

Impact Assessment of Privatisation in Serbia

Belgrade, 27 October 2005



List of Acronyms and Abbreviations

AA	Annual Average
BELEX	Belgrade Stock Exchange
BIS	Bank for International Settlements
C	Consumption
CPI	Consumer Price Index
DB	Data Base
DEM.	Deutsche Mark
Din.	Dinars
EU	European Union
EUR	EURO
EUROSTAT	Statistical Office of the European Communities
G	Public (Governmental) Consumption
GDP	Gross Domestic Product
GMP	Gross Material Product
HDI	Human Development Index
ILO	International Labour Organisation
Kosmet	Kosovo and Metohija (Southern Serbian Province under UN Protectorate)
M	Million
MoF	Ministry of Finance
NBS	National Bank of Serbia
NES	National Employment Service
p.c.	Per Capita
PA	Privatisation Agency of Republic of Serbia
PI	Poverty Index
PP DB	Post Privatisation Data Base
PP(P)	Purchasing Power (Parity)
R&D	Research and Development
RDB	Republican Development Bureau
RPI	Retail Price Index
S	Savings
SC	Solvency Centre
SDF	Serbian Development Fund
SNA	System of National Accounts
SOE	Socially-owned enterprise
SORS	Statistical Office of Republic of Serbia
TF	Transition Fund (Expenditure Item of the Serbian Budget)
X	Exports
YE	Year End

Exchange Rates Used

Indicator	Source	Measurement	1997	1998	1999	2000	2001	2002	2003	2004
Nominal Exchange Rates-AA	NBS	Din/US\$ Annual Average					66.364	64.398	57.585	58.381
Nominal Exchange Rates-AA	NBS	Din/EUR Annual Average	8.016	13.058	26.666	53.500	59.448	60.678	65.055	72.567

Note: For 1997 and 1998 Annual Average ECU/DEM exchange rate were used (unofficial market rate in Din. was taken)

PREFACE	7
EXECUTIVE SUMMARY	8
1. INTRODUCTION	9
2. FRAMING OF THE PRIVATISATION IN SERBIA	11
2.1. A Brief Overview of Serbia's Privatisation Schemes	12
2.2. The 2001 Privatisation Law and privatisation since 2001	13
2.3. Summary results of privatisations under 1997 and 2001	14
3. OBJECTIVES, ASUMPTIONS AND METHODOLOGY	18
3.1. Facts, Assumptions and Methodological Caveats	19
3.1.1. Structure of ownership:	19
3.1.2. Structure of the economy:	19
3.1.3. Sources of data:	19
3.1.4. Indicators:	20
3.2. Criteria for the analysis	21
3.2.1. Choice of GMP	21
3.2.2. Employment and investment	22
3.2.3. Capital market	22
3.2.4. Welfare	22
3.3. Analysis of privatised enterprises	22
4. IMPACT OF PRIVATISATION AT COMPANY LEVEL	24
4.1. Background	25
4.2. Objectives	26
4.3. Sampling	26
4.4. Survey	26
4.5. Analysis methodology	27
4.6. Results of the analysis	28
4.6.1. Efficiency and performance	28
4.6.2. Modernisation and restructuring	34
4.6.3. Employment	35
4.6.4. Influence of changes in ownership and in management	38
4.7. Conclusions	40
5. IMPACT OF PRIVATISATION AT SECTORAL LEVEL	41
5.1. Introduction	42
5.1.1. Methodology	42
5.1.2. Results on each sector	43
5.2. Textile industry	45
5.2.1. Definition of the textile industry	45
5.2.2. Relevant state of affairs in the sector	47
5.2.3. Analysis of the impact of privatisation on the textile industry	47
5.2.4. Conclusions	52

5.3. Chemical industry	53
5.3.1. Definition of the chemical industry	53
5.3.2. Analysis of the impact of privatisation on the chemical industry	56
5.3.3. Conclusions	61
5.4. Food industry	62
5.4.1. Definition of the food industry	62
5.4.2. Analysis of the impact of privatisation on the food industry	65
5.4.3. Conclusions	70
5.5. Construction industry	72
5.5.1. Definition of the construction industry	72
5.5.2. Analysis of the impact of privatisation on the construction industry	74
5.5.3. Conclusions	79
5.6. Trade sector	80
5.6.1. Definition of the trade sector	80
5.6.2. Analysis of the impact of privatisation on the trade sector	83
5.6.3. Conclusions	88
5.7. Production of non-metallic minerals industry	89
5.7.1. Definition of the production of non-metallic minerals industry	89
5.7.2. Analysis of the impact of privatisation on the non-metallic minerals industry	91
5.7.3. Conclusions	95
5.8. Common conclusions	96
6. IMPACT OF PRIVATISATION AT REGIONAL LEVEL	98
6.1. Introduction	99
6.2. Extent of privatisation	100
6.2.1. Privatisation of 1997 & Privatisation of 2001	100
6.2.2. Proceeds from sales by the Privatisation Agency	102
6.2.3. Share Fund and Belex	103
6.3. Privatisation and Regional Economic Growth	103
6.3.1. GMP Dynamics by Regions	104
6.3.2. National Income broken down by types of Ownership	105
6.3.3. Regional Growth Dynamics of Privatised firms	106
6.4. Regional fiscal impact of privatisation	106
6.5. Impact of privatisation on regional exports and imports	108
6.6. Privatisation and regional (Un)employment	110
6.7. Privatisation vs. Purchasing Power (Welfare)	111
6.8. Analysis by regions	114
6.8.1. Belgrade	114
6.8.2. WEST BACKA (Sombor)	121
6.8.3. SOUTH BACKA (Novi Sad)	126
6.8.4. MACVA (Sabac)	133
6.8.5. MORAVICA (Cacak)	138
6.8.6. NISAVA (Nis)	143
6.8.7. ALL 6 REGIONS	149
6.9. Common conclusions at regional level	151

7. IMPACT OF PRIVATISATION ON THE OVERALL ECONOMY	152
7.1. Privatisation vs. Economic Growth	153
7.2. Fiscal Impact of Privatisation	155
7.3. Privatisation vs. Foreign Trade	157
7.4. Privatisation vs. Competitiveness	159
7.5. Privatisation vs. (Un)Employment	160
7.6. Privatisation vs. Investment	163
7.7. Privatisation vs. Capital Market Development	165
7.8. Privatisation vs. Welfare (Purchasing Power)	165
7.9. Conclusions	168
8. SPECIFIC POST-PRIVATISATION ANALYSIS	169
8.1. Management and ownership issues	170
8.2. Turnaround strategy	173
8.3. Improved performance	176
APPENDICES	177
Appendix 1 - Sources	178
Appendix 2 - References	179
Appendix 3 - Structure of the Sample of Privatised Companies	184

PREFACE

This report has been prepared by the IDOM / SEECAP consultant team as part of the “Preparation of Companies for Privatisation” project, EuropeAid/116898/D/SV/YU. It has been prepared by Annie Cordet-Dupouy and Jaime Temes with the contribution and support of Sahin Mandal, Marko Malovic, Juan Miguel Romeo, Momir Tomic and Vlatko Kruzic. The authors are grateful to Boris Majstorovic, Project Manager of the PA for his advices and guidance. They also would like to thank the IT department of the Privatisation Agency for its support.

The views expressed in this report, as well as any errors, are the sole responsibility of the consultant team, and do not necessarily represent the opinions of the Privatisation Agency, nor the views of the European Agency for Reconstruction.

EXECUTIVE SUMMARY

This study has been carried out from December 2004 to September 2005 under guidance of the Privatisation Agency of the Republic of Serbia, and the European Agency for Reconstruction. It attempts to evaluate the impact of privatisation in Serbia at different levels:

- at company level through the analysis of a sample of 325 privatised companies
- at sectoral level through the analysis of six selected industries
- at regional level through the analysis of six selected regions
- at macro level through the analysis of a number of macroeconomic indicators

This was complemented with visits and in-depth analysis of seven privatised companies and six companies to be privatised.

Privatisation in Serbia has been carried out through different models. This report covers privatisations undertaken according to the 1997 Law, which followed an insider privatisation scheme, and privatisation undertaken according to the 2001 Law, which is carried out by selling companies through tenders and auctions. As of 31 December 2004, nearly 2,000 enterprises have been privatised, 775 according to 1997 Law and 1,169 according to 2001 Law. The capital market has played a limited role, restricted to the secondary privatisation of companies already privatised.

Companies and sectors analyses show that companies privatised according to 2001 Law generally have improved their performance (operating profit, sales, exports when relevant) and have invested to modernise their production tool. Companies privatised according the 1997 Law, were privatised to employees. Those companies which have been afterwards sold to a major shareholders also show similar improvements. However, in most cases, companies which still belong to employees have stagnated and do not show an improvement in performance. Moreover, employees who received free shares of the companies privatised by 1997 Law, have often sold them to strategic partners. Accordingly, managers from all companies which were visited stressed the importance of having an strategic partner.

The analysis at the macro and regional level shows less clear results. The main reason is the difficulty to isolate the impact of privatisation from the impact of other reforms and economic developments. In addition, the consequences of privatisations implemented according to 2001 Law are not yet fully reflected in macroeconomic variables.

The decrease in employment has been the negative aspect of the privatisation process, especially in those companies privatised according to the 2001 Law. There is indication that job losses are mostly hitting administrative personnel and unskilled workers while privatised companies are focusing in recruiting younger skilled workers. However, it is too early to assess the impact of privatisation on employment. The full impact of privatisation will be only felt within two or three years, when investments are disbursed and companies have been turned around.

1. INTRODUCTION

This Report is part of the EAR funded project devised to strengthen the implementation capacity of the Privatisation Agency of the Republic of Serbia (PA) with respect to the overall privatisation strategy, the pre-privatisation assessment of socially owned enterprises, and the evaluation of the impact and effect of privatisation on enterprises' performance.

Privatisation in Serbia has seen the application of different models of the free distribution of capital to employees, pensioners and other eligible citizens. The current concept of privatisation in Serbia, based on the Privatisation Law of 2001, has been designed to achieve the following goals:

- *To maximise investment in the real sector,*
- *To maximise social and political acceptability,*
- *To establish a clear ownership structure and mechanisms of transparent corporate administration based on this.*

In this report we explore in both qualitative and empirical manner the economic impacts of privatisation in Serbia. The objective of this report is to evaluate and compare the results of the privatisation schemes of socially-owned companies under Law 1997, and Law 2001, and to analyse what have been the impact of privatisation on the companies and the economy. This analyses is organised along five modules:

- Impact of Privatisation at COMPANY LEVEL
Empirical analysis carried out based on a sample of 325 companies privatised according to the 1997 and the 2001 privatisation Law.
- Impact of Privatisation at SECTORAL LEVEL
Assesment of the results of privatisation across six selected economic sectors: textile industry, chemical industry, food industry, construction industry, trade sector and production of non-metallic minerals industry.
- Impact of Privatisation at REGIONAL LEVEL
Assesment of the results of privatisation across six selected Regions: Belgrade; West Backa; South Backa; Macva; Moravica; Nisava.
- Impact of Privatisation on the OVERALL ECONOMY
- Specific post-privatisation analysis of up to ten companies

Finally, conclusions to be drawn and policy-oriented lessons to be learned are exhibited

2. FRAMING OF THE PRIVATISATION IN SERBIA

As the analyses to be performed cover both enterprises privatised under the 1997 Law, and enterprises privatised under the 2001 Law, this chapter has to provide a background to privatisation in Serbia, and describe the introduction of the 1997 Law, and of the Privatisation Law of 2001 to briefly analyse their *operandi* and later on evaluate and compare their results.

2.1. A Brief Overview of Serbia's Privatisation Schemes

Serbia, being the biggest Republic of former SFR Yugoslavia, had practised for decades a specific mixture of market-plan economy, as well as the so-called social ownership.

This social ownership, undoubtedly a cornerstone of market-oriented and planned duality within the Yugoslav economic mechanism, has been officially defined as an asset belonging to the whole society, that is to say, to everyone and to no one in particular. In practise, however, this effectively meant that when the company was profitable, residue was distributed through wages and salaries to employees (in fact, comparable to a collective-type ownership), whereas in times of losses, the enterprise would ask government for financial help (in fact, a state-owned ownership). While in Croatia and Montenegro the indirect privatisation procedure has been followed (i.e. unilateral transformation of social into state ownership with privatisation immediately initiated), from the beginning of 1990's Serbia opted for direct method of privatisation.

The very starting point of Serbian privatisation process goes back to 1990, when a handful of laws and policies introduced under former Yugoslavia's federal government had set economic transformation into institutional motion. At the beginning of 1991, several hundreds of enterprises, employing roughly 23% of the "socially owned" capital in the Serbian economy, entered the implicit privatisation process (Law on Socially-owned Capital). The initial model adopted was an "insider" privatisation at rearranged book value with 30-70% discount, where the individual discounted purchase value was limited to the sum of three yearly salaries. Due to political and economic drama that followed on its own course, privatisation process was temporarily halted. Serbian privatisation attempts were subsequently resumed, though rather cosmetically, with adoption of the Republican Law on "Transformation of social property into other forms of ownership" by mid-1991. Under this fairly cryptic title, once again, there was an employee shareholding scheme, similar to the previous federal one, yet with markedly worsened conditions of purchasing stocks. Discounts became smaller at around 20-60%, the payment horizon shortened from 10 to 5 years, and an assets valuation procedure was introduced subject to political approval by the newly-established Privatisation Directorate. As a consequence, privatisation sharply declined and up to the end of the year only a few firms introduced (yet not completed) some form of ownership transformation programme. Simultaneously, another ownership transformation phenomenon, politically much more important, overhauled the floor, namely the creation and/or re-establishment of the state property (for the first time since the early 1950's), that included some 33% of the social capital plus huge state ownership of another 10% share of the entire capital in the Serbian economy. Moreover, by mid-1994, Serbian Parliament adopted the so-called Revaluation Law. This Law obliged all the (partially) privatised firms to revalue the outstanding payments for shares purchased by the employees until then. The justifiable part of the intention was to annul the windfall gains acquired by buying shares during the peak of hyperinflation, in 1992 and particularly in the latter half of 1993. Privatisation was almost at standstill for the next two years, whereas in 1995 and 1996 as many as 436 previously privatised

enterprises restored their socially owned status. Many cases were subjected to a long court procedure without too swift verdicts.

A new phase of Serbian privatisation attempts was set off abreast with the 1997 “Ownership Transformation Law”, drafted and launched in a one-month period, after which the coming year was dubbed ‘the year of reforms’. Privatisation was defined as voluntary, pending on the firms’ decisions, but all the enterprises were forced by law to identify and value its social capital before mid-1998. The basic scheme was mostly insider privatisation, primarily through the free distribution of shares to current and former employees: 400 DEM per year of employment, with total amount capped at 60% of the equity being privatised. In addition, supplementary share lots might be sold up to the value of 6000 DEM per shareholder with a 20-60% discount. Potential beneficiaries were all employees, pensioners and farmers (provided that they regularly paid their pension, health and social contribution), but priority was given to workers employed in firms. However, 70 large firms and all state/public enterprises were excluded from this general approach and became subject to “special privatisation programmes” to be carried out by the government.

Three privatisation models were represented in the 1997 Privatisation Law:

So-called first round sale of shares, actually transferred free-of-charge to employees and other citizens, and the second round, in which shares were sold to them with a discount, or without discount for “non-native” investors.

Model of capital increase with a discount, which was rather inciting one, since privatisation proceeds remained in companies privatised, instead of being transferred into the government budget, which in addition made possible granting a discount to employees and citizens entitled to *gratis* shares.

Model of debt-to-equity swap at a discount of up to 20% of the debt total.

However, despite the deadline - until the end of 1999 - set out by law, only about 2,000 firms (out of 8,500) had valued their assets, while not more than 1,500 had completed the valuation procedure. The real privatisation process started with 300 cases only with *circa* 1 billion DEM of capital value, attracting some 100,000 potential shareholders.

2.2. The 2001 Privatisation Law and privatisation since 2001

Under the fundamentally altered political circumstances of October 2000 and thereafter, Serbia took fairly long strides in regards to macroeconomic stabilisation, financial and banking system reform, as well as in terms of reintegration into the international community. Nevertheless, the socio-economic legacy of the previous regime and, soon enough, the lack of firm political consensus still hampered structural adjustment especially in the real sector.

A new law has been passed in July 2001. Unlike the formerly selected models, based predominantly on the mostly insider privatisation schemes, the new law set up a model of market-oriented privatisation with well-developed selling procedures, intended mainly to attract strategic investors and large partners. The new law passed in 2001 focused on two major methods of privatisation: tenders and auctions.

Tender sales are intended primarily for still attractive (in terms of financial and market “shape”) medium to large socially-owned companies. Typically 70% of company’s value is offered to strategic investors, while the remaining share goes to employees and other citizens, up to 15% to the former and at least 15% to the latter.

Auctions as the privatisation method are meant to be for small- and medium-sized firms. Targeted buyers are first of all local investors, including managers of those firms, but also foreigners. Remaining up-to-30% of companies’ shares are distributed to employees free-of-charge (in the first version of 2001 law, typically 10-30% was given for free, depending upon the time necessary for successful privatisation). In comparison with tenders, the auction application procedure is much simpler with low investment and social programme requirements.

The Privatisation Law has been revised in March 2003, and once again in June 2005 in order to facilitate and accelerate privatisation.

In parallel with that, privatisation is being carried out through sales of minority stakes in companies largely privatised under 1997 Privatisation Law, and other previous laws. This has been initiated via the Share Fund, a newly established institution for executing privatisation of 1997 minority shares. In the period 2002-2004, 236 enterprises were privatised through the Share Fund & Belgrade Stock Exchange (hereafter Belex). Thanks to the sales of minority blocks deposited in the Share Fund (together with the remaining chunks of the state-owned capital), a more pronounced development of domestic financial market has been recorded.

2.3. Summary results of privatisations under 1997 and 2001

This post-privatisation impact assessment is related to the results of the privatisations implemented under 1997 and 2001 Laws up to 31 December 2004. It does not cover other privatisations, such as bank privatisations and other transfers to the private sector such as the sale of SARTID (in bankruptcy) assets to US Steel. Nearly 2000 enterprises have been privatised, most of them in the Belgrade region and in Vojvodina. The table below shows the number of privatised companies by region.

Table 2.1. Privatised Companies as of 31 December 2004 according to 1997 & 2001 Laws (by regions)

No.	Region	TOTAL 2001+1997	%	Law 2001			Law 1997
				Auction	Tender	TOTAL	
1	City of Belgrade	448	23,01	216	3	219	229
2	South Backa region (Novi Sad)	234	12,02	110	4	114	120
3	South Banat region (Pancevo)	110	5,65	64	2	66	44
4	Zlatibor region (Uzice)	105	5,39	64	3	67	38
5	West Backa region (Sombor)	91	4,67	51	2	53	38
6	North Backa region (Subotica)	87	4,47	49	1	50	37
7	North Banat region (Kikinda)	88	4,52	50	1	51	37
8	Middle Banat region (Zrenjanin)	76	3,90	32	1	33	43
9	Srem region (Sremska Mitrovica)	76	3,90	37	3	40	36
10	Macva region (Sabac)	66	3,39	52	1	53	13
11	Kolubara region (Valjevo)	46	2,36	30	1	31	15
12	Moravica region (Cacak)	58	2,98	36	3	39	19
13	Nisava region (Nis)	51	2,62	37	5	42	9
14	Rasina region (Krusevac)	41	2,11	30	4	34	7
15	Branicevo region (Pozarevac)	41	2,11	33	0	33	8
16	Jablanica region (Leskovac)	41	2,11	37	1	38	3
17	Raska region	39	2,00	32	1	33	6
18	Morava region (Jagodina)	41	2,11	26	1	27	14
19	Zajecar region	35	1,80	27	1	28	7
20	Sumadija region (Kragujevac)	36	1,85	23	0	23	13
21	Danube region (Smederevo)	37	1,90	26	0	26	11
22	Pcinja region (Vranje)	32	1,64	16	1	17	15
23	Bor region	25	1,28	19	0	19	6
24	Pirot region	22	1,13	18	0	18	4
25	Toplica region	17	0,87	13	1	14	3
26	Kosovska Mitrovica region	2	0,10	0	0	0	2
27	Prizren region	1	0,05	0	0	0	1
28	Kosovo region	1	0,05	1	0	1	0
TOTAL COMPANIES		1.947	100,00	1.129	40	1.169	778
TOTAL EMPLOYEES		341.931		102.732	40.567	143.299	198.632

Source: Privatisation Agency. Note: Total employees at the date of privatisation

As mentioned above, the privatisation revenues have been significant since 2001, due both to direct privatisation, and revenues from the sale of shares from the Share Fund.

Results of Privatisation in period from 1.01.2002.-31.12.2004. (in sales price)

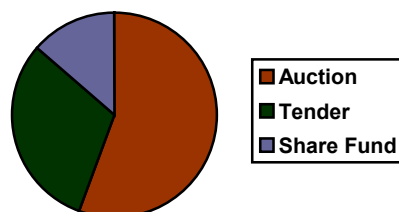


Table 2.3. Results of Privatisation in period from 1.01.2002.-31.12.2004.

	Method of Privatisation		2002	2003	2004	Total
Number of Firms	1	Tender	12	19	8	39
	2	Auction	204	663	262	1,129
		<i>total (1+2)</i>	216	682	270	1,168
	3	Share Fund	48	121	66	235
		TOTAL (1+2+3)	264	803	336	1,403
Sale Price (in 000 EUR)	1	Tender	201,456	600,269	15,234	816,959
	2	Auction	61,523	270,400	123,777	455,700
		<i>total (1+2)</i>	262,979	870,669	139,011	1,272,659
	3	Share Fund	81,892	67,476	50,500	199,868
		TOTAL (1+2+3)	344,871	938,145	189,511	1,472,527
Investment (in 000 EUR)	1	Tender	305,929	319,939	75,389	701,257
	2	Auction	14,255	60,713	48,206	123,714
		<i>total (1+2)</i>	320,184	380,652	123,595	824,431
	3	Share Fund	5,902	-	-	5,902
		TOTAL (1+2+3)	326,086	380,652	123,595	830,333
Social Programme (in 000 EUR)	1	Tender	140,690	128,171	2,580	272,441
		TOTAL	140,690	129,171	2,580	272,441

Source: Privatisation Agency

It is important to note that while the extent of privatisation is very important in terms of deepening the private sector and improving the competitiveness of the sectors, the sale of 10 large companies have contributed to more than 50% of the total proceeds of privatisation.

Table 2.4. Firms with most significant contributions to the
Privatisation Revenue in the period 01.01.2002. - 31. 12. 2004. (in '000 EUR)

	Firm	Buyer	Sale Price	Total Investment	Social Programme
1	<i>DIN. Nis</i>	Phillip Morris, Holland	387,000	64,850	66,180
2	<i>Beopetrol. Belgrade</i>	Lukoil Europe, Holland	117,000	85,000	8,000
3	<i>Cement Factory. Novi Popovac</i>	Holcim, Switzerland	60,895	98,592	25,123
4	<i>Cement Factory. Beocin</i>	Lafarge, France	59,027	37,465	29,137
5	<i>DIV. Vranje</i>	British American Tobacco, UK	50,000	24,000	13,140
6	<i>Cement Factory. Kosieric</i>	Titan, Greece	41,176	34,449	18,663
7	<i>Hidrotehnika. Belgrade</i>	Consortium, SCG	35,858	1,900	-
8	<i>Sova Protein. Becei</i>	Viktorija, SCG	22,296	-	-
9	<i>Apatinska Brewery. Apatin</i>	Interbrew, Holland	18,565	-	-
10	<i>Jugoremedija. Zrenjanin</i>	Jaka 80, Macedonia	15,728	5,902	-
	<i>Total share in Privatisation Revenue (%)</i>		54.8	42.2	58.8

Source: Privatisation Agency

Note that Hidrotehnika deal may be cancelled due to contract implementation problems.

3. OBJECTIVES, ASUMPTIONS AND METHODOLOGY

3.1. *Facts, Assumptions and Methodological Caveats*

Before proceeding with definition and rationale for measurement criteria that were chosen, it is necessary to formulate several methodological remarks, as well as to explain the scope of this analysis. The aim of this section is the attempt to grasp the company/macro/regional/sectoral effects of privatisation of socially-owned enterprises in Serbia, carried out under the 1997 and 2001 Laws. Having said that, a reader should bear in mind that, under 2001 Law, first privatisations were executed no sooner than 2002, whereas 1997 Law privatisations started in 1998 and were going on until 2001. The majority of them occurred after October 2000.

In addition, whenever one intends to analyse the impact of privatisation in a late transition country like Serbia, at macro, regional and sectoral level, following remarks ought to be taken into account:

3.1.1. *Structure of ownership:*

In Serbia (as in the rest of former Yugoslavia), there were four types of ownership - social, state, cooperative, and private property. Socially owned capital was absolutely predominant. State property grew substantially through the 1990's with the adoption of public enterprises. Moreover, state ownership has increased through debt-equity swaps recently exercised on insolvent social debtors. Cooperatives originated mainly from agriculture and craftsmanship to a lesser extent. Private ownership, for decades, existed only as a small family business, until the transition itself allowed and supported the formation of private SMEs in a broadest spectre of economic activities, as we know them today. These forms of ownership are the basis of the data recorded in both the Solvency Centre data and the official statistics (SORS).

3.1.2. *Structure of the economy:*

The intrinsic trait of the socialist Serbian economy was stark domination of rather large socially- and state-owned enterprises and cooperative conglomerates, which additionally complicated and slowed the privatisation process. Prior to successful privatisation of these enterprises, massive restructuring and over-employment problems need to be addressed.

3.1.3. *Sources of data:*

For such a complex analysis in such a dynamic political, legal and economic environment, it is of singular importance to consult all the relevant data sources. Naturally, the priority was given to methodologies and data bases of the official and professional institutions in Serbia, particularly the Privatisation Agency, Statistical Office of Republic of Serbia, National Bank of Serbia, Ministry of Finance, Chamber of Commerce, Serbian Development Fund, Serbian Development Bureau, National Employment Service, Belgrade Stock Exchange, Share Fund, etc. However, objective difficulties and methodological problems in the quality of data obtained, that shadowed the otherwise excellent collaboration with all the domestic sources, stem from the fact that these institutions are also in the catch-up process of technical and professional transition after more than a decade of isolation and stagnation. Naturally, whenever possible, data were cross-checked both within interior sources and with relevant publications of international organisations and/or their local representative offices, like the World Bank, IMF, EBRD and the like.

3.1.4. Indicators:

Indicators selected for this assessment were constructed using large number of statistical data obtained from Statistical Office, Solvency Centre of NBS, National Employment Service, Ministry of Finance and other official institutions, which are neither entirely coherent nor completely comparable within the chosen period (1997-2004). The reason why is that during the stated time-span numerous structural breaks as well as methodological transformations took place in Republic of Serbia. For instance, during the period at hand, in an attempt to align with EUROSTAT, SNA of the UN, BIS, ILO and similar internationally recognised methodologies, considerable changes were introduced in statistical and financial reporting techniques, as well as definition and scope of certain indicators: 3 different Enterprise & Company Laws; 4 modifications of Enterprise Registry Code; 4 versions of Corporate Financial Reporting Directives; Implementation of Basle II in domestic banking industry; still ongoing transition from GMP to GDP and other SNA categories, from statistical “JKD” to EU-aligned “KD” classification of activities; changes in statistical definition of (un)employment; alternations in definition and measurement of gross & net wages and salaries; introduction of VAT instead of turnover tax; etc.

Equally frequent were non-economic structural breaks affecting relevant time-series across the chosen period (1997-2004), for example: NATO intervention; political victory of democratic opposition in October 2000; PM Djindjic’s assassination; EU oriented political and legislative reforms; transformation of armed forces and military industry.

All that required additional scrutiny and expertise in transformation of data and calibration of indicators, in an attempt to obtain precise and comparable figures. Moreover, due to the time lag in compiling the data, some conventional statistical data for 2003 and 2004 were actually still not available at the time of writing this report. In addition, lack of appropriate exchange rate policy, uncoordinated institutional re-engineering and some other political and economic distortions threatened to bring about chaotic elements not only into the strategy and trends of Serbian privatisation, but also into the strategy of analysing such a privatisation. Hence, research experience and specific knowledge of the Serbian economy in retrospect were of utmost importance, having in mind that rather short time series (especially for evaluating impact of the 2001 Law) and numerous methodological and political breaks undoubtedly prevented reliable utilisation of standard econometric analysis as well as further complicated the quest for reasonably unambiguous conclusions. Yet, given the usual problems associated with regression analysis and the difficulties surrounding the determination of the direction of causality in so-called Barro regressions, in other words, in spite of ambition to be methodologically rigorous, the econometric results would have been inevitably treated with a fair degree of caution. Qualitative analysis and thorough economic reasoning, therefore, had to be deployed, as econometricians themselves argue¹.

Plenty of structural brakes (different privatisation methods and laws, war and dramatically altered overall macro-constellation, to mention only the few) as well as lack of time-series long enough to run a decently reliable regression with Serbian data, arguably haven’t disabled our analysis too much, in fact. However, in terms of clear-cut causality interpretation, which was to be drawn from different ratios and indices obtained by transforming official statistics and by back of the envelope

¹ Consult econometric studies in statistically more stable transition countries reviewed in this paper’s references

calculations, one also has to be equally careful as with the econometric methodology. However, it should be noted that a number of indicators preliminarily included, had to be removed from the analysis since their reliability was doubtful.

3.2. Criteria for the analysis

As for the criteria used in this report, the idea was to tie down textbook impacts of privatisation on relevant macroeconomic, sectoral and regional variables of an emerging market. Similarly, main drivers of an enterprise evolution were used in the companies analyses. Namely, both policy-makers and academics claim a broader set of expected goals in terms of privatisation impact on the overall economy quite apart from efficiency and resource allocation improvements. For example, the key theoretical elements underpinning the argument for a change in ownership from public to private related firstly to the view that public ownership led to the pursuit of objectives that detracted from economic welfare maximisation. Moreover, an ownership change could improve economic performance by changing the mechanisms through which different institutional arrangements affect the incentives for managing enterprises. It goes without saying that the usual information gaps in pinning down such economic causalities at a macro level in countries like Serbia often prove to be rather hard if not impossible to bridge.

3.2.1. Choice of GMP

Obviously one of the major impacts of privatisation is and should be directed towards the economic goal, of maximisation of production and income. Since the GDP statistics and SNA accounting principles have been implemented in the Serbian Statistical Office only as a pilot project and exist only at a fully aggregated macro level, we were forced to rely on a similar gross measure of domestic product, calculated according to socialist material production concept. A reader should be advised that a lot of services and especially product of education, health sector and government administration were not recognised as a newly produced value under GMP concept, hence it is by definition smaller than respective GDP. On one hand, therefore, GMP has been used throughout this study simply because GDP is not available for lower levels of aggregation. On the other hand, since we decided to use a Turnover as a growth measure of privatised companies on a micro level (due to often insignificant and ambiguous nature of inventories in Serbian enterprises), GMP was methodologically consistent counterpart on a mezzo or macro level. National income, which is a GMP decreased by capital depreciation, was used in instances when official statistics offered ownership structure for unit(s) of observation expressed in this measure.

Another task of this project was to estimate the extent to which privatisation is gradually raising competitiveness of businesses and their products in Serbia, and in what way it influences foreign trade balance of the economy, sector or district, as opposed to previous state of affairs. For this purpose, different indicators, of productivity and rationalisation indicators, FDI, as well as export/import indicators were deployed, in terms of both privatised companies and overall economy. Their individual choice, apart from elementary economic logic, was predominantly based on data availability constraints.

3.2.2. Employment and investment

Employment and investment dynamics are additional two criteria which cannot possibly be neglected if one wants to appraise the impact of privatisation. The usual statistics like employed, unemployed, number of employed per 1000 inhabitants, investment in fixed assets, etc. were taken into account. The aim of this analysis is to determine whether privatised firms are investing more than the rest of the economy, and perhaps, whether private sector is -due to competition or production process complementarity reasons- forcing the non-private sector to invest more too.

The aim of the consultant was to calculate the investment in fixed assets as the aggregated yearly difference of the book value of fixed assets in the analysed companies. Accordingly, the difference in intangible assets was to be used as a proxy for the investment of the companies in R&D technologies.

The revaluation applied to the assets of the companies has prevented this. Differences in book value are partly due to new investment and partly due to revaluation of existing assets. At the aggregate level, it is not possible to determine to which extent these differences are due to one factor or the other. Consequently, it has not been possible to appraise the investment of the companies neither in fixed assets not in R&D.

3.2.3. Capital market

Although Serbian privatisation has not been done primarily through the financial market, the overall corporatisation of the economy and especially (re)sales of minority stakes of 1997 shareholders were arguably expected to back up a local capital market development. Annual stock exchange turnover is established in comparable studies as an excellent proxy for capital market development, whereas the share of stocks within turnover dynamics captures the privatisation impact on secondary market development. A number of firms traded across years is the only indicator that was omitted for reasons of limited reliability of data at disposal.

3.2.4. Welfare

Finally, another criterion is the change of welfare (purchasing power) of the population caused by the privatisation process. The obvious spectre of concerns contains unemployment problems and wages & salaries dynamics on one side, and various transfers and subsidies disbursed either by government or by new owners on the other side.

3.3. *Analysis of privatised enterprises*

The report, and in particular the sections 5, 6, and 7 includes comparisons and analyses on companies referred to as “Privatised companies”. This refers to 1,932 companies that have been privatised during the period 1997 to 2004, regardless their year of privatisation. Therefore, for any given year the group “Privatised companies” includes socially-owned companies as well as already privatised companies. For instance, the figure for sales of Privatised companies for 2000 is the addition of the sales of the 1,932 companies, of which 641 had already been privatised (either in 1998, 1999 or 2000) while 1,291 remained socially-owned. Therefore the group includes a variable number of privatised companies.

The alternative would have been to have formed a group including only companies which had been already privatised. Obviously the number of companies in this group would increase every year as so would the variables studied. It would made impossible to compare over time since, for instance an increase on sales from one year to another could be due to a better performance of companies or simply to the higher number of companies of the group. Therefore this methodology was necessary to have a stable group formed by the same companies during the whole period.

The analysis of the impact on companies (section 4) studies more in detail the privatised companies, by year of privatisation. In this section, the reference to privatised companies concerns only those companies privatised in the given year.

All the sources used to prepare this report are included in Appendix 1 Sources

4. IMPACT OF PRIVATISATION AT COMPANY LEVEL

4.1. Background

Literature and empirical evidence show that privatisation has a positive impact on enterprise performances and restructuring. A number of authors have analysed the impact of privatisation on enterprise restructuring and governance in a number of central and eastern Europe countries (see references in list in appendix 2) as well as in all other countries which have implemented privatisations. However, as Serbia initiated its reform programme much later than other countries, and it has rarely been included in Central European surveys. Moreover, there have been limited comparative analyses by country within South Eastern Europe.

The main assumption behind privatisation is that it is not a mere change of ownership, but that it brings positive changes in the enterprises. Privatisation shifts the enterprise's objectives and managers incentives away from those that are imposed by the trade unions and employees associations in the case of socially-owned enterprises. A lot of questions are raised on the real benefits of privatisation on enterprises, in particular on enterprises performance and employees' benefits. Evidence from other countries show that enterprises privatised through insider privatisation (such as the 1997 privatisation in Serbia) show a more limited restructuring and improvement if compared with enterprises privatised to strategic investors (most of the auctions and tenders under the 2001 Law in the case of Serbia) and it would be interesting to evaluate the relative impact of different privatisation methods in Serbia where no solid analyses have been done so far. The only known surveys concern corporate governance, and attitude of managers (Appendix 2: References) of companies privatised under the 2001 Law while no attempt to measure the changes in terms of restructuring, efficiency, productivity, competitiveness, modernisation has been done². As far as the companies privatised under the 1997 Law are concerned, no study of their evolution has been carried out.

While the impacts of the privatisations carried out under the 1997 Law will be fully apparent, it is more difficult to assess the impact of the privatisations under the 2001 Law as most of the improvements are really marked only after 2 or 3 years, except in the trade sectors where needed restructuring investments are lower, and improvement can be more rapidly implemented. However, some changes such as increase of exports and investments may be seen almost immediately if the new owner brings new markets.

Probably, it would be interesting to repeat the analysis within one or two years as the remaining state capital in the companies privatised according to the 1997 Law (about 40% per company) is to be privatised by the Share Fund. This could bring much needed strategic investors to a number of companies. Moreover, the impact of the privatization according to the 2001 Law will be more visible.

The proposed analysis does not consider outside factors which are also determinant in the fate of companies, especially in a country in transition, in particular institutional reforms, trade liberalization and competitive environment.

² A survey of 90 privatised enterprises (Law 2001) is under way by Dusan Pavlovic, Jefferson Institute

4.2. Objectives

The main objective of this empirical study is to show whether privatisation has improved restructuring and performances of enterprises, and how the various modes of privatisation have impacted the relative restructuring and above all, financial performances of privatised enterprises in Serbia. In comparing long series of data, the study aims at measuring and understanding the changes that occurred in privatised companies, in particular restructuring and improvements of performances.

4.3. Sampling

The methodology uses a representative sample of privatised former socially-owned enterprises. It has been designed, to represent a little over 10% of all privatised enterprises according two last laws (1997 and 2001)³. The sample is proportional to the various mode of privatisation in Serbia (as of 31 Dec 2004), and its geographical repartition is also proportional to the volume of privatisations according to the regions. The sample includes an equal amount of large, medium and small companies. In order to get a minimum representative sample, a survey of 325 enterprises has been launched. The details of the sample are given in Appendix 3.

There may be somehow a bias in the sample coming from the privatisation method. The privatisation according to the 1997 law is said to have attracted the best companies, or at least good companies, especially in the period following October 5th, 2000. The information gathered on the companies' situation before privatisation will help confirm or invalidate the popular motto that "all good companies were privatised according to the 1997 law".

Appendix 3 summarizes the largest companies of the sample (ranked by volume of sales).

4.4. Survey

The survey has been carried out using a structured questionnaire. The questions focus on the situation before privatisation compared with after privatisation. The financial data from 1997 to 2004 were obtained from the Solvency Centre databases which have been transferred to an ad-hoc post-privatisation database enabling the dynamic comparison of all data (financial and non-financial) for a series of years from 1997 to 2004. This post-privatisation database also includes the data available in the databases of the Privatisation Agency.

The questionnaires were pre-filled with the Solvency Centre available financial data, which were validated by the enterprises, leaving only qualitative data to be filled by the enterprise management.

³ The analysis does not cover the banking sector, as banks have been privatised in 2004 through tenders organised by the Ministry of Finance.

The questionnaire was mailed to the companies after preliminary telephone contacts, and further telephone contacts were carried out to check or complete data.

Table 4.1 - Number of companies in the sample

	1997 Law	2001 Law	Total
Sample	120	205	325
Questionnaires received	65	122	187
% received	54.17%	59.51%	
Companies in bankruptcy	10	1	11

The sample was selected on a random basis. It is interesting to note that among the 1997 Law companies, a number were in very difficult situation: 10 companies were bankrupt (about 10 % of the sample); one company was sent to restructuring; 4 companies were to be re-privatised after having converted part of their debt towards the State⁴ in State shares.

4.5. Analysis methodology

A post-privatisation database was created covering the 325 companies, including public data from the Solvency Centre, data from the Privatisation Agency databases and data from the Belgrade Stock Exchange, Registrar on Securities and Share fund as well as all the specific answers provided by the 187 companies which answered the questionnaire.

