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# Policy

On the Deeds  
of Weak  
Institutions

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# **On the Deeds of Weak Institutions**

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## On The Causes Of Systemic Corruption In Serbia A Short Summary

The blossoming of corruption is not a feature of transition exclusively in Serbia. However, what is nevertheless distinguishing for Serbia among transition countries is that transition agony never seems to end as well as a total absence of sanctions that could have compensated at least a small portion of public funds expropriated by transition corruption.

The corruption deals were particularly characteristic of the process of privatization of social and state property and major public procurements. The causes of this situation are numerous, although, quite deliberately, political elites tend to usually find these causes in inappropriate regulations. The weaknesses of valid regulations have certainly enabled some cases of corruption which were unable to be properly sanctioned. However, one should bear in mind that regulations that were effective in the first decade of transition (2000 – 2010) did not provide a space for systematic corruption which is present in Serbia today. One should also bear in mind that the ruling political parties have often seen a chance to weaken or annul some established mechanisms or increase their own privileges by amending regulations. Such moves were always justified by a necessity to strengthen integrity of institutions, advance control and accelerate development.

The described manner of exercising public authority made Serbia stagger in terms of the fight against corruption Serbia in accordance with the slogan “one step forward – two steps backwards,” without an evolutionary and sustainable development of anti-corruption mechanisms and practices that would have gradually effected significant results.<sup>1</sup> Such moves were often taken with silent approval

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<sup>1</sup> The fate of the National Committee for Resolving Conflict of Interest is just one of the examples illustrating the pattern of this behavior. First a law was adopted which enabled a minimal control of a possible conflict of interest, piling of various government posts and receiving gifts by public officials. Subsequently, the National Assembly has hesitated to appoint members of the Committee for more than two years. As soon as the Committee was constituted and began to exercise

of the opposition, e.g. in the case of adoption of regulations concerning the financing of political parties, when the opposition did not oppose an increase of budgetary funds for financing political parties or protest against weaker possibilities of control of their financing.

Given that the shortcomings in regulations are not the dominant cause of systemic corruption, it is clear that their implementation has failed. Or, rather, the implementation of parts of regulations which were aimed towards prevention and suppression of corruption has failed. For example, since 2003 when the first legislation was enacted which regulated financing of political parties, not a single political party has been punished for illegal financing, although an independent monitoring of financing of political parties has shown that in several instances political parties had been illegally financed i.e. that they did not report private donations or expenses in a truthful way. On the other hand, a part of the Law on Financing Political Parties which concerned financing of political parties from the budget of the Republic, the Autonomous Province of Vojvodina and local self – government units was fully enforced. Moreover, in 2007 parliamentary political parties received more budgetary funds than they were entitled to.

Illegal financing of parliamentary political parties is a key point when it comes to systemic corruption in Serbia. Its consequences are felt primarily in the field of privatization of state/social property and in public procurements. These are the sources from which party donors can regain their donations to political parties most easily, with an “interest” which exceeds the profits that can be made at the free market. In addition to the absence of efficient control of financing of political parties which remains noticeable to this day, emergence of systemic corruption and its huge costs was also facilitated by the electoral system introduced after October 5th changes in 2000. Namely, to solve problems which jeopardized the principle of proportionality in translating election votes into parliamentary seats, a proportional electoral system was introduced in Serbia with one election unit and open lists, while the threshold for being entitled to have votes translated into parliamentary seats was set at

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its already small area of jurisdiction, aimed mostly at preventing rather than sanctioning conflict of interest, the ruling political parties have announced that the Committee would be abolished and that Serbia would obtain the most efficient body for the fight against corruption. The National Committee, although a formally independent body with at least some guarantees of independence (the term in office of Committee members is longer than the term in office of the executive and the legislative branch, there are clear guidelines for termination of a term in office of a Committee member etc), was not able in such conditions to operate with full independence because an announcement that it would be abolished has practically revoked all guarantees of independence. Thus Serbia remained without an anti-corruption mechanism in areas covered by the Committee for more than two years, under the excuse that it needs to advance the fight against corruption.

5% of votes of those who turned out to vote. Even though at first sight such a system is hard to associate with corruption, especially a systemic one, it was precisely this system which has favored the politicization of public institutions and thus also control and legislative bodies.

The election system caused the formation of a huge number of pre-election coalitions of political parties in order to ensure that they are able to cross the 5% electoral threshold. Given that a great number of coalitions included a sizeable number of political parties, the practice has shown that we have obtained a completely deformed system with 46 political parties with one or several seats out of 250 parliamentary seats after 2012 elections. Since these coalitions are usually formed around one single platform – to cross the election threshold - these coalitions are, understandably, very loose and after elections a market in parliamentary seats is usually opened, the livelihood of which even stock markets could envy. The “owners of seats” however have changed. At first the owners were MPs who could trade the seats on their own. Subsequently, the 2006 Constitution entitled the MPs to a “right” to transfer the ownership over their seats to their political parties, which they willingly did, until finally the Constitutional Court reinstated the ownership over the seats to the MPs. In terms of a program (if they had any at all), these coalitions were mostly a kind of a Frankenstein, a compilation of populist slogans without taking due note of reality or programs of member parties. In this way, year after year, the space for abusing public funds and public property has been created.

This was especially due to the fact that coalition governments, which always consisted of other coalitions – they were coalitions of coalitions – have never enjoyed parliamentary support bigger than half of the MPs. Moreover, for more than three years, Serbia has also had a minority government. This has created a space for a great number of the so-called veto players who, although disposing only with a couple of seats in the Parliament, were able to be entrusted with management of significant governmental departments or significant public enterprises, but have also had an opportunity to favor the interests of their own donors (unknown to the public) and to demand impunity for abuses of public funds and public property. Politicized institutions, especially the judiciary, additionally facilitated this practice and created a whirlpool which has sucked in almost all system institutions. In an absence of logical and coherent coalition programs, it is clear that political parties did not have a clear idea about realization of public interests or advancement of public good in discharging public office, including those offices which have produced consequences with a long-term impact, affecting the majority of the population, such as privatization or public procurements.

Two hugely detrimental phenomena have had a major impact on generation of systemic corruption in Serbia. The first phenomenon pertains to government institutions that have been privatized and the second to the business sector that has largely been etatized. The described system of financing of political parties has opened a space for such an oxymoron to take root and become widely accepted.

The first hugely detrimental phenomenon is privatized institutions. Certainly, we do not refer to privatization in the sense of selling state institutions, but in the sense of making them serve private interests to the detriment of the public interest. The privatization of institutions implies that institutions are placed in the service of interests of those who govern them. If we employ the most commonly used definition of corruption as the abuse of an official position for achieving personal benefit, it would practically mean that such institutions i.e. people who govern them – are corrupted. The practice of privatization of institutions has permeated all branches of government, although methods employed to produce such an outcome vary.

The National Assembly of the Republic of Serbia, as well as province-level and local assemblies, has been transformed into a service of executive government. The division into legislative and executive branches of government has practically vanished. Certainly, it is not right to assume that a parliamentary majority would frequently initiate a vote of no confidence in government in order to prove its independence nor that it should do so, since it is not what the division of power is all about. However, a legislative body is expected to actively participate in the process of enacting regulations and doing so, to advocate, represent, protect and advance the public good and the public interest. However, in Serbia, the National Assembly has become a service for enactment of laws proposed by the government, while its own role in drafting or at least amending legislation or its supervisory and control function have been fully neglected. The information about the number of legislation initiated by MPs, the number of adopted amendments proposed by MPs or almost complete absence of a practice of setting up inquiry committees on certain issues amply corroborates the impression that the legislative branch is simply in the service of the executive branch.

The executive government, usually made up of representatives of coalitions of coalitions, both programmatically and functionally incoherent, is often described as a feudalized government. In addition to the said characteristic, its important feature is strict division of sectors (Ministries) among parties or coalitions, whereby other political parties which make up the government do not interfere in the functioning of those sectors at all. Given the sheer number of MPs who have supported governments in the post-October 5th

period, it is clear that each political party or a member of the coalition has had a kind of a veto power, which enabled it to protect “its” sector from intervention by other members of the ruling coalition. In this way, the space has been created for every political party or coalition to autonomously, without interference by other actors and or any external control, make staffing decisions in the sector it manages along the entire organizational chain from the most to the least responsible positions. Every attempt to interfere into the sector managed by other parties or coalitions bore a potential risk of bringing down of the government, of a call for new elections and thus the loss of the positions already taken. Such a practice has opened a space to abuse public office with impunity. A lack of efficient control has created conditions for a kind of an “arms race” caused by a kind of a “security dilemma.” Namely, members of the ruling coalition, given that what they were making coalition agreements about a kind of a feudalized system of management, which implied absence of mutual control (such an agreement also extended to the parliament which also abstained from any kind of control), were often tempted (and rarely resisted the temptation) to fully use their public office and public resources to strengthen their position. A political party that would fail to enter this sort of a game would lose positions for several reasons: the financiers would lose an interest to finance it, the support of the membership would decrease because the circle of party members who profited from its being in power would shrink, the party would remain without funds to compete with others who have occupied the media sphere buying media directly or indirectly with public money, while media dominantly shape public opinion and thus influence the rating of parties. The described way of management fits the model of “tragedy of the commons” described by Garrett Hardin.<sup>2</sup>

The judiciary has for years now been in a kind of labyrinth and cannot be expected to respond adequately to corruption challenges. Itself corrupted by corruption, reform and reform of the reform, the judiciary has largely lost capacities which even sporadically could have dealt with cases of systemic corruption. The reform of the judiciary has fully neglected the need to continually advance knowledge, capacities and organizational structure of the judiciary

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<sup>2</sup> To illustrate the logical structure of his model, Hardin asks the reader to imagine that ‘herders share a common parcel of land on which they are each entitled to let their cows graze... Each herder’s interest is to put the succeeding cows he acquires onto the land, because he receives all of the benefits from an additional cow but shares only a part of the expenses of the damage to the common land which occurs through overgrazing. Hardin concludes: “This is a tragedy. Everybody is locked in the system which makes each of them to infinitely increase their herds – in the world which is limited. Guided by their own interest, in conditions of free access to a common good, everybody rushes to their ruin” (Hardin 1968: 1244 in Ostrom, E, *Upravljanje zajedničkim dobrima. Evolucija institucija za kolektivno djelovanje* (Governing the Commons: The Evolution of Institutions for Collective Action), Naklada Jesenski i Turk, Zagreb, 2006, p. 2-3).

in order to enable it to come to grips with this high-specialized adversary who disposes with significantly greater financial means and uses political influence. Therefore every time judicial proceedings reach the stage of pronouncement of a verdict in cases of high-level corruption – even when this verdict is an acquittal, as is the case with a recent verdict in the case of a scandal involving the Belgrade Airport, which is described in the pages that follow – it is a small miracle.

The public prosecutors complain about too few employees in proportion to the number of cases processed by the prosecutors' offices. This is the reason why it is often not possible for prosecutors to become specialized for particularly important areas. This leads to frequent procedural and trial-related mistakes which leave cases with strong bodies of evidence without a condemning sentence. Moreover, it is also the reason why prosecutors initiate criminal proceedings for offense with elements of corruption extremely rarely unless criminal charges have been pressed by somebody else. Prosecutors emphasize at least two other reasons for the inability of their offices to prosecute criminal offenses with elements of corruption, especially when suspects are senior state officials. The first is hierarchical organization of prosecutor's offices which enables a prosecutor who is higher up the ladder of hierarchy to take over a case from a junior prosecutor who has been running the case because there are no clear criteria when he is entitled to do so and when not. The second is that re-appointments of public prosecutors and deputies to public prosecutors are frequent. This sends a clear message that they can easily lose their job if they dare prosecute anyone who the ruling authorities think should not be prosecuted.

Similarly to public prosecutors, judges are also hampered in their work by a high number of cases (in some instances over 100 cases per judge on average) and a lack of continual training. The problem of continual training of judges and public prosecutors has not been resolved even when the Judicial Academy was established because it does not have sufficient funds for its work and organizes only compulsory trainings, while additional ones can be organized only sporadically when donor funds have been secured for that purpose. The judges try to compensate for the lack of specialized knowledge by engaging experts. However, this mechanism in conditions of systemic corruption is not very helpful, because their engagement frequently produces damage rather than benefit in doing justice. In the words of judges themselves, experts they engage mostly make very good analysis which judges can rely on during the trial. For making these analyses, experts are paid; however, when it involves somewhat larger sums of money, experts usually have to wait quite a bit, sometimes even a year, for their fees to be paid. The problem

arises when defense counsels contact experts, after which they frequently change their testimony before the court, starting to defend an opinion which is contrary an opinion expressed in their own analysis, creating possibilities for acquittal of those charged with the crime of corruption. Should the competent bodies inquire into the reasons for such a practice, which is quite frequent, they would certainly have found new cases of corruption. To make things even stranger, no proceedings so far have been initiated to revoke the license of an expert who has changed his testimony in such a way, let alone conduct investigation about possible corruption.<sup>3</sup>

The systemic corruption has bypassed only some independent bodies that were set up in the 2000-2010 period. The establishment of independent control and regulatory bodies was a part of the response to the situation in 2000 – the situation in which most institutions in society were destroyed during the 1990-2000 period. Their task was to ensure democratization of the state in clearly defined areas of their jurisdiction, using specialized knowledge and mechanisms placed at their disposal, so as to make it faster (or more sustainable) than democratization that could have been accomplished by concurrent deep reforms of the entire system of public institutions. Certain breakthroughs have been accomplished very fast, due, among other things, to quality work of independent bodies, especially in the field of observance and protection of human rights and free access to information of public importance. However, today one can also see numerous constraints of such an approach. They mostly pertain to inability of independent institutions to efficiently exercise their areas of jurisdiction. The reasons are numerous but two deserve to be particularly mentioned: other institutions in the system do not have the capacity or the will to adopt and implement standards imposed by independent institutions.

The second phenomenon that generates systemic corruption is the phenomenon of etatization of the business sector. It appears in several forms. The first form is somewhat clearer than others and pertains to state-owned enterprises. The public sector in Serbia makes a huge part of the economy. Along with government bodies on all levels, such enterprises provide the greatest number of jobs and generate a huge portion of the gross domestic product. However, the work of these enterprises is hampered by the task of accomplishing non-economic goals, which, moreover, are unplanned (so should not be termed goals at all). Furthermore, their work is hampered by an oversized number of employees (employed mostly in accordance with political rather than professional criteria) and

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<sup>3</sup> This does not take place even when in some cases it is not possible to pronounce a verdict only because an indicted is hospitalized each time the trial is scheduled, although the medical expertise has unambiguously confirmed that the indicted is capable of following the trial.

grave corruption, primarily in the field of public procurements. The politicization of public enterprises is also the greatest barrier to their reform, because political parties are disinclined to give up this source of their financing.<sup>4</sup>

Another dominant form of the phenomenon of etatization of business involves big companies that have been transferred into the hands of more or less controversial businessmen in the process of privatization of state enterprises (controversial is usual description of owners of former major state enterprises that have been privatized under suspicious circumstances). They are able to use state for private purposes in various ways, from the very process of privatization, to their ability to win tenders for major public procurements or major state tenders. The very process of transference of ownership from the state/society to private persons has largely been marked by corruption facilitated by destroyed and politicized institutions without the capacity to fight it. Such privatization was also facilitated by an ill-informed public, devoid of knowledge or instruments to react to the process that has been intensely carried out in the 2000s, ending in the silly process of distribution of “free shares” to the majority of citizens. In the said circumstances, rather than resulting in increased efficiency of the economy, relatively just distribution of national income and reduction of budgetary pressures, privatization in Serbia has produced precisely the opposite effect.

In conditions of low solvency of the economy and weak competitiveness, enterprises privatized in this way have largely relied on financing by the state through public procurements and participation in infrastructural projects. Rather than ensuring efficient prevention of corruption and acquisition of goods and services of optimal quality for most favorable prices, it is precisely public procurement procedures which have become synonymous with corruption. There is a wide variety of ways in which the market game is compromised in public procurement proceedings: e.g. a failure to issue a public call; apportioning the required procurements into several procurement proceedings so as to be legally able to conduct them avoiding the obligation to issue a public call; employing non-transparent procedures; procuring goods in direct negotiations rather than by issuing a public call for procurements; signing an annex to the public procurement contract which substantially alters the criteria under which the chosen bidder has been able to win the tender as the most favorable etc. The unnecessary procurements are also worth mentioning as well as procuring quantities which are greater than required, which also manages to unnecessarily transfer

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4 More on this issue in: “Curbing the Politicization of Public Enterprises in Serbia,” Centre for Applied European Studies and Open Society Foundation Serbia, Belgrade, 2011.

public funds into private pockets. In practice it looks like this: “In terms of the value of public procurement contracts (...) it should be said that share of competitive procedures was 70%, while the share of procurements through direct negotiation without issuing a public call was 25%. This represents a significant improvement over the situation in 2007, when competitive procedures were employed in the modest 60% of cases, while negotiation procedure without a public call was employed in the record-breaking 37% of cases.”<sup>5</sup> In the first half of 2012, the value of goods procured by employing negotiation procedure without issuing a public call rose once again to over 30%, while average number of bidders in a public procurement process fell from 8 in 2003 to around 3 bidders on average in 2012.

Such a system has also developed its instruments of legitimating. A composite picture of a winner of a public award for the most successful company, the most successful manager or similar during the 2000s would show a company with a monopoly position on the market, owned by the state or a private company which has privatized a former state company, earning the bulk of its profits due to business deals with national-, province- or local-level state administration or which manages resources of these administrations.

Finally, an analysis of various corruption scandals is supposed to enable us to understand the way in which the government has operated in Serbia in the 2000s. It is a testimony about transition, the consequences of which will in the long run determine development of Serbia and its society. Susan Rose-Ackerman says: “Corruption scandals (...) may be a sign of an increase of political maturity in the country. They show that citizens begin to realize the difference between public and private sphere and begin to complain when the border between them is crossed. The concern of citizens for a bribe paid for a particular service shows that people accept the norm of just business and competent administration and begin to demand that the government should pursue the public interest.”<sup>6</sup> If expert literature is to be believed, corruption scandals may serve as benchmarks for measuring the success of the fight against corruption in Serbia.

Miodrag Milosavljević

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5 Report on Public Procurements in the Republic of Serbia in 2011. Public Procurement Directorate. Belgrade, 2012, p. 6

6 Rose-Ackerman, S, 2007. *Korupcija i vlast. Uzroci, posledice i reforma* (Corruption and Power. Causes, Consequences and Reform), Službeni glasnik, Belgrade, 2007, p. 231.



## Introduction

The fragile democracy, undeveloped institutions of the system, weak civil society, uncultivated public criticism, servile intellectual elite and perception of power as the use of force over the citizens and not as the public service – all these phenomena were suitable for the development and flourishing of corruption in two hundred year history of Serbia – from its establishment to the fall of its second democratically elected government (the end of 2006) since the end of Slobodan Milosevic's dictatorship. The process of establishing the Serbian state and its development on the one hand and corruption on the other went hand in hand to such a degree that the thesis in many studies of today is that the corruption is an endemic disease or etno-psychological phenomenon among Serbs. Although the empirical cases could sustain the thesis, it is difficult to prove it. But the Serbs are not more susceptible to corruption than for example Italians.

Boris Begovic and Bosko Mijatovic<sup>7</sup> find that the corruption has its roots in the pragmatism of one of the first Serbian leader duke Milos Obrenovic who viewed the military failure of Karadjordje in his fight against the more powerful enemy as a lesson and therefore he began the diplomatic struggle for the independence from the Ottoman Empire. Obrenovic's tactic of bribing "civil servants" in the Ottoman Empire brought the success and the authors say that the leaders of the Serbian nation who lived under the rule of the Habsburg Monarchy used the same tactic.

"In the next few decades Milos Obrenovic's path of life – from a poor shepherd to the richest man on the Balkans in the first half of the 19th century - will become the appealing example to many politicians of how one can make his family, relatives and descendants financially secure by the abuse of the power with impunity."<sup>8</sup>

But more serious research would show that the problem is not caused by the nations, but by the social and political systems which

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<sup>7</sup> The Corruption in Serbia, the Centre for Liberal-Democratic Studies, Belgrade, 2001

<sup>8</sup> The Corruption and the Development of the Modern Serbian State, Aleksandra Bulatovic and Srdjan Korac, the Centre for Management and the Institute for the Sociological and Criminalistic Research, Belgrade, 2006

these nations (citizens) create in order to protect themselves from corruption. Due to this effort democracy has become political model of power in some sense. One can say with certainty that Serbia has always had problems to establish democracy.

As Aleksandra Bulatovic and Srdjan Korac<sup>9</sup> say, numerous corruption affairs marked the beginning of the period of the modern Serbian statehood. The Belimarkovic affair, railway affair, war trophies affair, Vienna affair, omnium serb affair, cattle affair, Teokarevic affair, passport issuing affair, “granap” affair, adamstal affair...are only some of the cases of corruption which very good show how the method of ruling, state model, arrogance of the civil servants, the absence of the control of the power and weak public opinion can affect the flourishing of corruption in a society.

In the second century of its statehood and after its new attempt (in 2000.) at democratization and modernization, Serbia was a seriously shaken country in 2003, at the end of the mandate of its first democratically elected government. In the third year of the democratic changes, the enthusiasm for the reforms was seriously endangered. After the assassination of the first democratically elected Prime Minister Zoran Djindjic, the reforms forces were deprived of the leader, the executive authorities were not able to respond to the historical challenge, and Serbian society found itself on the “seesaw” – it was insufficiently ready and healthy to continue to implement reforms and still sufficiently vulnerable and liable to the manipulation of the old (Milosevic’s) regime’s forces and undissolved centres of power.

In the last decade of the 20th century Serbia experienced total devastation and it suffered from all known social anomies. The militaristic expansionism and bloody wars, international isolation and economic sanctions, authoritarian regime, destruction of the civil society and then its inactivity and indifference... led to the further flourishing of corruption which was practised and encouraged by the political leaders and the establishment itself. It is a fact that the corruption as a method of governing and relationship between the authorities and citizens (nationals, working class) has existed since the establishment of the modern Serbian state and the era of Josip Broz Tito and socialist self-management, but the international sanctions and the isolation of the country contributed to the development of the new forms of corruption and consolidated the existing ones to an unimaginable degree.

Democratic changes brought about in the period after October 2000 till March 2003 (when Prime Minister Zoran Djindjic was assassinated) were only an initial reformist “cut” in the unhealthy “social tissue” and just the tip of the political iceberg. Milosevic’s governmental structure remained beyond the reach of the reforms efforts of the new regime and it showed the greatest resistance to the transition process. Unreformed government administration,

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9 Ibid

social relations inherited from Milosevic's governance model, the fact that the new political elite easily agreed to sit in the "old arm-chairs" and practise old models of behaving and the ways of ruling of the previous regime, and the poor society were still a suitable platform for the development of corruption.

Prime Minister Djindjic was aware that Serbia still had a serious problem of growing corruption and that the reformation of the government administration was not an easy task to perform. Therefore he accepted the proposal of Minister of Finance Bozidar Djelic and established the Anti-corruption Council within the Government which gathered the most prominent individuals with undeniable moral authority in Serbian society. The Prime Minister was aware that the Council itself would not be an omnipotent body with a magic wand which had the unlimited power to eradicate corruption, but it should prove to the public that the democratic government was ready to transfer the part of its authorities and responsibilities to an independent institution which would also control the executive authorities. Djindjic showed that he understood the problem and that he was determined to find solution for it at the first meeting of the Council, since he gave it the free hand to choose the way of its work and fighting against corruption. He also promised that all Government departments would be open to cooperation with the Council. When the Council finally began its work after six months of the exhausting debates about the area of its activity, it faced the key political anomaly of Serbia – the regime had been changed, but the changes had mainly (and only) been reflected in personnel changes. New democratically oriented politicians were ready to change social relations which were the basis for the development of corruption. But they succumbed when they assumed their posts within the inherited model of political power and they let themselves be sucked into the old regime's structure and thus allowed it to survive the political changes and continue to dictate the rules of the game which created corruption among other things. The Council very soon learned about it and therefore became unpopular among some members of the Government, although it still enjoyed the support of Prime Minister Djindjic. After all, there might be some symbolism of the future event – on the day Prime Minister Djindjic was assassinated, he had an appointed meeting with the members of the Council, and they should have discussed how to overcome the disagreements with the Government and how it should work in the future.

