THE STATUS QUO OF STATE-OWNED ENTERPRISES IN CEE COUNTRIES

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Content

Preface

State-owned enterprises (SOEs) are wholly or majority state-owned companies that are engaging in various activities on behalf of the state. They play an important role in key sectors. They can generate significant revenue for the state, enable a government to exercise greater control over the key sectors, stabilize national economy and economic security, help improve local technologies and skills, just to name a few. Nevertheless, the status quo of SOEs differs from one country to another due to a series of factors including the privatisation process in the countries. Therefore, it would be very interesting to observe the changes experienced by the SOEs and their contribution to national economy in the past years.

This book is providing a brief and historical overview on the status quo of state-owned enterprises (SOEs) and some representative SOEs in the Central and Eastern European countries. Authors have analysed the status quo of the SOEs from different angles and explained the situations that the SOEs are currently facing. Some reports even cover the recent dynamics of the SOEs under the background of the coronavirus pandemic. The book is a collection of 17 reports written by the associate researchers of China-CEE Institute. The reports are originally published as the February economic issue of the 2021 Weekly Briefings. Weekly Briefing is a core product of China-CEE Institute. The views in the book are represented by the individual authors instead of China-CEE Institute.

China-CEE Institute, registered as a non-profit limited company in Budapest, Hungary, was established by the Chinese Academy of Social Sciences (CASS) in April 2017. China-CEE Institute builds ties and strengthens partnerships with academic institutions and think tanks in

Hungary, Central and Eastern European countries, as well as other parts of Europe. China-CEE Institute aims to encourage scholars and researchers to carry out joint research and field studies, to organize seminars and lecture series, to hold some training programs for younger students, and to publish academic results, etc.

I hope this book will be helpful to enrich the knowledge of the status quo of the SOEs of the CEE countries, the contribution from the SOEs to CEE national economy, and the future development of the SOEs.

Prof. Dr. CHEN Xin

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State-owned Enterprises in Albania: an overview

Marsela Musabelliu

One of the greatest violations ever made to the Albanian people is the privatization of the former State-owned enterprises (SOE). Initiated after the regime change in 1991 and never truly finished, the destruction, deterioration and ultimately the loss of what once was the 'property of all' became almost overnight the ultimate target for immediate devour of the 'new capitalists' of Albania. The ones that were learning by doing, on their path to become sole beneficiary of what all Albanians have been working for in almost half a century. The issue is not the privatization *per se*, but how, when and who managed it, made their transition one of the drivers of the economic stagnation and concertation of wealth in the hands of very few people.

For 45 years in a row, Albanians were told to work hard on the SOE because those entities belonged to them, and when the time came to rip some benefits, they were deceived with some worthless, not nominal, treasury bonds.

Situation of Albania's SOEs in 2021

Fast forward almost 30 years after those eventful times, it is noted that what is left of the SOE that still identify as such, are surrounded a web of obscurity of information. It should be noted in this stance, that there is no published, official list of SOEs and no clear data on their assets, net income, or total number of employees available for the public to consult. However, as of 2021, the major Albanian SOE are identified in the Electric Distribution Operator (OSHEE), Transmission System Operator (OST), Electricity Generation Company (KESH), Oil and Gas Operator Albpetrol, Albanian Post Office, and the Albanian Railway System. [1]

Electricity supplier and distributor

The state is responsible for the electricity production and distribution in the country. About 98% of Albania's energy is generated from hydropower. Albania is generating all of its domestic electricity from the hydropower, thus depends heavily on hydrological conditions and meet the total of the country's demand only in rainy years. Frequent energy shortages due to fluctuations in rainfall, high distribution losses (up to 45%), and regulated tariffs below energy costs have resulted in liquidity injections by the government to the energy generation company KESH and other fiscal support to the sector. The very volatility of a sector depending on meteorological conditions, poses significant fiscal risks and, at the same time to the entire energy sector which is in instability anytime it doesn't rain enough. Furthermore, low collection rates from energy consumers have contributed to significant financial difficulties of the state-owned distribution company OSHEE. The Albanian government since 5 year has introduced new tariffs and initiated an enforcement program to reduce the theft of electricity and improve revenue collections. As a result, losses decreased and the collection rate improved, but the level of losses and arrears overall still remains high. [2]

In absolute terms, the Albanian energy sector is not financially self-sustainable and the European Commission has warned the government that contingent liabilities from State-owned enterprises remain high and could weigh on the debt ratio. In 2019, domestic guarantees amounted to ALL 15.2 billion (0.9% of GDP) for the state-owned electricity supplier, pointing to fiscal risks associated with weak governance of state-owned enterprises in the energy sector. The electricity market remains closed by

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[1] Investment Climate Statements. US Department of State. Retrieved from: https://www.state.gov/reports/2018-investment-climate-statements/albania/

[2] European Investment Bank report. Retrieved from: https://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_albania_en.pdf

regulated wholesale contract between state-owned generation and distribution companies, which needs to be phased out. The government has taken initial steps to set up the Power Exchange after a long delay, as it has finalized the preliminary operating rules. This should allow the Power Exchange to become operational only by the end of 2021. The retail market opening progressed with the exclusion of users connected to the 35 kW network from the regulated prices by OSHEE as the last-resort supplier.[1] OSHEE remains a government-owned electric utility and Albania's largest employer since he utility has more 6,000 employees. However, with all these facilities and abundance of natural resources, prices for the industry are the second highest of the region (after Montenegro) in with 12.5 euro cents/kWh. [2]

Upstream petroleum management

ALBPETROL monitors state petroleum agreements in Albania and its stock is owned by the Albanian state. Before 1990, Albpetrol was one of the largest subsidiaries of the Albanian State and one of the largest producers of revenue in the state budget. The transition brought setbacks and reductions and in the mid-1990s, a number of international oil companies "invested" in Albania and took by concession, the oil fields administered by Albpetrol. This changed the role of the company, which today not only produces oil, but serves as a regulatory entity and a controller of related hydrocarbon agreements between the Albanian state and foreign companies.

Currently Albpetrol is in a difficult financial state, created from years of negligence and theft, and the situation caused by the Covid-19 pandemic was yet another setback for the company. The Energy Regulatory Entity

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[1] European Commission. Staff Working Document Economic Reform Programme of Albania (2020-2022). Retrieved from: https://data.consilium.europa.eu/doc/document/ST-7468-2020-INIT/en/pdf

[2] Euronews Albania. Albanian households pay highest electricity prices in the region, according to report. Retrieved from: https://euronews.al/en/daily-news/2020/11/25/albanian-households-pay-highest-electricity-prices-in-the-region-according-to-report

(ERE) for one year has requested the financial reports of the company to study the possibility of equipping it with a license in the activity of natural gas supply, but the documentation has not been made available, while the company has admitted serious financial problems with which are facing. In a letter to the ERE, Albpetrol states that it has obligations to the state and third parties for service contracts, the consequences of which have led to the failure of crude oil auctions throughout 2020, as a result of declining consumption due to the pandemic. The last time Albpetrol managed to sell a quantity worth $ 30 million in May 2019, while the quantities put on the market in 2020 failed. In August last year, although a quantity of oil was sold, the purchasing company failed to execute the payment, while the company has reopened an auction for the sale of a record value of 158 thousand tons of oil.[1]

Albanian Post (Posta Shqiptare)

Albanian Post S.A. is the biggest trading company operating in the postal and financial services market. On their official website the Albanian Post claims that their strongest point in the market is the network of 550 offices all over Albania and a staff of over 2400 employees.[2] A number of private and foreign courier operators provide postal, parcels and packages services in Albania. Posta Shqiptare, a state-owned entity, is the biggest player in the market with about 94% market share. Many international companies, such as DHL, TNT, UPS and FedEx, started operating in Albania. When the infrastructure was improved it funded by private investment. The Albanians Post can be named a success story because in business like delivery and dispatch, all that is truly needed is network and infrastructure, thus this operations continued by default and without many interruptions. However, it should be noted that some experts in the country estimate that

[1] AlbaniaPost. Kompania “Albpetrol”, në situatë të vështirë financiare. Retrieved from: https://albanianpost.com/kompania-albpetrol-ne-situate-te-veshtire-financiare
[2] Posta Shqiptare Sh.A. Retrieved form: https://www.postashqiptare.al/en/mission/

the number of administration and the labor force of the company is overloaded beyond needs.

Albanian Railway System

Almost nothing is left of the glory of the old days in the railways system of Albania. Those routes that were built with so much hard (and mostly voluntary) work by several generations of Albanians are now a bunch of steel-waste. Before 1991 the number of passengers per year would reach 11 million, as of 2020 it is around 60 thousand. In February 2021, with the support of the European Bank for Reconstruction and Development (EBRD) and the European Union Delegation to Albania the first upgrade in decades was proclaimed: the project contract for the rehabilitation of the Durres railway line - Tirana Public Transport Terminal and the construction of a new line at Mother Teresa Airport. On this occasion, the construction phase begins in order to rehabilitate 37 km and the construction of the line 5.7 km. [1]

Conclusions

What is left of the SOEs that is still under the management of the state, is there either for political convenience or for lack of finical interest. All of them however, at different extents, have been and still are at the center of controversies due to the influence of politics into them. As of end 2020, the OSHEE for example is the biggest contributor to the state budget, yet, the state is ripping the benefits and the citizens are paying the costs with some of the higher tariffs of electricity in the region. The electrical operation failed to privatize and it took a World Bank a bailout to smooth the situation under allegation of massive corruption until 2013. Albpetrol is a living

[1] Hekurudha Shqiptare. Firmosja e kontratës së projektit "Rehabilitimi i Linjës Hekurudhore Durrës –Tiranë. Retrieved from: https://hsh.com.al/index.php/2021/02/03/firmosja-e-kontrates-se-projektit-rehabilitimi-i-linjes-helurudhore-durres-tirane-ttp-dhe-ndertimi-i-linjes-hekurudhore-ne-aeroportin-nene-tereza/

economic disaster, going from one management to the other will millions of Euros in losses. The railway system does not exist. What is happening is that for those few entities who are successful (electricity and postal) they are used massively as a source of income for the government as well as for another politically oriented interest, namely votes collection in times of elections. OSHEE and Albanian Post have been targeted for what in Albania is known as "party militant occupation" or a job in exchange of votes. When a given party is in power, suddenly the two above mentioned SOEs are filled with militants of the same, and when there is a rotation of political power, the same happens to the employees of the SOEs.

Status Quo of State-owned Enterprises in BiH and Its Representative Enterprises

Zvonimir Stopić

In this economic briefing we will take a look at the status quo of Bosnia and Herzegovina's state-owned enterprises and list its representative enterprises. In our report on the state the state-owned enterprises we will be relying of the International Monetary Fund (IMF) document from September 2019 as the last most thorough investigation on the issue since the start of the COVID-19 pandemic turbulences in the general economy. We will continue by listing the most representative enterprises in Bosnia and Herzegovina in the last year, by the number of employees (only Federation data available) and how they were evaluated by criteria of the most influential business publication in the country, Poslovne novine (Business newspapers).

Status quo of state-owned enterprises in Bosnia and Herzegovina

A few months before the start of the pandemic, the IMF published a relevant in-depth research on the topic of state-owned enterprises in Bosnia and Herzegovina, assessing their performance and oversight. Based on a new database of state-owned enterprise (SOE) financial statements, the two IMF economy experts, B. Čegar and Francisco J. Parodi, found that SOEs in Bosnia and Herzegovina are mostly in poor financial shape and that they are not contributing enough to the economy. The review the SOE governance framework showed that governments do not exercise their ownership function in line with guidelines of the World Bank or the Organization for Economic Cooperation and Development (OECD).

Based on these findings, Čegar and Parodi suggested reforms to the entities' governance frameworks as they are believed to be necessary to foster transparency and improve accountability. The two experts propose a centralized online SOE registers, which would include SOEs owned by entity central, cantonal, and municipal governments. The registers should be updated regularly and include financial statements of all SOEs. Furthermore, they advocate depoliticization of appointments to SOE boards and management. In the context of a wider-reform effort, Čegar and Parodi believe that the authorities should consider the future of SOEs taking into account their policy relevance and financial performance. SOEs that are not policy relevant and financially unsound, should be closed, restructured or privatized. SOEs that are not policy relevant but are financially sound should be privatized: options for privatization include concessions, Public-Private Partnerships or full privatization. In general, such fundamental reform of the SOE sector might increase significantly overall GDP (approx. by 3 % per year).

Representative enterprises

In this part we will present two lists of the largest and most successful companies in Bosnia and Herzegovina. The first list represents companies in the Federation of Bosnia and Herzegovina that employ most workers. In the pre-pandemic period of the investigated data and the day the list came out (May 8th, 2020) the number of employed people in the Federation of Bosnia and Herzegovina was 507,977 and the top 20 employing companies had 53,828 workers. This means that these enterprises were employing little over 10 % of general working force in Federation of Bosnia and Herzegovina. It is important to note that out of the 20 companies, only four are private enterprises, out of which one, Bingo from the city Tuzla, is employs the most workers in the Federation of Bosnia and Herzegovina by far.

The top 20 companies in Federation of Bosnia and Herzegovina are the following: Bingo (Tuzla) - 7,580; Elektroprivreda BiH (Sarajevo) - 4,450; Klinički centar Univerziteta (Sarajevo) - 3,309; BH Telekom (Sarajevo) - 3,242; FIS (Vitez) - 3,210; ŽFBiH (Sarajevo) - 3,102; Rudnici mrkog uglja (Banovići) - 2,910; JZU UKC (Tuzla) - 2,436; Arcelormittal (Zenica) -

2,396; Rudnici Kreka (Tuzla) - 2,379; BH Pošta (Sarajevo) - 2,342; Sveučilišna klinička bolnica (Mostar) - 2,179; Elektroprivreda HZ HB (Mostar) - 2,176; Konzum (Sarajevo) - 2,161; Dom zdravlja Kantona (Sarajevo) - 2,040; Kantonalna bolnica (Zenica) - 1,682; RMU (Kakanj) - 1,675; OLIP Bosna (Travnik) - 1,594; Robot General Trading (Sarajevo) - 1,517; and Rudnik mrkog uglja (Zenica) - 1,448.

Since no other authoritative ranking exists, the second list represents the most successful companies, presented by the published in February 2020 by *Poslovne novine* (Business newspapers), which is the most influential publication in the field. In the "Top 100" list, the companies have been evaluated according to their size (large, medium and small) and four other parameters: income, gain, export and cash flow investments. The "fast-growing companies" list ranks the enterprises that have a three-year minimum growth in all the key business factors and their compound annual rate of growth (CARG) is over 10 %. The "reliability" list entails companies with transparent and responsible business models, that are liquid, solvent, growing and don't have a single day of blocked accounts. This selection processes had taken in account 33,092 companies in Bosnia and Herzegovina that filed their yearly financial reports to the financial agencies (FIA, APIF). The following list presents companies that were ranked in all of the three lists and there. Only 107 of them satisfied all of the criteria mentioned above. Most of the enterprises are based in Sarajevo and Banja Luka.

Sarajevo companies include Dm drogerie markt d.o.o., Porsche BH d.o.o., C.I.B.O.S. d.o.o., Veritas Automotive d.o.o., Alternativa d.o.o., J.P. Međunarodni aerodrom Sarajevo, Zara BH d.o.o., R. Time d.o.o., Sport Klub d.o.o., MAN Importer BH d.o.o., Deny-Prom d.o.o., Cargo-partner d.o.o., Cemal-Šped d.o.o., Atlantbh d.o.o., MOP d.o.o., Infobip BH d.o.o., DDC MLS d.o.o., VmS group d.o.o., Klika d.o.o., Yield d.o.o., Walter d.o.o., Intersoft d.o.o., Kodecta d.o.o., Alkaloid d.o.o., Iyara d.o.o. and ePicentar d.o.o. Banja Luka companies include Elnos BL d.o.o., Crvena Jabuka d.o.o., Lanaco d.o.o., Konekta Inženjering d.o.o., Bravo Systems d.o.o., and Drvo Prodex d.o.o. Companies from Mostar include Sik d.o.o., NSoft d.o.o., TD Hercegovinapromet d.o.o., Sunita-Commerc d.o.o., Amitea d.o.o., and More Screens d.o.o. Zenica is a home to Nadinex d.o.o., Geosonda d.o.o., RM-LH d.o.o., Buena Vista d.o.o. and Termomatik-Toplotehnika d.o.o. In Živinice we can find Nutria d.o.o., ALFE-MI d.o.o, Profine BH d.o.o., Janja-Plod d.o.o. and Bosfor Stil d.o.o. In Tešanj there are Hifa-Oil d.o.o., Madi d.o.o., Inox-Ajanović d.o.o. and Socksmaker 3 d.o.o. Bijeljina companies include Sport Vision d.o.o, CSP d.o.o., MB Johovac Comerc d.o.o. and VS Comerc d.o.o. In Gračanica there are Motorex d.o.o., RPC Superfos Balkan d.o.o., Bema Ba d.o.o., and HST CNC Technik d.o.o. In Široki Brijeg we can find Feal d.o.o., Nameks d.o.o., Poltec d.o.o. and I-Form d.o.o. In Derventa Tehpro CNC d.o.o., Metalac MBM d.o.o. and Pećić-Kommerce d.o.o. In Prnjavor Standard a.d., DiS Eurostandard d.o.o. and Topinox d.o.o. In Gradiška Dami-Logistik d.o.o., Forte Flex d.o.o. and Mulalić d.o.o. Tuzla is a home to H&H Inc d.o.o. and DCCS d.o.o, while Laktaši to Hidraulika-flex d.o.o. and TPE d.o.o. The rest include Kozarska Dubica's Mlijekoprodukt d.o.o., Srbac's Sistem Ecologica d.o.o., Breza's Perutnina Ptuj-BH d.o.o., Bosanski Brod's Scai-Adapter d.o.o., Donji Vakuf's Šumskoprivredno društvo Srednjobosanske šume d.o.o., Lukavac's Junuzović-Kopex d.o.o., Ugljevik's Belaz Premar Services d.o.o., Zavidovići's Krivaja-TMK d.o.o., Kalesija's Feros-Arnaut d.o.o., Goražde's Pobjeda-Rudet d.d., Kotor Varoš's Sim Technik d.o.o., Cazin's PU Centar za obrazovanje odraslih Vita plus, Usora's Imaco Systemtechnik d.o.o., Sanski Most's Seja d.o.o., Ljubuški's Cerno-Planinić d.o.o., Rogatica's Termag d.o.o., Orašje's Coprotec Sistemi d.o.o., Prijedor's Metalmont-Mijić d.o.o., Modriča's MP Pandurević d.o.o., Gradačac's Hasić-Drvo d.o.o., Ilijaš's Transport Hajdarević d.o.o., Ključ's Oaza-Trade d.o.o., Teslić's Eurometal d.o.o, Busovača's Idel Comerc d.o.o., Doboj's Codecentric d.o.o., Ugljevik's Bast Metal d.o.o., Zavidovići's Ipon Bau d.o.o., Bihać's Pars d.o.o., Fojnica's Kara-Drvo d.o.o. and Odžak's S.I.M. Company d.o.o.