The financial and performance analysis was carried out on the financial data of aggregates of companies privatised for a given year (year zero) on year -1, and year +1; and year +2 (when feasible), as well as for each group of companies to analyse and compare the evolution between 2000 and 2004 (the evolution between 1997 and 1999 was not taken into account given the unusual situation of the environment). It was also done on the period 2000-2004 to compare the evolution of the various groups. The main focus was (i) on the identification of any significant change between the pre-privatisation situation, and the post-privatisation situation; and (ii) the relative performance of each group of privatised companies between 2000 and 2004. These quantitative analyses (on a sample of 325 companies) have been completed by qualitative analyses (on 187 companies, or less depending on the answers from companies) to assess changes in ownership, management, markets as well as the modernisation of the companies.

It should be noted that, in general, our analysis does not cover the companies privatised in 2004, because the impact of privatisation could not be evaluated for these companies, or the data were not significant. However, we have examined if certain companies' characteristics have already changed the very year of privatisation in 2004, and in particular investments, and exports.

The elements which have been examined and analysed when relevant are:

⁴ Decree on the procedure and conditions concerning the conversion of liabilities of certain legal persons into permanent State shares (2002)

▪	Efficiency and performance
	Sales
	Sales per employees
	Profit/ loss
	Various financial ratios
	Inventories
	Trade receivable
	Fixed assets
	Pavment of taxes & contributions
•	Competitiveness
	Increase in domestic market share
	Export
▪	Management and ownership
	New controlling owner
	Change of managers
	Changes in manpower structure
	Introduction of MIS
▪	Modernisation/ restructuring
	Investment
	New production units/ technology transfer
	Closure of unprofitable units
▪	Employment
	Total employment
	Average Wages
	Unpaid salaries

To test for significant differences in performance changes over years when inflation has been very high, all financial comparisons (except of course ratios) have been calculated in Euros using the average exchange rate for the given year (see details in introduction). Only those data which have shown significant differences or relevance have been kept for the final analysis, and are exposed below.

While the financial and employment data as well as data concerning privatisation should be considered as reliable (with double checks between companies information and other data bases such as PA internal data base, Solvency Centre data), other data (for example change in management, investment, structure of employment) are computed on the basis of a smaller sample, but they were significant enough to be kept in the analysis.

4.6. Results of the analysis

4.6.1. Efficiency and performance

4.6.1.1. Sales

Immediate (that is within 2 years) impact of 1997 privatisations on sales has been negligible. There have been no improvement, but a decline in the earlier years (1998 and 1999 privatisations), may be due to difficult macro conditions. However, there has been a huge increase in sales for the 1997 privatisations effected in 2000 and 2001. It is plausible that very good companies such as "Hemofarm", "Knjaz Milos", "Bambi", "Imlek" which were privatised in 2000 boost the overall sales. Reconstruction after NATO campaign could have also played a role.

Concerning the privatisations undertaken according to 2001 Law, sales have increased on average by 20% per year for companies privatised in 2002. However, privatisations effected in 2003 show no increase up to 2004, may be due to necessary post-privatisation restructuring.

If we analyse the evolution of sales on the period 2000-2004, sales have increased for all groups of companies since 2000. However, the increase has been more significant for the companies privatized according the 2001 Law, despite the fact that over the period, the companies privatized according to the 1997 Law have been privatized for several years.

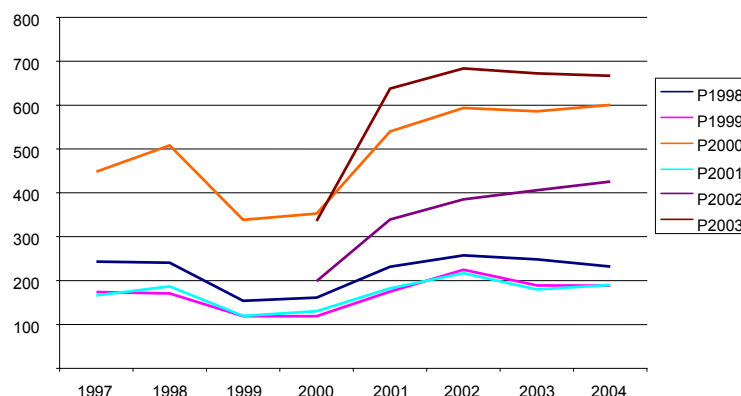
Table 4.2- Evolution 2000-2004 of Sales in '000 EUR by year of privatization

Privatisation year	2000	2004	Change 2004/2000
P1998	161,431	232,168	44%
P1999	118,806	188,323	59%
P2000	352,278	600,162	70%
P2001	130,137	189,847	46%
Total 1997	762.652	1.210.500	59%
P2002	198,919	425,514	114%
P2003	335,561	666,767	99%
Total 2001	534.480	1.092.281	104%

Source: Solvency Centre/Enterprises replies/IDOM

If we compare the two types of privatization, sales over the period 2000/2004 increased by 104% for 2001 Law companies, but only by 59% for 1997 Law companies. The difference is all the more important as in the 1997 Law group, a number of companies were privatised right before the new Law was passed. But as said above, significant individual exceptions can be found in the 1997 Law companies: Hemofarm, Knjaz Milos, Bambi, Imlek are examples of companies which perform better than the others and boost the sales figures of the companies privatised in 2000. If we were to exclude these top performers (which are in fact examples of privatisations undertaken in 2000 but followed by a change of ownership through sales of shares in the Stock exchange), the average performance of the 1997 Law companies is poor, with low sales increases over the period 2000-2004.

Figure 4.1 Sales of companies by year of privatisation (sales in '000 EUR)



Source: Sample companies/IDOM

The graph shows us that:

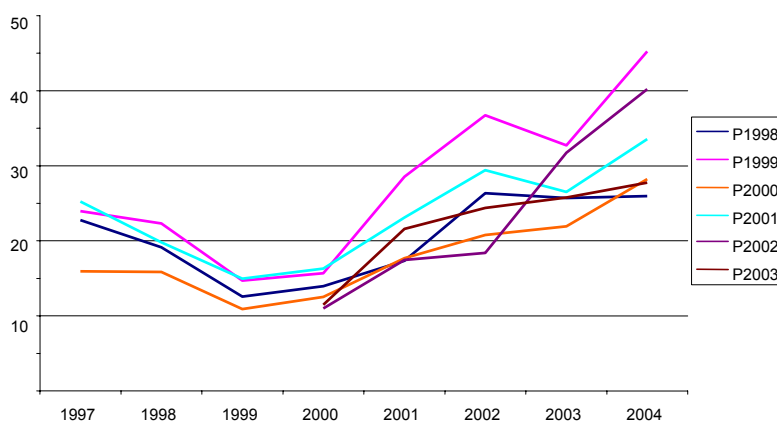
The sales of the 1997 Law companies tend to stagnate/ decrease - a significant exception being the group of companies privatised in the year 2000, which includes in particular Knjaz Milos, Hemofarm, Bambi, Imlek.

The sales of all the 2001 Law companies increase sharply, however, this trend has started even before privatisation.

4.6.1.2. Sales per employee

Sales per employee, indicator used as a measure of the efficiency of a company, shows no significant changes in the two years after privatisation in the group of companies privatised according to the 1997 Law. The performance has increased regularly for the 1997 Law privatisations effected in 2000. However, after 2000, all companies privatised according to the 1997 Law show productivity improvements, in particular those privatised in 1999 which are posting the highest sales per employees in 2004.

Figure 4.2 Sales of per employee by year of privatisation ('000 EUR)



Source: Sample companies/IDOM

Contrary to 1997 companies, sales per employees have increased immediately after privatisation in the 2001 Law privatisations, with a most striking impact for the privatisations effected in 2002 (+ 82% after one year, + 130% after 2 years) while the increase has been +14% for the privatisations of 2003.

4.6.1.3. Profit

The financial situation of companies privatised according to 1997 Law has deteriorated in almost all cases. All companies, which may have been profitable, or with slight losses a year before privatisation show significant losses two years after privatisation. This may be explained by a combination of stagnant or decreasing sales, no changes in employment and increase of salaries, which is usually characteristic of insider privatisation by employees.

The situation of companies privatised according to 2001 Law varies substantially. Companies privatised in 2003 are posting significant losses, which could be due to the restructuring under way (see below the investments implemented in these companies). However, companies privatised in 2002 show a significant improvement.

Table 4.3- Change in Operating Profit⁵ 2000/2004 by year of privatisation ('000 EUR)

Year of privatisation	2000	2004	Variation
P1998	16,529	-8,680	-153%
P1999	7,040	5,188	-26%
P2000	54,537	48,209	-12%
P2001	12,906	5,420	-58%
All 1997	91,012	50,137	-45%
P2002	5,609	34,661	518%
P2003	18,586	-94,611	-609%
All 2001	24,195	-59,959	-348%

Source: Solvency Centre/Enterprises replies/IDOM

If we analyse the evolution on the period 2000-2004, total profit decreased for the 1997 Law companies. The evolution of the profits of the 1997 Law privatisations is illustrative of the insider privatisation, with a very modest growth of sales, and a strong increase of salaries under the pressure of employees-shareholders, without increase of productivity.

Taken individually, only 28% of the 1997 Law companies have shown an increase in profit on the 2000-2004 period. For the 2001 Law companies, the increase in profit has been sharp for the 2002 batch, and the decrease even sharper (-609%) for the 2003 batch. Those losses can be attributed to the initial restructuring costs of large companies. 36% of the 2001 Law companies did improve their operating profit. This trend upwards should be monitored again after the initial restructuring costs have been absorbed.

Companies privatised according to 1997 Law do not show a better performance in spite they have had enough time to restructure. However, the financial difficulties of some companies in this group are also illustrated by the fact that 10 companies of our sample have gone bankrupt (about 10% of the sample). The data above also shows that the companies privatised in 2000 included exceptionally good performing companies provided their high level of profit prior to their privatisation.

⁵ The consultant considers that the analysis of the Operating Profit is more relevant to show the efficiency of the enterprises. The net profit, which shows similar pattern, could be slightly distorted by the financial results.

Table 4.4 - Level of profit in % by year of privatisation

Year of privat.	Indicator	1997	1998	1999	2000	2001	2002	2003	2004
P1998	Op. Profit	2.7	6.1	4.0	10.2	2.9	-0.3	-0.4	-3.7
	Net profit	1.0	0.4	-5.8	-9;3	-1.4	-4.2	-6.8	-10.4
P1999	Op. Profit	-1.0	5.0	4.9	5.9	3.4	1.6	-0.3	2.7
	Net profit	0.8	0	-1.2	-2.0	-0.1	1.3	-1.7	1.0
P2000	Op. Profit	5.5	10.4	13.4	15.5	11.6	8.4	4.9	8.0
	Net profit	4.6	-0.5	0.8	-7.4	0.8	-0.4	2.7	5.0
P2001	Op. Profit	2.4	10.4	6.8	9.9	-0.2	0.1	-7.6	2.9
	Net profit	0.3	-1.7	-0.8	-6.5	-1.6	-2.1	-5.6	5.7
P2002	Op. Profit				2.8	3.7	-2.3	-2.1	8.1
	Net profit				-9.2	-10.3	-12.6	-4.8	1.9
P2003	Op. Profit				5.5	3.2	-2.4	-2.0	-14.1
	Net profit				-10.0	-0.8	-1.5	-4.5	-16.7

Source: Solvency Centre/Enterprises replies/IDOM

4.6.1.4. Export

Significant increases of exports of 1997 Law companies (except for those privatised in 1998) are observed. Exports have been multiplied by 2 to 4 times, but all companies start from a very low level of exports (which could be linked with previous sanctions and NATO intervention), to reach an amount which starts to be significant (8.25% of sales in 99; 18.29% in 2000; 5.7% in 2001). In fact, only companies privatised in 2000 show significant exports.

Companies privatised according to 2001 Law have shown a strong growth in exports, with a higher growth of those privatised in 2002. As said before, as the 2003 companies are in the process of restructuring themselves, it would be interesting to check their export growth again in 2005 or 2006.

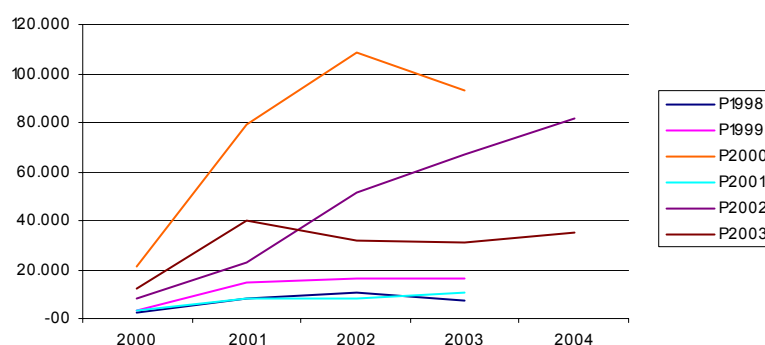
From 2004, exports are not specified in the Profit and Loss statements. In the questionnaire sent to the companies, they were requested to include this information. Most companies privatised according to the 2001 Law have indicated their 2004 exports. However more data are missing for the 1997 Law companies. The number was not enough and it has not been possible to calculate the export results of the 1997 Law companies in 2004. Nevertheless, the trend is clear. As explained above, apart from the 1997 Law companies privatised in 2000, strong export growth and level is only marked for the 2001 Law privatisations.

Table 4.5- Exports by companies according to their year of privatisation ('000 EUR)

Year of privat.	2000	2001	2002	2003	2004
P1998	2,216	8,123	10,800	7,394	NA
P1999	2,979	14,440	16,480	16,150	NA
P2000	20,901	78,974	108,507	93,371	NA
P2001	2,925	7,971	7,938	10,248	NA
P2002	8,289	23,079	51,385	66,542	81,712
P2003	12,010	39,990	31,522	31,288	35,046
P2004	12,270	60,012	57,322	54,806	81,022

Source: Solvency Centre/Enterprises replies/IDOM

Figure 4.3 Exports of companies by year of privatisation ('000 EUR)



Source: Sample companies/IDOM

In the table below, we highlight the largest exporters of our sample as of 2004

Table 4.6- List of biggest exporters of the sample

Year of privat.	Company	Volume 2000-2003 '000 EUR	Volume 2004 '000 EUR	Sector
2004	"VALJAONICA"	133,404	68,316	Copper rolling mill
2000	"HEMOFARM"	108,172	35,962	Pharmaceuticals
2002	"IMPOL SEVAL"	71,327	52,373	Aluminium
2000	"FABRIKA SECERA BACKA"	52,864	Na	Sugar
1999	"FABRIKA KARTONA UMKA"	33,754	12,123	Paper and cardboard
2003	"RUMAGUMA"	28,780	13,036	Rubber for automobile
2000	"SOJAPROTEIN"	28,591	20,351	Soja products
2001	"SOKO-NADA ŠTARK"	20,834	7,386	Chocolates
2002	"SECERANA SAJKASKA"	17,813	17,402	Sugar
2000	"BAMBI"	17,189	Na	Sweets, biscuits
2004	"LIVICNICA KIKINDA"	14,071	7,092	Iron Foundry

Source: Solvency Centre/Enterprises replies/IDOM

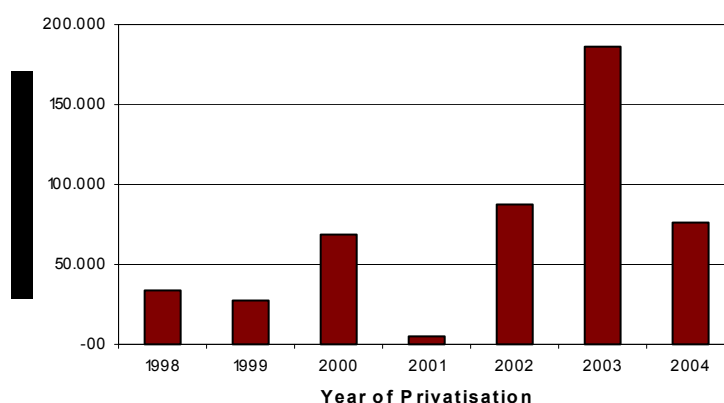
The specific performance of sugar companies is not fully explained by their know-how or their competitiveness. It is certainly due to the special agreement with the EU which allows Serbian sugar companies to export Serbian produced sugar into the EU at the EU internal price⁶. However, out of the 12 sugar companies in Serbia, the two biggest exporters seem to be also the most efficient.

4.6.2. Modernisation and restructuring

4.6.2.1. Investment

The difference in investments is very significant between the two groups of privatised companies. The 2001 Law companies (including the 2004 privatised companies which have started to invest the very year of their privatisation) declared to have invested 349 M EUR since their privatisation (i.e. since 2002 or later), while the 1997 companies declared to have invested 134 M EUR since their privatisation (which can date as far back as 1998). These figures cover only the companies that have filled the questionnaire and submitted their data on investments (40 out of 65 for the 1997 Law companies and 107 out of 122 companies for the 2001 Law), but the difference is significant enough to be noted. This is not surprising as the insider privatisations under the 1997 Law did not bring shareholders with cash. In addition, in some case the financial situation of the 1997 companies did not enable them to borrow large amounts. Moreover, the privatisations under the 2001 Law have all been effected with committed investments included in the sale contract. While the committed investments included in auctions have to be implemented over one year, the committed investments in tenders have to be implemented in three to five years.

Figure 4.4. Cumulated investments since privatisation ('000 EUR)



Source: Sample companies/IDOM

The strong investments made by the companies privatised in 2003 shows some degree of on-going restructuring and modernisation in this group of companies.

⁶ Exports of sugar, especially in the period 2001-2003 has been under investigation by both the Serbian Government and the EU specialised agency OLAF. Significant amounts of re-exports of non-Serbian sugar have been identified. This has led to a temporary interruption of the preferential regime, which has been re-established again in July 2004.

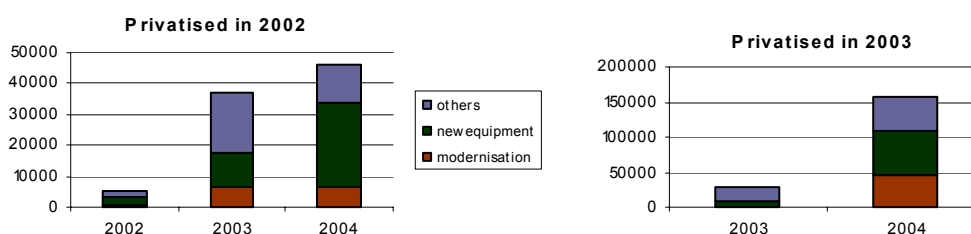
Those 349 M EUR investment declared by the 2001 Law companies which answered the questionnaire have been partially disbursed in 2002, soon after the first privatizations took place. They must be compared with the 397 M EUR⁷ committed investments that those companies have to invest according to their privatization contract. It is important to note that the largest committed investments are committed in tenders (372 M EUR), and are to be implemented over 3 to 5 years. hence beyond the scope of this analysis. These numbers show the importance of the on-going restructuring.

When comparing the figures of already implemented investments, and committed investments, it is clear that these 2001 Law companies are investing more than the investments they committed to by contract. Accordingly, it is expected that the companies privatised in 2003 and 2004 will invest the largest part of their committed investments in 2005, 2006, and future years. This will likely lead to investment figures above those stated in privatization contracts.

4.6.2.2. Modernisation

Another striking feature of the restructuring of companies privatized according to the 2001 Law is the fact that most of the investments (60 to 80%) are intended to finance new equipments, and that the disbursement of investments starts immediately after privatisation. In the case of the privatisation undertaken in the year 2002, we can observe that the higher level of investment (so far) and in particular new investments, occurred in the second year after privatisation. This is logical as new investments require previous planning and design, then equipment has to be procured and implemented. This can take from 2 to 4 years, depending on the type of industry.

Figure 4.5 Uses of investments in companies ('000 EUR)



Source: Sample companies/IDOM

4.6.3. Employment

4.6.3.1. Direct employment

The changes in direct employment, show strong differences between companies privatised according to the 1997 Law and those privatised according to the 2001 privatisation Law. 1997 Law privatisations have had a smaller impact on employment, which shows a decrease of 10 to 20% two

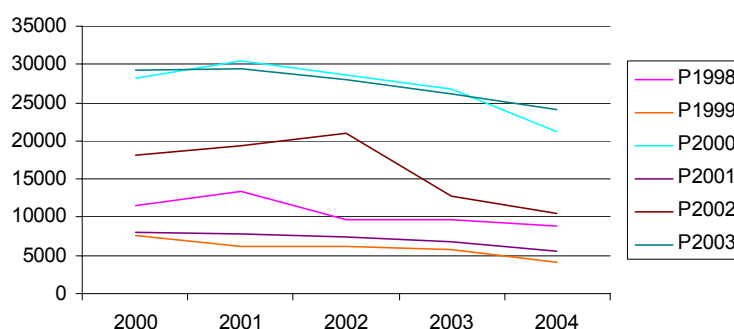
⁷ 654 M€ of committed investments for the total 2001 companies of the sample, of which 600 M€ for those companies privatised through tender. As a comparison, the total committed investments of all companies sold by tender as of 31 December 2004 is 701 MEUR

years after privatisation. This could be due to non-replaced retirements. However these companies do not seem to have created employment.

On the contrary, the companies privatised in 2002 through the 2001 Law have shown a decrease of 35% one year after privatisation and of 45% two years after privatisation when compared to the year before privatisation. Enterprises privatised in 2003 have shown a 15% decrease in employment after one year (if compared with a year before privatisation). However, it should be noted that companies privatised in 2003 had already started to downsize through pre-privatisation social plans, while companies privatised in 2002 did not show any prior adjustment in personnel.

If we consider the period 2000-2004, employment decreased in all groups considered. However, it decreased more rapidly since privatization in the 2001 Law companies. Employment in 1997 Law companies decreased by 28% since 2000, while companies privatised in 2002 decreased their staff by nearly one half since their privatisation and those privatised in 2004 already decreased their staff by 13% if compared to the previous year. This goes together with a higher increase in the wages per employee, and increased efficiency of those privatized companies.

Figure 4.6 Employment in companies by year of privatisation



Source: Sample companies/IDOM

4.6.3.2. Structure of personnel

While there are no significant changes in the employment structure in the 1997 Law companies, changes in the structure of employees are significant for 2001 Law companies. The substantial decrease of employment in the 2001 Law companies has implicit a change in the qualification of employees. The percentage of employees with a university degree has increased from about 1% to over 7% in companies privatised in 2002 and to over 3% in companies privatised in 2003. The results are significant enough as many companies answered this question (61 out of 65 for 1997 Law companies and 47 out of 122 for 2001 Law companies).

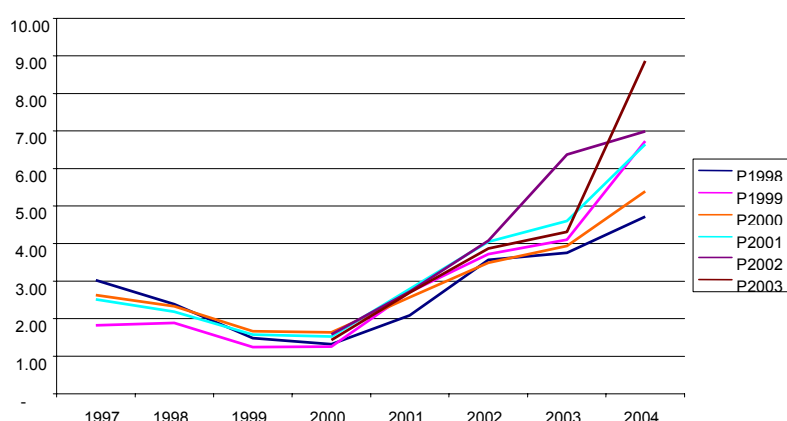
4.6.3.3. Average gross wages

While total employment has stagnated (1997 Law) or decreased (2001 Law), gross average wages have increased in all cases. In the case of 1997 Law companies privatised in 1998 those companies show again an abnormal pattern with a decrease of salaries after 2 years (probably due to the turbulent macro-economic situation and exchange rate distortions). For the 1997 Law privatisations

over the successive years (1999, 2000 and 2001), salaries hardly increased the first year, and have increased from 50 to 100% on the second year (in equivalent Euros).

Average salaries of companies privatised according to the 2001 Law have jumped by 130% the first year, to reach 150% the second year⁸.

Figure 4.7 Wages per employee by year of privatisation ('000 EUR)



Source: Sample companies/IDOM

It is important to note that gross wages in all privatised companies are higher than the average gross wages prevailing in Serbia. Contrary to what can be expected from the insider privatisation, it is employees from the privatisations according to the 2001 Law which have most benefited from significant increases of revenues. This may be explained by the relative decreased profitability of the companies privatised under the 1997 Law, which could not afford to grant higher salaries.

Table 4.7 - Average annual gross wages of the privatised companies of the sample compared with the average gross wages of Serbia (in EUR equivalent)

Year of privatisation	2000	2001	2002	2003	2004
P1998	1,300	2,100	3,600	3,800	4,700
P1999	1,300	2,700	3,700	4,100	6,700
P2000	1,600	2,600	3,500	3,900	5,400
P2001	1,500	2,800	4,000	4,600	6,600
P2002	1,600	2,700	4,100	6,400	7,000
P2003	1,400	2,700	3,900	4,300	8,900
Average annual gross wages (all Serbian companies)	852	1,764	2,868	3,072	3,408

Source: Solvency Centre/SORS/IDOM

⁸ The calculations of average wages for companies privatised according to the 2001 Law are based on total wages cost divided by the number of employees. Total wages includes severance payments. However, the overestimation of the annual salaries is not significant, except in the year 2003 when companies privatised in 2002 were significantly downsized. Real gross wages without severance payments are 4.650 EUR. The difference is due to the implementation of social programs.

4.6.3.4. Payment of salaries

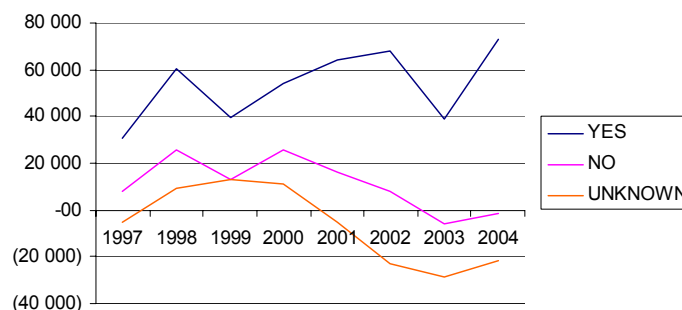
The payment of salaries has not improved in 1997 Law companies. The percentage of unpaid salaries vis-a-vis total salaries has even increased after privatisation to reach levels of 10 to 17% two years after privatisation from an average of 9 - 10% before privatisation. This certainly indicates some financial problems in these companies which have been unable to pay fully the salaries (in line with the observation of decrease of profitability).

4.6.4. Influence of changes in ownership and in management

4.6.4.1. Change in ownership after privatisation

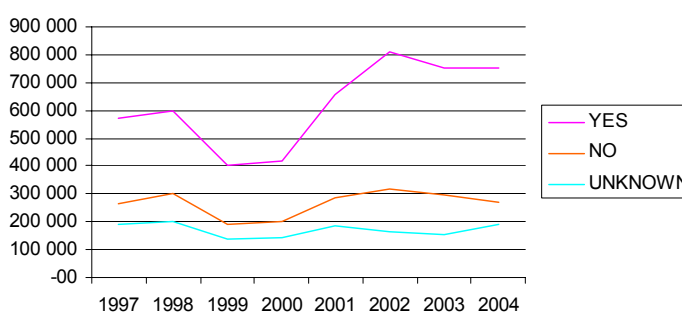
Changes in ownership after privatisation seems to be a factor in the improvement of a number of 1997 Law companies. Results should be taken with caution, as not all companies answered to the question on whether they had changed their ownership after privatisation (73 replies: 41 companies answered positively while 32 companies answered negatively). In particular, top performing 1997 Law companies Hemofarm, Knjaz Milos, Bambi and Imlek have all had some degree of change of ownership. The listing on the Stock Exchange has enabled employees to sell their shares, and investments funds (mostly) and strategic investors have bought important stakes in these companies. The management of these companies has therefore moved from an employee-based decision making to a professional management based decision making. This has been confirmed through the post-privatisation cases analysis (section 8).

Figure 4.8 Profit and change of ownership by year of privatisation ('000 EUR)



Source: Sample companies/IDOM

Figure 4.9 Sales and change of ownership by year of privatisation ('000 EUR)



Source: Sample companies/IDOM

4.6.4.2. Management

In the case of 1997 Law privatisations, only about half of the companies have changed their managers after privatisation. The percentage is much higher in the case of 2001 Law privatisations (close to 2/3 of those giving an information on the status of directors).

Table 4.8- Change of managers after privatisation

	1998	1999	2000	2001	Average 1997 Co	2002	2003	2004	Average 2001 Co
Manager changed after privatisation	8	7	11	5	7.75	22	51	11	28
from inside	5	4	8	3	5	11	16	2	9.67
from outside	3	3	3	2	2.75	11	35	9	18.33
<i>Manager not changed</i>	9	3	16	3	7.75	9	23	7	13
No answer	10	6	33	15	16	28	41	14	27.67
Total managers	27	16	60	23	31.75	59	115	32	68.67

Source: Solvency Centre/Enterprises replies/IDOM

While in the 1997 cases, most new directors were coming from inside the company, in the 2001 cases, the majority are coming from outside. However, in the absence of indications on when exactly these changes occurred, and due to the limited size of the sample, it is not possible to draw any solid conclusion on the impact of this change on the performance of enterprises. It should be subject to another in-depth investigation.

4.7. Conclusions

The analysis shows that companies privatised according to the 2001 Law have a better performance and have invested in modernising their production tool, which is a good omen for the future. While privatisation has had a negative short term impact on employment due to adjustments implemented by the companies, those employees which have been kept are getting much higher salaries, about the double of the Serbian average. In addition, exports have been boosted.

On the other hand, companies privatised according to the 1997 Law show on average poorer financial results and performance. Their level of sales have not increased while average salaries have. There are no signs of significant efficiency improvement and modernisation efforts in the form of investments. Gradual changes implemented by these companies have not been supported by investments, and their ageing production equipment and facilities will certainly worsen their situation if no action is taken. However, those which have changed ownership (that is shares of employees bought by an investment fund or a strategic investor) show a marked much higher performance than those with employees ownership.

The case of the high performing companies privatised in 2000 is interesting. They were good companies prior to privatisation, but they have been able to improve management and decision making through the change of shareholders structure which was possible through the sale of employees' shares on the stock exchange. However, their current level of investment is still too low to sustain a continued growth in the future.

The 1997 Law companies (excepting top performers privatised in 2000 and few other notable exceptions) would need to be stimulated to achieve growth, increase exports and they would need investments to improve their competitiveness. This would be only possible through the entrance of a strategic investor. The State has the possibility to accelerate this by carrying out a "second" privatisation through the sale of its 40% State shares managed by the Share Fund to strategic investors. In parallel, a more active and transparent capital market will support the transformation of these companies.

The sharp decrease of employment in the companies privatised according to 2001 Law have often been undertaken through voluntary schemes with significant severance packages (10,000-20,000 EUR per employee). Unfortunately, the beneficiaries of these amounts have often not re-invested them in the productive economy, but rather used them to purchase consumer goods or services. It would be interesting in the future (in case of need of similar schemes for large companies such as State-owned companies) to focus also in the use of these funds to develop activities to mitigate unemployment.

5. IMPACT OF PRIVATISATION AT SECTORAL LEVEL

5.1. Introduction

The assessment of the impact at industry level has been carried out on six selected representative industries, namely:

- Textile Industry
- Chemical industry
- Food industry
- Construction
- Trade
- Production of non-metallic minerals

Among various criteria, the volume of privatisation proceeds was considered as the most interesting to select the sectors. While the tobacco is among the six sectors with highest privatisation proceeds, it has been excluded since it is very limited in terms of number of companies which reduces its interest for this analysis.

The above represents a variety of sectors including a significant number of companies (see table 5.1 below), with a significant number of employees and with the highest privatisation proceeds. These six sectors roughly represent 50% of all companies privatised since 1997. Their analysis will allow us to reach conclusions on the impact privatisation process has had on them and their current position in general terms.

Table 5.1. Number of privatised companies by sector

Sector	1997 Law			2001 Law				Total
	1998	1999	2000	2001	2002	2003	2004	
Textile	7	8	9	4	9	30	12	79
Food and beverages	24	21	40	24	17	46	23	195
Construction	25	12	33	24	35	101	41	271
Trade	37	19	64	18	40	121	36	335
Production of non-metallic minerals	4	8	16	4	13	40	12	97
Chemical	4	5	12	2	8	3	7	41
Total six sectors	101	73	174	76	122	341	131	1018
Total Priv. Comp. In Serbia	194	130	317	134	212	679	266	1932

Source: PA

5.1.1. Methodology

The analysis has been undertaken through the observation of indicators of quantitative nature and complemented with qualitative information obtained through various sources with experience in the selected sectors.

The analysis of each sector has been conducted in an relatively independent way and conclusions have been reached on the impact privatisation has had on each sector by itself. The conclusions have been again analysed to appraise common impacts affecting all sectors.

The analysis of each sector includes:

- An overview of the sector. It includes the activities performed, the structure of the sector and the type of companies operating in it (not necessarily only in Serbia, but anywhere) as well as a brief introduction to the current state of affairs in Serbia.
- An analysis of the quantitative and qualitative information. Quantitative information has been prepared from two databases:
 - A database with information from all privatised companies prepared ad-hoc from a database of the Privatisation Agency and the yearly databases of the Solvency Centre including all companies in Serbia
 - A database with information on all companies from each sector based on the above mentioned Solvency Centre yearly databases

5.1.2. Results on each sector

The consultant has compared the performance of privatised enterprises of the sector vs. the performance of the whole sector.

The methodology used to evaluate the performance of the privatised companies of a given sector has been the following:

- Selection of available indicators to measure the performance of companies.
The consultant has selected a number of indicators to analyse the performance of companies. The consultant has used some of these indicators to calculate ratios.

The values obtained from the SC database are shown in dinars. The high inflation existing in Serbia during some years under study made it difficult to analyse the evolution of some indicators. Therefore monetary indicators have been transformed to EUR in order to be able to compare year by year.

- Identification of privatised companies of a specific sector (e.g. food sector).
The consultant has used the database with information on privatised companies and the database with information on all companies to obtain the indicators of the enterprises privatised in each sector. It should be noted that the number of companies is not stable for the whole series. Reasons for this include:
 - enterprises which do not submit their financial statement a given year in spite of their legal obligation. This is the most frequent case
 - enterprises which disappear for whatever reason
 - enterprises which were created after 1997

The results obtained show that the number of companies is relatively stable for the period 1998-2004 which allows comparisons. However it should be noted that a significant number of companies are missing in 1997. Therefore sometimes this year is often not taken into account in the analyses undertaken. The privatisation process had not started in 1997.

- Aggregation of the figures for the selected indicators of all the companies from a given sector.

- Comparison of the performance of the privatised companies from a given sector with the performance of all companies from the sector.

The analysis has been undertaken for the whole series. However, the consultants have put more emphasis on the information for the period 2002-2004. Moreover the consultants consider that the information for the period 1997-2001 is less reliable. All the institutional changes undergoing hindered the capacity of the institutions used as primary sources of information, mainly the SC/NBS and SORS. The financial statements of the companies are often said to be also less reliable in that period.

It should be noted that over the years of study there have been changes in the financial information required by the Government of Serbia. Particularly in 2004 there was substantial reform aiming to reduce the number of accounts and introducing international accounting standards. As a consequence some information is not available from 2004 and on (e.g. Sales of products in foreign markets, Revenues due to subventions, and other accounts). These accounts have been noted as “Not available” (N/A).

Note on companies performance

There is a significant number of not-yet-privatised, but also some privatised enterprises, in a very bad shape. This report identifies companies which are in bankruptcy. However it should be noted that there is a significant number of companies which are *de facto* in bankruptcy since they cannot repay their creditors.

The selected sectors include a number of companies in bad shape but it was important to test whether these sectors were artificially sustained through subsidies. The table 5.2 below shows that in spite of their importance towards privatisation, the selected sectors are not heavily subsidised.

Table 5.2. Subsidies by sector (in M EUR)

Sector	2001 ⁹	2002	2003	2004	Total	% of total subsidies
Textiles and Leather processing	3,2	6,0	6,3	5,1	20,6	6%
Chemical Industrv	2,9	6,5	6,5	5,8	21,7	7%
Non-Metal Processing	1,1	3,0	4,7	3,2	12,0	4%
Construction	0,0	2,1	2,4	2,3	6,8	2%
Food industrv	0,2	2,3	3,2	0,9	6,6	2%
Total Serbia	48,9	98,1	103,7	77,5	328,1	

Source: Ministry of Finance

As seen above, the selected sectors under study have received together 20.6% of the total subsidies disbursed by the Government. It should be noted that the automotive and the mining sectors, not covered in this study, represents most of the yearly total subsidies.

⁹ In the year 2001 funds were not disbursed to the firms as soft credits, but as subsidy-transfers.

5.2. Textile industry

5.2.1. Definition of the textile industry

5.2.1.1. Activities performed in the textile industry

In accordance with the new classification of the Statistical Office of the Republic of Serbia (SORS), the textile sector belongs to the category Manufacturing (Прерађивачка индустрија) and has the code (KD) 17. The classification below shows the activities performed in the textile industry following the new nomenclature of the Statistics Office of the Republic of Serbia.

Table 5.3. Activities performed in the textile industry

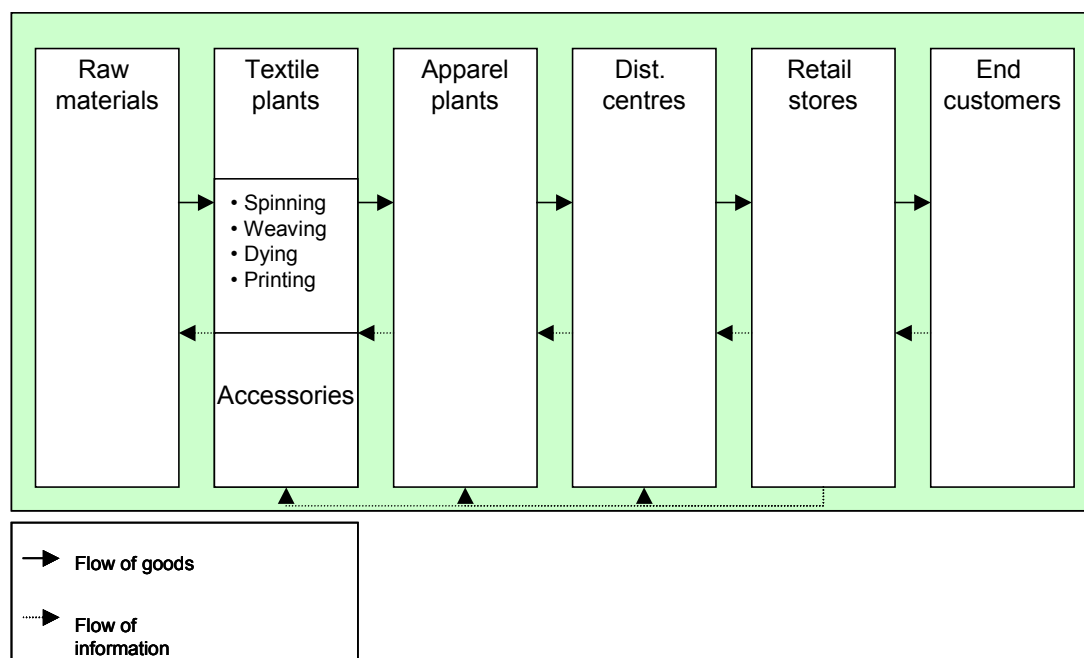
17110	Производња предива памучног типа	Production of cotton type yarn
17120	Производња предива вуненог типа	Production of wool type yarn
17130	Производња предива од чешљаних влакана	Production of combed fibres yarn
17150	Производња предива свиленог типа	Production of silk type yarn
17160	Производња конца за шивење	Production of sewing thread
17170	Производња осталих текстилних предива	Production of other textile yarns
17210	Производња тканина памучног типа	Production of cotton type fabrics
17220	Производња тканина вуненог типа	Production of wool type fabrics
17230	Производња тканина од чешљаног предива	Production of combed fibres fabrics
17240	Производња тканина свиленог типа	Production of silk type fabrics
17250	Производња осталих текстилних тканина	Production of other textile fabrics
17300	Довршавање тканина	Finishing of fabrics
17401	Производња рубља за домаћинство	Production of linen for household needs
17402	Производња тешке конфекције	Production of heavy ready-made clothes
17403	Производња ћебади	Production of blankets
17404	Производња других готових текстилних предмета	Production of other ready-made textile items
17510	Производња тепиха и прекривача за под	Production of carpets and floor coverings
17520	Производња ужади, канапа и мрежа	Production of ropes, cords and nets
17530	Производња нетканог текстила	Production of non-knitted textile
17540	Остали непоменути текстилни предмети	Other non-mentioned textile items
17600	Производња плетених и кукичаних тканина	Production of knitted and crocheted fabrics
17710	Производња плетених и кукичаних чарапа	Production of knitted and crocheted stockings
17720	Производња плетених и кукичаних пуловера	Production of knitted and crocheted pullovers

Source: SORS

5.2.1.2. Overview of the sector

The figure below summarises the supply chain of the textile and clothing industry.

