



## RESTRUCTURING MODEL OF RAILWAYS OF THE REPUBLIC OF SRPSKA

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### Abstract

Republika Srpska has identified restructuring of the railway sector among top priorities to improve public finance and ensure the provision of high-quality rail services. Modernization of the railway sector was envisaged as the reform of the company in order to operate public rail transport of passengers and goods in accordance with the EU principles and Directives. The objectives of organizational restructuring are to provide the ŽRS with appropriate mechanisms to support their long-term financial sustainability and to align the organizational structure with the railway framework of EU directives and regulations, while creating a clear vision, direction and independence of the role of infrastructure management and operations. The specific objectives of this component include planning and implementation of a new, more commercially driven organizational structure of ŽRS, consisting of corporate core plus two independently managed and separately accounted business divisions, one for infrastructure management and one for transport operations. Within the operations, the accounts will be kept for freight and passenger traffic.

*Keywords: restructuring of the railway sector, organizational structure of ŽRS, financing of railway services*

### 1 Introduction

Restructuring of a company means any change in the structure of capital, business or ownership which goes beyond the limits of the ordinary or daily course of company business. The fundamental goal of company restructuring is to create more value for company owners. “Republika Srpska Railways” (Serbian: *Željeznice Republike Srpske*) operates as a joint stock company, and the ownership structure consists of the Stock Fund of the Republic of Srpska jsc. Banja Luka 63.92%, The Pension Reserve Fund Of Republic of Srpska jsc. Banja Luka 10%, Republika Srpska Restitution Fund jsc. Banja Luka 5% and small stockholders 21.08%. The macro-organizational structure of the company consists of Department of Operations, Department of Infrastructure and Common Affairs.

Republika Srpska Railways is the only railway undertaking in Republika Srpska, and the main activity of this company is the transport of passengers in domestic traffic, the transport of goods in domestic and international traffic, train traction and maintenance of the technical and operational validity of traction and hauled vehicles, maintenance of rolling stock, organizing and regulation of railway traffic, maintenance of railway lines and railway facilities. The basic characteristics of the workforce employed by the RS Railways are: numerous different and specific occupations, the requirement of having certain health capacity, a significant number of work positions where workers are entitled to accelerated retirement due to working conditions, the phenomenon of an unfavorable age structure and a significant number of disabled people.

## 2 The restructuring procedure

Republika Srpska Railways jsc. Dobož is currently in a situation when it is necessary to initiate a comprehensive restructuring, both in terms of ownership and financials, as well as the organization [1]. In order for all three aspects of restructuring to be implemented almost simultaneously, the only possible way is to implement it through the financial and operational restructuring procedure, which was made possible with the adoption of the new Law on Bankruptcy at the beginning of 2016. Thus, it has been made possible to convert the liabilities that the Republika Srpska Railways have to suppliers and creditors into basic capital, which directly improves the liquidity position, and also reduces liabilities for regular and default interest (for loans). This procedure, in particular the debt-to-equity conversion of Republika Srpska Railways, primarily refers to liabilities based on international loans to the RS Government based on the principal amount of the debt, regular and default interests. The restructuring procedure under the Law on Bankruptcy includes the following steps:

- The Company's Management, with the possible assistance of external associates, prepares a proposal for the restructuring program.
- The Supervisory Board reaches a decision on the initiation of the restructuring procedure and authorizes the director to submit a proposal for the initiation of the procedure to the court, along with the documentation provided for by the Law on Bankruptcy.
- The director submits the proposal to the Commercial Court in Dobož.
- The Commercial Court Dobož reaches a decision on opening the restructuring procedure and appoints a trustee within 8 days (it can be assumed that the Court will need a slightly longer period to reach a decision due to the lack of court practice).
- The trustee analyzes the claims and liabilities.
- The Court schedules an examination hearing.
- In case of reported claims which are not included in the plan, Republika Srpska Railways must change the data on claims in the plan within eight days.
- The court schedules a hearing where the financial and operational restructuring plan is discussed and voted on - a minimum of 25% of creditors as well as creditors who have at least half of the total reported claims should vote for the adoption of the Plan.
- After the adoption of the restructuring plan, the Supervisory Board convenes a stockholders' meeting.
- The Assembly of Stockholders adopts the decision to increase the basic capital by converting liabilities based on (international) loans into capital [1].
- The implementation of the restructuring procedure of Republika Srpska Railways largely depends on acceptance to convert debt to equity by the RS Government, regularity of grant payments by the RS Government, and support from the World Bank, through providing technical assistance [2].