After the assassination of Prime Minister Djindjic the political adventurers, rivals and concealed centres of power from the period of Milosevic's regime used this phenomenon (which was reflected in the fact that the unreformed system continued to create corruption in the new regime in spite of the fight of individuals against it and general political orientation) to begin to challenge DOS and struggle for power. After the assassination of the Prime Minister in

March the season of “hunting” Djindjic’s government was opened. Therefore in 2003 Serbia looked like a free hunting-ground where “firing” all weapons was allowed just in order for the new regime which had been democratically elected by the citizens at the end of 2000 to be changed.

The assassination of the Prime Minister who was unanimously viewed by the international public as a leader, visionary and reformer was also one of the anomalies which hit Serbia again. This anomaly became completely noticeable when the struggle for the post of the new Prime Minister began – there were many politicians, but there were no a leader-reformer among them. Therefore, in the absence of the vision for a modern, reformed state, the citizens were only offered the technique for taking over the power (Kostunica was not only the caretaker Prime Minister at the end of his mandate – at the time he lead the cabinet after the parliamentary elections and before the formation of the new government. His coming to power and his whole mandate of the Prime Minister can be viewed as the technique for retaining power). The apologetic, advisers and loyal media made effort to create a myth about Djindjic’s successor Vojislav Kostunica, presenting him as a “wise statesman.” This effort was doomed to failure in advance because the societies which are much more progressive than Serbia was at the time do not have so strong staff potential to replace the killed leader-reformer with the new one with similar “characteristics” immediately after the assassination.

The absence of the vision for modernization of Serbia, the absence of readiness for the continuation of the implementation of the reforms leading Serbia to Europe and the absence of the leaders having courage not to please people on the one hand, and the unabashed aspiration to take power and direct struggle for the share of power on the other – all of these were clearly expressed in the ambition of Djindjic’s opponents to overthrow the Government of Zoran Zivkovic in the second half of 2003.

Since there was “bread”, the people should have been offered “games” in order for them to become free from fears and discontent which had its roots in the difficult initial period of transition. Many politicians with demagogic attitude and populists-adventurers came together to fulfil only one aim – to overthrow the government of Djindjic’s successor Zoran Zivkovic who did not measure up to the historical task of breaking the deadlock Serbia had reached after the assassination of the Prime Minister; while the coalition government was hit by the inner struggles. Zivkovic had the powerful enemies – Milosevic’s secret intelligence agencies and security centers of power which managed to consolidate their positions, Milosevic’s political structures (supporters of socialism and radicals), the party of DOS’ “dissident” and former President of Yugoslavia Vojislav Kostunica and dismissed Governor of the National Bank of Yugoslavia Mladjan Dinkic who was politically ambitious and hungry for

revenge (The Parliament removed him from the post of the Governor of the then National Bank of Yugoslavia on July 22 2003).

When Zivkovic refused to announce the early parliamentary elections, he and the government of DOS became the “preys” which could be “hunted” with all weapons. Since Djindic-Zivkovic government was the expression of will by the electors who wanted the democratic reforms implemented and since it still enjoyed (although diminished) support of the public at home and huge support of the European union and international political and financial institutions, one should have found the way to reduce its rating and thus force it to declare early elections.

The ambitious politician Mladjan Dinkic whose party G17 Plus entered the Parliament (at the beginning of October in 2003) after it had paid for one parliamentary seat (although it had never been proved) was seen in several cases as one of the most prominent architects of overthrowing the Government (the authors of the project were behind the scenes). But to enter the Parliament was not a sufficient tool to overthrow the Government in the institutions of the system; the more efficient method of political acting should have been used and the Government should have been directly attacked with the aim of ruining its image and authority in the public. Therefore, at least two things should have been done with the aim of preparing the ground for it– to gain control over several media organizations and plot the corruption affairs which would convince people that the regime was corrupted and bad. A mass-circulation tabloid (which was considered in journalists circles to be under the control of the security services) and TV and radio station (which had certain “obligations” to Djinkic due to some previous events, which later gave him right to participate in the creation of its daily editorial policy) became levers for making the public opinion the instrument for the political struggle (although they were not the only levers at all). Tabloids, dailies and weeklies, and TV and radio stations competed with each other in publishing “exclusive” and sensationalist pieces of news whose sources were anonymous politicians or they were accumulated by the security services. These pieces of news were not verifiable and nobody even tried to verify them and in most cases they lived for a day in order to continue a series of “affairs-comets”.

In order to show that this was an “ordinary” political war, some media organizations offered the public “the trigger” for conflict which lead to many conclusions. For example, the Politika daily wrote that *“the failed negotiations between the Democratic party and G17 Plus had opened the door to the political war which reached its peak. Its first victim was Mladjan Dinkic who had been removed from the post of the Governor of the National Bank of Serbia on July 22”*. Speaking about this issue, leader of G17 Plus Miroslav Labus said: *“The political scandal without precedent occurred in the National Assembly of Serbia during the*

*voting on the Council members and the Governor of the National Bank of Serbia, which was held on July 22. The election of Kori Udovicki for the post is legally invalid, given the fact that there was no quorum of 126 votes. Voting was rigged since Neda Arneric, the member of the Parliament from the Democratic party, was not in the National Assembly at the time of voting but on the summer holiday in resort town Bodrum in Turkey".* Nonetheless, Kori Udovicki became the Governor of the National Bank.

This was one of the things that caused vicepresident of G17 Plus Mladjan Dinkic to start political war and begin to "reveal" numerous affairs in which some of the Government members were involved. Former Djindic's advisors Nemanja Kolesar and Zoran Janjusevic and Interior Minister Dusan Mihajlovic were the first victims of Dinkic's war. But these initial "sparks" did not severely damaged Zivkovic's government, although they seriously shook it. Nonetheless, this failure did not discourage the government's opponents; the only thing they should have done is to plot a new still more serious corruption scandal which would unequivocally discredit the government and badly hit the executive authority. And this was not awaited for too long. The potential protagonists of the affair and weak links in the chain of power were Minister Interior Dusan Mihajlovic and Minister of Transport Marija Raseta Vukosavljevic, in order of frequency of mentioning their names in the press.

Although he was a "huge game" (since he was an Interior Minister), Mihajlovic could not be completely exploited in the political fight for overthrowing the government because the story about him (he owned the company "Lutra") was not a big deal for the public which was hungry for sensations.

But the Minister of Transport was the exceptionally good tool for the realization of the plan for overthrowing the government. Vice-president of G17 Plus Mladjan Dinkic accused Raseta Vukosavljevic of establishing a private company during her term in office, owning several apartments, abusing her position in the Board of Directors of the Development Fund to procure credit for the company "VV-ortaci Baratovic and Vukosavljevic" whose co-owner was her husband Vladimir Vukosavljevic and of possessing Serbian "hotline". Dinkic also said that her husband had rent out the premises.

In the later sequence of events it turned out that many charges had been false or that their essence had been deliberately distorted. But no one was interested in that any more. "Resign from your post or I will reveal the compromising evidence," Dinkic roared, not hiding his ambition, "The aim of G17 Plus is to overthrow the government and to form the new one in the cooperation with honest people, and its first goal will be to implement radical reforms to police service."

Summer and autumn 2003 was the time of the unusual experiment

of a political group which abused fragile young democracy and the absence of the developed institutions in the system to make rumours the highest value of the public (the public opinion), to plot series of affairs, bring media organizations under its control and present personal and party interests as general ones. The public and primarily some journalists and analysts defended the democratic values and legacy of the events surrounding October 5, 2000, pointing out to the destructive feature of Dinkic's technique of political competition. Nonetheless, it did not give some spectacular results because it was overpowered by the series of the sensationalist pieces of news. Only small part of the public paid attention to the remarks like this one: *"Carthage must be destroyed, Cato the Elder used to say in his speeches in the Roman Senate till Carthage was not destroyed. Today, we visit the ruins in the north of the Mediterranean Tunisia, which represent the result of that famous idea. Dinkic has the similar attitude toward the current Serbian government. There are a few ministers left who were not on his blacklist, and it is not hard to guess who will be his next victim this week"*<sup>10</sup>.

Stojan Cerovic also wrote about this new model of political struggle: *"It seems that Mladjan Dinkic views the politics as the bloody revenge. He attacked the Government of Serbia with some destructive force, as if he had decided to liquidate one its minister every week, while saving the Prime Minister for his final blow. Even if we think that this government is the best possible and the only reforms-oriented one, we have no reason to turn a blind eye to the outrages of any of its ministers... But politics is not a war, which means that the vicepresident of G17 Plus should show patience and wisdom in addition to fierceness. As soon as he showed the first papers with the names of Janjusevic and Koloser on it, he demanded the resignation of the government in spite of the fact that the general public had hardly ever heard of those names... Since he wants everything immediately, it seems that Dinkic begins to exaggerate the affairs and make combinations of the facts and bluffs, relying on the assumption that the public is always ready to believe that the government is corrupted... It is not a usual struggle for power any more, it is the destruction... The centre of everything is Dinkic himself and his "political fight to the death"... His only desire is to remove the obstacles in his way and destroy enemies and he has not shown that he also wants to find allies"*<sup>11</sup>.

One of the key questions about Serbian transition was whether the political elite had managed to build the competent public (the public opinion) as one of the most important institutions of the civil society and severe critic of the executive authority since it had come

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10 Radivoj Cvjeticanin, the Danas daily, August 30, 2003

11 Stojan Cerovic, the Vreme weekly, September 4, 2003

to power in October 2003. Given the way the public responded to the current issues-affairs, one could conclude that the transition in Serbia had not resulted in the greater influence of the public on the process of forming significant state and social affairs. That question also referred to the freedom of the press which regarded the democratic transition only as the change of “political uniform”, and not as the way of professionalizing its work and making room for the public debate about significant social issues. Democracy means that the government of a country searches for the truth through the dialogue (discussion); that it carries out the search in front of the citizens’ eyes; that the free press encourages people to participate in the public dialogue which leads to the truth. Instead, the media in Serbia (digital ones included) became tabloids – the easiness, the superficiality, captivating headlines and “shallow entertainment” became the core of the editorial policy of the most media agencies. The direct consequence of the flood of the popular press was the depoliticization and apathy of the public opinion. The critical public became the object of the manipulation and thus the part of the “psychology of the masses”, so there were no room any more for the action, but only for the emotional reactions of the observers, such as passion, excitement and discussion. Therefore, in 2003 every political populist or social demagogue in Serbia could win the media and the public to his side within the political fight for overthrowing the government and have greater influence on broad masses than the competent public.

The analyst Dusan Janjic also noticed this in one of his interviews: *“The affairs have got out of control in our country and they have become the main weapon of the parties in their political struggle because the political institutions in Serbia are not efficient. Vojislav Kostunica is the first one who has become aware of it. Having initiated first affairs, he simulated the political life in Serbia and tried to motivate the public in order to set off the chain reaction in which the public would make political institutions active. The best example of this is the former Governor Mladjan Dinkic. He has turned the negative campaign into the main instrument and goal of his political struggle and the platform of the G17 Plus party...”*<sup>12</sup>

No one in Serbia worried about the fact that the apathy had set in only after three years since the mass participation of citizens in bringing the dictator Slobodan Milosevic down.

Who had an interest in making the participation in the public affairs repulsive for the citizens and prompting them to tell that “all politicians are thieves and the politics is a dirty business”?

The final consequence of the consistent logic of making the public opinion passive was the fact that at the end of the mandate of Vojislav Kostunica’s government (the end of 2006) the politics in Serbia became the personal matter of the professional politicians

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12 Dusan Janjic, the Nedeljni Telegraf magazine, November 12, 2003

while the Parliament became the institution where the citizens' will was shaped and not expressed. Therefore, the politicians became the masters of the citizens instead of their civil servants.

Such an epilogue could have been foreseen as early as in the election campaign of the political forces which would later form the cabinet of Vojislav Kostunica, although there had been a warning of that: *"We lack the rescue programmes, we lack the brains, there is no hope that the situation will be improved in the near future. There is no idea which would gather Serbian "political saints" around the 'strategic axis.' The easiest way to hide the weakness is to launch scandals because there is no other available option for the time being. The affairs are unavoidably followed by the abundance of the political violence, haughtiness and arrogance... Many average persons have worked their way to the top by chance or using the shortcut. They are misled by it and they do not believe any more that the pure coincidence has been the reason for their success; they begin to rely on the assumption that they have remarkable qualities. And remarkable persons are allowed to do everything, so they can significantly lower moral standards ... The seeds of scandals have been planted in Serbia, but only the weeds grow. Except for the disgrace surrounding us, there is no other result achieved"*<sup>13</sup>

The logical consequence of such a policy became noticeable very soon during the mandate of Vojislav Kostunica's cabinet ministers – it was as if the government institutions and the institutions of the civil society had not existed. All decisions in Serbia were made by the politicians who also took over the role of arbiters.

*"The affairs have not been resolved by the Court of Law because they are only the instrument of the political struggle and their only purpose is to discredit the political opponents... The real aim of launching the affairs whose protagonists are the senior government officials is not the "epilogue" in court but the intention of Miroljub Labus' party to create its own political identity and make difference between its members and the members of the administration, using the tactic of aggressive performance in media. G17 Plus party actually wants to present itself as the group of moral and superior experts in relation to the corrupt and unprofessional members of Prime Minister Zivkovic's administration."*<sup>14</sup>

All instruments of manipulation were used in the campaign to compromise the government of DOS. Vicepresident of G17 Plus Mladjan Dinkic often used the tactics of manipulation when he spoke at the press conferences. For example, he used phrases such as "according to some eyewitnesses," or he cited the lines of the articles of which he had been one of the authors and he also quoted

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13 Ljubodrag Stojadinovic, the Politika daily, August 29, 2003

14 Dejan Vuk Stankovic, the Balkan magazine, November 1, 2003

the people who belonged to the former regime (Borislav Mikelic, Prime Minister of the Serbian Republic) in order to accuse Deputy Prime Minister Cedomir Jovanovic and Minister Marija Raseta-Vukosavljevic of having links with Milorad Lukovic Legija who had plotted the assassination of Prime Minister Djindic. From that time and political milieu one Dinkic's sentence will be remembered forever: "They are the ones who first should explain why they had deals with the members of 'the Zemun gang'. And when they answer this question, you will see what we are going to say on this subject. And we have evidence for that and all other things."<sup>15</sup>

Above mentioned Dusan Janjic said: "*If you read Dinkic's book "The Economy of Destruction" more carefully, you can notice that while he is analysing Milosevic, he is actually pointing out how he will govern.*"<sup>16</sup>

The campaign for discrediting Djindic-Zivkovic government lasted up till the early parliamentary election was announced by Zoran Zivkovic. The fact that he had dismissed Marija Raseta Vukosavljevic had not helped him either, although in the end, many of Dinkic's accusations turned out to have been groundless or false.

But the public was not interested in that. The election was announced and afterwards the coalition government was formed by Vojislav Kostunica (The Democratic Party of Serbia), Velimir Ilic (The New Serbia party) and Vuk Draskovic (The Serbian Renewal Movement). The government managed to stay in power with the support of Milosevic's Serbia's Socialist Party for the next three years, up till the end of 2006. Its mandate was marked by the things which had brought it to power – the public opinion manipulation and the corruption affairs with Mladjan Dinkic as the key figure in some of them.

Nacionalna Stedionica affair, Mobtel affair, Knjaz Milos affair, military supply affair are only the greatest cases of corruption in which his name was mentioned. None of these affairs was resolved by the Court of Law. No one even tried to clean up the mess that had been made and the affairs became the permanent reminder of one way of understanding politics and dealing with it.

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Many people have disregarded the fact that because of the credibility of this administration and the confusion which had been created among the public, it would be worthwhile to clarify the circumstances in which one of the close associates of the former Governor and Minister of Finance became the owner of several big Serbian companies at the beginning of 2007. On February 16, 2007 the news agency Beta reported that the company "Beograd

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15 Mladjan Dinkic, press conference, August 26, 2003

16 Dusan Janjic, the Nedeljni Telegraf magazine, November 12, 2003

Film,” which made, distributed and broadcast films, had been sold by tender to Nikola Djivanovic, the owner of the London-based real-estate company JKR, for 720 million dinars (9.2 million euros). Djivanovic had also purchased 68.2% stake in the Belgrade-based company “Rudo,” which produced the orthopaedic aids, for 153 million dinars on the same day and by the same tender. Djivanovic had said that he had already taken part in the process of the privatization in Serbia, that he had previously purchased Zrenjanin-based company “Brodarstvo” and several firms which had already been privatized. He had added that he had lived in England since 1965 and that he had provided the consulting services in regard to the problems of the foreign currency savings accounts to the central bank free of charge at the time the Governor of the National bank of Serbia had been Mladjan Dinkic.

The former adviser of the Governor spent almost a billion dinars only purchasing two companies, not including companies he had bought before.

Nikola Djivanovic himself was not the suspect in the process of the privatization of Serbian companies. There were many more suspicious and controversial figures. But given the very fact that he had had very good business relations with the senior civil servant for some period of time he should have been kept under surveillance by the public and the money he spent buying some Serbian companies should have been checked. But it did not happen.

It was not until many years later (the end of March 2011) that Djivanovic was arrested. At that time he was the chairman of the Board of Directors of “Beograd Film” company and the owner of the “Light Blue Trading Bahamas Ltd” and the prosecution investigating organized crime pressed charges against him in regard to the sale of five cinemas, which caused the loss of 1.5 million euros and of more than four million euros to the government budget of Serbia and to the budget of „Beograd Film“ respectively. While waiting for trial, Djivanovic offered at the beginning of March 2012 to pay the bail of 1.5 million euro to be released from the custody and he accepted to wear the electronic bracelet.

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Twelve years after the democratic changes and nine years after the assassination of Djindjic, his vision and the launched process of the modernization of Serbia was almost destroyed. As early as in November 2005 the European Commission warned in its report on the then State Union of Serbia and Montenegro’s progress towards full EU membership of the destructive influence of corruption, of political influence on the work of the public administration and judicial system, of the certain parts of the military system and the national security system that block the reform process and it also said that all things mentioned above are result of “*structural weakness*

*and undue politicisation of the administration and the judiciary, the high level of corruption, the pressure exerted by organised crime, and obstruction from parts of the institutional, political, military and state security systems. While there is an increasing awareness of this among civil society, few efforts are made by the authorities to deal with the legacy of the past and reinforce the rule of law.”<sup>17</sup>*

Although he constantly talked about establishing and strengthening the institutions of the system in the first months of his mandate, Kostunica and his government did not fight against corruption through the creation of the systematic frameworks and strengthening the institutions. If they had done so, some of the greatest corruption affairs would not have taken place, and those ones from the previous periods in which some of Kostunica’s coalition partners were involved would have been successfully resolved. The political structure which won the election and which had been promising moral and honest government during the election campaign was in over its head in regard to corruption, because it had not made the systematic assumption for the fight against corruption. However, the question is whether it really wanted to deal with the problem of the legacy which had created corruption.

As early as in the middle of the mandate of Kostunica’s administration Verica Barac, the president of the Anti-Corruption Council, made an interesting observation: *“A year and a half of the work of this government shows that the affairs might help you come to power, but the affairs will certainly not help you to stay in power. The members of the government showed that the affairs had served them only as the instrument they had used for overthrowing the former government and not as the incentive to resolve them. Minister of Finance Mladjan Dinkic, the most prominent candidate in the election campaign, was obliged to provide evidence in support of the accusations which he had made against the former government ministers. Having rehabilitated the people who had made a fortune of questionable origin during the mandate of the previous regime, some members of this government compromised the idea about the democratic changes and showed in that way that they were not immune to tycoons.”<sup>18</sup>*

The fact that the system had continued to create corruption was confirmed by the Transparency International. At the beginning of 2007 Serbia was rated on its list in the same way it was rated at the beginning of 2004 when Kostunica took over power in the country. The process of modernization halted, and the nation once again influenced by the ideology regarded the international community as a foreign enemy. The project for making the social progress toward

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17 Serbia and Montenegro, Progress Report 2005, COM (2005) 561 final version, Brussels, November 9, 2005

18 the Danas daily, weekend supplement, October 8, 2005

the limitation of the power of the “autocratic regime” through the fight for freedom and rights of the citizens was marginalized.

## The Raseta Vukosavljevic Affair

This affair captured the public attention in the middle of 2003. Its central figure was Minister of Transport Marija Raseta Vukosavljevic, the member of the Democratic Party. It all started when the media (the tabloid Kurir) reported that the Minister of Transport was the owner of a private company and that she was in the serious conflict of interests, which provoked the intense public debate. This prompted some opposition parties to demand the resignation of Marija Raseta Vukosavljevic. She denied the accusations and she allowed the public to have access to the documents which showed that she had become the minister in January 2001, that she had been registered as the co-owner of the "Millenium Group" company in the Commercial Court in Belgrade on March 28 2002, and that she had been removed from this business entity register as the owner of the same company on October 22 2002, after the Court had issued the decree relating to it. "The minister stated that she had not been in any position within the company since October 2002 due to the conflict of interests, that the company had not operated since March till October 2002 and that it had not made any profit, which could be proved by the valid documentation", the cabinet of Minister Raseta Vukosavljevic said at the end of 2003.

This was the introduction of the affair.

The affair started to unfold at the press conference held by vice-president of G17 Plus Mladjan Dinkic who had been removed from the post of the Governor of the National Bank of Yugoslavia by the Parliament the previous month (on July 22). Addressing the crowd of journalists he accused the Government of Serbia of having formed "the para-police forces" since it had allowed Zoran Janusevic to use his personal equipment for eavesdropping his political opponents. Then he criticized Minister Marija Raseta Vukosavljevic and Deputy Prime Minister Cedomir Jovanovic for allowing the members of the notorious "Zemun gang" (whose members were accused of the assassination of Prime Minister Zoran Djindjic) to launder "dirty" money. "Milorad Lukovic Legija, who is suspected of the assassination of Prime Minister Djindjic, is one of the purchasers of the companies in Serbia and he purchased them with the help of the government", Dinkic said, using very specific technique for disqualification, "*According to some eyewitnesses quoted by media*, Legija has got the lists of the companies which are going to be privatized. Marija Raseta Vukosavljevic and Cedomir Jovanovic will soon have to explain how and on what basis they have included the members of the "Zemun-Surcin gang" in various deals and allowed them to launder the money and make their fortune legitimate. And the G17 Plus will soon reveal the compromising documents relating to the Minister of Transport and the Deputy Prime Minister". Dinkic also explained who "some eyewitnesses" were – he quoted Borislav Mikelic, the former Prime Minister of the Serbian Repub-

lic in order to accuse Cedomir Jovanovic and Marija Raseta Vukosavljevic of having links with Milorad Lukovic Legija: “Legija set aside around a hundred million euros for the investments within the process of privatization. He invested this sum through a dozen businessmen. Therefore, we demand the answer to the question to which degree some ministers and senior officials of the Government of Serbia helped the members of the “Zemun-Surcin gang” to launder the money and to make the fortune obtained in the illegal way legitimate”.

