 257 107
		Total: 31	13 487 350 090	182 528 553

Source: On the basis of the data of the Privatization Agency.

During the first year of privatization, some of the biggest and most successful companies were sold by the method of public tenders on the territory of the Province, leading to the conclusion that the achieved sales price was the highest in that year as compared to the following years, even though in some of the following years the number of sold companies was sometimes higher.

In this article, the effects of the privatization process were researched and analyzed according to economic sectors in the Autonomous Province of Vojvodina during the period between 2002 and 2007. Our research show that the most privatized companies are from the sphere of the processing industry, where the greatest investment packages were contracted and the highest privatization incomes were gained. In the processing industry, from the privatized companies,

the highest investments were achieved in the chemical processing industry. Considering the prices of the asset sales, the most favorable results were achieved in the companies of food processing, beverages and tobacco factories, while the highest number of realized sales can be found in the metal processing industry.

The reason for achieving the best results in the processing industry, as compared to other sectors, is due to the fact that in the processing industry, there are the most companies with high value of assets and positive performance.

A number of 123 companies were sold to foreign buyers on the territory of the AP Vojvodina in the period between 2002 and 2007. By these acts, a total privatization income of 150.8 million EUR was achieved, and the contracted investment value reaches 103.9 million EUR (Table 6). Foreign investors participate with 3.9% of the total sales of companies, as a result of both public auction and tender sales on the territory of the AP Vojvodina.

Table 6

The Effects of the Sales of Corporate Capital to Foreign Buyers in the AP Vojvodina (2002 – 2007)

Sales method	Number of companies		Incomes		Investments	
	Total	%	mil. EUR	%	mil. EUR	%
Tender	10	8.1	76.0	50.4	100.0	96.0
Auction	14	11.4	20.8	13.8	3.9	4.0
Share fund	99	80.5	54.0	35.8	–	–
Total – foreign buyers	123	100.0	150.8	100.0	103.9	100.0

Source: On the basis of the data of the Privatization Agency.

The most companies sold to foreign buyers are from the processing industry. With the sales from the sectors of food processing, beverage and tobacco industry, chemical products processing industry and processing of other minerals, a sum of 87.6% of the total sales to foreign investors have been realized; mostly by the sales of the Cement Factory in Beocin, the Beer Factory in Apatin, HIP Azotara in Pancevo, and *Polet* from Novi Becej.

The revival of the industrial activities in 2005 was the result of the launched structural reforms, and the initial positive effects were shown in the realized financial results of the industry – the industry of Vojvodina in 2005 is a net profiteer (the net profits were 16.9% higher than the losses). The above the average business activities and the profits gained in small and medium size companies had the biggest influence on the positive outcome in 2005. However, due to the unfinished process of privatization and the restructuring of big industrial systems, the accumulated problems of business activities have been dislocated into small and medium size companies (mostly into medium size companies), which is especially visible in the spheres of liquidity and profitability of this sector.

Also, it is important to point out the important influence of big industrial systems on the whole of the economy, most of all of five large companies (three public: *NIS* Novi Sad, *Srbijagas* Novi Sad and *Elektrovojvodina* Novi Sad, and two private: Tarkett Backa Palanka and Hemofarm Vrsac), which gain 46.0% of the profits and 36.3% of the total incomes of Vojvodina's economy.

The minority share portfolios from the portfolio of the Share Fund have been sold to buyers of ninety-nine companies, by which a part of 35.8% of the total sales to foreign buyers have been realized.

Conclusion

The carried out research has established some of the major features of the current state of affairs considering the privatization process in the Republic of Serbia, which had to face numerous challenges.

First, the slow process of privatization, and the undetermined attitude of the Serbian Government to take necessary steps in order to fasten the process needs to be mentioned (the privatization of corporations with social capital is in its final phase, finalized by December 31, 2008; while the privatization of companies owned by state capital is in its earliest phase). Also, a certain feeling of distrust of the public in the necessity, transparency and legality of the privatization process can be felt, to what greatly contributed the general negative approach of the public towards the subject, and the lack of continuous efforts made to educate the public on the process of privatization (especially on the post-privatization period). There is also a weak interest of foreign investors for taking over companies of strategic interest, due to which the expected inclusion into the flows of global economy has stayed out, as well as the incorporation of new technologies and corporate skills through privatization. To this, the effects of the global economic crisis should be added which leads to a decrease of foreign investments. The huge amounts of corporal debts (considering wages, social benefits, liabilities, public funds, creditors etc.) also contribute to the complexity of the situation. Both the inadequate protection from unemployment and the inadequate system of social protection contributed to the fact that the process is carried out in the atmosphere of deep social tensions. The investors have to face with non-market based business conditions of the economy and unfavorable deadlines, rigid labor laws, and a public policy that leads to cost increase in business affairs, through overemphasized administrative demands and unnecessary political interfering. Also, a part of the state capital has still not been prepared for sales due to difficulties about ownership, unknown hidden liabilities of companies, and especially the unwillingness of present management to show the real state in