Figure 5.1. Supply chain of the textile industry.



Retail stores: they have a high negotiation power in the textile industry at a global level. Their access to end customers allows them to get first-hand market information on latest trends. The trend towards increasingly higher rotation of textile products pushes manufacturers to respond quicker to retail stores demands. It also provokes a higher degree of integration among agents of the supply chain, which often requires the integration of their information systems and the use of compatible standards. Statistically, retail stores are included under the category trade. They are not subject of the study.

Clothing: the production technology of the apparel industry has not changed much over the last century. It is by nature a labour intensive activity. Clothing manufacturers are pushed by retailers to reduce their costs. As a consequence, manufacturers have been either forced to reduce their margins or have succeeded in improving their productivity through relocation to lower-cost countries, push in turn their suppliers (from the textile industry) or gaining flexibility basically by shortening lead-times.

Textiles: the textile industry consists of spinning, weaving and finishing. This three functions often take place in integrated plants. It is usually more capital intensive than the clothing industry. This industry works with longer lead times and with large minimum orders. As a consequence the industry is less flexible in terms of adjusting to consumer tastes in a given season.

5.2.2. Relevant state of affairs in the sector

The textile and clothing industry is among the most internationalised industries and its trade is subject to complex rules. The position of the industry in Serbia is heavily dependent on the developments at world's level. Therefore the consultant will predominantly elaborate the analysis of the industry from a global point of view.

WTO estimates textile and clothing trade represents 6% of total world trade. From the mid-1970s through 1994, the Multifibre Arrangement (MFA) governed the world textile and apparel trade, with textile and clothing quotas being negotiated bilaterally between trading partners. On January, 1995, the MFA was replaced by the WTO Agreement on Textiles and Clothing (ATC), which established a gradual process for the ultimate removal of these quotas by 1 January 2005.

The elimination of quotas and tariffs are expected to benefit China and to some extent India and other Asian big players. Developed countries (basically EU, USA and Canada and Japan) are expected to see a reduction of their industries in terms of production and employment. Nevertheless, most of these countries industries have already undergone severe adjustments. Producers located far away from developed markets are expected to be the major losers of the implementation of the ATC. The expectations towards South Eastern Europe countries are a question mark since their performance will depend to a large extent on their ability to exploit their proximity to the EU market. They will have to firstly, increase their investment in capital to meet EU customers standards and secondly, be flexible to meet EU retailers demands timely.

The EU represents around 70% of Serbian textile exports. On 21 December 2004 the EU and Serbia initialled an agreement to lift all textile quotas applied to Serbia. The Serbian textile and clothing industry will need to sell products meeting EU standards and to develop ties with EU buyers. In this frame, it is key that the privatisation of the Serbian textile industry is able to attract capital investments to increase its competitiveness. The development of commercial ties with EU buyers could also be achieved through the entry of investors with good links in EU markets.

5.2.3. Analysis of the impact of privatisation on the textile industry

5.2.3.1. Extent of privatisation

Table 5.4. Privatised companies in the textile sector

	1997 Law						2001 Law				Total privatised
	1997	1998	1999	2000	2001	Sub total	2002	2003	2004	Sub total	
Privatised companies in the textile sector		7	8	9	4	28	9	30	12	51	79
Total companies in the textile sector	1,072	1,143	1,176	1,196	1,229		1,286	1,406	1,390		

Source: PA

Table 5.5. Privatisations by method (2001 Law)

	Textile		
	2002	2003	2004
Tender			1
Auction	9 ¹⁰	29	12
Total	9	29	13

Source: PA

According to the number of privatised enterprises, the overall privatisation of the textile industry is lagging behind other sectors. Up to 2005 only 79 enterprises had been privatised. The bulk of these privatisations took place in 2003 and 2004 while there is still a relatively high number of companies in the pipeline of privatisation (see below).

28 enterprises were privatised according to the Law of 1997. They included 9 large enterprises: Sintelon Backa Palanka - production of synthetic floor; Dunav Grocka - production of synthetic yarn, Dunav Backa Palanka and ITES Odzaci production of hemp yarn; YUMCO Vranje - production of cotton yarn; BEKO Beograd; Rudnik Gornji Milanovac; NIT Novi Sad. A number of these companies went to bankruptcy after their privatisation or are in big trouble.

51 enterprises were privatised according to the Law of 2001. They included Novitet Novi Sad sold by tender, and 6 other large enterprises sold by auction: Kadinjaca Uzice, 7 Juli Kursumlija, TIZ Zemun, Tisa Novi Becej, Uzor Valjevo and Raska Novi Pazar.

In addition to the above, as of September 2005, 134 enterprises have initiated but not concluded their privatisation process. Some of these companies have initiated their privatisation procedure a long time ago (e.g. Kuteks from Kucevo, Svrlijig ITK, Radteks from Vucje, Polet form Leskovac), others have been unsuccessfully auctioned (e.g. Banacanka promet from Pancevo, Proleter Fabrika carapa from Ivanjica, Vronski MK form Razanj, Diork from Kragujevac) while others are under restructuring (e.g. Rudnik from Gornji Milanovac, Prvi maj from Pirot or Industrija tepiha Ivanjica). In summary, it is proving rather difficult to privatise companies from the textile sector.

Table 5.6. Results from privatisation by procedure

Textile sector (EUR)		Year			
Method		2002	2003	2004	TOTAL
Auction	Sale Price	969,435	3,315,554	711,575	4,996,564
	Investments	509,229	1,531,354	490,534	2,531,118
Tender	Sale Price			2,200,000	2,200,000
	Investments			1,026,000	1,026,000

Source: PA

Privatisation proceeds in the textile sector are rather small provided the number of companies privatised. Sales plus committed investment total more than 10 M EUR. This result is in line with the overall shape of the companies of the sector and the uncertain future of the sector in Serbia which makes it difficult to find buyers for the companies.

5.2.3.2. Balance of trade

Table 5.7. Balance of trade of the textile sector

Foreign trade (000 EUR)	1997	1998	1999	2000	2001	2002	2003	2004
Exports textile	253,209	223,230	153,046	190,563	143,722	178,300	215,629	330,975
Evolution		-12%	-31%	25%	-25%	24%	21%	53%
Exports of Goods (Total SERBIA)	2,238,000	2,393,000	1,270,000	1,681,000	1,896,000	2,192,000	2,445,000	3,135,000
Share in Total Serbia Exports	11%	9%	12%	11%	8%	8%	9%	11%
Imports textile	507,165	542,797	517,938	643,673	745,641	835,930	888,540	1,143,691
Evolution		7%	-5%	24%	16%	12%	6%	29%
Imports of Goods (Total SERBIA)	3,052,000	3,986,000	2,694,000	3,618,000	4,763,000	5,925,000	6,597,000	8,805,000
Share in Total Serbian Imports	16,6%	13,6%	19,2%	17,8%	15,7%	14,1%	13,5%	13,0%
Balance of trade	-253,956	-319,567	-364,891	-453,110	-601,919	-657,630	-672,911	-812,715

Source: SORS

The balance of trade shows a negative trade deficit where the value of exports represents between 20% and 30% the value of imports. It also shows that trading of textile products has been resumed from 2001 and exports are growing more than imports. In 2004, Serbian exports are 2.3 times higher than in 2001 while imports are 1.5 times higher. Serbia producers, like the EU ones, are experiencing strong competition from Asian countries.

5.2.3.3. Companies performance

Table 5.8. Financial information from textile companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	529,260	436,761	299,273	299,468	459,217	428,880	344,937	337,142
Wages. salaries. and other personal benefits	86,720	62,675	49,377	49,642	101,033	115,502	101,679	108,384
Operating Profit ¹¹	19,478	34,931	32,069	35,659	30,258	13,566	13,171	17,694
Operating Loss ¹²	54,589	24,527	19,672	19,260	48,656	81,258	93,237	71,714
Number of Employees	114,413	92,382	98,946	89,192	80,406	78,482	62,644	52,842
Number of Companies	1,072	1,143	1,176	1,196	1,229	1,286	1,406	1,390

Source: SC database

¹⁰ One contract was cancelled: Pionir Reteks.

¹¹ Operating Profit: Sum of the profit of the companies which presented an operating profit.

¹² Operating Loss: Sum of the losses of the companies which presented an operating loss.

Table 5.9. Performance indicators from textile companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	4,626	4,728	3,025	3,358	5,711	5,465	5,506	6,380
Aggregated operating profit or loss ('000 EUR)	-35,110	10,404	12,397	16,399	-18,397	-67,691	-80,065	-54,019
Annual Wages. salaries per employee (EUR)	758	678	499	557	1,257	1,472	1,623	2,051
Montly wages (cost) per employee (EUR)	74	66	48	56	105	164	210	171
Wages/sales	19%	17%	19%	20%	22%	36%	46%	32%
Operating profit/sales	-6,6%	2,4%	4,1%	5,5%	-4,0%	-15,8%	-23,2%	-16,0%

Source: SC database. Note: Aggregated operating profit is calculated as the sum of all profit and losses of all companies included (in this case textile companies which submitted financial statements)

The figures analysed show that the textile sector is in an extremely difficult situation. Sales of companies show a very poor performance and have been declining every year in the period under study. Employment also shows an extremely negative trend with more than 46,000 jobs lost since 1999 representing nearly 50% of the employment of the sector. As a whole, companies have massive losses and extremely negative performance ratios.

Table 5.10. Financial information from privatised textile companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	130,149	137,237	86,023	84,753	161,270	113,503	62,589	35,568
Wages. salaries. and other personal benefits	23,191	24,438	15,477	15,811	27,841	33,728	25,311	19,595
Operating Profit	2,811	14,806	15,174	13,529	14,236	95	117	712
Operating Loss	7,941	4,189	2,447	1,445	5,798	18,666	21,947	18,938
Number of Employees	22,684	23,480	21,118	18,151	19,537	17,285	15,009	10,383
Number of Companies	35	44	44	44	44	43	45	44

Source: SC database

Table 5.11. Performance indicators from privatised textile companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	5,737	5,845	4,073	4,669	8,255	6,567	4,170	3,426
Aggregated operating profit or loss ('000 EUR)	-5,129	10,617	12,726	12,084	8,438	-18,571	-21,830	-18,225
Wages. salaries per employee (EUR)	1,022	1,041	733	871	1,425	1,951	1,686	1,887
Montly wages (cost) per employee (EUR)	89	90	64	75	123	170	155	157
Wages/sales	19%	19%	19%	19%	18%	31%	44%	55%
Operating profit/sales	-3,9%	7,7%	14,8%	14,3%	5,2%	-16,4%	-34,9%	-51,2%

Source: SC database

The performance of privatised companies is worse than the performance of the sector as a whole. There has been a sharp decrease in sales over the last years, the losses are tremendous and the number of employees is sharply declining. The group of companies shows a negative ratio of operating profit on sales of 50% which summarises the situation of the companies.

5.2.3.4. Relevant players of the textile industry

AD SINTELON Backa Palanka.

Privatised in September 1998, it was the first large textile company to be privatised. It is the leading producer of textile and PVC carpets and floor layers. It is among the 300 largest companies in Serbia and presents a good performance (137th by revenue, 58th by capital, 15th by profit). Its current owners are: RP Holding APS (43.44%), Tarkett SAS (39.04%) and 1391 individual shareholders. It is listed on BELEX.

JUMCO a.d. Vranje

The company was privatised in 2000 by 1997 law. It is a big textile complex dedicated mainly to the production of clothes. Nowadays the former Holding Jumco is divided in two companies: Cotton industry Vranje and Jumco a.d. Vranje. It is among 300 largest companies in Serbia (198th by capital).

The company is in extremely bad shape and needs a turn around. At the end of 2004 it had 5.371 employees. Although employment has decreased substantially by 2.318 employees in 2004 (30% of total employees), it probably needs additional downsizing and strategic restructuring. On the other hand sales have decreased from 29 M EUR in 2002 to 6.3 M EUR in 2004. It is nowadays a concern for the Government, who still owns 42% of shares through the Share Fund.

DUNAV a.d. Celarevo

The enterprise was privatised in 2001 by 1997 law. Its activity is the production of textile and packaging products. It is also among the 300 largest companies in Serbia by capital. It has no major shareholder.

The company is in bad shape and has seen a progressive reduction of its sales. It is striking that it has presented operating losses every year since 1997. As a consequence of this, the employment has also seen a progressive reduction.

LOLA RIBAR a.d. Odzaci

Privatised in 1999, the enterprise's core activity is the manufacturing of tufted carpets from polypropylene. It also produces yarns, twines and cordage, and plastic film.

The sales of the company are stable but it presented operating losses for the last 4 years. Losses are significant and represented 15-30% of sales. It had 747 employees by the end of 2004. Employment has been cut off by one third from the level it had in 2000 and precedent years.

IT PROLETER a.d. Zrenjanin (in bankruptcy)

The company was privatised in 2001 according to 1997 law. It manufactures carpets. The company has seen its sales reduced by more than half the level of 2002. Consequently it has had financial losses ever since it was privatised and employment has been downsized by 50% down to 175 workers. The enterprise is now in bankruptcy.

DUNAV a.d. Grocka, Belgrade

The enterprise was privatised in 1998. It is dedicated to the production of polyamide yarns, polyester yarns and other yarns and thread. Its major shareholder is Technoyarn srl Italy (13.66%) and 571 individual shareholders.

Sales have remained stable over the last years and the enterprise has presented operating profit in 2004 while employment has not been significantly reduced.

NOVITET a.d. Novi Sad

The company was privatised in 11th March 2004 by tender and sold to Zekstra d.o.o. from Belgrade (85.15% of shares). Selling price was 2.2 M EUR and committed investments were 1 M EUR. The company is producer of women's ready-to-wear garments, mostly heavy woollens: coats, jackets and suits, skirts, and raincoats; small production of men's woollen garments.

5.2.4. Conclusions

In general, the textile industry in Serbia is in bad shape and undergoing a severe market adjustment. Companies have lost their foreign markets and have a large surplus of employees. The main consequences are significant job losses and a sharp decline in sales. Reasons for this include:

Current trends at global level. As explained above players like China or India are gaining market share in developed countries. This having an effect not only on developed countries domestic industries but also on other textile producers oriented to these markets.

Internal adjustment derived from the loss of traditional markets, the lack of investment in equipment and a huge labour surplus.

Some of the largest companies have not yet been privatised while others are undergoing restructuring processes (Javor Ivanjica, Rudnik Gornji Mailanovac, Nitex Nis). It is representative of the situation that out of 134 companies in privatisation only 53 were sold.

Textile companies from Serbia were in trouble before privatisation took place for reasons explained above. Time has deepened their problems. This has made the companies unattractive to investors and more difficult to sell. As a whole, those companies that have been sold have not shown a significant improvement so far while those not sold are in big trouble. It cannot be concluded that privatisation has been successful to improve the position of textile companies to date.

This sector probably needs a specific strategy from the government possibly linked to a rationalization of the production. Otherwise there is substantial risk that companies disappear or go to bankruptcy while they are in the pipeline of privatisation. At a global level, Asian countries have significant competitive advantages. If the global context remains the same, the progressive reduction of the Serbian textile industry will continue unless appropriate actions are taken.

5.3. Chemical industry

5.3.1. Definition of the chemical industry

5.3.1.1. Activities performed in the Chemical industry

In accordance with the new classification of the Statistical Office of the Republic of Serbia (SORS), the Chemical sector belongs to the category Manufacturing (Прерађивачка индустрија) and has the code (KD) 24. The classification below shows the activities performed in the Chemical industry following the new nomenclature of the Statistics Office of the Republic of Serbia.

Table 5.12. Activities performed in the chemical industry

24110	Производња индустријских гасова	Production of industrial gases
24120	Производња боја и пигмената	Production of paints and pigments
24130	Производња осталих неорганских хемикалија	Production of other inorganic chemicals
24140	Производња осталих органских хемикалија	Production of other organic chemicals
24150	Производња ђубрива и азотних једињења	Production of fertilizers and other nitric compounds
24160	Производња пластичних маса, примарни обли	Production of plastic masses, primary forms
24170	Производња каучука, примарни облици	Production of rubber, primary forms
24200	Производња хемикалија за пољопривреду	Production of chemicals for agriculture
24300	Производња боја, лакова и сл.	Production of paints, lacquers, etc.
24410	Производња фармацеутских сировина	Production of pharmaceutical raw materials
24420	Производња фармацеутских препарата	Production of pharmaceutical preparations
24510	Производња сапуна и сличних препарата	Production of soaps and similar preparations
24520	Производња тоалетних препарата	Production of toilette preparations
24610	Производња експлозива	Production of explosives
24620	Производња туткала и желатина	Production of size and gell
24630	Производња етеричних уља	Production of essential oils
24640	Производња фотографског материјала	Production of photographic material
24650	Производња готових неснимљених медија	Production of ready-made non-recorded media
24660	Производња осталих хемијских производа	Production of other chemical products
24700	Производња вештачких и синтетичких влакан	Production of artificial and synthetic fibres

Source: SORS

5.3.1.2. Overview of the sector

The chemical industry covers a variety of activities, from the few large capital-intensive basic chemical companies to a number of small and medium enterprises in the field of plastic transformation, paint and adhesives or detergents and cosmetics.

The structure of the main players in the chemical sector can be represented as follows:

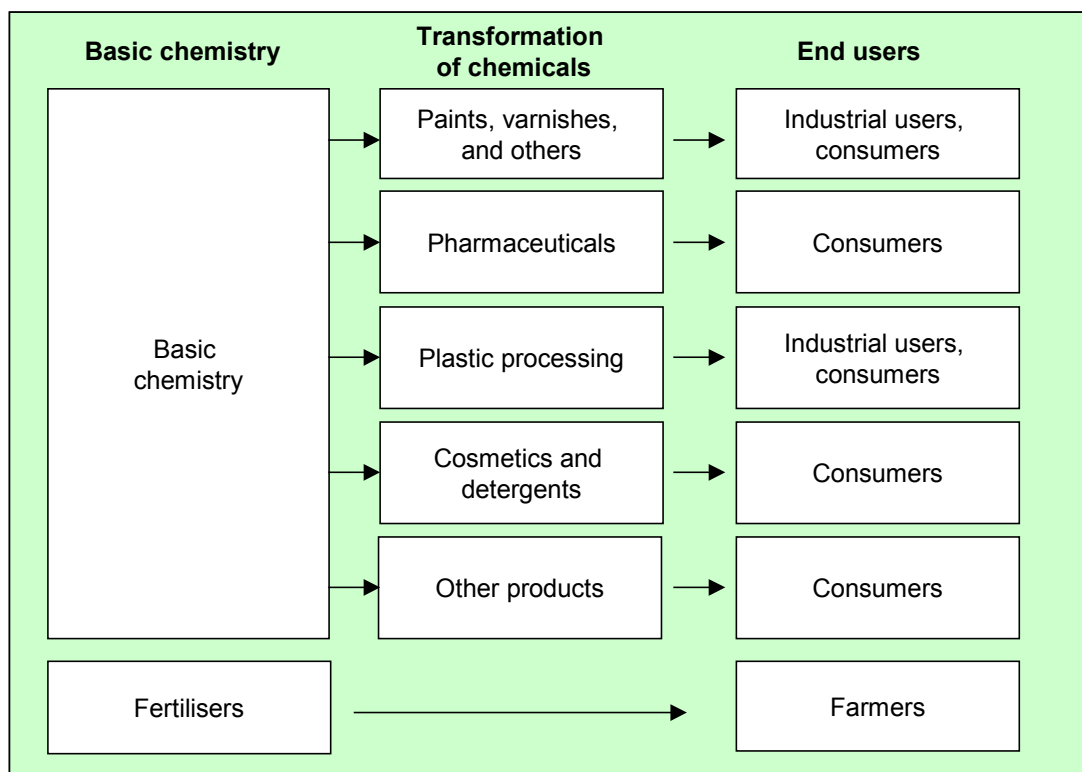


Figure 5.2. Supply chain of the chemical industry

Basic chemistry: these companies are capital intensive, with significant economies of scale. As a consequence it is usually dominated by large international corporations. They produce large quantities of basic chemical products in a continuous flow (24x365), which are sold to processing chemical companies.

Fertilisers: again it is a capital intensive activity. Main products include ammonia and nitrogen, potash, phosphates, sulphates, fertilisers and complex fertilisers. Products are sold directly to end users (normally cooperatives and farmers), which requires developing distribution networks. The industry is dependent on the purchasing capacity of farmers.

Plastic processing companies: they tend to be smaller and less capital intensive. They transform different chemical derivatives into plastic items of all kinds for industrial or consumer use.

Pharmaceutical: companies transform basic chemical products and specialities into pharmaceutical complexes. The regulation of the environment in which they operate has significant impact on the shape of the industry and its development.

Cosmetics and detergents: this industry is dominated by multinational companies with highly developed marketing functions typically supported by significant advertising expenditures.

Paints varnishes and others: these companies typically sell their products to other industries (i.e. automotive, construction), and, to a lesser extent, also sell to consumers.

Other industries such as synthetic rubber, etc. are also included in the sector.

5.3.1.3. Relevant state of affairs in the sector

Most of the chemical sector was formed by socially-owned enterprises, with a number of small private companies operating in the field of processing chemistry. While a number of small

enterprises have been privatised, most of the large manufacturers of basic chemicals (petrochemicals and fertilizers) remain socially- or state-owned.

The basic chemical sector has been badly hit during the sanction period (impossibility to import raw materials), and later during the NATO bombing when a number of units have been destroyed (e.g. PVC in Petrohemija, NPK fertilizers in Azotara Pancevo, Carboxy Methyl Cellulose in Milan Blagojevic). Serbia does not have a competitive advantage in terms of raw materials and know-how. The sector is a net importer, and most of the production is oriented to the domestic market, or at best to the regional market. Since the sector is largely capital intensive, cheap labour force is not a significant factor of competitiveness.

While the basic industry is not privatised, the downstream processing industries and pharmaceutical industries are mostly privatised. The most important sub-sectors are analysed below.

- **Basic industries**
In this field, the companies are usually large. Chemical companies were part of a larger Yugoslav system and were planned to serve a larger market. Generally, they have old technology, and may need to be split into smaller parts prior to their privatisation. The only way for these companies to become competitive and sustainable is through investment. The main companies have not yet been privatised. This includes Petrohemija, Pancevo; Hipol Odzaci near Sombor; Zupa in Krusevac (which privatisation was cancelled), Zorka-Zastita bilja Sabac (privatised by auction 2004) and Prva Iskra, Baric. They produce mainly basic petrochemicals and plastics (Polyethylenes, and polypropylene).
- **Fertilisers**
Like the basic industry, this sub-sector is also capital intensive. The production plants of fertilisers in Serbia are ageing and their production has significantly decreased over the last 10 years. Production is oriented to the local market and this fall is mainly due to the decrease in consumption by Serbian farmers. The current average fertilisers consumption is about 60 kg per ha which represents about half the average consumption in the beginning of the 90s.
Only two small companies have been privatised: Agrohem in Novi Sad and Azotara Subotica (which has been bankrupt). The largest companies (Azotara Pancevo, IHP Prahovo, Zorka Dubrava) remain to be privatised as well as Zorka Klotilda which is in bankruptcy.
- **Pharmaceuticals**
The Serbian companies in this sector are performing relatively well and most of the companies have been privatised. They export, but there are also significant imports as local production covers only a limited range of products mostly generics. A few large companies manufacture the bulk of the country's production while a higher number of smaller firms complete it. The largest companies include Hemofarm (see below); Galenika (still State owned with huge liabilities to be paid to ICN Pharmaceuticals) and Zdravlje Leskovac (see below).
- **Plastic processing**
This subsector is performing well. It is focused in the domestic market. It includes a relatively high number of SME producing a wide range of plastic products such as pipes,

agricultural foils, plastic sheets, plastic windows, profiles and frames, packaging, furniture, technical plastics or reinforced plastics. Worth mentioning are Alatinica Pesovic, Plastika Nova Varos (privatised according to the 2001 Law), Zorka ekstrudirana ambalaza Sabac (privatised on auction 2004), Napredak Ratkovo (Sombor), Galenika plastika Beograd (privatised 2004) or Balkan, Beograd privatised by Law 1997.

- Cosmetics and detergents

At present, there are some 200 producers, which is considered a too high number. These companies confront a strong competition from imports, especially from large firms with important marketing and advertising budgets (Procter & Gamble, Colgate Palmolive, l'Oreal, etc.).

Significant companies include Merima (which was bought by Henkel), Albus in Novi Sad (detergent, soaps and cosmetics enterprise, which was privatised according to 1997 Law), Dahlia Beograd and HINS Novi Sad (privatised by auction in 2004). In summary, this is a subsector where many small producers could disappear. The best chance for Serbian producers to survive will be either a niche production, or an acquisition by a large foreign company.

- Paints, varnishes and others

In general, the companies in this subsector are performing well. Production is mainly intended for the Serbian market. Many of the companies have already been privatised. There are also a number of good newly created private enterprises. The most important are: Duga from Belgrade (privatised according to 1997 Law), Zorka Boje Sabac (privatised according to 2001 Law), Zvezda Helios from Gornji Milanovac (privatised according to 1997 Law), Pomoravlje Nis (a producer of technical paints, e.g. for high temperature, boats, etc. - yet to be privatised) and Fabrika boja i lakova Suko from Pirot (privatised according to 2001 Law).

5.3.2. Analysis of the impact of privatisation on the chemical industry

5.3.2.1. Extent of privatisation

Table 5.13. Privatised companies in the chemical sector

Chemical	1997 Law						2001 Law				Total privatised
	1997	1998	1999	2000	2001	Sub total	2002	2003	2004	Sub total	
Privatised companies in the chemical sector		4	5	12	2	23	8	3	7	18	41
Total companies in the chemical sector	1,051	1,148	1,180	1,241	1,332		1,360	1,479	1,497		

Source: PA

Table 5.14. Privatisations by method (2001 Law)

	Chemical		
	2002	2003	2004
Tender	4		1
Auction	4	3	6
Total	8	3	7

Source: PA

Table 5.15. Results from privatisation by procedure

Chemical sector (EUR)		Year			TOTAL
Method		2002	2003	2004	
Auction	Sale Price	4,218,545	370,585	2,896,548	7,485,678
	Investments	2,315,261	176,492	1,767,055	4,258,808
Tender	Sale Price	32,650,000		3,810,000	36,460,000
	Investments	92,725,000		6,439,000	99,164,000
	Social programme	54,243,000		0	54,243,000

Source: PA

Privatisation proceeds have been substantial in the chemical sector not only in terms of sales price, but also of investment committed. Buyers committed to invest 103 M EUR in the chemical sector. The figure is mainly due to three successful tenders: Merima from Krusevac, Zorka Farma from Sabac and Zdravlje from Leskovac which totalled more than 90 M EUR in investment commitments and had social programmes adding up more than 50 M EUR. This is in line with the characteristics of the sector, which is capital intensive.

Out of a total of 41 companies, 23 have been privatised according to the Law of 1997 and 18 by 2001 Law. The figures show that the privatisation has been slow until 2000 when, among others, the privatisation of Hemofarm, the largest chemical company in Serbia, took place. Numerous companies from the chemical sector are among the largest in Serbia. Therefore a relatively high number of companies have been sold by tender from 2001.

The privatised enterprises are operating in pharmaceuticals, plastic processing, cosmetics and detergents or paints and varnishes. However the process of privatisation of the basic chemical industry, fertilisers and sulphuric acid is lagging behind and some of these companies are undergoing severe difficulties.

As of September 2005, there are 35 chemical companies in the pipeline of the Privatisation Agency or in restructuring including: Viskoza from Loznica, HIP Azotara Pancevo, IHP Prahovo, Prva Iskra Baric, Zorka subsidiaries and Hipol from Odzaci which is to be sold through tender.

5.3.2.2. Balance of trade

Table 5.16. Balance of trade of the chemical sector

Foreign trade (000 EUR)	1997	1998	1999	2000	2001	2002	2003	2004
Exports chemical	253,209	223,230	153,046	190,563	143,722	178,300	215,629	330,975
Evolution		-12%	-31%	25%	-25%	24%	21%	53%
Exports of Goods (Total SERBIA)	2,238,000	2,393,000	1,270,000	1,681,000	1,896,000	2,192,000	2,445,000	3,135,000
Share in Total Serbia Exports	11%	9%	12%	11%	8%	8%	9%	11%
Imports chemical	507,165	542,797	517,938	643,673	745,641	835,930	888,540	1,143,691
Evolution		7%	-5%	24%	16%	12%	6%	29%
Imports of Goods (Total SERBIA)	3,052,000	3,986,000	2,694,000	3,618,000	4,763,000	5,925,000	6,597,000	8,805,000
Share in Total Serbian Imports	16,6%	13,6%	19,2%	17,8%	15,7%	14,1%	13,5%	13,0%
Balance of trade	-253,956	-319,567	-364,891	-453,110	-601,919	-657,630	-672,911	-812,715

Source: SORS

The balance of trade of the chemical industry is extremely negative. Moreover exports only represent less than 30% of imports, which is caused by a very poor situation of the basic chemical industry, i.e. source of raw materials.

58

5.3.2.3. Companies performance

Table 5.17. Financial information from chemical companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	1,376,745	832,342	632,676	712,339	1,127,305	1,276,187	1,283,120	1,529,710
Wages, salaries, and other personal benefits	181,592	91,348	74,743	68,784	130,374	164,043	177,725	211,906
Operating Profit	120,866	104,550	84,762	112,738	143,215	128,762	110,068	141,225
Operating Loss	118,381	31,982	42,484	29,883	100,419	102,368	132,955	57,587
Number of Employees	54,698	44,938	50,844	49,288	49,959	48,614	42,911	40,602
Number of Companies	1,051	1,148	1,180	1,241	1,332	1,360	1,479	1,497

Source: SC database

Table 5.18. Performance indicators from chemical companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	25,170	18,522	12,443	14,453	22,565	26,251	29,902	37,676
Aggregated operating profit or loss ('000 EUR)	2,484	72,567	42,278	82,855	42,795	26,393	-22,886	83,637
Yearly Wages. salaries per employee (EUR)	3,320	2,033	1,470	1,396	2,610	3,374	4,142	5,219
Monthly wages (cost) per employee (EUR)	292	183	130	127	217	318	393	435
Wages/sales	14%	12%	13%	11%	12%	15%	16%	14%
Operating profit/sales	0,2%	8,7%	6,7%	11,6%	3,8%	2,1%	-1,8%	5,5%

Source: SC database

Sales have hardly increased over the last years and the companies show a reasonable performance. It seems that 2003 was a year of restructuring in the industry since employment was downsized by 11% (which is also reflected in the increase of wages due to severance payments), sales did not grow much and the operating profit was negative. After this restructuring the results for 2004 are better and although employment has been reduced again, the profitability and productivity of the companies have increased; it should also be noted that new companies are entering the market.

Table 5.19. Financial information from privatised chemical companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	307,559	365,871	230,822	222,489	364,955	387,647	394,774	410,388
Wages. salaries. and other personal benefits	56,078	52,716	33,466	26,044	47,992	64,929	77,239	74,141
Operating Profit	26,025	55,341	35,928	39,970	70,495	50,395	32,580	59,386
Operating Loss	2.553	2.029	429	64	3.957	12.449	20.339	8.733
Number of Employees	11,980	15,009	14,904	14,597	16,581	15,595	12,843	11,564
Number of Companies	25	35	37	37	37	37	38	38

Source: SC database

Table 5.20. Performance indicators from privatised chemical companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	25,673	24,377	15,487	15,242	22,010	24,857	30,738	35,488
Aggregated operating profit or loss ('000 EUR)	23,471	53,311	35,499	39,905	66,538	37,945	12,241	50,652
Wages. salaries per employee (EUR)	4,681	3,512	2,245	1,784	2,894	4,163	6,014	6,411
Monthly wages (cost) per employee (EUR)	401	298	189	152	248	355	514	534
Wages/sales	19%	15%	15%	12%	14%	17%	20%	18%
Operating profit/sales	7.6%	14.6%	15.4%	17.9%	18.2%	9.8%	3.1%	12.3%

Source: SC database

As a whole, privatised chemical companies are profitable and are performing better than the sector on average. Some large companies from the sector were sold through tender to foreign investors by the end of 2002. These companies were restructured in 2003 which is reflected by higher losses and significant downsizing. However in 2004 sales and profits have been substantially increased.

5.3.2.4. Relevant players in the chemical industry

HEMOFARM CONCERN a.d. Vrsac

Company privatised in 2000 by 1997 law and fully privatised in 2002 when the share Fund sold its shares through the Stock Exchange. It is among the 300 largest and best performing companies in Serbia (20th by revenue, 38th by capital, 9th by profit). Its major owners are Aktiva SEI (29.09%) - investment company located in the Netherlands, originally from Slovenia with 600 M EUR portfolio and other investments in the region-, and Wodal AG (13.98%) from Switzerland. In addition there are 7,124 small shareholders.

Hemofarm Group is a pharmaceutical concern comprising 29 enterprises and employing 3,500 people which operates in 30 countries worldwide. The parent company and 18 of its subsidiaries are based in Serbia and Montenegro, while other subsidiaries are abroad (i.e. Germany, FYR Macedonia, Hungary, China, Switzerland, USA, Syria, Bosnia and Herzegovina). By acquiring Zorka-Pharma from Sabac, Hemofarm became one of the largest pharmaceutical companies in Balkans.

GALENIKA a.d. Belgrade

Galenika is a state owned company with 2,800 employees, including more than 18% holding degrees. The range of products manufactured and distributed by the Company includes prescription and OTC drugs, dental and veterinary products, dialyzers and associated products, medicinal plasters and Band-Aids, dietary products, skin care products, and pharmaceutical raw materials.

In 1991 Galenika was incorporated into SPI Pharmaceuticals inc., a company from the USA, continuing operation under the name of ICN Galenika, and for a short period as ICN Yugoslavia. Since March 1999 it has been present on the market under its traditional and well-known name of Galenika a.d. By arbitration award of the ICC International Court of Arbitration in Paris from December 2004, the state of Serbia (i.e. The State Health Fond of Serbia) is a 100% owner of the oldest and one of the largest pharmaceutical companies in the Balkans.

HENKEL MERIMA a.d. Krusevac

The company was privatised in September 2002 by public tender. It was bought by HENKEL Central Eastern Europe Austria (89.43%) with a sales price of 14.4 M EURO and committed investments of 43.3 M EURO, plus a social program of 12.1 M EURO. It is also among the 300 largest companies in Serbia (111th by revenue, 137th by capital). It is the leading Serbian company in home chemicals (detergents, etc.). At present, Henkel-Merima is opening a construction adhesive plant, built with an investment of 1.13 M EUR. The plant, located in Krusevac, has 0.8 M EUR worth of equipment and will initially employ 30 workers and produce some 6,500 tons by the end of the year.

FHN ZDRAVLJE a.d. Leskovac

The company was privatised in December 2002 by public tender and was bought by PHARMACO HF from Reykjavik, Iceland. Its sales price was 3.5M EUR with committed investments of 20 M EUR and a social program of 24.7 M EUR. It is also among the 300 largest companies in Serbia (97th by revenue,

84th by capital) and among three largest Serbian producers of pharmaceutical and cosmetics (Hemofarm, Galenika).

Hemofarm Concern ZORKA-PHARMA a.d. Sabac

The company was privatised in November 2002 by public tender. It was bought by HEMOFARM Concern from Serbia (77.98%) with a sales price of 14.6 M EUR, committed investments of 27.5 M EUR and a social program totalling 16.1 M EUR. It is also among 300 largest and best performing companies in Serbia (119th by revenue, 85th by capital, 37th by profit). It produces pharmaceuticals, cosmetics and home chemicals.

MESSER TEHNOGAS a.d. Belgrade

The company was sold to MESSER SECHSTE (63.56%) in 1997 before the “insider” Privatisation Law was enforced. The company's activity is the production and distribution of technical gases. It is among the 300 largest and best performing companies in Serbia (134th by revenue, 77th by capital, 16th by profit). MESSER is one of the leading manufacturers of technical and medical gases in the world. It has eight factories and several distribution centres over former Yugoslavia.

HI ZUPA Krusevac

Company was privatised in January 2004 by public tender and bought by VECTRA M from Belgrade for a sales price of 3.8 M EUR and with committed investments of 6.4 M EUR. It produces various basic chemicals.

By decision of the PA Monitoring Department, from 1st July 2005 the sales contract of HI ZUPA was cancelled since the new buyer did not meet its committed investments.

5.3.3. Conclusions

Chemical companies privatised by 2001 Law include four large chemical companies sold by tender, three of them by the end of 2003. The two largest companies privatised through 1997 Law have been resold to strategic partners. Given that the chemical industry is a very capital intensive one, it seems the most sensible option for the companies privatised to employees to find strategic partners.

The performance of companies varies depending on the subsectors. The Serbian chemical industry as a whole still presents a number of problems. Its balance of trade is highly negative and possibly future efforts could focus in substituting part of these imported products by domestic products.

Privatisation has possibly had a positive impact in a sector that was underinvested and needed investment and still will require significant additional investments. Privatised companies show, in general, a good performance. However privatisation has had a too limited scope. A high number of companies, some of them big players, mostly from the basic industry activity, are yet to be privatised.

5.4. Food industry

5.4.1. Definition of the food industry

5.4.1.1. Activities performed in the food industry

In accordance with the new classification of the Statistical Office of the Republic of Serbia (SORS), the food sector belongs to the category Manufacturing (Прерађивачка индустрија) and has the code (KD) 15. The classification below shows the activities performed in the food industry following the new nomenclature of the Statistics Office of the Republic of Serbia.