Prior to the formal initiation of the restructuring procedure, it is necessary to:

- Conduct consultations with the president of the District Commercial Court Dobož regarding the operational implementation of the restructuring procedure before the District Commercial Court Dobož as the actual and locally competent court.
- Formalize cooperation with the World Bank through a loan arrangement in order to settle the liabilities towards the employees before the restructuring process, which would reduce the number of creditors and make assumptions for the 25% of creditors to vote for the restructuring plan (the RS Government will have more than 50% of the value of receivables through the loan and tax liabilities) and enable financial stability considering that tax liabilities and expenses for informatization of the Company would be settled.
- Obtain a written approval from the RS Ministry of Finance that they will vote to accept the restructuring procedure [1].

The measures within the restructuring procedure are as follows:

- Reduction in number of employees through technological redundancy.
- Accounting separation of infrastructure and operator.
- Creation of profit centers.
- Organizing special department to manage the assets.
- Establishing complementary companies with the partners.
- Conversion of debt under international loans into capital of Republika Srpska Railways.
- Payment of liabilities to the RS Tax Administration immediately (loan from the World Bank) or rescheduling of the liabilities to the RS Tax Administration.
- Settlement of the remaining liabilities to employees.
- Infrastructure investments.
- Modernization of rolling stock for passenger and freight traffic.
- Informatization of the Company.
- Appointment of the implementation unit.
- Activation of non-prospective assets.
- Activation of assets through public-private partnerships [3].

### 3 Ownership restructuring

The first step in the process of ownership restructuring of Republika Srpska Railways would be the conversion of the total debt based on international loans into the equity of Republika Srpska Railways. The debt conversion for international loans refers to the loans from the EBRD, the EIB, the loan from the Portuguese Government, the loan from the Polish Government and a loan from the Serbian Government. The total contractual loan obligations that the Republika Srpska Railways have to the RS Government based on the repayment of international loans, which includes all associated interests (principal + interest + legal default interest), would be converted into the basic capital of the Railways [1].

This procedure would be carried out following the adoption of the financial and operational restructuring plan by the Assembly of Creditors. The stages of the procedure:

- The Supervisory Board of Republika Srpska Railways convenes a stockholders' meeting.
- The Assembly of Stockholders of Republika Srpska Railways adopts the decision on the conversion of the debt owed to the RS Government into equity, i.e., the decision on the third issue of stocks by conversion of debt into equity.
- Registration of the third issue of stocks in the Register of the RS Securities Commission, the Central Register of Securities, registration of the increase in the basic capital in the court register [1].

Following the implementation of the debt-to-equity conversion procedure, the ownership share of the majority stockholder would currently reach over 99%, and thus the prerequisites would be met for the initiation of the transfer of the stocks of the remaining stockholders from the ownership structure to the majority stockholder, the implementation of which would make Republika Srpska Railways a single-member joint stock company. The procedure for transferring minority stocks to the majority stockholder implies the following activities:

- Assessment of the stock value by an authorized appraiser.
- Provision of the guarantee of the Majority stockholder for the purchase of stocks.
- The Supervisory Board of Republika Srpska Railways convenes the Assembly of Stockholders.
- The Assembly of Stockholders of Republika Srpska Railways adopts a decision on transfer of the stocks to the purchaser (majority stockholder).
- Registration at the court register.
- Registration of the stock transfer at the Central Securities Register [1].

It is necessary for the RS Government to accept the restructuring procedure and to appoint the persons who will be in charge of managing the procedure for the purchase of stock from the minority stockholders. Republika Srpska thus becomes the 100% owner of the stocks of Republika Srpska Railways following the conversion of debt into equity and the payment to the stockholders.

