

Summary

Notwithstanding the period of transition, Serbia still is a country with a significant number of public enterprises under state control. High participation of these companies in GDP negatively affects social wealth and employment, overall economic efficiency and encourages financial indiscipline, corruption, etc. At the same time, these companies receive significant direct budget subsidies and thus contribute to the increase in public spending and the fiscal deficit. Given all these reasons, a serious program of reforms is necessary to achieve fiscal savings, but also an overall increase in the efficiency of the domestic economy. Led by the idea that substantial and effective reform is necessary, the Serbian Government adopted the Decision on changing the **legal form** of the “Elektroprivreda Srbije” (EPS), a national Electric Power Supply Enterprise.

Introduction

The largest public enterprises are particularly important for the competitiveness of the entire Serbian economy, given that they provide key inputs for all other companies in the country. The challenge for the Government is to correctly balance the numerous and often mutually exclusive conflicting goals in the management of these companies. As the owner, the Government should ensure that these companies operate efficiently, as well as lead an investment policy that will ensure their long-term sustainability. As a **regulator**, it should ensure that tariffs are compatible with efficient long-term business, but also to protect consumers from possible abuse of monopoly position.

Major mistakes in the management of EPS and “Srbijagas”, a Serbian national **gas supply enterprise**, came to pay during the world energy crisis. Unfavourable global circumstances were the trigger that exposed the domestic crisis of state-owned energy companies, which had been simmering for a long time. The two crises (global, and especially domestic) have led to the fact that from the fall of 2021, Serbia’s main problem has become the question of how to finance and ensure the country’s regular supply of electricity. EPS can no longer produce enough electricity for domestic needs because it did not invest in its **coal mines** in time – so now the has to import both coal and electricity, at record-high prices. The epilogue of the entire confusion and damage is that instead of exporting electricity, which was common during the winter months and a very good source of income, in the 2021/2022 season, Serbia allocated around 1.6 billion euros for import.

Transformation of EPS

On April 6th 2023, the Government of Serbia adopted the Decision on changing the legal form of “Elektroprivreda Srbije” from a public company to a **non-public joint-stock company**, in which the Republic of Serbia remains the sole owner.

According to the decision published in the Official Gazette, the joint-stock company “Elektroprivreda Srbije” will continue to perform the activities of a **public company** in the same way as before the change of legal form.

The total basic capital of EPS, which amounts to 365.1 billion dinars (around 3 billion euros), is converted into 36,510,509 shares, with a nominal value of 10,000 dinars each, so that the Republic of Serbia acquires all 100 percent of the shares of the joint-stock company. EPS AD will remain the owner of the total assets and debtor of the liabilities of the Public Enterprise, and all court proceedings on behalf of and against EPS will continue. All contracts remain in force, without the need to conclude new annexes.

The government also passed the Decision on Amendments to the Founding Act and the new EPS Statute. According to the Founding Act, the main activity of the company is the production of electricity, and it can perform all other activities by the applicable regulations and decisions of the company.

EPS AD will be organized according to the Law on Business Companies. There is criticism among the public that there is no longer an obligation to submit a financial report and that with the termination of the Law on Public Enterprises, the obligations of the Law on Public Procurement also ceases, which opens up the possibility of corruption.

In the amendments to the Founding Act, it is specified that the founder will appoint his authorized representative in the **Assembly** of EPS AD within 10 days, as well as that the president and members of the Supervisory Board of EPS and directors in charge appointed in 2022, continue to perform their functions until new ones are appointed. The current executive directors of EPS continue to perform the function of executive directors within the Executive Board of EPS AD.

Management and other matters of importance for the performance of the activities of AD EPS are regulated by the Statute, which states that the management is organized as a bicameral body. The company's bodies are the Assembly, which consists of one authorized representative of the founder, the Supervisory Board with seven members, one of whom is the president and one employee representative, as well as the Executive Board with seven members. The statute regulates the competencies of these bodies.

The executive board has seven executive directors, one of whom is the general director. The supervisory board of EPS AD appoints the executive directors and appoints one of them as the general director, for a period of up to four years.

Where transformation will lead The goal of changing the status of EPS from a public company to a joint-stock company is to bring order to the business and to turn it from a loser to a company that earns money.

In response to public criticism that this change means privatization, both President Aleksandar Vučić and members of the Government categorically claim that there is no **privatization** of “Elektroprivreda Srbije”. Additionally, critics warn that this type of transformation will lead to an even greater influence on politics, but Ms Dubravka Đedović, the Minister of Mining and Energy, claims the opposite.

“Elektroprivreda” has one shareholder and we intend to keep it that way through a change

in legal form, for it to be the state, for the state to be the 100% owner. The country is one, one shareholder – one vote. So it is the reduction of political influences. The Assembly, it is not all true that it elects the general director and executive directors. The Assembly elects the Supervisory Board, to which most of the powers are transferred. The Assembly has very limited powers to make strategic decisions, and for that, it needs the consent of the Government.”

And while the relevant minister denies privatization, some experts believe that turning it into a joint-stock company can be an intermediate step for it to happen in the end. Converting an EPS into a joint-stock company does not in itself imply a sale, but it enables it. The exclusive **guarantee** of its duration as a national asset of general importance is the status of a public company.

The announced change does not have to change anything in the current way of doing business, but if the state decides to change something, then it can do so through a new form. Potentially, it can “iron out” the company – and it has been able to do that until now – make a good profitable company and then possibly open a part of the shares for sale, while keeping the majority or minority package.

Recapitalization is also possible so that a partner’s introduction of new capital or facilities is recognized as a share in the ownership of EPS. It is also possible to go on the stock market, to be listed and allow anyone to buy. The bottom line is whether or not the state wants to create a different, more profitable company. “If not, this change of form means nothing, it is cosmetic, perhaps forced due to the current negotiations with the IMF, perhaps the goal is to appease some critics who change in the EPS, but the fact is that it should be clear whether the state wants greater efficiency and profitability of the business. And it is not a matter of the legal form of the company, what is required is to change the principles of business.

Conclusion

There is no doubt that a change in “Elektroprivreda Srbije” was needed. As a strategic company, a company of vital importance for the country and people, it is necessary to carry on changes which will stabilize it and create conditions for its profitable activities. Control and transparency of operations are a priority in order not to repeat the mistakes of the past that collapsed EPS.