Table 5.21. Activities performed in the food industry

15110	Производња и обрада животињског меса	Production and processing of animal meat
15120	Производња и обрада живинског меса	Production and processing of chicken meat
15130	Прерада животињског и живинског меса	Processing of animal and chicken meat
15200	Прерада и конзервисање рибе	Processing and canning of fish
15310	Прерада и конзервисање кромпира	Processing and preservation of potatoes
15320	Производња сокова од воћа и поврћа	Production of fruits and vegetable juices
15330	Прерада и конзервисање другог воћа и поврћа	Re-making and canning of other fruits and vegetables
15410	Производња сирових уља и масти	Production of crude oils and fats
15420	Производња рафинираних уља и масти	Production of refined oils and fats
15510	Производња млечних производа	Production of dairy products
15520	Производња сладоледа	Production of ice-cream
15610	Производња млинских производа	Production of flour-mill products
15620	Производња скроба и производа од скроба	Production of starch and starch-based products
15710	Производња готове хране за животиње	Production of animal feed
15720	Производња готове хране за кућне љубимце	Production of feed for home pets
15811	Производња хлеба и пецива	Production of bread and baked products
15812	Производња колача и др. производа од тест	Production of cakes and other pastry products
15821	Производња кекса	Production of biscuits
15822	Др. конзервисани производи од теста	Other preserved pastry products
15830	Производња шећера	Production of sugar
15841	Производња чоколаде и чоколадних производ	Production of chocolate and chocolate products
15842	Производња осталих кондиторских производа	Production of other confectionery
15850	Производња макарона и сл. производа	Production of pasta and similar products
15860	Прерада чаја и кафе	Re-amking of tea and coffee
15870	Производња зачина и др. додатака храни	Production of condiments and other food additives
15880	Производња дијететских препарата	Production of dietetic preparations
15890	Производња др. прехранбених производа	Production of other food products
15910	Производња дестилованих алкохолних пића	Production of distilled alcoholic beverages
15920	Производња етил-алкохола	Production of ethyl-alcohol
15930	Производња вина из свежег грожђа	Production of wine from fresh grape
15940	Производња вина од осталог воћа	Production of wine from other fruits
15960	Производња пива	Production of beer
15970	Производња слада	Production of malt
15981	Производња минералне воде	Production of mineral water
15982	Производња освежавајућих пића	Production of soft drinks

Source: SORS

5.4.1.2. Overview of the sector

The food industry processes natural and agricultural raw materials to produce consumer products. It is an industry in continuous transformation mainly due to changes in the habits of consumers. At a global level, there is a growing demand for high-quality processed and packaged goods, making local food manufacturers strive for improvements in the quality and presentation of their products. Food producers and manufacturers of the relevant equipment and packaging have to react quickly to current demand, changes in preferences and needs of consumers. Multinationals as well as local producers are increasing their investment in research and development as well as in branding and marketing.

Distribution and logistics are particularly relevant in the food sector. The structure of the food sector is affected by the structure of the trade sector. Trends observed in the EU include:

Large distribution chains have a high negotiation power before small and medium food producers since they represent a significant share of their sales.

Distribution chains develop their own food brands (supermarket brands) which are progressively increasing their market share.

The above is reducing the number of brands in the market. As a consequence small and medium food manufacturers often decide to produce supermarket brands saving in marketing efforts but losing negotiation power and sometimes contact with end customers.

The sector includes a high number of sub-sectors often non-related among them and which definitions often vary. The consultant will hereafter provide an overview of the main sub-sectors in Serbia from the point of view of the impact the privatisation process has had on them.

5.4.1.3. Relevant state of affairs in the sector

Meat processing

The main producers of animal and chicken meat are located in Vojvodina where there are good natural conditions. Over the 90s, the sector lost its position in a number of export markets and suffered from underinvestment. At present, some companies are suffering from raw material shortages which, together with the lower subsidies, are limiting the response of companies to a growing demand. Partially as a consequence of this, there is a process of consolidation in the meat producers, where the company Carnex (see below) is the main player. Other relevant players are MITROS from Sremska Mitrovica, privatised in March 2005, Neoplanta from Novi Sad and Yuhor Export from Jagodina (both privatised by 1997 Law) and Mesokombinat from Leskovac.

The companies are trying to improve the quality of their products to catch up with EU standards. Some companies are getting HACCP certifications in order to export certain products which are in demand e.g. baby beef meat.

Slaughterhouses were often linked to municipalities or socially owned animal farms. At present, a number of them are in bankruptcy. The slaughterhouses sector is in the process of rationalization.

Derivatives of fruit and vegetables

Formerly, the leading fruits and vegetable juices production companies were Srbijanka Valjevo, Takovo Gornji from Milanovac (sold by tender in 2004), Dzervin Knjazevac or Vinezupa Aleksandrovac. All of them were Socially Owned companies in crisis which lost their predominant position. In the meantime new private companies appeared in the market and acquired leading positions (Next, SU VOCE and Nektar).

Fats and oils

Most of the fat and oils sector has already been privatised: Fabrika Ulja “Sunce” from Sombor was privatised by 1997 Law in 1998 (now the major stakeholder is Delta M), Fabrika Ulja from Krusevac was sold through tender in 2004, Bioprotein was sold through auction in 2003. A highly profitable company from the subsector is Vital from Vrbas. It was partly privatised in 1998 to its employees. The Share Fund and Pension Fund kept together 40% of the capital. Recently, three different investment funds have announced public offers directed to small shareholders with the objective of acquiring control stakes in the company.

Dairies

There were more than 30 dairies companies operating in Serbia when the privatisation process started. The bulk of the dairies sector (IMLEK, IMPAZ, MDD PKB Frikom, Mlekara Sabac, Niska Mlekara, Mlekara Mladost, Mlekara Pancevo) has already been privatised. It is interesting to note that Niska Mlekara, Mlekara Mladost, Mlekara Pancevo were all bought by Salford Group. This investment fund based in London has bought stakes in other food processing companies in Serbia (i.e. Knjaz Milos) and has attempted to buy others (i.e. Apatinska Pivara). At present it owns five large Serbian dairies, including the largest IMLEK privatised in 2001 according to 1997 Law. The company to manage their investments in Serbia is the holding “Danube Foods Group”, which has become the leader in the dairies industry in Serbia and also owns stakes in companies from other food sub-sectors (e.g. Bambi). This turns it into a major player in the domestic food industry.

Flour mill products

Most varieties of flour are commodity products with narrow margins. Production centers are often located near the fields of grain. Therefore, the production of flour-mill products and other products connected with the milling industry (starch and starch based products, bread and baked products) were located in those regions where there were good natural conditions: Vojvodina, Macva, Pomoravski, Nisavski, Timocki and Bor (Negotin and Kladovo). They were mainly companies of regional scope.

Bakery and pastry

The production of cakes, biscuits, chocolate and other pastry products are concentrated in the big cities and Vojvodina. This sub-sector includes some of the most successful enterprises in Serbia e.g. Soko Stark, Bambi (see below), Jaffa and other companies like Simpo from Vranje, which made heavy losses in 2004. Most of these enterprises were privatised by Law 1997 and afterwards the Share Fund sold its stake in the secondary financial market (Belex).

Sugar

The climate condition in Serbia is favourable for the production of sugar beet and sugar. It represents a significant export product. There are 11 sugar plants in Serbia of which 7 have been privatised according to 2001 Law and 4 remain to be privatised. 3 privatised plants were acquired by

MK Commerce from Novi Sad, 2 plants by Hellenic Sugar Industry and 2 plants by Secer + doo. Therefore privatisation has led to a concentration of the sector.

Plants which have not been sold are making heavy losses e.g. Fabrika Šećera Dimitrije Tucović from Beograd (the largest sugar plant in Serbia, currently under restructuring) or Fabrika Secera Zrenjanin. Committed investment in already privatised sugar plants are significant at 40 M EUR.

Export of sugar, especially in the period 2001-2003 has been under investigation by both the Serbian Government and the EU specialised agency OLAF. Significant amounts of non-Serbian sugar were re-exported to the EU. This led to a temporary interruption of the preferential regime, which has been re-established again in July 2004.

Beverages (alcoholic and non-alcoholic)

The production of different kinds of beverages (production of distilled alcoholic beverage, wine, beer and malt, mineral water and soft drinks) is a very important sector in Serbia.

The production of distilled alcoholic products and wine is at present stagnant while the production of beer and malt, mineral water and soft drinks is growing. The largest factories of beer and soft drinks are located in Vojvodina (Apatinska pivara, Pivara MB, Čelarevo, Si & Si) while the production of mineral and fresh water is mostly located in central Serbia (Knjaz Milos, Rosa, Voda Voda, Duboka...).

Worldwide giants are increasingly showing interest in the Serbian market i.e. Interbrew controls Apatinska Pivara, Danone made a bid for Knjaz Milos and other water companies, Coca-Cola bought Rosa from Vlasinska and is showing interest in Next. The entrance of these large multinationals, whether through acquisition or green-field investments is expected to lead to a concentration process and to increase even more competition in the subsector.

5.4.2. Analysis of the impact of privatisation on the food industry

5.4.2.1. Extent of privatisation in sector

Table 5.22. Privatised companies in the food sector

	1997 Law						2001 Law				Total privatised
	1997	1998	1999	2000	2001	Sub total	2002	2003	2004	Sub total	
Privatised companies in the food sector		24	21	40	24	109	17	46	23	86	195
Total companies in the food sector	1,583	1,736	1,762	1,862	1,963		2,059	2,363	2,497		

Source: PA

Table 5.23. Privatisations by method (2001 Law)

	Food		
	2002	2003	2004
Tender	4	3	2
Auction	13 ¹³	43	21
Total	17	46	23

Source: PA

Table 5.24. Results from privatisation by procedure

Food industry (EUR)		Year			TOTAL
Method		2002	2003	2004	
Auction	Sale Price	9,439,169	33,823,154	21,023,890	64,286,214
	Investments	2,000,360	7,685,554	16,239,890	25,925,804
Tender	Sale Price	1,100,009	13,039,600	2,468,844	16,608,453
	Investments	27,820,000	23,819,219	24,444,000	76,083,219

Source: PA

Some of the companies privatised by Law 1997 were considered among the best enterprises from the sector i.e. Bambi-Pozarevac, IMLEK, Soko-Stark, Apatinska pivara or Knjaz Milos.

86 enterprises were privatised by Law 2001 of which 9 were large enterprises sold by tenders i.e. Frikom-Beograd, sugar plants Kovacica, Crvenka, Bac, Zabalj and Pecinci, oil plant Krusevac and PIK Takovo Gornji Milanovac.

Privatisation proceeds (Law 2001) have been significant in the food sector adding up to 182 M EUR of which 102 M EUR in committed investments and 80 M EUR in sales price. It should be noted that 40 M EUR of committed investments are to be made in 7 sugar processing companies and 25 M EUR in the cocoa production enterprise PIK Takovo from Gornji Milanovac. In contrast, the highest sales prices were paid for dairy production companies, which totaled 25 M EUR.

As of September 2005, 70 companies which had started their process of privatisation remained in the pipeline of the Privatisation Agency. This includes companies to be tendered: Pekarska Industrija from Pancevo, Danubius from Novi Sad, Beogradska Pekarska Industrija from Belgrade, Heba from Bujanovac, Dzervin PPK from Knjazevac, Vital from Vrbas, Fabrika secera Zrenjanin and Vrsacka Pivara from Vrsac.

¹³ One contract was cancelled: Bemiks FSH.

5.4.2.2. Balance of trade

Table 5.25. Balance of trade of the food sector

Foreign trade (000 EUR)	1997	1998	1999	2000	2001	2002	2003	2004
Exports food	187,165	193,134	227,951	256,632	299,067	414,480	421,167	554,548
Evolution		3%	18%	13%	17%	39%	2%	32%
Exports of Goods (Total SERBIA)	2,238,000	2,393,000	1,270,000	1,681,000	1,896,000	2,192,000	2,445,000	3,135,000
Share in Total Serbia Exports	8%	8%	18%	15%	16%	19%	17%	18%
Imports food	227,414	194,129	138,049	139,250	242,884	325,816	311,228	368,948
Evolution		-15%	-29%	1%	74%	34%	-4%	19%
Imports of Goods (Total SERBIA)	3,052,000	3,986,000	2,694,000	3,618,000	4,763,000	5,925,000	6,597,000	8,805,000
Share in Total Serbian Imports	7%	5%	5%	4%	5%	5%	5%	4%
Balance of trade	-40,249	-996	89,902	117,382	56,183	88,664	109,939	185,600

Source: SORS

It is the leading sector in exports and growing with 555 M EUR in 2004 (17.7% of total exports of Serbia). It shows a positive trade balance of 186 M EUR since imports for the same period totalled 369 M EUR (4.6% of total imports of Serbia).

5.4.2.3. Companies performance

Table 5.26. Financial information from food companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	2,913,043	1,624,449	1,673,513	1,803,001	2,708,958	3,272,542	3,321,553	3,712,560
Wages, salaries, and other personal benefits	301,923	180,225	155,983	135,865	258,611	356,292	387,440	477,482
Operating Profit	151,746	118,121	141,804	218,929	216,259	213,335	188,284	261,757
Operating Loss	132,942	64,388	61,635	44,347	102,595	120,753	148,801	150,372
Number of Employees	113,388	92,103	111,625	108,536	102,954	103,458	98,130	97,740
Number of Companies	1,583	1,736	1,762	1,862	1,963	2,059	2,363	2,497

Source: SC database

Table 5.27. Performance indicators from food production companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	25,691	17,637	14,992	16,612	26,312	31,632	33,849	37,984
Aggregated operating profit or loss ('000 EUR)	18,803	53,732	80,168	174,581	113,663	92,582	39,482	111,385
Wages, salaries per employee (EUR)	2,663	1,957	1,397	1,252	2,512	3,444	3,948	4,885
Monthly wages (cost) per employee (EUR)	235	177	124	116	209	315	363	407
Wages/sales	11%	12%	10%	8%	10%	12%	13%	13%
Operating profit/sales	0.6%	3.3%	4.8%	9.7%	4.2%	2.8%	1.2%	3.0%

Source: SC database

The figures show a steady increase of total sales in the food sector of 27% from 2001 to 2004. This development of the market has brought new players in the industry. The number of companies has increased by 25% since 2000 (625 companies). As a whole the industry has always been profitable although it has narrow margins measured by the ratio operating profit/sales, which showed that operating profit usually represents 1-5% of sales. Finally, there has been a progressive reduction of employment in the industry resulting in 10,796 less jobs in 2004 than in 2000 (11% of total employment in the industry).

Table 5.28. Financial information from privatised food companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	1,262,857	1,352,399	888,677	943,035	1,388,678	1,579,352	1,495,997	1,463,586
Wages, salaries, and other personal benefits	152,876	151,181	95,798	83,628	155,954	213,367	226,962	258,671
Operating Profit	81,913	118,335	77,760	120,036	120,162	108,599	87,896	112,985
Operating Loss	34,462	25,516	14,584	8,889	25,725	42,245	48,940	60,370
Number of Employees	44,121	57,847	58,510	57,379	56,067	54,019	49,737	44,383
Number of Companies	119	149	149	148	149	148	147	146

Source: SC database

Table 5.29. Performance indicators from privatised food companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	28,623	23,379	15,188	16,435	24,768	29,237	30,078	32,976
Aggregated operating profit or loss ('000 EUR)	47,451	92,818	63,176	111,146	94,436	66,354	38,955	52,615
Wages. salaries per employee (EUR)	3,465	2,613	1,637	1,457	2,782	3,950	4,563	5,828
Monthly wages (cost) per employee (EUR)	291	220	138	123	235	334	386	486
Wages/sales	12%	11%	11%	9%	11%	14%	15%	18%
Operating profit/sales	3.8%	6.9%	7.1%	11.8%	6.8%	4.2%	2.6%	3.6%

Source: SC database

The privatisation process in terms of number of enterprises, has been continuous and at a relatively stable rhythm over the period 1998-2004.

On the whole, sales of privatised companies show a slight decrease of 7% over the last two years which is in contrast with the positive trend of the sector as a whole. However the aggregated operating profit has been increasing. Employment has been reduced from 1999 to 2004 by 24% of which 18% has taken place from 2002 to 2004. This is in line with the unusually high increase in wages and salaries, possibly due to severance payments for lay-offs. In fact, wages were 20% higher than in the sector as a whole in 2004.

5.4.2.4. Relevant players in the food industry

IMLEK a.d. Belgrade

The company was privatised in January 2001 by 1997 law. It is the largest producer of dairy products in Serbia. At present its major shareholder is Danube Foods B.V. (81.65) (see above). Other shareholders are Mlekara Subotica (2.88%) and 4.096 individual shareholders. It is among 300 largest companies in Serbia (22nd by revenue, 43rd by capital)¹⁴ and one of the most profitable companies. It is the owner of the subsidiary Imlek-Boka from Crna Gora with 100% of shares. The company is quoted in the Belex Stock Exchange.

APATINSKA PIVARA a.d. Apatin (West Backa)

The company is the largest brewery in Serbia. It was privatised to its employees in October 1998 soon after the 1997 law was adopted. Most small shareholders and the Share Fund sold its shares to Interbrew Company from Belgium, currently the major owner with 99.01% of shares. It is among 300 largest and most profitable companies in Serbia (21st by revenue, 23rd by capital, 7th by profit).

SOJAPROTEIN a.d. Becej (South Backa)

Sojaprotein was privatised in December 2000 by 1997 Law. With processing capacity of 900 tons of soybeans per day, it is the largest soybean processing company in South-East Europe, and the only one in Serbia. Today it is a joint stock company listed on BELEX whose majority shareholder is the investment fund Victoria with 74.53% of the shares.

¹⁴ Source: Ekonomist magazine

Sojaprotein is among the 300 largest and most profitable companies in Serbia (42nd by revenue, 169th by capital, 27th by profit). The Company is the major shareholder of a number of relevant food processing companies, namely “Backa Palanka Port” (83.20%) on the Danube, Agriculture Combine “Kindja” (70%) in Kikinda and Vegetable Oil Production “Mladost” in Sid and ZAO “Vobex Intersoya” Moscow, a trade company distributing its products in the Russian market.

CARNEX a.d. Vrbas

The company was privatised by 1997 law. It is now the largest meat processing company in Serbia and among the 300 largest and best performing companies in Serbia (47th by revenue, 106th by capital, 157th by profit). Since August 2004, it has a majority shareholder, Midland System (51.31%), and a bloc of shares owned by the State (Share Fund and Fond PIO) 40.86% as well as 933 small shareholders who own 7.93%.

KNJAZ MILOS a.d. Arandjelovac

Knjaz Milos was partly privatised in December 2000 by 1997 law. In 2004, the Share Fund sold its remaining stake jointly with employees from the company. It is the leading producer of mineral water and beverages in Serbia and among the 300 largest companies (45th by revenue, 112th by capital). At present the major shareholders are FPP Balkan Limited (58.08%), Danube Foods B.V. (4.58%), Danube Foods d.o.o. (2.90%) and 144 small individual shareholders.

SOKO - NADA STARK a.d. Belgrade

It was privatised in 2001 by 1997 law, followed by the sale of the share Fund stake and the small shareholders to Grand Kafa. STARK is now the most important chocolate producer in Serbia with a long tradition in the market. It is among the 300 largest and best performing companies in Serbia (76th by revenue, 222nd by capital, 161st by profit).

VITAL a.d. Vrbas

It was privatised in 2000 by 1997 law. It is the largest producer of edible oil and vegetable fat in Serbia and has a long tradition in the market. It is also among the 300 largest and best performing companies in Serbia (59th by revenue, 177th by capital, 266th by profit).

BAMBI a.d. Pozarevac

The company was privatised in December 2000 by 1997 law. It was a combinat for production and sales of healthy food. Its major current owners are “New World Value Fund Limited” Gibraltar (40.30%), DANUBE FOODS B.V. (15.97%), EAST CAPITAL ASSET MANAGEMENT (5.72%), AC INVEST D.O.O. (3.23%) and 2,567 small individual shareholders. It is among the 300 largest and most profitable companies in Serbia (104th by revenue, 195th by capital, 36th by profit).

5.4.3. Conclusions

Most of the formerly successful food companies were privatised according to 1997 Law and have continued to be successful. However it is to be noted that a significant number of them have been afterwards sold to financial investors and seldom to strategic partners.

In spite that the group of privatised companies includes very successful enterprises, privatised companies as a whole are performing worse than the sector, depending of the sub-sector. This is due to the very bad performance of some privatised companies eg. BIP AD (privatised in 1998), AD

Budimka (privatised in 2001), Jagodinska Pivara (privatised in 1998) or Vrsacka Pivara (privatised 1998).

There are indications that privatised companies, as a whole, are undergoing a process of restructuring since 2002. However, it is likely that the enterprises are at different stages of their restructuring (market adjustment) plans.

As a consequence of the above, at present the bulk of the industry is in private hands and often controlled by financial investors. They are most likely waiting for the appropriate moment to re-sell their stakes with gains. Moreover multinationals are increasingly showing interest in the sector. All this could lead to additional mergers and acquisitions and a further transformation of the sector.

5.5. Construction industry

5.5.1. Definition of the construction industry

5.5.1.1. Activities performed in the construction industry

In accordance with the new classification of the Statistical Office of the Republic of Serbia (SORS), the category Construction (Грађевинарство) has the code (KD) 45. The classification below shows the activities performed in the construction category following the new nomenclature of the Statistics Office of the Republic of Serbia.

Table 5.30. Activities performed in the construction industry

45110	Рушење објеката, земљани радови	Demolition of structures, earth works
45120	Испитивање терена бушењем и сондиран	Site testing by drilling and sounding
45210	Груби грађевински радови	Rough building works
45220	Монтажа кровних конструкција	Mounting of roofs
45230	Изградња саобраћајница, писта и сл.	Constructin of roads, motorways, etc.
45240	Изградња хидрограђевинских објеката	Construction of water works structures
45250	Остали грађевински и специјализовани радови	Other construction and specialized works
45310	Постављање електро-инсталације и опреме	Electrical installations and equipment
45320	Изолациони радови	Insulation works
45330	Постављање цевних инсталација	Pipe installations
45340	Остали инсталациони радови	Other installation works
45410	Малтерисање	Mortering
45420	Уградња столарије	Building-in of joinery
45430	Постављање подних и зидних облога	Floor and wall coverings
45440	Бојење и застакљивање	Painting and glazing
45450	Остали завршни радови	Other finishing works
45500	Изнајмљивање грађевинске опреме	Renting of building equipment

Source: SORS

5.5.1.2. Overview

The construction sector involves a wide number of economic activities, from building and house repairing to a wide variety of engineering projects. The construction activity is usually divided into: housing, non residential buildings and civil engineering projects.

Building construction concentrates most of the attention on houses construction, maintenance and demolition. Building represents around 50% of all activities related with the construction in developed countries and covers a high proportion of the sector's employment.

The diversity of activities and products is reflected in the high number of agents operating in the sector. They range from the independent workforce hired up by the local authorities to global companies operating worldwide. Most of the companies undertaking works on site are small size enterprises specialized by type of work and location. At present there is a growing trend to subcontract parts of the construction process to third parties. The construction assets and

components, industrial facilities and equipment, are purchased or rented to other companies. At the same time designing and engineering services are provided by professional companies.

Construction activities usually take place in populated areas, however the product or the value of those activities are deeply related to the income of the population. In 1998, 72% of the building activities were carried out in developed market economies (first of all Western Europe, and also North America, Japan and Australia). OECD countries investment in construction amounts to an average of 2,400 US dollars on a yearly basis, compared to 50 US dollars in the poorest countries (high on top is Japan with an investment of 4,948 US dollars per person yearly while Ethiopia with 4.7 US dollars is the lowest in the ranking).

Construction plays a main role in a country growth and economic development. Its products are long term investments and are usually classified as fixed assets. Construction sector production tends to increase faster than the economy in growth periods. This trend is particularly strong when structural changes take place in the economy. For instance transition economies tend to increase their spending in construction as percentage of GDP.

The construction sector employs large human resources including skilled and unskilled labour. In developed countries, like Japan, construction can absorb up to 10% of total workforce with another 10 % working in companies closely linked to the sector. In fact, the construction sector is especially significant because it channels a significant proportion of investment and has a multiplying effect on other industries.

5.5.1.3. Relevant state of affairs in the sector

The construction was very dynamic in former Yugoslavia. Companies had a good reputation for developing projects in Yugoslavia as well as abroad (EU countries, Middle East, former CIS). During the 90s, the sector went through a extreme crisis. Main players included Energoprojekt, Aeroinžinjering (contractor and engineering), Partizanski Put, Mostogradnja (roads bridges, and airports) or Hidrotehnika.

Over the last years the construction sector is improving due to civil works reconstruction contracts, new infrastructure contracts and an increasing demand for housing in certain areas of Serbia. Increased financing for households will certainly help the sector to develop.

A segment to be considered is the enterprises for construction and extension of regional roads (PZP). These enterprises (24) were financed from the Republic Direction for Roads as well as from regional and local authorities. All these enterprises are in relatively good shape and most of them have been privatised: 5 PZP (Putevi Uzice, Vojvodinaput-PZP Pancevo, Putevi Ivanjica, Srempot Ruma and PZP Krusevac) were privatised according to 1997 Law, while PZP Nis, PZP Zajecar, Vojvodinaput-PZP Subotica, PZP Put Jagodina, PZP Bajina Basta, Novi Pazar-Put were privatised by 2001 Law up to 2004. During the first nine months of 2005 the privatisation of additional 5 PZPs (PZP Beograd, PZP Vranje, PZP Pozarevac, PZP Valjevo, PZP Kragujevac) was accomplished.

5.5.2. Analysis of the impact of privatisation on the construction industry

5.5.2.1. Extent of privatisation in the construction sector

Table 5.31. Privatised companies in the construction sector

	1997 Law						2001 Law				Total privatised
	1997	1998	1999	2000	2001	Sub total	2002	2003	2004	Sub total	
Privatised companies in the construction sector		25	12	33	24	94	35	101	41	177	271
Total companies in the construction sector	3,055	3,199	3,196	3,217	3,326		3,360	3,777	3,990		

Source: PA

In the period 1997-2004, 195 enterprises from the construction sector were privatised. 94 companies were privatised according to Law 1997 and 177 by Law 2001. The bulk of the construction companies were privatised in 2003.

Table 5.32. Privatisations by method (2001 Law)

	Construction		
	2002	2003	2004
Tender			1
Auction	35 ¹⁵	101 ¹⁶	40
Total	35	101	41

Source: PA

Construction companies were mostly privatised through auctions. The only construction company privatised through tender to date is Novi Pazar Put sold in 2004. In early 2005, three companies have been sold through tender.

Table 5.33. Results from privatisation by procedure

Construction (EUR)		Year			
Method		2002	2003	2004	TOTAL
Auction	Sale Price	6,542,514	53,937,154	12,657,787	73,137,455
	Investments	1,338,592	5,584,477	1,657,301	8,580,370
Tender	Sale Price			1,218,000	1,218,000
	Investments			1,651,000	1,651,000
	Social programme			580,000	580,000

Source: PA

In accordance with the above, proceeds from privatisation in the sector reached a peak in 2003, when 101 companies were privatised. The most successful privatisation in terms of proceeds was the sale through auction of GP Hidrotehnika-Hidroenergetika from Belgrade for over 35 M EUR in 2003.

¹⁵ One contract was cancelled: Radan.

Some of the large construction companies were privatised in 1997 consequently no proceed have been received from their sales.

Some of the largest enterprises in the construction sector were privatised according to 1997 Law: Energoprojekt, Ratko Mitrovic, Mostogradnja, Napred, 5 enterprises for construction and extension of roads (PZP), etc.

The following significant companies have been privatised according to Law 2001: 7 juli, Hidrotehnika Beograd Gradnja, Montaza, Jablanica Valjevo, PZP Nis, Put Zajecar and Vojvodinaput - PZP Subotica.

Some of the largest enterprises in this sector are in bankruptcy (Rad, Trudbenik, Komgrap), undergoing a restructuring process (Partizanski put) or they are in the pipeline of privatisation. In contrast, there are a number of very successful medium and small private enterprises.

As of September 2005 there are 111 companies in the process of privatisation. This includes some large companies in different financial situation e.g. Vojvodina Put-Backa Put, ZGOP from Novi Sad or Gradjevinar from Nis.

5.5.2.2. Balance of trade

Table 5.34. Balance of trade of the construction sector

Foreign trade (000 EUR)	1997	1998	1999	2000	2001	2002	2003	2004
Exports construction	24,785	15,699	6,559	4,360	12,280	55,188	69,044	118,263
Evolution		-37%	-58%	-34%	182%	349%	25%	71%
Exports of Goods (Total SERBIA)	2,238,000	2,393,000	1,270,000	1,681,000	1,896,000	2,192,000	2,445,000	3,135,000
Share in Total Serbia Exports	1%	1%	1%	0%	1%	3%	3%	4%
Imports construction	2,656	714	0	10,900	16,745	50,943	51,340	74,015
Evolution		-73%	-100%	NA	54%	204%	1%	44%
Imports of Goods (Total SERBIA)	3,052,000	3,986,000	2,694,000	3,618,000	4,763,000	5,925,000	6,597,000	8,805,000
Share in Total Serbian Imports	0%	0%	0%	0%	0%	1%	1%	1%
Balance of trade	22,130	14,985	6,559	-6,540	-4,465	4,245	17,704	44,248

Source: SORS

The activities of construction sector in export market during last tree years have been oriented towards Europe (BiH and Germany), CIS countries (Russia, Kazakhstan and Uzbekistan), Africa (Nigeria, Libya and Tunis) and Latin America (Peru). It shows a renewed positive trend in the export activity of Serbian construction companies.

¹⁶ One contract was cancelled: Graditelj.

5.5.2.3. Companies performance

Table 5.35. Financial information from construction companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	1,321,576	1,336,211	677,868	777,268	950,786	1,408,500	1,733,477	2,296,050
Wages, salaries, and other personal benefits	177,906	140,874	84,745	83,902	157,802	221,689	257,379	346,369
Operating Profit	58,638	69,505	50,513	59,351	49,728	72,044	104,745	174,158
Operating Loss	64,862	51,493	34,995	29,595	59,309	83,815	75,125	63,684
Number of Employees	113,514	96,829	98,613	94,579	81,329	81,987	76,328	80,062
Number of Companies	3,055	3,199	3,196	3,217	3,326	3,360	3,777	3,990

Source: SC database

Table 5.36. Performance indicators from construction companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	11,642	13,800	6,874	8,218	11,691	17,180	22,711	28,678
Aggregated operating profit or loss ('000 EUR)	-6,224	18,011	15,517	29,756	-9,580	-11,770	29,620	110,473
Wages, salaries per employee (EUR)	1,567	1,455	859	887	1,940	2,704	3,372	4,326
Monthly wages (cost) per employee (EUR)	146	136	81	84	162	256	336	361
Wages/sales	15%	12%	14%	12%	17%	18%	18%	15%
Operating profit/sales	-0.5%	1.3%	2.3%	3.8%	-1.0%	-0.8%	1.7%	4.8%

Source: SC database

The sector shows a positive recovery. Sales show a spectacular increase of 63% from 2002 to 2004. The number of companies in the market is also increasing and the number of employees in the sector was downsized in 2001, but has remained stable ever since. In addition, the sector as a whole has an aggregated profit which is also increasing. Wages have risen significantly, but in accordance with the general trend in Serbia. These results are especially good because of the multiplying effect that construction has on other sectors (building materials, service companies, metal-related industry).

Table 5.37. Financial information from privatised construction companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	341,760	329,134	204,650	208,973	257,567	341,745	403,989	551,465
Wages, salaries, and other personal benefits	60,411	58,883	33,719	33,472	64,354	90,556	97,874	138,793
Operating Profit	14,929	16,478	14,083	15,276	14,148	14,662	19,446	28,542
Operating Loss	14,291	20,013	8,446	8,758	16,933	26,147	19,275	16,247
Number of Employees	30,863	33,902	30,923	29,893	28,078	26,542	26,372	25,089
Number of Companies	147	179	177	180	181	179	180	178

Source: SC database

Table 5.38. Performance indicators from privatised construction companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	11,073	9,708	6,618	6,991	9,173	12,876	15,319	21,980
Aggregated operating profit or loss ('000 EUR)	637	-3,534	5,636	6,517	-2,785	-11,484	171	12,295
Wages, salaries per employee (EUR)	1,957	1,737	1,090	1,120	2,292	3,412	3,711	5,532
Monthly wages (cost) per employee (EUR)	166	147	93	95	194	289	317	461
Wages/sales	18%	18%	17%	16%	25%	27%	25%	25%
Operating profit/sales	0.2%	-1.1%	2.8%	3.1%	-1.1%	-3.4%	0.0%	2.2%

Source: SC database

The indicators show that sales have increased significantly over the last years which are line with the sector's total figures. Employment has been progressively reduced while in the activity in the sector has increased from 2003. No definite conclusions can be stated from this since it could be due to a higher degree of outsourcing from the main companies (mostly privatised enterprises) to subcontractors which are absorbing these employees.

Although some privatised companies still present significant losses (Mostogradnja, Partizanski Put - currently undergoing a severe post-privatisation adjustment), the bulk of the privatised companies are profitable from 2003. Examples of highly profitable privatised companies include PZP Beograd, PZP Nis, EnergoProekt Visolgradnja or Buducnost in Novi Sad.

5.5.2.4. Relevant players in the construction industry

ENERGOPROJEKT HOLDING a.d. Belgrade

Energoprojekt Holding is the leading company in designing, construction and consulting in Serbia and Montenegro. Founded in 1951, Energoprojekt (since 1990 known as Energoprojekt - Holding Joint Stock Company) opened its branch offices and subsidiaries in over 70 countries worldwide and constructed, designed or rendered consulting services in more than 90 countries all over the world. Energoprojekt Holding has 23 subsidiaries in Serbia and abroad. The two largest subsidiaries of Energoprojekt Holding are:

- ENERGOPROJEKT-VISOKOGRADNJA a.d. Belgrade***
 The company was privatised in December 2000 by 1997 law. It is among the 300 largest companies in Serbia (93rd by revenue, 201st by capital) and also among the most profitable ones. The company is a part of the largest construction company in Serbia, Energoprojekt Holding which owes 51% of shares but the company operates independently. Other shares are held by the Share Fund, the Pension Fund and a number of individuals.
- ENERGOPROJEKT-NISKOGRADNJA a.d. Belgrade***
 Company privatised in December 2000 by 1997 law in. It is among the 300 largest companies in Serbia (297th by revenue). Energoprojekt - Niskogradnja has been present on international markets for 50 years as a specialized contractor for construction and engineering works of hydro power structures, land and water development projects, sanitary and industrial hydraulic works, transportation and underground works. Energoprojekt - Holding Joint Stock Company owns 51% of the company shares. The Share

Fund and the Pension Fund, as governmental institutions, own 27% of shares, whilst the remaining 22% of shares are held by individuals who either bought them or earned them by rendering services to the company. Full privatisation of the company, that is to say the purchase of shares held by governmental bodies, shall be completed next year.

RATKO MITROVIC HOLDING a.d. Belgrade

Ratko Mitrović Company was privatised in September 1998 by 1997 Law. The company's capital is divided into 72.63% of the shares of small shareholders (private and legal persons) - not exceeding 5% each - and 27.37% of the shares is socially owned. Founded in 1948 the company is one of the leading companies for constructing of all kinds of facilities in building construction and civil engineering, for carrying out of handicraft-artisan works, manufacturing of construction material and for project engineering. The company has its facilities built overall the territory of former Yugoslavia, and partially in the world (Africa, Asia, and Europe). The Company took part not only in the construction of industrial facilities but also in the construction of residential areas, hospitals, airports, roads, railroads, bridges, water supply systems, residential and plenty of other facilities. The company has 17 subsidiaries in Serbia and abroad (mostly with 100% of the shares) specialised in different kinds of construction works, engineering and projecting. RM Niskogradnja is among 300 biggest and most successful companies in Serbia (148th by revenue and 126 by profit) and RM Dedinje is among 300 biggest companies (245th by revenue).

NAPRED a.d. Belgrade

The company was privatised in November 1999 by 1997 law. It is among the 300 largest companies in Serbia (181st by revenue) and is profitable (operating profit of 1 M EUR in 2004). It has no major shareholders and all shares are owned by 1.030 small individual shareholders.

GP MOSTOGRADNJA a.d. Belgrade

The company was privatised in August 1998 by 1997 law. It is among the 300 largest companies in Serbia (147th by revenue). Mostogradnja is a civil engineering and construction company specialized in the construction of bridges and engineering structures. The company does not have major shareholders.

BUDUCNOST a.d. Novi Sad (West Backa region)

The company was privatised in September 1998 by 1997 law. It is also among the 300 largest companies in Serbia (261st by revenue) and the largest construction company in Vojvodina. Company's activities are civil engineering and building construction. It does not have major shareholders and the capital is controlled by 220 individual shareholders - employees who own 86% of shares.

PUTEVI a.d. Uzice (Zlatibor region)

The company was privatised in December 2000 by 1997 law. Its main activity is road construction. It is also among the 300 largest companies in Serbia (189th by revenue) and among the most profitable ones. Its major shareholders are Putevi Cyprus (42.45%), Vasilije Micic (22.03%) and 1.123 small individual shareholders. The company bought 68.85% of the shares of Novi Pazar-Put through the public tender.

PZP NIS a.d. Nis (Nisava region)

The company was privatised in January 2003 through public auction. The company's main activity is the construction of roads. It was bought for 5.3 M EUR with 1 M EUR committed investments. PZP NIS, as member of a consortium, bought PZP Beograd, PZP Vranje and PZP Kragujevac.

5.5.3. Conclusions

The construction sector was severely hit by the crisis of the 90s. Its sales dropped, companies made important losses and a significant number of jobs were lost. However it seems the sector started a recovery in 2003, which has been consolidated in 2004 and now is performing well.

Most of the large companies were privatised according to 1997 Law. Shares were distributed among employees and in most cases they have not re-sold their shares and still own the companies. These large companies are dependent on public contracts and their performance is closely linked to the number of large projects launched by the public administration. The rest of the sector includes a significant number of subcontractors which performance is linked to the large companies.

At present the construction activity is growing in Serbia therefore privatised companies are performing well and so is the sector. The main impact of privatisation has been a transfer of the ownership to employees through the 1997 Law scheme. Privatisation is likely to have accelerated the transformation of the sector expressed by the reduction of the number of employees and the increase in the subcontracting activity but it cannot be concluded that they are due to privatisation.

5.6. Trade sector

5.6.1. Definition of the trade sector

5.6.1.1. Activities performed in the trade sector

In accordance with the new classification of the Statistical Office of the Republic of Serbia (SORS), the Trade category (Трговина на велико и мало, опавка) has the code (KD) 50, 51 and 52. The classification below shows the activities performed in the Trade sector following the new nomenclature of the Statistics Office of the Republic of Serbia. It should be noted that the statistical evidence of trade sector in Serbia in period 1997-2004 shows a number of problems. The changing statistical methods connected to JKD and KD (principal activity of each company, which in practice determines the perimeter of each sector) has especially affected the trade sector since it is connected to all activities.