*(Using the tabloid which was under the control of the security services, Borislav Mikelic, the former close associate of Milosevic who had worked “on the spot” during the wars in Croatia and Bosnia and Herzegovina, joined the campaign to discredit the government: “I am convinced that if Serbian judiciary and the Directorate for the Fight Against Organized Crime autonomously carry out their activities, Marija Raseta Vukosavljevic will soon become the target of the Directorate for the Fight Against Organized Crime, so she will have to prove to them her moral. However, if this is not the case till the end of the mandate of the current government, I am certain that it will happen after the next parliamentary election, which will be held as early as the next year, when people of Serbia will purge the government of the figures such as Marija Raseta Vukosavljevic”.)*

These were serious allegations that the closest associates of the late Prime Minister Djindjic had had the business relations with his assassins. Therefore the journalists wondered if the G17 Plus had the evidence in support of such claims. The answer of Mladjan Dinkic is worthy of being included in the handbooks of political skills: “They are the ones who first should explain why they had deals with the members of ‘the Zemun gang.’ And when they answer this question, you will see what we are going to say on this subject. And we have evidence for that and all other things.”

Dinkic also said at this press conference that Prime Minister Zoran Zivkovic had shown that he was “the protector of corruption within the government” and then he unambiguously stated the goal and the intention of his party: “The aim of G17 Plus is to overthrow the government and to form the new one in the cooperation with honest people, and its first goal will be to implement radical reforms to police service.”

The allegation that the senior officials of the government had had the business relations with the Zemun gang was the tool for attracting the public’s attention. The vicepresident of G17 Plus had still more evidence which he tried to use to entangle Minister Marija Raseta Vukosavljevic in the corruption affair.

The next stage in the process of discrediting the government was the rumour that the Minister had influenced the Public Enterprise of PTT Communications “Srbija” to obtain the loan with unfavourable interest rates from the YU Garant Bank to buy back the stake of

“Telekom Srbija” from the Italian partner. The Government of Serbia actually decided to buy back the stake in “Telekom Srbija,” which Milosevic had sold in 1996, from the Italian company STET for 120 million euros (Milosevic had simultaneously sold another stake of the “Telekom Srbija” to the Greece company OTE).

Dinkic claimed in July 2003 that Marija Raseta Vukosavljevic and Nemanja Kolesar, the chairman of the YU Garant Bank’s Board of Directors, had embezzled money while paying back the last installment of the agreed sum for the purchase of the stake in “Telekom Srbija.” The loan of three million euros was obtained from the YU Garant Bank and it was partly repayed with the interest rate of 60 %. The maximum interest charged on other loans the Public Enterprise of PTT Communications “Srbija” obtained in order to repurchase the shares was about 7%, Dinkic said. This led him to conclusion that Minister Marija Raseta Vukosavljevic had made the loss of about 100,000 euros to the budget of the PTT Communications “Srbija” since she had signed the “harmful” contract with the YU Garant bank. “In this case there is a well-grounded suspicion that she is involved in corruption,” Dinkic’s the G17 Plus Party said, supporting his evidence.

Since the questions about Dinkic’s ways of obtaining all these pieces of information were often raised within the public, the G17 Plus stated that “some members” of the trade union of the PTT Communications “Srbija” had delivered the documents to the Anti-Corruption Board of the G17 Plus (which was led by Aleksandar Radovic, the former director of Serbia’s Tax Administration).

In order to remove any doubt as to whether the former Governor of the National Bank of Yugoslavia Mladjan Dinkic was indirectly involved in this case, his party stated that the evidence had been “only recently” obtained, “which means that during his mandate of the Governor Mladjan Dinkic had no any influence on the PTT Communications “Srbija” choice of the banks from which it would obtain loans for the purchase of Telekom’s shares.”

All his press conferences were followed by the statements his party made the next day in order to prolong the effect of the affair on the public. The usual pattern looked like this: “G17 Plus states that the Minister demanded in her memo on April 21, which was addressed to Srdjan Blagojevic, the director of the PTT Communications “Srbija,” that the previously arranged payments for the repurchase of Telekom’s shares be cancelled, and then she forced the PTT Communications “Srbija” to sign the agreement with the YU Garant Bank, which had not been seen in Serbia since the era of the “Jugoskandik” and “Dafimet Bank.” More specifically, in order to pay the fourth instalment, the PTT Communications “Srbija” signed four loan agreements worth 21.2 million euros with “Vojvodjanska banka,” while the agreed annual interest rate was not higher than 7%. The loan of 1.1 million euros with the annual interest rate of 6.2% was also obtained from the “Postanska Stedionica” and these agree-

ments are not questionable. Nonetheless, one-month loan agreement worth 3.7 million euros was signed with the YU Garant Bank, but with the incredible annual interest rate of 60% for the first 15 days and the annual interest rate of 27 % for another 15 days, in spite of the fact that the loan had been obtained in foreign currency. The striking fact was that yet another loan agreement worth 3.4 million euros, with the repayment period of two months, was signed with the same bank at the same time, but this time the agreed annual interest rate was only 3.2%. Given this fact, the PTT Communications “Srbija” lost 101.000 euros, which is the sum that could have been saved if the terms of the first agreement had been the same as the ones of the second agreement. Since the government owns a 96% stake in the YU Garant Bank whose Board of Directors is led by Nemanja Kolesar, one of the main protagonists in the affair relating to “laundering dirty money”, and since the above mentioned “harmful” contract has been signed with this bank at Marija Raseta’s insistence and against the will of the PTT’s management, G17 Plus demands that the police and the prosecution launch the investigation in order to find out whether the money the PTT has lost is someone’s personal profit.”

Responding to the allegations the former Governor and the vice-president of the G17 Plus Mladjan Dinkic made against her, Marija Raseta Vukosavljevic confirmed that the loan with unfavourable rate was obtained from the YU Garant Bank. The essence of her explanation was that the loan had been obtained because the Government did business only with the domestic banks. In the press release the Minister accused Mladjan Dinkic of personally having suggested and urging that the loan be obtained from a Slovenian bank which requested the guarantee in the form of the Telekom’s shares which were not owned by the Government.

Then the head of the PTT’s Department for Communications Jovan Birac stated that the above mentioned Slovenian bank was “Nova ljubljanska banka” and if the loan had been obtained from it, 70.000 euros would have been saved. He also confirmed that the bank had requested the guarantee in the form of 14% stake in the Telekom. He also said that the Telekom’s Board of Directors and the Government of Serbia had not given consent to this arrangement due to the short grace period.

There was also the third stage in the process of discrediting the Minister of Transport in Zoran Zivkovic’s Government. Only three days after Mladjan Dinkic accused Marija Raseta Vukosavljevic of “having business links with “Zemun gang”, he alleged through the press release of his party that she was involved in yet another corruption scandal.

On August 31, 2003 the G17 Plus party stated that one of the owners of Bajina Basta-based “VV-ortaci Baratovic & Vukosavljevic” company Vladimir Vukosavljevic (the husband of Marija Raseta Vukosavljevic and the former head of Zoran Djindjic’s security guards)

had obtained a 3.1 million dinars loan from the Development Fund of Serbia to launch the sheep farm, but that instead he had used the money for the establishment of the business nightclub “Fratelli” of 2.000 square metres. Dinkic also gave the press the specially attractive information that the local residents allegedly called that building “Silerova 2”, openly alluding to the headquarters of the Zemun gang in Silerova Street in Zemun. The G17 Plus claimed that at the time Vukosavljevic had obtained the loan Minister Raseta Vukosavljevic had been the member of the Development Fund’s Board of Directors which had decided who would get the loan. These allegations caused the married couple Raseta-Vukosavljevic to hold the press conference and try to deny them.

The participants of the press conference said that Vladimir was neither the owner nor the co-owner of any private company, that he possess neither the houses on Sveti Stefan and Dedinje nor three flats in Belgrade, that he had earned all his money in Switzerland where he had lived for eight years and in the country where he had worked as a security guard, so the loan obtained from the Development Fund had nothing to do with him. Vladimir emphasized that the owners of the „VV-ortaci Baratovic & Vukosavljevic“ company who had obtained the loan of 3.1 million dinars were his distant cousin Vidoje Baratovic and his father Vidoje Vukosavljevic. The minister and her husband said that they would press charges against vicepresident of the G17 Plus Mladjan Dinkic because he had made insinuations and told lies about them in public.

The head of “Pasna Ravan” local administration Dimitrije Davidovic also denied Dinkic’s allegations that Marija Raseta Vukosavljevic owned the holiday home, stressing that it was the family home of the Minister’s father-in-law. Vidoje Baratovic, the co-owner of the “VV ortaci Baratovic & Vukosavljevic” company, told the press that he had started to build the business premises in 1994 and that the construction had been finished in 2002, that he had acquired the planning and construction permit for it and that the Development Fund had given him the loan with the interest of 9% which he regularly repayed. “I had acquired the company and personal property before Mrs Raseta Vukosavljevic became the Minister”, Baratovic claimed.

Olivera Bozic, the director of the Development Fund, said that it was a pity to misuse the Fund for political purposes. “The money of the Fund was not misused. There is no question about that because none of 1.071 loans having been approved since January 1, 2002 till July 31, 2003 was not the secret.”

Minister Raseta Vukosavljevic asked the authorities to launch the investigation in accordance with the legal procedure if it existed in order to discover whether there were some irregularities in her work. She also promised that if they proved something, she would accept the legal consequences. She also demanded that those who discredited her and the Government be called to account.

Dinkic's party immediately reacted by saying that "he is not afraid of the fact that the married couple Raseta-Vukosavljevic have threatened him with the legal action because there is no legal ground for it, since we were telling the truth and there is no such a Court which would hand down the judgement in their favour. The G17 Plus party expects Prime Minister of Serbia Zoran Zivkovic to be a wise man and dismiss the Minister of Transport and Telecommunications Marija Raseta Vukosavljevic from his cabinet".

But Prime Minister Zoran Zivkovic announced that he would not dismiss Minister Raseta Vukosavljevic on the basis of the papers the G17 Plus had delivered to him. "All claims in the papers are false except for the one which relates to the sum of money. But if some claims were supported with hard evidence, I would not allow her to submit the resignation, but I would dismiss her", Zivkovic said. He confirmed that he was invited to talks by the G17 Plus party. "The letter is started with 'Dear Zoran' and is ended with the invitation to the talks and to creating postelection coalitions. If the G17 Plus is not hypocritical and it stops plotting the affairs and discrediting the Government, we may accept its invitation to talks. Everything started when Mr Labus lost the authority in the Government and when Dinkic was dismissed. Since then, everything has been wrong in this country and all of us have pursued wrong policies".

At the beginning of October 2003 Mladjan Dinkic said in one of his interviews<sup>19</sup> that "the G17 Plus thinks that DOS has ended its historical role, so it is not any more capable of implementing the further reforms. The confidence vote on the Government of Serbia which is due to be held by the National Assembly on October 14 will show how much the small parties within DOS are courageous to turn their dissatisfaction with the work of the Government into the vote of no confidence". Responding to the journalists' remark that the G17 Plus became the parliamentary party two days ago, Dinkic said that "increasingly more citizens, including some PMs from various parties within DOS, have lately wanted to join the G17 Plus. The goal of the party is the announcement of the early parliamentary elections which would lead to the formation of the new government". On November 2, 2003 the leading members of the Democratic party decided that Marija Raseta Vukosavljevic should be dismissed from the post of the Minister of Transport due to "political reasons".

Only after the affair was brought to an end, did Marija Raseta Vukosavljevic reveal in one of her interviews<sup>20</sup> one part of the model for creating affairs: "When they started to attack me, I allowed Prime Minister Zivkovic the access to all my documents. Then I received the anonymous three-page letter which said that I had got the bullet-proof Peugeot car with the tinted window glasses as a gift after

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19 The Blic Daily, October 9, 2003

20 The Nedeljni Telegraf magazine, November 5, 2003

I had finished some job. But I also had the documentation which showed when and what brand of the the car I had bought. Then the letter went on with the nonsense, saying that I owned three flats in Belgrade, holiday homes at the seaside and in the mountains... That text was sent to me in the Ministry of Finance and then to all newspapers. The text was published in July, but it had existed in May when I received it. Therefore I was forced to give explanation for possession of the property I didn't own, which was totally illogical situation. I read some of those articles in the Prime Minister's cabinet before they had been published. The pieces of disinformation had been delivered to the journalists in the written form, in the form of the article which had already been written for the specific purpose and with the specific tone, expressing specific attitude and intention. For example, there was an article which said that I was the owner of several "hot-line" agencies in Serbia." Having been asked who did this and for what reasons, she said: "For example, "Postanska Stedionica" is my responsibility. Mladjan Dinkic and the G17 Plus were the first ones I came into conflict with. And I knew that I would be at the top of their list of people they planned to attack. I prevented Mr Dinkic from interfering into the financial part of the system which is under the control of the Government of the Republic of Serbia, and this is "Postanska Stedionica", where many citizens have the savings accounts. "Postanska Stedionica" also provides all public services which are typical of "Stedionica" (tr. the savings bank), so it is in charge of pensions and military pensions as well. Therefore, it cooperates with the Pension and Disability Fund of the Republic of Serbia. I prevented Mr Dinkic from issuing the decree relating to the appointment of his people to the positions in the "Postanska Stedionica" without the consent of my Ministry. The person who was proposed for the executive director of the "Postanska Stedionica" was Bojan Stanivukovic, you remember?"

## Epilogue

Marija Raseta Vukosavljevic's case came to trial eight years later, on November 3, 2011. She was accused of appropriating 1.5 million dinars while creating and managing the project for the reconstruction of the Terminal 2 and VIP lounge at the Belgrade airport "Nikola Tesla" in 2003 and 2004. The scandal broke when it was discovered that the paintings for the VIP lounge had been purchased for 3.7 million dinars (although their market value had been estimated at 700.000 dinars), which was the reason for pressing charges against the unidentified persons at that time. According to the pieces of information that were delivered to the media, it was estimated that the reconstruction of the VIP lounge had costed two million euros in spite of the fact that the investment of 1.2 million euros had been planned.

When she made the first appearance in court, Marija Raseta Vukosavljevic denied all allegations of the bill of indictment. On July 18, 2012 the Superior Court in Belgrade acquitted Marija Raseta Vukosavljevic and her associates of the charge of abusing their power. The Court ruled that there was no evidence that the Minister in the Government of the departed Prime Minister Zoran Djindjic and her associates had appropriated more than 1.5 million dinars while creating and managing the project for the reconstruction of the Terminal 2 and VIP lounge at the Belgrade airport, the bill of the indictment of the prosecution says.

Sladjan Ivkovic, Branislav Vitasovic, Dusko Griliches as well as the co-owners of the “Kolubara invest gradnja” company Dejan Misovic and Lazar Buncic were also acquitted of the charges.

Giving the explanation for the verdict the Judge Dragomir Gerasimovic said that the activities of the defendants did not have the elements of the criminal act –the wrongful obtaining of property and causing of detriment to another. “There is no evidence that they appropriated another’s property to themselves or to a third person and the City Department of Expertise concluded that they had not caused a detriment to the airport “Nikola Tesla.” The Belgrade airport does not demand compensation, because it has not suffered the financial loss, but it has got the opportunity to accumulate the profit over the years,” the judge concluded.

The prosecution has the right to file the appeal against this verdict in the Court of Appeal in Belgrade within the period of 15 days since the reception of the verdict.

## The “Nacionalna Stedionica” Affair

Considering its scope, the protagonists, the social damage it caused and the amount of money which was “in circulation”, the “Nacionalna Stedionica” affair is one of the biggest, if not the biggest affair in post-Milosevic’s Serbia. Its protagonists were almost all prominent politicians within the governing coalition the Democratic Opposition of Serbia which defeated Slobodan Milosevic at the elections in September 2000. It could be also described as a typical example of the conversion of the good initial idea of public interest (the establishment of a national financial institution) into the party-personal-financial interest which will prevail over the time. In the end, the “Nacionalna Stedionica” was sold to a Greece bank with the aim of hushing up the whole case.

When people finally began to lose interest in this affair (March 2006), Minister of Finance Mladjan Dinkic stated that the period of speculation which had been fuelled since the establishment of the “Nacionalna Stedionica” had been **ended** with the sale of the government’s stake in the company. So, the affair was ended by the man who had been all the while at the centre of it. The public never found out what facts relating to the establishment and the business operations of the “Nacionalna Stedionica” had been discovered by the authorities and whether they had discovered anything at all.

The affair started to unfold at the end of November 2001 after Zivko Nestic, the then general manager of the Accounting and Payment Operations Office of the National Bank of Yugoslavia, sent the letter “The Proposal for the Establishment of the “Nacionalna Stedionica”” to several prominent companies in Serbia. Nestic wrote, among other things, the following lines: *“Within the transition of the economy and the society as a whole the transformation of the Accounting and Payment Operations Office (ZOP) into the series of institutions is planned for the next year because we intend to shift the payment system from ZOP to banks. We would like to retain extraordinarily good personnel, technical, business and IT resources of ZOP in this way and to involve them in the new forms of organization and management. One of the very significant projects regarding the transformation of ZOP in the new business entities will be the establishment of a bank at the Yugoslav market. Using the infrastructures system of ZOP, the bank will offer its services to the citizens, entrepreneurs, small and mid-sized companies. The mission of the new bank will be the provision of the services to the part of the market which does not have at its disposal the adequate offer of the Yugoslav banks. The new bank will be called “Nacionalna Stedionica” because we want to clearly point out that our clients have at their disposal a new banking institution with the new business image, the new business and technological platform for the work with all segments of the market and with the new way*

*of building the confidence in the banking system. In order to fulfil all enumerated aims, we engaged the German Sparkasse bank to share its knowledge and experience with us and help us with the realization of the new concept of our cooperation with the market of citizens, entrepreneurs and small and mid-sized companies. In addition to providing know-how transfer the Sparkasse bank will soon be present in the share structure of the "Nacionalna Stedionica". Appreciating your position in the market and your business image we invite you to be one of the founders and shareholders in the new bank in the market – "Nacionalna Stedionica Corporation" (The National Bank of Yugoslavia, the Accounting and Payment Operations Office, central bank in Belgrade, general manager, November 11, 2001 and GO BR-3-742/01 was written in the letterhead).<sup>21</sup>*

Afterwards, the draft contract on the establishment of the "Nacionalna Stedionica" was sent to several companies. The names of potential founders and shareholders in the future bank were enumerated in its Paragraph 5: "Energoprojekt", "Sintelon", "DDOR Novi Sad", the insurance company "Kopaonik", "Stedno-kreditna zadruga nezavisnih preduzetnika" (tr. "The Savings and Credit Cooperative for the Independent Entrepreneurs"), "Privredni savetnik" ("The Economic Counsellor"), "JUBMES bank", "Toza Marković", "Informatika", "YU Garant bank", "C Market", "Pekabeta", "Apatinska pivara" (tr. "Apatin Brewery"). The draft contract was followed by the letter relating to the details of the arrangement (such as the information that the nominal value of a share will be 3,500,000 dinars). The letter was sent on November 30 by MSc Bojan Stanivukovic, the special counsellor in the Accounting and Payment Operations Office within the National Bank of Yugoslavia.

In his next letter Bojan Stanivukovic informed the future founders and shareholders in the "Nacionalna Stedionica" that "they should bear in mind that they need to have at least 12 founding shares in the Nacionalna Stedionica Bank Corporation, which are worth \$600,000, to get the right to propose the members of the Board of Directors... Please, submit your proposal with the necessary documentation no later than Thursday, December 20, 2001."<sup>22</sup> "The structure of the share capital of the Nacionalna Stedionica Corporation" was submitted together with the letter:

JUBMES bank (\$1,000,000 - 18.35% stake),  
Informatika (\$750,000 – 13.76 %),  
Beopetrol (\$500,000 – 9.17 %),  
Energoprojekt (\$500,000 – 9.17 %),  
Toza Marković (\$500,000 – 9.17 %),

<sup>21</sup> This document has been obtained for the purpose of this study. It has never been published before.

<sup>22</sup> This letter was sent on December 17, 2001 at 4.10PM from the NBY's ZOP, central bank Belgrade, by the fax 011 3283276

YU Garant bank (\$500,000 – 9.17),  
Apatinska pivara (\$250,000 – 4.59 %),  
C Market (\$250,000 – 4.59 %),  
DDOR Novi Sad (\$250,000 – 4.59 %),  
“Kopaonik” (\$200,000 – 3.67 %),  
Sintelon (\$200,000 – 3.67 %),  
Privredni savetnik (\$150,000 – 2.75 %),  
Progard (\$150,000 – 2.75 %).  
Štedno-kreditna zadruga samostalnih privrednika (\$150,000 – 2.75 %)  
Eurosalon (\$100,000 – 1.83 %).

The founding assembly of the Nacionalna Stedionica was held on December 25, 2001. Explaining the reason for the establishment of the Nacionalna Stedionica, general manager Bojan Stanivukovic wrote two years later that *“it was established as the commercial bank -joint-stock company within which thirteen prominent banks, insurance companies and domestic companies joined their stakes and interests. It was done in accordance with the political consensus of the relevant political factors with the aim of performing the transformation of the ZOP and continuing with the fulfillment of the state obligations regarding the repayment of the frozen foreign-currency saving deposits, which were till then mostly the responsibility of the ZOP”*<sup>23</sup>

According to the legal document, Nacionalna Stedionica had the following shareholders with the ownership stake at the moment it was established:

JUBMES bank (38.46 %),  
Beopetrol (9.62%),  
Toza Marković (9.62%),  
YU Garant bank (9.62%),  
Apatinska pivara (4.81%),  
C Market (4.81%),  
DDOR Novi Sad (4.81%),  
Kopaonik osiguranje (3.85%),  
Sintelon (3.85%),  
Energoprojekt holding (2.88%),  
civil-engineering company Energoprojekt (2.88%),  
Štedno-kreditna zadruga samostalnih privrednika (2.88%) and  
Eurosalon (1.92 %) (This company delivered the office furniture worth RSD 6,965,895.50 in order to obtain seven million dollars stake in the Nacionalna Stedionica)

The National Bank of Serbia granted the work permit to the Nacionalna Stedionica Bank Corporation only a day after its establish-

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23 The Nedeljni Telegraf magazine, November 26, 2003

ment, on December 26, 2001. Its first branch office was established three weeks later, on January 14, 2002, when it started to operate. The first deposits were made by the then Governor of the National Bank of Serbia Mladjan Dinkic, Deputy Prime Minister in the Federal Government Miroljub Labus and Prime Minister Zoran Djindjic, acting as citizens. When the affair started unfolding, many observers, analysts and politicians were inclined to the view that the Governor managed to deceive the Prime Minister on that day of January 14, 2002.

The proceedings relating to the establishment and the start of the work of this bank continued to be performed very quickly. Two days after the Nacionalna Stedionica began to operate (January 16, 2002), Governor of the National Bank of Serbia Mladjan Dinkic gave the suggestion to the Agency for Deposit Insurance, Sanitation, Bankruptcy and Liquidation of Banks that the competent commercial courts should urgently authorise the Nacionalna Stedionica to pay the frozen foreign-currency deposit savings, which were kept in the banks for which bankruptcy or liquidation procedure was instituted (Jubank, Beobank, Investbank, Slavija bank, Valjevska bank and Privredna banka Novi Sad). Thereupon, this Agency, whose head was Miroljub Labus, decided to suggest to the commercial courts to authorise the Nacionalna Stedionica to repay the frozen foreign-currency deposit savings. It was an exclusive privilege which was granted without tender and due to which the Bank was at a distinct market advantage.

Afterwards, according to the contract on business cooperation signed by the National Bank of Serbia and the Nacionalna Stedionica on February 21, 2002 this Bank took 600 workers, 60 branch offices and the business premises of 7,200 square metres over from the ZOP free of charge.