Conclusion

Considering the stated owned enterprises, as stated in the latest and most significant IMF report on the issue, reforms to the governance frameworks are necessary to foster transparency and improve accountability. More fundamental reform of the SOE sector might increase significantly overall GDP (approx. by 3 % per year). From the list of the enterprises with most employees in the Federation of Bosnia and Herzegovina, we can conclude that, although the biggest employer is a private company, the state-owned enterprises are still very dominant (16 out of the 20). Concluding on the list based on the growth and development criteria's set up by *Poslovne novine*, the private enterprises dominate.

The Status-quo of the State-Owned Enterprises in Bulgaria in the Second Decade of the 21st Century

Evgeniy Kandilarov

Following the transition from a planned to a market economy that began in 1989, Bulgaria undertook a series of important economic reforms. Privatization was one of the key stages in the process of transition to a market economy. In the case of Bulgaria, it is also one of the most problematic elements of the transition, and the way it has been carried out continues to be subject of public discussions. The privatization process in Bulgaria was significantly slower than in the CEE countries. By 1996, Bulgaria had not yet taken serious steps towards privatization and the state continued to play a significant role in the economy. Although Bulgaria was implementing a number of legislative reforms and developing a strong institutional framework, in practice the efforts of different governments were inconsistent and ineffective. Thus, in the mid-1990s the share of the private sector in GDP was among the lowest in the region. The situation improved significantly with the introduction of structural stabilization reforms, including the establishment of a currency board in 1997. At the end of 2005, Bulgaria was the country with the fastest progress and managed to compensate for a large part of the lag from previous years. Progress has been made primarily in the following areas: increasing the share of the private sector, accelerating privatization, liberalizing foreign trade, reducing price controls and banking reform.

For the past two decades, the trend has been to reduce state participation in SOEs through privatization (and when necessary, liquidation) of enterprises as well as through the awarding of concessions. As a result, the number of SOEs has been reduced dramatically in the last two decades. The last decade, however, has witnessed relatively low privatization volumes.

According to the Bulgarian authorities, limited resources for carrying out privatizations, coupled with a lack of investor interest for the remaining SOEs, has recently prompted the Bulgarian Government to draft a bill requiring parliamentary approval for future privatizations of SOEs and their subsidiaries (including the sale of private public properties by regional governors), thus lifting this right from the Privatization and Post-Privatization Control Agency. Many leading politicians in Bulgaria reportedly believe that Bulgaria's privatization potential has been exhausted.

Nowadays according to the Bulgarian National Statistical Institute (NSI), there is a sizeable state-owned sector consisting of approximately 350 SOEs held by the central government and 580 by subnational government units including municipalities. Line ministries, however, report only 221 central SOEs under their remit - significantly lower than the 350 SOEs reported by the NSI. The number reported by the NSI includes entities which are not considered SOEs by the Ministry of Finance, such as government agencies generating revenues from selling goods and services (i.e. quasi-corporations) and SOEs in liquidation or insolvent.

Despite large-scale privatizations in the late 1990s, SOEs still occupy a central place in the Bulgarian economy in terms of both their size and their dominance in strategic sectors like energy and transport. The overall SOE sector (including the sub-national level) is valued at approximately 12 billion USD and employs over 186 000 people (representing 6.6% of total employment) (OECD Secretariat estimates based on NSI and ILO data). The revenue of the State-owned enterprises (SOEs) equals 13% of GDP, but even that number underestimates their economic impact, because key sectors such as energy, railway transport and water supply are dominated precisely by such enterprises. And although on paper SOEs are not part of the state budget, their financial situation has serious impact on public finances. The total amount of subsidies and capital transfers from the state budget to public enterprises is 3.1% of GDP, and they have remained relatively stable around 3% of GDP in recent years.

Measured by output and value-added, however, the majority of SOEs are found in the energy and transport sectors. The largest individual SOE employers are the Bulgarian Energy Holding company (21 128), the National Railway Infrastructure Company (11 260) and the Railway Holding Company, BDZ EAD (9 352). At the national level, SOEs employ 144 373 people, which, if Bulgaria was an OECD country, would place it among the top 15 OECD countries with the largest central SOE sectors as measured by share of national non-agricultural employment (5.1%, compared to an OECD unweighted average of 2.2%).

Sectoral distribution of central SOEs by employment and value (2016)

	No. of enterprises	No. of employees	Value of SOEs (USD thousand)
Primary sector	33	17 897	1 000 972
Manufacturing	16	6 133	134 267
Finance	14	269	2 147 039
Telecoms	6	641	76 028
Electricity and gas	12	12 513	4 247 939
Transportation	18	38 413	2 785 721
Water supply and Sewerage	32	15 742	40 819
Healthcare and social activities	117	37 840	291 106
Other activities	102	8 206	710 225
Total	**350**	**144 373**	**11 434 116**

Source: Bulgarian National Statistical Institute

The current legal regime of state-owned enterprises in Bulgaria is a hybrid one, insofar as this matter is regulated by both commercial law and public law.

There are two types of state-owned enterprises: The first type is established under the Commerce Law and has the legal form of incorporation of any other company: state-owned enterprises can be either a single owner limited liability company – *EOOD*, or a single-owner joint stock company – *EAD*. The second type is incorporated and regulated by a special law, and it is not formally considered a company. This type of company cannot declare bankruptcy. An example of such an entity is *Holding BDZ EAD* (the Bulgarian Railway Company).

State-owned enterprises with company status must comply both with common commercial regulations and with a special code.

Regardless of the type of enterprise, however, the state must observe EU state aid rules, in order to prevent SOEs from enjoying undue benefits in comparison to private competitors and to affect competition.

The *Rules* provides too much power to the sole owner – the State. The principal decides on the strategic development of the company, the appointment of management bodies, and the distribution of profit, therefore there are significant legal prerequisites for the managers as well as for the board of directors to act as a proxy for the sole owner.

The majority of Bulgaria's 221 SOEs are incorporated as joint-stock companies (55%, by number of enterprises), 37% as limited liability companies and 8% as state enterprises.

According to the Bulgarian authorities, most of Bulgaria's 17 central state enterprises perform primarily public policy functions. However, a few of them do engage in commercial activities and can be considered economically important. These include notably: the National Railway Infrastructure Company and two infrastructure construction and repair companies, all under the Ministry of Transport, Information Technology and Communications; and six forestry enterprises under the Ministry of Agriculture.

The state ownership in Bulgaria is managed and controlled on a sector principle by relevant ministry. Some ministries have ownership rights over a large number of enterprises, while others oversee as little as one SOE.

The ministries with the largest number of SOEs under their purview are the Ministry of Health (64 SOEs), the Ministry of Regional Development and Public Works (39) and the Ministry of Economy (29). Other ministries with over ten SOEs in their portfolio include the Ministry of Transport (20), the Ministry of Defence (16), the Ministry of Agriculture, Food and Forestry (15) and the Ministry of Energy (12).

State-owned enterprises have more than one objective, which is why they should be considered for both their economic efficiency and social efficiency.

Unlike private companies, managers of state-owned enterprises do not receive any additional remuneration when the share price increases. In Bulgaria, the state, as a majority owner, determines the composition of boards, including their remuneration. The composition of the board of directors is fixed – the number of its members is three members for sole-owned joint stock companies and five members for co-owned joint stock companies.

The state-owned enterprises publish annual reports endorsed by external auditors. The annual financial statements are published in the Commercial Register at Registry Agency.

SOEs mostly dominate utilities and the transport sector. The five largest SOEs account for more than half of total SOE assets. These include National Electric Company (NEK), National Railway Infrastructure Company, Kozloduy Nuclear Power Plant, Electricity system operator and Bulgartransgaz. The above mentioned energy companies are, together with many other energy production and transmission companies, part of the Bulgarian Energy Holding (BEH), which is the backbone of the Bulgarian energy sector, comprising electricity and gas transmission networks and generation assets accountable for 60 per cent of the country’s electricity output. Railways Holding, which includes both passenger and cargo railway companies, as well as the Sofia Airport are also among the major SOEs in the country. Bulgarian SOEs make up for 60 per cent of the assets of the top-10 companies in the economy.

While the performance of Bulgarian SOEs is highly heterogeneous, a recent survey of 782 state- and municipality-owned enterprises, conducted by the IMF, found that SOEs'performance in Bulgaria is generally weak (compared to both SOEs in neighbouring countries and to private companies in Bulgaria) and profitability is very low. This coupled with relatively poor labor productivity and output quality (electricity supply, railroad and port infrastructure) could hinder the competitiveness and productivity of the Bulgarian economy. As a consequence, many SOEs in Bulgaria are heavily loss-making and indebted, especially in the energy sector. Hence, while some SOEs function effectively, others accrue large deficits. Indeed, as evidenced by several recent policy studies carried out by the European Commission and the IMF, while only the debt of SOEs operating within the general government is explicitly accounted for in fiscal accounts, the aggregate debt of SOEs outside the general government can pose significant risks to public finances through contingent liabilities (representing approximately 13.07% of GDP).

In conclusion the state presence is still pervasive in key industries and SOEs still have an important weight in Bulgaria's economy. Aggregating over all sectors, SOEs contribute 6.6 percent to total employment, 6.9 percent to total output and 4.7 percent to gross value-added in Bulgaria. At the same time low profits, almost no return, and indebtedness - this characterizes the financial condition of state-owned enterprises in Bulgaria, which continue to receive growing subsidies from the state budget.

However we should have in mind that the state-owned enterprises, unlike the private sector, are established to perform social functions and contribute to generating public goods while positive financial results remain in background. From that point of view the effects of state-owned enterprises are difficult to evaluate, and a prolonged period is required for their performance and reporting. On August 22, 2018, the government approved an Action Plan, including measures in response to the intentions of the Republic of Bulgaria to join the Monetary Mechanism (ERM II), including improving the governance of state-owned enterprises by changing national legislation in accordance with the OECD Guidelines for Corporate

Governance of State-Owned Enterprises. In this regard, the implementation of the project *"Modernization of the framework for management of state-owned enterprises in accordance with good international practices"* under the Program for Support of Structural Reforms of the European Union has started. The contractor for the project is the OECD.

The Position of State-Owned Enterprises in Croatia

Valentino Petrović

Summary

In this paper, we will tackle the topic of state-owned enterprises in Croatia and their respective businesses as analyzed by earlier studies. The previous findings proved that Croatia still has a large number of SOE's and that there are significant discrepancies between the number of them and the amount of profit they contribute to the state's budget.

Introduction

Croatia is one of those Central and Eastern European countries where the gap between public and private sector has remained significant throughout the last couple of years, even decades if we take the broader context into account. A question that often appears among Croatian politicians, economists, experts, and university professors is to what extent the country managed to run away from the state-controlled economy and what degree of the capitalist economy has been accomplished. As a member of the European Union and under its umbrella of the single market, the country should be in a position to enable its small and medium enterprises, entrepreneurs, and other private companies to conduct their business, regardless of state interest, public administration, and formal obstacles that usually find their place on the way. However, the private sector in Croatia still does not have the same opportunities as is the case in other West European countries due to a considerable level of state regulations that tend to interfere and undermine the logic of the free market. The COVID-19 crisis has provoked the tensions between the public and private sphere even more, with many local and regional based enterprises being forced to close the doors of their respective businesses because of the restrictive measures imposed by the Government to control the pandemic.

The Companies of Strategic and Special Government's Interest

In a paper written by Anto Bajo, Lana Zuber, and Marko Primorac on the successfulness of financial business by state-owned enterprises, the authors have reached several interesting conclusions. The authors claim that in 2016, Croatia had 1149 enterprises defined as state-owned property. Furthermore, they differentiate between the enterprises of "strategic interest" and "special government interest". According to the authors "strategic companies operate in sectors where the government determines prices or thinks it has strategic interest and, therefore, such companies are not considered for privatization. These companies are mostly related to transport sector – roads, railways, infrastructure – but also companies engaged in the development of maritime technologies and military trade. A portfolio of companies of special government interest is diverse and encompasses many sectors of the economy, including banking and insurance sector, maritime transport, food production, chemicals…"[1] If we look at the official figures analyzed by the authors, we can see that the number of companies with majority ownership by the state is on the rise, even though we have to underline that the paper includes the period from 2008 to 2016. The list of companies that are defined as "of strategic interest" includes *Hrvatska elektroprivreda* (electricity production), *Hrvatske šume* (forests), *Hrvatske željeznice* (railways), *Hrvatske ceste* (roads), and similar companies that are in charge of other public goods. The companies of "special interest" are *Croatia Airlines*, *Hrvatska pošta* (postal offices), *Narodne novine* (newspapers), etc. With such companies, the privatization process is not excluded, but the country still has majority ownership.

Therefore, in 2008, there were 1045 companies with majority ownership by the state, while in the next year, the number rose to 1059. In 2016, though, the number of companies in majority ownership by the state was

[1] Bajo, Anto, Lana Zuber and Marko Primorac. 2017. Uspješnost financijskog poslovanja poduzeća (trgovačkih društava) u vlasništvu države. *Fiscus: Institut za javne financije*. Nr. 5.

1149[1]. Another interesting category included in the author's analysis is companies owned by the state and local units. The number of such companies has risen even more and faster than that of the companies in majority ownership by the state. In 2008, there were 638 such companies and the number has seen an annual rise since then. In 2016, the last year of the analysis, the number was 925[2]. Finally, the authors have shown that the number of companies in mixed ownership (with a majority of private capital) is far below the numbers that we have previously seen in categories related to state-owned enterprises. In 2008, there were only 434 companies in mixed ownership, with the number lagging even more in upcoming years. In 2016, there were only 340 companies left in this category[3]. If we compare all the numbers, we can see that the state-owned companies, whether those in full ownership or majority-owned by the state, are still predominant when related to those owned in a majority by the private capital. Thus, the authors have concluded that the assumption of many, with regards to the often-cited process of privatization that happened in the late nineties and early 2000s, appears no longer to be viable.

The Revenues of State-Owned Enterprises

When it comes to the payments into the state's budget, the authors claim that "despite a large number of state-owned enterprises, the obligation to make payments to the budget is only specified for strategic companies and those of special interest for the state. On the basis of annual laws (…) on the level, manner, and deadlines of payments from companies and other legal persons of strategic and special interest for the state, the state shall determine each year a list of companies which are required to make

[1] Bajo, Anto, Lana Zuber and Marko Primorac. 2017. Uspješnost financijskog poslovanja poduzeća (trgovačkih društava) u vlasništvu države. *Fiscus: Institut za javne financije*. Nr. 5.

[2] Bajo, Anto, Lana Zuber and Marko Primorac. 2017. Uspješnost financijskog poslovanja poduzeća (trgovačkih društava) u vlasništvu države. *Fiscus: Institut za javne financije*. Nr. 5.

[3] Bajo, Anto, Lana Zuber and Marko Primorac. 2017. Uspješnost financijskog poslovanja poduzeća (trgovačkih društava) u vlasništvu države. *Fiscus: Institut za javne financije*. Nr. 5.

payments into the state's budget"[1]. Therefore, the authors have calculated that in the period from 2008 to 2016, the companies of strategic and special interest for the state had negative financial revenues in four years (2008, 2009, 2012, 2013). On the other hand, there was a significant return of capital in 2011 when the companies had positive financial revenues and again in 2016. The reason for this is seen in the business of *INA d.d.* which recorded a profit of billion HRK in 2016 and managed to change the overall result of financial losses registered by the state-owned companies, even though in INA the state has a minority ownership[2]. At the very end of the paper, the authors offer their overview of key problems, with the most important being the large number of state-owned enterprises which is continuously growing over the analyzed period. Also, they underline the lack of state's strategy in defining the essential portfolios of the country's economy in which its role should be prioritized. Regarding the above-mentioned payments into the state's budget, the authors say that there is an inverse proportion in numbers of state-owned enterprises and those which are obliged to pay a part of their revenues and profit into the budget. For example, there is a large number of SOEs, but only 50 of them which are supposed to contribute to the state's budget. Thus, they offer a couple of solutions with the most important being the minimization of the state's share in enterprises which are mostly owned by the private capital; and to focus on strategic portfolios such as energy and traffic and to invest more in them[3].

[1] Bajo, Anto, Lana Zuber and Marko Primorac. 2017. Uspješnost financijskog poslovanja poduzeća (trgovačkih društava) u vlasništvu države. *Fiscus: Institut za javne financije*. Nr. 5.
[2] Bajo, Anto, Lana Zuber and Marko Primorac. 2017. Uspješnost financijskog poslovanja poduzeća (trgovačkih društava) u vlasništvu države. *Fiscus: Institut za javne financije*. Nr. 5.
[3] Bajo, Anto, Lana Zuber and Marko Primorac. 2017. Uspješnost financijskog poslovanja poduzeća (trgovačkih društava) u vlasništvu države. *Fiscus: Institut za javne financije*. Nr. 5.

Conclusion

In the paper "State Ownership and Corporate Governance of Enterprises in Croatia", the authors claim that the process of privatization and transformation in the nineties "was very complex due to the fact that it took place in transitional and war environment, and the fact that it had to take into account the achievement of three types of objectives: economic, political, and social. The model of privatization in Croatia was based primarily on privatization 'from case to case'…"[1]. These authors have almost a similar conclusion as those who were mentioned in previous paragraphs, saying that Croatia should put more effort into managing enterprises from energy and transport portfolio due to their importance for the country's economy, but the privatization as such "should not be a goal but a mean of raising the efficiency of state enterprises"[2].

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[1] Crnković, Boris, Željko Požega and Goran Sučić. 2014. State Ownership and Corporate Governance of Enterprises in Croatia. *Interdisciplinary Management Research X: Proceedings*. Faculty of Economics in Osijek.
[2] Crnković, Boris, Željko Požega and Goran Sučić. 2014. State Ownership and Corporate Governance of Enterprises in Croatia. *Interdisciplinary Management Research X: Proceedings*. Faculty of Economics in Osijek.

The Czech State-Owned Enterprises: Legal Regulation & Status Quo

Ladislav Zemánek

The study analyses the present legal regulation and status quo of the Czech SOEs. I will inquire into the related acts to present the normative level of the problematics. Subsequently, the attention will be paid to the new Strategy of the State Ownership Policy. The analysis is concluded with an overview of the most important Czech SOEs.