Table 5.39. Activities performed in the trade sector

50100	Продаја моторних возила	Sale of motor cars
50200	Одржавање и оправка моторних возила	Maintenance and repair of motor vehicles
50300	Продаја делова,прибора за моторна возила	Sale of parts and accessories for motor vehicles
50401	Продаја мотоцикала, делова и прибора	Sale of motor-cycles, parts and accessories
50402	Одржавање и оправка мотоцикала	Maintenance and repair of motor-cycles
50500	Трговина на мало моторним горивима	Retail trade in motor fuels
51110	Посредовање у продаји агро-сировина	Trading of agricultural raw materials
51120	Посредовање у продаји горива и руда	Trading of fuels and ores
51130	Посредовање у продаји грађе и слично	Trading of building material, etc.
51140	Посредовање у продаји машина и сл.	Trading of machinery
51150	Посредовање у продаји намештаја и слично	Trading of furniture, etc.
51160	Посредовање у продаји текстила, одеће	Trading of textile, garments
51170	Посредовање у продаји хране, пића	Trading of food, beverages
51180	Посредовање у специјализованој продаји	Trading special products
51190	Посредовање у продаји разних производа	Trading of diverse products
51210	Трговина на велико семењем, храном	Wholesale trade of seeds, food
51220	Трговина на велико цвећем и растињем	Wholesale trade of flowers and plants
51230	Трговина на велико живим животињама	Wholesale trade of live animals
51240	Трговина на велико кожом	Wholesale trade of leather
51250	Трговина на велико сировим дуваном	Wholesale trade of crude tobacco
51310	Трговина на велико воћем и поврћем	Wholesale trade of fruits and vegetables
51320	Трговина на велико месом, производима од меса	Wholesale trade of meat, meat products
51330	Трговина на велико млеком, јајима и мастима	Wholesale trade of milk, eggs and fats
51340	Трговина на велико пићима	Wholesale trade of beverages
51350	Трговина на велико дуванским производима	Wholesale trade of tobacco products
51360	Трговина на велико шећером, чоколадом и сл	Wholesale trade of sugar, chocolate, etc.
51370	Трговина на велико кафом, чајевима и сл.	Wholesale trade of coffee, tea, etc.
51380	Неспецијализована трговина на велико храно	Non-specialized wholesale trade in food
51390	Трговина на велико осталом храном	Wholesale trade of other food
51410	Трговина на велико текстилом	Wholesale trade of textile
51420	Трговина на велико одећом и обућом	Wholesale trade of footwear
51430	Трговина на велико радио, тв и др. апарати	Wholesale trade of TV and other sets

51440	Трговина на велико стакларијом, бојама и с	Wholesale trade of glassware, paints, etc.
51450	Трговина на велико тоалетним производима	Wholesale trade of toilet products
51460	Трговина на велико фармацеутским производи	Wholesale trade of pharmaceutical products
51470	Трговина на велико другим кућним производима	Wholesale trade of household products
51510	Трговина на велико горивима	Wholesale trade of fuels
51520	Трговина на велико металима и рудама	Wholesale trade of metals and ores
51530	Трговина на велико грађевинским материјалом	Wholesale trade of building material
51540	Трговина на велико опремом за грејање	Wholesale trade of heating equipment
51550	Трговина на велико хемијским производима	Wholesale trade of chemical products
51560	Трговина на велико др. репро-материјалом	Wholesale trade of other intermediates
51570	Трговина на велико отпацама и остацима	Wholesale trade of wastes and rests
51610	Трговина на велико машинама за обраду мета	Wholesale trade of metal working machinery
51620	Трговина на велико грађевинским машинама	Wholesale trade of building machinery
51630	Трговина на велико текстилним машинама	Wholesale trade of textile machinery
51640	Трговина на велико канцеларијским машинама	Wholesale trade of office machines
51650	Трговина на велико осталим машинама	Wholesale trade of other machines
51660	Трговина на велико пољопривредним машинама	Wholesale trade of agricultural machinery
51700	Остала трговина на велико	Other wholesale trade
52110	Неспецијализована трговина на мало - храна	Non-specialized retail trade - food
52120	Остала трговина на мало - мешовита роба	Other retail trade - groceries
52210	Трговина на мало воћем и поврћем	Retail trade of fruits and vegetables
52220	Трговина на мало месом и производима од меса	Retail trade of meat and meat products
52230	Трговина на мало рибом и љускарима	Retail trade of fish and seafood
52240	Трговина на мало хлебом и слаткишима	Retail trade of bread and sweets
52250	Трговина на мало пићима	Retail trade of beverages
52260	Трговина на мало производима од дувана	Retail trade of tobacco products
52270	Др. специјализована трговина на мало храно	Other specialized retail trade of food
52330	Трговина на мало тоалетним препаратима	Retail trade of toilet preparations
52410	Трговина на мало текстилом	Retail trade of textiles
52420	Трговина на мало одећом	Retail trade of garments
52430	Трговина на мало обућом и предметима од коже	Retail trade of footwear and leather items
52440	Трговина на мало намештајем	Retail trade of furniture
52450	Трговина на мало кућним апаратима	Retail trade of household appliances
52460	Трговина на мало металном робом, бојама и	Retail trade of metallic goods, paints, etc.
52470	Трговина на мало књигама, новинама и сл.	Retail trade of books, newspapers, etc.
52480	Др. трговина на мало - специјализоване рад	Other retail trade - specialized stores and shops
52500	Трговина на мало половном робом, у радњи	Retail trade of second-hand goods, in stores and shops
52610	Трговина на мало робом преко поште	Retail trade of goods traded by mail
52620	Трговина на мало на тезгама и пијацама	Retail trade of counters and in open-air markets
52630	Остала трговина на мало изван радњи	Other off-the-counter retail trade
52710	Оправка обуће и осталих предмета од ко	Repair of footwear and other leather items
52721	Оправка радио и тв апарата	Repair of radio and TV sets
52722	Оправка др. електричних кућних апарата	Repair of other electric household appliances
52730	Оправка сатова, часовника и накита	Repair of watches, clocks and jewelry
52740	Остала оправка	Other repair

Source: SORS

5.6.1.2. Overview of the sector

The trade sector represents the contact point between production and consumption. A generally accepted definition considers that commercial distribution involves all operations necessary to carry out a product from the manufacturer to the customer. Companies do not only sell goods, but they also play a role to make goods available in order to satisfy the demand. Consequently logistics are especially important in this sector.

The process is carried out through the distribution channel taking into account the ownership of the goods. Three different channels are considered:

Table 5.40. Trade channels

Large:	Traditional producer->Wholesaler ->Retailer ->Customer
Short:	Producer->Retailer->customer
Direct:	Producer->Customer represented by an organisation with a purchase centre and sales points
Integrated:	Wholesaler->Customer (wholesalers and retailers are the same agent)

Source: IDOM

Categories of operators. At present, agents operating in the trade sector include:

Large trade companies: it includes companies usually with low specialisation and a centralized structure headed by a network of selling points. Usually they have presence at the national or regional level. They originally focused on hypermarkets and supermarkets but lately also in franchising concepts

Organized Distribution: It includes voluntarily partnerships and purchase centres. They are motivated by the possibility of taking advantages from purchasing higher volumes and to increase the efficiency of the integrated companies by sharing processes. Voluntarily partnerships consist of an ascending/descending integration of wholesales and retailers.

Independent distribution companies: they are the least relevant in number. Generally they operate at the regional level with high volume sales points

5.6.1.3. Relevant state of affairs in the sector

The trade sector in Serbia has changed substantially over the last 15 years. In 1988 social ownership represented 99.21% of the trade sector's GMP, while private only 0.79%. In spite of reforms connected with the structure of the sector and market mechanisms, trade in Serbia was under administrative control and black or grey markets were not negligible. The sector was dominated by large enterprises operating in foreign markets like Genex, Inex or Jugoeexport or in the domestic market like Centroprom, Robne kuce Beograd as well as a large number of enterprises specialised in specific products like Beteks, Ateks, Elektrotehna, Elektrometal, or Agrovovodina. During the 90s these socially owned companies progressively lost their formerly predominant position.

The following table shows the evolution of a number of shops and the share of wholesale vs. retail trade.

Table 5.41: Domestic trade development in Serbia

	1997	1998	1999	2000	2001	2002	2003
Number of Shops	86,379	87,387	78,611	84,854	86,291	95,996	95,800
Turnover (M CSD - 1994 prices)	23,747	25,538	22,681	25,208	27,103	31,661	34,084
Retail trade	40%	39%	36%	35%	39%	42%	44%
Wholesale trade	60%	61%	64%	65%	61%	58%	56%

Source: SORS

The table shows that although there has been an increase in the number of shops in the country, the share of retailers and wholesalers in terms of total sector turnover remains stable.

The table below shows that in 2004 private ownership predominates in the trade sector. The trend towards a higher share of the private sector is expected to continue due to the remaining privatisations and greenfield investment by local and international firms.

Table 5.41: Trade sector GDP by type of ownership (2004)

	Sector GDP (M CSD)	% of total
Social ownership	40,251	15%
Private	183,611	68%
Cooperative	1,053	0%
Mixed	40,774	15%
State owned	3,136	1%
Total	268,825	

Source: SORS

The main players on Serbian retail trade are private enterprises. The group of enterprises with mixed ownership are normally companies partially privatised by 1997 Law but it also includes a number of public-private Joint-Ventures. A number of them are in the process to go through a secondary privatisation. As of today large retailers include C Market, Maxi discount (Delta M) and foreign retailers Mercator, Veropulos and Metro Cash & Carry. Large retailers of petrol derivatives include Jugopetrol, Beopetrol-Lukoil, AVIA, and Hellenic Petrol. Retailers of specific goods include Ateks, Jugohemija, Jugodrvno or Novi Dom. The trade sector operations are concentrated in Belgrade and to a lesser extent in Novi Sad and Nis. Although small shop distribution is still predominant, a concentration of the sector is expected.

5.6.2. Analysis of the impact of privatisation on the trade sector

5.6.2.1. Extent of privatisation in the trade sector

Table 5.43. Privatised companies in the trade sector

	1997 Law						2001 Law				Total privatised
	1997	1998	1999	2000	2001	Sub total	2002	2003	2004	Sub total	
Privatised companies in the trade sector		37	19	64	18	138	40	121	36	197	335
Total companies in the trade sector	28,049	28,106	27,404	27,524	28,470		29,060	32,339	32,747		

Source: PA

Table 5.44. Privatisations by method (2001 Law)

	Trade		
	2002	2003	2004
Tender		1	
Auction	40	120 ¹⁷	36 ¹⁸
Total	40	121	36

Source: PA

Table 5.45. Results from privatisation by procedure

Trade (EUR)		Year			TOTAL
Method		2002	2003	2004	
Auction	Sale Price	14,739,056	56,280,800	19,215,452	90,235,308
	Investments	2,588,699	11,241,877	3,127,178	16,957,754
Tender	Sale Price		117,000,000		117,000,000
	Investments		85,000,000		85,000,000
	Social programme		8,000,000		8,000,000

Source: PA

335 enterprises of the trade industry were privatised in period the 1997-2004, of which 138 by Law 1997 and 197 by Law 2001. Although it is the sector in which more enterprises have been privatised, privatised companies represent a small fraction of the total number of enterprises operating in the trade sector.

The bulk of the companies operating in this sector are SMEs. Only 11 large enterprises have been privatised up to 2005 while only one trade company - Beopetrol - has been sold through tender. This sale represented 56% of total sales price in the sector, with committed investments of 85M EUR. Other companies with significant sales prices are: Alteks and Tehnohemija from Belgrade or Vojvodinasped from Novi Sad.

¹⁷ One contract was cancelled: TP Vasina

¹⁸ One contract was cancelled: Meteor

Companies privatised according to 1997 Law include some of the largest trade companies in former Yugoslavia: Elektrometal, Pekabeta, Vetfarm, Granexport, Jugohemija, Centroprom, Univerzal, Agrovovodina Novi Sad, Nispromet Nis, Trgopromet Subotica or NAMA Sabac.

Companies privatised according to 2001 Law include Tehnohemija, Ateks, Jugometal. Autovovodina, Trgopromet or Prokuplje.

As of September 2005, there are 162 companies in the pipeline of the Privatisation Agency.

5.6.2.2. Companies performance

Table 5.46. Financial information from trade companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	6,585,477	7,090,695	3,743,920	4,131,853	6,328,193	8,644,517	9,925,782	11,996,609
Wages. salaries. and other personal benefits	244,110	296,140	126,872	114,425	231,590	335,267	411,033	577,957
Operating Profit	186,968	287,987	172,341	217,668	167,890	225,386	267,692	408,415
Operating Loss	222,744	199,233	95,255	111,523	187,228	241,013	278,479	27,061
Number of Employees	185,005	211,102	162,926	159,736	146,226	161,486	163,189	172,040
Number of Companies	28,049	28,106	27,404	27,524	28,470	29,060	32,339	32,747

Source: SC database

Table 5.47. Performance indicators from trade companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	35,596	33,589	22,979	25,867	43,277	53,531	60,824	69,732
Aggregated operating profit or loss ('000 EUR)	-35,776	88,753	77,086	106,144	-19,338	-15,626	-10,787	129,354
Wages. salaries per employee (EUR)	1,319	1,403	779	716	1,584	2,076	2,519	3,359
Monthly wages (cost) per employee (EUR)	125	132	74	71	132	197	244	280
Wages/sales	4%	5%	4%	3%	4%	4%	5%	5%
Operating profit/sales	-0.5%	1.3%	2.1%	2.6%	-0.3%	-0.2%	-0.1%	1.1%

Source: SC database

The trade sector puts in contact producers and consumers. Its performance is affected by the developments in all other sectors. It is a very dynamic sector in which the evolution of the economy impacts almost immediately. Consequently the position of each enterprise will depend on the specific subsector in which it operates and on its individual performance.

The table shows that sales have almost doubled since 1999, possibly linked to the steady increase of the purchasing power and public consumption of the population after the severe economic crisis. At the same time, the trade sector in Serbia has suffered a dramatic adjustment in the period 1999-

2001 in terms of employment while the profitability of the companies was significantly negative. This was followed by a positive period with considerable employment creation (totalling 25,814 jobs from 2001), an improvement in terms of profitability (in 2004 the companies show a positive aggregated profit) and performance measured by sales per company and per employee. The number of companies has increased since 2000.

Table 5.48. Financial information from privatised trade companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	644,953	596,304	373,986	331,572	464,788	567,451	499,161	480,671
Wages, salaries, and other personal benefits	60,042	53,033	33,325	29,902	51,932	65,803	67,628	77,576
Operating Profit	5,502	11,599	12,203	16,913	5,221	8,919	2,661	4,019
Operating Loss	34,844	23,779	15,863	9,879	37,298	50,087	62,203	52,901
Number of Employees	30,394	34,498	32,341	30,969	28,948	26,187	23,826	18,547
Number of Companies	187	226	220	224	231	224	246	239

Source: SC database

Table 5.49. Performance indicators from privatised trade companies

	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee (EUR)	21,220	17,285	11,564	10,707	16,056	21,669	20,950	25,916
Aggregated operating profit or loss ('000 EUR)	-29,342	-12,180	-3,660	7,034	-32,076	-41,167	-59,542	-48,881
Wages, salaries per employee (EUR)	1,975	1,537	1,030	966	1,794	2,513	2,838	4,183
Monthly wages (cost) per employee (EUR)	168	132	88	83	155	217	249	349
Wages/sales	10%	9%	9%	9%	12%	12%	14%	16%
Operating profit/sales	-4.5%	-2.0%	-1.0%	2.1%	-6.9%	-7.3%	-11.9%	-10.2%

Source: SC database

The figures show a significant employment downsizing in the privatised firms of the order of 16,000 employees (46%). Wages and salaries of employees are above the sector's average and show an abrupt increase in 2004 likely to be due to severance payments. This contrasts with the increase in employment figures observed for the sector as a whole.

As a whole, sales of the privatised enterprises are decreasing since 2002 and they are experimenting heavy losses which also contrast with figures for the total sector.

5.6.2.3. Relevant players in the trade industry

The largest loss makers in the sector in 2004 included companies undergoing restructuring processes such as Lukoil-Beopetrol, Pekabeta and Agrovodjovina, or in the process launching their business like Metro Cash and Carry. On the contrary the bulk of the largest profit makers include local private companies such as Invej or Delta and subsidiaries of multinationals e.g. Avon cosmetics.

PEKABETA a.d. Belgrade

Food retailing company privatised in February 1999. The major owner is Delta M, privately owned trade company from Belgrade. Delta M bought shares from small shareholders through BELEX and now controls 57.01% of total shares. Other significant owners are the Share Fund (22.89% - socially owned capital) and 2,986 small shareholders totalling 19.33%. It is among the 300 largest companies in Serbia (31st by revenue, 148th by capital)¹⁹ and one of the major food retailers in Belgrade region with more than 70 shops. After acquiring Pekabeta, DELTA M expanded its chains of supermarkets (Maxi markets) and strengthened its position on the Serbian retail market against domestic and foreign competition (Mercator, Metro, Vero or C-market).

VETFARM a.d. Belgrade

The company distributes medical supplies in Serbia and foreign markets. It was privatised in 1998. It is among 300 largest and most profitable companies in Serbia (89th by revenue). The main Vetfarm's activity is supplying health and veterinary institutions with drugs, medical and veterinary consumables and equipment, OTC and other materials. Its business activities are channelled through branch offices in Nis, Pristina, Belgrade, Pozega and Subotica. The most important individual shareholder is Concern Hemofarm with 15% of capital. The other shareholders are over 600 physical persons employed in the company, former employees and citizens of Serbia.

INVEST-IMPORT a.d. Belgrade

The company is specialized in foreign trade activities. It was privatised in October 1998. It is also among the 300 largest and most profitable companies in Serbia (165th by revenue, 142nd by profit). The main activity of the company is export and import of finished products and equipment, transfer of technology, construction of turn-key plants and other projects on a "turn key" basis. The company has 9 subsidiaries abroad e.g. Germany, Italy, USA, France, Russia, Cyprus. The consortium of private persons bought 51.07% shares of the company in 2004, 28.07% shares are hold by the Share Fund while the rest of are in hand of small shareholders (employees, former employees and other Serbian citizens).

KOPAONIK a.d. Belgrade

Kapaonik was privatised in 1999. It is specialized in selling construction material and products for heating (e.g. coal, woods). It has sales centres all over Serbia. It is among the 300 largest companies in Serbia (171st by revenue). The company does not have major shareholders: 62.92 shares remain in the hands of 933 small shareholders (employees, former employees and other Serbian citizens) and 37.18% of the shares are hold by the Share Fund. The company had an operating profit of 0.5 M EUR last year.

¹⁹ Source: Ekonomist magazine data for 2003.

BEOGRADELEKTRO a.d. Belgrade

Beogradelektro is specialized in wholesale trade of equipment and devices related to the electric energy industry, electronics and telecommunications. Its activities include export-import sales and engineering projects. It was privatised in 1998. It is also among the 300 largest companies in Serbia (153rd by revenue). Major shareholders of the company are: Herma (24.5%), Chilroan Investment Ltd (12.88%), AC Invest d.o.o. (5.69%), East Capital Asset Management (5%), RZB Vienna (2.8%) and 353 small shareholders (employees, former employees and other Serbian citizens). The major owners are all investment funds which bought their shares through BELEX to small shareholders.

TRGOPROMET a.d. Subotica

The enterprise was privatised in 2000. It is the largest retail trader in Subotica and North Backa region. It is also among the 300 largest companies in Serbia (230th by revenue). The major shareholder is Univerexport Novi Sad (63.34%) which bought the shares through BELEX to small shareholders. Univerexport is a privately owned wholesale and retail company founded in 1999. It has 7 supermarkets in Vojvodina.

5.6.3. Conclusions

Privatised companies, including large trade companies which were leaders in former times, show a clearly worse performance than the total sector. Moreover, while the employment in privatised companies has suffered a reduction of 40%, the employment in the total sector has increased by 8% in the period 2000-2004.

Companies from the trade sector do not require investments or technology of the order of capital intensive industrial sectors (i.e. chemical sector). Finding strategic partners is possibly less important in the trade sector. In fact, large multinational distribution companies e.g. Metro, Veropulos are investing in Serbia through greenfield investments. The figures show that the transfer of the bulk of the ownership to the private sector has been achieved. Moreover, there is a certain degree of structural transformation in the sector since 4,277 new companies have been created from 2001 to 2004. These companies are creating new jobs.

As explained above the trade sector is a compendium of all sectors. The performance of companies and their attractiveness towards buyers varies depending on the goods they trade. Those formerly major players which have not yet been privatised are at present undergoing severe difficulties. At present there is still a significant number of socially-owned enterprises in the privatisation pipeline, under restructuring or in bankruptcy. Most of them do not have liquidity. Their fixed assets (real estate, buildings or equipment) are normally outdated or need refurbishment, which is negatively influencing their privatisation process. Unlike for other sectors, the fact that they disappear is not a dilemma since other trade companies would replace it.

5.7. Production of non-metallic minerals industry

5.7.1. Definition of the production of non-metallic minerals industry

5.7.1.1. Activities performed in the Production of non-metallic minerals industry

In accordance with the new classification of the Statistical Office of the Republic of Serbia (SORS), the Production of non-metallic minerals sector belongs to the category Manufacturing (Произв. Производа од осталих минерала) and has the code (KD) 26. The classification below shows the activities performed in the Production of non-metallic minerals industry following the new nomenclature of the Statistics Office of the Republic of Serbia.

Table 5.50. Activities performed in the non-metallic minerals production industry

26110	Производња равног стакла	Production of flat glass
26120	Обликовање и обрада равног стакла	Shaping and processing of flat glass
26131	Производња амбалажног стакла	Production of glass packing material
26132	Производња осталог шупљег стакла	Production of other shallow glass
26140	Производња стаклених влакана	Production of glass fibres
26150	Производња и обрада осталог стакла	Production and processing of other glass
26210	Производња кућних керамичких предмета	Production of household ceramic items
26220	Производња керамичких санитарних уређаја	Production of ceramic sanitary devices
26230	Производња керамичких изолатора и прибора	Production of ceramic insulators and accessories
26240	Производња осталих техничких производа	Production of other technical products
26250	Производња осталих керамичких производа	Production of other ceramic products
26260	Производња ватросталне керамике	Production of refractory ceramic
26300	Производња керамичких плочица и плоча	Production of ceramic tiles and plates
26400	Производња опеке и црепа од глине	Production of bricks and roof tiles
26510	Производња цемента	Production of cement
26520	Производња креча	Production of lime
26610	Производња производа од бетона	Production of concrete products
26620	Производња производа од гипса	Production of gypsum products
26630	Производња готове бетонске смеше	Production of ready-to-use concrete mixture
26640	Производња малтера	Production of mortar
26660	Производња других производа од бетона и гипса	Production of other products from cement and gypsum
26700	Сечење, обликовање и обрада камена	Cutting, shaping and processing of stone
26810	Производња брусних производа	Production of grinding products
26820	Производња производа од азбеста и сл.	Production of asbestos and similar products

Source: SORS

5.7.1.2. Overview of the sector

The production of Non-Metallic Mineral Products can be separated into eight industry groups: clay, cement, concrete products, ready-mix products, glass and glass products, abrasive, lime and other non-metallic mineral products industries which include among others asbestos and gypsum industries.

The main activity of the Non-metallic Mineral Product Manufacturing sector is to transform mined or quarried non-metallic minerals, such as sand, gravel, stone, clay, and refractory materials, into products for intermediate or final consumption.

Processes used include grinding, mixing, cutting, shaping, and honing. Heat is often used in the process and chemicals are frequently mixed to change the composition, purity, and chemical properties for the intended product. For example, glass is produced by heating silica sand to the melting point (sometimes combined with cullet or recycled glass) and then drawn, floated, or blow moulded to the desired shape or thickness. Refractory materials are heated and then formed into bricks or other shapes for use in industrial applications.

The non-metallic mineral processing industry includes production plants that manufacture products, such as bricks, refractory, ceramic products, glass and glass products e.g. flat glass and hollow glass. Other products included are cement and concrete products, lime, gypsum and other non-metallic mineral products including abrasive products, ceramic plumbing fixtures, statuary, cut stone products, and mineral wool. Products are used in a wide range of activities from construction and heavy and light manufacturing to articles for personal use.

Most countries have companies dedicated to the activities above mentioned. However, an activity is often not economically significant to the same degree in all countries.

Most industries within the sector are capital-intensive, and are particularly dependent on the construction activity. Another important detail to take into account is that the non-metallic mineral processing industries are energy-intensive industries.

The asbestos production industry is the most controversial one. Over the last decade, this industry has experienced a significant decrease due to environmental and health concerns.

5.7.1.3. Relevant state of affairs in the sector

Serbia is relatively rich in non-metallic minerals. They have served as a base for the development of significant production capacity for different kinds of products including: cement, glass and ceramics products, production of bricks and roof tiles, lime, gypsum, concrete and mortar products, cutting, shaping and processing of stone, production of grinding and asbestos products.

Overall, the sector in Serbia has suffered a severe decline over the last years and some companies have undergone or are undergoing difficulties. The largest players in the sector include:

- Cement companies: these companies were all privatised early in 2002 to large foreign companies operating in the same sector. They are further analysed below.
- Glass companies: these companies are undergoing severe difficulties (Srpska fabrika stakla, Industrija stakla Pancevo, Kristal, Ambalazno staklo) and their privatisation has not been accomplished or does not show positive results.
- Porcelain and ceramics: companies like Keramika Mladenovac, Keramika Kanjiza, Elektroporcelan or Porcelan Zajecar are also undergoing a difficult situation.
- Asbestos: producers include companies like Cobest or Fiaz (both already privatised according to 2001 Law) are also in trouble. The future of the asbestos industry is unclear.

In general, the sector is mostly oriented to the domestic market and, to some extent, to former Yugoslav republics. In fact, some products can only be sold in nearby areas since they have narrow

margins which cannot bear high transport costs. The downsize of the two main markets, namely construction and automobile industry has had a very negative impact in companies operating in the sector. Successful companies have taken the opportunity to restructure and improve their efficiency.

5.7.2. Analysis of the impact of privatisation on the non-metallic minerals industry

5.7.2.1. Extent of privatisation in the non-metallic mineral production sector

Table 5.51. Privatised companies in the non-metallic minerals production sector

	1997 Law						2001 Law				Total privatised
	1997	1998	1999	2000	2001	Sub total	2002	2003	2004	Sub total	
Privatised companies in the non-metallic minerals sector		4	8	16	4	32	13	39	12	64	96
Total companies in the non-metallic minerals sector	129	145	159	167	172		173	194	199		

Source: PA

Table 5.52. Privatisations by method (2001 Law)

	Non-metallic minerals		
	2002	2003	2004
Tender	3	2	
Auction	10	37	12
Total	13	39	12

Source: PA

Table 5.53. Results from privatisation by procedure

Non-metallic minerals (EUR)		Year			TOTAL
Method		2002	2003	2004	
Auction	Sale Price	7,478,790	20,062,643	2,202,027	29,743,461
	Investments	1,209,114	12,562,662	1,128,877	14,900,652
Tender	Sale Price	148,792,857	13,657,600		162,450,457
	Investments	232,714,140	30,076,596		262,790,736
	Social Programme	72,923,000	9,316,000		82,239,000

Source: PA

91 companies from the sector have been privatised before 2005. The number of privatised companies has increased since the Law of 2001 was passed. Large enterprises privatised by 1997 Law include Keramika Kanjiza, IGM Trudbenik Beograd, Vunizol Surdulica and IGM Toza Markovic Kikinda.

The non-metallic mineral production enterprises have contributed with significant proceeds from privatisation totalling 306 M EUR up to 2005. However these figures are biased by the tremendous amount cashed in from the sale of three cement companies early in 2002, which privatisation proceeds totalled 148 M EUR (77% of total sales price cashed in by companies from the sector) and 68 M in committed investments (60% of total).

As of September 2005 there are 11 companies in the process of privatisation. This includes Srpska fabrika stakla from Pancevo, Magnohrom from Kraljevo, Elektroporcelan from Arancelovac, Porcelan from Zajeca or Keramika from Mladenovac.

Table 5.54. Balance of trade of the non-metal mineral production sector

Foreign trade (000 EUR)	1997	1998	1999	2000	2001	2002	2003	2004
Exports	26,791	26,497	27,354	39,216	59,766	71,195	63,733	57,522
Evolution		-1%	3%	43%	52%	19%	-10%	-10%
Exports of Goods (Total SERBIA)	2,238,000	2,393,000	1,270,000	1,681,000	1,896,000	2,192,000	2,445,000	3,135,000
Share in Total Serbia Exports	1%	1%	2%	2%	3%	3%	3%	2%
Imports	46,106	38,749	41,074	46,993	71,154	97,333	31,689	34,996
Evolution		-16%	6%	14%	51%	37%	-67%	10%
Imports of Goods (Total SERBIA)	3,052,000	3,986,000	2,694,000	3,618,000	4,763,000	5,925,000	6,597,000	8,805,000
Share in Total Serbian Imports	1.5%	1.0%	1.5%	1.3%	1.5%	1.6%	0.5%	0.4%
Balance of trade	-19,315	-12,253	-13,720	-7,777	-11,388	-26,138	32,043	22,526

Source: SORS

The table shows that the sector is now a net exporter while in 2002 the balance of trade was negative. Both exports and imports have substantially decreased since 2002. This is possibly due to a substitution of exports by domestic production in Serbia as well as in other countries from the region (main export markets).

5.7.2.2. Companies performance

Table 5.55. Financial information from non-metal mineral production companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	477,441	322,499	287,068	392,145	565,801	573,210	515,603	502,697
Wages, salaries, and other personal benefits	90,994	51,253	54,165	65,935	113,377	146,997	118,396	125,929
Operating Profit	14,774	19,319	25,328	43,898	32,464	15,827	18,792	37,522
Operating Loss	29,621	17,093	19,624	28,551	40,767	67,553	59,449	47,794
Number of Employees	43,349	34,088	43,860	44,736	44,233	45,287	35,276	31,664
Number of Companies	129	145	159	167	172	173	194	199

Source: SC database

Table 5.56. Performance indicators from non-metal mineral production companies

EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee	11,014	9,461	6,545	8,766	12,791	12,657	14,616	15,876
Aggregated operating profit or loss	-14,846	2,225	5,704	15,347	-8,303	-51,726	-40,656	-10,272
Wages, salaries per employee	2,099	1,504	1,235	1,474	2,563	3,246	3,356	3,977
Monthly wages (cost) per employee	188	137	110	134	214	297	317	331
Wages/sales	20%	17%	20%	18%	20%	28%	26%	25%
Operating profit/sales	-3.1%	0.7%	2.0%	3.9%	-1.5%	-9.0%	-7.9%	-2.0%

Source: SC database

In 2004, sales have decreased by a 12% and employment by 42% compared with 2002; this shows the degree of downsizing experimented by the sector as a whole. Accordingly, the sector has had aggregated losses since 2000 and some large companies are among the largest loss makers in Serbia (Magnohrom, Industria stakla Pancevo, Kristal).

Table 57. Financial information from privatised non-metal mineral production companies

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales	146,255	208,452	119,704	169,733	273,817	288,407	275,345	242,245
Wages, salaries, and other personal benefits	32,534	49,114	28,721	36,578	59,082	83,152	63,218	61,068
Operating Profit	5,271	12,061	9,653	21,896	17,386	11,050	13,290	26,653
Operating Loss	3,156	16,448	13,115	14,128	12,808	23,942	12,498	7,180
Number of Employees	9,675	17,529	16,139	16,475	16,273	14,757	13,023	11,012
Number of Companies	36	51	47	49	47	46	52	51

Source: SC database

Table 5.58. Performance indicators from privatised non-metal mineral production companies

EUR	1997	1998	1999	2000	2001	2002	2003	2004
Sales per employee	15,117	11,892	7,417	10,302	16,826	19,544	21,305	21,998
Aggregated operating profit or loss	2,115	-4,386	-3,462	7,768	4,577	-12,891	792	19,472
Wages, salaries per employee	3,363	2,802	1,780	2,220	3,631	5,635	4,892	5,546
Monthly wages (cost) per employee	284	239	151	189	309	478	420	462
Wages/sales	23%	24%	24%	22%	22%	29%	24%	25%
Operating profit/sales	1.4%	-2.1%	-2.9%	4.6%	1.7%	-4.5%	0.3%	8.0%

Source: SC database

Privatised companies have experienced an evolution in line with the sector. Sales have decreased by 16% since 2002 and employment by 25%. It seems the companies are in restructuring since employment and sales are decreasing while operating profit is increasing. The abrupt increase wages have experimented 2002 is possibly due to severance payments. The main difference towards figures for the whole of the sector is in the profitability of the companies. This could be explained by the fact that privatised companies address overstaffing problems fast, often right after privatisation. As explained above the figures for total sector are negatively affected by a few large companies with extremely poor results.

5.7.2.3. Relevant players in the non-metallic mineral industry

Zorka Nemetali Sabac

The company belonged to the group Zorka with activities in various sectors including chemical, pharmaceutical, and plastics. It was privatised in December 2003, bought by ALAS International from Austria, building material production company, for 4.1 M EUR and 6.1 M EUR of committed investment. The company now forms part of Alas International AG Group.

It is dedicated to the production of building materials namely ceramic tiles, stone processing and production of bricks. Accordingly, Zorka Nemetali formed three subsidiaries: Zorka Keramika (production of ceramic tiles), Zorka Alas Kamen (stone processing - limestone and kaolin quarry) and Zorka Opeka (production of bricks). In 2004 the company shows a downturn in sales, a significant decrease in the number of employees and made losses. It is likely that 2004 was a year of restructuring.

Cementara Kosjeric

This company was bought by the cement producing company Titan from Greece in 2002. It is among the 300 largest and best performing companies in Serbia (136th by revenue, 167th by capital, 167th by profit).

During the first year results did not show significant improvements. The new owners restructured the company and downsized it. In 2003 and 2004 the company substantially increased its sales (30% in 2004 compared to 2001 figures), and increased its profitability (operating profit on sales of 24% in 2004). It was sold for 41 M EUR with a total investment in Serbia of 34 M EUR.

Beocinska fabrika cementa - Lafarge bfc

This company was bought by the building material manufacturing giant Lafarge from France. It is among the 300 largest companies in Serbia (51st by revenue, 79th by capital). After privatisation there was a significant restructuring, an increase in sales, and after years making significant losses the company was turned to operating profit. It was sold for 59 M EUR with a total committed investment in Serbia of 37 M EUR.

Cementara Novi Popovac

This company was bought by the concrete and cement manufacturing company Holcim from Switzerland. It is among the 300 largest and best performing companies in Serbia (53rd by revenue, 44th by capital, 41st by profit). In this case the behavior has followed a slightly different pattern from those explained above. Sales have remained at the same level but the employment has been downsized from 2.459 to 739 reported employees in 2004. It was sold for approximately 61 M EUR with total committed investment in Serbia of 98 M EUR. In 2004 it reported a 10.7 M EUR operating profit (24% operating profit on sales).

Cobest Mladenovac

The company's main activity is the production of brake linings and clutch facings, drum shoes and disc pads, gasket materials and gaskets, technical textile and PTFE. It is oriented to the automobile industry. It was privatised in December 2003 by a consortium of domestic legal persons MBR Mladenovac and MD NINI Nis for 1.2 M EUR with committed investments of 1.6 M EUR. Sales have increased since privatisation took place while employment has been downsized which led the company back to profit. It should be noted that the company is working with a product with unclear future (asbestos).

Magnohrom

The company's main activity is the production of refractory materials and thermoelectric products. The company had over 5,000 employees. In spite of the application of a social program in 2004 it still had more than 2,700 employees and showed a net lost of over 13 M EUR. Moreover it is repeatedly among the largest loss makers in Serbia and it is becoming a major industrial concern. Magnohrom has started its initiative for privatisation early in 2005 and now it is in restructuring process.

5.7.3. Conclusions

Most large companies from the sector were privatised according to 2001 Law. The nature of the industry, capital intensive, requires significant investment in production facilities (especially in furnaces). This possibly discouraged an insider privatisation led by management and workers before 2002, and they have been looking for strategic investors.

There have been few greenfield investments in the sector. Therefore the sector is basically formed by recently privatised companies and socially-owned companies to be privatised. At present, privatised companies show a better performance than the whole sector. Again, this is mainly due to "yet-to-be-privatised" companies. Commonly, they are bad performing companies which have initiated but not concluded their privatisation or are under restructuring.

The privatisation of cement companies is widely acknowledged as successful and has often been put as example of good practice. Buyers of cement companies invested in them, restructured them and are now very profitable companies. However, there are large companies in this sector which are in trouble and have a difficult solution if any (Porcelain Zajecar does not have production equipment; Srpska fabrika stakla has a significant employment surplus to be dealt with; Magnohrom is in extremely bad shape; Samot from Arandjelovac has substantial losses). Some of these companies are suppliers of the automotive industry and Zastava was among their main customers. Others depend on the evolution of the construction sector. However, an increase in the construction activity will not save these companies by itself. They need investment and to be turned-around to become competitive.

5.8. Common conclusions

The table below shows a comparative performance for each sector of its privatised companies versus all its companies. Indicators analysed are: evolution of employment, evolution of sales, ration operating profit/sales in 2004 (proxy for profitability) and finally the share of privatised companies on total sector sales in 2004 (proxy for importance of privatised companies in the sector as a whole).

Table 5.59. Comparative performance of privatised companies vs. all companies by sector

Sector	Group of companies	Employment				Sales (M EUR)			Op. Profit/sales (2004)	Share of privatised comp. on total sector sales (2004)
		2001	2004	Change %	N. of Jobs	2001	2004	Change %		
Food	Priv.	56,067	44,383	-21%	-11,684	1388.6	1463.5	5%	3.6%	39%
Food	All	102,954	97,740	-5%	-5,214	2708.9	3712.5	37%	3.0%	
Textile	Priv.	19,537	10,383	-47%	-9,154	161.2	35.5	-78%	-51.2%	11%
Textile	All	80,406	52,842	-34%	-27,564	459.2	337.1	-27%	-16.0%	
Chemical	Priv.	16,581	11,564	-30%	-5,017	364.9	410.3	12%	12.0%	27%
Chemical	All	49,959	40,602	-19%	-9,357	1127.3	1529.7	36%	5.5%	
Construction	Priv.	28,078	25,089	-11%	-2,989	257.5	551.4	114%	2.2%	24%
Construction	All	81,329	80,062	-2%	-1,267	950.7	2296	142%	-4.8%	
Trade	Priv.	28,948	18,547	-36%	-10,401	464.7	480.6	3%	-10.2%	4%
Trade	All	146,226	172,040	18%	25,814	6328.1	11996.9	90%	1.1%	
NMM	Priv.	16,273	11,012	-32%	-5,261	273.8	242.2	-12%	8.0%	48%
NMM	All	44,233	31,664	-28%	-12,569	565.8	502.6	-11%	-2.0%	

Source: SC database, PA database, IDOM

The consultant has reached the following conclusions:

In all sectors, excepting the trade and textile sectors, the profitability of privatised companies was higher than the profitability of all companies from the sector. It should be noted that the trade and textile are the sectors where privatisation has had a lesser extent to date (measured as sales of privatised companies on total sales for the sector in 2004).

The sales of the sectors as a whole have performed better than the sales of privatised companies. In the six analysed sectors the total sales of the sector have either increased more than the privatised companies (food, chemical, construction, trade) or they have decreased to a lesser extent (non-metallic minerals processing, textile).

Employment has decreased in all types of companies from all sectors analysed with the exception of the trade sector. Moreover the number of employees has decreased in privatised companies from all sectors.

Employment has seen a higher reduction in privatised companies than in the sector as a whole. This happens in all six analysed sectors. A downturn in employment is typical from privatisation processes. Theoretically, more efficient privatised companies will be able to create additional employment and surpass the initial level in the long term. At this stage nothing can be concluded in this regard.

6. IMPACT OF PRIVATISATION AT REGIONAL LEVEL

6.1. Introduction

The purpose of this study is to analyse the impact that the process of privatisation has had in the following regions of Serbia:

- Belgrade
- West Backa
- South Backa
- Macva
- Morava
- Nisava Region

The regions in Serbia are created like administrative and political units which include 5 to 15 municipalities. The municipalities and regions take care of local infrastructure and other public services at this level, but they do not have any authority or competencies in regard to economic development. The above list includes a variety of regions substantially different in terms of population, size of their territory and economic development.

