




**Proposal of the New Law on
Managing State-Owned Enterprises in Serbia**

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On 03 August 2023, the Government of the Republic of Serbia passed on a new Proposal of the Law on the Management of Companies Owned by the Republic of Serbia (hereinafter referred to as: "Proposal").

At the end of May, the Government of the Republic of Serbia already passed a proposal for this law, which was already in the parliamentary procedure but was withdrawn and public consultations were organized in order to reject doubts that this law aims to implement the privatization of public companies.

The proposal stipulates that it applies to "companies of capital" i.e., companies in the form of limited liability company or joint-stock company in which the Republic of Serbia owns more than 50% of the company's share capital.

The two biggest goals are presented within the Proposal:

1. establishment of corporate governance and
2. centralized ownership.

According to the available data (Electronic records of economic entities in which the Republic of Serbia has ownership - website of the Business Registers Agency), on 9 May 2023, the Republic of Serbia has 305 economic entities in its portfolio from which 266 are active and 23 are in the form of public enterprise.

Within the proposal, the Government has stated reasons for the implementation of the Proposal stating: “In the existing legal framework, the state’s ability to provide a unique strategic direction and goals of companies based on knowledge of their business and results is very difficult.

Objectives of management have not been clearly defined yet but are determined based on law and strategic documents, which are often in conflict with each other.”. The solution is found in the introduction of corporate governance which is motivated by the intention to increase the level of efficiency, effectiveness, and transparency of the business of companies.

Bearing in mind the Code of Corporative Governance of the Chamber of Commerce of Serbia, corporate governance enables a company to attract human and financial capital, effectively manage the business and ensure long-term and sustainable development, taking into account the interests of the owners and the interests of other parties who have legitimate interests in the company’s operations with benefits such as better performance, easier access to capital markets, more favorable conditions for raising new capital and better reputation.

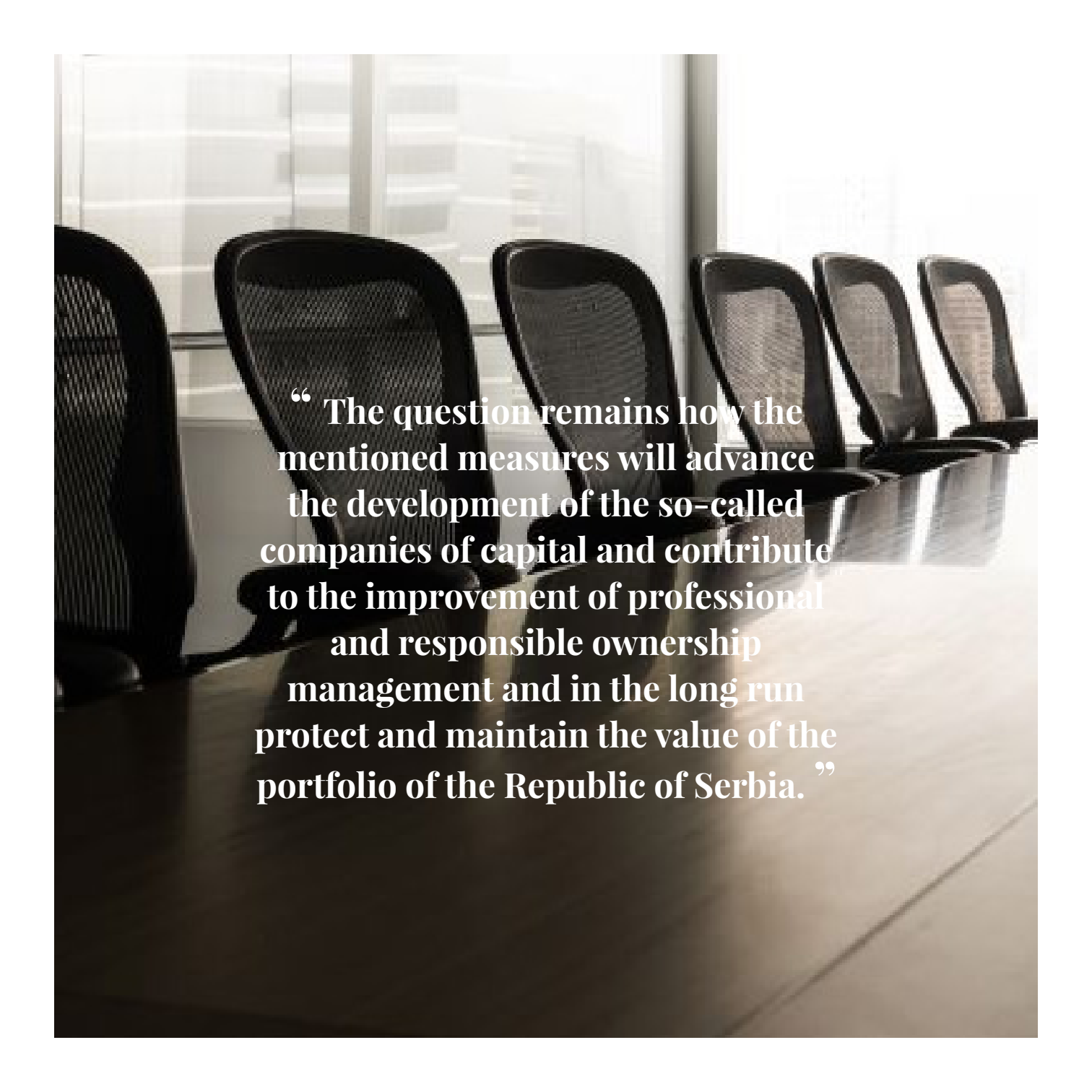
One of the perceived shortcomings is the uneven legal framework for entities that are owned by the Republic of Serbia and the non-compliance of the legislative framework, above all the Law on Public Enterprises (“Off. Herald of RS “, no. 15/2016 and 88/2019) and Law on Companies (“Off. Herald of RS”, Nos. 36/2011, 99/2011, 83/2014 - other law, 5/2015, 44/2018, 95/2018, 91/2019 and 109/2021).