Legal aspects of the Czech SOEs

The state-owned enterprises are regulated by Act No. 77/1997 Coll., passed by the Parliament in 1997.[1] It is the fundamental legal tool which defines the essence, function, legal position, obligations, property conditions and overall procedural aspects of the operation of the Czech Republic´s SOEs. The current legislation defines the state-owned enterprise as a state organisation and legal person through which the State carries out its property rights. The SOE does business with the aim to fulfil significant strategic, economic, social, security and other state interests. The Czech SOE is established by the State represented by a due ministry which is authorised depending on the business industry. An important feature of the Czech legal legislation is that the SOEs do not own any property but is only entitled to administer the state property. The enterprise does not have

[1] The Czech Republic´s legislation permits the State to set up (or participate in the founding of) solely the joint-stock company. Nevertheless, it is not excluded that the State might obtain a share in other types of corporations. Even though the principal legal regulation applying to the SOEs is the Act No. 77/1997 Coll., some other acts are also connected with the SOEs: (1) Act No. 90/2012 Coll. on Business Corporations and Cooperatives, representing the general regulation for all private business corporations, the state-owned joint-stock companies being de jure private corporations; (2) Act No. 256/2004 Coll. on Capital Market Business, which regards the only Czech SOE (ČEZ company) given the fact that it is enlisted on the stock market; (3) Act No. 77/2002 Coll. on the Czech Railways – this SOE is regulated by this specific act.

liability for state debts and, on the contrary, the State does not have liability for the SOE´s debts. The SOE is established on the basis of a decision made by the Government and a subsequent memorandum which is issued and signed by the entitled ministry. Apart from these acts, the foundation is conditioned by an elaboration of property assessment. Similarly, dissolution, merger or division of the SOE can be carried out on the ground of a decision made by the founder (due ministry) after a consent expressed by the Government.

The Czech SOEs are typical of a dualistic structure consisting in the following bodies: director and supervisory board. The director is a statutory body of the enterprise running the SOE and deciding all matters unless they are in the founder´s authority in accordance with the legislation. The statutory body is appointed and dismissed by a minister or the Government. Director is obliged to act functionally, economically and efficiently. The supervisory board is entitled to approve fundamental matters of the conception of the SOE, especially a strategy of the development of production and services, investment, scientific and technical programmes, rules of use of the SOE´s know-how or programmes of the joint ventures with both domestic and foreign subjects. In addition, the board debates the annual report, financial plans, economic results and other essential and obligatory documents, supervises the director´s acts as well as the fulfilment of the aims of the SOE. The board consists of at least 3 members. Nevertheless, these members are not nominated by a single authority. While a third of the board is made up with the SOE´s employees, elected and dismissed by the employees themselves, the remaining two-thirds are under the founder´s authority. The board subsequently elects a chairman from all members who are to be recruited from experts and employees. The decision-making is based on the majority principle. Unsurprisingly, neither director nor his/her deputies are not allowed to be members of the supervisory board so as to safeguard the independent position of the supreme bodies.

Representatives of the SOE, just as state employees, are subject to certain restrictions. Neither director nor members of the supervisory board are allowed to carry on business or be members of the statutory or control board of the legal person of an enterprise with an identical or similar business orientation. Generally, the main role in the SOEs is played by the director and the founder. The latter is not engaged in the everyday activities and common agenda, being, nevertheless, the supreme, however remote authority. According to the legislation, the founder establishes, transforms and liquidates the enterprise, appoints and dismisses the director, consents the rules of procedure of the supervisory board, sets the number thereof, delimits the SOE´s property in the founding memorandum, changes the memorandum, controls the fulfilment of the state interests pursued by means of the enterprise, approves the annual report and other obligatory documents and, last but not least, assists the SOE in active involvement in relevant state programmes and initiatives. From the aforesaid follows that the central position is occupied by the director, the choice and appointment of whom is influenced significantly by political interests.

State ownership policy

Nowadays, a new Strategy of the State Ownership Policy is being prepared under the auspices of the Ministry of Finance. Although the document should have been put forward to the Government in April 2021, the deadline will likely to be postponed due to the agenda emerging from the coronavirus epidemic. The Strategy aims to define principles of behaviour of the State as a co/owner of enterprises, setting mechanisms of exercise of its rights. The document is based on recommendations presented by the OECD which has criticised the Czech legal regulation of the SOEs repeatedly. One of the major points relates to the management model. While the present one is decentralised, when the State as a shareholder is represented by a wide array of ministries, the OECD advises adopting a centralised system within which the State would exercise property rights from the only place or at least strengthen coordination mechanisms.

The Ministry of Finance admits that the corporate governance is not sufficiently effective, transparent and clearly arranged. The Strategy, therefore, assigned the State to formulate unambiguous and rational business policies, to evaluate the performance of the SOEs, to make the SOEs more transparent in relation to the public (obligation of issuance of public annual reports covering all SOEs) or to strengthen the principle of professionalism and responsibility of the management. After the new Strategy is approved, a working group made up from representatives of all state departments involved will be created under the aegis of the Ministry of Finance. It should be the first step towards deeper coordination among individual ministries.

Overview of the state involvement in the corporate subjects

The Czech State is a shareholder in manifold types of companies, differing from each other in legal status, size, character and business orientation. In the legal terms, the State is involved in 51 joint-stock companies, 2 private limited companies, 1 *Kommanditgesellschaft*-type company, 57 state-owned enterprises and 1 so-called national enterprise which is the last residue of the socialist legal form of the state ownership. The highest number of the companies with a state share is administered by the Ministry of Finance (43), Ministry of Industry and Trade (29), Ministry of Agriculture (13), Ministry of Transport (9), Ministry of Defence (9) and Ministry of Health (7). The following table depicts the most significant Czech SOEs[1]:

[1] Figures valid by December 2018. Source: *Draft of the Strategy of the State Ownership Policy*, available at https://www.komora.cz/legislation/167-19-strategie-vlastnicke-politiky-statu-t-20-12-2019/.

Company	Description	Number of employees
ČEZ	The biggest producer of electricity in the country, the second biggest employer, one of the most profitable companies on the Czech market	31.385
Letiště Praha	The owner of the major Czech airport in Prague	4.037
MERO ČR	The owner and operator of the Czech section of the Družba crude oil pipeline and the IKL crude oil pipeline, the only transporter of the crude oil into the Czech Republic	149
EGAP	The credit insurance company insuring credit connected with exports of goods and services	113
ČEPRO	Transportation and storage of fuel, a significant part of the national energetic infrastructure	785
Česká exportní banka	Specialised banking institution focusing on the support of the Czech exports and promotion of the overall competitiveness of the Czech production abroad	145
Českomoravská záruční a rozvojová banka	The only promotional bank entrusted with the administration of funds disbursed within the governmental supportive programmes for the SMEs	210
Státní tiskárna cenin	The only authorised maker of banknotes, official IDs and other documents	389
České dráhy	The major railway operator	14.592
Řízení leteckého provozu České republiky	The SOE authorised to provide the air traffic services in the national airspace	1.028
Správa železniční dopravní cesty	The owner and operator of the national-wide and regional railway infrastructure	17.234
Česká pošta	The major postal company	28.994
Lesy České Republiky	The company managing more than 1.2 million hectares of the state forest estates	3.538
Budějovický Budvar	The fourth-largest beer producer in the Czech Republic and the second-largest exporter of beer	680

Estonian State-Hold Entities and the Economy

E-MAP Foundation MTÜ

During the post-Soviet period of Estonian history, the country has effectively managed to re-design its economic development to such an extent that it would become an economically stable *OECD* member[1] with AA-/A-1+ as *Standard and Poor*'s long- and short-term foreign and local currency sovereign credit ratings[2]. This rapid transformation "from a socialist state to a modern European economy"[3] can arguably be attributed to a range of factors such as the EU-focused policies on a closer integration with the entity and, for example, the country's geo-strategically important location. However, it could be also argued that a high degree of the economy's liberalisation as well as privatisation of businesses and other properties substantially contributed to the ultimate success. As noted by Alari Purju, it was already by the mid. 1990s, the private sector managed to achieve "a dominant role in the economy, due in part to privatisation and the emergence of a set of new private firms"[4]. These days, in the country where "[t]he dominant role of state ownership was more overwhelming […] than in most other Eastern European countries"[5], there are only **75 state-hold entities**, including 29 state-owned enterprises[6] and 46

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[1] OECD (2021), 'Country statistical profile: Estonia 2021/1', in *Country statistical profiles: Key tables from OECD*, OECD Publishing, Paris. Available from [https://doi.org/10.1787/g2g9eb6a-en].

[2] 'S&P affirms Estonia's long-term rating at AA- with stable outlook' in ERR, 20 February 2021. Available from [https://news.err.ee/1608117487/s-p-affirms-estonia-s-long-term-rating-at-aa-with-stable-outlook].

[3] Jeroen de Regt, 'Trade and migration in Post-Soviet Estonia' in *Girugten*, 6 March 2017. Available from [https://www.girugten.nl/trade-and-migration-in-post-soviet-estonia/].

[4] Alari Purju, 'The political economy of privatisation in Estonia' in *Centre for Economic Reform and Transformation*, Department of Economics, Heriot-Watt University, Riccarton, Edinburgh, p.1. Available from [https://www.researchgate.net/publication/5101654_The_Political_Economy_of_Privatisation_In_Estonia].

[5] Purju, p. 3.

[6] 'State-owned Companies' in *eesti.ee*. Available from [https://www.eesti.ee/eng/contacts/riigi_osalusega_ariuhingud_2].

foundations[1]. Among others, the former group Ltd Estonian Lotto, AS Eesti Post (Omniva), Estonian Railways Ltd, AS Eesti Teed, Nordic Aviation Group, Tallinn Airport Ltd, Port of Tallinn Ltd, Eesti Energia, and Rail Baltic Estonia Ltd. The latter group is featured by Estonian Film Foundation, Estonian Song and Dance Celebration Foundation, Enterprise Estonia (EAS), Integration Foundation, Estonian Research Council, Fund KredEx, Tallinn Science Park Tehnopol, Tartu University Hospital, and some others.

In November 2020, *Postimees*, one of the country's major media source, lined up 100 out of the biggest Estonian companies, and *Eesti Energia AS* ended up to be leading the list with EUR 956.4 million as the entity's turnover for 2019[2]. This fact academically legitimises a more in-depth enquiry on the role of the state-hold entities in the Estonian economy, especially when it comes to the enterprises and foundations that made to the **top-100** in the aforementioned list. Apart from *Eesti Energia AS*, the following seven state-owned entities were featured in this informal but very exclusive 'club': *Tartu University Hospital* (26th place, EUR 262.4 million), *North Estonian Regional Hospital AS* (35th place, EUR 229.7 million), *The State Forest Management Centre* (37th, EUR 218.8 million), *Elering* (60th, EUR 142.1 million), *State Real Estate Ltd* (64th, EUR 136.2 million), *Eesti Post AS* or *Omniva* (70th, EUR 129.6 million), and *East-Tallinn Central Hospital AS* (77th, EUR 118.7 million)[3]. In total, these leading state-owned entities recorded about **EUR 2.2 billion as their turnover in 2019**, which is about EUR 1,660 as a per capita figure for the

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[1] 'Foundations' in *eesti.ee*. Available from [https://www.eesti.ee/eng/contacts/sihtasutused_1].
[2] Tõnis Oja, 'Estonian top 100 companies an exclusive club' in *Postimees*, 18 November 2020. Available from [https://news.postimees.ee/7113552/estonian-top-100-companies-an-exclusive-club].
[3] Oja.

same year (considering that the Estonian GDP per capita was EUR 21,163 then)[1]. Let us have a glance at what they offer to the market.

Eesti Energia AS operates in the segment of electricity and gas sales, predominantly focusing on the Baltics, Finland, and Poland. It is reported that, in the last five years, the company "has created value for the state amounting to EUR 1.3 billion", offering "1 million clients in the Baltic Sea region energy solutions that help them use energy more wisely and cleanly"[2]. Evidently, *Eesti Energia AS* is **one of the world's biggest producers of oil out of oil shale**, manufacturing this synthetic type of oil for "heat producers, energy companies, manufacturers and sellers of marine and automotive fuels, road builders and farmers"[3]. With its Enefit technology, the company also utilises plenty of the used car tyres, considering those as an energy-rich material rather than a waste – it was confirmed that "one ton of tires contains about 4 times more oil than one ton of oil shale", and *Eesti Energia AS*'s current capacity "is to produce liquid fuel from up to 260,000 tons of tires per year"[4]. Possessing a massive power plant that produces energy from mixed municipal waste and having succeeded in completing a wind farm and a solar park[5], the company's scope of activity has been enhanced by the installation of about 180 Enefit VOLT public charging sites for electric cars across Estonia[6]. Evidently, the pandemic made a negative difference in terms of the company's balance sheet, and *Eesti Energia AS* reported a downturn of 10 per cent in its sales revenue in 2020 (EUR 833.7 million) as compared to 2019, but the business

[1] 'Statistical Factsheet Estonia' in *European Commission*, June 2020. Available from [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/agri-statistical-factsheet-ee_en.pdf].
[2] 'About Eesti Energia' in *Eesti Energia*. Available from [https://www.energia.ee/en/ettevottest].
[3] 'Liquid fuel production' in *Eesti Energia*. Available from [https://www.energia.ee/en/ettevottest/tehnoloogia/vedelkutuste-tootmine].
[4] 'Liquid fuel production'.
[5] 'Renewable energy' in *Eesti Energia*. Available from [https://www.energia.ee/en/era/taastuvenergia].
[6] 'Charging electric cars' in *Eesti Energia*. Available from [https://www.energia.ee/en/era/elektriautode-laadimine].

was still in profit by the end of the difficult year (EUR 19.3 million, which was 45.5 per cent less than in the pre-pandemic year)[1].

Naturally, *Tartu University Hospital* has a distinct operational as well as scientific linkage with Estonia's oldest institution of higher education. Its history is truly rich, and, since January 1998, the Government of Estonia decided to enter a cooperation protocol with the University of Tartu and the City of Tartu, having established the Foundation Tartu University Hospital to solidify its importance for the country and the region. Indeed, in 1999, 2010, and 2015, the entity managed to achieve its correspondingly first liver, lung, and simultaneous pancreas-kidney transplantations [2] . In addition, the Foundation did its first transluminal implantation of pulmonary artery valve in 2015 and first lower jaw joint replacement surgery in 2019[3]. *Tartu University Hospital*'s high-level reputation in the region of the Baltics made it possible for the entity to establish **17 different clinics**, including Anaesthesiology and Intensive Care, Haematology and Oncology, Ear, Lung, Children's, Women's, Men's, Dermatology, Sports Medicine and Rehabilitation Clinic, Heart, Traumatology and Orthopaedics, and others. During 2020, *Tartu University Hospital* was conducting 151 research projects, out of which 29 were focused on direct clinical research, 19 – on the pandemic, and 103 – on academic clinical research[4].

Considering the fact that Estonia is a forest-rich country (as reported, about "2.3 million hectares are covered with forest"), the role of its *State Forest Management Centre* in the context of the country's economic development is immensely important – the entity is 'looking after' **46 per cent of the**

[1] 'For investors' in in *Eesti Energia*. Available from [https://www.energia.ee/en/ettevottest/investorile?tabgroup_1=2020].
[2] 'History' in *Tartu Ülikooli Kliinikum*. Available from [https://www.kliinikum.ee/en/about-the-hospital/history/].
[3] 'History'.
[4] 'Research projects' in *Tartu Ülikooli Kliinikum*. Available from [https://www.kliinikum.ee/en/research-and-teaching/research-projects/].

Estonian forests that belong to the state[1]. The Centre's activity is diverse, covering the segments of forest administration, forest management, timber marketing, plants and seed management, and visitors. In 2019, the *State Forest Management Centre* declared EUR 75.6 million as its operation profit with EUR 51.4 million paid to the state budget as dividends and income taxes[2]. Out of the areas that the Centre is responsible for, the managed forests represent 63.8 per cent – this is where economic activity is permitted[3]. In terms of timber marketing, in the same 2019, the Centre "sold 3.9 million cubic metres of timber, which is 6 per cent more than the year before", while receiving revenue of EUR 207.7 million ("an increase of nearly 4 per cent compared to [2018]")[4].

State Real Estate Ltd represents a company that is 100 per cent owned by the state, "its shares are controlled by the Ministry of Finance", and "[t]he amount of the company's share capital is EUR 238,051,700"[5]. Each property under this company's supervision has a manager assigned to it, and the *State Real Estate Ltd*'s set of objectives is focused on proving "real estate services primarily to state authorities and providers of public services" and advising "state authorities and providers of public services on real estate-related issues"[6]. It is simply needless to elaborate that the company has plenty of properties to responsible for, a from a school building to an administrative premise.

Finally, the business group of *Omniva* consists of Eesti Post Ltd as its dominant unit, *Payment Centre Estonia Ltd*, *Omniva UAB* (Lithuania), and *Omniva SIA* (Latvia). Currently employing about 2,300 people in the Baltics, the company leads the regional e-commerce as well as the parcel

1 'RMK manages Estonian state forests' in *RMK*. Available from [https://www.rmk.ee/organisation/operating-areas].
2 'RMK Annual Report' in *RMK*. Available from [https://media.rmk.ee/files/RMK_aastaraamat_2019_ENG.pdf].
3 'RMK Annual Report'.
4 'RMK Annual Report'.
5 'About us' in *Riigi Kinnisvara AS*. Available from [https://www.rkas.ee/en/company/about-us].
6 'About us'.

terminal market of the Baltic trio[1]. Back in autumn 2015, Omniva went into establishing a joint enterprise with SF Express, China's largest private-capital-based courier company, so the new business would be mediating "goods between China and Europe in a faster and more efficient manner"[2]. At the moment, *Omniva* is a state-owned company, which is under the responsibility of the country's Ministry of Economic Affairs and Communication, and from January 2021, the business' fintech activities are getting provided by its new subsidiary, *Finbite OÜ*[3].

Considering the above, in spite of a relative significance of the state-owned enterprises for the Estonian economy, it appears to be that since the final 'Soviet' years when the first joint ventures were introduced in 1987[4], the country's approach was to have a little dominance of the state in the economy as it would be possible. Most probably, it was indeed one of the main explanatory reasons of Estonia's rapid economic growth in the post-occupation years.

[1] 'Introduction' in *Omniva*. Available from [https://www.omniva.ee/about_us].
[2] 'Omniva to establish a joint enterprise with the largest courier company in China to support e-commerce' in *Omniva*, 24 September 2015. Available from [https://www.omniva.ee/index.php?article_id=297&page=888&action=article&].
[3] 'Introduction'.
[4] Purju, p. 4.

Greece's State-Owned Enterprises

George N. Tzogopoulos

State-owned enterprises (SOEs) are an important element of Greece's economy. In the end of December 2020, the Greek Ministry of Finance published an economic report about General Government's SOEs and legal entities of private law with a budget exceeding €10 million. The following list is based on this economic report and it is enriched with a brief description of relevant SOEs and legal entities per ministry (it does not include bodies executing social budget such as some hospitals).

Ministry of Agriculture:

- Agricultural Insurance Organization (ELGA): This legal entity governed under private law is the main insurance carrier of plant production and livestock capital in Greece.
- Agricultural Organization 'Dimitra': It is a legal entity of private law earmarking the modernization of the agriculture sector in Greece.
- Payment and Control Agency for Guidance and Guranteee Community Aid (OPEKEPE): It is a legal entity of private law taking care of the payment of beneficiaries, according to European and national laws. Approximately 900.000 beneficiaries (mainly farmers) benefit circa 3 billion from community subsidies per year.