Soon after that the media summed up the benefits the Nacionalna Stedionica gained in this way:

- It got the name “nacionalna” (tr. national), in spite of the fact it was a private bank;
- It had the use of a few dozen branch offices of the ZOP free of charge, in spite of the fact they were state-owned;
- It got the valuable equipment and complete computer system of the ZOP free of charge in spite of the fact the state had been investing in that for years (its value was estimated at about \$30 million);
- Given the fact that the business premises were given free of charge, the tax on possession was not charged;
- It also got the trained workers of the ZOP, many of whom were paid from the public funds until January 1, 2004, despite the fact they worked for the private bank;
- It was engaged in the greatest business operation at national level – the repayment of the frozen foreign-currency deposit savings (70% of total repayment worth 200 million euros, for what the money from the public funds was used) without tender (only on

the recommendation of Agency for Deposit Insurance, Sanitation, Bankruptcy and Liquidation of Banks); it also got the opportunity to trade with the bonds of the frozen foreign-currency savings deposit out of the stock exchange;

- It was also given the huge non-interest bearing deposit by the National Bank of Serbia;

- It also got the advertisement free of charge in the form of the public support of the most senior state department officials;

- The first chairman of its Board of Directors was Nikola Zivanovic, who was the adviser of Governor Dinkic and later on the Vicegovernor, one of the leading figures in Miroljub Labus's party election committee, director of the Beogradska banka in liquidation...

Nebojsa Mistic, the chairman of the Economy and Finance Board of the Independent Entrepreneurs Association (within the Savings and Credit Cooperative which was the shareholder in the Nacionalna Stedionica) said the claim that the Sparkassenstiftung was a consultant agency from Germany financed by the Serbian government was a complete lie which had been told at the time of the establishment of the bank, because the Government of a country could not finance a private consultant agency. But later on, this same consultant agency ordered that 17 million Deutsche Mark should be transferred to Serbia for the development of its banking system and this sum of money was "accidentally" put into the account of the G17 Plus and then it disappeared without trace.

The consultant agencies in Serbia, which managed the project of the Sparkassenstiftung, were charged the enormous fees – from 50,000 to 150,000 euros, and in some cases up to a million euros, and most consultants were not the independent experts, but the members of the G17Plus. Over the time, the members of their families were appointed to the high positions in the Nacionalna Stedionica and "it became the family business of the G17Plus' top"<sup>24</sup>.

On the same day when Mistic made his statement Mladjan Dinkic gave the affirmative answer to the journalists' question whether Sasa Vitosevic, the member of G17Plus, was employed in the Nacionalna Stedionica. "Yes, he works as an adviser because he is an expert in the domain of organization," Dinkic said.<sup>25</sup>

*(As the member of the G17Plus Sasa Vitosevic was the Agriculture Minister in the Government of the Federal Republic of Yugoslavia after the democratic changes had taken place in 2000. He was also the member of Miroljub Labus's election committee prior to the presidential elections. In 2005 he was elected director of the Curuga-based agriculture company "Buducnost". On March 23, 2006 this company issued the Prospectus for the Distribution of Securities-shares in the privatized companies.<sup>26</sup>*

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24 The Nedeljni Telegraf, November 5, 2003

25 The Glas Javnosti daily, November 5, 2003

26 See the web-site [www.syn-cap.com](http://www.syn-cap.com)

*And the company "Synergy Capital", whose one of the owners was Nikola Zivanovic, was mentioned as the broker and investment company which participated in the organization of the public offering).*

On February 2002 Len Fermellius, the expert in the payment system, make the confidential "Report on the Payment Operations and the Transformation of the ZOP" on behalf of the IMF, which said that "the IMF had stated that the plan for the establishment of Nacionalna Stedionica was improper, redundant and counter-productive in relation to the private sector initiatives..." A month later (March 2012) and before they were to agree on the prolonged standby arrangement, the IMF representatives demanded that the Government in Belgrade should sell its shares in the Nacionalna Stedionica. But it did not do that.

The participation of the state in the ownership structure of the Nacionalna Stedionica was controversial since the very beginning and later on it served to further inflame the affair. According to many relevant sources, the Nacionalna Stedionica was the result of the agreement made by Governor of the central bank Mladjan Dinkic and Serbian Prime Minister Zoran Djindjic immediately after the formation of the new government in 2001 and the main idea was to alleviate the consequences of closing the Accounting and Payment Operations Office. In this way, the workers would not lose their jobs and the government would rent the business premises of the ZOP to the new bank free of charge and it would become the shareholder in the Nacionalna Stedionica. Prime Minister Djindjic wanted Serbia to get at least 50 % stake in the Nacionalna Stedionica for the start. The then Minister of Finance Bozidar Djelic said that the Prime Minister and the Governor had agreed that Serbia should get at least one-third stake in the bank for the start and that all its investments in it should be valued in the right way in order for the Government to get the majority stake in the Nacionalna Stedionica.

On the other hand, the then Governor Mladjan Dinkic presented<sup>27</sup> his side of the story, saying he, Djindjic and Djelic had agreed immediately before the Nacionalna Stedionica had started to operate that it should be recapitalized in the relatively short period of time and that the Government should become its co-owner with at least one-third stake in it.

And the recapitalization of the Nacionalna Stedionica was carried out, but the state did not get the stake in it. How and why? That was the subject of the dispute between the participants in the establishment of the Nacionalna Stedionica and the affair surrounding it.

The fact which could not be denied by anyone was that soon after the establishment of the Nacionalna Stedionica the new Law on Banks was passed and the capital stake threshold for the establishment of a bank was raised from five to ten million euros. According

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<sup>27</sup> The Vecernje Novosti daily, October 3, 2005

to this law, all banks were obliged to carry out the recapitalization in order to avoid the revocation of the work permit. This law also applied to the Nacionalna Stedionica which was recapitalized at the time the Governor of the National Bank of Serbia was Mladjan Dinkic.

This first recapitalization was the reason for the first dispute between the state (which was represented by Bozidar Djelic for a certain period of time) and the Nacionalna Stedionica (which was represented by Mladjan Dinkic all the time). It lasted for three years with the interruptions. None of the existing shareholders including the state participated in this recapitalization, but there were some other purchasers of the shares. Therefore, the Nacionalna Stedionica got four new private shareholders with 29% stake in it. The owners of the Nacionalna Stedionica became the following companies: "Dajners Klub", "Principal", "Pima" and "Skvadra" (the ownership of the two last companies was linked with the businessman Vojin Lazarevic).

When the Government of Serbia found out what had happened and opposed it, the reaction from the Nacionalna Stedionica was: "Buy shares." And in November 2002 the Government spent 73.5 million dinars from the public funds on the purchase of the shares, owing to which it acquired 20.19% stake in the Bank.

After two later recapitalizations, the ownership stake of the Government was reduced to 13.83% and 10.5% respectively. The Government claimed that it had not been informed that these recapitalizations were going to be carried out in spite of the fact it had the right of first refusal as its old shareholder. After the third recapitalization had been carried out, the Belgrade-based company "Mali Kolektiv" and the Vienna-based company ELIM became the new shareholders in the Nacionalna Stedionica. There is one anecdote from that time – when Minister of Finance asked director of the Nacionalna Stedionica Bojan Stanivukovic if the ELIM company was one of the two companies with the largest stake in the Bank, he got the answer: "I do not know." Lidija Markovic, the lawyer of the Vienna-based company ELIM, said in March 2003 at the meeting of the Serbian National Assembly's Inquiry Committee that the "owners of this company were the Russians-father and son, Igor and Aleksei Gorokhov- and that they had decided to buy the shares in the Bank because they wanted to have better cooperation with the business partners from the textile industry in Serbia." Serbian businessman Vuk Hamovic said at the same meeting that he was the owner of the company "Mali kolektiv".

When the Nacionalna Stedionica started to carry out its fourth recapitalization in the Autumn of 2003, Minister of Finance Bozidar Djelic said (on November 19) that the Government would not allow the recapitalization of this Bank: "The Government and the Ministry of Finance ran out of patience because the Nacionalna Stedionica tried again to carry out the fourth recapitalization, with-

in which the foreign partners became its shareholders through the back door buying no more than 15% shares, which is below the level that requires the permission of the National Bank of Serbia. Neither was there the open competition. It will not be tolerated. We were not informed that the Nacionalna Stedionica planned to carry out the fourth recapitalization. None of us was invited to talk with the potential foreign partner, but it was all done through the so-called "limited stock issue". Neither was the advertisement relating to the stock issue published in the newspapers. The decision about that was made by the Board of Directors with the obvious intention of reducing the stake of the state in the bank to less than 15%. Analysing all these recapitalizations, one can conclude that some offshore companies tried to take over the Nacionalna Stedionica and the Government of Serbia have to make effort without pathos and demagoguery on behalf of the citizens to protect their possession. We have to do this because the Nacionalna Stedionica will be privatized one day, and the money obtained in this way should logically and normally come to the state budget, which means to the budget of the citizens. The Nacionalna Stedionica would not have 95% of its possession today without the money of the citizens. Therefore, the money amassed through the process of privatization should not be obtained by those who can make fortune through the recapitalization, having made investments of a few hundred thousands euros."

Mladjan Dinkic then responded: "The claim that the recapitalization of the Nacionalna Stedionica is a controversial issue is pure politics. The Government of Serbia has the last word on the recapitalization of every bank, especially if it is a majority shareholder as was the case for the Nacionalna Stedionica.

The point is that the Ministry of Finance has never wanted to invest the money from the state budget in order to save or raise the stake of the Government in the Nacionalna Stedionica. The Minister of Finance thought that the money from the budget should not be spent on this and he now asks why the stake of the state in the Nacionalna Stedionica has been significantly reduced in spite of the fact he has had the opportunity all the time to control the whole business. Additionally, two representatives of the Ministry of Finance, of whom one was Dusan Madzid Pajic, the director of the Treasury and the Deputy Minister of Finance, were always present at the meetings of the Board of Directors of the Nacionalna Stedionica."

Due to the suspicions that there were irregularities in the second and third recapitalization of the Nacionalna Stedionica, when the Belgrade-based companies "Mali Kolektiv", "Pima", "Dajners klub" and "Skvadra", as well as the Vienna-based company "Elim" and "Principal export-import" became the majority shareholders in this Bank (there was the founded suspicion that the owners of the London-based electrical wholesale supply EFT Vojin Lazarevic and Vuk Hamovic were behind these companies and that all these

shareholders were linked to each other) the Government of Serbia held the session on December 19, 2003 and decided to “launch the investigation into the origin of the money used for the purchase of the shares. The Government concluded that there was suspicion that all shareholders had purchased the shares in the Nacionalna Stedionica with the money from the Moscow-based Euroaxis Bank, using the deposits which had been kept there by the National Bank of Yugoslavia even before 2000 and which doubled at the time Mladjan Dinkic was the Governor.

The Nacionalna Stedionica was entrusted with the financial spin of the system of Serbia – the secondary financial market. Therefore, no one can own the majority stake in it, specially if it has been acquired under suspicious circumstances.” Given this decision, Minister of Finance and Economy Bozidar Djelic said that the owners of 54.22% stake in the Nacionalna Stedionica, which bore the name of “national”, were six companies whose founders were off-shore companies based on the British Isles and the Virgin Isles-Saint Vincent and the Grenadines.

A month and a half earlier (on November 1) the Government of Serbia ordered the Ministry of Finance to collect the information on the way the Nacionalna Stedionica operated. “While collecting information, we found out very strange “financial knot” between the National Bank of Serbia, the Nacionalna Stedionica, the Moscow-based Euroaxis Bank and most participants in the recapitalization of the Nacionalna Stedionica. Given all information, the recapitalization was carried out owing to the fact that the National Bank of Yugoslavia kept a billion dinars deposit in the Euroaxis Bank”, Milica Bisić, the Deputy Minister of Finance and Economy, said. She tried to explain the scheme of these complicated financial transactions – four of six companies which owned 54% stake in the Nacionalna Stedionica had been founded by the off-shore companies. For example, the Vienna- based company “Koprom” was the majority owner of the ELIM which had 13.67% of the shares in the Nacionalna Stedionica, of the “Dajners” which had 6.92% stake and of “Principal” which had 5% stake in the Nacionalna Stedionica. “Koprom” was also linked with the “Skvadra” and “Pima” companies as well as with the “Findejl” based on the British Virgin Islands. Bisić explained that the transaction had been carried out in the following way: the Euroaxis Bank deposited its money through the “Findejl” and “Koprom” which had ordered that the money should be transferred to the accounts of these six companies, so that they could purchase the shares within the two recapitalizations of the Nacionalna Stedionica. The money was transferred to the accounts of six companies in the Euroaxis Bank, and afterwards the money for the recapitalization was transferred in the same bank to the Nacionalna Stedionica’s account, which was also in the Euroaxis Bank. So, regarding the paperwork, all transactions were clean, but the Nacionalna Stedionica had never got its money.

After the Ministry of Finance acquainted itself with the results of the “inquiry”, it made the following proposals:

- 1. The Administration for Prevention of Money Laundering** should investigate the origin of the money used in the recapitalization of the Nacionalna Stedionica.
- 2. The Agency for Sanitation of Banks** should review the right of the Nacionalna Stedionica to repay the frozen foreign-currency saving deposits.
- 3. The National Bank of Serbia** should examine the solvency and the relations between the shareholders as well as the reality of the payment relating to the recapitalization of the Nacionalna Stedionica and granting the business of the repayment of the frozen foreign-currency savings deposits.
- 4. The Attorney General** should investigate whether the contract signed by Mladjan Dinkic, which relates to the property of Serbia that the Nacionalna Stedionica had the use of is valid.

On December 23, 2003 Minister Djelic acknowledged that he was also partly responsible for this situation because he believed Governor Dinkic and director of the Nacionalna Stedionica Stanivukovic. “The Government will own the majority stake in the Nacionalna Stedionica or the bank will lose the profitable business of the distribution of 200 million euros from the state budget per year which it carries out in order to repay the frozen foreign-currency savings deposits,” Djelic said.

Vicepresident of the G17Plus Mladjan Dinkic said that the claims of the Government of Serbia that there had been abuses in the Nacionalna Stedionica were the continuation of the political campaign of one part of the Democratic Party. He also emphasized that all claims in the report of the Ministry of Finance were false.

At the beginning of 2004 the G17Plus promised in the press release that “if Mladjan Dinkic becomes the Minister of Finance, he will certainly investigate all suspicions relating to the recapitalization of the Nacionalna Stedionica... The fact that the Nacionalna Stedionica affair has been once again brought to the public attention shows the fear of the tycoons who have controlled some PMs and small parties since the formation of the new government, because it will be led by Vojislav Kostunica and Mirosljub Labus. Kostunica and Labus cannot be controlled by any of the financial lobbies in Serbia. It is well-known how Dinkic has led the National Bank of Serbia and the achieved results speak volumes about that.”

These words were intensified by the statement of president of G17Plus Mirosljub Labus who said that “his party will enter the Parliament if it gets the coalition partners’ support for resolving all affairs, including the case of the Nacionalna Stedionica”, which he described as the campaign of the “extraprofiteers” against the participation of the G17Plus in the operations of the executive authorities.

The opinion of the coalition partners was presented by Velimir Ilic,

the leader of the New Serbia party. He assessed that “vicepresident of the G17Plus Mladjan Dinkic cannot be the Minister of Finance if only ten percent of the information about the Nacionalna Stedionica published by the media is true.”

At the beginning of February some government institutions which had been requested by the Government to investigate the Nacionalna Stedionica case issued their reports. On February 2 the Public Attorney’s Office said that the contract on taking over the business premises signed by the National Bank of Yugoslavia and the Nacionalna Stedionica was not valid, but the case should not come to court. “The contract is not valid but it is still not the sufficient reason for the Republic Attorney General’s Office to press charges against the Nacionalna Stedionica,” the statement signed by Republic’s Attorney General Sead Spahovic said. He said that the dispute between the Serbian government and the Nacionalna Stedionica should be resolved by the negotiations outside the court. According to his words, one could say with certainty that the then Governor of the National Bank of Yugoslavia Mladjan Dinkic had acted contrary to the property law, because he had not asked for the necessary opinion of the Republic’s Attorney General on the validity of the contract.

A few days later Oliver Bogavac, the director of the Administration for Prevention of Money Laundering, said that there had not been money laundering in the case of the Nacionalna Stedionica. The Administration investigated three recapitalizations of this bank and discovered that the public offering of the stock issue had been legally regulated since all owners had been registered in the Commercial Court in Belgrade.

*Verica Barac, the President of the Anti-Corruption Council, said in the interview published by daily Danas on October 8, 2005:*

*“The Administration for Prevention of Money Laundering discovered that the persons in question were linked with each other. The federal law on securities, whose “architect” was the G17Plus, was in force at that time and it did not contain the provision regarding the linked persons. The republic law on securities which included that provision had not been passed at that moment yet.”*

The report of the Administration for the Fight against the Organized Crime (UBPOK) within the Ministry of Interior Affairs of Serbia on the “suspicious” financial transactions relating to the purchase of the Nacionalna Stedionica’s shares was published only by the tabloid Kurir (on March 15). This tabloid said that the UBPOK had written the report on February 24 at the request of the Government. The report had stated that there was evidence that the Vienna-based company “Koprom” had become the owner of 37.1% stake in the Nacionalna Stedionica through the companies “Skvadra”, “Pima”, “Principal” and “Dajners Klub” within the second

recapitalization of the bank. This recapitalization had been performed through the Nacionalna Stedionica's account in the Moscow-based Euroaxis Bank whose co-owners were Vojin Lazarevic and Vuk Hamovic.

*(Almost two years later, on October 2, 2005, the then Minister of Finance Mladjan Dinkic said that the Administration for Prevention of Money Laundering had checked the links between the persons having been involved in the recapitalizations of the Nacionalna Stedionica and discovered that nothing had been questionable.)*

Hamovic said at the meeting of the Serbian National Assembly's Inquiry Committee that his company had not obtained the loan from the Euroaxis Bank, but he had sold his shares in the Trust Bank, regularly payed the tax and used the rest of the money for the purchase of the shares of the Nacionalna Stedionica. "I talked with Vojin Lazarevic and I know that he did not use any loan for the purchase of the Nacionalna Stedionica's shares, but the "Pluto International", which is the founder and the majority owner of the "Pima," carried out the recapitalization of this company, which thus purchased the shares of the Nacionalna Stedionica with the raised equity capital," Hamovic said.

At the end of February 2004 the Government of Zoran Zivkovic (which expected to be replaced by the new government after the triumph of Vojislav Kostunica's coalition at the parliamentary elections) decided to immediately request the fourth recapitalization of the Nacionalna Stedionica on the basis of the real-estate, the equipment, financing the staff, the exclusive business of the payment of the frozen foreign-currency savings deposits and the name of the bank. This was announced by Minister of Finance Bozidar Djelic.

At the beginning of 2004, the Parliament founded the Inquiry Committee whose task was to establish the facts and circumstances surrounding the electrical power trading and financial-banking procedures relating to that trading. Mladjan Dinkic testified at the 11<sup>th</sup> meeting of the Inquiry Committee (on March 27) and the chairman was Aleksandar Vucic, the PM from the Radical Party.

These are stenographic notes of the meeting:

**Chairman:** Given the fact that those persons who deal with the electrical-power trading became the co-owners of the Nacionalna Stedionica and that you played the significant role in the process of establishing it, at least in the media, did you have any knowledge about that, specially regarding the second recapitalization of the Nacionalna Stedionica, since, unless I am mistaken, you were not in control of the third one, because it was carried out during the mandate of Ms Kori Udovicki?

**M. Dinkic:** That's right. The answer to your question is clear. The Nacionalna Stedionica was established in accordance with the law and in regard to the recapitalization of it, only the acquisition of more than 15% shares is the subject to the approval of the Nation-

al Bank. The first two recapitalizations are carried out during my mandate, the third one was carried out during the mandate of Kori Udovicki. And it was not until the third recapitalization was carried out that the owners of this company acquired the majority stake or huge stake in the Nacionalna Stedionica. But it is the responsibility and the matter for discussion of the state or the government, to be precise. Given the fact that the government had the majority stake in the Nacionalna Stedionica, it appointed its representatives to the Board of Directors of this bank.

Secondly, the Securities Commission was established on the recommendation of the Government. The Commission checks the solvency of the purchasers. If something was wrong with the purchase of the shares in any bank, and thus in the Nacionalna Stedionica, it was the responsibility of the Commission. I doubt that the Commission would allow anyone who is not solvent to purchase the shares in some bank.

With regard to the domain of the National Bank of Yugoslavia and Serbia, I can say that the vice-governor in charge of the supervision affairs was responsible for it and I am sure that it was pursuant to the law. So, in order for someone to become the shareholder in some bank, the approval of the Securities Commission is required and it has nothing to do with the National Bank.

The government had two representatives in the Nacionalna Stedionica, both from the previous Ministry of Finance. The first one is Madzid Pajic, who was the director of the Treasury, and the second one is Budimir Loncar, the Director of the legal and property affairs also within the Ministry of Finance. They were present at all meetings and they obviously agreed about the recapitalization. Therefore, in my opinion, this case was again brought to the attention of the public due to the need of the Democratic Party, whose member is Bozidar Djelic, for the political promotion. If something had been illegally done, the Government of Serbia could and should have prevented it in the way I have already explained-through the Board of Directors or the Securities Commission which had been established by the Government of Serbia.

**Chairman:** If it is not a problem, could you be a bit more precise? Could you repeat what you have said? Was the solvency of every purchaser of the shares within the second recapitalizations checked and who did it and what were criteria for that?

**M. Dinkic:** The National Bank of Serbia checks the solvency of the purchasers who possess more than 15% of shares in some bank, or if the persons are linked, the National Bank is obligated to check their identity and decide whether or not it will approve their purchase of the shares. So, we checked the solvency of the purchasers and gave our approval to them, because their solvency was satisfactory.

**Chairman:** I am asking you this because the question is very interesting due to the fact that the "Dajners klub" became the significant shareholder in the second recapitalization of the Nacionalna

Stedionica. The supervision department of the National Bank performed the analysis of the business operations of the “Dajners klub” for 2001 and 2002, and it said among other things that its liquidity had been low in both years. The financial position of the company was weak and it was heavily indebted due to the short-term loans which cast doubt on the company’s ability to meet its short-term obligations, etc. Therefore, I am asking you how someone could make such a decision at that moment, specially given the fact that you could suppose or you knew, I am sure about that, that “Pima” and “Skvadra” were linked in the same way as “Principal” and “Dajners” were?

**M. Dinkic:** I repeat, all these things were the responsibility of the vice-governor in charge of the supervision affairs. The Governor cannot do all things alone. But I also had and still have complete confidence in people who performed that task. With regard to the “Dajners Klub”, it is one of the credit card issuers in Serbia. I cannot suppose and I really do not know if the “Dajners Klub International” would have entrusted that task to the “Dajners Klub” in Yugoslavia if it had not been able to perform it. In any case, the supervision department of the National Bank can discover whether there are some problems through the analysis of the solvency of those who want to purchase the shares in a company. If it discovers problems, it can request that the problems should be removed. We gave our approval only after we had gained the access to the additional documentation and convinced ourselves that the potential purchasers were solvent and could become the owners of the bank with more than 15% stake in it in accordance with the law.

The Nacionalna Stedionica itself made the demand for the check on the solvency of those legal persons, given the fact that it also stated that the legal persons in question were linked to each other. So, the fact that these persons were linked was not hidden from the National Bank of Serbia. Our Bank Supervision Department checked the solvency of those persons and after a month or two, I cannot say precisely, after the necessary documentation had been obtained, the approval to the purchase of more than 15% of shares in the Nacionalna Stedionica was granted.

**Chairman:** Given the fact that all foreign-currency incomes, whose dinar equivalent value was used for the second and third bank recapitalization, were acquired through the Moscow-based Euroaxis bank, was this allowed by the fact that you as the Governor of the National Bank of Serbia or the National Bank of Yugoslavia deposited the certain amount of foreign-currency reserves in the Moscow-based Euroaxis bank?