The identified problems such as supervision of companies, monitoring of their performance, as well as the lack of consistent strategic direction and control, are expected to be overcome by centralized ownership – unification of responsibilities and competencies into one authority - The Ministry of Economy (hereinafter referred to as: “Ministry”). Every year, no later than September 1 of the current year, the Ministry will determine the general annual goals of capital companies through annual guidelines for management.

For this special purpose, a commission will be formed from the representatives of the Ministry. In addition, companies of capital will submit to the Ministry:

- a medium-term business plan;
- annual business plan;
- periodic report on operations and other data on business, as needed.

Centralized ownership management is expected to reduce management costs and increase the long-term contribution and value of the company of capital, all with the aim of preserving national and strategic interests.



“ The question remains how the mentioned measures will advance the development of the so-called companies of capital and contribute to the improvement of professional and responsible ownership management and in the long run protect and maintain the value of the portfolio of the Republic of Serbia. ”

The companies in the (>50%) ownership of the Republic of Serbia, shall either have one-tier for smaller companies of capital or two-tier management for larger companies of capital.

Representatives and directors of companies of capital will have to take a corporate governance exam organized by the Chamber of Commerce of Serbia and receive a certificate on the passed exam from Ministry which will, besides required higher education and experience, ensure their competence for the job at hand.

One of the biggest changes the Proposal suggest is that, if adopted, it is expected for over 20 public enterprises to change their legal form from public enterprises to either limited liability companies or joint-stock companies no later than one year from the date of commencement of application of this law. Some of the public enterprises that could be expected to change their legal form are Službeni Glasnik, Pošta Srbije, Srbijašume, Srbijagas, Jugoimport SDPR and others.

Subsequently, the implementation of this Law opens the possibility of the privatization of these, until now, publicly owned enterprises.

Regarding public enterprises, when changing the legal form, the share capital of a public enterprise shall be converted into shares, i.e. stocks, depending on the legal form of a company. When implementing a change of legal form, the legal subjectivity and business identity of a public enterprise is retained without liquidation, cessation of business or interruption of legal continuity, retaining its own identity in both legal and business sense.

The government shall pass an act on the criteria for choosing the legal form of a company into which the public enterprise will be transformed (limited liability company or joint-stock company).

In the Proposal's elaboration, it is stated that in June 2021, the Government adopted the action plan for the period from 2021 to 2023, for the implementation of the Strategy of State Ownership and Management of Business Entities from 2021 to 2027, as a public policy document adopted with the aim to implement the goals of the Strategy.

Therefore, the Proposal is made in accordance with defined goals, activities, and measures in the mentioned documents. In addition to the above, in the conclusion rendered by the Government from June 2022, the text of the Statement on the program was adopted, which accepts the revised objectives of the economic policy measure during the duration of the program supported by the Policy Coordination Instrument agreed with the International Monetary Fund, where the Republic of Serbia undertook to adopt a new law on the management of the enterprises owned by the state.

Nevertheless, the Republic of Serbia would not be a lonely country in the region to adopt such a law. In previous years, Slovenia, Croatia and Hungary have all made progress in establishing more rational, responsible and professional management of the companies owned by the state.

The question remains how the mentioned measures will advance the development of the so-called companies of capital and in what way will the authority contribute to the improvement of professional and responsible ownership management thereof, which will effectively and in the long run protect and maintain the value of the portfolio of the Republic of Serbia.

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