Ministry of Culture and Sports:

- Olympic Athletic Centre of Athens: It is a legal entity under private law managing the Olympic complex.
- Greek National Opera: It is a legal entity under private law.
- The Athens Concert Hall (Megaron): It is a legal entity under private law.

Ministry of Defense:

- <u>Defense Systems Industrial and Commercial SA:</u> It is a manufacturing group of companies established by the merging of Greek Powder & Cartridge Company SA and Hellenic Arms Industry SA.

Ministry of Digital Governance

- <u>Electronic Governance Centre for Social Insurance SA:</u> The company provides solutions in the field of information and communication technologies supporting the operation of social insurance branches.
- <u>Information Society SA:</u> The company supports the implementation of projects in the field of information and communication technologies.
- <u>National Centre of Audiovisual Media and Communications (EKOME) SA:</u> It is a legal entity operating under private law aiming at fostering and promoting public and private initiatives (either foreign or domestic) in all sectors of the audiovisual industry.

Ministry of Health:

- <u>Company of Health Units SA:</u> The company manages the Olympic Village Polyclinic, the Keratea Rehabilitation Centre and the Santorini hospital.
- <u>National Public Health Organization (EODY):</u> It is a legal company governed by private law undertaking the mission to provide services that contribute to the protection and improvement of health and increase the life expectancy of the population by enhancing the capacity of the national healthcare system.

Ministry of Infrastructure and Transportation:

- Attiko Metro SA: It implements the development of the Athens metro network and realizes the Thessaloniki metro project.
- Building's Infrastructure SA: It is Greece's single authority for constructing the country's public buildings (schools, hospitals, courtrooms, prisons etc.).
- Egnatia Motorway SA: It deals with investments in Northern Greece in the sectors of transport, manufacturing and tourism. Among other things, 'Egnatia Odos' brings Epirus and Western Macedonia much closer to Thessaloniki, other parts of Macedonia and Thrace.
- ERGOSE SA: It is a subsidiary of OSE SA (see below) and undertakes the management of the projects of OSE's investment program.
- Organization for the Development of Crete SA: The company deals with the designation, construction and administration of infrastructure works on the island of Crete.
- Organization of Urban Transportation of Thessaloniki: The company, a legal entity under private law, is under clearance, manages transportation in Thessaloniki.
- OSE SA: It is a public utility based in Athens and manages the national railway infrastructure.
- Transport for Athens (OASA) SA: The company manages all transportations in Athens.
- Urban Rain Transport (STASY) SA: The company has incorporated (since 2011) three rail ones, the AMEL SA (metro system operation), the ISAP SA (urban rail), and TRAM SA (tramway).

Ministry of Education

- Computer Technology Institute and Press Diophantus: It is a legal entity under private law that focuses on research and development in information and communication technologies.
- Institute of Communication and Computer Systems: This legal entity of private law of the School of Electrical and Computer Engineering of the National Technical University of Athens seeks the deployment and realization of research priorities through seeking, pursuing and acquiring relevant funding.
- Youth and Lifelong Learning Foundation: It is an entity governed by private law aiming promoting lifelong learning for all citizens and ensuring youth empowerment.

Ministry of Environment and Energy

- Greece's Recycling Organization: It is a legal entity under private law dealing with the management of waste materials advising the Minister of Energy and the Environment on this subject.

Ministry of Finance

- The Hellenic Broadcasting Corporation SA: This is the state-owned public radio and television broadcaster for Greece.
- Hellenic Aerospace Industry SA: Its mission is to deliver services and products to the Greece's armed forces.

The outbreak of the economic crisis in Greece in 2010 ushered a new era where privatizations became a necessary prerequisite for it to receive bailout funds. In particular, the Hellenic Republic Asset Development Fund (HRADF), which was founded in 2011, has promoted privatizations in the country in line with its international obligations. Its sole stakeholder is The Hellenic Corporation of Assets and Participations (HCAP) that was established in 2016, a few months after Greece signed its third bailout. HCAP also controls shares of the Public Properties Company SA (ETAD) and the Hellenic Financial Stability Fund (HFSF). On the whole, it encompasses SOEs operating in core sectors of the Greek economy such as energy, water and sewerage, infrastructure, transportation, and services. Examples are Public Power Corporation SA, Corinth Canal Company SA, Athens Water Supply and Sewerage Company SA (EYDAP), Railway Property Management SA (GAIAOSE), HELEXPO SA (Thessaloniki International Fair), Hellenic Saltworks SA, Hellenic Post SA (ELTA), Central Market of Thessaloniki SA, OASA SA, and Central Markets and Fishery Organization SA.

The mission of HCAP is to safeguard and maximize the value of public assets and thus contribute to the consolidation of macroeconomic and social stability and economic development. Its coordination mechanism earmarks the SOEs' involvement in the development of the state. Statements of commitments set out strategic objectives for the SOE's independent management, agreed between their board and Public Holdings Company (EDIS) as a shareholder. These objectives are also consistent with HCAP's strategic plan. Its financial results for the first nine months of 2020 demonstrate net profit amount to €28.9 million. Its cash reserves exceeded for the first time the level of €100 million and the dividend paid to the Greek state rose from €7 million to €42 million (according to the 2019 financial results HCAP's consolidated net profit reaching €191,7 million compared to losses of €132.5 million euros in 2018). As of February 2021, Grigoris Dimitriadis has been appointed as the new CEO of HCAP. Dimitriadis resigned from his position of Secretary General of the International Economic Relations at the Ministry of Foreign Affairs a few months ago. Taking the HCAP lead he succeeded Rania Ekaterinari.

The February 2021 enhanced surveillance report for the Greek economy acknowledges that HCAP completed the review of the boards of all SOEs of its mandate. HELEXPO and Greek Saltworks are examples. HCAP and SOEs have carried out the next phase of the implementation of the coordination mechanism for 2020-2022 but authorities also need to work on identifying legal impediments to the commercial operation of relevant SOEs. In addition, the transfer of the Olympic Athletic Centre to HCAP is progressing and renovation and maintenance works in various parts of the complex have been completed. This is also the case for the transfer of the eligible real estate assets included in the 2018 package to the Public Real Estate company as reflected in the May 2020 decision of the Council of State.

Concerning other Greek commitments, the successful closing of the transaction of Marina of Alimos has been confirmed by the country's creditors. Also, the Hellinikon project has witnessed progress following the selection of the provisional preferred bidder for the award of the casino license by the Hellenic Gaming Commission but some Council of State decisions on a number of legal cases are pending. With reference to Egnatia Motorway, the deadline for the submission of binding offers will be April 1st as the legal action of two pre-qualified bidders for the rejection of their initial application was finally successful. Last but not least, the assessment of the investor's expression of interest in the regional ports of Alexandroupolis, Kavala and Igoumenitsa was expected to be concluded by the end of February.

State-owned Enterprises in Hungary

Csaba Moldicz

Summary: The role of the state-owned enterprises in the economy has already been on the decline in Europe since the 1980s, but the privatization trend gained momentum with the economic transformation of the early 1990s, and a significant privatization process also took place in Hungary. State-owned companies, especially in the banking sector, in the energy industry and in the transport sector were privatized, but also large manufacturing companies either went bankrupt or were taken over by Western European companies. Only a few survived this period in Hungarian state and private ownership. Therefore, the way privatization was handled in Hungary was questioned, leading to a version of capitalism called "dependent capitalism." The realization of asymmetric dependency and poor innovation performance led to a search for new policies and out-of-the-box solutions. In several Central European countries, the policies implemented by governments after 2008 reflect a shift towards (re)establishing a state-led capitalist model. However, this is not the case in Hungary, where the role of the state in the economy has steadily increased over the last decade.

After 2010, there has been a significant change in economic policy towards state-owned enterprises, and the Hungarian government has made new investments in the energy and telecommunications sector, and even in the banking sector. The briefing first looks at the role of state-owned enterprises, then discusses why Hungarian economic policy has created a friendlier environment for state-owned enterprises than other policies did.

1. State-owned enterprises in the Hungarian economy

According to the latest data from the Hungarian government, the book value of assets owned by the Hungarian state increased by 52 percent between 2010 and 2020, bringing the total value of these assets to around 18,000 billion Ft in 2020. 62 percent of the assets are held in real estate and 21 percent in corporate assets; the rest of the assets consist of movable properties. The increase in asset value has two sources: new real estate purchased by the state, and the significantly growing value of corporate assets also contributed to this change.

In the last decade, the Hungarian state bought up energy companies that were originally privatized after 1990 to give them to Western European investors and organized them into the so-called MVM Group, which is the third largest company in Hungary. The company employs 15,000 people, and 70 percent of the country's electricity production, nearly 50 percent market share of gas supply to industrial customers, and 100 percent of natural gas supply to retailers come from MVV.

Hungary's small mutual savings banks were merged in 2019, creating the third largest bank (Takarékbank) in 2019-2020. According to the government's plans, Budapest Bank and MKB Bank, which were bought up by the Hungarian state in 2015 and 2014 respectively, will merge with Takarékbank. The merging of the three banks will create the second largest Hungarian bank in the coming years.

There are nearly 600 state-owned companies in Hungary. The portfolio of corporate assets has changed over the years, however the main trend has been the increase in the value and number of state-owned firms. There is a small group of state-owned enterprises that the state has declared to be strategic in the law regarding national wealth, based in the updated version of the 2011-year CXCVI Law on National Assets. The law contains a list of 64 companies that the state intends to keep in state ownership for the long term.[1]

According to the above-mentioned law, the Hungarian National Asset Management Inc. is one of the main supporting institutions of the Minister

[1] The full list of these firms can be found here: https://net.jogtar.hu/jogszabaly?docid=a1100196.tv

without taking into consideration the Portfolio for the Development of Public Assets. The company has ownership rights to state assets over 16,000 billion forints.[1] This amount is equivalent to almost 50 percent of the annual GDP of Hungary. According to the law, the company is responsible for managing the assets and improving the profitability of the companies in the portfolio. The real estate assets include about 553,000 properties and almost 100,000 other movable property items as well.[2]

There are major firms in the portfolio of the Hungarian National Asset Management Inc.:

- the Magyar Posta providing postal services in Hungary,
- the MÁV, the Hungarian State Railways,
- the Szerencsejáték Zrt, the state gambling company holding monopoly in this field,
- the NIF Nemzeti Infrastruktúra Fejlesztő Zrt., which is responsible for major infrastructure development projects in Hungary,
- the RÁBA Járműipari Holding Nyrt., in other words the car manufacturer named RABA, whose state ownership is circa 75 percent,
- the Eximbank, and the Hungarian Development Bank, which function as a group of economic development banks and agencies of the state,
- the Diákhitel Központ Zrt, which manages the student loan portfolio, and
- the MOL, which is the largest oil company in Hungary.

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[1] The full list of corporations managed by the National Asset Management can be found here: http://www.mnvzrt.hu/felso_menu/tarsasagi_portfolio/mnvportfolio/tarsasagiportfolio/tobbsegi_tulajdonu_tarsasagok

[2] http://www.mnvzrt.hu/en/top_menu/company

Besides these firms, regional water management companies, forestry companies, regional economy development companies belong to the portfolio of the Hungarian National Asset Management Inc. as well.

2. Economic policy reasoning behind recent nationalization process in Hungary

The Global Financial Crisis in 2008 and 2009 painfully reminded Central European countries of their vulnerability to external shocks. The recognition of their asymmetric dependence led to a search for new policies and out-of-the-box solutions within this region. In several Central European countries, the measures implemented by governments after 2008 reflect a shift towards (re)establishing a state-led capitalist model. This version of capitalism was called "dependent capitalism." Myrant points out to two key factors that distinguish this version of capitalism from other forms:

> *"… the level of development of financial systems required for a liberal market economy is absent, as are the cooperative relationships between firms and with trade unions that are at the heart of the notion of a coordinated market economy. These problems are partly overcome with the introduction of a further variety, a dependent market economy, by Nölke and Vliegenthart [2009]. In this version, the CEECs have created environments that give them a competitive advantage in attracting inward FDI by MNCs which then undertake simpler manufacturing tasks in those countries."*[1]

Hungary is an obvious case of a country dealing with the aforementioned problems and putting their effort into providing policy responses to the new

[1] Myrant, M. (2018). Dependent capitalism and the middle-income trap in Europe na East Central Europe. International Journal of Management and Economic, 54(4), pp. 291-303. Retrieved from: https://content.sciendo.com/view/journals/ijme/54/4/article-p291.xml?language=en

economy. The nationalization of the banking sector in Hungary and efforts to increase the share of domestically owned banks and financial institutions are examples of this new approach. These countries, after the lessons learned from the Global Financial Crisis (2008-2009), are much more hesitant to continue economic integration within the EU framework. In our point of view, one of the consequences of the political search was the surprisingly strong focus of these countries on China and other Asian countries after the 2008-2009 crisis, as China's and other Asian countries' role grew both as a trading and investment partner and as a source of new technologies in the region.

3. Conclusion

The need for nationalization in Hungary comes from two sources. Privatization in the 1990s included sectors and companies that can be considered strategic, and the government has been trying to rebalance this situation over the last eleven years and form a portfolio of companies that is more in line with the needs of the country's economic development. The other source is the changing economic environment, technology and innovations, which can trigger both privatization and nationalization of companies and even the search for new institutional solutions. A recent example is the transformation of waste management in 2020, where an integral part of the new strategy was the awarding of state concessions. In this case, the need for stronger state intervention was triggered by the concept of circular economy, which has gained support from both the EU and Hungary. In this concept, instead of profit interests, principles of sustainability must be prioritized, however it is difficult to achieve these goals if the main actors only focus on yields. That is why the idea of concession has to be interpreted in a broader strategy of national waste management.

What we need to understand is that the management of national wealth, especially corporate wealth, must pursue the goal of sustainability and efficiency, and therefore the search for the optimal size of state ownership of the economy can be a moving target.

We have seen that the share of state-owned enterprises is likely to increase in the future, which seems to be a mainstream idea now, in response to the uncertainties in the world economy plagued by the economic crisis caused by Covid-19. In the case of Hungary, the country is more behind the trend, as the Hungarian economy is not only privately owned but also foreign owned due to privatization in the 1990s. What we can see now is that the pendulum is swinging back.

The Status Quo of Latvian State-Owned Enterprises and Its Representative Enterprises

Nina Linde

Introduction

The state of the art of Latvian state-owned enterprises (here and after SOEs) in this briefing will be described and analyzed based on the report conducted by KPMG[1] Baltics "State ownership policy review in Latvia"[2] and latest available annual report of Cross-Sectoral Coordination Centre (CSCC) of Latvia[3]. The detailed reports and the current briefing are dedicated to understanding the development stage of SOEs in Latvia.

Description of the sector is provided to introduce the main indicators and shareholders of the SOEs in Latvia. The value of SOEs is growing twice less intensive than the value of private companies in Latvia and one of the possible solutions is initial public offering to boost financial resources and corporate governance standards.

In Latvia, there are 12 shareholding entities of SOEs from the side of the state. This number of shareholders creates several significant issues in the management system of SOEs. These issues of shareholding management in the country is raised and decentralized control problems are described in this briefing.

1 https://home.kpmg/lv/lv/home.html

2 KPMG Baltics. (2019). State ownership policy review in Latvia. Available at: http://www.valstskapitals.gov.lv/images/userfiles/SOE_Review_LV__Final_report.pdf

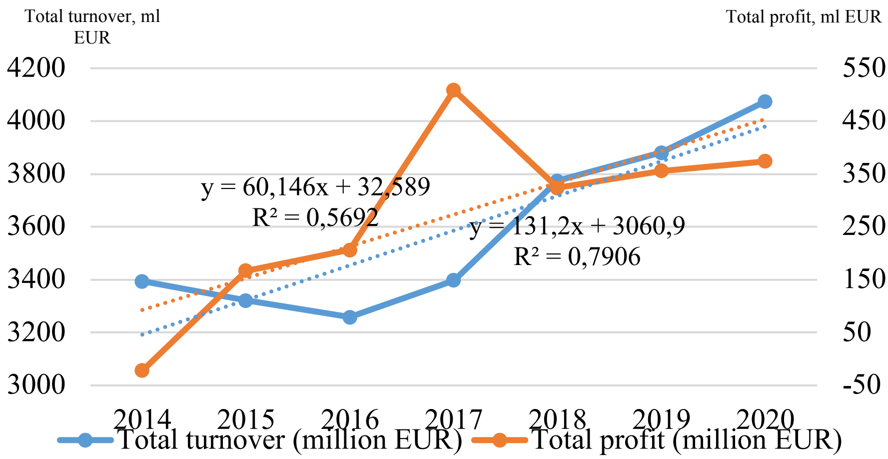
3Cross-Sectoral Coordination Centre of Latvia. (2019). Public Report of the State-Owned Enterprises and Shares in 2018. Available at: http://www.valstskapitals.gov.lv/images/userfiles/Latvia_Report-on-State-Owned-Enterprises-and-Shares-in-2018_ENG_%281%29.pdf

Description of the Latvian state-owned enterprises sector

SOEs have a huge impact on the economy of Latvia. The State has direct ownership in 96 enterprises, where 65 are 100% State-Owned Enterprises, 4 - directly and effectively controlled by the State (>50% and<100% ownership), in 27 – has no direct and effective control (the State ownership <50%). Meanwhile, State-Owned Enterprises have ownership of 52 companies. 12 shareholders control SOEs in Latvia from the side of the state.