**M. Dinkic:** You probably know that it has nothing to do with anything and you could learn about it in the memos of my successor Kori Udovicki who consulted Verica Barac and various prosecutions, because the team which remained in the National Bank after I had been dismissed tried for six months to discover whether there

had been some irregularities in our business operations, rummaging through, I may say so, the documentation of the Bank. They pressed many charges without proof only with the intention of discrediting both me and the G17Plus.

On the basis of one of these memos, I will quote the answer of Kori Udovicki relating to the deposits in the Euroaxis Bank. Namely, she clearly says: "I need not answer this question, the fact is that the money was deposited in the Euroaxis Bank on the basis of the federal government's decisions on the exchange rate policy and the projection of balance of payments within which the management of the foreign-currency reserves is planned." The National Bank of Yugoslavia started making deposits in this Bank in February 1997, so, at the time I was not the Governor of the National Bank of Serbia. It is really not important from which account the money for the recapitalization or for doing any payment operations has been transferred. Since the operating of this bank is quietly mysterious, I have to tell that 32 banks in Serbia deal with the Euroaxis Bank.

Why are the payment operations done through this bank and other foreign banks?

Because our country has not had the arrangement with the "London Club" yet. We still do not have the satisfactory credit rating and when our companies want to obtain the export letter of credit with the Barclays Bank, the Deutsche Bank, the Rabobank, or in other words with the best banks in the world, they have to pay big commissions.

The expenses of the business operations are high. That was the reason why the National Bank of Serbia, which inherited the deposits from the previous management, did not want to withdraw rapidly these deposits, but it decided to gradually reduce their relative share over the time. Namely, the relative share of the deposits in the Euroaxis bank, which I inherited from the previous management, amounted to 5% of the total reserves.

It was being reduced over the time and when I was dismissed from the position of the Governor of the National Bank of Serbia, it amounted to about 2% of total reserves. Had we rapidly withdrawn the resources, a half of Serbian economy would have gone bankrupt. So, we didn't withdraw the resources rapidly only in order for our economy to prepare to start performing business operations through some other banks, because we didn't sign the contract with the "London Club" and we as the state of Serbia do not have satisfactory credit rating.

As early as at the beginning of March (on March 3), the newly elected Minister of Finance Mladjan Dinkic confirmed that the state stake in the Nacionalna Stedionica would be certainly increased on the basis of the immovable property. He said that the previous Government of Serbia had raised that question only after the elections had been announced, because it had lacked the arguments against the G17 Plus and he accused Bozidar Djelic of being the initiator of

this campaign. Dinkic confirmed that he had known Vuk Hamovic since 1996 because he had been one of his interlocutors while he had been writing the book "The Economy of Destruction". He also said that he had collaborated with Vojin Lazarevic on the preparation of the economy programme of the Government of Montenegro in 1998. Dinkic also emphasized that there was nothing questionable regarding the majority stake in the Nacionalna Stedionica. This his statement was followed by the silence on this subject, which lasted till the end of 2004.

Almost a year later (on September 10, 2005) the "Dnevnik" daily based in Novi Sad published the following article: *"From all accounts, Greece's EFG Eurobank will take over the Nacionalna Stedionica. However, many economic experts say that the Greek bank is not generous, but the real value of the Nacionalna Stedionica is much bigger than the declared value of its equity. But if we ignore the questions about the real value of the Nacionalna Stedionica, we cannot forget, although somebody would like to be so, that the process of selling this best positioned bank in the domestic market has been launched in spite of the fact that that there are many obscurities relating to its establishment."*

And on September 27 the EFG Eurobank became the majority owner of the Nacionalna Stedionica, because according to the data of the broker and investment company "Synergy Capital" (whose one of the owners was Nikola Zivanovic) the EFG Eurobank had managed to acquire more than 52% of shares in the Nacionalna Stedionica. The media immediately calculated that the privileged founders and shareholders who had been allowed to invest money in the establishment of the Nacionalna Stedionica earned 6,000 euros per share, if they had previously invested 1,500 euros and that the businessmen Vojin Lazarevic and Vuk Hamovic earned 12.9 million euros from the sale of the Nacionalna Stedionica shares.

Minister of Finance Dinkic ignored the public abhorrence of these data and he announced that the Greeks had not purchased the real estate which the state had registered as its own possession and thus raised its ownership stake in the Nacionalna Stedionica to 37.7%. He claimed that the Government had not decided to sell its stake in the Nacionalna Stedionica because it planned to keep the power to veto all decisions which were strategically important for the operation of the Bank.

He also said that the state would participate in the recapitalization of the Nacionalna Stedionica announced by the EFG Bank in order for the state's stake in the bank not to be reduced. "As long as I am the Minister of Finance, I will not allow the state's ownership stake to be less than 25%", Dinkic claimed in October 2005.

Six months later, on March 17, 2006, the EFG Eurobank purchased the state's package of shares for 35 million euros and thus became the only owner of this bank. "My statements from the previous year were only the part of the negotiation strategy owing to which we

obtained the price-to-earnings 6 ratio. The purpose of the Nacionalna Stedionica was to repay the frozen foreign-currency savings deposits, and since it had repaid 95% of the savers, we thought that it had served its purpose. All speculations which had been fuelled in public since the very establishment of the Nacionalna Stedionica were **ended** in this way”, Minister of Finance Mladjan Dinkic said. However, the media immediately noticed that it remained unclear how the Nacionalna Stedionica had served its purpose when it still should have repaid 3.5 billion euros to its savers. Namely, although 95% of savers, who had opened small savings accounts, had been repaid, only a little less than a quarter of the total frozen foreign-currency savings deposit was repaid till then.

The state stake in the domestic banks is being sold exclusively in the bid process where several competitors participate, but that rule was broken in the case of the Nacionalna Stedionica. On March 15, 2006 the Government of Serbia sold 37.7 % of its shares through the block trade in the stock exchange, which in contrast to the standard methods excludes the competition. According to the rule this method is used only for the sale of the big share packages provided that the seller and the purchaser have agreed the price before the transaction is performed. The sale was arranged by Minister of Finance Mladjan Dinkic. Since there was no competition within the process of selling the state stake in the Nacionalna Stedionica, the citizens of Serbia would never know if they as the tax payers could obtain more than 35 million euros from the Greek EFG Eurobank (or some other interested bank) for the state package of 37.7% of shares in the Nacionalna Stedionica. The economist Miodrag Zec said that the sale of the state shares in the Nacionalna Stedionica through the block trade was not transparent because such a method was used for selling the package of shares to some specific purchaser.

Milan R. Kovacevic, the expert on foreign investments, said that it was no wonder that the EFG Eurobank had initially offered the high price for the purchase of the shares of the minority shareholders and then still higher price for the purchase of the state stake: “Behind that there is the desire of the foreign owner for “covering” all events surrounding the Nacionalna Stedionica . They are also well acquainted with the affair which was following the Nacionalna Stedionica since the day of its establishment and with the fact that the investigation was launched. Closing the case is in their interest.”

## Epilogue

According to the words of the lawyer Goran Draganic, the Nacionalna Stedionica dropped the charges against the former Minister of Finance Bozidar Djelic on January 26, 2006. The Nacionalna Stedionica pressed charges against Djelic in the First Municipal Court

in Belgrade in 2004, accusing him of slandering and damaging the business reputation and the creditworthiness of the bank. Djelic was charged that he had given the false information about the business operations of the Nacionalna Stedionica regarding the recapitalization of it and the relations between its owners.

The Serbian National Assembly's Inquiry Committee has never finished its job and it has never done the joint report on the irregularities relating to the Nacionalna Stedionica. The report has not been done since the members of the Board of Directors have not been able to reach the consensus on it because they have had the opposite views on the establishment, way of operating and sale of the Nacionalna Stedionica.

Every political group did its own report in accordance with the initial positions it had taken when it joined the Board of Directors.

The Parliament has never answered the Serbian public's question whether the Nacionalna Stedionica affair harmed the public interests.

The tax payers have never found out the results of the investigation which the Government of Serbia launched on November 1, 2004, stating that "the issues about the establishment and the business activities of the Nacionalna Stedionica should be thoroughly examined".

The public has never found out the results of the efforts the Special Prosecutor's Office for Organized Crime made to examine the charges, although the efforts were "intensified" on September 30, 2005. All charges relating to the establishment and the business operations of the Nacionalna Stedionica were examined. The media allegations of the abuses relating to the Nacionalna Stedionica and the criminal charge which leader of the Demo-Christian Party of Serbia (and the former Minister of Justice) Vladan Batic pressed against Minister of Finance Mladjan Dinkic were also examined.

***"Why has the first-class Nacionalna Stedionica affair been forgotten?"***

***(Verica Barac, the President of the Anti-Corruption Council, Vecernje Novosti, November 29, 2004)***

## The “Mobtel” Affair

The Karic family who was close to the ruling Milosevic family built its business realm in the period of the international isolation of Serbia. After the sanctions had been imposed on the Federal Republic of Yugoslavia due to its militaristic policy in Croatia and Bosnia and Herzegovina, Slobodan Milosevic as a dictator tried to find the way to economically organize the state and survive the isolation. Therefore, he made “concessions” to a few loyal and obedient people who surrounded him, or in other words he allowed them to conduct certain business activities under his control, provided that he had the right to racketeering. The Karic family was given the concession relating to the foundation of the mobile telecommunications company (and TV station). Thus, they established the “Mobtel” company whose one of the owners was the state of Serbia (its stake in it had never been precisely established). Milosevic’s government (while it was in power) had never investigated how and where the Karic family acquired the mobile telecommunications equipment in the period of the sanctions and isolation of the state. It was left to their “enterprise capacity” and the only concern of the state was to assure the entry of all necessary equipment into the country. Additionally, the question as to whether the members of the Karic family as the formal managers of the company regularly paid the dividends to its another owner – the state of Serbia (which owned 49% stake in the Mobtel) had never been publicly raised because all money flows were controlled by Milosevic who managed them using his own judgement. After all, the purpose of Karic’s bank he established in Russia was to keep the profit Milosevic made by governing Serbia without any control. Some American sources claimed after the overthrow of Milosevic’s regime (in the Autumn of 2000) that Karic’s bank in Moscow had kept two billion dollars which Milosevic had transferred from Serbia and that the US state department had offered Bogoljub Karic the deal – it would grant the American visa to the Karic family (which the Karic family desperately wanted), if he revealed the secret channels through which Milosevic’s money flew. But Bogoljub Karic was not willing to agree to such a deal.

The Karic family survived Milosevic’s defeat and continued to handle “the concession” which he had entrusted to them. They also survived the tax on extra income which they had to pay on the basis of the decision of the democratic authorities, because they had made a fortune in Milosevic’s era. Truly, these same democratic authorities returned that money to them at the very end of the mandate of Zoran Zivkovic’s government (Zivkovic was a successor to the assassinated Prime Minister Zoran Djindic).

In many political observers’ opinion, Bogoljub Karic became dangerous at the very moment he entered politics, established his own party, started bribing PMs from other parties, threatened to topple

the Government and according to the polls, became the partner with the high percentage of the coalition capacity.

This assessment might be highly subjective. With regard to the business part of Karic's engagement in the climate which had been changed since the democratic changes had been implemented after October 5, 2000, almost none of the prominent members of the business community in Belgrade accepted Karic's "business model" and everyone was annoyed by this old business spirit in the new economical circumstances. Illegal business operations, tax evasion, transferring money to the accounts of the linked companies... this model was old-fashioned in the state which made efforts to establish the market rules of business and build a good reputation among the companies which had brought the new style of work from the West.

The business of the Karic family was in stark contrast to the business climate in Serbia, because it was inappropriate for "the new era," and a huge part of the public saw the Karic family as the relic of Milosevic's era which Serbia unwillingly brought to the postmilosevic period.

From that point of view, the "removal" of Karic could bring someone a good point in the competition in the political arena. Since he was inclined towards many different types of fraud and making deals with the political leaders, Karic and his "business" managed to survive the first years of transition.

But it was only a matter of time before the political and business "execution" of one of the prominent Milosevic's business friend-concessioners was carried out. The only question was who would do this and in which way.

The part of the public welcomed the way in which it had been done, but the whole case left the odour of the corruption affair and suspicion that there were some other "gains" in addition to the political ones.

The political attack against the Karic family was launched at the end of March 2004, when Minister of Finance and vicepresident of the G17Plus Mladjan Dinkic announced at his party's electoral convention that the state's ownership stake in the Mobtel company would be reviewed and he claimed in advance that this stake was bigger than Bogoljub Karic presented to the public: "The state's ownership stake in the Mobtel company cannot be determined on the basis of some deals, charity and will. Therefore, the state's stake in the Mobtel company must be precisely determined. The stake should be determined by the interdepartmental working group of the government and not by the individual and then the tender for the sale of the state's stake in the Mobtel company should be invited."

However, in the beginning, Dinkic's attack against Karic was not supported by all coalition partners in the government whose head was Vojislav Kostunica. Bogoljub Karic had the political ally in the coalition administration. His name was Velimir Ilic, the president

of the New Serbia party -the colourful combination of the bully, the man in the street, the master of the house and demagogue. As the Minister of Capital Investments he had the right to request that his department should be also in charge of the Mobtel company. Ilic and Karic formally met at the end of March 2004 and that meeting resulted in Karic's incredible offer – as the majority owner of the Mobtel company (with 51% stake in it) he would give up 6% of his shares to the state (or to the state-owned company PTT which was the owner of 49% of the shares in the Mobtel) in order for it to become the majority owner of the company. After that meeting Ilic's Ministry made the statement saying that the Minister “had invited all interested parts to say whether they wanted to show the gesture of goodwill while resolving the open questions, that was to say to express the readiness of both parts (the PTT and the BK Trade) to make concessions in order for the thorny questions to be resolved in the appropriate way, without the interfering of the national and international courts.”

On the same day when he launched the government attack against the Karic family (on March 29) Minister Dinkic gave the order to the Tax Administration to collect 2.4 billion dinars from the Mobtel company. That was the sum which had been returned to this company by order of the Ministry of Finance of the previous administration on account of the extra income tax which had been collected from Karic's Astra Bank.

*(Bozidar Djelic, who was the former Minister of Finance at that time and who had returned 2.4 billion dinars to the Mobtel, said that it was no coincidence that Dinkic took such a step at that very moment: “It's interesting that the money is being collected from the Mobtel at the time the Inquiry Committee is discussing the Nacionalna Stedionica.”)*

The earth-shattering news of Bogoljub Karic's intention to run for the president of Serbia in the forthcoming elections (in June) broke at the end of April (on April 23, 2004, the Politika daily).

A month later (on May 24) Minister Dinkic's plan dated from March was realised – on that day the Tax Administration issued the decree according to which the Mobtel company was obliged to pay, in the period of 15 days, the sum of 2.59 billion dinars on account of the extra- income tax that had been returned to the company by the previous administration.

The disagreements in the government over Karic were obvious and the confronted parties used media for discrediting political opponents. Being irritated, Ilic said on one occasion that he would “cut off the fingers of Dinkic's mobsters” and that he “would not allowed G17Plus to wheel and deal in his department.” Asked what was the subject of his conversation with the owner of the Mobtel company Bogoljub Karic, Minister Ilic told the press that “he had promised nothing to Karic, but that he was going to say at the cabinet session that Karic was willing to continue negotiations in order to reach

the agreement on the ownership of the Mobtel company.” Ilic also said that “he was also going to emphasize at the session that Karic was willing to allow the government to become the majority owner of the Mobtel in order for it to be able to sell its stake in this company and, what is most important, that Karic was willing to drop the lawsuits he had been instituted in front of the national courts and the international court of arbitration. Karic does not give away anything to the Government. The Government does not ask for Karic’s charity, it only wants to become the majority owner of the Mobtel in order to sell its stake in the company. According to the documents I have at my disposal, the government owns 49% stake in the Mobtel, while Karic owns 51% stake in it.”

Ilic accused Dinkic of negotiating the sale of the state shares package in the Mobtel with many companies all over the world. “There is a suspicion that Dinkic tries in this way to put together several departments and exceed his authority. We should not allow Dinkic’s desire to settle accounts with the Karic family to cause the harm to the state and its citizens.”

The Minister of Finance responded to these words by saying that “the state had enough evidence to prove that it was the majority owner of the Mobtel and that Ilic was too much vulgar, so he should not be the official of the Government of Serbia, but it was up to the Prime Minister who had formed the Government.”

The division and disputes in the cabinet of Vojislav Kostunica increasingly intensified. The media got the information that Kostunica had tried to relieve tensions at his meeting with Ilic and Dinkic at the end of June because there was a danger that the Mobtel issue would cause the Government to fall. The result of that meeting became obvious very soon - the Government adopted the report of the interdepartmental working group which had investigated the ownership structure of the Mobtel company and found out that the public enterprise of PTT communications “Srbija” owned 58.76 % stake in the Mobtel while 41.21% stake was allocated to its foreign founder “Brothers Karic System-BK Trade” based in Moscow. The Government also set up the commission which negotiated the registration of the new ownership structure in the company, which was in the state’s or PTT’s favour, with the Mobtel management.

Such a decision of the Government supported Dinkic’s technique for resolving the dispute over Karic. Dinkic firstly accused Velimir Ilic of protecting the economic interests of Bogoljub Karic. Then, provoked by Bogoljub Karic’s announcement that he would demand \$1.3 billion compensation in the the International Court of Arbitration of the Zurich Chamber of Commerce, where he sued the state for his loss of earnings relating to the Mobtel and Astra bank issues, Dinkic said: “If Karic wants the international arbitration, he could lose the whole Mobtel company. The Government is not afraid of going to arbitration in Zurich, but it won’t be in his favour because he has not paid any dividends to the state owner-

the public enterprise PTT “Srbija” for all these years. Although the interdepartmental working group stated in its report that the government owned 59% stake in the Mobtel company, the financial loss which the state had suffered because Karic had transferred the dividend from the country through his off-shore companies and caused multimillion loss to the public enterprise PTT “Srbija” in this way was not taken into account. So, if we take into consideration all facts, Karic will lose the whole Mobtel company.”

Explaining how it was possible that such a significant minister (of capital investments) protected the interests of a wealthy and influential businessman without any consequences regarding his work as a minister, Dinkic only said shortly: “Minister Ilic is only one voice in the Government.”

Ilic denied the allegations primarily made by the G17Plus that Karic tried to topple the government via him: “I am glad to hear such a statement because I thought that Dinkic and Labus were the only corrupt members of the government. Many people suspected them”, Ilic said.

Dinkic accused “the only leader of the party who owned the broadcasting company” Bogoljub Karic of misusing the national TV frequency through which he fueled the unreal expectations and prompted many strikes. And at the same time this same government whose one of the members was Dinkic was calmly observing this businessman-politician exploiting the public good (the TV frequency) in order to gain the personal advantage for months and it did not invoke the law to prevent him from doing so.

Then Bogoljub Karic said that Minister of Capital Investments Velimir Ilic neither protected his interests nor lobbied for him. “After the conversation with Ilic I agreed to reducing the BK Trade’s stake in the Mobtel company from 51% to 45% because I thought it would be better if I gave up 6% of the shares in the Mobtel to the government in order for the company not to face problems any more and collapsed”, Karic said.

Although the Tax Administration gave him 15-day deadline for making a payment in May, it was not until the middle of August that the Mobtel company paid 2.9 billion dinars on account of the extra income tax of the Astra bank. Explaining this Bogoljub Karic said: “Since the bank account of the Mobtel company has been frozen, its business operations are seriously threatened, its development is stopped and the realization of the €135 million contract with the Ericsson and the Siemens is brought into question”.

But at the end of September there were new demands which Karic should meet – the trade union of the PTT “Srbija” calculated that “the Karic family owed the tax payers in Serbia about 250 million euros on account of the unpaid dividends of the Mobtel company”. Bogoljub Karic made the announcement just once again till the end of 2004, trying to convince the public of his version of the story relating to the Mobtel affair. Namely, he stated that he had accepted

the suggestion made by the government (although he did not want to say who precisely made this suggestion) that the future strategic partner should purchase 49% of the government's shares and 9% of the BK Trade's shares in the Mobtel in order to acquire a total of 58% of the share capital of this company.

And at the beginning of 2005 the Minister of Finance described the political rise of Bogoljub Karic and his Serbian Strength Movement party as the greatest political tragedy of the previous year in Serbia. Afterwards, Minister Dinkic indicated the fate of Bogoljub Karic: "If this or restructured administration is in power till 2008, he will disappear from the political scene."

Being skilled in frauds, Karic announced (on March 7, 2005) that "after several months of negotiations he sold the Alfa Group Consortium based in Russia the BK Trade company which was the founder and the majority owner of the Mobtel company in spite of the fact the Russians paid a huge sum for it. The sum does not amount to a billion dollar, but it exceeds 500 million dollars".

On the other hand, Dinkic claimed that Bogoljub Karic could not sell the Alfa Group the stake in the Mobtel company without the approval of the Government of Serbia, because it was not in accordance with the Mobtel founding contract.

But as early as in May Karic's TV channel broadcast the signing of the new contract on the sale of the BK Trade, this time with the group of the Austrian investors lead by Martin Schlaff . The Serbian media described him as "an Austrian Jew who was involved in many privatization scandals in the countries in transition and he was also accused of bribing the politicians in Israel where the charges were pressed against him."

Karic explained in one of the numerous interviews he gave to the press at that time<sup>28</sup> that he had sold the Telekom Austria his BK Trade company (the majority owner of the Mobtel company). He also said that the Telekom company based in Austria was the co-owner of the mobile communications companies in Slovenia, Bosnia, Croatia and Bulgaria and that the Austrians had examined all the facts about the Mobtel and bought it at the risk of finding out what would be their ownership stake in it only after the end of the arbitration process in Zurich.

Being asked "how he had previously sold the Russians this same company", Karic said that "the Alfa group had planned to purchase the Mobtel together with the Norwegian partner, but they decided to give up that business to the Austrian Mobitel with which they intended to start cooperation."

The consortium of the Austrian investors, led by Martin Schlaff, said in the middle of August in the same year that it had taken over the Moscow-based BK Trade, which was the co-owner of the Mobtel company, and the attempt of the investors from Vienna to appoint their people to the significant positions within the management of

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28 The Nedeljni Telegraf, May 18, 2005

the mobile telecommunications company “063” failed at the beginning of September (The Mobtel company had been renamed the 063 in the meantime).

But as early as in October Martin Schlaff (a hardened impostor, as some Belgrade media used to call him) became the serious negotiator with the Government, and the public learned from the news that Schlaff attended the cabinet meetings. The public also found out from the news that Schlaff had complained to Minister Dinkic and Minister Ilic (who had buried the hatchet) at one of these meetings that the former Bogoljub Karic’s Mobtel company was in €100 million debt and that only ruins of it had remained. On that occasion the information that Schlaff paid the Karic family 400 million euros for the purchase of the company was disclosed for the first time, allegedly by Schlaff himself. At the same cabinet meeting Schlaff allegedly offered to buy out 58.8% stake in the Mobtel company from the PTT “Srbija” (which was the minimum percentage of the stake the government expected to be announced by the the International Court of Arbitration in Zurich) and to pay 52 million euros for the overdue dividends in instalments. But the media were tipped off that “the Government representatives were not too much impressed by the offer”.

Afterwards the media were given the tip-off which should have implied that all thing related to the Mobtel company (or “063” company) were clean and under the control. The media also got the information that in the beginning of October “it was agreed in the Government of Serbia that all decisions about the Mobtel company should be confirmed only at the meetings of Vojislav Kostunica’s cabinet”.