## 4 Financial restructuring

In addition to ownership restructuring, the Company must also carry out the financial transformation. In the process of financial restructuring, obligations under international loans would be converted into capital. The liabilities to employees and the liabilities to the RS Tax Administration (for taxes and contributions to salaries) will be settled with funds secured by a loan from the World Bank. Until the loan from the World Bank is secured, it is necessary to suspend the calculation of default interest by the Funds and the Tax Administration in order to prevent blockages, while fulfilling the obligations of the Funds. Liabilities to other suppliers continue to be repaid according to the previously determined schedule [1]. Following these measures (conversion of liabilities under the international loans into capital, loan borrowing with the World Bank) and by reducing the cost of gross wages, along with the regular monthly payment of the grant by the RS Government, the prerequisites for financially stable operations will be created, which will enable the regular payment to all the creditors.

## 5 Organizational restructuring

The Management Republika Srpska Railways proposed certain organizational changes, primarily in terms of termination of legal and economic affairs, that is, their unification into Common Affairs, along with the segments of investments, internal control, international relations and information dissemination [1]. The primary goal of this proposal of the Management is to clearly highlight two basic business segments, namely Department of Infrastructure, with responsibilities related to the management and maintenance of railway infrastructure, as well as organization of railway traffic, and the Department of Operations, which is responsible for the transport of goods and passengers, as well as the rolling stock maintenance. A clear statutory highlighting of these two segments, along with the financial separation, is the basis for any future plan of a more thorough restructuring.

The Management Board in the proposed organizational structure, would consist of the general director and executive directors of the Department of Infrastructure and Department of Operations, with a significant increase in the roles and responsibilities of the executive directors in the segments they manage. The mentioned organizational changes represent activities which are possible at this moment, as the preparation of activities which should be done in parallel with other stages of restructuring. In order to implement the organizational restructuring process, it is necessary for the Company's Management to adopt a new systematization of jobs and to set clear deadlines for its implementation. During the process, the Management is obliged to harmonize the organization and systematization in accordance with status and technological changes in the Company. The Supervisory Board should determine the method and deadlines for reporting on the effects of the systematization adopted by the Management [1]. To meet the requirements of the European regulations in the field of railways, the Departments of Infrastructure and Operations (freight and passenger traffic) will be separated in terms of accounting, with the possibility of a complete analysis of the business performance of each segment separately. In this way, a quality basis will be created for making a decision on the factual separation of the Departments of Infrastructure and Operations as separate legal entities.

## 6 Overall logistics for a successful implementation of the restructuring procedure

For a successful implementation of the restructuring process, the Company's Management should appoint teams to implement each of the activities, primarily in terms of organizational restructuring, and especially in terms of:

- Implementation of the new systematization of jobs,
- Preparations and implementation of the new accounting separation of the infrastructure and the rail operator,
- Establishment of profit centers (the Maintenance of Rail Vehicles, as the first step),
- Activation of the asset management unit.

In addition to the teams responsible for the implementation of the abovementioned activities in the restructuring process, for the purposes of supervising the implementation of the restructuring program, it is necessary to establish a unit for the implementation of the restructuring program. The unit will be tasked to monitor the implementation of the restructuring program in the part financed by a World Bank loan, i.e., all stages of the program except the ownership restructuring [1]. Before the very procedure, it is necessary to sign the agreement on the loan arrangement which includes loan funds for settling obligations to employees (liabilities according to the lawsuits and severance payments, tax liabilities, informatization of the company) and to prepare all the necessary documentation for submitting a request for the initiation of the restructuring procedure at the competent court.

## 7 Conclusion

Republika Srpska Railways are not financially sustainable in their current role and form. It is necessary to embark on a comprehensive restructuring, both ownership and financial, as well as the organizational. The plan is to conduct the restructuring in accordance with the Law on Bankruptcy, which regulates the field of financial and operational restructuring. In the restructuring process itself, it is necessary to convert receivables based on international loans into the basic capital of Republika Srpska Railways. By implementing the ownership, financial and operational restructuring of Republika Srpska Railways, the company will be able to regularly fulfill their obligations to employees, suppliers and creditors and to provide quality services, primarily in freight and passenger traffic at the level of services of similar companies from the region.

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