Among 10 most valuable companies in Latvia 5 are owned by the state, and their common value equals about 4 billion EUR[1], where 44% of the total turnover are made by the three largest SOEs – Latvenergo, Air Baltic Corporation and Latvijas Dzelzcels. Besides, 5,3% (or 49 799) of total employees in Latvia are working in the SOEs. The following graph illustrates the dynamic of total turnover and profit of SOEs:

Figure 1. Total turnover and profit of SOEs in Latvia



Source: Image developed by the author using CSCC data and calculation results

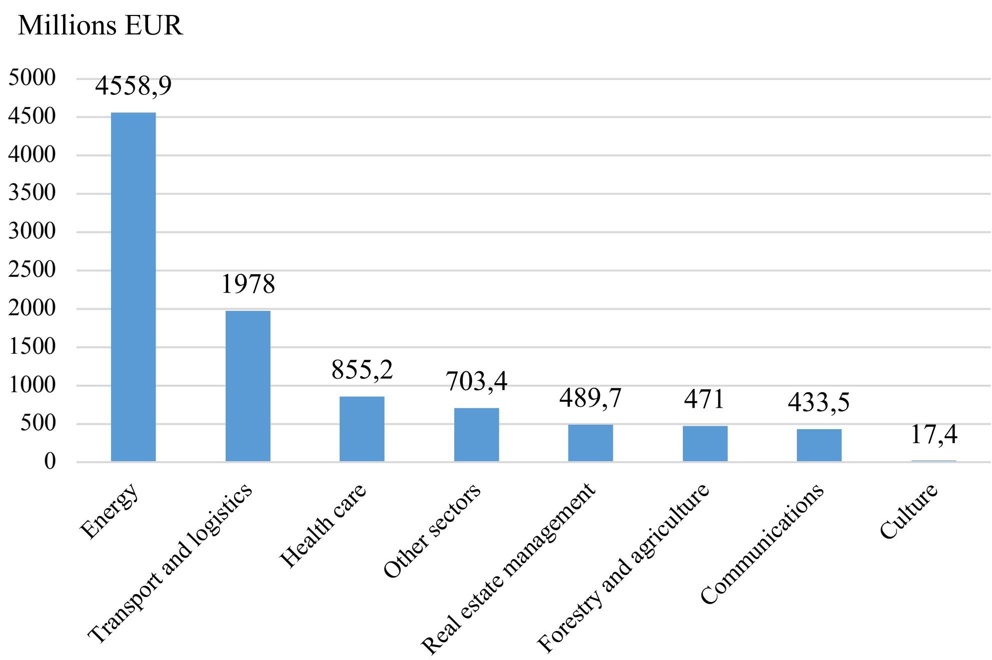
The significant increase of profit in 2017 was due to the impact of the Corporate Income Tax Reform and the total effect of the mandatory procurement public

1 Top101.lv (2020) Top 101 – 2020. Latvijas vērtīgākie uzņēmumi. Available at: https://top101.lv

service obligation (OIK) grant. The figure shows that there is a positive dynamic in the turnover and profit for SOEs in Latvia.

Total assets of SOEs equals 9.5 billion EUR. The following figure represents total assets of SOEs in Latvia by sector:

Figure 2. Total assets of SOEs by sector in Latvia



Source: Image developed by the author using CSCC data

The majority of assets of SOEs in Latvia are located in the sectors of energy and transport (68,7% of total assets), followed by health care sector (9% of total assets). The smallest number of assets is in the sector of culture – 0,2% of total assets.

Partial privatization of large SOEs

It must be stated that the total value of Latvian state-owned enterprises has increased by only 14% over the past five years, while the total value of private enterprises has increased by 28%.[1] The possible solution for more confident and fast growths of SOEs value is to go public as the experience of neighbour countries shows that without losing control it provide an opportunity to attract additional financial resources for faster development and motivate companies to work to the best corporate governance standards. At the national level, the most significant benefit from going public is expected from the activation of the national capital market, the inflow of foreign direct investment and the increase in the amount of taxes paid as a result of faster development of the company.

"The management policy of state and municipal capital companies, division of state capital companies and gradual centralization of state capital company management functions"[2] concept report raised the issue of possible partial privatization of large SOEs as a way to increase the value and, therefore, the efficiency of SOEs. This concept envisages the obligation to requires the state to reassess at least once in five years all the shareholding to check if they are fulfilling the conditions of ownership listed in the State Administration Structure Law. [3]

There are 12 non-privatizable state capital companies in Latvia, which are protected as strategically important companies. The issue of listing of state-owned companies has been sharp since the 1990s, the adoption of this concept is likely to result in the listing of a 5 to 25% stake in these

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1 Top101.lv (2017) Vai Latvijā valsts uzņēmumi ir gatavi vērtības uzrāvienam tuvākajā nākotnē. Available at: https://top101.lv/experts-opinion/26/vai-latvija-valsts-uznemumi-ir-gatavi-vertibas-uzravienam-tuvakaja-nakotne

2 Cabinet of Ministers and CSCC (2020). Konceptuālais ziņojums "Par valsts un pašvaldību kapitālsabiedrību pārvaldības politiku, valsts kapitālsabiedrību iedalījumu un valsts kapitālsabiedrību pārvaldības funkciju pakāpenisku centralizāciju". Available at: http://www.valstskapitals.gov.lv/images/userfiles/PKCZinoj_VKS_parvaldibas_politika.pdf

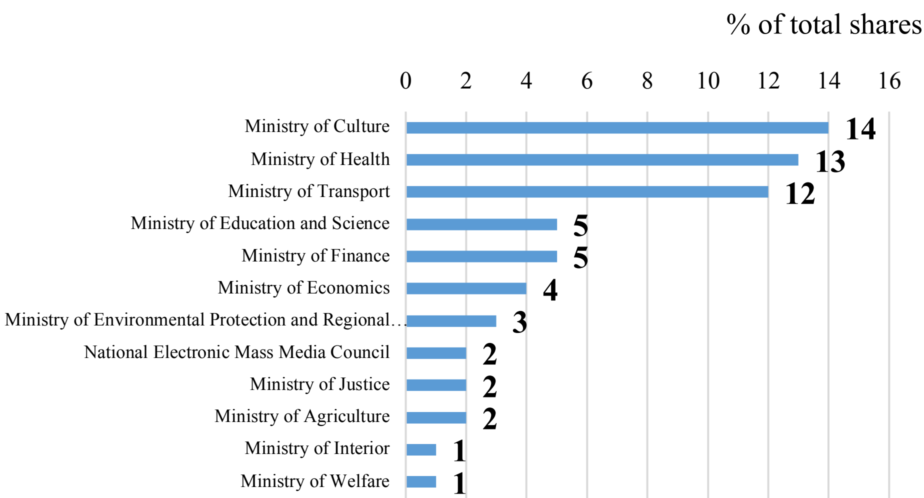
3 The Parliament of the Republic of Latvia. (2015). Law on Governance of Capital Shares of a Public Person and Capital Companies. Available at: http://www.vvc.gov.lv/export/sites/default/docs/LRTA/Likumi/Governance_of_Capital_Shares_of_a_Public_Person_and_Capital_Companies.pdf

companies while maintaining state control over the shareholding. The problem here is to determine the share of the company that can be offered as 5-10% will not attract foreign investors, meaning that the state will earn less, because of the smaller demand. 20-25% will attract foreign investors but at the same time put state control in the threatened position.

SOEs management structure

It is important to note that there are 12 holders of SOEs shares from the side of the state and it is 64% of the whole ownership, while 36% is privatized. In the following graph the structure of shareholders is represented:

Figure 3. Shareholders of SOEs in Latvia



Source: Image developed by the author using CSCC data and calculation results

Figure 3 illustrates that Latvia has decentralized management of shareholding. The number of entities that manage SOEs shares is 12, which is a rather big number for efficient management. More centralized participation would diminish the interests of potentially conflicting line ministries, which would need to develop policies and regulations for their respective sectors, manage public funding, and at the same time control public corporations operating in their sector. In addition, a large number of small SOEs affect the quality of management and increase external administrative costs. This should be considered for the future strategy of SOEs development in the country.

In Latvia, the SOE ecosystem is diverse and shareholders' interests are questionable as they are less likely to be profit-oriented. As a result, management and standardization of the sector is a challenging issue. The solution for this issue is to centralize state shareholding management to one entity to increase efficiency, potential and control over SOEs.

Target setting procedure issues

The fact that SOEs are working not in their most efficient way is proved by the procedure of target setting for SOEs in Latvia. The targets are frequently set below the past performance level, meaning that there is no intention for development inside of these enterprises. Besides, there is a lack of evidence that a comparison with other companies in the same field is used for target setting. Especially often can be met the situation of not challenging enough targets, when the performance bonuses for the management of the enterprise are based on the performance and target attainment. This means that there is a lack of proper management for SOEs as well as a low level of competition in the market.

All in all, the process of target setting is underdeveloped in Latvia. There is a necessity for an independent evaluation of this procedure as well as suggestions for improving the efficiency and control over targets and performance of SOEs. The more competitive environment in the market would also have a positive impact on SOEs performance and target setting.

Conclusion

Overall, the Latvian state has ownership in 92 companies and 52 SOEs representative enterprises. Covid-19 crisis has left a significant impact on the sector. Some of the sectors will be influenced more than others. For example, the most damaged SOEs are in the sectors of transport and logistics, health care, real estate management and culture. Meanwhile, the sector of energy, which has the biggest turnover and profit in the country will be influenced less than others.

Besides, SOEs sector has several significant issues that are not related to the current crisis and these issues need to be addressed to increase the efficiency of the country on the world stage. The first issue is the increase of SOEs value on the market. The solution here can be the initial public offering of SOEs. However, an open question is – what is the optimum share to offer to attract foreign investors and not to threaten state control? The second issue is the shareholding management. Due to a rather big number of shareholding entities, it is difficult to control and manage the efficiency and development of the sector. Therefore, a change of shareholders structure from 12 to 1 entity can be considered. Thirdly, the process of target setting is lacking transparency and causes a lot of questions regarding its efficiency. When bonuses for management depend on the performance, targets can be set lower than the current performance, meaning that they are not challenging for the company and do not lead to the development of the enterprise. More independent evaluations should be made to increase the sector's transparency and efficiency.

Lithuania's Dilemmas about SOEs: Between Privatization and Higher Returns on Equity

Linas Eriksonas

The change of government at the end of the last year in Lithuania came at the time of the increased calls for the reform of state-owned enterprises (SOEs). The latest economic survey of the country by OECD (published on 23 November) bluntly stated that the country still lacks the rationale for public ownership. The report concluded with the unequivocal recommendations: "strengthen the governance of state-owned enterprises further" and "sell to private investors if no compelling reasons for public ownership exist". More specifically, OECD noted that no private rail service providers exist in Lithuania and called upon the government to create the conditions for them to emerge. Further, it acknowledged that municipal SOEs pose a particular challenge as they "often compete with private providers and cross-subsidize corporate activities with revenues from publicly supported ones, distorting competition".

In February, during the conversation with her Swedish counterpart, Lithuania's new Minister of the Economy and Innovation Aušrinė Armonaitė took an opportunity to highlight that Sweden provides the best practice example for centralizing the SOEs and that Lithuania should learn from it by improving the governance of the state enterprises to increase the efficiency of SOEs general and the return on equity in particular.

Below is an overview of the main aspects of the SOEs' governance in Lithuania, trying to put into context the repeated calls from the international experts and the national government to downsize the state's participation in the economy. It considers the government's efforts to find a balance between the optimum number of SOEs and the scope of their involvement with the need to increase the state's return on equity.

The state-owned enterprises in Lithuania emerged during the transition of the economy from the centrally planned economy to the less regulated market economy in the early 1990s. The Law on State and Municipal Enterprises (adopted in 1994 replacing the previous legislation from 1990) applied to all enterprises that did not undergo the privatization. It has been foreseen that the state would gradually privatize most state enterprises except those that, as defined by the Law, provide public services, manufacturer products, or carry out other activities to meet the public interest. However, the legal acts did not explain what public services should be regarded as those that meet the public interest and thus are open to the state's involvement through SOEs. Hence, the remits of the state's participation in the economy have remained undefined. They varied according to the broader regulatory context within which Lithuania has found itself during its accession to the European Union and other international organizations such as OECD.

The conditions for governing the SOEs have undergone significant changes twice: first, in preparation of the country's accession to the European Union, when the new Law on Competition was adopted in 1999 designed to facilitate the enforcement of the EU competition rules; and, second, in preparation for the accession to OECD which reviewed the practical implementation of the governance of state-enterprises and provided the recommendations to be reflected in the national legislation. From the start of the first application for OECD membership in 2002, the process took almost seventeen years. During this period, the SOEs' governance has been partly streamlined and optimized. The number of SOEs went down from 298 enterprises in 2003 to only 50 was 2021. Since 2013 the state enterprises were categorized into three groups. The first group included the SOEs which were oriented towards the growth of value and profitability. The second one those which were oriented towards profits as well as ensuring the strategic interests of the state in the spheres vital to economic security and critical infrastructures. The third group included the SOEs which had to carry out the non-commercial activities in the regulated parts of the markets where commercial activities are not foreseen.

In 2016 OECD reported that "SOEs are an important element of Lithuania's economy, often operating in sectors on which private businesses and the general public depend. Their performance is therefore crucial for the efficient functioning of the broader economy". SOE has accounted for approximately 3.2 per cent of national employment, above the 2.4 per cent average for all OECD countries, yet their return on equity was meagre (a decade ago, it was 0,1 per cent while the norm in the private sector at that time was 9 per cent). Hence, the OECD report emphasized that "partly owing to shortcomings in their ownership, corporate governance and regulatory arrangements, SOEs tend to underperform and are sometimes perceived to compete on unequal footing with private firms". Following the

OECD recommendations, the SOEs' corporate governance has been strengthened; the boards have been staffed with professionals, and the corporate governance procedures have been introduced to provide more transparency and accountability.

Since 2016 the SOE Good Corporate Governance Index has been issued annually as a separate publicly-available governance report where aggregated SOE governance results have been presented to the public. Since 2019 the report has also included the results of the evaluation of the governance of SOE subsidiaries.

As of 2021, Lithuania's state owns ninety-nine legal entities through fifty SOEs, of which six entities are under liquidation. The SOEs employ 32389 workers. The aggregate asset value of the SOEs is 10,5 billion euros. The asset value increased by 9,3 per cent during the latest reporting period, during the Total Liabilities to Equity Ratio – by 2 per cent. However, despite the efforts to reform the SOEs' governance, operating in the economy's strategic sectors such as energy, transportation and forestry, the level of return on equity has stagnated. In 2016 it reached 3,5 per cent, climbing to 4,1 per cent in 2017 and achieving the highest return in 2019 (4,2 per cent), which has been 2-3 times below the national average in the most profitable economic sectors. For example, the banking sector's return on equity in Lithuania in 2019 stood at 13 per cent. The economy growth during the last few years has not reflected in the bottom line of SOEs. The SOEs have consolidated their operations, but the cost of capital investments arrested the profits and return on equity.

Thus, following Lithuania's accession to the OECD in 2018, the SOEs' governance and, increasingly also, municipality-owned enterprises in Lithuania came under additional scrutiny. This time around, the recommendations were more straightforward – either seek to increase the SOEs' productivity or consider privatizing them. It is argued that SOEs may not always operate on a level playing field, that compensation and special advantages granted by governments in return for public policy obligations at home can have harmful spill-overs effects and that SOEs create asymmetric contestability in home markets for foreign competitors. The OECD explained that such worries were significant since many SOEs provide products and services in competition with private sector businesses or in areas where private sector businesses could compete. Further, it is argued that anticompetitive harm maybe even more significant when caused by SOEs, due to the privileges conferred upon them and the high reliance of customers on their goods/services, and that "public policy goal may be pursued through SOE, but to be balanced against consumer welfare loss due to competition harm". The SOEs and the municipality-owned enterprises have been seen as decreasing competitiveness and pushing the private entities out of the market.

Two issues are at stake here. Firstly, it is the need to open up the economic sectors which have received public investment in infrastructure (such as transport, energy) to create more competition and attract investment, preferably foreign direct investment, to increase productivity and spur growth. Secondly, there is a need to collect more taxes. While privatizing certain SOEs or decreasing their involvement in individual segments of the economy can solve the former, increasing SOEs' tax obligations concerning the undistributed profits can address the latter.

The SOEs have contributed annually 3,3 per cent of GDP, yet Lithuania has a decreasing tax-to-GDP ratio, which is among the lowest in the EU. The taxes for statutory SOE are applicable only on 50 per cent of the profit. Lithuanian SOEs are not formally exempt from the application of general laws, tax codes and regulations. However, as the OECD report states, "OECD experience indicates that statutory SOEs, in particular, may in practice benefit from some advantages arising from their less complete state of corporatisation". In Lithuania's case, the OECD argues that the generally weaker corporate governance-related requirements placed on statutory SOEs could be a source of competitive advantage. On the other hand, their legal framework may also be a source of a competitive disadvantage since Lithuanian statutory SOEs, with some exceptions, are required by the Law on State and Municipal Enterprises to distribute 50 per cent of profits to the state budget. This obligation is not placed on fully corporatised SOEs.

The National Audit Office, which reviewed SOEs' legal and financial situation, concluded that the principles of the profit distribution that are in place do not provide the possibilities for the state to benefit from the undistributed profits of the SOEs. The auditors have raised the question for more than a decade whether all SOEs' profits should become the national budget income. It appears that the new government will tackle this issue and will further rationalize the governance of SOEs. As concerning the municipality-owned enterprises, the government might push for creating a level playing field between municipal and private providers until now tightly watched and over-regulated markets of local public transport and waste management services.

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3. Public Enterprise Governance Coordination Center, "The Main SOE Information"; https://governance.lt/en/apie-imones/atviri-duomenys/
4. OECD, "OECD Review of the Corporate Governance of State-Owned Enterprises in Lithuania", 9 Dec. 2015; https://www.oecd.org/countries/lithuania/oecd-review-corporate-governance-soe-lithuania.htm
5. Ministry of the Economy and Innovation of the Republic of Lithuania, "OECD review on corporate governance in Lithuania: praise and recommendations", 26 July 2018; https://eimin.lrv.lt/en/news/oecd-review-on-corporate-governance-in-lithuania-praise-and-recommendations

State-Owned Enterprises in Montenegro: Current State

Milika Mirkovic

Montenegrin state-owned enterprises represent a small percentage of the total number of enterprises and in 2019, state-owned enterprises have made 0.2% of the total number of enterprises in Montenegro. These companies have a predominant monopoly position in the market. Most state-owned have been privatized over the past two decades. The process of privatization of companies has contributed to the growth of FDI inflows, so that FDI recorded very high growth rates after 2006, i.e. the restoration of independence of Montenegro.

The main characteristics of state-owned enterprises

One of the characteristics of state-owned enterprises is that a significant number (almost half) record business losses. Also, a large part of these companies has a surplus of workers, while on the other hand the salaries of management are at a significantly higher level compared to the average salaries in Montenegro. According to the EBRD, Montenegrin state owned enterprises make 5.5% of GDP. In comparison to the other regional countries, Montenegrin enterprises add the most value[1]. An additional feature of state-owned companies is tax debt, which in 2020 was at the level of EUR 30.3 million.[2]

The largest number of state-owned companies is in the transport sector, but also in tourism and energy. Among the companies from the transport sector, the most important are airports and Airline Company, companies within the railway transport (related to railway transport, infrastructure, and

[1] European Bank for Reconstruction and Development (2020) Economic performance of state-owned enterprises in emerging economies: A cross-country study, February 2020, https://www.ebrd.com/documents/admin/economic-performance-of-stateowned-enterprises-in-emerging-economies.pdf?blobnocache=true

[2] Source of data: Revenue dministration of Montenegro, https://upravaprihoda.gov.me/vijesti/235212/AzURIRANA-CRNA-LISTA-PORESKIH-OBVEZNIKA.html

maintenance) and companies within the maritime transport such as the port of Bar, Montenegro lines and others. In the energy sector, there are companies in the field of production and supply of electricity.