One more attack was launched against Karic and the Mobtel company at the end of November. Namely, Minister of Finance Dinkic jumped on President of Serbia Boris Tadic who had spoken those days with Bogoljub Karic, the leader of the Serbian Strength Movement party. Dinkic wondered in public “why Tadic had spoken with Karic about Kosovo issue when we knew how much Karic cared about the interests of Serbian people in this province, because the Mobtel company had granted the operating licence for establishing the mobile telecommunication company in Kosovo to the Albanian citizen Ekrem Luka, who allegedly was the financier of the Kosovo Liberation Army”.

A month later the Serbian Government revoked the Mobtel’s operating licence and explained that it had done so “due to the “harmful” contract signed with the Mobikos company owned by Ekrem Luka from Pec, that severely damaged the economic interests of Serbia and endangered its national security interests”.

In many observers’ opinion, such a fierce reaction of the Government was not necessary because the negotiation with Martin Schlaff was promising. The explanation soon came to light and it related to the obvious political fight. Namely, the Government sud-

denly made such a decision because of the events in the Parliament which had led the Government to conclusion that the parliamentary group "For a European Serbia", which was controlled by Karic, would be enlarged since several (bribed) PMs would join it. Given the fact that it would mean the likely fall of the Government, the ace up the sleeve (Ekrem Luka) was used and Karic was almost ruined. In all this chaos no one paid attention to the statement of Karic's lawyer Zdenko Tomanovic who had said that Karic had sold the Austrian company owned by Martin Schlaff his stake in the company seven months ago, and that he had nothing to do with the Mobtel.

The former Deputy Prime Minister Zarko Korac said that "it should be clear to everyone that the Karic family had become the subject of police, financial and criminal investigation only after the family set up the parliamentary group in the National Assembly. When the administration felt threatened, it suddenly discovered "the irregularities" in the business operations of the BK group. And the media were not critical of I may say stupid explanation of the Government that there had previously been insufficient evidence to react in any way. The Government actually exploited the media to settle accounts with the political opponent. As in "good", old days of totalitarian regimes, only at the signal of the Government, did media vent their rage on the marked opponent."

And the hints of the chain of events that would take place in the near future were obvious as early as in the first days of 2006. The Minister of Finance was again the initiator of these events. Immediately after the New Years celebrations he announced that the tender for granting the operating licence for the 063 mobile network which had been used by the Mobtel would be issued in the first half of the year. Dinkic said that the Mobtel was not nationalized, only its operating licence for providing the mobile telecommunications services had been revoked and it could now perform some other business operations. Commenting on Martin Schlaff's announcement that he would sue the State, Dinkic said that the contract which the Austrian investors led by Martin Schlaff had signed with Karic had never been presented to the Serbian Government. "If the arrangement made by Schlaff and Karic is the European perspective of Serbia, then Serbia should not join the European Union," Dinkic said.

Only a month later the public found out that the State of Serbia and Martin Schlaff had come to an agreement to their mutual delight. The citizens were informed about it by Minister of Finance Mladjan Dinkic whom Prime Minister Vojislav Kostunica had appointed in the meantime as coordinator of the Serbian part of the working group for the negotiations.

The essence of the agreement between the Government and Martin Schlaff was that the new joint mobile operator would be founded which would be then sold by tender together with the equip-

ment and the subscriber base which had previously belonged to the Mobtel. (Or in more simple words, the Serbian Government and its Austrian partners established the new telecommunications company by deriving the resources from the Mobtel. The Government owned 70% stake in this new company while the Austrian consortium owned 30% stake in it.)

Dinkic then said that before issuing the tender the Government would prepare all necessary documents for transferring the equipment worth 250 million euros, which the PTT "Serbia" had acquired by assuming the Mobtel's receivables with the Hypo Alpe Adria Bank and the Raiffeisen bank. He also stated that the Mobilkom Austria would assume the Mobtel's debts for the equipment worth 90 million euros which had been purchased from Sweden's Ericsson and that it would also pay Martin Schlaff the compensation for the purchase of the BK Trade.

Minister Dinkic confirmed that the Serbian Government and the Austrian investors had agreed on dropping all legal cases instituted in front of the domestic and international courts in respect of the ownership rights in the Mobtel. "It also means that the legal process in the International Court of Arbitration in Zurich will be stopped," Dinkic added.

At that time Minister Dinkic mentioned several times in his statements the figure 100 million euros, which was the sum the Austrian consortium of Martin Schlaff had paid to Bogoljub Karic for the purchase of the BK Trade (the co-owner of the Mobtel).

The media made calculation and reported that the tender for granting the licence for the 063 mobile operator would bring to the Serbian budget 82% of the agreed price, while Martin Schlaff would obtain 12%. Such a calculation came from the fact that the 40% of the agreed tender price would be fixed compensation for the operating licence which would be granted to the State, while remaining 60% would be split between Serbia and the Austrians in 70:30 proportion.

*"Owing to the new agreement with the Austrians the Government achieved three times bigger tender price for the 063 mobile network than the price which would have been obtained if Karic and Schlaff had remained in charge of this business", Dinkic said.*

*"This agreement is useful, although I am not completely satisfied, but I am not a loser either", Schlaff said.*

After such an agreement had been reached, Bogoljub Karic posed a question in his statement: "Isn't the Prime Minister suspicious and can he turn a blind eye to the fact that someone took at least 100 million euro commission to do all that?"

Instead of answering the question, on April 4, 2006 the Govern-

ment approved the written agreement with the consortium of the Austrian investors on solving the problems in respect of the Mobtel. The agreement included 14 documents concerning the ownership relations in the newly established Mobi 063 company, including the way in which it would be sold.

The minimum price at which the Mobi 63 would be sold was 800 million euros and 320 million euros of that sum was allocated to the operating licence. Eighty two percent of the profit, i. e. at least 680 million euros was attributed to Serbia. Minister of Finance Mladjan Dinkic said that the Austrians had paid 2.1 billion dinar dividends which the PTT "Srbija" had demanded from the Mobtel company. He also repeated that "this agreement resulted in dropping all 13 legal cases instituted in front of the domestic and international courts. It means that the arbitration process in Zurich was ceased and that the mobile operator dropped the lawsuit it had filed against Serbia in order to get back the operating licence. The BK Trade also dropped the charges it had pressed in order to obtain 13% of shares in the Telekom," Dinkic said.

The Austrian investor Martin Schlaff said that Karic "had deceived him given the fact that the contract on the sale of the BK Trade had concealed the contract according to which the Mobtel's operating licence could be revoked. I see no point in suing him because he is at large, his companies do not make profit and he doesn't have the resources to pay me the sum I would demand from him. I will recover the previously invested money under the agreement with the Serbian Government and by the sale of the new company in the tender offer".

At the end of July the Norwegian telecommunications company Telenor purchased the Mobi 063 company by tender for 1.513 billion euros. According to the clauses in the sale-purchase contract Serbian Government as the majority owner of the Moby 63 company acquired 1.155 billion euros, while remaining 358 million euros was allocated to the Austrian consortium which had paid Bogoljub Karic for his stake in the Mobtel company, whose equipment and base of customers had been taken over by the Mobi 063 company after the revocation of the Mobtel's operating licence.

After the sale of the company Minister of Finance Dinkic said that three times more money had been brought to the budget of Serbia than the Austrian consortium led by Martin Schlaff had previously offered in the negotiations on taking over the government's stake in the Mobtel company.

And the Austrian businessman Martin Schlaff said that he and his colleagues were satisfied and that the price "was OK for them."

It was the climax of the play called the Mobtel before the stage curtain fell.

## Epilogue

There were attempts, although feeble ones, to start the public debate which should solve one of dilemmas that kept lingering on: the Telenor company purchased the Mobtel company...in the end, Martin Schlaff acquired more money than he had paid to Bogoljub Karic.

Only one event that took place at the end of August reminded the Serbian citizens of that case and offered a partial answer to some of the questions. Namely, when Minister of Finance Mladjan Dinkic paid a visit to the European Union, he spoke with Commissioner for Enlargement Olli Rehn, and the Austrian businessman Martin Schlaff was also present at that meeting.

Being asked by a journalist why Martin Schlaff was the member of the Serbian delegation which visited the EU, Minister Dinkic said that Mr Schlaff was a prominent businessman who tried to help Serbia, the RTV B92 reported.

Asked in the interview he gave to the NIN weekly (on September, 2006) why he thought of Schlaff as a friend of Serbia who wished his country well, Dinkic said: "Because he wholeheartedly praised the economic reforms in Serbia in front of his friend Benita Ferrero-Waldner".

Question: **But he was previously said to be the suspicious investor. Is he that influential in Brussels?**

Dinkic: "I don't know what was written about him. In any case, all people who want to help Serbia are welcome."

Question: **With regard to the issue of prolonging the negotiations with the EU, does anyone lobby for us in Brussels, besides Schlaff?**

Dinkic: "Yes."

## The “Knjaz Milos” Affair

The “Knjaz Milos” affair occurred at the time of sale and final privatisation of one of the best-known factories of mineral water from Arandjelovac. For many years the factory presented positive business results, and mineral water had a long tradition as one of the best-known Serbian brands.

The “Knjaz Milos” company was privatised for the first time during the regime of Slobodan Milosevic when, under the law of that time, two thirds of the ownership were allocated through share distribution to the factory employees (and also to many army and police officers), whereas the rest remained in the state’s ownership. In Milosevic’s time, that factory was one of the biggest donors of his party, and a managing director of that time did not hide his political orientation and preference for the Socialist Party of Serbia. Only later, when the factory got its new majority owner, was it discovered that the company hadn’t operated as successfully as it was presented and that losses and bad company management were actually hidden behind fraudulent business results.

The final privatisation of “Knjaz Milos” gave a true picture of the way Serbia had been run by the administration of Prime Minister Vojislav Kostunica. He came to power by promising the citizens the implementation of the rule of law and development of institutions (favourite word in preelection campaign at the end of 2003 was “re-laying the foundations” of Serbia), but even a layman could see from the example of “Knjaz Milos” affair that independent institutions of the system (Securities Commission, statutory independent arbiter at the securities market) meant nothing to that administration, that executive power placed such institutions into subordinate position and destroyed them, that individuals meddled into matters that were not under their jurisdiction (in that way raising doubts over corruption), and that competent state services were turning into tools of haughty politicians. Under the public pressure, the Parliamentary Inquiry Committee was established in connection with this affair but it did nothing (just like in the case of the National Savings Bank), since its structure reflected balance of forces in the government. In the end, the politician involved up to his neck in this affair, Deputy Prime Minister in Kostunica’s government Miroslav Labus, put a final stop to entire case.

The water factory from Arandjelovac came to the spotlight on August 6, 2004, when Memorandum of Understanding i.e. Strategic Partnership was signed in the Privatisation Agency between companies “Knjaz Milos” and “Mag LLC 12” from the USA owned by Vlade Divac. The Memorandum specified that the Letter of intent would follow within one month what actually happened on September 3, and was signed by the Agency and Divac. The main purpose of the strategic partnership was Divac’s intention to recapitalize “Knjaz Milos” after which he would take part in the ownership

structure of the company.

The unseen galimatias regarding “Knjaz Milos” started in September when the Privatisation Agency set aside the agreement with Divac and the privatisation process finished in this way, and chose a different model – it decided to sell “Knjaz” share package by method of tender offer. Such a decision meant that the state had pooled its shares with the shares of minority shareholders, formed the majority share package of 71.8%, and requested 20,000 Dinars per share. Three interested players took part in the bidding for the acquisition (purchase) of shares – FPP Balkan Limited investment fund, Pivovarna Lasko from Slovenia and French company Danone. FPP emerged as the highest bidder, what was also been concluded by the Securities Commission.

That was the beginning of the “Knjaz Milos affair”.

Factory workers, the media and part of the public blamed the Commission for everything, feeling sorry for a basketball player Vlade Divac who came out the loser.

By that time, the controversy considerably stirred up in the public that the G17 Plus, the party of Miroljub Labus and Mladjan Dinkic, had control over all cash flows in Serbia. The name of Milko Stimac, the President of the Securities Commission, a high official of the party and one of the key actors in the “Knjaz Milos” affair, cropped up in that controversy too. He claimed that “on the contrary, the G17 Plus wants to put a stop on the past monopoly of backroom financial power centres that do not allow establishment of normal institutions”.

Those days, the Deputy Prime Minister of the Serbian government Miroljub Labus said that the government “favoured no one” in the “Knjaz Milos” privatisation process and pointed out that “he would decide what to do with his 40% share package, accordingly”.

Prime Minister Vojislav Kostunica was also involved in that case. When the delegation of “Knjaz Milos” trade union complained to him that the Securities Commission didn’t protect state interests in the process of the company recapitalisation, Kostunica promised (according to the statement of Zika Kolarevic, the President of an independent trade union, broadcast by the TV B92 on August 27, 2004) “to set in motion state mechanisms on Monday to stop it somehow”.

Milko Stimac, the President of the Securities Commission, reacted to such a promise of the Prime Minister by saying that “our public does not realise that in most developed countries, the body that controls the market, i.e. capital turnover is in terms of its scope of powers and importance for economic life on a par with the central bank”. After that, Stimac explained the mechanism of takeover bid model, according to which FPP Balkan limited first met legal assumptions (e.g. deposited money for possible acquisition of a targeted share package), after which the Commission invited other interested parties willing to offer the same or better conditions for

share acquisition. As the interested parties responded to the bid invitation, they were required in the next two weeks to submit the so-called improved offer in a closed envelope. After opening the envelopes, it was estimated which offer was the most favourable one and was declared as such. However, the story ends when a shareholder decides to sell his shares at this offer since the bidder basically addresses the shareholder, not the Commission or the state or directors, but the shareholders. "Having all this in mind I can say that Divac's company belatedly joined the game", Stimac explained and advised the state (as one of the major shareholders in "Knjaz") to:

- a) participate in a takeover bid with its package,
- b) ignore it all and
- c) sell its package to a third player that was not participating in this game at all.

In September, the state decided to invite "Knjaz" small shareholders to pool their shares and set the price of 20,000 RSD per share. Deputy Prime Minister Labus claimed that "the state took care both of the company and state interests and it was a good idea for the state to pool its package with the minority package", and continued: "'Knjaz" privatisation is an example of how there were all sorts of trouble before the state took matters into its own hands". (the Internacional, September 24, 2004.)

President of the Securities Commission, Milko Stimac, didn't share the opinion of the head of his party, Labus, so he retorted "that nobody can instruct shareholders what to do with their shares. And since it has already suggested joint package with minority shareholders, the state should have told them it was a joint risk. "Knjaz" shareholders should make decisions of their own accord. No one should interfere, not even the state." In the session of Parliamentary Privatisation Board held at the end of September, Stimac said that there had been a specific media pressure in "Knjaz" case and that arrival of the factory trucks from Arandjelovac in front of the government building had also been a kind of a pressure.

Such an organised arrival of "Knjaz Milos" workers to demonstrate in front of the government building was, according to Deputy Prime Minister Labus, the reason for the state to get more actively involved in the sale of the company shares. On September 29, Labus addressed the workers gathered in front of the government building: "The state must not favour anyone in the process of acquisition of the "Knjaz" and legal measures will be taken against everybody found responsible for irregularities in this process – from brokers to the Securities Commission. The police and the Public Prosecutor Office must get involved in the entire process to investigate if there was any coercion in the process of share acquisition".

The way the state interfered and "took things into its hands" became obvious at the end of November when Deputy Prime Minister Miroljub Labus said that the Privatisation Agency had decided to sell its part of "Knjaz Milos" shares to the French company "Da-

none”, since it was the most socially profitable. (In the meantime, “Danone” reached an agreement with a basketball player Vlade Divac, after which they formed a joint company “Apurna” that appeared as an interested buyer of “Knjaz Milos” shares.)

This action of the state caused some of the workers-shareholders to withdraw the orders to sell the shares to investment fund FPP Balkan limited and redirect them to “Apurna”. There were reports that the management of “Knjaz Milos” put pressure on workers, but the key role was played by the wife of Vlade Divac and his friend (also a basketball player) Predrag Danilovic who promised at a workers’ meeting held in Arandjelovac to give 3,500 RSD to each shareholder who decided to sell his shares to “Apurna”. After such a proposal, “Apurna” announced that over 54% of “Knjaz Milos” shares had been deposited to its account, according to the official data of the Central Register.

Miroљub Labus said on a national television that “the most important thing in respect of “Knjaz” privatisation is that all was done according to regulations and that everybody got more than they expected. The state got a serious investor as “Danone” is a big company, and Divac made a good deal. Apart from lots of anxiety, everything went well”.

However, the director of the brokerage company MV investments (representative of FPP Balkan limited) Dragijana Radonjic-Petrovic, presented calculation according to which after selling majority package of “Knjaz Milos” shares to the “Apurna” company, small shareholders lost 8.8 and the state lost 12.5 million euros. “The state, that favoured “Danone” throughout this process should explain to its citizens why it is giving up that money”, Dragijana Radonjic-Petrovic said.

However, a day later (November 22) an unseen turn of events ensued. The Securities Commission disqualified the “Apurna’s” offer due to the illegal actions, exerting influence on shareholders and giving monetary gifts not specified in the official offer for the acquisition of the “Knjaz Milos” shares. Although the Commission called a press conference to inform the public of this decision, “someone from the government” prevented it. Later on, it was indisputably established that prior to the press conference scheduled by the Securities Commission, at which “Apurna” should have been disqualified due to Danilovic’s offer, Deputy Prime Minister Miroљub Labus invited Milko Stimac for a meeting and insisted that it should be prevented. After that, the Commission cancelled the press conference, and Stimac wound up in the Emergency Centre due to the heart condition and collapse.

Dusan Bajec, a member of the Securities Commission, said that the Commission had made an irrevocable and unanimous decision due to the gross breach of the Securities Act: “Namely, the field inspectors determined that in addressing the “Knjaz Milos” employees on behalf of “Apurna”, Snezana Divac officially stated that Predrag

Danilovic would pay additional 3,500 RSD to every shareholder who sold shares to that consortium.” In that way, other participants got eliminated and shareholders suddenly changed their decision.” Such a decision of the Securities Commission which is the only body legally authorised to arbitrate at the securities market, provoked very fiery reaction of only one politician from the executive authority – Deputy Prime Minister Miroljub Labus, whose job description did not include activities regarding the sale of company’s shares. Labus explained in the Reporter (November 24) why he had interfered in the sale of “Knjaz Milos” shares: “It would have been nice that the whole process had been finished smoothly, because in that case I wouldn’t have even thought of interfering in that matter. When I get a call, it means that somebody messed something up and they need Labus now to pull the chestnuts out of the fire. We had to ensure that basic rules were observed. The problem is they are contradictory. At this point, we are not ready for such sophisticated method of share trade such as acquisition. My role is to enable fair play. FPP announced it would file criminal charges against actors of this sale and explicitly accused individuals from the state administration of corruption. When somebody makes such an accusation, he should provide the Prosecutor’s Office with the data and guilty parties will answer the charges, but if this person doesn’t provide those data, then he will be called to account. It is high time to stop making such careless accusations of corruption”.

Some time later, when questioned in a Police department for the fight against organised crime, Milko Stimac explained how “pulling the chestnuts out of the fire” looked like. He said that Miroljub Labus, the Deputy Prime Minister, and Predrag Bubalo, the Minister of Economy and Privatisation, inquired the most about takeover of “Knjaz Milos”. (The Blic daily, November 27, 2004.)

In the statement sent to the state news agency Tanjug, Labus assessed that the decision of the Securities Commission to disqualify “Apurna’s” offer was completely illegal and said that his party the G17 Plus would retire from the government coalition if legality was not protected in this case.

Few hours following Labus threat that the G17 Plus would leave the coalition, extraordinary government session was urgently convened (at 10 pm), which according to the words of Vojislav Kostunica concluded that “relevant state authorities should investigate the legitimacy of entire privatisation process of “Knjaz Milos”, take all legal actions to assess the legality of operations of the Securities Commission and the Police and Prosecutor Office should determine if any criminal acts were committed in the process.” Deputy Prime Minister Miroljub Labus said at the press conference after the session that he had requested from the Police department for fight against organised crime (UBPOK) to thoroughly investigate the case.

Justice Minister Zoran Stojkovic commented on the decision of the

Securities Commission claiming that the reason for “Apurna” disqualification was bogus and that he had instructed the Prosecutor to determine if there were any elements of a criminal act.

At the same press conference Minister of Economy and Privatisation Predrag Bubalo said that the Public Prosecutor would send a proposal to the Securities Commission to annul the decision on “Apurna” disqualification and make new decision.

As soon as on the next day the Public Prosecutor’s Office expressly sent a request to the Securities Commission to declare the decision null and void. At the same time, the Prosecutor’s Office demanded from the Securities Commission to suspend enforcing order related to the “Apurna” disqualification since “the decision to disqualify the “Apurna” was against the law, and since there was reasonable doubt of committed criminal acts that had to be prosecuted ex officio”.

Concerning the “Knjaz Milos” affair, President of Anticorruption Council Verica Barac claimed that „what this government is doing is an overt intimidation and pressure on the Securities Commission, which are violations of the legal procedure. In doing so, executive power is not only challenging the decision, but the Commission itself, thus “destroying” the institutions. This is not the first time it is happening”.

President of the Committee for Human Rights Biljana Kovacevic-Vuco said that it was obvious that the Securities Commission had changed its decision about “Apurna” disqualification after strong pressure had been put on its members by the government and the Prosecutor Office: “By doing so, government breached several laws and completely invalidated basic democratic principle on division of authority. Somebody from the government must answer for such a breach of law, both in terms of political and criminal responsibility”.

And then, the affair completely unravelled. Radical official Aleksandar Vucic revealed that on October 7, Vice-President of “Danone” had been at the apartment of Mirosljub Labus when the two agreed to sell “Knjaz Milos” to the French, at 17,500 RSD per share.

Cornered with the proofs and under the pretence of being sick and not being able to attend the government meeting, Labus confirmed that he had met a representative of the “Danone” company in his apartment because he had been requested to do so by a foreign embassy and added there was nothing disputable in the fact that a Deputy Primer Minister was meeting with the chief executives of a global company”. In addition to that, Labus pointed out that he was satisfied how the state authorities had initiated an investigation on irregularities in the process of the “Knjaz Milos” acquisition: “The Public Prosecutors have finally woken up and the state authorities have started doing their job”. He continued by saying “that in the water production sphere, the “Danone” is a mercedes whereas FPP Balkan limited is a hack.” If a “hack” defeats a “mercedes” in a market competition, then it is not a problem of the Serbian government”.

Miroslav Prokopijevic, the Director of the Free Market Centre and the scientific associate at the Institute for European Studies, said for the Blic daily (November 28), that “when a seller (state) doesn’t accept the highest price offered, one can suspect two things. Either some ministers are crazy and don’t know what they are doing, or they took money to arrange the sale for a particular buyer. In both cases, there is only one conclusion. If they are crazy, they should be put away, and if they are not, then the whole case should be investigated and most probably they should be imprisoned... The Government several times breached both the rules and the law. First time, by interfering in the acquisition process at first place, then by accepting the lowest price and consequently not only stealing from tax payers but also breaking its promise that shares would not be sold for less than 20,000 RSD. Then, by putting pressure on the Securities Commission and the Prosecutor Office that was illegally involved in the game... The state interference means that at least some of the ministers want to take commission from illegal sales, what would be impossible without that interference... There won’t be any investigation or punishment... Practically, all offenders are amnestied... Such ‘sackcloth and ashes’ is a disastrous message to future investors”. As regards the regularity of the meeting of Miroslav Labus and a “Danone” representative in Labus’ apartment, Prokopijevic said: “It would be lawful if someone shows us that Tony Blair meets the “Nestle” representatives in his private apartment on the eve of the sale of an English state company to the “Nestle”. UBPOK should concentrate on a person who threatens the most”.