As explained in section 3, the analysis has been undertaken through the observance of a number of criteria, namely:

1. The extent of Privatisation
2. Privatisation and Economic Growth
3. Fiscal Impact of Privatisation
4. Regional Foreign Trade
5. Privatisation and (Un)Employment
6. Privatisation and Purchasing Power (Welfare)

To measure the impact of privatisation on each of these criteria, a number of indicators have been selected. The observance of these indicators is the basis to reach conclusions on the impact that privatisation has had in the above regions. The rationales for choosing the indicators are included in the corresponding criteria.

This study is to measure the impact that the 1997 Privatisation Law and the 2001 Privatisation Law have had on the selected regions. Consequently, previous privatisation laws have not been analysed. It should be noted, however, that there is more reliable and more detailed information available for the privatisation process undertaken according to the 2001 Law than for the privatisations under 1997 Law.

This section has been divided into three parts:

- An analysis of the extent of privatisation in Serbia as a whole with a particular focus on the regions under study
- An analysis of the main economic indicators mentioned above. It has been jointly undertaken for all the regions
- An analysis of the general situation of each region and the impact of privatisation on them

Common conclusions for all regions are presented.

6.2. *Extent of privatisation*

The process of privatisation in Serbia has been affected by political and economical cycles and legal changes. The extent of privatisation and its regional impact has also been subject to that political and economic influence.

As explained in the introduction above, this study analyses only the privatisation achieved under the 1997 Law (“insider” privatisation) and the 2001 Law (based on sales through tenders and auction).

The extent of privatisation tries to measure the degree in which privatisation has widespread over the selected regions. The study will analyse the number of companies that have been privatised, their significance in terms of employment and the proceeds obtained from the sale of the companies.

The table below shows the number of companies privatised in each Region during the period 1997 to 2004. Figures are also provided for the number of companies privatised in whole Serbia, as a comparison.

6.2.1. *Privatisation of 1997 & Privatisation of 2001*

The total number of companies privatised under 1997 Law in the six selected regions was 442, which represents 57% of all companies privatised in Serbia (775). The importance of Belgrade and South Backa in this process is highlighted by the high share of companies (45%) belonging to this regions. In contrast, only 9 companies were privatised in Nisavski region, 13 in Macvanski region, 33 in Moravicki region and 38 in West Backa.

For 2001 Law, again Belgrade and South Backa are the most relevant regions in Serbia accounting for 29% of the companies privatised according to 2001 Law. However, privatisation under 2001 Law has had a greater extent in other regions of Serbia than the 1997 one. For instance, while only 9 companies were privatised in Nisavska region under 1997 Law, 42 have already been privatised under 2001 Law. This also pertains to regions not subject to study, since only 347 firms were privatised in the regions not subject of study under the 1997 Law while 647 have been privatised under the 2001 Law. It can be said that 2001 privatisation has widespread more over Serbia.

Table 6.1. Main figures of privatisation in Serbia

Total Privatisations under Laws 1997 & 2001 - to end 2004	Number of Companies	Number of employees	Sale Price in EUR	Investments per contract in EUR	Social programme in EUR
BELGRADE	448	80.505	268.970.012	158.970.012	25.258.000
TOTAL TENDERS	3	3.264	131.809.000	140.180.000	25.258.000
TOTAL AUCTIONS	216	15.836	137.171.427	18.790.012	-
TOTAL Law 1997	229	61.405	-	-	-
WEST BACKA	91	13.034	22.946.730	16.728.339	4.435.000
TOTAL TENDERS	2	877	4.870.000	10.150.000	4.435.000
TOTAL AUCTIONS	51	5.043	18.076.730	6.578.339	-
TOTAL Law 1997	38	7.114	-	-	-
SOUTH BACKA	234	36.631	108.621.406	66.679.845	32.197.000
TOTAL TENDERS	4	3.519	62.327.003	51.471.000	32.197.000
TOTAL AUCTIONS	110	9.155	46.389.678	15.255.255	-
TOTAL Law 1997	120	23.957	-	-	-
MACVA	66	8.300	39.807.889	43.087.217	16.100.000
TOTAL TENDERS	1	565	14.670.000	27.500.000	16.100.000
TOTAL AUCTIONS	52	5.308	25.137.889	15.587.217	-
TOTAL Law 1997	13	2.427	-	-	-
MORAVICA	58	19.255	21.148.647	38.004.940	4.379.000
TOTAL TENDERS	3	3.824	7.490.000	35.607.000	4.379.000
TOTAL AUCTIONS	36	2.860	13.658.647	2.397.940	-
TOTAL Law 1997	19	12.571	-	-	-
NISAVA	51	10.104	412.978.714	84.272.299	66.480.000
TOTAL TENDERS	5	5.393	389.752.000	79.997.000	66.480.000
TOTAL AUCTIONS	37	3.426	23.226.714	4.275.299	-
TOTAL Law 1997	9	1.285	-	-	-
All 6 Selected Regions	948	167.829	874.579.088	407.789.062	148.849.000
TOTAL TENDERS	18	17.442	610.918.003	344.905.000	148.849.000
TOTAL AUCTIONS	502	41.628	263.661.085	62.884.062	-
TOTAL Law 1997	428	110.882	-	-	-
% 6 Regions / Total SERBIA	49%	49%	69%	49%	55%
Total SERBIA	1.944	341.931	1.272.659.009	824.970.000	272.442.000
TOTAL TENDERS	40	40.567	816.959.009	701.256.000	272.442.000
TOTAL AUCTIONS	1.129	102.732	455.700.000	123.714.000	
TOTAL Law 1997	775	198.632			
TOTAL TENDERS	45%	43%	75%	49%	55%
TOTAL AUCTIONS	44%	41%	58%	51%	
TOTAL Law 1997	55%	56%			

Source: PA, IDOM

1,129 companies have been privatised in Serbia under the 2001 Law until the end of December 2004, while 775 were privatised under 1997 Law, which results in a difference of 354 companies between the two Laws. This difference is significant but it could be biased by the difficult economic situation that Serbia was facing at the end of the past decade. It is mainly due to the high number of

companies - 682 - privatised during 2003, when the privatisation process reached its peak in terms of number of companies privatised.

It should be noted that, at present, a number of companies have started their privatisation process but have not concluded it yet. These companies are in the pipeline of the Privatisation Agency as of July 2005. The table below provides information for the regions under study.

Table 6.2. Number of companies in the privatisation pipeline as of 31 July, 2005

Region	Number	%
Belgrade Region	237	19%
South-Backa Region	84	7%
West-Backa Region	38	3%
Macva Region	67	6%
Moravica Region	41	3%
Nisavki Region	75	6%
Total Six Regions	542	45%
Other Regions	675	55%
Serbia	1,217	100%

Source: PA

6.2.2. Proceeds from sales by the Privatisation Agency

102

Table 6.3. Privatisation proceeds by regions under 2001 Law. (2002 - 2004)

	Tenders			Auctions			Total Tenders and Auctions		
	Num. of firms	Sale price (in 000EUR)	Employment	Num. of firms	Sale price (in 000EUR)	Employment	Num. Of firms	Sale price (in 000EUR)	Employment (year of privatisation)
Serbia	40	816,959	40,567	1,129	455,700	102,732	1,169	1,272,659	143,299
Six selected regions	18	610,918	17,442	502	263,661	41,628	520	874,579	59,070
1. Belgrade	3	131,809	3,264	216	137,171	15,836	219	268,980	19,100
2. West Backa	2	4,870	877	51	18,076	5,043	53	22,946	5,920
3. South Backa	4	62,327	3,519	110	46,389	9,155	114	108,716	12,674
4. Macva	1	14,670	565	52	25,138	5,308	53	39,808	5,873
5. Moravicki	3	7,490	3,824	36	13,659	2,860	39	21,149	6,684
6. Nisavski	5	389,752	5,393	37	23,227	3,426	42	412,979	8,819

Source: PA

In spite limited in terms of number of companies privatised, tenders are extremely relevant in terms of privatisation proceeds and employment. The table above shows that they represent 64.2% of proceeds in Serbia. The case is especially significant in the region of Nis, where the sale of tobacco Company has had a great impact. The privatisation by tenders is also relevant for regional investments and social programs for employees.

Establishing the regional PA offices has given significant support to speed up and extend the process of privatisation by regions after 2001.

6.2.3. Share Fund and Belex

In the period 2002-2004, minority packages of the State owned capital in 235 enterprises partially privatised under the 1997 Law was sold through by the Share Fund through Belex. Total sale price obtained 200.7 M EUR, and investment committed 5.9 M EUR.

In 2004, the Share Fund through BELEX organised 42 successful IPOs. The total revenue was 28.9 M EUR. The data about enterprises in which the Share Fund has had a share demonstrated that this additional privatisation was possible for enterprises with good performance privatised by Law 1997 i.e. Apatinska Pivara, Pivara Celarevo, Aleva Novi Knezevac, Mlekara Subotica, IMPAZ Zajecar, IMLEK Beograd, Metalac Gornji Milanovac, Mlekara Zemun, AVALA ADA Beograd, ELEKTROMETAL Beograd, FSH JABUKA Pancevo etc.

Table 6.4. Results of privatisation 2002-2004 (included Share Fund)

Region	Number of Firms	Income (in 000 EUR)	Investment (in 000 EUR)	Social Programme (in 000 EUR)
City of Belgrade	298	315,987	167,679	27,160
West Backa Region	62	48,360	14,801	2,500
South Backa Region	151	148,037	69,875	34,131
Macvanski Region	60	41,670	43,118	16,100
Moravicki Region	41	12,218	33,941	3,283
Nisavski Region	47	414,233	84,228	66,480
Other	725	478,582	415,733	122,787
Republic of Serbia	1.384	1.472.527	830.333	272.442

Source: PA, Share Fund, IDOM

6.3. Privatisation and Regional Economic Growth

This section analyses the performance of the main indicators measuring economic growth in the regions under study. The observation of these indicators will be cross-analysed with the evolution of the process of privatisation.

Impacts of privatisation on the regional growth are measured by the following indicators:

Table 6.5. Explanation of the main indicators used

Indicator	Explanation
Gross Material Product (GMP)	GMP is a proxy for net material product. According to EU statistics the standard indicator to measure the growth of a region would be its Gross Domestic Product (GDP). However the statistics in Serbia have traditionally relied on other indicators such as GMP which do not precisely correspond with EU ones. It should be noted that this nomenclature is in the process of transformation.
GMP per capita	See above
Regional National Income	Proxy for net material product.
Evolution of privatised firms	Solvency Centre database

Source: SORS/IDOM

6.3.1. GMP Dynamics by Regions

Table 6.6. GMP per capita (in EUR) current prices

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	1,368	1,332	1,886	3,080	1,158	1,793	2,497	NA
West Backa Region	1,388	1,272	1,870	3,611	1,493	1,764	1,881	NA
South-Backa	1,245	1,053	1,783	3,258	1,350	1,616	2,106	NA
Macva Region	736	658	1,103	1,731	792	917	1,064	NA
Moravicki Region	1,067	1,032	1,500	2,390	1,106	1,203	1,494	NA
Nisavski Region	1,011	862	1,192	2,110	917	1,190	1,484	NA

Source: RDB

GMP per capita dynamics show a strong correlation in the evolution of all regions. They also show a significant downturn in 2001 followed by a recovery in 2002. The recovery is stronger in Belgrade where GMP per capita increases 55% in 2002, while it is lower in Moravicki region at 9%. However, 2003 shows a strong recovery in all regions, with increases ranging from 6% in West Backa to 40% in Belgrade.

The lack of data for 2004 does not allow to fully comment on the potential effects of 2001 Law privatisations, but figures show a significant recovery from 2001.

6.3.2. National Income broken down by types of Ownership

Table 6.7. National Income (Total), in 000 EUR

National Income (Total). in 000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	1,586,725	2,145,146	1,333,387	1,386,447	1,848,650	2,829,704	3,290,954	NA
West Backa Region	297,836	270,987	174,367	213,476	312,246	377,243	349,093	NA
South-Backa Region	706,616	595,741	442,617	514,967	757,307	963,014	1,079,078	NA
Macva Region	249,804	222,309	163,540	163,330	265,157	302,102	294,585	NA
Moravicki Region	245,098	236,074	150,402	152,355	250,179	270,241	277,185	NA
Nisavski Region	398,613	338,190	204,979	230,543	355,264	454,020	455,762	NA

Sources: SORS Yearbook Municipalities in Serbia; RDB Development Atlas of Serbia 2004

Table 6.8. National Income by types of ownership (Private)

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	51%	37%	42%	46%	47%	48%	51%	NA
West Backa Region	37%	33%	42%	38%	33%	37%	38%	NA
South-Backa Region	47%	50%	51%	44%	42%	45%	46%	NA
Macva Region	68%	63%	71%	74%	72%	66%	70%	NA
Moravicki Region	43%	43%	50%	58%	53%	52%	58%	NA
Nisavski Region	37%	35%	41%	43%	42%	42%	45%	NA

Source: SORS/IDOM

Table 6.9. National Income by types of ownership (Mixed)

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	34%	28%	27%	29%	35%	33%	26%	NA
West Backa Region	35%	37%	36%	42%	43%	40%	45%	NA
South-Backa Region	33%	38%	31%	34%	36%	45%	21%	NA
Macva Region	17%	19%	15%	16%	18%	66%	15%	NA
Moravicki Region	20%	23%	18%	20%	20%	19%	22%	NA
Nisavski Region	20%	25%	20%	21%	20%	23%	39%	NA

Source: SORS/IDOM

The above tables show an increase in the proportion of private ownership in the regions studied. However the behaviour of mixed ownership varies from one region to another and does not follow a defined trend. As privatised companies are recorded in both private and privatised groups, it is not possible to draw a firm conclusion.

6.3.3. Regional Growth Dynamics of Privatised firms

Table 6.10. Evolution of the revenues of all the companies in each region

000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Belgrade	10,511,917	9,297,897	5,370,829	5,404,216	8,604,322	12,226,549	14,125,720	17,494,259
W. Backa	1,016,166	911,898	429,996	497,448	780,410	952,799	940,582	1,080,545
S. Backa	4,388,961	3,525,485	1,944,502	2,499,037	4,895,252	5,726,411	6,101,325	6,722,251
Macva	618,065	531,285	334,308	421,545	545,544	690,733	650,344	788,690
Moravica	691,244	635,770	408,835	452,851	645,791	741,619	755,328	866,335
Nisava	958,427	820,634	521,099	596,493	841,846	1,013,907	1,138,545	1,314,736
Total Six	18.184.781	15.722.969	9.009.569	9.871.590	16.313.164	21.352.018	23.711.844	28.266.816

Source: SORS

Regional growth dynamics of privatised firms has been marked by two very different phases and events: The first phase, 1997-2001, resents the crisis at country level with a steam of companies privatised under Law 1997, in some cases poorly performing and unable to adapt to the crisis, while other with strong performances. The second phase, 2002-2004, covers a period of strong recovery and the new wave of companies privatised by Law 2001, which attracted well-known strategic investors.

6.4. Regional fiscal impact of privatisation

The budgets of Serbian municipalities and, in turn, of regions, are affected by the performance of Companies in three ways:

Municipal taxes - with the exception of the trade sector the represent a small proportion of the taxes paid by the companies

- Municipal services - they are often provided by the municipalities (e.g. waste collection) and their levies are collected by municipalities
- Tax on profit - it is collected by the State but its share distributed among regions is related to the total amount collected in each region

Consequently, it is expected that privatisation could have an indirect impact on the budgetary revenues of regions caused by changes in the capacity of the companies to meet their obligations towards the institutions at municipal (regional) and State level. This indicator is only applicable from 2003.

The other selected indicator is the proportion of proceeds that is by privatisation Law allocated to the municipal budget. According to the Law 2001, each community receives 5% of sale price of

privatised firms headquartered on their territory by tenders and auctions. This income is intended directly for local and regional infrastructure and alike purposes.

Table 6.11. Budgetary Revenues (in 000 EUR)

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	34,629	22,857	35,154	35,456	24,286	40,900	56,063	NA
West Backa Region	12,611	11,011	12,125	16,660	10,924	19,260	19,726	NA
South-Backa Region	52,438	41,879	51,378	70,021	64,103	120,015	132,583	NA
Macva Region	15,841	13,323	15,634	22,795	12,911	21,764	23,586	NA
Moravicki Region	13,198	11,007	13,384	18,182	10,957	18,867	20,032	NA
Nisavski Region	26,534	23,181	30,372	46,189	4,406	7,828	8,235	NA
Serbia	2.379.781	4.968.698	6.289.636	9.222.352	4.653.860	6.707.784	7.248.980	NA

Source: SORS

Fiscal impacts of privatisation on regional level measuring across budgetary revenues, budgetary expenditures and proceeds from privatisation are generally positive. The growth of budgetary revenues are high particularly after 2000. This growth is the result of regular payment of taxes of privatised firms and private firms in general. Diminishing significance of black market has also had favourable influence on the growth of regional budgetary revenues. Budgetary expenditures, on the other hand, are roughly equal to the revenues. (See table).

Table 6.12. Proceeds received from Privatisation by regions (5% of sale price in EUR)

	2002	2003	2004	Total
City of Belgrade	681.178	11.711.957	1.055.886	13.449.021
Tenders	-	6,590,450	-	6,590,450
Auctions	681,178	5,121,507	1,055,886	6,858,571
West Backa Region	149.580	689.775	156.894	996.249
Tenders	-	243,500	-	243,500
Auctions	149,580	446,275	156,894	752,749
South-Backa Region	3.171.138	1.048.044	1.117.554	5.336.736
Tenders	3,006,350	-	110,000	3,116,350
Auctions	164,788	1,048,044	1,007,554	2,220,386
Macva Region	1.145.519	388.910	472.231	2.006.660
Tenders	733,500	-	-	733,500
Auctions	412,019	388,910	472,231	1,273,160
Moravicki Region	15.623	795.927	245.882	1.057.432
Tenders	4,000	220,500	150,000	374,500
Auctions	11,623	575,427	95,882	682,932
Nisavski Region	7.040	20.457.442	184.454	20.648.936
Tenders	-	19,487,600	-	19,487,600
Auctions	7,040	969,842	184,454	1,161,336
Total for six regions	5.170.078	35.092.055	3.232.901	43.495.034
Tenders	3,743,850	26,542,050	260,000	30,545,900
Auctions	1,426,228	8,550,005	2,972,901	12,949,134
Serbia	13.132.326	43.513.194	6.987.430	63.632.950

Source: PA, IDOM

Proceeds received from privatisation by regions are different depending on the level of economic development, structure of the economy and extent of privatisation. Total proceeds from privatisation in the six selected regions in the period 2002-2004 were 43.5 M EUR.

The Nisavski region is in the first place with 20.6 M EUR, due to the outstandingly high proceeds collected in 2003 from the sale of Fabrika duvana. Belgrade follows with 13.5 M EUR, South Backa 5.3 M EUR, Macva 2 M EUR, Moravicki region 1 M EUR and West Backa only 996,249 EUR.

6.5. Impact of privatisation on regional exports and imports

The impact of privatisation on foreign trade is indirect. The rationale would be that privatised companies are supposed to be more competitive and will be able to increase their exports. This would be measured through the evolution of imports and exports since the privatisation process started.

Dynamics of the trade balance for the period 1997-2004 shows negative trends. Volume of exports had gone down until the year 2001, after which it is more or less growing, timidly in some years, but markedly in 2004. Similar tendencies appeared in imports except in 1999.

Until 2001 imports grew more than exports and by the year 2004 the coverage ratio of imports on exports was reduced to less than 20% in Belgrade, 50% in West Backa, 22% in South Backa, 40% in Macva, 42% in Moravica and 20% in Nisavski region (see table below).

Table 6.13. Exports by regions (in M EUR)

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	417	459	369	445	431	588	467	722
West Backa Region	44	33	26	35	56	73	59	89
South-Backa Region	162	181	113	154	264	310	273	307
Macva Region	53	42	29	47	41	38	51	51
Moravicki Region	61	76	71	60	79	72	67	74
Nisavski Region	65	36	27	43	41	46	42	51
Serbia	2.238	2.393	1.270	1.681	1.896	2.192	2.445	3.135

Source: Chamber of Commerce

Table 6.14. Imports by regions (in M EUR)

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	1,191	1,120	998	1,327	1,960	2,765	2,755	4,482
West Backa Region	62	48	38	53	71	77	65	185
South-Backa Region	729	602	294	455	950	1,185	1,040	1,400
Macva Region	68	56	47	78	82	96	93	137
Moravicki Region	98	85	68	84	113	118	111	179
Nisavski Region	92	62	80	91	123	172	158	261
Serbia	3.052	3.986	2.694	3.618	4.763	5.925	6.597	8.805

Source: Chamber of Commerce

Table 6.15. Regional Coverage of Imports by Exports

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	35%	41%	37%	34%	22%	21%	17%	16%
West Backa Region	72%	216%	69%	66%	79%	95%	90%	48%
South-Backa Region	22%	30%	39%	34%	28%	26%	26%	22%
Macva Region	78%	76%	63%	61%	50%	40%	55%	37%
Moravicki Region	63%	90%	104%	72%	70%	61%	61%	42%
Nisavski Region	70%	58%	35%	47%	34%	27%	27%	20%
Serbia	73%	60%	47%	46%	40%	37%	37%	36%

Source: Chamber of Commerce, IDOM.

So far it cannot be concluded that there is any determinant relationship between privatisation and trade figures. The number of factors affecting the exports of companies is significant (dependence of Serbian economy on the imports, technological gap, deregulation, liberalisation of foreign trade).

6.6. Privatisation and regional (Un)employment

The evolution of the employment is a variable significantly affected by privatisation provided the process always includes a degree of restructuring. While the impact on certain economic indicators (i.e. foreign trade) is typically absorbed after a period of time, employment figures react rapidly. Therefore the behaviour of employment is of special importance for studies with a short time span, such as the present one.

The analysis is conducted through a set of employment indicators and cross analysis with criterion above.

Table 6.16. Employed - Annual Average

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	511,116	502,892	498,619	484,108	483,907	469,063	482,701	595,239
West Backa Region	57,709	55,086	53,183	51,833	51,595	49,827	46,927	50,013
South Backa Region	176,305	177,558	173,008	168,727	164,143	163,484	165,502	200,708
Macva Region	70,986	69,734	64,751	64,678	65,030	61,113	56,299	62,470
Moravicki Region	67,251	65,923	63,082	59,595	63,240	57,534	55,627	60,442
Nisavski Region	105,595	103,637	99,972	95,694	93,606	89,591	86,495	95,976
Serbia	2.139.974	2.191.975	2.158.973	2.097.218	2.101.608	2.066.721	2.041.395	2.050.854

Source: SORS

Table 6.17. Employment per 1000 Inhabitants

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	317	312	310	302	303	297	303	NA
West Backa Region	269	259	251	247	247	233	218	NA
South-Backa Region	311	314	307	300	293	274	273	NA
Macva Region	209	206	192	193	194	186	171	NA
Moravicki Region	293	288	277	263	280	256	248	NA
Nisavski Region	268	264	256	246	242	235	227	NA
Serbia	258	254	252	246	246	246	241	NA

Source: SORS, IDOM

Table 6.18. Unemployed by regions

	1997	1998	1999	2000	2001	2002	2003	2004	June 2005
City of Belgrade	98,203	102,817	102,083	108,405	123,149	153,698	143,438	158,706	141,441
West Backa Region	21,416	23,152	23,387	24,949	26,226	31,352	33,565	32,483	32,624
South-Backa Region	52,204	54,639	62,766	68,214	70,949	77,251	80,349	79,917	81,553
Macva Region	30,475	30,896	32,841	34,365	37,901	45,036	47,520	49,714	48,867
Moravicki Region	17,809	17,767	19,947	21,405	21,909	24,673	26,117	30,455	27,226
Nisavski Region	48,742	51,152	51,152	58,101	53,893	56,935	62,407	60,524	49,180
Serbia	636.000	769.000	736.000	722.000	769.000	843.000	947.000	969.888	892.301

Source: SORS

During the process of privatisation in Serbia, employment has gone down and unemployment rate has been growing up. Similar trends appear in all selected regions (see table). Employment per 1,000 inhabitants has increased only in Belgrade region compared to 2000.

The number of unemployed people has grown up fast in all selected regions from 2000 up to 2004. However it has started to decrease in 2005 when, as of June, there were 77,587 less unemployed people, which represents a notable decrease. Decreases are not common to all regions though. While in Belgrade the decrease is notable and account for more than 17,000 less unemployed people, in South Backa it has increased by 1,636 people.

It should be noted that the number of employed people has increased in 2003 and 2004. However, the employment has not been able to absorb the significant increase in labour force. Since companies privatised by 2001 Law are downsizing (at least in the initial years), it is expected that new employment has been created by newly created private companies. These companies are increasing in number and can be the means to reduce unemployment in the future. In fact, in June 2005 the number of unemployed has already decreased significantly from December 2004.

6.7. Privatisation vs. Purchasing Power (Welfare)

The purchasing power (welfare) of employees depends, mainly, on their net salaries and wages as well as on severance payments in case they lose their job. Another specific income for the employees derives from the sale of shares in enterprises privatised by Law 1997 and the employees' share (15 to 30%) of privatised enterprises by Law 2001. Committed investment and social programs have also contributed to increase the purchasing power (welfare), but only of employees from privatised companies.

In this topic we are concentrated to analyze dynamics of average net salaries and wages and severance payments via Transition Fund by selected regions.

Average net salaries and wages increased after 2000, particularly in Belgrade, South Backa and West Backa regions. In Macvanski, Moravica, and Nisavski regions the growth of salaries and wages was less pronounced. In all six selected regions the growth of average net salaries and wages was significant after 2001 which is the period of implementation of the latest privatisation Law (see table).

Table 6.19. Average Net monthly Salaries and Wages (in EUR)

	1997	1998	1999	2000	2001	2002	2003	2004
City of Belgrade	132	105	137	190	115	182	220	245
West Backa Region	90	73	20	152	100	162	177	187
South-Backa Region	124	100	127	193	120	190	212	226
Macva Region	78	60	75	115	72	112	137	159
Moravicki Region	71	62	84	132	79	116	124	138
Nisavski Region	73	61	78	121	82	14	160	173
Serbia	99	81	107	159	98	152	177	194

Source: SORS/IDOM

The second significant source of growth of welfare is severance payments via Transition Fund. This Fund is intended for employees who lost their job during the process of privatisation. In the period 2001-2004, the Transition Fund disbursed more than 152 M EUR for severance payments in Serbia. Most of these resources went to Belgrade, which received 22% of all disbursements. Nisavski, Moravicki and Macva region also received significant amounts. These regions include large industrial socially owned enterprises, which are in need of governmental support during the process of privatisation e.g. Zorka Sabac, Viskoza Loznica, MIN Nis, EI Nis Sloboda Cacak, Milan Blagojevic Lucani, and Metal processing industry in Belgrade. Only two socially owned firms from Vojvodina received support from the Transition Fund.

Table 6.20. Severance Payments via Transition Fund (in EUR)

	2001	2002	2003	2004	Total
City of Belgrade	0	18,502,252	15,485,963	0	33,988,215
West Backa Region	0	0	654,290	0	654,290
South-Backa Region	0	0	0	1,109,802	1,109,802
Macva Region	0	1,740,277	2,929,055	538,766	5,208,098
Moravicki Region	0	1,505,844	2,520,664	3,658,421	7,684,930
Nisavski Region	2,102,671	4,038,498	2,573,831	757,913	9,472,913
Total 6 Regions	2,102,671	25,786,872	24,163,803	6,064,902	58,118,248
Serbia	5,424,509	56,078,335	66,508,022	24,712,474	152,723,339

Source: Ministry of Economy, IDOM

In addition to the above, the regions have also benefited from significant funding from privatised enterprises which implemented severance payments in the context of their social programs. The figures of these social programs per region are shown below.

Table 6.21. Total figures of Social Programs of privatised companies (in EUR)

	2002	2003	2004	Total
City of Belgrade	0	25,258,000	0	25,258,000
West Backa Region	0	4,435,000	0	4,435,000
South-Backa Region	32,197,000	0	0	32,197,000
Macva Region	16,100,000	0	0	16,100,000
Moravicki Region	1,283,000	1,096,000	2,000,000	4,379,000
Nisavski Region	0	66,480,000	0	66,480,000
Total 6 Regions	49,580,000	97,269,000	2,000,000	148,849,000
Serbia	140.690.000	129.172.000	2.580.000	272.442.000

Source: PA, IDOM

The real growth of net salaries and wages, severance payments and budgetary revenues has had a positive impact on purchasing power and welfare of population in every selected regions compared with the period before 2001.

Finally the consultant has also analysed the Human Development Index prepared by the Republic Development Bureau. In 2002, it indicates that the most developed regions are Belgrade, South Backa and West Backa. In contrast, Macva region is way behind in the Index.

Table 6.22. Human Development Index across the Regions in 2002

Name of the Region	Life Expect.	Literacy Rate (%)	GDP p.c. In PPP (US\$)	Index of Life Expect.	Education Index	GDP Index	HDI	HDI Rank	GDP p.c. rank minus HDI Rank
City of Belgrade	72.5	98.7	1684	0.79	0.87	1	0.885	1	0
West Backa Region	70.6	97.1	1653	0.76	0.88	1	0.880	1	0
South Backa Region	70.6	97.9	1521	0.76	0.95	0.91	0.876	2	1
Macva Region	72.5	94.5	860	0.79	0.83	0.32	0.65	15	0
Moravicki Region	72.5	97.1	1128	0.79	0.87	0.6	0.756	7	0
Nisavski Region	72.5	96	1115	0.79	0.88	0.59	0.755	8	-1
Serbia							0.775		

Source: RDB

6.8. Analysis by regions

6.8.1. Belgrade

Belgrade is the most important region in Serbia. It has an extension of 3,224 km², 1,576,124 inhabitants in 2002 (21% of Serbia) and a high National Income per capita (152 in 2003 taking 100 as Serbian average). The Belgrade region has 16 municipalities, 25,724 registered companies (824 socially owned, 1,177 mixed, 23,449 private), 208 being large, 53 medium, and 24,983 small companies. By the end of 2004, Belgrade has 595,239 employees (29% of Serbia).

Table 6.23. Figures for Belgrade Region

City of Belgrade		1997	1998	1999	2000	2001	2002	2003	2004
GMP per capita	in EUR	1,904	1,854	1,886	3,080	1,157	1,792	2,497	NA
National Income - Total	in EUR 000	2,205,753	2,987,368	3,029,999	4,930,236	1,848,650	2,829,704	3,290,954	NA
National Income - Private ownership	in EUR 000	1,132,540	1,119,606	1,282,918	2,265,454	866,852	1,357,747	1,672,865	NA
National Income - Mixed ownership	in EUR 000	741,731	842,000	805,845	1,405,805	654,141	927,970	865,635	NA
Employed - Annual Average	persons	511,116	502,892	498,619	484,108	483,907	469,063	482,701	595,239
Unemployed	persons	98,203	102,817	102,083	108,405	123,149	153,698	143,438	157,706
Employment per 1000 Inhabitants	persons	317	312	310	302	303	297	303	NA
Net Salaries	in EUR / month	183	146	137	190	115	182	220	245
Non-Private Investment	in EUR 000	423,939	379,434	573,250	882,431	344,736	650,538	768,529	NA

Sources: SORS Yearbook Municipalities in Serbia; RDB Development Atlas of Serbia 2004; PA; Chamber of Commerce, IDOM

The table above shows the following results:

Employment has significantly increased in 2004 after years of stagnation. The unemployment ratio (measured as unemployed on total people employed plus unemployed) has seen a reduction from 25% in 2002 to 21% in 2004.

Private National Income has slowly increased its share on total National Income up to 51% in 2003. In 2003 both private and mixed ownership represented 77% of total National Income of Belgrade.

Salaries have increase substantially at 32% from 2002 to 2004. They are substantially higher than in the other regions under study.

Table 6.24. Largest Companies in the Belgrade Region (in 2003; '000 EUR)

BELGRADE	Type of Ownership	Total Revenue	No. of Employees	Profit	Capital
Region's most relevant companies (from the "600 largest Serbian Companies"):					(EUR'000)
Total Region - 2003	287	8,738,811	205,051	493,349	14,308,671
State	31	1,771,365	99,098	30,434	8,403,818
Social	22	1,376,039	19,224	5,154	1,149,124
Mixed	94	3,073,083	69,078	286,763	4,086,720
Private	140	2,518,324	17,651	170,997	669,009
25 largest Companies by REVENUE in 2003	EUR'000	4.956.000	124.129	211.865	9.607.335
State & Social	11	2.555.455	93.019	16.108	7.215.650
Mixed & Private	14	2.400.545	31.110	195.758	2.391.685
ELEKTROPRIVREDA SRBIJE	State	768,745	693	0	47,240
TELEKOM SRBIJA	Mixed	671,462	13,060	110,084	1,601,319
DELTA HOLDING	Private	304,472	3,791	10,478	77,866
TE NIKOLA TESLA	State	299,268	3,639	0	1,064,651
ŽTP BEOGRAD	State	292,924	29,852	0	3,639,050
ELEKTRODISTRIBUCIJA - BEOGRAD	State	245,500	2,366	0	322,237
BEOPETROL	Mixed	235,325	1,694	0	18,671
KOLUBARA	State	235,188	15,547	0	244,253
SRBIJA - MOBTEL	Mixed	234,555	855	33,413	268,112
C MARKET	Mixed	212,534	3,431	491	49,897
JUGOSLOVENSKI AEROTRANSPORT	State	196,183	3,870	289	14,364
SRBIJA JPPTT	State	174,058	17,968	15,819	1,085,195
BEOGRADSKJE ELEKTRANE	State	107,314	2,766	0	176,812
MEGA TABAK	Private	98,413	243	1,642	4,970
GSP BEOGRAD	State	91,624	6,879	0	154,600
IBP BEOGRAD - COCA COLA	Private	87,991	798	10,503	56,864
PEKABETA	Mixed	85,620	1,960	0	27,081
INVEJ	Private	85,033	7	19,134	17,732
VELEFARM-LEKOVI	Mixed	83,091	201	487	582
ŠTAMPA COMMERCE	Mixed	83,045	2,041	181	3,154
GALENIKA	Mixed	81,167	2,704	4,716	253,491
RADIO-TELEVIZIJA SRBIJE	State	80,551	6,183	0	133,635
NELT LTD	Private	74,269	156	0	3,271
BEOGRADSKI VODOVOD I KANALIZACIJA	State	64,099	3,256	0	333,612
NELT CO.	Private	63,570	169	4,629	8,675

Source: Ekonomist Magazine

This Region absorbs 46% of the "600 largest Companies" (32% of State and Social, and 50% of Private and Mixed Companies). Private & Mixed Sector generates higher Revenue and Profit (5,591 M EUR and 457 M EUR) than the State & Social Sector (3,147 M EUR and 35 M EUR), but the public sector accumulates more Employment (118,322 vs 86,729 persons) and Capital (9,552 M EUR vs. 4,755 M EUR) in the Region, which could be a reason for more profitability.

It should be noted that 287 of the 600 largest enterprises in Serbia are in Belgrade, however only 24 of them are socially owned. It is also to be noted that the large state owned companies are in Belgrade.

Table 6.25. Key privatisation figures for the Region

Method of Privatisation	Number of companies	Number of employees	Sale Price (M EUR)	Investments per contract (M EUR)	Social programme per contract (M EUR)
Tenders	3	3,264	131.8	140.1	25.2
Auctions	216	15,836	137.1	18.7	-
Law 1997	229	61,405	-	-	-
TOTAL	448	79,912	268.9	158.9	25.2

Source: PA, IDOM

Table 6.26. Relevant privatisations in Belgrade

	Company	Date of Sale	Number of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme per contract (EUR)
	Tenders in the region		3,264	131,809,000	140,180,000	25,258,000
1	MDD PKB FRIKOM	19/02/2003	836	10,249,000	16,305,000	16,771,000
2	ATD PUTNIK	19/05/2003	831	4,560,000	38,875,000	487,000
3	BEOPETROL	26/09/2003	1,597	117,000,000	85,000,000	8,000,000
	Largest Auctions in the region (by Sale Price)		3,497	83,393,025	9,829,859	
1	GP HIDROTEHNIKA-HIDROENERGETIKA	07/04/2003	888	35,384,615	1,874,785	
2	ATEKS	23/05/2003	622	8,153,846	5,169,477	
3	HOTEL ROJAL	26/06/2003	76	6,153,846	151,292	
4	AUTOSRBIJA	26/06/2003	104	4,615,385	27,262	
5	TEHNOHEMIJA	18/12/2003	428	4,307,692	449,754	
6	HOTEL SUMADIJA	21/12/2004	35	3,013,699	244,863	
7	GORICA	31/07/2003	322	2,323,077	499,692	
8	KULTURA	26/12/2003	108	2,553,846	47,985	
9	INOS METALI	04/12/2003	101	2,784,615	491,815	
10	SEME	19/03/2003	183	2,030,769	184,831	
11	HEMPRO	26/12/2003	68	2,492,308	126,062	
12	JUGOAGENT	13/03/2003	163	2,323,077	98,369	
13	RUDNAP	26/12/2003	230	2,015,385	110,692	
14	MINEL-DINAMO	23/11/2004	110	2,753,425	163,370	
15	HOTEL UNION	13/11/2002	59	2,487,440	189,611	
	Largest Law '97 (by reported Employees)		28,055			
1	LASTA	31/08/1999	4,730			
2	DD TERMoeLEKTRO	29/12/1999	3,000			
3	DP SOKO NADA STARK	26/01/2001	2,640			
4	DP BEKO-BEOGRADSKA KONFEKCIJA	27/12/2000	2,300			
5	FASMA	27/11/2000	2,180			
6	HK PETAR DRAPSIN	30/06/1999	2,083			
7	PEKABETA	25/02/1999	1,974			
8	GRMEC	16/07/1999	1,961			
9	IKL-INDUSTRIJA KOTRLJAJUCIH LEZAJEVA	28/12/1999	1,613			
10	GP NAPRED	25/11/1999	1,593			
11	AD IMLEK	31/01/2001	1,415			
12	DP KERAMIKA	18/05/2000	1,400			
13	DGP GRADITELJ	26/01/2001	1,166			

Source: PA, IDOM

Table 6.27. Relevant figures of privatisation in Belgrade

Concept	N. of Companies	N. of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme (EUR)
Companies privatised in the Region	449	79,912	272	167.6	27.1
Relevant Companies privatised	31	34,816	215	150	27.1
% of Relevant on Total Companies privatised	12%	51%	79%	89%	100%

Source: PA, IDOM

The tables above show key figures of the privatised companies in Belgrade. The first table includes the proceeds collected while the second shows information on the most relevant privatisations that have taken place in the region.

In the period 1997-2004, 449 companies were privatised (23% of total in Serbia), 229 by Law 1997 and 219 by Law 2001. There are 237 companies in the pipeline for privatisation. The largest sale in Belgrade was the privatisation of Beopetrol, which also reported the highest committed investments. In fact, it represents 43% of total proceeds in the region and 53% of committed investments up to 2004.

Significant privatised companies in Belgrade

LUKOIL - BEOPETROL a.d. Belgrade

The company was privatised in September 2003. It is among the 300 largest companies in Serbia (9th by revenue, 224th by capital). It was sold by tender to Lukoil, from Russia for a sale price of 117 M EUR with committed investments of 85 M EUR and 8 M EUR to be invested in a social program.

For 40 years the company has been engaged in trading of oil, refined petroleum products, lubricant oils, lubricants, derivative processing, including commercial and retail marketing of convenience goods. A 18-20% of total annual oil and petroleum derivatives sales that take place in Serbia are realized through the company's network of storehouses (10) and petrol stations (203).