Employment in state - owned enterprises[1]

State-owned enterprises do not participate in a large percentage of total employment in Montenegro. The total number of employees in state-owned enterprises amounted to 11.8 thousand, which represents close to 6% of the total number of employees in Montenegro in 2019. Compared to 2016, the number of employees in state-owned enterprises decreased by 16%. Among these companies, more than a third companies employ more than 250 employees, while close to a quarter of the company employs 50 to 250 employees. The companies that employ the largest number of employees are from the energy, transport, tourism and agriculture sectors. State-owned enterprises which belong to the group of large enterprises employ close to 90% of the total number of employees in state-owned enterprises.

In addition, data on the number of employees in state-owned companies indicate that almost three quarters of employees are employed in the transport, energy and tourism sectors. Namely, the largest number of employees in state-owned companies is from the transport sector (close to 40% of the total number of employees in state-owned companies), while slightly more than a fifth of employees in state-owned companies are from the energy sector (22%) and close to 13% from the tourism sector.

The success in the business of state-owned enterprises[2]

The ten largest companies, observed in terms of revenue, represent close to 85% of total revenues of state-owned enterprises, while the five companies generate close to 70% of total revenues, which indicates the distribution of economic power among these companies.

[1] Source of data: https://javnapreduzeca.mojnovac.me/uporedna-analiza/broj-zaposlenih
[2] Source of data: https://javnapreduzeca.mojnovac.me/uporedna-analiza/broj-zaposlenih

In 2019, just over half of the state-owned enterprises achieved a positive business result. However, profits vary significantly between companies. Montenegrin Electric Enterprise made a profit of EUR 28.4 million, which is twice as much as the Airports of Montenegro (second placed company on the list in terms of revenues), which made a profit of EUR 14.1 million and three times more than Coal mine AD Pljevlja (total profit amounted to EUR 9.6 million). On the other hand, the largest loss in 2019 was made by the company in the field of tourism (Institute „DR Simo Milošević" JSC Igalo) in the amount of EUR 8.1 million and Montenegro Airlines (EUR 8.0 million).

The largest number of employees in the energy sector in Montenegro is in state-owned companies. The most important companies in this sector are the Montenegrin Electric Enterprise, the Electricity Transmission System and the Electricity Distribution System, as well as companies related to the stock exchange and the functioning of the electricity market. In general, the energy sector has great potential for further development and is an attractive sector for foreign capital inflows. All companies in this sector operate with a positive result and represent one of the most successful state-owned companies. During 2018-2019, Montenegrin Electric Enterprise made a profit, but also a drop in employment. Although employment fell slightly during 2018-2019, in 2019 compared to 2016 the number of employees decreased by 40.7%. Until 2019, Montenegrin Electric Enterprise was owned by the Italian company A2A. However, A2A sold its shares to the state after ten years of running the company.

On the other hand, there are successful companies in the transport sector, but also less successful ones. State-owned enterprises in railway transport have been making losses during recent years. Unprofitability and problems in business and reduced passenger traffic to Serbia have affected the revenues of companies engaged in the transport of passengers and goods, maintenance of vehicles and infrastructure. In 2019 the total loss of the four railway companies amounted to EUR 6.8 million. On the other hand, companies employ a significant part of total employment in state-owned enterprises (14%), which further indicates problems in this industry.

Connected to the railway is the Port of Bar, the only port in Montenegro. The Port of Bar achieved a positive business result in 2019 (EUR 0.9 million) and is a significant company for the Montenegrin economy, as it is connected by rail with Serbia and other European countries, and in the future it will be connected by a highway, which additionally adds to the attractiveness and value of the company. On the other hand, other companies in the field of maritime transport (Montenegro lines and Crnogorska plovidba) have made a loss in 2019.

One of the successful companies in the transport sector is the Airports of Montenegro. Growth in tourism during the previous years (except for 2020, when tourism recorded a very high negative growth rate due to the corona virus pandemic) has also contributed to the positive results in the business of this company. In 2019, the total profit of the company was at the level of EUR 14.1 million, which is 3.3 times more than in 2016. Total number of passengers at airports was 2.65 million in 2019. However, during the previous years, the process of giving the airport under concession began, but the recent political change and change of government may affect the achievement of this goal.

On the other hand, at the end of 2020, the only Montenegrin airline company - Montenegro Airlines, which had been making business losses for years, was shut down. In 2019, the total loss was at the level of EUR 7.9 million. Although in previous years the state approved subsidies to the company, Montenegro airlines failed to make a profit. Additionally, the change of government during 2020, the policy towards this company also changed, so that the company went bankrupt at the end of the previous year. On the other side, the new state airline “ToMontenegro” was established, but as it is in the process of operationalization and starting work, the company has not yet started flights. The shutdown of the airline will, on the one hand, affect unemployment given that a significant number of employees lost their jobs, but also additional losses, given the connection between air traffic and tourism and the fact that tourism generates about a quarter of GDP, at least the new company starts operating and establishes existing airlines.

Among the largest and most successful state-owned companies is the Coal mine AD Pljevlja, which has been making a profit in recent years and employing a significant number of workers (although the number of employees has been declining in previous years). In 2019, the total profit was EUR 9.6 million, which is 2.6 times more than in 2016.

On the other hand, in the agricultural sector, the largest company is the wine company "Plantaze", which, in addition to exporting wine to a large number of countries around the world, also exports wine to China. However, although a positive business result has been achieved in previous years, the company is currently facing liquidity problems and the risk of going bankrupt. Finding a new development model and overcoming business problems is the most important challenge.

Thus, almost every second state-owned company makes a profit in business, and at the same time employs a significant number of employees in relation to business results, and they face the additional problem of redundancy. Just over one-twentieth of GDP is generated by state-owned enterprises. The most profitable state-owned enterprises are in the energy sector and mining. However, there is significant potential for further development in improving the business of these companies.

The Condition of Macedonian State-owned Enterprises

Gjorgjioska M. Adela

The process of privatisation of Macedonian socially owned companies began in 1989 (with the Law on Social Capital of the former Yugoslav Federation). However, it intensified in the years following the enactment of the Macedonian Law on Transformation of Enterprises with Social Capital, in 1993.[1] At the outset of the process, 1800 enterprises were subject to privatisation (1400 non-agricultural and 400 agricultural).[2] The large majority of those enterprises have been privatised in the ensuing decades. Although initially privatisations were not allowed in several categories (in Enterprises and companies that conduct activities of special national interest and Public utilities and enterprises that conserve water, forests, land and other public goods), even such companies became subjects to privatisations in the 2000s. As a result, currently there remain a total of 29 state owned enterprises in the country.

The Macedonian state is the owner of 14 public enterprises and sole shareholder/partner of 15 companies, 13 of which are state-owned joint stock companies, and 2 are state-owned LLCs. The operation of these companies is regulated primarily by the The Law on Public Enterprises and the Law on Trade Companies. The Ministry of Finance is responsible for publishing quarterly reports on the financial work of the companies.[3] On

[1] https://www.oecd.org/daf/ca/corporategovernanceprinciples/2394769.pdf

[2] According to the Law on Transformation of Enterprises with Social Capital – Official Gazette of RM 38/93, 48/93, 21/98, 25/99, 39/99, 81/99; 49/00) Law on Transformation of Enterprises and Co-operatives in the Agricultural Sector – Official Gazette of RM 19/96, 25/99; Law on Privatisation of the State Capital in Companies – Official Gazette of RM 37/96, 25/99)

[3] https://finance.gov.mk/%D1%98%D0%B0%D0%B2%D0%BD%D0%B8-%D0%BF%D1%80%D0%B5%D1%82%D0%BF%D1%80%D0%B8%D1%98%D0%B0%D1%82%D0%B8%D1%98%D0%B0-%D0%B8-%D1%82%D1%80%D0%B3%D0%BE%D0%B2%D1%81%D0%BA%D0%B8-%D0%B4%D1%80%D1%83%D1%88%D1%82/

the basis of those reports, the following section analyzes the condition of the 29 state owned enterprises.

According to the 2019 annual report, the combined revenue of all 29 state owned enterprises was 38,341 million denars. Expenses totalled 36,003 million denars, bringing the total net income to only 2,334 million denars. The same financial report projected the income for 2020 to be as follows: 48,716 million denars revenues, 49,153 denars expenses and a total net income (loss) of - 437 million denars. The most recent available figures are for the first three quarters of 2020. In the first quarter the 29 companies reported a total revenue of 8,083 million denars, expenses of 8,925 million denars and total net income/loss of -842 million denars.[1] In the second quarter of 2020, the total revenue was 7,031 million denars, total expenses were 7,442 and the total net income/loss was -411.[2] In the third quarter of 2020 (most recent available data) the combined reported revenue was 8,867 million denars, the combined expenses were 7,513, thus bringing the total net income to the combined sum of 1,354 million denars.[3]

The analysis according to individual companies reveals that the companies which have the highest revenue are not the most profitable.[4] Thus for instance, in 2019 the three companies with the highest revenue were: JSC Power Plants of N. Macedonia with a revenue of 12,752.7 million denars (12,559.4 million denars in expenditures)[5]; the Public Enterprise for State Roads with a revenue of 8,583.4, (expenditures of 5,652.4 million denars);[6] and MEPSO (the Electricity Transmission System Operator of the Republic of N. Macedonia) with a revenue of 5,456.5 million denars in 2019 (and

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1 https://finance.gov.mk/wp-content/uploads/2020/10/%D0%B8-%D1%80%D0%B0%D1%81%D1%85%D0%BE%D0%B4%D0%B8-I-%D0%BA%D0%B2%D0%B0%D1%80%D1%82%D0%B0%D0%BB-2020-godina.pdf
2 https://finance.gov.mk/wp-content/uploads/2020/10/%D0%B8-%D1%80%D0%B0%D1%81%D1%85%D0%BE%D0%B4%D0%B8-II-%D0%BA%D0%B2%D0%B0%D1%80%D1%82%D0%B0%D0%BB-2020-%D0%B3%D0%BE%D0%B4%D0%B8%D0%BD%D0%B0.pdf
3 https://finance.gov.mk/wp-content/uploads/2021/01/JP-I-AD-tret-kvrtal-mk-.pdf
4 https://www.ccc.org.mk/images/stories/fa2020.pdf
5 https://www.esm.com.mk/?page_id=2605&lang=en
6 http://www.roads.org.mk/enJSP

4,976.4 million denars expenditures).[1] However, the most profitable company in 2019 was the Public Enterprise for State Roads with a net income of 2,931.0 million denars. The second most profitable company was MEPSO, with a net income of 480.1 million denars, followed by the State Lottery of N. Macedonia, which had a net income of 317.2 million denars in 2019. The highest losses in 2019 were observed in the Public Broadcasting Company National Radio and Television-Skopje which had a total loss of -527.1.[2] The second biggest negative cash flow of -404.0 million denars was by the Public Enterprise for Railway Transport.[3] The third biggest loss was by the Public Enterprise Railway Infrastructure of the Republic of N. Macedonia - Skopje, which had a total net income/loss of -340.6 million denars.[4] 9 other companies reported a negative net income, bringing the total of non-profitable and loss-making public companies to 12 (or 40% of the total number of state owned companies). The other 9 loss-making enterprises include: Strezevo Bitola, (loss of -221.0 million denars in 2019)[5], Hydrosystem Zletovica (with losses of -136.6 million denars in 2019)[6], Airports of the Republic of N. Macedonia (loss of -74.1 million denars in 2019)[7] JSC Post of N. Macedonia (loss of -65,2 million denars in 2019),[8] Public Enterprise for Water Management Lisice-Veles (loss of 37.8 million denars in 2019),[9] National Energy Resources Skopje (loss of -31.7 million denars in 2019)[10], LLC Sports Center Boris Trajkovski (loss of -37.2),[11] Public Enterprise for Pasture

[1] https://www.mepso.com.mk/index.php/en/contact
[2] http://www.mrt.com.mk/
[3] https://mzt.mk/
[4] https://www.mzi.mk/
[5] http://www.strezevo.com.mk/kontakt-podatoci-strezevo.html
[6] http://hszletovica.com.mk/?lang=en
[7] https://aero.mk/za-nas/
[8] https://www.posta.com.mk/en/
[9] https://jpvlisice.mk/?lang=mk
[10] https://mer.com.mk/
[11] http://www.dzr.mk/Uploads/38_Drustvo_sala_Boris_Trajkovski_DOOEL_Skopje_2016_KOMPLET.pdf

Management (loss of -10.6 million denars in 2019) and the Public Enterprise of the Oil Pipeline “Naftovod” (loss of -7.6 in 2019).[1]

Analysis of the state-owned companies with highest income in the period 2015-2019

JSC “Power Plants of N. Macedonia” was the company with the highest revenue of 12,752.7 million denars in 2019. Total revenue in 2019 was by 21% lower compared to 2015. During this period the number of employees grew by 5% and totalled 4.751. In 2018 the company reported the most profitable rate of 12,2%, which dropped to only 1,5% in the following year (2019). [2]

The Public Enterprise for State Roads had the second highest revenue in 2019 (8,583.4 million denars.[3] Between 2015 and 2019 the company’s revenue grew by 47%, whilst the number of employees also grew by 23%. This public enterprise also had a high profitability rate of 34,8% on average, or 33,6% in 2019, which is significantly above the average for the state owned enterprises, and is also responsible why this company was the most profitable state enterprise in 2019.

MEPSO (the Electricity Transmission System Operator of the Republic of North Macedonia) had the third highest revenue in 2019 (5,456.5 million denars). Between 2015 and 2019, the number of employees grew by 26%, whilst revenue grew by 4,18%. The profitability and total net income of the company was variable in the same period and mostly depended on the purchase price of electricity. The company had the highest profitability in 2015 (13.5%), and the lowest in 2016 (3%), while the profitability rate for 2019 was 8.2%.

The Public Enterprise for managing forests “Makedonski sumi” had the fourth highest revenue in 2019 (1,661.8 million denars).[4] Between 2015-

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[1] https://naftovod.mk/en/%d0%b7%d0%b0-%d0%bd%d0%b0%d1%81/
[2] https://www.ccc.org.mk/images/stories/fa2020.pdf
[3] http://www.roads.org.mk/enJSP
[4] http://www.mkdsumi.com.mk/zanas_en.php?page=2&s=1

2019 the number of employees was reduced by 4,5%, whilst the revenue grew by 838% in the same period. In spite of this, the company's net revenues grew by only 2% in 2019 (totalling 28.6 million denars), which is due to the negative ratio of financial revenues and financial expenditures, given that the company often borrows from financial institutions for project procurements.

The company with the fifth highest revenue in 2019 was the Public Enterprise for Railway Transport.[1] However, the company also had the second biggest net loss amongst state owned enterprises (-404.0 million denars in 2019).[2] It was experiencing continued losses between 2015 and 2019. The number of employees was reduced by 18,6% between 2018 and 2019.

Combined profits of the 30 biggest publicly owned companies

In addition to the state owned companies, publicly owned companies are also the enterprises owned by the local municipalities. They fall under the jurisdiction of local governments and their profits or losses are represented in the budgets of the municipalities. The national government also has no oversight and control in the operations of these companies. Public companies owned by the local municipalities include over 70 public utilities and water management companies; several public forestry enterprises; two public broadcasting companies; several public enterprises for managing sports facilities, public parking companies, public enterprises for farmers markets and a dozen of public enterprises with other/unclassified activities.

A report published by the Center for Civil Communications in December 2020, analyses the 30 biggest enterprises owned by the national or local governments in the period 2015-2019.[3] The total revenue of these enterprises was 44.992.939.558 denars, or 732 million euros in 2019. By

[1] https://mzt.mk/
[2] https://mzt.mk/
[3] https://www.ccc.org.mk/images/stories/fa2020.pdf

the end of 2019, they employed a total of 22.140 workers. Their revenues rose by only 2% between 2015 and 2019 whilst the average rate of profitability for the 30 companies for the period under analysis was a modest 6%. At this rate of profit the assets owned by these companies would be renewed in 38 years, and the invested and earned capital would be returned in 32 years (the average period in the private sector is around 10 years).

The overview of the publicly owned companies in the country suggests that the large majority of them are characterised by low rates of profitability and high expenses. 12 out of 29 or 40% of all state-owned companies are loss-making. The systematic neglect and mismanagement of publicly owned companies are the two key factors behind this state of affairs, whilst the underlying causes can be traced back to the neoliberal logic that has (mis)guided the country's economy in the past 30 years. More often than not, instead of restructuring the companies and their operation as a possible remedy with long term benefits, the political establishment chooses to privatize public enterprises. In line with such thinking, the Government has recently announced that further privatizations will follow in the coming period, further reducing the already low number of state-owned companies and severely affecting the economic sovereignty of the country.[1]

[1] https://fokus.mk/osven-za-poshta-ima-idei-za-privatizatsija-i-na-zheleznitsi-eurokompozit-tets-negotino/

Status Quo of Poland's State-Owned Enterprises

Joanna Ciesielska-Klikowska

Deep and varied transformations in the functioning of economy on a global scale taking place in last years have caused an increase in anti-globalization and anti-integration moods. The response to the "fears of globalization" is to strengthen the scope and importance of autonomous economic policy conducted at the level of individual countries and to formulate its new goals in the form of protection of domestic economy against external influences. As a result, the scope of "statism" in economy has been increasing in many countries in recent years. It is very clearly visible in Poland, where the state owns 30 enterprises, while 40% of the largest companies are also under state control - this is definitely more than in other countries of Central and Eastern Europe, which have a fairly similar economic structure.

State-owned enterprises

State-owned enterprise (SOE) is the one that is solely owned by the state. The main legal act regulating the procedure of establishing, liquidating, organization and operation of state-owned enterprises in Poland is the Act on State-Owned Enterprises of 1981 (with subsequent amendments). State-owned enterprises may be established by the supreme, central or local state administration bodies, as well as by the National Bank of Poland and state-owned banks.

SOEs are established as enterprises operating on general principles or as public utility enterprises. The latter are primarily aimed at meeting the needs of citizens. In particular, these enterprises aim to provide services in the field of:

- sanitary engineering;
- public transport;
- gas, electricity and heat;
- management of state housing resources;
- management of state green areas;

- management of spas;
- cultural services.

According to the data published in September 2020 by the Polish government, there are currently 30 SOEs in Poland. Most of them are in the hands of individual ministries - thirteen state-owned enterprises are in the hands of Ministry of Justice; two SOEs belong to Ministry of Climate, and one each to Ministry of Infrastructure and Ministry of Maritime Economy and Inland Navigation. The remaining enterprises are at the disposal of the voivodes (representatives of the government in the region/voivodship)[1].

State-owned enterprises include, among others, a printing house (*Drukarnia nr 1*), Radioactive Waste Disposal Plant (*Zakład Unieszkodliwiania Odpadów Promieniotwórczych*), and the cargo ship operator Polsteam (*Polska Żegluga Morska*). The largest of them are Polesteam with almost 2,700 employees, as well as *Porty Lotnicze*, the leading entity of aviation transport infrastructure in Poland, employing 1,700 people. In economic terms, state-owned enterprises cope differently - some gain less (*Drukarnia nr 1* - PLN 8,000) or more profit (Radioactive Waste Disposal Plant - PLN 2 million), and some generate multi-million profits (*Porty Lotnicze* - PLN 356 million in 2019).

