

## LAW FOR INSTILLING VOTES TO UNITED REGIONS

The Draft law on terms of settling financial obligations prepared by Serbian government has caused a storm in the Serbian public. It all started when a prominent Serbian daily *Blic* published extracts from the Draft law stipulating **"the restriction of payment terms for the private and public sector to a maximum of 60 days."** According to *Blic*, all who are late with paying of obligations are to pay fines in the amount of 5 - 20 percent of claims that cannot be less than 100 000 dinars (about 950 euros). However, **"the penalties do not apply to the Republic of Serbia, state authorities, territorial autonomy organs, city and local governments"**? The fact that the government excluded itself from limited period for paying obligations triggered an avalanche of negative reaction in Serbia.

This law was created as an attempt to solve one of the biggest problems of the Serbian economy - long payment terms, which destroys Serbian economy. However, the motives of this decision show that it is a part of the campaign for one of the parties in the ruling coalition - the United Regions of Serbia (URS), led by former vice president **Mladjan Dinkic**. Those who wrote the law which excludes the country of penalties shows that the law's target is not a systemic solution to the problem, but pre-election political points.

***The state, owing 14.8 billion euros, of which only in the last year it increased the liabilities by 3.3 billion euros, is the biggest borrower in Serbia.***

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The state borrowed to pay the salaries, pensions and other social benefits and to finance infrastructure. Simply, the loan were used for "patchworking" every gap in the budget, of which as much as 90 percent is stipulated by some fixed law. At the same time, the state behaves in one way to its own companies, and in the other to private companies. President of the Working Group for restructuring of the Fund **Slavenko Grgurevic** recently accused the government that **"public enterprises do not pay taxes and contributions, which the Serbian government is hiding under the state secret"**, while on the other hand, **"the rigorous control of the collection of taxes and contributions extinguished about 20 thousand private companies in the Serbian economy."**

The economy and the citizens of Serbia at the end of 2011 owed to the banks a total of 18.9 billion euros, of which companies owe 12 billion euros. Multilateral compensation conducted, i.e. if all companies were required to compensate for mutual debts and claims, the remaining debts in the economy would amount to around 7 billion euros.

The average credit term in Serbia in 2010 was 183 days, and 128 in September 2011. In the construction sector average collection period is 227 days, 164 in food industry, 163 days in textile industry... Serbia is European leader in long periods of payment, if one considers that the European Union's standard is 30 days, 18 days in Germany, 24 days in France, 31 days in Spain.



Payment deadline in Croatia is 34 days, 44 days in Bulgaria, 76 days in Macedonia, 104 in Bosnia and Herzegovina, 127 days in Albania. Serbian Government owes 10 billion (around 100 million euros), of which half to the private companies, while public companies owned by the government owe 30 billion dinars (about 295 million euros) to the economy. The economy and population owe to public companies about 120 billion dinars. Accounts over 60 thousand companies have been blocked due to debts amounting to 1.7 billion euros, while it is estimated that these companies owe about two billion euros.

Proponents of the law expect improvement of liquidity, acceleration of cash flow and prevention of the business market disorder. They argue that the period of 60 days is twice longer than the EU standard, that it's appropriate to the current economic situation in the country. Serbian Economy Minister **Nebojsa Ciric** announced the adoption for February this year. **"The main goals of liabilities limited to 60 days are improvement of liquidity, business transparency, equal treatment of private and public sectors, as well as compliance with EU regulations and international best practice,"** said the minister and announced that small businesses with up to 50 employees will be exempted from the obligation, **"because they are the most vulnerable."** Minister Ciric pointed out that one of the biggest problems of the Serbian economy is illiquidity caused by extended periods of collection of receivables and that this legislation will begin to take effect two months after its entry into force, so that business entities and public sector will have enough time to adjust to the new terms.

*It is clear that this law is made in attempt to solve one of the biggest problems of the Serbian economy. However, it remains an open question whether it is feasible, if, under the law, penalties can not be charged to the state government, provincial authorities and local self-government?*

The public sector in Serbia is three times higher than the European average. In Serbia 1.7 million people are currently employed, nearly one in four (469 584) works for the state. According to recent data at the middle of last year average salary in state enterprises amounted to 52 600 dinars (515 euros). In private companies, the average salary amounted to 38 700 dinars (380 euros). There are indications that in some public companies "controlled" by some small parties of the ruling coalition, there has been a dramatic increase in the number of employees during the last year. The size of the public sector and its importance in Serbia clearly shows that private companies are directed to doing business with the state, to a greater or lesser extent. It is therefore very important that the government is not exempt from the payment obligation of 60 days, or that the responsible persons in government can be fined if they violate these terms, as it applies to directors of private companies.