When the things went the wrong way for Labus, he used another argument by relating the “Knjaz Milos” affair to “the attempt to overthrow the government and schedule early elections at the time when the G17 Plus rating is on the rise, as opposed to the ratings of some other parties.”

After everything that happened, the French company “Danone” publicly backed out of the entire process in order to keep its reputation in business circles and prevent impact of the affair in Serbia onto its shares value on the stock exchange.

This affair was also unpleasant for the government of Vojislav Kostunica because on the one hand, it left huge concern over corruption of the highest state officials, and on the other showed disastrously undemocratic method of running the state, judicial control and destruction of the institutions of the system. Because of that the state officials wanted to close the affair as soon as possible. So, on November 24, Labus concluded that the privatisation of the “Knjaz Milos” had been done lawfully and that all participants in this process could be satisfied: “Everything was done according to the regulations and everybody made money, and the sale of the “Knjaz Milos” is good news for investors”. And on November 29, Minister of Economy Predrag Bubalo stated that “not one minister from the government took bribe in the privatisation process of the

Knjaz Milos company from Arandjelovac”.

The “Knjaz Milos” affair continued in 2005 when the Inquiry Committee of the Serbian Parliament tried to get at the truth. Main actor who was all the time in the centre of the affair and in the public eye, was defending himself before the Inquiry Committee using familiar phrases:

\* He said that on October 7, 2004 he had met with the representatives of the French company Danone, what he described as a diplomatic meeting held on the initiative of the French embassy, and since he was the Deputy Prime Minister he was supposed to guarantee the French government that all actors in the process will be on equal footing and that none will be discriminated. He stated that for this reason he had met with the company Vice President Jacques Vincent, Director Frederik Pekastan and their adviser Nikola Zivanovic (a person involved in some other affairs, otherwise an adviser to the Governor Mladjan Dinkic, then Deputy Governor, one of the most important persons in the Miroљub Labus election committee at the presidential elections, Director of the “Beogradska banka” in bankruptcy, President of the Executive Committee of the National Savings Bank, co-owner of a consultancy company Sinergy capital).

\* He said that the government interference was the consequence of the strike of the “Knjaz Milos” shareholders in front of the government building, since the shareholders, as he said, demanded that the state guaranteed the observance of the law in the privatisation process.

\*He denied that he had put pressure on the Securities Commission. He didn’t call anyone from the Commission, he only called Milko Stimac to ask who won the bid.

\*He also said that the Government had had to react because there had been fears of the government overthrowing.

\*He added that as a result of everything that had happened, Serbia’s reputation was damaged in terms of attracting new investments.

The Inquiry Committee finished its work without any conclusions. Representatives of the ruling parties had a majority in the Committee and they prevented any conclusion that would incriminate their party colleagues for whom the public already had doubts to be involved in the affair.

An unpleasant odour of corruption continued to linger in the atmosphere.

That impression was reinforced by the event from the beginning of July when the President of the Securities Commission held a conference with the aim to “lobby” for adoption of the Law on the Takeover and the Law on Amendments to Securities Act prior to the “summer holidays”, so that private property institute was finally protected and awkward situations, like the ones during the sale of the “Knjaz Milos” were avoided. Efforts of Milko Stimac proved futile because Deputy Prime Minister Miroљub Labus stated the government planned to pass these bills in July, but that they would

be referred for consideration to the Parliament in the autumn. At that time, Serbia was flooded with offers for the takeover of various companies just like it had been done with the “Knjaz Milos” – during first six months in 2005 the Securities Commission approved 45 offers, whereas in the first seven months in 2004 12 offers were approved. Professional circles interpreted that acceleration as the wish and collusion of politicians to exploit this “liberal” market before adoption of the Law on Takeover.

When journalists asked Milko Stimac who had obstructed the laws given the fact that the President of the Securities Commission, the Finance Minister, the President of the Parliament and the Deputy Prime Minister were all from the same party – the G17 Plus, Stimac shrugged his shoulders and said: “Ask the G17 Plus”.

When those drafts arrived to the Parliament in the autumn 2005, in his attempt to explain the need for less independence of the Securities Commission, Finance Minister Mladjan Dinkic stated that “at this moment the Commission needs to be close to the Government”.

In the interview for the Danas daily (December 15, 2005) Miroljub Labus said “that the entire case was lawfully finished. Neither the Inquiry Committee nor UBPOK made any conclusions. Neither court nor an ongoing criminal investigation made any conclusions whatsoever... So everything finished nicely”.

## Epilogue

The “Knjaz Milos”, once a leading company in mineral water production, lost its position of the market leader. Year after year, a number of employees was decreasing as well as the amount of produced mineral water. The owner of the factory, the investment fund Salford (on whose behalf the FPP Balkan limited purchased the “Knjaz Milos”) has been trying since 2009 to sell the company, but there are no buyers who would offer a satisfactory sum for it.

Such a business result reopened the dilemma – would it be better to bring a strategic partner (the Danone) to the country, or the state and small shareholders did the right thing when they so eagerly jumped at the offer of the investment fund FPP Balkan limited.

## Military Affairs

### The satellite affair

On February 2, 2007, the Beta agency released the following news: “The Military Department of the District Court in Belgrade has acquitted former Serbia and Montenegro Defense Minister Prvoslav Davinic of the charges of the abuse of official position in connection with awarding members of his security eight apartments, a court spokesperson Ivana Ramic stated. There were no evidence during the procedure that Davinic had awarded “Kobra” members apartments in Belgrade areas Bezanjska kosa and Cerak of larger floor space than they were entitled to, she said.”

Davinic’s trial started last year on May 31 and was closed for the public because the documents and information presented at the trial had an official secret status.

It was just one of the three affairs connected with the name of the Military Minister Prvoslav Davinic, an experienced civilian and a UN expert, who was expected to facilitate the transition of the army of the country whose militaristic policy caused so much evil and suffering to the peoples in the region at the end of the last century.

Davinic found himself in a swirl of political, security and financial games connected to the military and security reforms, without being much asked. Many were involved in shady dealings, some lobbied for the preservation and others for the break-up of the State Union of Serbia and Montenegro, and they also managed the sales of not that small military property that remained from the period of the socialism.

*In that respect, the Danas daily (November 24, 2005) wrote in its editorial in connection with the attacks on already dismissed Minister Davinic that “a heretic is publicly condemned for daring to tarnish the Party treasure – a control over financial flows that the G17 Plus has been carefully exercising and jealously keeping. This is directly connected with the latest accusation that Davinic, using discretionary right, awarded the members of his numerous security staff eight apartments, what hasn’t been disputed earlier, although, should it be emphasised, the apartments could be bought from no other resources but the budget of the Republic of Serbia (from which salaries to the security staff are also paid out). Since the budget is controlled by the Finance Minister (Mladjan Dinkic, the G17 Plus), the only logical explanation is that the acquisition of the disputable apartments, worth at least half a million euros, was not previously questioned because Davinic was protected by the Party membership”.*

In the society without any civil control of the military and security structures and with governing political elite that didn't even bother to introduce one, a person could legally enter "grey area" both in the field of military acquisitions and the sale of the military property. The two affairs in particular – the satellite lease and the military equipment procurement – illustrate how Serbia looked like during the mandate of the second democratic administration (2004-2008), following October 5 changes.

As early as at the beginning of 2005, during the second year of Vojislav Kostunica's rule, the general public found out that the Defense Ministry was planning to lease a satellite for observing the situation in Kosovo and the south of Serbia. The press released the news that, at the proposal of Mladjan Dinkic, the G17 Plus Central Committee had reached the decision to initiate the project of the professionalisation of the SMN army by the end of 2006. Immediately after the meeting ended, Defense Minister Prvoslav Davinic invited a group of people to the Defense Ministry and gave them a task: "You have to prepare a preliminary design for the professionalisation of our army in seven days."

In the first half of that year, there was a quiet trench fire between the Serbian Finance Ministry (run by Mladjan Dinkic) and the Defense Ministry of the State Union of Serbia and Montenegro (headed by Prvoslav Davinic) in respect of the funding of the joint army since Dinkic thought that Serbian tax payers were paying too much for it. Military circles interpreted his statement as an unprecedented attack on an untouchable budgetary user who was, by the way, referring to "a complex safety situation in the region" related to Kosovo and the south of Serbia. At that time, military circles thought that Dinkic had chosen Davinic as a public target, but he was actually targeting the Supreme Defense Council of the State Union that was about to accuse him of cutting down the army funding and the imminent bankruptcy of the Defense Ministry.

Mladjan Dinkic's request for appointment of Aleksandar Radovic, a former director of Serbian Tax Administration in Zoran Djindjic's administration, as an assistant defense minister, was seen by the public and military circles as a "crown proof" of the G17 Plus attempt to discipline the Defense Ministry. Defense Minister Davinic tried to explain such a party maneuver as the agreement with Dinkic on the control of the money that the Serbian tax payers had been setting aside for the army, so there was no need to make consultations with the Montenegrin representatives in the Supreme Defense Council.

And then, at the end of August 2005, Dinkic confirmed media reports that the decision of the President of the State Union of Serbia and Montenegro to allocate 53 million euros to the army for the lease of a satellite that would allegedly monitor Kosovo, south of Serbia and Montenegro, also contributed to the conflict with Prvoslav Davinic.

At that time, the public found out for the first time that two months earlier, in June, a lease agreement of a spy satellite “eros” had been signed with the Israeli company “Image Sat International” for the period of 20 years and to the amount of 43 million euros.

Although the case was immediately labeled as “an original and exciting nonsense” by certain analysts, the affair had been shaking the public in Serbia and Montenegro for months before it abruptly ended (just like it started), upon Davinic’s resignation, and at the beginning of 2007 it was neither resolved nor was the public informed of whether there was any corruption or not.

The affair started when Minister Dinkic said at the session of the Economic and Finance Board that he had heard from his party colleague Aleksandar Radovic about an organised group in the Defense Ministry that had detrimental effect. Dinkic claimed that “the satellite affair” solely could cost Serbia 50 million euros. “We were chasing a mouse and we stumbled upon an elephant”, Dinkic described the extent of discovery and offhandedly accused the Atlantic Council of Serbia and Montenegro, an NGO, for “having a certain part” in these events, but that he didn’t know which exactly. The Atlantic Council was led by Vladan Zivulovic and Veljko Kadijevic (the former close to the New Democracy, i.e. Serbian liberals, the party of the ex Interior Minister Dusan Mihajlovic) and it should have (as a civil society organisation) a significant part in the sale of the military property. In his usual style already seen in some other affairs, Dinkic announced that he was ready to resign from his function unless the whole affair got resolved, stating that he would be responsible for it since he had proposed Prvoslav Davinic for the position of Defense Minister.

Davinic didn’t spare Dinkic either, accusing him of putting pressure on him for entire year in order to gain control over military property and finances, of preventing the sale of the Military-Technical Institute for 16 million euros (and by doing so the construction of 400 apartments for members of the SMN army), of interfering and preventing the sale of the military good Karadjordjevo and of demanding in the spring 2005, the appointment of Radovic as an assistant defense minister contrary to the laws and established procedure, with the aim to control military finances, acquisitions and property. “In that way, Dinkic wants to control military budget. I opposed the idea that one party – the G17 Plus, controls the key defense systems, i.e. the SMN army. After that, Dinkic accused me of being incapable to manage military finances, because, he said, he knew that Montenegro had not been paying its military obligations, that military finances had been chaotic and that the Ministry needed “a savior” who would know how to manage all that... As the Supreme Defense Council did not convene, Dinkic didn’t have patience to properly bring this matter to its end, but insisted that I should breach the law and appoint Aleksandar Radovic over night. I refused it. To punish me, Dinkic didn’t pay salaries to army

employees for two months ... Serbian public should know that the Finance Minister struggles for the power to personally decide what military property, net worth of about five billion euros will be sold and to whom," Davinic said for the Nedeljni Telegraf, on September 7, 2005.

The media wrote (the Glas Javnosti, November 12, 2005) that there were other reasons for the conflict between Dinkic and Davinic. They mentioned Davinic's assistant Pavle Jankovic, also a member of the G17 Plus, who was claimed to have started the story of the satellite lease from the Israelis as his proposal for the satellite lease from the French company "Astrijum" had been rejected.

At the time President of Serbia Boris Tadic visited Israel, the affair turned into a public scandal. He was handed an agreement signed on June 4, 2005, by the company "Image Sat International" and the SMN army, represented by the Defense Ministry. The signatures of Minister Prvoslav Davinic on behalf of the Council of the SMN Ministers and the representative of the "Image Sat International" company were affixed under the text of the agreement, but there were no seals. In addition to that, Tadic was given a document dated February 2, 2005, according to which the SMN Ministry Defense authorised the "Kamira Krek" company to negotiate with the "Image Sat International" company on the satellite services until final agreement was reached. The signature of the former Defense Minister was affixed under this text as well.

When everybody "washed their hands" of the whole business, claiming they didn't know anything about the satellite lease, Davinic asked openly: "Do you think I could do something like that without the approval of the Council of Ministers or the Supreme Defense Council? When I was being accused to have received commission, it was Vojislav Kostunica who told me there was no mention of corruption. And then he 'let me sink' too. I informed the Supreme Defense Council on the session held on March 8, 2005 of the satellite lease after which the Council authorised the Defense Ministry to initiate the implementation of activities related to the satellite, and the whole story had a state secret status. They all know very well that the choice was narrowed down to two offers, but the advantage was given to the "Image Sat" because it provided an independent satellite approach in difference from the "Astrium" satellite whose operation could be blocked. After that, the Ministry informed the Council of Ministers that the SMN should be included in the satellite control system, what the Council approved on April 12 and ordered the realisation of the whole story, i.e. the implementation of activities according to the decision of the Supreme Defense Council. Financial resources should be obtained from the Fund for the Defense System Reform and the revenue determined under the Budget Law of the Republic of Serbia. Then, at the beginning of June 2005, a meeting was held in Paris with the representatives of the "Image Sat" who had already prepared final wording of

the agreement on satellite lease for signing. I told them that my signature wouldn't have a legal effect in respect of financial side of the agreement, since extra-budgetary funds had to be provided first, what they understood and accepted".

According to the explanation of Minister Davinic that followed, preliminary agreement on Israeli satellite lease had been formally signed, but never entered into force due to the shortage of financial resources at the level of the State Union.

In September 2005, the G17 Plus parliamentary club made a decision in the Parliament of Serbia and Montenegro to initiate the procedure for the impeachment of Defense Minister of the State Union Prvoslav Davinic, and the following day the G 17 Plus Executive Board decided to expel Prvoslav Davinic from the party "because he violated basic moral principles and abandoned program of the Party". The party was pleased to see that "the entire Serbian government showed support to Finance Minister Mladjan Dinkic in his fight against corruption".

Davinic refused to resign and was quietly removed from his office, and as early as in the middle of November the competent services of the Defense Ministry started investigating the accountability of then already former Defense Minister Prvoslav Davinic. He was expected to be indicted and the only dilemma was whether he would be accused of committed or attempted abuse of office and exceeding his authority.

In order to create a strong image in public of Minister Davinic's dishonest actions, an affair was initiated in respect of eight apartments that he allegedly allocated to army employees who were not entitled to it.

At the beginning of the next year, it was concluded that none of the three affairs that were implicating former SMN Defense Minister Prvoslav Davinic was close to its resolution, although criminal charges against him were regularly filed in Belgrade District Court. The District Court spokesperson Ivana Ramic said in connection with "the satellite affair" that there was still no request by the Prosecutor for initiating the investigation, although criminal charges had been filed long ago. "There is no satellite case yet. The Police didn't press any charges and there are no grounds for initiating the proceedings," Mirjana Ilic, a spokesperson of the Public District Prosecutor's Office, said. Veljko Kadijevic, President of the Atlantic Council, stated: "The investigation is maybe not progressing because some things are difficult to prove. I think that half of the things Davinic is accused of can be thrown away".

At the beginning of March 2006, new Defense Minister Zoran Stankovic said as regards "the satellite affair", the judicial board and legislation service of the Council of Ministers think that the agreement is not legally binding and that the Israelis' claim should not be met: "We said we wouldn't pay the first instalment of 4,5 million euros, we won't give a dime. In the next period the legislation service

will handle the affair and its possible consequences. We are closely watching all events related to this affair, and we won't allow payment of something we didn't lease. The Council of Ministers should decide whether someone will answer for that”.

Serbian Finance Minister Mladjan Dinkic revealed that the authorities in Belgrade had suggested to the Israeli company to purchase fire trucks, irrigation and drainage system and military communications system for the agreed amount. The Council of Ministers of the State Union of Serbia and Montenegro reminded the Minister that the agreement with the “Image Sat” wasn't legally binding and did not have legal effect. After that, on October 18, 2006, Defense Minister Zoran Stankovic said that entire documentation about the lease of military satellite was labeled a state secret.

Several days before he left Serbian government (October 26, 2006) Finance Minister Mladjan Dinkic said that Serbia would not give any money from the budget to Israel in connection with disputable agreement on military satellite lease and that it didn't plan to do so until the problem was solved. He said to the journalists in the government building that the Ministry for Foreign Economic Relations was negotiating with Israel in respect of the agreement signed with the “Image Sat International”. “There is no payment and I don't think there will be one until we reach an agreement with Israel”, Dinkic said.

## Epilogue

The trial of the former SMN Defense Minister Prvoslav Davinic for the satellite lease agreement with the Israeli company, concluded to the detriment of the state, continued on March 6, 2012 with the presentation of the defense without any publicity, due to the confidential character of information from the arbitration.

Davinic's trial before the First Municipal Court in Belgrade had been previously postponed three times – in September 2010, as well as in September and December last year, since necessary documentation had not been submitted to the court.

According to the charges, Davinic concluded an agreement on satellite lease worth 44.9 million euros against the procedure, to the benefit of an Israeli company.

Due to the non-fulfillment of the satellite lease agreement, the Israeli company sued Serbia and won the case, so the state is obliged to compensate it for about 37 million dollars. Previously, court received an arbitral award from London on the dispute between Serbia and Israel, which is also classified and cannot be disclosed without the consent of both parties in the dispute.

According to the charges, Davinic concluded an agreement without previous procedure for selection of bidders and professional consultations with the Headquarters of the SMN army or any other

responsible and professional employees in the SMN army, with the aim to define the need for the satellite observation of the territory from the aspect of the state defense, as well as the terms for contracting the corresponding services.

After losing the dispute before the court in Paris, Serbia unsuccessfully contested before the Regular Court in London the court's jurisdiction to make the award upon that dispute.

After a complaint by the Public Attorney's Office had been dismissed, Serbia had to pay the amount of 13,800 euros to the London court on account of legal expenses.

## The Bulletproof Vest Affair

This affair belonging to the “military milieu” also showed the “state of affairs” in the administration and served as the tool of its architect (the Minister of Finance) for removing his party colleague and the Defense Minister Prvoslav Davinic from the office. Mile Dragic, the businessman from Zrenjanin and the manufacturer of the military equipment with which he supplied among other clients the Ministry of Internal Affairs, emerged as a new negative character on the scene.

The media which were fed with the abundance of information from the Serbian Government competed in publishing various sensational details from Dragic’s biography. They published that he had been linked with old (Milosevic’s) power structures, primarily with Nebojsa Pavkovic and deceased Radovan Stojcic Badza, whose wife Jasna Stojcic was still working for Dragic’s company. He was also associated with the purchase of the “Moscow” hotel in Belgrade where he acted as a moderator as the representative of the Belize-based off-shore company “Net West Finance”.

The news of the affair again occurred in one daily when Minister of Finance Mladjan Dinkic “found out” that the military equipment had been purchased from Dragic through the inflated invoices, that several million euros had been stolen from the state budget and that Dragic had put this money into his own pocket, bribing some military officials who had allowed him to acquire the contract with the Military.

“We obtained this information by pure coincidence”, Serbian Minister of Finance was again benevolent in the statement he made to the Blic daily (on September 7, 2005). Dinkic explained the mechanism for “stealing” the money from the state budget through the military procurement: “Everything started on August 12 when Colonel Mile Bogdanovic, the Head of the Procurement Department of the Defense Ministry, ordered his deputy Milovan Andric to tell Colonel Jovica Vuckovic over the telephone to obtain the purchase orders on the military equipment worth up to 80 million euros. As early as on August 15 Vuckovic obtained purchase orders on the acquisition of the military equipment from Dragic and submitted them to the Procurement Department. It was interesting that the prices were expressed in US dollars. For example, a helmet cost 200 dollars, but three days later the same product cost 250 euros, which meant that there was the price difference of 50 dollars per helmet. According to Vuckovic, the price of a bulletproof vest was 1,500 dollars, but according to the contract the price was 1,753 euros, which meant that there was a difference of about 550 euros per item, and the similar situation happened in the protective suits procurement. One could conclude only on the basis of the purchase orders Vuckovic had obtained that the Defense Ministry had pumped up the prices of these three items for 40%. The prices listed by Vuckovic

were pumped up also because they did not match Dragic's price list. The production price of a helmet in Dragic's factory was 65 euros, but the price of it in the price list was 165 euros. And Vuckovic increased the price still more to 200 euros, and Marovic and Davinic increased the price up to 250 euros per item. These contracts result in the loss of 40 million euros, and if they had been realized, the total loss for the budget of Serbia would have been 70 million euros". Dinkic listed all responsible participants in the affair: President of Serbia and Montenegro Svetozar Marovic, Defense Minister Prvoslav Davinic, Secretary of State for Defense Milun Rakic, General Milun Kokanovic, the Head of the Material Resources Sector and the Assistant Defense Minister, Colonel Branko Djedovic, the Head of the Department for General Logistics and Deputy Assistant Defense Minister, Colonel Dragan Djordjevic, the Head of the Department for the Logistics System, Colonel Mile Bogdanovic, the Head of the Procurement Department, Milovan Andric, the Head of the 2nd Sector of the Procurement Department and Colonel Jovica Vuckovic from the General Staff.

At the beginning of September 2005 Defense Minister of Serbia and Montenegro Prvoslav Davinic also had to deny all these allegations. He claimed that the Defense Ministry had signed the contract on the military equipment procurement with the "Mile Dragic" company, because this company had had the best offer and that Prime Minister of Serbia Vojislav Kostunica had been informed about that. Davinic also said that Dinkic "was not competent and he would not be allowed to make decisions about the military equipment that the Army needed and the order of its acquisition". He also reminded that the Serbian Government had introduced the regulation on April 1, 2005 which authorised the Ministry of Internal Affairs to make the confidential purchases in the indirect way.

Due to the above described "the satellite affair" in the autumn of 2005 Davinic had the arrangement with Serbian Prime Minister Kostunica to resign as Defense Minister after the appointment of his successor in the consultation process. Irritated by Dinkic's accusations, Davinic decided to remain at the position of Defense Minister and he accused Dinkic of ruining the compromise that he had made with Kostunica. "The possibility of my resignation was not mentioned in the conversation with the Prime Minister of Republic, because it would mean that I admitted guilt. But Dinkic was not satisfied with that and he continued to conduct his strict campaign and he changed the rules of the game", Davinic said.

The military and political analysts emphasized also the desire of the protagonists of the "helmets affair" to control the money flows.

According to the information which in the meantime became accessible to the public, the "helmets affair" started unfolding when the Council of Ministers of the State Union of Serbia and Montenegro made the conclusion on August 8, 2005, after which the decision was ensued on August 22 to authorise Minister of Defence

Prvoslav Davinic to sign the contracts on the procurement of the military equipment worth about 300 million euros with the “Mile Dragic” company. The decision was signed by President of the State Union of Serbia and Montenegro Svetozar Marovic. The contract on the procurement of 59,000 helmets, 63,200 bulletproof vests and 24,000 protective suits which the Military needed in 2006 and 2007 was signed on August 25. The report of the Department for the Budget Inspection showed that due to the fact that the prices had been pumped up, the loss of 74,227,000 euros had been made to the state budget.