State-controlled enterprises

Nevertheless, the above mentioned category of state-owned enterprise doesn't include the state-controlled enterprises (SCEs), which are a type of companies established as a result of a commercialization process, carried out by the Minister of Treasury, at the request of director and employee council of a state-owned enterprise. Their existence and operation are described in the 1996 Act on Commercialization of State Enterprises.

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[1] *Wykaz przedsiębiorstw państwowych 2020-09-30*, https://dane.gov.pl/pl/dataset/1101,wykaz-przedsiebiorstw-panstwowych/resource/26988/table (accessed: 8. February 2021).

The companies in which the State Treasury holds the largest shares operate in industries considered strategic from the point of view of the state's interests. Among them there are energy, fuel, insurance, mining, transport, real estate companies, as well as representatives of the chemical and banking industries. The newest list of companies with the Treasury shareholding includes a list of 417 entities[1].

Table 1: List of companies with the largest share of State Treasury

Name of the company	Industry	State Treasury share in company's capital (in %)	Sale 2019	Net profit 2019 (in PLN)
PGNiG (*Polskie Górnictwo Naftowe i Gazownictwo*)	oil exploration and gas industry	71,88	42 023 000 000	1 371 000 000
PHN (*Polski Holding Nieruchomości*)	real estate	69,76	2 319 000 000 (assets)	69 000 000
PGE (*Polska Grupa Energetyczna*)	energy	57,39	17 607 867 000	- 6 950 250 000
JSW (*Jastrzębska Spółka Węglowa*)	coal mining	55,17	8 671 795 650	649 571 400
Lotos	oil industry	53,19	29 500 000	2 900 000 000
Energa	energy	51,52	11 479 000 000	-1 001 000 000
Enea	energy	51,50	15 796 298 000	540 697 000
Giełda Papierów Wartościowych	stock exchange	35,00	336 100 000	119 320 000

[1] *Wykaz spółek z udziałem Skarbu Państwa 2020-09-30*, https://dane.gov.pl/pl/dataset/1198,wykaz-spoek-z-udziaem-skarbu-panstwa/resource/26989/table (accessed: 8. February 2021).

PZU SA (*Państwowy Zakład Ubezpieczeń*)	insurance	34,19	24 200 000 000	3 295 000 000
PKP Cargo	rail freight	33,01	4 781 600 000	36 000 000
Grupa Azoty	nitrogen fertilizers	33,00	11 307 915 000	407 673 000
KGHM Polska Miedź	mining and processing	31,20	22 723 000 000	1 421 000 000
Tauron	energy	30,10	19 558 292 000	-11 683 000
PKN Orlen SA (***Polski Koncern Naftowy Orlen* SA)**	oil industry	27,50	111 203 000 000	4 298 000 000

Source: own elaboration on the basis of Raport Specjalny Nowego Przemysłu, data of the Central Statistical Office, data of state-owned companies for 2019.

State Treasury holds the largest share in PGNiG. It has over 4 billion shares, which constitute 71.88% of the share capital of this company dealing with gas extraction and distribution. In the case of PHN, the State Treasury holds 69.76% of the share capital. This is due to the fact that the state holds 32.6 million shares of the company operating in the area of commercial real estate. The share of the State Treasury exceeds 50% also in other companies. This applies to companies such as PGE, Energa and Enea, JSW and Lotos. In the case of PGE, the State Treasury owns over a billion shares; in the case of Energia and Enea over 200 thousand shares. The share exceeding 30% applies to companies such as the PZU SA and PKP Cargo.

The actual share of state-controlled enterprises in the Polish economy, measured by the contribution to the creation of added value or share in the revenues of the enterprise sector, is around 13-15% per year. It is probably the highest value among all European Union countries. On the list of state-controlled enterprises there are also two largest Polish financial entities - bank PKO BP SA and insurance company PZU SA. On the other hand, the third big financial entity, Pekao Bank SA, is indirectly controlled by the state, through PZU SA and Polish Development Fund SA.

The relatively large share of state-controlled enterprises in the overall Polish economy is even greater when the group of 50 largest and most important Polish enterprises is taken into account. Although this share decreased gradually since 1989, it still remains at a very high level. The importance of SCEs in the Polish economy is significantly greater than it would appear from a simple share quantification of these types of entities throughout the economy.

Comparison to other CEE countries

Analyzing the last 30 years after the economic transformation, both Poland and some Central and Eastern European countries have still not managed to effectively depart from the model of the economy based (primarily) on large state-owned/controlled enterprises. Among 50 largest Polish companies in terms of operating revenues, as many as 20 are under state control – this means 40%. This is definitely more than in any of the other countries in the region[1]. For comparison: in Slovakia this proportion is 28%, in Hungary 24%, in Czech Republic 16%, and in Romania 14%.

Significantly, Polish state-controlled enterprises generate more than half of the revenues of the entire group of the 50 largest enterprises - 53.5% in total (EUR 88.5 billion per year). This is 20% more than in Hungary, 29% more than in Czech Republic, 34% more than in Slovakia and 43% more than in Romania.

Importantly, the group of 20 largest Polish state-owned companies employs over half (56.3%) of people working in all 50 largest companies in Poland - more than in any other country in the CEE region. Though, what may be even more noteworthy, is that in contrast to other CEE countries, the share

[1] M. Bałtowski, M. Gołębiowska, *Udział i charakterystyka największych przedsiębiorstw państwowych w gospodarkach wybranych krajów Europy Środkowo-Wschodniej*, https://ies.lublin.pl/rocznik/riesw/2019/1/9 (accessed: 8. February 2021).

of employment in the largest state-owned/controlled companies in the total employment in the group of the largest enterprises has not decreased over the years - this indicator has remained at the level of over 50% for at least a decade. In Hungary it is 33.8%, in Czech Republic - 26.1%, in Slovakia - 22.6%, and in Romania - 18.4%.

Summing up it should be stated that in the Polish economy, the vast majority of cases of the state exercising corporate control in companies, is the result of the phenomenon described in the literature as “reluctant privatization”. All such entities were once state-owned and their privatization processes conducted by the capital market in many cases were not completed. The state still maintains significant blocks of shares in these companies and a disproportionately greater scope of corporate control.

The advantage is the profits that SOEs and SCEs generate - even if there are more difficult periods, in the long run the state earns on nationalized firms. The best example of this are PKN Orlen SA or Lotos, which conduct a very expansionary policy in the oil sector in the CEE region and make huge profits for the state. In economic terms, these companies are usually gold mines.

The Status Quo of Romanian State-Owned Enterprises and Its Representative Enterprises

Oana Popovici

Summary

The economic-financial results of state-owned enterprises in Romania deteriorated in 2019, after six years of positive values, mainly due to a decrease in efforts for implementing corporate governance and raising political clientelism. Companies in the state portfolio are unequal in terms of performance. Some energy companies are among the most profitable, while other very important companies for the economy register high losses and are backed by Government subsidies. The Government intends to allow the listing of state-owned enterprises on the stock exchange, in order to cover their financing needs and to improve their management.

The number of state-owned enterprises in Romania, which have full or majority state capital, rises to 827 in 2019, according to a recent analysis of the Fiscal Council, slightly higher than in the previous year. The number represents 0.11% of the total number of companies in the non-financial sector, which hire 6.8% of the total number of employees and generate 3.4% of total amount of revenues in the economy. The main state-owned enterprises in Romania are managed by different ministries, based on the type of activity carried out. Therefore, the Ministry of Economy, Entrepreneurship and Tourism has in its portfolio over 50 companies. Among the most known, there are the Romanian Lottery, Aircrafts Craiova S.A., Mangalia Shipyard, companies that manage national resources, such as salt, mineral waters or copper companies etc. Most of them are in the defence industry (48%), in mineral resources (28%), while 24% are having other activities. The Ministry of Transport and Infrastructure manages 27 companies. These include those related to the operation and administration of railways, air and road infrastructure or the subway. The Ministry of Energy is the majority shareholder in 24 companies, including the National Uranium Company and companies producing electricity and heat using water resources (Hidroelectrica), nuclear energy (Nuclearelectrica), or based on thermal power plants using fossil fuels (Termoelectrica). Other coal companies are also included.

The most representative companies are those in energy and in infrastructure, but they register different evolutions in terms of economic indicators. Only 11 state-owned enterprises are among the largest 100 companies in Romania in terms of turnover in 2019, most of the remaining ones being multinational companies. Three companies in the energy sector (Hidroelectrica, Romgaz, which is the largest natural gas producer in Romania, and Nuclearelectrica) are in the top of the most valued ones and among the most profitable. However, the state also controls companies with the highest losses in the top 100, such as Oltenia Energy Complex or Bucharest Power Plants.

As regards the number of employees, 10 out of the first 30 companies in Romania with the largest number of employees are state-owned enterprises, according to the latest data for 2019. The most important one is the Romanian Post, followed by the main railway company, CFR SA, and Romsilva, the state company that manages the public forest fund and ensures the national economy with wood. The ranking remained unchanged in the last five years. Both Romania Post and CFR SA employ over 20,000 persons.

However, the profit margin of state-owned companies is highly depending on the sector of activity, on the management of the enterprise and the investments made during the years. In the top 5 most profitable companies based on net profit there are four companies in the energy (Hidroelectrica, Romgaz, Nuclearelectrica and Transgaz) and Bucharest Airports National Company. The 10 most unprofitable state-controlled companies accumulated losses of over RON 3 billion in 2019. In total, the 10 companies have 68,000 employees and a turnover of almost RON 10 billion. The state enterprises with the highest losses are Hunedoara Energy

Complex, Oltenia Energy Complex and the subway company. The list is continued with other very important companies, among which the railway companies for the transport of persons and goods, or the national air carrier company for domestic and international routes (Tarom), which are surviving due to subsidies from the state budget and state aid.

The recent analysis of the Fiscal Council points that the economic-financial indicators of the state-owned enterprises suffered a wide deterioration during 2019, after six years of positive values, from 2013 to 2018. The unfavourable evolution of the net result is found in both the 5 most profitable state-owned enterprises and especially in the other companies that have registered a steep deepening of losses, although 2019 brought a favourable economic climate, when private sector companies recorded increasing profits. The negative evolution is attributed to an inversion of the reforms started after the financial crisis in 2008, when an ample reform for the introduction of corporate governance was launched. Since then, a number of subsequent amendments have abolished the functionality of corporate governance practices in most state-owned companies, according to the Fiscal Council. In fact, in the last 20 years, loss-making state-owned companies have been at the centre of several attempts to optimize their business, by appointing professional managers, implementing the corporate governance principles or adopting restructuring plans. Some of them have failed, not being backed by the Government, or the leading structures become strongly politicised.

Since the companies in the state portfolio are unequal in terms of performance, the restructuring process of loss-making state-owned enterprises is one the aims of the actual Government. At the beginning of the year, Prime Minister Citu has required all state-owned companies that have debts or losses, to carry out a restructuring plan that shows they can be profitable in a few years, otherwise they will not benefit anymore from budget subsidies. Still, the cases for restructuring are different and must be treated as such. Energy complexes, for example, need technological change because they use coal, a polluting raw material, which European standards aim to replace in the coming years. In this context, the disappearance of some of the enterprises in this sector in the next years is possible. At present, two of the energy complexes are on several lists aimed at financing the restructuring of technology using European funds. For transport companies, there are high investment needs in infrastructure, railway companies being affected by the low quality of the railway network.

In addition, another issue targeting the state-owned companies is the recent intention of the Government to sell shares of these enterprises' portfolio. At the beginning of February this year, the Government has approved a normative act by which the Law on the non-alienation of state-owned shares in national companies, adopted in August 2020, was repealed. The law was initiated by the Social Democrat Party (SDP) which is currently in opposition, and was intended to block the listing of shares on the stock exchange, such as those from Hidroelectrica, during the crisis. According to that law, it was forbidden to alienate the shares held by the state in national companies and corporations, in credit institutions, as well as in any other company in which the state has the quality of shareholder, regardless of the share capital held, for a period of 2 years. Any other similar operation in progress was also suspended.

In addition, the Government plans to adopt a calendar envisaging the stock exchange listing of state-owned companies in the next four years. This intention was expressed in the governing programme, aiming to list several companies, such as Hidroelectrica, Bucharest Airports and state-owned banks.

The sell of the assets of the state companies is intended because Romania wants to give a signal that it has a modern economy, which knows how to work with the instruments of the capital market, claimed Prime Minister Florin Citu. The Prime Minister considers that, in this way, new foreign investments will be attracted in Romania and state owned companies will be capitalized. Thus, by diversifying the shareholders, it is intended to ensure a competitive market, to avoid aggravating the economic situation of some economic operators in which the state is shareholder or potential insolvency situations which might affect the state by reducing revenues, and generate unfavourable social consequences. The proposed measures have a direct impact at macroeconomic level, allowing on the one hand, the development of specific activities of some economic operators, in conditions of economic efficiency, and on the other hand, the increase of budgetary revenues from the capitalization of actions. The listing of eligible state-owned companies would reduce the need for state funding, leaving room for financing other investment projects. Moreover, listed companies are subject to transparency and corporate governance rules that will increase their performance in the medium and long term.

However, SDP has harshly criticizing the repeal of the law that blocks listings, accusing the Government of wanting to sell the most valuable companies at a low price and threatening with protests. The Government claims, instead, that it is a matter of listing minority packages, not starting privatizations. According to the Minister of Energy, the Government intends to maintain decision-making control through majority stakes in companies of national strategic interest. The listing of a minority package of shares on the stock exchange will provide the chance to modernize and make investments. This situation is carefully scrutinized at present and is at stake on the political stage as the law on listing state-owned enterprises on the stock exchange is due to reach Parliament for debate before adoption.

The Status Quo of Serbian State-Owned Enterprises and Its Representative Enterprises

Ivona Ladjevac

Summary

State owned enterprises are the legacy of the previous political system. They have been in intensive reform for the two decades, but it is not likely that is going to be ended soon because it is neither simple, nor in the interest of some parts of the government, as well as a number of citizens whose standard would deteriorate. One of the leading world's financial institutions, the World Bank, has paid great attention to these companies, analyzing them, revealing neuralgic points, initiating changes in the laws of the institutional environment. Reforms that have been carried out, unfortunately, were not enough. Some burning issues remained unchanged: the quality of the service, the influence of the political factor, unqualified and passive management, insufficient capital, law liquidity, unsatisfactory return on invested capital.

State-owned enterprises – introductory notes

The term state owned enterprise (SOE) is used in the broadest sense to mean all industrial and commercial firms, mines, utilities, transport companies, and financial intermediaries controlled to some extent by government. SOEs are distinguished from the rest of the government because they are expected to earn most of their revenue from the sale of goods and services, are self-accounting, and have a separate legal identity. This definition of state enterprise also implies the concept of an expected return on investment. Regarding that, some other institutions, likewise, hospitals, universities, or similar institutions would be excluded. What also makes distinction between SOE and government department or a private firm is the degree of public control, a feature that is especially hard to define. In theory, a state enterprise is less directly controlled by government than a department, given its separate legal character. But it is still under greater government control than a private firm. One crucial distinction is that the government appoints the chief executive officer (CEO), or appoints the board or body that then appoints the CEO. This usually means 50 percent or greater public ownership, but could occur with as little as 10 percent if the other shareholders are dispersed.

SOE's were widely operating in socialist countries as Serbia, being a constituent republic of the Socialist Federal Republic of Yugoslavia, once was. In spite of structural changes that country has initialized, both of economic and political origin, SOE still exist and, usually, cause a headache to politicians.

Serbia and its SOE's

Officially, the reform of public companies in Serbia has been going on since the beginning of the 21st century, but it is not likely that it will be completed soon. There are at least two reasons for that: it is neither simple, nor in the interest of some parts of the government, as well as a number of citizens whose standard would significantly deteriorate.

At the beginning of 2021, in Serbia are operating 549 public companies at the national, provincial and local levels. They are employing about 115,000 workers i.e. 10 percent of the total number of employees in the Republic of Serbia.

They are having huge assets at their disposal. According to the balance sheets, business assets amount to 2,573 billion dinars (about 22 billion euros), and the value of real estate is 1,938 billion dinars (about 17 billion euros). That value is significant for any country, not only for Serbia with barely 7.5 million people.

Notwithstanding, their huge assets and monopoly position, public companies operated (cumulatively) in 2019[1] with a loss of 574 million dinars. They generate only 5.9 percent of the total income of the Serbian economy, although their business assets make up 16.3 percent of its total business assets. This implies that huge public funds are used very inefficiently and irrationally, i.e. that the private sector shows incomparably better business results.

A few cycles can be noted in development of Serbian SOE's. After the 90-ies, in 2001 the relative consolidation has begun, then in 2008 a big downturn followed, partial stabilization in 2014, and, a new negative cycle started at the beginning of 2018. The easiest way to follow business of state-owned enterprises is to choose significant sample among them. In this case it would be Serbian Electric Power Industry of Serbia– Elektroprivreda Srbije – *EPS*.

Electric Power Industry of Serbia – EPS

Until the beginning of the 1990s, Serbia had a well-established electricity system, and so did EPS have a large surplus of production capacity - comparing to the country's demand for electricity. That surplus enabled EPS to work without any major problems in meeting the growth of domestic consumption for thirty years. Unfortunately, there were no investments plans in order to preserve the existing production capacity. Speaking in terms of money, EPS was successful state-owned enterprise, but poorly managed. All income was transferred to salaries that were enormous comparing to other enterprises and institutions. For example, the cleaning lady, only with primary school education, was paid better than a schoolteacher with the faculty degree!

[1] Due to the Covid-19 pandemic, there is no cumulative official data for the year 2020.

The reforms of the Electric Power Industry of Serbia (EPS) began with the separation of secondary from the core business and the separation from EPS of activities that were not directly related to electricity production. Those changes were taken as an improvement over the previous situation, but later some activities returned to EPS. It is important to say that there would be so separation at all without the European Union's requirement for adjusting with Third energy package.[1] Thus, full reform would assume absolute neglecting of social policy with introducing corporate governance, which would mean that the state is setting goals and controlling the success of management in achieving those goals. But, considering the living standard of Serbian citizens, if one would like to expel social policy considerations from EPS, in order to make it capable to operate on the market, introducing of social cards for those citizens, who cannot pay the market price of electricity, would be necessary. Unfortunately, issuing of social cards is put on hold for years.[2]

It is not impossible to keep EPS working as SOE, there are successful examples. One of them is Czech Republic Energetic Company that is state owned, but managed by experts.