If that doesn't happen, it may happen that the Government of the Republic of Serbia owes to a private company A million dinars, and that the company A owes 500 thousand to company B hired for the job. If there are no penalties for the government, then they can be late. In the meantime, the company A will not be able to pay to company B 500 thousand RSD within 60 days. After this deadline, the Tax Administration will impose a fine to company A amounting to 5 - 20 percent of the debt (50 - 200 000 dinars), and not less than 100 000 dinars. The Tax Administration will block the account of company A and charge the penalty



which is paid to the state budget. So, company B would have no benefit from the punishment that was charged to the company A. When the government pays a million dinars to company A and A settles the liability to the company B, the revenue of the company A will be reduced for 100 000 dinars, which is probably more than the profit that can be made in a business worth million dinars. This is the path to the destruction of small and medium enterprises that will not be able to work with the government any more. The opportunity will remain only to the biggest companies.

This example shows that the solution does not make sense unless there is a possibility that the government organs are charged penalties. Not so, liquidity would not be reduced but increased due to the penalties. On the other hand, it is necessary to introduce personal liability of responsible persons in government bodies and agencies, because why would they otherwise spare the country from going further into debt? Unlike owners of private companies, they do not pay the penalty of their own pocket. For this reason, the law must be more rigorous towards a Mayor who does not regularly pay obligations of the municipality, than towards the owner or director of a private company. Several months ago the opposition pro-European Liberal Democratic Party (LDP) pointed this in response to the proposal of introducing **"criminal liability of employers who are late in payments,"** and said that this idea is **"hypocritical until the state itself is the biggest debtor having its companies as champions of irregular settlement of obligations."** The party then proposed obligation to **"organs of state and its businesses to pay obligations to the economy in the short term, the first phase of which should be limited to a maximum of 45 days."** **"Only then the state would have the right to prosecute those who are irregular in their duties,"** said party leader Čedomir Jovanovic.

Regardless of the need to enact such a law, it's important to bear in mind the moment of introducing it. The law is proposed by the Ministry of Economy and Regional Development, headed by a Minister Nebojsa Ciric, who is a member of the United Regions of Serbia. The leader of this party is Mladjan Dinkic, dismissed from the position of Deputy Prime Minister in February last year. Since then, the party remains in government, but its leader who became a deputy, often acts as the opposition in parliament. URS's policy is to use all possibilities provided by their participation in government and public infrastructure, without taking responsibility for the poor results of the government. In fact the ruling Democrats helped them agreeing to leave Dinkic's party in the ruling coalition. Dinkic is a master of using the authorities for his political campaign. Last year he forced the ruling coalition to adopt law on decentralization of Serbia. This law brought great resources to municipalities and cities in Serbia, but made a lack in the budget of Serbia for 2012 of nearly 40 billion dinars. Thus, the Serbian government "gave" Dinkic 40 billion to promote his party and himself as a politician who provided the funds in municipalities in Serbia.

Something similar happened recently in the Serbian capital, Belgrade, when the Belgrade City Council approved the proposal to amend the Statute of the city after URS proposal supported by 128 thousand signatures of citizens, to establish new municipalities and thus decentralize the capital of Serbia.



*Of course, the policy of Dinkic's party in Belgrade is further decentralization of the capital, and the decision of the City will help him be able to say to the people that he's on the way to accomplish it - of course if they vote for him.*

Previous case in which the minister masterfully used the state for acquiring votes was the distribution free of shares to citizens of Serbia and sending millions of letters with the letterhead of the Government and his signature as a minister in the midst of election campaign informing people that their free shares have been subscribed - will enter the books on political campaigns. Recently, he publicly apologized for the lie. There are many faults in Dinkic as a politician, but he is certainly skilled and capable.

That is why the question is who are the beneficiaries of the adoption of the terms of settlement of financial liabilities, or whose voices Dinkic counts on? Those are the owners of small and medium enterprises that are in the hands of large retail chains which do not pay their obligations for months, and are not permitted to sue them in order not to lose their jobs. Or owners of small and medium-sized companies whose debtors are large companies which are their main clients. Therein is the motive of making this law a few months before the election. Therein lies the answer to the question why Dinkic's ministry hadn't proposed such a law earlier. Was it because they were waiting the sale of the largest retail chain in the country, Maxi, owned by the richest Serbian tycoon Miroslav Miskovic, to Belgian company Deleuze? After the sale, almost all major retail chains in Serbia are owned by foreign companies. Simply, the problem of illiquidity in Serbia is there for years and the Ministry of Economy and regional Development had to respond earlier.

The statement that this law is meant to support Dinkic's campaign is supported by the fact that in recent months he directed many messages towards the owners of small and medium enterprises. Thus, recently has been launched an initiative to reduce the liability of paying "musical dinar" that burdens many small shops. Namely, in Serbia, all entrepreneurs are obliged to pay music dinar to artists association if there is music played in their objects. Dinkic is now proposing to reduce this commitment and that entrepreneurs in whose clients do not come to the shop to "listen to music," such as hairdressers, car mechanics and the like, should be exempt from that obligation. It is clear that this initiative is directed precisely to the owners of small shops burdened by "musical dinar".

Therefore, the adoption of the Law on terms of settlement of financial liabilities is on the one hand the need of the state and on the other - the political campaign. Next week will show which motive of the ruling coalition is more important. If governmental bodies are excluded from the fines, and responsible persons in them continue not to be personally liable for damages caused to the state, a suspicion will remain that the law is passed in order to fill the state budget with new fines and to allow one member of the ruling coalition to run a campaign.