FRIKOM a.d. Belgrade

The company was privatised in February 2003. Its main products are ice cream, frozen vegetables and fish. It is among the 300 largest companies in Serbia (168th by revenue, 246th by capital). It was sold by tender to Agrokor from Croatia which bought 91.65% of shares for 9.6 M EUR with committed investments totalling 15.4 M EUR and a social program of 14.7 M EUR

IMLEK a.d. Belgrade

The company was privatised in January 2001 by 1997 law. It is the largest producer of dairy products in Serbia. At present its major shareholder is Danube Foods B.V. (81.65) (see above). Other shareholders are Mlekara Subotica (2.88%) and 4.096 individual shareholders. It is among 300 largest companies in Serbia (22nd by revenue, 43rd by capital)²⁰ and one of the most profitable companies. It is the owner of the subsidiary Imlek-Boka from Crna Gora with 100% of shares. The company is quoted on the Belex Stock Exchange.

ENERGOPROJEKT-VISOKOGRADNJA a.d. Belgrade

The company was privatised in December 2000 by 1997 law. It is among the 300 largest companies in Serbia (93rd by revenue, 201st by capital) and also among the most profitable ones. The company is a part of the largest construction company in Serbia, Energoprojekt Holding which owes 51% of shares but the company operates independently. Other shares are held by the Share Fund, the Pension Fund and a number of individuals.

Energoprojekt is the leading company in designing, construction and consulting in Serbia and Montenegro. Founded in 1951, Energoprojekt (since 1990 known as Energoprojekt - Holding Joint Stock Company) opened its branch offices and subsidiaries in over 70 countries worldwide and constructed, designed or rendered consulting services in more than 90 countries all over the world.

²⁰ Source: Ekonomist magazine

VETFARM a.d. Belgrade

The company distributes medical supplies in Serbia and foreign markets. It was privatised in 1998. It is among 300 largest and most profitable companies in Serbia (89th by revenue). The main Vetfarm's activity is supplying health and veterinary institutions with drugs, medical and veterinary consumables and equipment, OTC and other materials. Its business activities are channeled through branch offices in Nis, Pristina, Belgrade, Pozega and Subotica. The most important individual shareholder is Concern Hemofarm with 15% of capital. The other shareholders are over 600 physical persons employed in the company, former employees and citizens of Serbia.

NAPRED a.d. Belgrade

The company was privatised in November 1999 by 1997 law. It is among the 300 largest companies in Serbia (181st by revenue) and is profitable (operating profit of 1 M EUR in 2004). It has no major shareholders and all shares are owned by 1,030 small individual shareholders.

RATKO MITROVIC a.d. Belgrade

The company was privatised in September 1998 by 1997 law. It is a construction Holding included among the 300 largest and best performing companies in Serbia (148th by revenue, 126th by profit). Its major shareholders are East Capital Asset Investments (5.88%), PZB Vienna (2.88%), Poteze BPD (3.00%) and 2,402 individual shareholders. The company has a stake in 17 subsidiaries (15 in Serbia, 1 in Republika Srpska and 1 in Montenegro), of which 14 subsidiaries belong 100% to Ratko Mitrovic. The company develops engineering projects and constructs industrial facilities, residential buildings and civil works (hospitals, airports, roads, railroads, bridges, etc.). It has experience in all former Yugoslav Republics and abroad (Africa, Asia, Europe).

Table 6.28. Impact of Privatisation in the Region (in 000 EUR)

ALL COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	21,771	22,530	22,346	22,627	23,617	24,529	27,107	28,049
Employees	486,189	463,241	433,051	432,160	420,588	409,016	404,862	406,633
Revenues	10,511,917	9,297,897	5,370,829	5,404,216	8,604,322	12,226,549	14,125,720	17,494,259
Exports	175,962	218,790	88,709	80,967	170,502	220,414	235,466	NA
Net Operating Profit / Loss	5,533	322,600	162,731	177,655	-258,995	-47,468	17,996	486,270
Revenue per company	483	413	240	239	364	498	521	624
Revenue per employee	21.6	20.1	12.4	12.5	20.5	29.9	34.9	43.0
% Exports / Revenue	1.7%	2.4%	1.7%	1.5%	2.0%	1.8%	1.7%	NA
Operating profit / sales	0.1%	3.5%	3.0%	3.3%	-3.0%	-0.4%	0.1%	2.8%

ALL PRIVATISED COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	324	411	404	409	423	409	438	429
Employees	79,634	96,484	91,469	86,699	83,070	73,909	68,772	62,407
Revenues	1,363,037	1,529,576	912,066	883,690	1,387,388	1,646,685	1,586,753	1,703,504
Exports	56,557	65,859	36,336	27,026	79,063	110,623	82,881	NA
Net Operating Profit / Loss	-410	32,734	13,238	34,328	-19,816	-43,750	-77,398	-23,571
Revenue per company	4,207	3,722	2,258	2,161	3,280	4,026	3,623	3,971
Revenue per employee	17.1	15.9	10.0	10.2	16.7	22.3	23.1	27.3
% Exports / Revenue	4.1%	4.3%	4.0%	3.1%	5.7%	6.7%	5.2%	NA
Operating profit / sales	0.0%	2.1%	1.5%	3.9%	-1.4%	-2.7%	-4.9%	-1.4%

% PRIVATISED / ALL COMPANIES	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	1%	2%	2%	2%	2%	2%	2%	2%
Employees	16%	21%	21%	20%	20%	18%	17%	15%
Revenues	13%	16%	17%	16%	16%	13%	11%	10%
Exports	32%	30%	41%	33%	46%	50%	35%	NA
Net Operating Profit / Loss	-7%	10%	8%	19%	8%	92%	-430%	-5%

Source: Solvency Centre Database

Companies have had a good performance with an increase in their revenues of 103% from 2001 to 2004 their results and their performance indicators (revenue per employee, operating profit on sales). However employment in the companies that reported to the NBS has been reduced by 4% in the same period. The total number of companies has increased in 4,432.

Privatised companies show a less positive performance. Their sales have increased to a lesser extent (23%), but employment has decreased substantially (25%) and their profitability has worsened and, on aggregate, the group of privatised companies from Belgrade had operating losses in 2003 and, to a lesser extent, in 2004. This makes sense since this group includes a significant number of companies privatised according to 2001 Law which in 2004 are still in the process of restructuring.

6.8.2. WEST BACKA (Sombor)

West Backa is located in western Vojvodina, near the Croatian border. The main city of the region is Sombor, and other municipalities are Apatin, Kula and Odzaci. Main indicators about this region are: Area 2,420 km², number of inhabitants 214,001, number of employed 50,013, number of unemployed 32,483, national income in 2003 was 119.8 (average of Serbia=100). The share of the processing industry in the National income is 48.3 and the share of agriculture is 20.0. The processing industry dominates in the economic structure of this region (food and beverage, metallic, non metallic and textile processing, agriculture, local trade, construction and hotels, restaurants and tourism services).

Table 6.28. Figures for West Backa Region

West Backa		1997	1998	1999	2000	2001	2002	2003	2004
GMP per capita	in EUR	1,931	1,771	1,869	3,611	1,493	1,763	1,880	NA
National Income - Total	in EUR 000	414,030	377,381	396,234	759,124	312,246	377,243	349,093	NA
National Income - Private ownership	in EUR 000	154,717	123,687	166,809	287,965	104,547	141,122	131,278	NA
National Income - Mixed ownership	in EUR 000	142,927	137,991	142,994	321,303	133,426	149,285	157,596	NA
Employed - Annual Average	persons	57,709	55,086	53,183	51,833	51,595	49,827	46,927	50,013
Unemployed	persons	21,416	23,152	23,387	24,949	26,226	31,352	33,565	32,483
Employment per 1000 Inhabitants	persons	269	259	251	247	247	233	218	NA
Net Salaries	in EUR / month	125	102	20	152	100	162	177	187
Non-Private Investment	in EUR 000	41,940	29,801	26,356	69,096	245,805	35,311	23,595	NA

Sources: SORS Yearbook Municipalities in Serbia; RDB Development Atlas of Serbia 2004; PA; Chamber of Commerce, IDOM

There were 1,350 enterprises, 113 social owned, 75 mixed and 1,035 private at the end of 2004 in this region.

The table above shows the following results:

- Employment has decreased since 1997 although it shows a positive result in 2004 after years of stagnation. The unemployment ratio (measured as unemployed on total people employed plus unemployed) has remained at the same level 39% from 2002 to 2004.
- Private National Income remains at a similar level in 2003 as it was in 1997; however, mixed capital has slowly increased its share up to 45% of total National Income in the region. In 2003 both private and mixed ownership represented 83% of total National Income of West Backa.

- Net salaries have increased more moderately than in other regions under study, at 15% from 2002 to 2004 but it only represents 76% the salary in Belgrade region.

Table 6.29. Largest Companies in the West Backa Region (2003)

WEST BACKA	Type of Ownership	Total Revenue	No. of Employees	Profit	Capital
Region's most relevant companies (from the "600 largest Serbian Companies"):					(EUR'000)
Total Region - 2003	14	486.034	6.636	32.995	298.268
State	0	0	0	0	0
Social	1	7.186	1.193	0	19.606
Mixed	7	211.912	3.144	28.714	262.808
Private	6	266.935	2.299	4.281	15.854
14 largest Companies by REVENUE in 2003	EUR'000	486.034	6.636	32.995	298.268
State & Social	1	7.186	1.193	0	19.606
Mixed & Private	13	478.847	5.443	32.995	278.663
APATINSKA PIVARA	Mixed	112.140	1.031	27.185	183.633
RODIĆ M&B-COMPANY	Private	102.310	607	1.343	3.546
RODIĆ M&B - MARKET	Private	100.780	1.195	971	1.956
SUNCE	Mixed	37.186	768	120	27.451
HIPOL	Mixed	25.159	575	0	19.177
RODIĆ M&B	Private	23.531	323	47	5.854
ŽITO - MEDIA	Private	22.044	74	159	1.051
STORK	Private	16.774	97	596	2.212
SOMBOR	Mixed	16.244	4	176	7.546
SOMBOLED	Mixed	14.538	344	247	3.839
BORELI	Social	7.186	1.193	0	19.606
BANE	Mixed	5.834	414	569	20.382
SLOGA	Private	1.496	3	1.164	1.235
SOMBORSTAN	Mixed	811	8	417	781

Source: Ekonomist Magazine

The largest companies from the region are now private or mixed enterprises. Boreli is the only large socially-owned enterprise in list (from 2003). It shows a poor performance with significant overstaffing when comparing its level of sales on employee against other companies and had net losses.

It should be noted that in terms of revenue, 3 companies are way ahead of the others: Apatinska Pivara, Rodic M&B company and Rodic M&B market.

Table 6.30. Key privatisation figures for the West Backa Region

Method of Privatisation	Number of Companies	Number of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme per contract (EUR)
Tenders	2	877	4,870,000	10,150,000	4,435,000
Auctions	51	5,043	18,076,730	6,578,339	-
Law 1997	38	7,114	-	-	-
TOTAL	91	13,034	22,946,730	16,728,339	4,435,000

Source: PA, IDOM

Table 6.31. Relevant privatisations in West Backa

	Company	Date of Sale	Number of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme per contract (EUR)
	Tenders in the Region		877	4,870,000	10,150,000	4,435,000
1	DPP SAVA KOVACEVIC / MIROTIN	10/12/2003	410	1,870,000	2,320,000	1,935,000
2	FABRIKA SECERA CRVENKA	14/02/2003	467	3,000,000	7,830,000	2,500,000
	Largest Auctions (by Sale Price and/or Investment)		2,935	14,353,835	5,477,242	
1	MLADOST	24/02/2003	291	2,692,308	107,985	
2	NAPREDAK	22/12/2003	67	2,615,385	293,169	
3	TP PREHRANA	10/10/2002	347	2,236,951	223,662	
4	IGM JEDINSTVO	01/09/2003	122	1,692,308	188,215	
5	SOMBORMLIN	03/03/2003	109	1,015,385	196,154	
6	SONTA	21/04/2003	1	861,538	135,077	
7	DHTUP SLOBODA	20/12/2004	64	821,082	408,137	
8	ZITO-BACKA	15/11/2004	149	575,342	662,466	
9	TP PODUNAVLJE	10/10/2002	220	465,468	255,808	
10	PDP RATKOVO	11/07/2003	295	433,569	245,369	
11	APATIN BA	17/03/2003	417	308,477	295,523	
12	HLADNJACA	11/02/2003	90	133,462	1,071,892	
13	FA ISTRA	09/02/2004	552	321,822	1,042,877	
14	VOJVODINA	16/06/2003	52	138,462	205,708	
15	SAOBRAČAJ	22/12/2003	159	42,277	145,200	
	Largest Law '97 (by reported Employees)		5,933			
1	BANE SEKULIC	30/06/1998	2,547			
2	AD FABRIKA ULJA I BILJNIH MASTI SUNCE	27/11/1998	910			
3	PKB PRVI MAJ RUSKI KRSTUR	30/11/2000	430			
4	FABRIKA KOZE ETERNA	22/12/2000	336			
5	SOMBOR DPP	27/12/1999	330			
6	DPP BEZDAN	11/01/2001	311			
7	DD JAFFA CRVENKA	21/12/2000	286			
8	DD SOMBOLED	28/12/1998	282			
9	GP RAPID APATIN	31/01/2001	254			
10	ZITOPRODUKT	22/09/1998	247			

Source: PA/IDOM

90 companies (38 by Law 1997, and 52 by Law 2001) were privatised in this region during the process of privatisation. In the pipeline of privatisation there are 38 companies. Some of the most successful companies in this region were privatised under Law 1997 e.g. Apatinska Pivara. It is significant that there have been a limited number of enterprises privatised by 2001 Law, consequently proceeds have been limited.

Significant privatised companies in West Backa

APATINSKA PIVARA a.d. Apatin

The company is the largest brewery in Serbia. It was privatised to its employees in October 1998 soon after the 1997 law was passed. Most small shareholders and the Share Fund sold its shares to Interbrew Company from Belgium, currently the major owner with 99.01% of shares. It is among 300 largest and most profitable companies in Serbia (21st by revenue, 23rd by capital, 7th by profit).

Sugar Factory "CRVENKA" a.d. Crvenka

The company was privatised in February 2003 by 2001 law. It was sold by tender to Hellenic Sugar Industry from Greece for a sales price of 3 M EUR, committed investments of 7.8 M EUR and a social program totalling 6 M EUR. The Sugar Factory "Crvenka" is the leading sugar factory among the 15 existing in Serbia. It is among the largest companies in Serbia (157th by revenue, 187th by capital).

SUNCE a.d. Sombor

The company was privatised in July 1999 according to 1997 law. Its major shareholder is now DELTA M with more than 59% of shares. The activity of the company includes the processing of oleaceous plants, oil derivatives and fats (mainly margarine), as well as other food products. It is among the largest companies in Serbia (108th by revenue, 146th by capital).

JAFFA a.d. Crvenka

It was privatised in December 2000 according to 1997 law. Its major shareholder is nowadays Kappa Star Ltd (Cyprus) with (79.24%) and 606 small individual shareholders. The company is dedicated to the production of cakes and biscuits and is among the most profitable companies in Serbia (67th by profit).

FABRIKA AKUMULATORA a.d. Sombor

The company was privatised in 1998 according to 1997 law and, at present, does not have a major shareholder. It is the leading company in the production of starter batteries and traction cells for all kind of vehicles in Serbia and the Balkans. The company had an operating profit of 0.5 M EUR in 2004.

SOMBOLED a.d. Sombor

Privatised in December 1998 according to 1997 law. Its major shareholder is LURA from Croatia with 89.35% of shares. It is a food industry dedicated to the production of ice creams and dairy products. It is among the largest companies in Serbia (289th by revenue) but had an operating loss of 0.6 M EUR in 2004.

FA ISTRA a.d. Kula

The company was privatised in February 2004 by 2001 law. It was sold by auction to a consortium of private persons for 0.3 M EUR with committed investments of 1 M EUR. The company's activity is the production of sanitary fittings and radiator equipment. About 80% of production is exported, mainly to EU countries.

Table 6.32. Impact of Privatisation in the Region (in 000 EUR)

ALL COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	1,535	1,546	1,252	1,302	1,310	1,333	1,540	1,595
Employees	49,694	48,860	36,299	36,972	35,117	35,048	29,598	30,816
Revenues	1,016,166	911,898	429,996	497,448	780,410	952,799	940,582	1,080,545
Exports	5,865	3,891	1,653	2,408	7,800	8,912	107,424	NA
Net Operating Profit / Loss	14,319	37,194	22,120	39,278	31,505	23,519	-3,937	-529,790
Revenue per company	662	590	343	382	596	715	611	677
Revenue per employee	20.4	18.7	11.8	13.5	22.2	27.2	31.8	35.1
% Exports / Revenue	0.6%	0.4%	0.4%	0.5%	1.0%	0.9%	11.4%	NA
Operating profit / sales	1.4%	4.1%	5.1%	7.9%	4.0%	2.5%	-0.4%	-49.0%

ALL PRIVATISED COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	86	85	86	85	85	84	84	83
Employees	14,229	14,112	13,717	13,682	13,721	13,121	10,784	10,233
Revenues	275,556	233,514	159,112	186,586	286,995	339,729	297,905	323,601
Exports	14,481	13,709	5,463	6,215	26,290	45,822	36,066	NA
Net Operating Profit / Loss	19,591	23,702	12,487	29,813	30,323	31,475	23,209	34,448
Revenue per company	3,204	2,747	1,850	2,195	3,376	4,044	3,546	3,899
Revenue per employee	19.4	16.5	11.6	13.6	20.9	25.9	27.6	31.6
% Exports / Revenue	5.3%	5.9%	3.4%	3.3%	9.2%	13.5%	12.1%	NA
Operating profit / sales	7.1%	10.2%	7.8%	16.0%	10.6%	9.3%	7.8%	10.6%

% PRIVATISED / ALL COMPANIES	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	6%	5%	7%	7%	6%	6%	5%	5%
Employees	29%	29%	38%	37%	39%	37%	36%	33%
Revenues	27%	26%	37%	38%	37%	36%	32%	30%
Exports	247%	352%	330%	258%	337%	514%	34%	NA
Net Operating Profit / Loss	137%	64%	56%	76%	96%	134%	-589%	-7%

Source: Solvency Centre Database

The sales of the companies have increased by 13% in the period 2001-2004 and are now again at levels above those of 1997. On the contrary, employment has substantially dropped in 2002 (12%) and is still at a low level in spite of the upturn in 2004.

Privatised companies are performing better than all companies together. They show a similar increase in sales 12% for the same period, but show positive performance indicators. However their employment has been reduced more sharply, at 25% from 2001 to 2004.

6.8.3. SOUTH BACKA (Novi Sad)

The area of South Backa is 4,016 km². It had 593,666 inhabitants in 2002 of which 200,708 were employed. Its income p.c. is high (131.2 where average of Serbia is 100) with a share of income of processing industry of 31.6% while agriculture has 15.6%. The region has 13 municipalities, including Novi Sad as capital of Vojvodina. Like Belgrade, Novi Sad is the home for large public enterprises (NIS NAFTAGAS, Vojvodina Vode, Vojvodina Sume and city public enterprises). The economy quite diversified and covers a wide range of industries and services.

Table 6.33. Figures for South Backa Region

South-Backa		1997	1998	1999	2000	2001	2002	2003	2004
GMP per capita	in EUR	1,733	1,466	1,782	3,258	1,349	1,616	2,106	NA
National Income - Total	in EUR 000	982,288	829,640	1,005,805	1,831,235	757,307	963,014	1,079,078	NA
National Income - Private ownership	in EUR 000	464,989	411,169	511,214	802,588	319,231	430,608	500,443	NA
National Income - Mixed ownership	in EUR 000	326,626	314,367	307,417	629,245	268,965	430,608	224,890	NA
Employed - Annual Average	persons	176,305	177,558	173,008	168,727	164,143	163,484	165,502	200,708
Unemployed	persons	52,204	54,639	62,766	68,214	70,949	77,251	80,349	79,917
Employment per 1000 Inhabitants	persons	311	314	307	300	293	274	273	NA
Net Salaries	in EUR / month	173	140	127	193	120	190	212	226
Non-Private Investment	in EUR 000	132,892	106,121	139,652	244,669	94,152	174,393	165,694	NA

Sources: SORS Yearbook Municipalities in Serbia; RDB Development Atlas of Serbia 2004; PA; Chamber of Commerce, IDOM

South Backa region has the highest number of enterprises after Belgrade with 7,637 enterprises in 2004. 283 were socially owned, 340 mixed, and 6,692 were private and 41 state owned.

The figures show that:

- Employment has significantly increased after years of stagnation. The unemployment ratio has dropped from 32% to 28% in the period 2002 to 2004. An upturn also took place in 2004.
- The share of private national income on the total remains stable at 46% in 2003.
- Salaries have increased by 19% from 2002 to 2004. They are relatively high for Serbia and represent 92% of average salaries in the richest region - Belgrade.

Table 6.34. Largest Companies in the South Backa Region (2003)

SOUTH BACKA	Type of Ownership	Total Revenue	No. of Employees	Profit	Capital
Region's most relevant companies (from the "600 largest Serbian Companies") :					(EUR'000)
Total Region - 2003	55	4 564 749	46 659	148 839	2 668 597
State	12	468.665	8.758	3.016	1.225.759
Social	4	3.040.018	19.273	102.623	898.443
Mixed	15	434.285	12.983	17.332	289.510
Private	24	621.781	5.645	25.868	254.886
25 largest Companies by REVENUE in 2003	EUR'000	4.242.548	37.772	134.167	2.104.753
"NIS" - Social	1	2.933.549	17.669	101.686	613.114
Other State & Social	6	481.376	6.973	2.230	1.075.323
Mixed & Private	18	827.623	13.130	30.251	416.316
NIS - NAFTNA INDUSTRIJA SRBIJE	State	2.933.549	17.669	101.686	613.114
JP ELEKTROVOJVODINA	State	276.091	3.381	0	525.055
MK COMMERCE	Private	101.938	165	473	10.057
PANONSKJE ELEKTRANE	State	80.810	796	0	252.819
SOJAPROTEIN	Mixed	74.620	496	4.224	23.927
CARNEX	Mixed	66.906	3.084	714	37.095
LAFARGE BEOČIN FABRIKA CEMENTA	Private	62.733	1.134	0	58.167
STS	Private	61.111	342	11.542	51.368
VITAL	Mixed	58.288	1.067	415	22.761
VELETABAK	Private	55.297	78	47	443
UNIVEREXPORT	Private	53.933	426	248	1.757
PIK BEČEJ - POLJOPRIVREDA	Mixed	40.528	2.524	0	35.937
NOVOSADSKA TOPLANA	State	37.058	282	0	43.698
BAČKA	Private	36.629	481	789	25.673
NEOPLANTA	Mixed	33.189	1.393	0	20.495
NAUČNI INST. ZA RATAR. I POVRTAR.	State	32.429	437	2.068	20.893
VOJVODINAŠUME	State	31.055	1.871	21	105.622
RODIĆ MB	Private	30.060	277	12	887
NOVOSADSKA MLEKARA	Mixed	29.747	513	914	19.213
SINTELON	Mixed	29.145	402	6.270	69.618
ZAVOD ZA IZGRADNJU GRADA	State	23.933	206	142	127.235
AGROHEM	Mixed	23.927	262	712	3.703
UNIHEMKOM	Private	23.742	66	150	1.106
MAGNETRON	Private	23.568	168	0	9
SWISSLION	Private	22.262	252	3.741	34.101

Source: Ekonomist Magazine

The largest enterprise in the region is NIS. It is, together with Panonske Elektrane, important state-owned companies which might be privatised soon. NIS alone represents more sales than the rest of the largest companies from South Backa together.

Table 6.35. Key privatisation figures for the Region

Method of Privatisation	Number of Companies	Number of employees	Sale Price (M EUR)	Investments per contract (M EUR)	Social programme per contract (M EUR)
Tenders	4	3,519	62.3	51.4	32.1
Auctions	110	9,155	46.3	15.2	-
Law 1997	120	23,957	-	-	-
TOTAL	234	36,631	108.6	66.6	32.1

Source: PA, IDOM

Table 6.36. Relevant privatisations in South Backa

Number of Companies	Company	Date of Sale	Number of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme per contract (EUR)
4	Tenders in the Region		3.519	62.327.003	51.471.000	32.197.000
1	BEOCINSKA FABRIKA CEMENTA	31/01/02	2,040	59,027,000	37,465,000	29,137,000
2	NOVITET		751	2,200,000	1,026,000	0
3	SECERANA JUGOZAPADNA BACKA	21/10/02	379	3	5,000,000	2,010,000
4	SECERANA SAJKASKA	21/10/02	349	1,100,000	7,980,000	1,050,000
16	Largest Auctions (by Sale Price and/or Investment)		3.188	28.783.701	9.354.164	
1	HLEB	27/10/03	504	4,153,846	390,246	
2	ATP VOJVODINA	27/07/04	349	3,972,603	1,016,534	
3	VOJVODINASPED	10/04/03	226	3,692,308	168,923	
4	STOTEKS	15/03/04	280	2,123,288	277,507	
5	DP PETEFI	15/11/04	308	1,843,507	550,356	
6	PP BUDUCNOST	24/05/04	198	1,438,356	389,219	
7	PARK	09/02/04	290	1,419,233	4,494,425	
8	METALUM	20/12/04	64	1,369,863	74,767	
9	STAN-PROGRES	27/10/03	146	1,338,462	219,662	
10	DJORDJE ZLICIC	12/05/03	75	1,338,462	20,477	
11	TEHNOKOP	22/04/04	15	1,301,370	1,192	
12	RADNIK	24/05/04	72	1,109,589	99,945	
13	IRMOVO	15/03/04	101	1,090,452	134,000	
14	MLINOVI	24/04/03	66	1,061,538	35,985	
15	TRIVIT-MLIN	20/12/04	143	790,548	227,849	
16	AMB GRAFIKA	01/09/03	351	740,277	1,253,077	
10	Largest Law '97 (by reported Employees)		13.133			
1	PIK BECEJ - AD POLJOPRIVREDA	19/01/01	2,375			
2	SINTELON	30/09/98	1,707			
3	INDUSTRIJA MESA - NEOPLANTA	27/11/98	1,400			
4	DUNAV	18/01/01	1,352			
5	DD VITAL	30/11/00	1,100			
6	PIVARA CELAREVO	23/03/99	834			
7	ALBUS DD	19/01/01	754			
8	NOVOSADSKA INDUSTRIJA TEKSTILA - NIT	22/03/99	724			
9	DD FABRIKA SECERA BACKA	22/12/00	592			
10	KOTEKSPRODUKT	10/01/01	586			
11	SOJAPROTEIN	18/12/00	585			
12	HEROJ PINKI	14/11/00	584			
13	MILAN VIDAOK AD	30/11/98	540			

Source: PA/IDOM

South Backa is one of the leading regions in the privatisation process. The total number of privatised socially-owned companies by the end of 2004 was 234 (120 by 1997 Law and 114 by 2001 Law). 110 enterprises have been privatised by auction, 7 large enterprises, 48 medium enterprises, 37 small enterprises and 18 micro companies. In the pipeline of privatisation there are 84 socially-owned enterprises.

The most significant transaction undertaken in the region is the tender of Beocinska Fabrika Cementa by 59 M EUR, which represents more than 50% of the proceeds collected in the region. Other significant sales and committed investments are Novitet from Novi Sad - Textile industry, two sugar enterprises Secerana Sajkaska Zabalj and Secerana Jugozapadna Backa, Bac and a food processing company sold by auction: Hleb. 5% of these proceeds (5.4 M EUR) are collected by the region.

Significant privatised companies in South Backa region

Among 10 biggest privatised companies in South Backa region, 8 are from food industry, 1 from textile industry and 1 from non-metallic industry. Nine companies are in 300 biggest or best companies in Serbia.

SOJAPROTEIN a.d. Becej (South Backa)

Sojaprotein was privatised in December 2000 by 1997 Law. With processing capacity of 900 tons of soybeans per day, it is the largest soybean processing company in South-East Europe, and the only one in Serbia. Today it is a joint stock company listed on BELEX which majority shareholder is the investment fund Victoria with 74.53% of shares.

CARNEX a.d. Vrbas

The company was privatised by 1997 law. It is now the largest meat processing company in Serbia and among the 300 largest and best performing companies in Serbia (47th by revenue, 106th by capital, 157th by profit). It is still owned by Midland Resources Investment Fund small shareholders, mostly employees.

SINTELON a.d. Backa Palanka

Privatised in September 1998, it was the first large textile company to be privatised. It is the leading producer of textile and PVC carpets and floor layers. It is among the 300 largest companies in Serbia and presents a good performance (137th by revenue, 58th by capital, 15th by profit). Its current owners are: RP Holding APS (43.44%), Tarkett SAS (39.04%) and 1391 individual shareholders. It is quoted on BELEX.

LAFARGE BFC a.d. Beocin

This company was bought by the building material manufacturing giant Lafarge from France. It is among the 300 largest companies in Serbia (51st by revenue, 79th by capital). After privatisation there was a significant restructuring, an increase in sales, and after years making significant losses the company was turned to operating profit. It was sold for approximately 59 M EUR with a total committed investment in Serbia of 37 M EUR.

VITAL a.d. Vrbas

It was privatised in 2000 by 1997 law. It is the largest producer of edible oil and vegetable fat in Serbia and has a long tradition in the market. It is also among the 300 largest and best performing companies in Serbia (59th by revenue, 177th by capital, 266th by profit).

PIK BECEJ - POLJOPRIVREDA a.d. Becej

Agriculture "combinat" was privatised in 2001, by 1997. It is among the 300 largest companies in Serbia (95th by revenue, 110th by capital). The company presented an operating profit of over 2 M EUR in 2004, however its financial expenses were significant and the net profit was 0.12 M EUR.

NEOPLANTA a.d. Novi Sad

Neoplanta is a meat processing company which was privatised in the end of 1998. It produces about 15.000 tons of fresh meat and meat products annually. It is among the 300 largest companies in Serbia (118th by revenue, 198th by capital). The company had a net profit last year but showed a too low operating profit on sales ratio at 1%.

Table 6.37. Impact of Privatisation in the Region (in 000 EUR)

ALL COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	6,012	6,419	6,619	6,847	7,198	7,305	8,105	8,315
Employees	124,728	125,468	128,770	124,689	125,466	120,204	120,483	119,167
Revenues	4,388,961	3,525,485	1,944,502	2,499,037	4,895,252	5,726,411	6,101,325	6,722,251
Exports	71,893	80,058	27,625	26,117	85,919	71,765	106,861	NA
Net Operating Profit / Loss	-207,039	-5,684	-77,896	-10,455	132,868	84,097	124,223	230,968
Revenue per companv	730	549	294	365	680	784	753	808
Revenue per employee	35.2	28.1	15.1	20.0	39.0	47.6	50.6	56.4
% Exports / Revenue	1.6%	2.3%	1.4%	1.0%	1.8%	1.3%	1.8%	NA
Operating profit / sales	-4.7%	-0.2%	-4.0%	-0.4%	2.7%	1.5%	2.0%	3.4%

ALL PRIVATISED COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	185	220	225	224	228	228	225	221
Employees	38,538	44,249	43,949	42,995	43,131	39,784	34,593	30,078
Revenues	697,132	750,026	471,334	522,675	827,519	897,692	770,108	734,004
Exports	27,197	31,117	14,702	17,230	90,361	99,156	68,255	NA
Net Operating Profit / Loss	-13,604	15,635	14,323	42,909	34,505	-432	-26,862	3,533
Revenue per companv	3,768	3,409	2,095	2,333	3,629	3,937	3,423	3,321
Revenue per employee	18.1	17.0	10.7	12.2	19.2	22.6	22.3	24.4
% Exports / Revenue	3.9%	4.1%	3.1%	3.3%	10.9%	11.0%	8.9%	NA
Operating profit / sales	-2.0%	2.1%	3.0%	8.2%	4.2%	0.0%	-3.5%	0.5%

% PRIVATISED / ALL COMPANIES	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	3%	3%	3%	3%	3%	3%	3%	3%
Employees	31%	35%	34%	34%	34%	33%	29%	25%
Revenues	16%	21%	24%	21%	17%	16%	13%	11%
Exports	38%	39%	53%	66%	105%	138%	64%	NA
Net Operating Profit / Loss	7%	-275%	-18%	-410%	26%	-1%	-22%	2%

Source: Solvency Centre Database

All companies from the region show positive results in the period 2001-2004. Sales have increased by 37% and performance indicators behave well (on aggregate increasingly positive net profit, higher operating profit on sales and revenue per employee). However employment has been reduced by 5%.

Privatised companies also show positive results in the same period. Although sales have decreased by 11% performance indicators have improved. However the decrease in employment has been significant at 30%.

6.8.4. MACVA (Sabac)

The area of Macva is 3,268 km². It had 328,379 inhabitants in 2002. It has a relatively low income per capita (66 where average of Serbia is 100). This region includes two big municipalities (Sabac and Loznica) and six small and less developed municipalities (Bogatic, Vladimirci, Koceljewa, Krupanj, Ljubovija and Mali Zvornik).

Table 6.38. Figures for Macva Region

Macva		1997	1998	1999	2000	2001	2002	2003	2004
GMP per capita	<i>in EUR</i>	1,024	915	1,103	1,730	791	917	1,064	NA
National Income - Total	<i>in EUR 000</i>	347,260	309,591	371,629	580,807	265,157	302,102	294,585	NA
National Income - Private ownership	<i>in EUR 000</i>	234,439	194,330	263,220	427,080	190,466	199,659	205,740	NA
National Income - Mixed ownership	<i>in EUR 000</i>	58,676	59,445	54,550	90,795	48,584	199,659	43,861	NA
Employed - Annual Average	<i>persons</i>	70,986	69,734	64,751	64,678	65,030	61,113	56,299	62,470
Unemployed	<i>persons</i>	30,475	30,896	32,841	34,365	37,901	45,036	47,520	49,714
Employment per 1000 Inhabitants	<i>persons</i>	209	206	192	193	194	186	171	NA
Net Salaries	<i>in EUR / month</i>	108	84	75	115	72	112	137	159
Non-Private Investment	<i>in EUR 000</i>	26,150	24,808	20,585	19,306	9,458	11,507	23,326	NA

Sources: SORS Yearbook Municipalities in Serbia; RDB Development Atlas of Serbia 2004; PA; Chamber of Commerce, IDOM

The structure of economy was dominated by the chemical industry (Zorka Sabac and Viskoza Loznica). Other activities include agriculture, non-metal mineral industry, textile and food industry. By the end of 2004 there were 2,088 enterprises in this region, 142 social-owned, 99 mixed and 1,904 private.

The figures above show that:

- Employment shows a very poor figure of 44% and even though it has decreased from 46% in 2003, it is still a extremely high figure. The number of employed people has increased in 2004, but the region has not been able to absorb the increase in active population.
- The private sector is the most relevant in the region at present. Private enterprises represent 70% of total national Income and together with mixed enterprises they represent 85%.
- Salaries have increased substantially at 42% from 2002. Salaries are still way behind other regions and only represent 65% the salary of Belgrade.

Table 6.37. Largest Companies in the Region (2003)

MACVA	Type of Ownership	Total Revenue	No. of Employees	Profit	Capital
Region's most relevant companies (from the "600 largest Serbian Companies"):					(EUR'000)
Total Region - 2003	11	87.862	1.429	6.259	145.611
State	1	2.437	154	0	24.577
Social	1	861	4	0	22.446
Mixed	5	46.524	911	4.554	94.724
Private	4	38.040	360	1.706	3.864
11 largest Companies by REVENUE in 2003	EUR'000	87.862	1.429	6.259	145.611
State & Social	2	33.295	613	3.401	67.944
Mixed & Private	9	54.567	816	2.858	77.668
ZORKA-PHARMA	Mixed	33.040	598	3.401	47.292
FARMAKOM M.B.	Private	20.036	202	346	478
NARCIS-POPOVIĆI	Private	12.310	119	433	1.257
ZORKA-BOJE	Mixed	9.574	136	665	8.670
M-PLAST	Private	5.263	37	553	1.787
VODOVOD ŠABAC	State	2.437	154	0	24.577
GRANIT	Mixed	2.104	68	488	1.786
VISKOZA	Mixed	1.550	94	0	16.325
ŠEĆERANA	Social	861	4	0	22.446
KORAD-G	Private	431	2	373	343
ZORKA HOLDING	Mixed	255	15	0	20.652

Source: Ekonomist Magazine

The largest enterprise in the region was, by far, the socially-owned Zorka Holding, which has now been separated into different companies (more than 20) to be sold independently. As of September 2005 there are still a number of Zorka subsidiaries being restructured. The two largest enterprises form the region are the pharmaceutical companies Zorka Pharma (owned by Hemofarm) and Farmakom. The only socially owned enterprise of relevance as of 2003 was Secerana Sabac.

Table 6.38. Key privatisation figures for the Region

Method of Privatisation	Number of Companies	Number of employees	Sale Price (M EUR)	Investments per contract (M EUR)	Social programme per contract (M EUR)
Tenders	1	565	14.6	27.5	16.1
Auctions	52	5,308	25.1	15.5	-
Law 1997	13	2,427	-	-	-
TOTAL	66	8,300	39.8	43	16.1

Source: PA, IDOM

Table 6.39. Relevant privatisations in Macva

Number of Companies	Company	Date of Sale	Number of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme per contract (EUR)
	Tenders in the Region		565	14.670.000	27.500.000	16.100.000
1	ZORKA FARMA	09/11/02	565	14.670.000	27.500.000	16.100.000
	Largest Auctions (bv Sale Price and/or Investment)		3.011	21.453.359	13.864.837	
1	MLEKARA SABAC	27/01/04	267	6.986.301	3.382.767	
2	ZORKA-NEMETALI	26/12/03	648	4.178.674	6.153.846	
3	ZORKA BOJE	11/07/02	177	3.853.017	2.033.173	
4	HLADNJACA	20/12/02	28	1.408.451	174.681	
5	GRANIT / ALPINE GRANIT	28/08/02	72	834.068	111.765	
6	DEKOR	05/10/02	128	828.500	22.568	
7	PARTIZAN	30/03/04	19	506.849	19.082	
8	DRINA	23/09/04	565	500.055	77.123	
9	RIBOTEKS	28/08/02	16	480.928	21.839	
10	PD GUCEVO	28/10/04	145	413.521	31.945	
11	SLOBODA	31/07/03	105	384.615	694.015	
12	INGO	21/08/03	139	354.000	36.862	
13	PROTEINKA PSH	05/10/02	57	351.914	307.075	
14	JELA	21/08/03	210	341.877	210.862	
15	ZORKA - ZASTITA BILJA	21/10/04	435	30.589	587.233	
	Largest Law '97 (bv reported Employees)		2.427			
1	DD TP NAMA	28/11/00	1.018			
2	METALOPLASTIKA	29/10/98	430			
3	MLINSKA INDUSTRIJA LALA STANKOVIC - HOLDING	29/01/01	260			
4	TTT JUGENT	14/07/98	134			
5	MLEKARA	31/12/00	124			
6	DD DUVAN	26/12/00	108			
7	INOS-NAPREDAK	10/02/01	117			
8	DD PODRINJE	30/11/00	110			
9	DD PIK 7. JULI	29/12/00	106			
10	GP DRINA	31/12/00	20			

Source: PA/IDOM

In the period 1997 to 2004, 66 enterprises from this region were privatised, 13 by the Law of 1997 and 43 by the Law of 2001. In the privatisation pipeline there are still 67 enterprises to be privatised.