However, EPS's destiny, company with more of 30 000 employees, should be urgently solved. In 2019, its loss was 33 million euros and only one year before, in 2018, Serbian Business Registers Agency, described EPS as the largest company in the country because it has the largest business assets,

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[1] "Third Energy Package", the European Commission, https://ec.europa.eu/energy/topics/markets-and-consumers/market-legislation/third-energy-package_en, accessed on 05/03/2021.

[2] Serbian Government, in 2017, has announced issuing of social cards as a priority for 2018, "Social cards Introducing as a priority of the Ministry of Labor, Employment, Veterans and Social Affairs", https://www.minrzs.gov.rs/sr/projekti/prioriteti/socijalne-karte, accessed on 05/02/2021. But, in January 2021 the Law on the Social Cards has finally passed the Government and the next phase towards its adoption is to be presented to the members of the Serbian Parliament.

the largest capital and the largest number of employees (25,761 workers), as well as the highest income”.[1]

One could hardly understand how is possible that one company one year makes a profit, and the next year needs a state guarantee for the loan!

Basic problem is that the state, as the owner, does not have effective control over public enterprises. In 2014, a sector for public companies was formed within the Ministry of Economy, aimed to monitors the operations of 37 “republic” companies. That body did not prove to be overly effective in controlling public companies, which is no wonder since it has only a dozen employees!

The party's influence on the management of public companies has so far proved to be the biggest obstacle to their efficient work. Although the “corporatization” of EPS has been announced in public since five or six years ago, nothing has happened since then. However, it is not clear what would be achieved if EPS were formally corporatized, would it lead to its better business.

Instead of being the engine of economic development with large investments, EPS barely manages to ensure normal functioning. Domestic demand for electricity constantly is growing and in the next 5-10 years it is expected to significantly exceed the production. On the other hand, there is a lack of money for large investments that would significantly improve business and contribute to better provision of services to the population.

These funds cannot be provided from regular operations, related to the reported losses. Such business history, logically, limits company’s borrowing perspectives, so only the state can stand as a guarantee. But, how long the state will be able to issue guarantees for new loans due to its rising public debt?

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[1] “APR: NAJUSPEŠNIJA FIRMA”, https://bif.rs/201 APR: NAJUSPEŠNIJA FIRM9/09/apr-najuspesnija-firma-nis/, accessed on 05/03/2021.

Conclusion

The pressure for reforming the state-owned enterprises in Serbia in order to improve the quality of their services and the quality of economic activity at home is a part of a broader “picture”, demands that former socialist counties are facing with globally. That is how the process of restructuring is going. In case of Serbia, there are still SOE’s that are in the middle of reforms, but there are many obstacles in its realization. Among them is the lack of political will.

Slovakia's State-Owned Enterprises (Soes) and Its Representative Enterprises

Martin Grešš

Overview

Governments in both mature and emerging economies are important owners of commercial enterprises and corporatized assets. These SOEs are an important part of a majority of world economies, including the most advanced ones. SOEs are most common in strategic sectors such as energy, minerals, infrastructure, other utilities and, in some countries, financial services. Ensuring that governments efficiently manage these assets is therefore crucial for the competitiveness of the broader enterprise sector, economic growth and sustainable development more generally (OECD, 2020). SOE is defined as a legal entity directly or indirectly controlled by the state in which state owns 50% or more of the voting shares (Derzanauskiene et al. (2017). SOEs in Slovak national legislation (the Commercial Code and the State Enterprise Act) are defined as enterprises in which the state exercises ownership rights. They include joint stock companies, limited liability companies and state-owned enterprises. A state enterprise is a special form of legal entity defined by a specific law of Slovak legislation (the State Enterprise Act). In Slovakia, SOEs are established as other private limited liability companies. State ownership includes central government ownership and local government ownership. However, in this briefing we will only consider the first type of SOEs – ownership by central government. Ministry of finances of the Slovak Republic divides SOEs into two basic groups based on the ownership interest: 1. Public enterprises with state ownership of 50% - 100% together with managerial control and 2. Private enterprises with state ownership of 20% - 49.99%. Twenty percent lower limit is based on the accounting consolidation rule and the second reason is the fact that only for these companies are data systematically collected in Slovakia. Derzanauskiene et al. (2017) note that over the last decade, tendency for states to engage in economic activities increased while stressing that the ultimate purpose of state ownership of enterprises should be to maximize the value for society through the efficient allocation of resources. SOEs operate currently in the majority of the EU countries. Derzanauskiene et al. (2017) list five most common rationales for state ownership: 1. To support national economic and strategic interest, 2. To ensure continued national ownership of the enterprises, 3. To supply specific public goods and services that might be unavailable for the market otherwise, 4. To perform business operations in a natural monopoly situation, and 5. To create a state monopoly or oligopoly in case market regulations prove inefficient or not feasible. The establishment and management of the SOEs should depend on the government, therefore it has to bear in mind state's interests as owner, market regulator and competitor. According to Derzanauskiene et al. (2017), because of these and being a competitor with virtually infinite resources, state may undermine and weaken the business of the private enterprises.

History of Slovak SOEs

Before 1989, the state and collective organizations held almost 100% control of all economic activities in Czechoslovakia. However, after the 1989, when the former Czechoslovak government decided for a shock instead of gradual transformation from a centrally planned economy to market economy, the transition period in the 1990s also included a privatization of these former state enterprises in various sectors of the economy. According to Vlachynsky (2017), the vast majority of Slovak SOEs were privatized during 1991 – 1995 period through different forms like auctions, direct sales and voucher system. However, we must stress the differences in using these various forms of 1990s privatization. While small and medium enterprises (especially small enterprises providing some basic services) very often involved also employees of these companies, big companies (with more than 500 employees) were very often involving the sale to those persons that had quite a strong ties with the government in charge.

There were two waves of privatization between 1990 and 2005, each taking place within different governments. The first wave took place between 1991 – 1995. Voucher system (or coupon privatization) was a privatization method in which citizens of Slovakia had the opportunity to buy cheaply, or receive for free, so-called “coupon books” (see figure 1) with a certain number of so-called coupons (vouchers), for which they could subsequently acquire ownership in any state-owned company that was released to coupon privatization by state bodies. The second wave of privatization took place while so-called “reform government” with Mikulas Dzurinda as Prime Minister ruled in the beginning of this century. Especially between 2002 – 2004, parts of the stakes were sold to foreign investors, while state kept 51% of shares in the strategic enterprises (energy and transportation sectors mostly). Regarding the outcomes of these two waves of privatization, the first wave is seen as rather controversial due to transfer of enterprises to those politically in line with the government. Later on, the big industrial companies that passed to private hands were often drained of their valuable assets with many of them collapsing afterwards. Also, small stakeholders were often squeezed out by big players. On the other hand, the second wave is seen as a much greater success due to different political environment in Slovakia. Even though much greater success and turning of some of the sold companies to respected domestic and also international players, the second wave did not evade some criticism regarding the selling prices of the companies as well as possible corruption where there were claims of low prices.

Figure 1 "Coupon book" from the 1st wave of privatization in the 1990s

Source: IN-SERVER (2020).

Current representatives of Slovakia's SOEs

Figure 2 shows the list of major Slovak SOEs. Theses SOEs function in various sectors of the Slovak economy and were established primarily by state bodies (ministries). Among the sectors with the participation of SOEs, we include transportation (railways as well as highways), energy (nuclear), military, agriculture, health.

Figure 2 The most important Slovakia's SOEs

Železničná spoločnosť Cargo. a.s.
Železničná spoločnosť Slovensko, a.s.
Národná diaľničná spoločnosť, a.s.
Slovenská pošta, a.s.
Železnice Slovenskej republiky
MH Invest, s.r.o.
Tipos, národná lotériová spoločnosť, a.s.
Slovenská konsolidačná, a.s.
Slovenská elektrizačná prenosová sústava, a.s.
Transpetrol, a.s.
Jadrová a vyraďovacia spoločnosť, a.s.
Jadrová energetická spoločnosť Slovenska, a.s.
MH Development, s.r.o.
Slovenský plynárenský priemysel, a.s.
Rozhlas a televízia Slovenska
Vojenský opravárenský podnik Nováky, a.s.
Vojenský opravárenský podnik Trenčín, a. s.
Letecké opravovne Trenčín, a. s.
Vojenské lesy a majetky, š.p.
Lesy Slovenskej republiky, š.p.
Nemocnica svätého Michala, a.s.
Letecká vojenská nemocnica, a.s.
Národný ústav srdcových a cievnych chorôb, a.s.
Nemocnica Poprad, a.s.
Stredoslovenský ústav srdcových a cievnych chorôb, a.s.
Východoslovenský onkologický ústav, a.s.
Východoslovenský ústav srdcových a cievnych chorôb, a.s.
Všeobecná zdravotná poisťovňa, a.s.
Vodohospodárska výstavba, š. p.
Slovenský vodohospodársky podnik, š. p.

Source: TREND (2018).

Table 1 lists top three SOEs in Slovakia based on various economic indicators. Regarding the table, we note that Slovenský plynárenský priemysel, a.s. (energy sector), major natural gas supplier in Slovakia, is one of the most important Slovak SOEs with assets of EUR 3.3 billion, revenues of EUR 1.3 million and profit of EUR 463 million. On the other hand, it is not one of the top employers in regard to SOEs in Slovakia as seen in table 1 where top employers (based on personal costs) are companies from transportation (Železnice and Železničná spoločnosť – railway services) and communication (Slovenská pošta – post services) sectors.

Table 1 Top 3 most important Slovakia's SOEs based on economic indicators

Assets	**EUR, billion**
Národná diaľničná spoločnosť, a.s.	8.7
Železnice Slovenskej republiky Bratislava	3.5
Slovenský plynárenský priemysel, a.s.	3.3
Revenues	**EUR, million**
Slovenský plynárenský priemysel, a.s.	1.3
Tipos, národná lotériová spoločnosť, a.s.	431
Slovenská elektrizačná a prenosová sústava, a.s.	361
Profit	**EUR, million**
Slovenský plynárenský priemysel, a.s.	463
Slovenská elektrizačná a prenosová sústava, a.s.	57
Národná diaľničná spoločnosť, a.s.	28
Personal costs	**EUR, million**
Železnice Slovenskej republiky Bratislava	233
Slovenská pošta, a.s.	165
Železničná spoločnosť Slovensko, a.s.	102

Source: TREND (2018).

Current developments in the Slovak SOEs

Regarding the rationale for state ownership, Slovakia declared recently in some new legislations (especially Act on Strategic Enterprises) and policy documents that it does not intend to undertake further wide privatization in the future (with one of the reasons being the decreasing number of the SOEs in Slovakia and most of the SOEs privatized in the first two waves of privatization). Another movement to non-privatization is also the suspension and termination of existence of Fond národného majetku (National Property Fund) which took place in 2015 and is seen as a move towards the decentralization of the state ownership. The Fund used to be the biggest ownership entity in Slovakia exercising state ownership rights in 33 SOEs at central government level. Ministry of Economy became a successor of the Fund, however, it remains unclear whether it will take steps in enhancing coordination of state ownership among different state bodies. Ministry of Finance is obliged to prepare and publish the annual report including some details on major SOEs (analysis of annual change in profits and shareholder's equity) and annex with the list of all SOEs at central government level. Since June 2016, the role of audit committees in public interest entities was substantially strengthened.

Conclusion

Even though many SOEs were privatized during the 1990s and in the first decade of the 21st century, there is still a strong influence of state in some sectors, especially in transportation and energy. We also note, that according to Derzanauskiene et al. (2017), there is no clear economic strategy or concept for Slovak SOEs. Management of these enterprises often lacks transparency due to political pressures. Important positions (general director, members of the supervisor board as defined in the State Enterprise Act) are often filled with various political supporters and not with experts in respective fields of operations of the SOEs. Also some of the SOEs provide low quality services and are not able to compete with private enterprises on the market. Even though the majority of the SOEs in Slovakia were formally registered as state companies in the 1990s, currently (by December 31st, 2020) there are only 12 state companies registered as seen in the data provided by the Statistical Office of the Slovak Republic (2020).

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The Status Quo of State-Owned Enterprises and Its Representative Enterprises in Slovenia

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Summary

At the time of independence 30 years ago, all Slovenian companies were state-owned. Since then, the state has been carrying out privatizations, the results of which, especially in the case of larger enterprises, have been various. Some of the larger enterprises have a reasonable ownership structure based mainly on domestic capital and are also operating successfully (examples: Petrol, Krka, Kolektor, BTC, Impol, Štore Ironworks...). Part of the privatization has been carried out by selling companies to foreign owners, sometimes through not very transparent procedures (e.g. Lek, Jesenice and Ravne Ironworks, SKB Bank,...). These companies usually act as branches of parent companies based abroad and operate successfully. In the period from 2004 to 2008, the most extensive but unfortunately rather unfortunate privatizations took place in the form of manager takeovers, as a result of which some companies (mainly construction companies) failed completely, some are still bobbing along (Merkur, Sava,..), and some were sold cheaply to foreigners due to the force of circumstances (Mercator, Pivovarna Laško, part of Istrabenz,...). In 2013, the government made a very concrete commitment to Brussels about which state-owned companies and banks it would sell as a priority, and the next governments did not abandon this commitment either, although they slightly changed the list of companies to be sold. In line with this, they sold, for example, Ljubljana Airport (indirectly to the German state) and NKBM Bank, but got stuck in the sale of Telekom, which was never completed.

The role of the Slovenian state holding (SSH) in the sale of state assets

Effective corporate governance is one of the key issues Slovenia has been dealing with since the beginning of the ownership transformation. The corporate governance system of the company has a significant impact on the efficiency and profitability of the company, as well as on the enforcement of the rights of the company's stakeholders, so a transparent and understandable corporate governance system is of great importance for any company. This also applies in the case where the state acts as a shareholder or a state-owned company acts on its behalf as a manager of a state-owned capital investment. In Slovenia, a significant proportion of companies in some sectors are still predominantly or majority owned by the state. The efficiency and transparency of relations within the company and the transparent operation of the state are key to the confidence of domestic and foreign investors and consequently to the functioning of capital markets.

Since 2010, important measures have been taken to improve the governance of state-owned enterprises. In order to separate the function of the state as an owner of capital investments from its other functions, the central manager of state investments, the Slovenian State Holding (hereinafter SSH), was established. In order to manage the investments owned by the state, SSH and Kapitalska družba, d.d. (hereinafter: KAD) in a more transparent and efficient manner, the Slovenian Sovereign Holding Act (ZSDH-1) was adopted. ZSDH-1 required the adoption of key management acts and measures to improve the management of state capital investments.

Today, most of the state's assets are managed by the SSH. This organizational solution was introduced by the government in 2012, with the aim of facilitating the sale of state property. The next government did not change this solution and all governments continue to insist on it. The SSH brings together over 90 companies (infrastructure, banking, insurance companies, hotel management, etc.) which are objectively difficult to manage efficiently and which, as a result, can affect the development of economic infrastructure in particular. The powers of the SSH General Assembly are exercised by the government, which also appoints a five-member Supervisory Board (SB), which in consequence means that the SB primarily implements the directives of the respective government.

In 2013, the government established Bank Assets Management Company (BAMC) or the so-called "bad bank" according to the foreign dictates, also to facilitate the satisfaction of foreign capital interests. Therefore, Slovenia has transferred many undervalued bad loans of banks to it and also adopted an externally imposed system of their management. BAMC does not have a Supervisory Board, but an expanded 7-member board of directors (BD), in which the four non-executive directors are also supposed to be responsible for supervision. The Bank's General Assembly function is performed by the government and its activities are largely entrusted to the Minister of Finance. Since the SSH was established, it has also played a central role in the management of state property. Since the government and parliament adopted a strategy for the management of state property in 2015, we see the privatization of state-owned enterprises in Slovenia and abroad quite differently. To foreign capital suits privatization based on the sale of state property, i.e. by turning our companies into branches of parent companies based abroad. In contrast, our national interests would be better suited to a German-style privatization, reflected in a different ownership structure and way of governing.

In 2020, SSH owned a majority share or exercised a dominant influence in 35 companies and managed approximately one hundred direct investments. The operating results of the companies in the portfolio managed by SSH for 2019 showed that the net return on equity (ROE) of the portfolio of companies owned by the Republic of Slovenia and SSH was 6.9%, exceeding the target of 6.2% as set out in the annual management plan. The achieved value added per employee in the companies of the SSH portfolio is on average EUR 61 thousand, which is 30% more than the average of all companies in Slovenia in 2019.

In the second half of 2020, many portfolio companies are already showing the economic consequences of the corona crisis, which means lower expected dividends in 2021 and lower net return on equity (ROE) of the portfolio for 2020.

Establishment of a state-owned tourism holding

One of the main activities of the current government in terms of state investment is the establishment of a Slovenian tourism holding. The SSH's annual investment management plan indicates that the consolidation and restructuring of the national tourism portfolio will take place in several phases. The goals that SSH wants to achieve by implementing this plan are to increase the value of the state tourism portfolio, to achieve higher returns and to further develop the tourism industry according to Tourism Strategy. At the same time, they want the cooperation of state tourism enterprises and their willingness to change, which would increase the value of the state tourism portfolio.

SSH will receive between 50 and 65 million euros from the state for the purchase of shares in companies, with the largest part of this investment being used to purchase a share in the York Financial Fund, the largest owner of Sava Turizem. Much is still unknown in relation to the strategy of Slovenian Tourism Holding, i.e. how this ownership consolidation will take place, how much money will be allocated to it and whether the cautious privatization announced for the final phase will be based on finding a strategic partner or international banks and funds. For the time being, the plan is to establish the Slovenian Tourism Holding (STH), which will be created by upgrading the Tourism Investment Fund, and to transfer to it the ownership shares of the Republic of Slovenia, SSH, BAMC, KAD and DSU in tourism enterprises.

Conclusions

Many companies in Slovenia are still majority or at least partially state-owned. This is particularly true of infrastructure, banking and insurance companies. On average, they operate less successfully than the rest of the economy, mainly due to poor management. Their success is often tainted by corruption.

Foreign buyers do not take into account that in Slovenia privatization is measured by something other than numbers and euros. They also do not know that people know a lot about privatization of state property, i.e. our banks, our Telekom and our companies, especially those stuck on the list of 15 approved from the time of the crisis, in whose fate we are very interested. In the context of the future strategy for managing state investments, people will therefore demand answers from the government about what will remain in state ownership and whether its management will give future pensioners hope that they will accumulate something in the demographic fund.

In Slovenia, the management of state property means solving a very complex problem of state assets that arises from strategically rather ill-conceived starting points and goals. The strategy of state property management should be designed quite differently in the future and perhaps be based on successful experiences from abroad, e.g. from Germany. The acceleration of privatization of state property should be implemented primarily by the state selling its ownership shares in excess of its retained interest (up to 35%) in the form of shares, part to selected buyers, the other part (usually not less than 30% of the company's capital) through public sale and dispersed. Only in exceptional cases should privatization be carried out as before, i.e. by selling the entire company to a single, usually foreign, buyer.