But businessman Mile Dragic claimed that the contract signed with the Defense Ministry was not “harmful”, that the prices had not been pumped up and he gave the concrete examples of how much the military vests and helmet cost (the Svedok weekly, September 20, 2005): “We held three press conferences; at the first two we denied all allegations made against us and proved that Mr Dinkic’s claims were groundless. Mr Dinkic has been changing his accounts and giving the contradictory information. He made many accusations – that the prices were high, pumped up... He said that the military vest cost 650 euros in 2003, and that its current price was 1,700 euros. It is not true. The military kit which includes a military vest together with a protective ballistic vest and two ballistic plates, a tactical or combat vest, ballistic shields, grenade holsters, spare pistol bullet holsters, gloves, a military scarf, a transport backpack and combat backpack cost 1,750 euros in 1999, 2001, 2003, as well as today. And Dinkic added dinars from 1999 year and dinars from 2003 year and he got the false figure of 650 euros, because he did not revalorise the sum.”

Instead of starting the appropriate dialogue, Dinkic and his party opened up the “new battlefields” in their confrontation with Dragic, accusing him of financing the Serbian Radical Party (SRS), of being the frequent host of the leader of the SRS Tomislav Nikolic in Zrenjanin, with whom, as the G17 Plus claimed, he had been on Cuba.

It didn’t take several months for the public to realise, as had been the case in some other affairs, that many of these affairs were only the smokescreens. With regard to the “helmets affair”, the media stated that “even after twelve days since the revelation of the ‘biggest case of fraud in the last one hundred years,’ as the Minister of Finance had called the purchase of the military equipment, the culprit for signing the scandalous contract in the name of the Defense Ministry with the “Mile Dragic” company was still unknown. Neither did “soothing” statement of Minister of Police Dragan Jovic mean anything to the public. He said that “the investigation was underway” and that “all competent departments were checking the contracts which were assumed to be “harmful” to Serbia and tried to discover who was responsible for signing them. The criminal police, UBPOK and the Military Security Service had interrogated all relevant persons linked with this affair. The special prosecutor had provided

guidelines on how they should perform their task,” Minister Jovic explained.

But before it happened Minister of Finance Mladjan Dinkic once again took the investigations and court decisions into his hands (and repeated for the umpteenth time the demagogic phrase). On September 18, 2005 he said that “in all probability, Chairman of the Council of Ministers of Serbia and Montenegro Svetozar Marovic would face charges because he had signed the decree which had resulted in signing the contract on the military equipment procurement worth about 176 million euros with the “Mile Dragic Production” company. This referred to the theft and not to the politics and it should be brought before the court. Marovic signed the contract and he was informed about all events surrounding the conclusion of the contract”. He stressed that he would be ready to resign as the Minister of Finance if this case was not solved by the court. “Not only will I submit the resignation from my post, but also I will retire from the politics”, Dinkic said. He added that “it was absolutely clear that the criminal charges would be brought against many people”.

Dinkic predominantly used the Blic daily as the media platform in this affair. Therefore, the Blic daily published almost every day the exclusive pieces of information whose source could be guessed from their content. Dinkic called on President of the State Union Svetozar Marovic through this daily to publicly answer the question whether he had gained personal benefit in the affair regarding the military equipment procurement and said that he had intentions of bringing Marovic to account “because it was his duty to defend the interest of Serbian citizens.” “I do not get any advantage from my work as the Minister of Finance... After all that happened it is clear that nothing should remain the same in the military finance.”

Svetozar Marović immediately responded, threatening to withdraw the Montenegrin staff from the institutions of the State Union. The media reported that Marovic had told Kostunica and Tadic that he had no intention of putting up with the groundless accusations Minister Dinkic had made against him and that Montenegro would respond strongly to such Dinkic’s actions. Vule Tomasevic, the President’s chief of staff, confirmed the possibility that Montenegrin staff would be withdrawn from the government institutions in Belgrade. “We are considering the withdrawal of the Montenegrin members from the administration until this issue is not solved by the most competent international institutions which are impartial in their work. We see no reason to stay here and wait for some new Dinkic’s investigative “executioner” to raid our premises at night”, Tomasevic told Beta news agency on September 16. He added that “the country in which one man was the prosecutor, judge and “executioner” was not secure for anyone”.

On this occasion and only on this occasion did the Democratic Party of Serbia (DSS), Dinkic’s coalition partner in the Serbian government, make the comment about the situation. Its spokesperson

Andreja Mladenovic said to the press that the DSS was surprised by Minister of Finance's reaction. "We should wait for the final report of the competent authorities and only then should we make an assessment. We do not approve of Dinkic's recent actions in public".

Four days later Mile Dragic issued a warning: "Mr Dinkic is obliged by law to keep my business secret. But he betrayed the secret and committed the offence in this way, causing harm to my company. The Minister puts himself above the law. He makes accusations and passes judgements. Why didn't he wait for the Court to rule out on this case or for the commissions to make assessment on the matter? I have nothing against my company being controlled. I have nothing against the publication of the findings regarding the business operation of my company. And I would be ready to account for my actions before the Court of Law if there was reason for that. But I am against the trials before the trials have started, I am against the trials in the media and at the press conferences".

On the same day the media reported that Mile Dragic had been questioned in the Administration for the Fight against the Organized Crime (UBPOK) within the Ministry of Interior Affairs of Serbia, because he had been suspected of having committed a bribery offence while making the agreement on the military equipment procurement worth 296 million euros with the Defense Ministry. He was charged with bribery and the report of the the Department for the Budget Inspection did not contain the information about his personel involvement in the affair.

Dragic spent some time in the investigative detention. Several months later (on March 30, 2006) he told the press that he had been arrested because his company had paid 10,800 dinars for stay at a hotel of a military official and his car repairs in the amount of 27,000 dinars. "The repairs to Colonel Jovica Vuckovic's nineteen old car was also a frame-up, because the bill for the repairs dated from May 2005 was fake. Namely, he had sold that car a year earlier, but the police trumped up charges against me in respect of the unpaid invoice for it. That bill has neither been delivered to my factory nor we have ever paid it. The statement and the fiscal bill of the new car owner prove that he repaired the car and not Vuckovic, but we keep it in case the legal procedures is launched".

In 2006 the curtain was falling on one more affair in Serbia. In February 2006 the Council of Ministers of the State Union of Serbia and Montenegro made the decision on breaking the contract on the procurement of the military and ballistic equipment worth 176 million euros concluded between the Defense Ministry and the "Production Mile Dragic" company.

On that occasion Mile Dragic announced that "the biggest case of fraud in the last one hundred years" had only resulted in the closed criminal investigation into him and the stain on his name caused by the allegations that he had bribed some people to sign the contract with his company: "The investigation showed that the

bribery offence had not been committed. After seven months of the investigation into the business operations of my company the financial police discovered nothing spectacular, except for two minor offences. But even after seven months passed and after I spent a month in custody the judge neither dropped the charges against me nor he filed the lawsuit. He exploits the legal loophole and according to someone's wishes they can consider me a suspect for the next ten years. The instigator of the affair did his best to reveal all business secrets of my company, causing the irreparable losses to it. In the meantime, while the affair was still unfolding, the export of the company's products worth 130 million euros was stopped. When this happened, the embassies of those countries informed their governments that I had problems with the Serbian Government and they advised that the companies should not cooperate with me, which resulted in the cancellation of the business contracts one after another”.

The media published in April 2006 that the soldiers of the Military of Serbia and Montenegro deployed on the administrative line with Kosovo would soon acquire 1,500 ballistic equipment kits and that in all probabilities this equipment would not be purchased from Mile Dragic's company, but from abroad.

Although Defense Minister Zoran Stankovic was not precise in his statement on the military procurement, the equipment in question primarily included the ballistic combat vests and helmets. The Defense Ministry claimed that Dragic had not agreed to the request for the discount on the offered price of the ballistic equipment, but he insisted on the fulfilment of the previously signed contract. The Ministry offered him another contract on the purchase of 1,500 ballistic equipment sets, which had also been offered by the General Staff of the Military of Serbia and Montenegro almost a year ago, but Dragic refused it either.

In the end, this affair also sank into oblivion.

And at the “hot” beginning of it the NIN weekly wrote the following lines:

*“Everyone think that Davinic should resign from his post, but they are not absolutely sure why they think so. Everyone also know that there is a foul play within and around the Military, but they are not sure yet what it is about. Everybody agree that Minister Dinkic is most responsible for occurring the biggest military affair in Serbia, but no one is quite sure what his motives are. The great struggle for the impoverished army and huge military budgets begins somehow in this way. A torrent of words, papers, evidence, bills, the statements of the Prime Minister and the President of the State. And the public is confused all the time about what really happens. If the Defense Ministry has signed the “harmful” contract on the military equipment procurement with Mile Dragic, then at least two important questions should be answered:1) Why did we learn about the*

*irregularities in the business activities of the Defense Minister only after the dispute had been opened and Minister Prvoslav Davinic had refused to obey the requests of the leader of his now former party? 2) Who profited from the whole situation? Or in other words, if someone in the Defense Ministry signed the contract which was harmful to the Military, but profitable for Mile Dragic, it went without saying that Dragic had returned him or her the favour. But who he or she was and what was the favour? What would have happened if Davinic had agreed to employ Aleksandar Radovic on a permanent basis on that August day? Would he still have been the unchallenged Defense Minister and would the Ministry still have been headed by the G17 Plus?"*  
(the NIN, September 8, 2005)

## Epilogue

The charges with respect to the "bulletproof vest affair" were brought in July 2007. The defendants were accused of abuse of power under circumstances surrounding the signing of two contracts on August 25, 2005 on the military ballistic equipment procurement between the Ministry of Defense and the "Mile Dragic" company. According to the bill of indictment, the contracts were dubious in respect of the amount and the price of the ordered military equipment, but these contracts had never been realized. Till November 2009 the significant progress was made in the legal procedure which had been launched in 2008, but a month or two later it was stalled due to the general election of the state judges and the reorganization of the judiciary network. At the beginning of the trial the defendants denied all accusations and the case against Mile Dragic was transferred to the Municipal Court in Zrenjanin because it had been decided that it was outside the jurisdiction of the Military department of the District Court in Belgrade. In the meantime, the Court in Zrenjanin completed the legal procedures against Mile Dragic and he was acquitted of the charges in June 2010.

The legal procedures against Prvoslav Davinic and the retired officers in the Military of Serbia and Montenegro General Milun Kokanovic and Colonel Jovica Vuckovic were conducted before the Military Department of the Superior Court in Belgrade.

On July 5, 2012 Davinic, Kokanovic and Vuckovic were acquitted of the charges relating to the abuse of power in the acquisition of the bulletproof vests and other military equipment for the Military needs in 2005 from the Zrenjanin-based "Mile Dragic" company dealing with the production of the military equipment. Explaining the verdict Judge Vera Vukotic said that the proof of guilt had not been established in the statements of the defendants and witnesses as well as in the written evidence. The Court decided that the Prosecution had not proved that Davinic and the officers Jovica

Vuckovic and Milun Kokanovic had caused the loss to the budget of the State Union of Serbia and Montenegro due to the conclusion of the contract worth 176 million euros between the “Mile Dragic” company in Zrenjanin and the Military of Serbia and Montenegro. The spokesman of the Public Prosecutor’s Office Tomo Zoric said that the Prosecution would appeal against the verdict.

## The Swedish Trains Affair

Serbian Railways, as practically any other public company and the state in general, was turned into a technological and business ruin during Milosevic's regime. The devastation of this infrastructure system was so thorough that it was hard to fit it into the European railway passenger and cargo transport system. Following the democratic changes, many states (such as Germany, Romania) provided their support by donating both passenger carriages and freight wagons.

However, the means of transport were not the only issue. Much more troublesome was the poor infrastructure that even though it was the first decade of the 21st century, did not allow develop speeds as in other European countries.

The increased scope of work and need to replace the old engines required the procurement of new, modern rolling stock, first of all the engines.

In September 2005, the Minister of Capital Investments, Velimir Ilić stated that Serbian Railways require more than two thousand freight wagons and a number of passenger trains and locomotives, to comply with the economic trends.

Although the Serbian Parliament had already adopted the Public Procurement Law with the Public Procurement Office operating and despite the newly established value system adopted by the public, the relevant department minister decided to purchase the used engines for Serbian Railways, without any tender and under completely private arrangement.

Not even once did the Minister of Capital Investments, Velimir Ilić take the opportunity to account for spending the taxpayers' money to the Parliament or the public during the period of the Swedish engines affair, even though he was deeply involved in it, nor was he ready to answer for any of his actions in public.

The Swedish Trains Affair occurred in the last quarter of 2005, and it mainly involved the fact that the Public Enterprise Zeleznice Srbije (Serbian Railways) following the urgent procedure and without calling a tender, purchased 10 trains (rail-cars) from Swede Rail company through a company trading in garments for boutiques, for the price of 3.5 million euros, even though it was initially announced that the contract that was to be signed was worth 2.8 million euros.

Immediately after the affair became known in public, Milanko Sarrancic, the Serbian Railways General Manager, and also Minister Ilić's party colleague, claimed that "there was an ongoing campaign against that company, due to his having modernized the railway company".

The political turmoil had only begun when on October 16, the Director of the National Office of the President of the Republic, Dragan Djilas, requested from the Prime Minister, Vojislav Koštunica

to give his statement about the operations of the PE Zeleznice Srbije asking in particular: “How come that the General Manager of the Serbian Railways announced to the Public Procurement Directorate signing of the contract worth 2.8 million euros, while signing the contract worth 3.5 million euros? How come that he bought the trains and engines from the company trading in textile goods, without even any registered office at the reported address?”

Only two days later, the Minister of Capital Investments, Velimir Ilić stated that there were no elements of a criminal act in the procurement procedure carried out for the Serbian Railways: “The police examined the entire documentation and asserted that there were no elements of a criminal act”.

This memorable sentence provoked a comment in the Danas daily, that published the following article on October 21, 2005:

*“Any person that even passed by the building of the Law School or a Police Academy, let us quote the former Minister of Justice, Vladan Batic, could unmistakably respond to the question whether a police investigation is confidential or not. Also, that the principle of autonomy of investigation authorities is requisite, in order not to have any prejudice regarding the outcome or, god forbid raise any doubts as to the investigation results. The Minister of Capital Investments of Serbia, Velimir Ilic obviously never walks near the Law School, since he boldly claims that the police department confirmed to him that no legal procedure had been violated in the procurement of engines and trains from Sweden. In contrast to this, although they believe that there is a campaign going on against the Serbian Railways, the management of this public company would wait for the report of the official investigation led by the Administration for the Fight against Organized Crime and only after, give a statement. Undoubtedly, the investigation conducted by UBPOK, the outcome of which is hardly waited by the interested parties and the public, will show who was right in this case, both regarding the principles and the money. Moreover, to ensure that no one has any doubts regarding the legitimacy of the investigation, we should hope for an Annex to this report, that will at least name the police source of the Minister, Mr. Ilic, including the Decision on his permanent dismissal from UBPOK. The Minister is anyhow protected from any investigation on undermining the investigation by his immunity. But to be fair enough, he is also protected by the practice, given that it has become custom in Serbia that everyone, literally from the catering staff in the police department, through journalists working for various suspicious media and to departmental and non-departmental ministries, know everything before the closure of investigation. Also, they indeed do not hesitate to share it anywhere in public. This example was simply only followed by the Minister of Capital Investments”.*

The scam prepared by the Minister Ilic and his mocking the pub-

lic however did not pass unnoticed. Much of the credit is due to the Public Procurement Office managed by outstandingly professional, educated and uncompromising young man (Predrag Jovanovic) appointed to this position after his function of the Director of Transparency International for Serbia. The Public Procurement Office ruled out the contract on the procurement of trains, and the Director of the Office, Predrag Jovanovic stated that three out of four public procurement principles were violated in the procurement of Swedish trains, after they were denied the approval to continue with the negotiations, twice. Jovanovic publicly disclosed that the responsible persons from the Serbian Railways were clearly informed about the violated parts of the Public Procurement Law, specifying that the most serious breach of its provisions was the specific type and brand of the manufacturer requested (the series y1DMV and manufacturer Fiat), whereby they practically eliminated other potential bidders and violated one of the key principles of the public procurement – there has been an obvious discrimination among bidders. The Public Procurement Law provides that the Contracting Authority is not allowed to specify any trade mark, patent, type or origin that is, the manufacturer. According to Jovanovic, Serbian Railways did exactly the opposite, which was directly in conflict with the Law. In addition to that, the Serbian Railways referred to the urgency of procurement, thus violating Article 79 laying down that at least two independent bids from two different bidders should be collected in the case. The Serbian Railways accepted only one offer and concluded the contract. Thus, they avoided any competition.

The case of the procurement of Sweden trains, Jovanovic asserted, clearly pointed to the necessity of having the high audit institution in Serbia at the time, that would have verified whether the process had been entirely done in compliance with the Public Procurement Law and which parts of the Law had been violated, following which they would propose appropriate actions and sanctions to the Government and the Parliament.

Even though the Public Procurement Office pointed to the omissions made by the Serbian Railways, it was most vigorously opposed by the Minister of Capital Investments. Notwithstanding the well grounded arguments of the Office, Minister Ilic's explanations referred to other issues instead of the affair itself, claiming that the Serbian Railways were out of cash and that the engines that were purchased were obtained at fairly favourable terms to the repayment period of six years, adding that the Sweden Government was to provide its support with the repayment by its donation worth 1,7 million euros as well as that Sweden granted a huge credit line of 160 million euros out of which 58 million would be used for buying the rolling stock, that Hypo Alpe Adria Bank managed the entire project and that it was tasked with finding the appropriate trade companies and vendors of engines.

At one point, the police Administration for the Fight against Organized Crime (UBPOK) had to step in, by confirming that it had already investigated the suspicious procurement of Swedish trains and denying that it had already made any report, referred to by Velimir Ilic, the Minister of Capital Investments and Milanko Sarancic, General Manager of Serbian Railways.

Such late involvement by UBPOK made the Transparency Serbia Executive Director, Nemanja Nenadic, state that “the worst thing in such developments regarding the case of the engine procurement is that for weeks, UBPOK had been restraining from giving any statements regarding whether they have been conducting any investigation regarding the operations of Serbian Railways and whether they had finalized it and what was its outcome. Meanwhile, the Serbian Railways management and the departmental Ministry keep referring to their report and publicly declaring that it confirmed that there had been no breach with the law. It does take some reasonable period for the police to compose a report, but I believe that such period has run out. They have to disclose the results of their investigation in public.”

In spite of everything, Minister Ilic continued to mock the public, claiming that “all the competent bodies that checked this procurement, stated that everything was ok”, shifting to the political issues, immediately after by saying: “I still believe that this has something to do with the politics, since Jovanovic was brought to the present position from the former Government and nobody bothered him. I do not know what his intentions are”. Ilic later requested from his coalition partners to dismiss Predrag Jovanovic from the position of the Public Procurement Office Director.

In addressing the journalists for the second time, Minister Ilic claimed that the Public Procurement Office Director Predrag Jovanovic was the member of the Democratic Party and that the Assistant Minister of Railway Traffic, Branislav Boskovic (who was meanwhile dismissed by Ilic) also belonged to the same party and that he was a close friend of Dragan Djilas, the National Office Director (also an official of the same Democratic Party). It was more than obvious that the intention of the Minister of Capital Investments, Velimir Ilic was to distract the attention of the public from the corruption affair to the political conflict.

The former Assistant Minister of Capital Investments, Branislav Bosković rejected the claims of Minister Ilic, asserting that the real reason for his replacement was that he had opposed the investment policy at the Management Board of ZTP Belgrade (Railway Transport Company) explaining that there would be no return of the funds. “I opposed the purchase of diesel engine trains from Sweden, because we have no maintenance program developed in our country for such rolling stock, and since it had been planned that they would be used in regional traffic, where a single van would be sufficient for the transportation of potential passengers, rather than

a train” said Boskovic. The Director of the National Office of the President of the Republic, Dragan Djilas stated that he had never met Branimir Boskovic.

In trying to return the discussion about the affair to the issue of responsibility, the Public Procurement Office Director Predrag Jovanovic stated that he firmly stood behind his words, not only those asserted before the media but also to the competent authorities and the very Contracting Authority, and that his warnings were given timely. “The entire case has become quite messy, given that there is an involvement of media and interference of other elements outside our profession, including the politics,” said Jovanovic.

The professional approach to this issue, the credibility of the Public Procurement Office Director and almost unanimous denunciation forced Minister Velimir Ilic to bring the issue to open, due to which he eventually ‘exploded’ during the interview with B92: “What the heck are you pushing it? I am not here to read laws with you! Let me ask you something: why don’t you tell me instead why are the greatest criminals and mafia members of this country your sponsors? It is you who are corrupted! You have nothing better to do than pick on already devastated railways that is so poor that there is nothing to steal from them...” What do you mean by the Public Procurement Law?! That law is worth nothing! This is what I believe and it will have to be changed in no time.”

Such appearance of Minister Ilic was condemned in public. Media wondered why such scandalous behaviour had never been commented by other Ministers and officials of the ruling coalition, including the Prime Minister Vojislav Koštunica who promised to the citizens in his pre-election campaign that he would strictly abide by the laws. The public was shocked when the Adviser of the Prime Minister, Vladeta Jankovic stated at a meeting of his party on November 6, 2005 that: “The statements of Minister Ilic and the tone of his communication with media are harmful and bad. However, we have to bear in mind the balance of powers in the Government and the priorities, as well as what is most important at this point, whether the destiny of the country or the good manners and courtesy of an individual. Under the circumstances, now that the stability of the Government has priority due to the forthcoming negotiations about Kosovo, I may only express my personal disagreement with his behaviour.”

The silence about the Sweden trains affair, including occasional interruptions, lasted until late 2005 when (on December 28) Minister Ilic stated at the press conference: “According to information available to me, the procurement of Swedish engines was conducted in accordance with the law and the Ministry of Capital Investments has no reason to be dissatisfied with this transaction. Three months ago, I addressed the competent authorities requesting them to investigate whether the procurement of engines had been done in a legitimate way and so far, I had received no response about the pro-

cedure not being followed. If the opposite is proved, those responsible for violating the law will be most strictly sanctioned.”

Out of ten purchased sets of Swedish rail-cars in the beginning of 2006 – six of them reached Serbia, and four more were expected to arrive without knowing their condition. According to printed media, those that arrived had their breaks broken and they could only be repaired in Croatia.

At the time, no competent state authority – Ministry of Interior, more precisely the UBPOK and budget inspection of the Ministry of Finance – still remained silent.

Although the rolling stocks were bought to ensure “urgent enhancement of traffic during the Summer of 2005, even six months after the affair had been revealed they were not used in traffic. It was no earlier than March 30, 2006 that the Serbian Railways released two out of ten used rail-cars from Sweden to traffic, the total price of which reached around three million euros. At the press conference organized on that occasion, it was said that the trains from Sweden were between 21 and 25 years old, their price being 2.5 million euros, that the repairs cost 350,000 euros and that they were bought under the lease agreement, under favourable terms. Milanko Sarancic, General Manager of PE Zeleznice Srbije, stated that he expected the trains to be used in traffic for another 15 years. Velimir Ilic took ride on one of these trains and declared on the occasion: “I am really very sorry that we had some misunderstandings but everyone is right, maybe everything was not done in the best way. There are some loops in the law too, and it is a true observation that the procurement was done under urgent procedure, and the procurement was completed only months later. If something is urgent, than it really has to be urgent.”

The most recent information published about these rail-cars (the Politika, August 11, 2006) was that eight out of ten of ordered rail-cars were in use.

Not even one year after the beginning of the procurement designated as urgent, have all the ordered rail-cars arrived in Serbia.

The end





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