the passive balance sheets. In order to keep their positions, neglect and negative approach is apparent from managing and executor boards towards the process of privatization. It can be said that there is an unsynchronized approach of the legal system, that regulates the same matter on several different ways, and the lack of existence of a restitution law also makes matters worse. Finally, the lack of a global strategy concerning companies from the infrastructural sphere (public and communal enterprises), slows down the development of normative and legal frameworks, necessary for attracting new investors.

The research results indicate that the most important negative effects of the privatization process that has been performed so far in the Republic of Serbia are the following: the insufficiency in reducing the budget expenses to cover the costs of the public sector, the incomplete development of competition, the unsettled questions of ownership, the imprecise data on assets and liabilities, the surplus of manpower, the little number of key investors and strategic owners with the visions and motivations to increase productivity and competitiveness, the accumulated debts of the corporate bodies, liabilities that surpass the worth of the assets and the slow and unequal process of restructuring the public-communal enterprises. The positive effects are the following: the devolution of monopolies on the markets of goods and services, securing some incomes for the state budget, the flow of foreign capital, faster and wider integration into the international market of capital, the development of existing technologies, a better offer of goods and services, a dynamic growth of the private sector, a transparent ownership structure, the forming of a production structure that can be sold on the domestic and international markets, the increase in efficiency, open market economy, the development of the finance market, an increase in competitiveness, macro-economic stability and a growth of the life standard. The change of the company's structure by its size and ownership (the enlargement of the private sector) is the result of privatization, the started restructuring of large industrial systems and by legal regulations the fastened, cheaper and easier way of establishing companies. By applying the *Law on the registration of industrial subjects* and by the establishment of the *Agency of industrial register*, a sum of 4 297 new companies were registered (2 666 in 2005 and 1 631 in the period of January – July 2006). One of the basic results of privatization in Vojvodina and the policy of encouraging the development of small and medium sized companies can be seen in the dominance of the total employment in the private sector in 2005 (in the previous years most of the employees of small and medium sized companies worked in companies of mixed ownership). The initial results of the started structural reforms in Vojvodina had a major impact on the revitalization of economic activities in the whole of Serbia, what also can be seen from the positive tendencies in

the movement of the rate of rise/fall of basic financial showers of Vojvodina's economy (base and chain indexes). However, due to the unfinished privatization process and restructuring of large industrial systems, the accumulated problems are now being dislocated to small and medium sized (mostly medium sized) companies, which is especially visible in the sphere of liquidity and profitability of these sectors. The increase in losses of small and medium sized companies in 2005 as compared to 2001 was 78.3% (the decrease of the total losses of Vojvodina's economy was 21.5%) which had an influence on the increase of the share of this sphere in the total losses from 22.7% in 2001 to 51.5% in 2005.

One of the challenges in the next period is the privatization of strategic enterprises in the Republic of Serbia, such as the Rudarsko topionicarski basen (RTB), Bor. For the privatization of 'RTB', Bor a public tender was assigned as a model of privatization. However, this type of privatization has failed twice so far. The Italian 'Fiat' is contracted for 'Zastava' Fabrika Automobila (Car producing factory), as a strategic partner, which model might be the solution for 'RTB' Bor, too. For some companies, due to their performances, it is better to announce public tenders for strategic partners and change the restructuring program, which would enable the state to keep its major or minor package of shares or to hold the right for a veto on decisions (such as bankruptcy or moving the company to another country).

Privatization is a very important issue concerning the economy of the Republic of Serbia, but it cannot favorably influence all the existing problems of the companies. In the process of privatization, the instruments of the economic policy have to be changed as well. There is a necessity to shift from a non-market governed policy to the systems of market economy that is open to innovations.

The research indicates the necessity of applying an adequate privatization model that is enabling the increase of assets value and company performance. The paper research confirms the basic hypothesis: that there is a significant correlative relationship between the numbers of offered and sold companies, especially regarding the applied privatization models. Likewise, further privatization processes in the Republic of Serbia imply further research, especially having in mind the existing recessive trends, i.e. the consequences of the global economic crisis.

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