Only one company from the region, Zorka Pharma (separated from Zorka Holding) has been sold by tender in September 2002 to the Serbian pharmaceutical leading company Hemofarm Group. Zorka Boje, also previously part of the holding was sold through auction. The highest proceeds have come from the privatisation of the companies that used to belong to the holding Zorka. It is often taken as

example of privatisation following a restructuring method in Serbia. Zorka holding was divided in 24 separate firms and which were tendered or auctioned over the last three years. Zorka nemetali, Zorka zastita bilja and Zorka ekstrudirana ambalaza are now private companies, most of them performing well. Zorka beli limovi (US Steel Serbia) is a success case. The privatisation of Zorka holding company through restructuring has had a positive impact on the economical life of the whole region, in particular of Sabac city.

The critical point for the process of privatisation in this region is the privatisation of the rest of the enterprises of Zorka holding, Viskosa Loznica and some large and medium enterprises in mining (metallic and non-metallic) agriculture and food, construction, textile, hotels and restaurants services and trade. In addition, there are about 90 enterprises with mixed ownership in which the Share Fund has a stake.

Significant privatised companies in Macva region

Hemofarm Concern ZORKA-PHARMA a.d. Sabac

The company was privatised in November 2002 by public tender. It was bought by HEMOFARM Concern from Serbia (77.98%) with a sales price of 14.6 M EUR, committed investments of 27.5 M EUR and a social program totalling 16.1 M EUR. It is also among 300 largest and best performing companies in Serbia (119th by revenue, 85th by capital, 37th by profit). It produce pharmaceuticals, cosmetics and home chemicals.

ZORKA-BOJE a.d. Sabac

Company privatised by auction in July 2002 for a sales price of 3.8 M EUR and committed investments of 2 M EUR. Zorka-Boje from Sabac is a chemical company producing paints and coatings.

ALPINE GRANIT a.d. Ljubovija

The company is dedicated to stone quarrying and processing. It was sold by auction in August 2002 to a strategic partner: Alpine d.o.o. Belgrade (82.37%) (subsidiary of the Austrian company Alpine, a major European player in the stone and quarry sector). The sales price was 0.8 M EUR and committed investment amounted to 100,000 EUR.

ZORKA-EKSTRUDIRANA AMBALAZA a.d. Sabac

The company was privatised in December 2004 by auction to Farmakom M.B d.o.o. Belgrade. The sales price was 120,000 EUR and committed investments totalled 233,000 EUR. It is a chemical industry dedicated to the production of different plastic packaging products (plates of polymers of ethylene, sacks and bags of polymers of ethylene, dustbin sacks, and heavy duty bags).

Table 6.40. Impact of Privatisation in the Region (in 000 EUR)

ALL COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	1,837	1,880	1,907	1,894	1,896	1,960	2,122	2,268
Employees	44,213	42,330	39,282	38,257	36,069	33,881	27,685	26,838
Revenues	618,065	531,285	334,308	421,545	545,544	690,733	650,344	788,690
Exports	8,401	7,228	3,628	4,130	9,562	8,092	8,624	NA
Net Operating Profit / Loss	-36,451	-6,268	-2,880	-3,155	-31,350	-41,177	-40,918	-2,757
Revenue per company	336	283	175	223	288	352	306	348
Revenue per employee	14.0	12.6	8.5	11.0	15.1	20.4	23.5	29.4
% Exports / Revenue	1.4%	1.4%	1.1%	1.0%	1.8%	1.2%	1.3%	NA
Operating profit / sales	-5.9%	-1.2%	-0.9%	-0.7%	-5.7%	-6.0%	-6.3%	-0.3%

ALL PRIVATISED COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	22	60	62	63	61	59	63	63
Employees	2,831	8,829	8,299	8,444	7,454	7,023	6,728	5,480
Revenues	26,909	118,542	68,306	66,880	102,141	102,085	101,342	102,789
Exports	326	2,528	1,731	3,101	5,019	5,403	7,774	NA
Net Operating Profit / Loss	-769	11,155	5,574	6,135	8,158	-3,960	-7,984	1,365
Revenue per company	1,223	1,976	1,102	1,062	1,674	1,730	1,609	1,632
Revenue per employee	9.5	13.4	8.2	7.9	13.7	14.5	15.1	18.8
% Exports / Revenue	1.2%	2.1%	2.5%	4.6%	4.9%	5.3%	7.7%	NA
Operating profit / sales	-2.9%	9.4%	8.2%	9.2%	8.0%	-3.9%	-7.9%	1.3%

% PRIVATISED / ALL COMPANIES	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	1%	3%	3%	3%	3%	3%	3%	3%
Employees	6%	21%	21%	22%	21%	21%	24%	20%
Revenues	4%	22%	20%	16%	19%	15%	16%	13%
Exports	4%	35%	48%	75%	52%	67%	90%	NA
Net Operating Profit / Loss	2%	-178%	-194%	-194%	-26%	10%	20%	-49%

Source: Solvency Centre Database

The companies from the region show a positive performance. Revenues have increased substantially (44% since 2001, with an increase of 21% from 2003 to 2004) and performance indicators have also increased (revenue per employee, operating profit on sales) although, on aggregate, the companies still have losses.

On the whole, the sales of privatised companies have remained at the same level over the last years. However their performance indicators have improved and they show an aggregated net profit. However, they have substantially reduced their employment by 25% since 2001.

6.8.5. MORAVICA (Cacak)

The area of Moravica is 3,016 km². It had 224,772 inhabitants in 2002 of which 57,534 were employed. It has an average income per capita (91 where average of Serbia is 100). This region includes two big municipalities (Cacak and Gornji Milanovac) and two smaller ones (Lucani and Ivanjica).

Table 6.41. Figures for Moravica Region

Moravicki		1997	1998	1999	2000	2001	2002	2003	2004
GMP per capita	<i>in EUR</i>	1,484	1,436	1,500	2,389	1,106	1,202	1,494	NA
National Income - Total	<i>in EUR 000</i>	340,718	328,761	341,774	541,779	250,179	270,241	277,185	NA
National Income - Private ownership	<i>in EUR 000</i>	147,741	141,743	170,060	313,732	131,610	141,645	160,475	NA
National Income - Mixed ownership	<i>in EUR 000</i>	66,681	74,313	62,438	108,874	49,655	50,594	61,922	NA
Employed - Annual Average	<i>persons</i>	67,251	65,923	63,082	59,595	63,240	57,534	55,627	60,442
Unemployed	<i>persons</i>	17,809	17,767	19,947	21,405	21,909	24,673	26,117	30,455
Employment per 1000 Inhabitants	<i>persons</i>	293	288	277	263	280	256	248	NA
Net Salaries	<i>in EUR / month</i>	99	86	84	132	79	116	124	138
Non-Private Investment	<i>in EUR 000</i>	19,436	27,554	22,269	65,682	16,240	20,028	19,697	NA

Sources: SORS Yearbook Municipalities in Serbia; RDB Development Atlas of Serbia 2004; PA; Chamber of Commerce, IDOM

The structure of the economy is dominated by the metal processing industry (Cacak and Gornji Milanovac), the chemical industry (Cacak, Lucani) and the food industry Cacak and Gornji Milanovac). By the end of 2004 there were 2,145 companies in this region. 115 socially owned, 93 mixed and 1,867 private.

The figures show the following:

- The unemployment rate is too high (34%) and does not improve. Although 2004 has been a year of significant employment creation, the employers are not able to absorb the increase of labour force.
- Private and mixed ownership have a high share of the national Income in the region. In 2003 together they added up to 80%.
- Salaries have increased more moderately than in other regions (18% from 2002 to 2004). Moreover, they are low (56% of Belgrade) and not catching up with other regions.

Table 6.42. Largest Companies in the Region (2003)

MORAVICA	Type of Ownership	Total Revenue	No. of Employees	Profit	Capital
Region's most relevant companies (from the "600 largest Serbian Companies"):					(EUR'000)
Total Region - 2003	12	204.182	10.120	7.941	225.189
State	0	0	0	0	0
Social	4	67.154	5.637	0	104.285
Mixed	3	61.488	4.058	3.992	105.503
Private	5	75.541	425	3.949	15.401
12 largest Companies by REVENUE in 2003	EUR'000	204.182	10.120	7.941	225.189
State & Social	4	67.154	5.637	0	104.285
Mixed & Private	8	137.028	4.483	7.941	120.903
METALAC	Mixed	37.726	1.227	3.968	14.269
PIK TAKOVO	Mixed	37.408	3.186	0	37.963
WISSOL	Private	31.658	201	228	1.349
AUTO ČAČAK	Private	30.290	100	1.258	5.469
SLOBODA	Mixed	16.718	1.694	25	65.173
JAVOR	Social	13.926	1.106	0	19.838
MILAN BLAGOJEVIĆ - NAMENSKA	Social	13.123	1.185	0	27.468
SPEKTAR	Private	8.421	92	1.689	5.408
SLOBODA APARATI	Mixed	7.044	1.137	0	26.060
ATENIC-COMMERCE	Private	3.486	26	382	2.139
VODOVOD ČAČAK	State	2.697	160	0	19.017
MAJT	Private	1.686	6	392	1.035

Source: Ekonomist Magazine

In 2003, 4 socially owned enterprises were among the largest in the region. However the largest, PIK-Takovo, was privatised by tender in 2004 to Swisslion. The privatisation of Javor (already in the PA pipeline) and Milan Blagojevic-Namenska would complete the privatisation of large companies in the region.

Table 6.43. Key privatisation figures for the Moravica Region

Method of Privatisation	Number of Companies	Number of employees	Sale Price (M EUR)	Investments per contract (M EUR)	Social programme per contract (M EUR)
Tenders	3	3,824	7.5	35.6	4.3
Auctions	36	2,860	13.6	2.4	-
Law 1997	19	12,571	-	-	-
TOTAL	72	22,240	21.1	38	4.3

Source: PA, IDOM

Table 6.44. Relevant privatisations in Moravica

Number of Companies	Company	Date of Sale	Number of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme per contract (EUR)
	Tenders in the Region		3,824	7,490,000	35,607,000	4,379,000
1	PPPGM JELEN DO	08/08/03	370	4,410,000	3,682,000	1,096,000
2	DP PKS-LATEKS	20/12/02	258	80,000	1,925,000	1,283,000
3	PIK TAKOVO	05/02/04	3,196	3,000,000	30,000,000	2,000,000
	Largest Auctions (bv Sale Price and/or Investment)		2.704	13.171.110	2.081.324	
1	UTP MORAVA	24/01/03	349	5,538,462	328,692	
2	RUDNIK	23/09/04	338	1,173,945	258,137	
3	SP AUTOPREVOZ	11/07/03	263	1,076,923	130,846	
4	LITOPAPIR	19/11/03	438	938,462	219,400	
5	7. JULI	04/03/03	49	907,692	20,708	
6	HLADNJACA	18/12/03	79	643,031	184,908	
7	ZITOPROMET	04/12/03	66	630,769	73,323	
8	29. NOVEMBAR	15/07/03	42	430,769	954	
9	SEME PRODUKT	05/10/04	61	300,055	73,301	
10	AUTOSERVIS	19/11/03	73	233,400	132,015	
11	PARTIZAN-TEKSTIL	09/11/04	60	174,781	57,671	
12	GRAFOPROMET	16/12/03	129	163,046	131,846	
	Largest Law '97 (bv reported Employees)		13.253			
1	DD MODNA KONFEKCIJA RUDNIK	26/04/00	4,719			
2	DD FABRIKA REZNOG ALATA - FRA	15/06/00	2,666			
3	DD METALAC	02/04/98	1,250			
4	DD TIPOPLASTIKA	15/12/00	807			
5	DD JAGODINSKA PIVARA	31/05/98	780			
6	GIP GRADITELJ	30/09/00	650			
7	FABRIKA AUTOMOBILSKIH DELOVA - FAD	24/02/99	645			
8	DP BUDUCNOST	14/12/00	416			
9	TP SUMADIJA	23/02/00	393			
10	8. OKTOBAR	30/01/01	350			
11	HEMIJSKA INDUSTRIJA ZVEZDA	22/09/99	297			
12	HEMIJSKA INDUSTRIJA PRVI MAJ	31/10/98	280			

Source: PA/IDOM

The largest companies from the region in terms of employment (with the exception of PIK-Takovo) were privatised according to 1997 Law. Privatised companies by 2001 Law, show proceeds of 21 M EUR, of which approximately 13 M EUR have been collected from the sale of three companies: PIK Takovo, UTP Morava and Jelen Do. In addition, PIK Takovo represented almost 80% of committed investment.

According to the number of enterprises in the pipeline of privatisation (41), the process of privatisation in this region is half-way. The pipeline also shows the difficulties that the PA has encountered to sell a number of companies unsuccessfully auctioned.

Significant privatised companies in Moravica region

TAKOVO a.d. Gornji Milanovac

The company was privatised in February 2004 by 2001 law. The company has 6 subsidiaries with 69% to 100% of shares). It is an agro industrial conglomerate producing a number of different food products (alcoholic drinks, beverages) and its main product is cocoa. It is among the largest companies in Serbia (105th by revenue, 102nd by capital).

It was sold by tender to Swisslion from Novi Sad, which acquired 89.65% of the shares. In addition, there are 4,993 small individual shareholders. The sales price was rather low at 3 M EUR provided the weak financial situation of the company, but the contract also stipulated that the buyer would invest a total of 30 M EUR and would commit to a social program of 2 M EUR. The new buyer is in a process of reorganising the company. Last year its losses amounted to 8.2 M EUR.

METALAC a.d. Gornji Milanovac

Metal processing company privatised in 1998 by 1997 law. The company does not have major shareholders and the capital is owned by 912 small individual shareholders. The company has shares in 3 subsidiaries: Proleter a.d. Gornji Milanovac (64.84%), Metpor, Belgrade (100%) and Metalac Trade (100%). The company had 1,215 employees and a significantly high operating profit at 2.2 M EUR in 2004. It is also a major exporter.

TIPOPLASTIKA a.d. Gornji Milanovac

Privatised in December 2000 according to 1997 law. At present its major shareholders are Glendieny inc. California (23.09%), Amasis d.o.o. (17.71%), STS Invest Holding SC (2.82) and 1,139 small individual shareholders. "Tipoplastika" is the largest Serbian company in flexible packaging material production. It is a manufacturer of blown polyolefin films, cast polyolefin films, as well as blown polyethylene polylayer coextrusive films.

LITOPAPIR a.d. Cacak

The company was privatised by auction in November 2003. It was sold by almost 1 M EUR plus investments at 200,000 EUR. The company is dedicated to graphic activities and employed 365 people in 2004.

Table 6.45. Impact of Privatisation in the Moravica Region (in 000 EUR)

ALL COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	1,875	1,929	1,936	1,979	2,041	2,074	2,241	2,286
Employees	54,958	54,603	51,714	49,826	47,340	44,854	39,479	39,682
Revenues	691,244	635,770	408,835	452,851	645,791	741,619	755,328	866,335
Exports	12,399	12,844	4,045	3,300	17,001	10,788	8,547	NA
Net Operating Profit / Loss	-954	13,945	15,540	22,102	5,962	-12,448	-27,201	4,486
Revenue per company	369	330	211	229	316	358	337	379
Revenue per employee	12.6	11.6	7.9	9.1	13.6	16.5	19.1	21.8
% Exports / Revenue	1.8%	2.0%	1.0%	0.7%	2.6%	1.5%	1.1%	NA
Operating profit / sales	-0.1%	2.2%	3.8%	4.9%	0.9%	-1.7%	-3.6%	0.5%

ALL PRIVATISED COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	3	54	54	54	55	55	55	55
Employees	3,527	20,316	19,539	19,050	20,676	16,787	14,353	9,647
Revenues	17,505	171,301	105,787	107,656	133,060	134,267	128,799	116,675
Exports	2,934	18,636	8,119	7,227	23,756	23,640	22,094	NA
Net Operating Profit / Loss	1,231	6,833	4,569	5,687	2,740	-7,732	-12,119	-8,499
Revenue per company	5,835	3,172	1,959	1,994	2,419	2,441	2,342	2,121
Revenue per employee	5.0	8.4	5.4	5.7	6.4	8.0	9.0	12.1
% Exports / Revenue	16.8%	10.9%	7.7%	6.7%	17.9%	17.6%	17.2%	NA
Operating profit / sales	7.0%	4.0%	4.3%	5.3%	2.1%	-5.8%	-9.4%	-7.3%

% PRIVATISED / ALL COMPANIES	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	0%	3%	3%	3%	3%	3%	2%	2%
Employees	6%	37%	38%	38%	44%	37%	36%	24%
Revenues	3%	27%	26%	24%	21%	18%	17%	13%
Exports	24%	145%	201%	219%	140%	219%	258%	NA
Net Operating Profit / Loss	-129%	49%	29%	26%	46%	62%	45%	-189%

Source: Solvency Centre Database

Companies from Moravica have increased their sales by 34% from 2001 to 2004 and show positive performance indicators in 2004 with a positive aggregated net profit increasing revenues per employee and operating profit on sales. Their employment has decreased by 16% since 2001 to 2004. In contrast, privatised companies show poor results. Their sales have decreased by 12%, they had shown losses until 2004 and their employment has been reduced in 2004 by half the level it had in 2001.

6.8.6. NISAVA (Nis)

The area of Nisava region is 2,729 km². It had 381,757 inhabitants in 2002 of which 97,976 were employed. It has an average income per capita (88 where average of Serbia is 100). This region includes one big municipality (Nis, third largest municipality in Serbia) and six smaller ones, being Aleksinac the most relevant one.

Table 6.46. Figures for Nisavski Region

Nisavski		1997	1998	1999	2000	2001	2002	2003	2004
GMP per capita	<i>in EUR</i>	1,406	1,200	1,192	2,109	917	1,190	1,484	NA
National Income - Total	<i>in EUR 000</i>	554,124	470,970	465,796	819,815	355,264	454,020	455,762	NA
National Income - Private ownership	<i>in EUR 000</i>	205,019	162,641	191,204	356,391	149,061	189,866	205,177	NA
National Income - Mixed ownership	<i>in EUR 000</i>	112,883	117,598	94,883	170,002	70,200	104,196	179,264	NA
Employed - Annual Average	<i>persons</i>	105,595	103,637	99,972	95,694	93,606	89,591	86,495	97,976
Unemployed	<i>persons</i>	48,742	51,152	51,152	58,101	53,893	56,935	62,407	60,524
Employment per 1000 Inhabitants	<i>persons</i>	268	264	256	246	242	235	227	
Net Salaries	<i>in EUR / month</i>	102	85	78	121	82	139	160	173
Non-Private Investment	<i>in EUR 000</i>	61,230	30,769	59,228	86,905	37,526	65,962	80,173	NA

Sources: SORS Yearbook Municipalities in Serbia; RDB Development Atlas of Serbia 2004; PA; Chamber of Commerce, IDOM

By the end of 2004 there were a total of 2,960 companies, 201 social ownership, 162 mixed, and 2,587 private companies registered in the region.

The figures above show that:

- The level of unemployment is relatively high at 38%. However, the number of employed people has increased substantially in 2004 (11.481) and the unemployment rate has experimented a 4% decrease in the period 2003 to 2004.
- Private and mixed ownership have a high share of total income at 84% in 2004 mainly due to the increase in mixed ownership from 23% to 39% in 2003, when a substantial number of socially owned enterprises were privatised.
- Salaries have substantially increased by 24% from 2002 to 2004. In 2004 they are at 70% the level of Belgrade.

Table 6.47. Largest Companies in the Region (2003)

NISAVA	Type of Ownership	Total Revenue	No. of Employees	Profit	Capital
Region's most relevant companies (from the "600 largest Serbian Companies") :					(EUR'000)
Total Region - 2003	21	523.643	12.184	5.941	453.280
State	2	10.147	674	0	18.403
Social	2	74.075	2.610	0	94.091
Mixed	8	207.617	6.922	3.620	309.992
Private	9	231.804	1.978	2.321	30.795
21 largest Companies by REVENUE in 2003	EUR'000	523.643	12.184	5.941	453.280
State & Social	4	84.222	3.284	0	112.494
Mixed & Private	17	439.420	8.900	5.941	340.787
FABRIKA DUVANA NIŠ	Mixed	135.889	2.346	2.363	191.653
NANA	Private	67.996	345	417	3.427
ELEKTRODISTRIBUCIJA NIŠ	State	66.821	955	0	58.485
MILOŠČIĆ	Private	46.999	184	74	75
IMPEX PROMET	Private	42.182	607	0	770
NIŠ-EKSPRES	Mixed	37.237	2.905	7	11.566
HARLI PROMET	Private	33.408	177	21	22
PAKOM	Private	28.226	64	366	872
NIŠ	Mixed	16.123	500	0	4.765
NAISSUS	State	10.147	674	0	18.403
SARTID FAHOP	Mixed	7.471	457	0	42.641
NITEKS	Social	7.049	1.524	0	17.014
PIVARA NIŠ	Mixed	6.546	396	565	2.858
AGROHIM	Private	5.676	29	465	1.943
FRIGONAIŠ	Private	3.242	52	545	623
SRBIJA TURIST	Private	2.212	519	0	22.501
VIT-BEL	Private	1.862	1	433	559
MAŠINSKA INDUSTRIJA NIŠ	Mixed	1.711	57	0	22.627
KVALITET	Mixed	1.585	30	685	2.284
EI - KKC	Mixed	1.054	231	0	31.598
SRBIJATRANS	Social	205	131	0	18.592

Source: Ekonomist Magazine

The largest companies from Nisava are mainly private or mixed enterprises. Only one company is State-owned Elektrodistribucija Nis and two are socially owned: Niteks (currently under restructuring) and Srbijatrans (unsuccessfully auctioned twice in 2003). It can be said that the bulk of the large socially owned enterprises have been transferred to private hands. However, a high number of small enterprises are yet to be privatised.

Table 6.48. Key privatisation figures for the Nisava Region

Method of Privatisation	Number of Companies	Number of employees	Sale Price (M EUR)	Investments per contract (M EUR)	Social programme per contract (M EUR)
Tenders	5	5,393	389.7	80	66.4
Auctions	37	3,426	23.2	4.2	-
Law 1997	9	1,285	-	-	-
TOTAL	51	10,104	412.9	84.2	66.4

Source: PA, IDOM

Table 6.49. Relevant privatisations in Nisava

Number of Companies	Company	Date of Sale	Number of employees	Sale Price (EUR)	Investments per contract (EUR)	Social programme per contract (EUR)
	Tenders in the Region		5.393	389.752.000	79.997.000	66.480.000
1	NISSAL	13/08/03	1,228	325,000	3,100,000	0
2	FRAD	08/08/03	427	800,000	3,000,000	0
3	ZITOPEK	17/02/03	680	650,000	1,050,000	300,000
4	FABRIKA DUVANA NIS	02/09/03	2,493	387,000,000	64,850,000	66,180,000
5	SRBIJA-TURIST	16/09/03	565	977,000	7,997,000	0
	Largest Auctions (bv Sale Price and/or Investment)		2.177	22.369.366	3.632.479	
1	BELVIT FSH	10/06/03	46	8,461,538	84,262	
2	PZP NIS	30/01/03	491	5,384,615	988,015	
3	NISKA MLEKARA	16/12/04	220	1,657,534	1,325,342	
4	JUGOTEHNIKA	26/12/03	50	1,553,846	40,092	
5	22. DECEMBAR	06/11/03	116	1,123,077	51,077	
6	ZITOPROMET	19/02/04	365	766,164	829,151	
7	ISHRANA	30/09/03	47	661,538	44,123	
8	TEKSTIL	08/05/03	67	553,846	14,754	
9	AUTOREMONT	26/08/03	59	476,923	17,077	
10	ELID	21/10/04	423	442,801	90,877	
11	SELEKCIJA	21/12/04	83	328,767	58,781	
12	MORAVA TURIST	11/02/03	34	255,385	15,831	
13	INVEST-PROJEKT	20/02/03	33	255,385	8,385	
14	INOS DELIGRAD	10/06/04	69	247,945	14,959	
15	TP TEHNOPROMET AD	30/09/03	74	200,000	49,754	
	Largest Law '97 (bv reported Employees)		1.285			
1	DD PIVARA NIS	30/09/99	370			
2	TP ELEKTROTEHNA	18/12/00	257			
3	TP NISPROMET	22/12/00	246			
4	DD STOTEKS	15/12/00	153			
5	DD NISAUTO HOLDING	29/12/98	120			

Source: PA/IDOM

There is a total number of 51 privatised companies. 9 companies were privatised by 1997 Law, and 42 by 2001 Law. There are 75 companies in the privatisation pipeline.

5 large companies were privatised by tender according the 2001 Law (Fabrika duvana Nis - tobacco, Srbija turist Nis, FRAD Aleksinac - Spare parts for vehicles, ZITOPEK Nis - food and NISSAL - aluminium profiles). The majority of the companies privatised to date were privatised according to 2001 Law. Moreover, the most significant enterprises were privatised in 2003 and, to a lesser extent, in 2004.

The privatisation process is highly influenced by the sale of Fabrika Duvana Nis to Philip Morris for 387 M EUR. It represented 94% of total proceeds collected in the region plus 76% of the investment and almost the totality of the committed investment for social programs. In addition, this sale alone represented 19.35 M EUR for the municipality.

Other significant transactions are Belvit FSH (food sector), PZP Nis (construction) or Srbija Turist, with 8 M EUR of committed investments.

Significant privatised companies in Nisava region

DIN FABRIKA DUVANA a.d. Nis

The company was privatised in September 2003 by 2001 law. 85.28% of shares were sold to Phillip Morris Holland B.V. in one of the most famous privatisation operations in Serbia to date. Sales proceeds amounted to 387 M EUR with committed investments of 64.85 M EUR and a social programme of 64.8 M EUR.

It is the leading tobacco producer in Serbia and the Balkan region and is included among the 300 largest and best performing companies in Serbia (19th by revenue, 21st by capital, 52nd by profit).

The Company has a number of subsidiaries: DIN Hellas Tobacco, Thessalonica (49%), DIN Trade, Banja Luka, Republika Srpska (100%), Ct. DIN Podgorica, Montenegro (100%), DIN Komerc, Skopje, FYRM (38%).

PZP a.d. Nis

The company was privatised in January 2003 through public auction. The company's main activity is the construction of roads. It was bought for 5.3 M EUR with 1 M EUR committed investments to Nenad Novakovic, physical person.

NISSAL a.d. Nis

The company was privatised in August 2003 by 2001 law. It was sold by tender to Domal Inzenjering (88.86% of shares) for a price lower than 6,000 EUR and committed investments of less than 50,000 EUR.

In 2003, after the successful privatisation process, new cycle of investments into the factory started. Modernization of the production program and improvement of human resources are ongoing processes. New business policies are being introduced aimed at achieving international standards. The factory employs some 800 workers. 90% of the product range is composed by aluminium and aluminium alloys.

PIVARA NIS a.d. Nis

Brewing company privatised in October 1999 by 1977 law. Its major shareholder is still the Share Fund with 41.77% of shares. It is among the largest profit-making companies in Serbia (201st by profit). The company has 316 employees. The range of the production process is approximately 213.000 hl per year.

FRAD-FILTERI a.d. Prokuplje

Company privatised in August 2003 by 2001 law. It was sold by tender to MPS Group, Belgrade, who bought 94.17% of shares for 800,000 EUR and committed investments of 3 M EUR.

It is a metal processing industry dedicated to the production of filters. At present the company's product range includes around 2,500 filter types.

Table 6.50. Impact of Privatisation in the Region (in 000 EUR)

ALL COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	2,907	2,781	2,920	2,921	2,982	3,013	3,211	3,215
Employees	69,728	64,443	61,319	61,176	58,957	56,739	49,324	49,709
Revenues	958,427	820,634	521,099	596,493	841,846	1,013,907	1,138,545	1,314,736
Exports	6,653	6,151	3,803	3,737	13,353	12,401	11,002	NA
Net Operating Profit / Loss	3,756	12,562	13,086	17,486	-4,970	-21,101	-12,701	-64,234
Revenue per company	330	295	178	204	282	337	355	409
Revenue per employee	13.7	12.7	8.5	9.8	14.3	17.9	23.1	26.4
% Exports / Revenue	0.7%	0.7%	0.7%	0.6%	1.6%	1.2%	1.0%	NA
Operating profit / sales	0.4%	1.5%	2.5%	2.9%	-0.6%	-2.1%	-1.1%	-4.9%

ALL PRIVATISED COMPANIES IN THE REGION	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	51	51	50	51	52	52	51	49
Employees	11,722	11,247	10,756	10,442	10,525	10,369	9,600	7,851
Revenues	189,955	169,758	99,767	122,804	200,403	204,857	226,443	231,749
Exports	29,226	4,562	1,369	1,634	6,400	6,259	9,364	NA
Net Operating Profit / Loss	13,358	10,841	9,100	11,081	17,637	5,580	15,662	-62,620
Revenue per company	3,725	3,329	1,995	2,408	3,854	3,940	4,440	4,730
Revenue per employee	16.2	15.1	9.3	11.8	19.0	19.8	23.6	29.5
% Exports / Revenue	15.4%	2.7%	1.4%	1.3%	3.2%	3.1%	4.1%	NA
Operating profit / sales	7.0%	6.4%	9.1%	9.0%	8.8%	2.7%	6.9%	-27.0%

% PRIVATISED / ALL COMPANIES	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	2%	2%	2%	2%	2%	2%	2%	2%
Employees	17%	17%	18%	17%	18%	18%	19%	16%
Revenues	20%	21%	19%	21%	24%	20%	20%	18%
Exports	439%	74%	36%	44%	48%	50%	85%	NA
Net Operating Profit / Loss	356%	86%	70%	63%	-355%	-26%	-123%	97%

Source: Solvency Centre Database

The figures for all the companies in Nis show a decrease of 12% in the employment figures from 2002 to 2004. Although revenues show an increase of 30% from 2002, the results of the companies are highly negative. This result is due to the high number of large companies privatised in 2003 and 2004 which are undergoing market adjustments and restructuring in 2004.

Privatised companies show results in line with the above. Furthermore, employment has decreased more sharply at 24% from 2002 to 2004 while operating profit of the privatised companies is highly negative in spite of the sales increase of 13%. Again these results reflect that the most important privatised companies are undergoing significant restructuring in 2004 by adjusting their staff. As consequence of this, for instance, Fabrika Duvana Nis had net losses superior to EUR 50m in 2004.

Distribution of privatisation proceeds: an example of City of Nis

The total amount of privatisation proceeds allocated to the City of Nis in 2004 was 17,937,000 EUR. Nis has been using most of these funds for support to the creation of new enterprises, and infrastructure. The distribution of privatisation proceeds of sold socially owned capital of companies located in Nis was as follows:

Table 6.51. Distribution of privatisation proceeds in Nis

NIS: Distribution of privatisation proceeds	'000 EUR	'000 CSD
Fund for stimulating the economic development of the City of Nis	9,790	710,000
Water supply network, hot water pipeline and canalisation	2,709	196,565
Education and children care	895	65,000
Roads and bridges	3,117	226,200
Public company "Mediana"	593	43,089
Other uses	825	59,885
Total privatisation proceeds allocated	17.937	1.301.495

Source: Municipality of Nis

6.8.7. ALL 6 REGIONS

Some basic indicators about the six selected Regions are presented in the next table. As it can be stated, the chosen Regions consist of three relatively 'rich' ones and another three 'poor', in terms of National Income per capita.

Table 6.52. Comparative indicators by region

Region	Area (km ²)	Number of inhabitants (2002)	Number of employed (2004)	Number of unemployed (2004)	National Income p.c. (2003)	% NI processing industry	%NI agriculture
City of Belgrade	3,224	1,576,124	595,239	157,706	152.0	21.7	4.1
West Backa	2,420	214,011	50,013	32,483	119.8	48.3	20.0
South Backa	4,016	593,666	200,708	79,917	131.2	31.6	15.6
Macva	3,268	329,625	62,470	49,714	66.0	17.6	38.9
Morava	3,016	224,772	60,442	30,445	91.0	29.8	26.9
Nisava	2,729	381,757	97,976	60,524	88.2	31.6	16.0
Serbia	88.361	7.498.001	2.050.854	969.888	100.0	28.6	18.2

Source: RDB

The City of Belgrade shows an impressive concentration of population, employed and unemployed, as well as N.I. p.c., but has a limited role in the processing industry and, particularly, in agriculture. On the other side, Macva, with the lowest N.I. p.c., has the highest % of NI in agriculture.

Corporate life reflects also the overwhelming prevalence of Belgrade, followed at significant distance by South Backa.

Table 6.53. Total number of companies by regions

Regions	1997	1998	1999	2000	2001	2002	2003	2004	Change
Belgrade	21,771	22,530	22,346	22,627	23,617	24,529	27,107	28,049	6,278
West Backa	1,535	1,546	1,252	1,302	1,310	1,333	1,540	1,595	60
South Backa	6,012	6,419	6,619	6,847	7,198	7,305	8,105	8,315	2,303
Macva	1,837	1,880	1,907	1,894	1,896	1,960	2,122	2,268	431
Moravica	1,875	1,929	1,936	1,979	2,041	2,074	2,241	2,286	411
Nisava	2,907	2,781	2,920	2,921	2,982	3,013	3,211	3,215	308
Total 6 Regions	35.937	37.085	36.980	37.570	39.044	40.214	44.326	45.728	9.791
% of 6 Regions on Total Serbia	59.2%	59.5%	59.9%	60.1%	60.2%	60.4%	60.1%	60.6%	66.1%
Total in Serbia	60.655	62.278	61.685	62.559	64.888	66.613	73.796	75.477	14.822

Source: Solvency Centre

The Table hereafter reflects the aggregated impact of the privatisation in the six analysed Regions:

Table 6.54. Aggregated figures for all 6 selected regions (in '000 EUR)

All companies by region	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	35,937	37,085	36,980	37,570	39,044	40,214	44,326	45,728
Employees	829,510	798,945	750,434	743,080	723,537	699,743	671,430	672,845
Revenues	18,184,781	15,722,969	9,009,569	9,871,590	16,313,164	21,352,018	23,711,844	28,266,816
Exports	1,291,474	328,963	129,463	120,659	304,138	332,372	477,923	NA
Net Operating Profit / Loss	-220,836	374,349	132,701	242,912	-124,980	-14,577	57,462	124,942
Revenue per company	506	424	244	263	418	531	535	618
Revenue per employee	21.9	19.7	12.0	13.3	22.5	30.5	35.3	42.0
% Exports / Revenue	7.1%	2.1%	1.4%	1.2%	1.9%	1.6%	2.0%	NA
Operating profit / sales	-1.2%	2.4%	1.5%	2.5%	-0.8%	-0.1%	0.2%	0.4%

All privatised companies by region	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	671	881	881	886	904	887	916	900
Employees	150,481	195,237	187,729	181,312	178,577	160,993	144,830	125,696
Revenues	2,570,094	2,972,718	1,816,372	1,890,292	2,937,506	3,325,316	3,111,351	3,212,322
Exports	130,721	136,411	67,720	62,433	230,889	290,903	226,433	NA
Net Operating Profit / Loss	19,397	100,901	59,291	129,952	73,547	-18,819	-85,493	-55,344
Revenue per company	3,830	3,374	2,062	2,134	3,249	3,749	3,397	3,569
Revenue per employee	17.1	15.2	9.7	10.4	16.4	20.7	21.5	25.6
% Exports / Revenue	5.1%	4.6%	3.7%	3.3%	7.9%	8.7%	7.3%	NA
Operating profit / sales	0.8%	3.4%	3.3%	6.9%	2.5%	-0.6%	-2.7%	-1.7%
Liabilities / Revenues	7%	7%	6%	13%	11%	9%	12%	NA

% privatised / all companies	1997	1998	1999	2000	2001	2002	2003	2004
Number of Companies	1.9%	2.4%	2.4%	2.4%	2.3%	2.2%	2.1%	2.0%
Employees	18.1%	24.4%	25.0%	24.4%	24.7%	23.0%	21.6%	18.7%
Revenues	14.1%	18.9%	20.2%	19.1%	18.0%	15.6%	13.1%	11.4%
Exports	10.1%	41.5%	52.3%	51.7%	75.9%	87.5%	47.4%	NA
Net Operating Profit / Loss	-8.8%	27.0%	44.7%	53.5%	-58.8%	129.1%	-148.8%	-44.3%

Source: Solvency Centre

The % of privatised Companies in the 6 Regions related to the total of Serbia is rather stable along the time-series, largely due to a strong growth of in the number of newly created private enterprises.

The employment marks a steady growth up to 2001, followed by a significant relative decrease to 2004, as could have been expected.

Revenues do not show any bright evolution, ending with an abrupt comedown in 2004, possibly influenced by the weak response of many privatised Companies from Law 1997, in contrast with the positive evolution of the rest of the economy as a whole. Anyhow, the revenue per privatised Company is substantially bigger than that of all Companies (which include a high number of micro and small enterprises). The revenue per employee is all the time lower for the privatised Companies, pointing at an insufficient productivity level. Also in term of net profitability, the table indicates an adverse relative evolution, similar to the evolution of the revenues.

6.9. *Common conclusions at regional level*

- At this stage, most indicators analysed do not allow to reach definite conclusions on the impact of privatisation according to 2001 Law. Most companies privatised are still undergoing turn-around processes and it is too early to judge their performance.
- The unemployment rate has increased in all regions in the period under study. Although there has been employment creation in almost all regions from 2002 to 2004, it has been insufficient to absorb the whole of the increase in the labour force experimented in this period.
- On the whole privatised companies have downsized more significantly than the rest of the companies. However employment figures are positive in 2004 in what can be the upturn point after the privatisation and restructuring of the companies. In any case, the authorities should implement programmes aimed at development SME and supporting entrepreneurship to absorb the redundant workers from restructured privatised companies.
- Some regions have collected significant privatisation proceeds. This is dependent on one or a few transactions (i.e. Fabrika Duvana Nis, Beopetrol, sugar production companies).
- By the end of 2004, most regions had privatised most of the socially-owned enterprises from their territories. The majority of the state owned enterprises are located in Belgrade and, to a lesser extent, in South Backa. Therefore government efforts should now concentrate in assisting the transition of already privatised enterprises as well as supporting the development of new private companies.

7. IMPACT OF PRIVATISATION ON THE OVERALL ECONOMY

As for the criteria deployed in this chapter, the idea was to tie down potential impacts of privatisation on relevant macroeconomic variables. A number of policy-makers and academics claim a broader set of expected goals in terms of privatisation impact on the overall economy apart from efficiency and resource allocation improvements. For example, theoretically, an ownership change could improve economic performance by changing the mechanisms through which different institutional arrangements affect the incentives for managing enterprises.

Therefore, we decided to consider several macro-topics of concern in this section. These are the following:

- Privatisation vs. Economic Growth
- Fiscal Impact of Privatisation
- Privatisation vs. Foreign Trade
- Privatisation vs. Competitiveness (and Competition)
- Privatisation vs. Employment
- Privatisation vs. Investment
- Privatisation vs. Capital Market Development
- Privatisation vs. Purchasing Power (Welfare) in the Economy

The main analytical findings are presented below.

7.1. Privatisation vs. Economic Growth

By and large, over the medium and long run at least, privatisation is rationally expected to have a positive impact on both economic growth and the overall development of the economy. A handful of empirical studies brings confirmation of this theoretical reasoning (with few exceptions which have found a negative correlation²¹). The preliminary microeconomic evidence indicates that private firms are operationally more efficient than those held by the state, particularly in competitive industries. A strong correlation is also found in many previously conducted cross-country case studies between privatisation and growth. However, and consistent with the growth literature, privatisation is likely serving as a proxy in the regressions for one or more missing variables that may broadly be characterized as a favourable regime change.

Indicators Analysis

Table 7.1 - GMP at current prices 1997 to 2004

	1997	1998	1999	2000	2001	2002	2003*	2004*
GDP - M CDS	104,400	140,926	177,625	355,168	708,423	919,231	1,088,800	1,284,100
GDP - M EUR	13,023	10,792	6,661	6,639	11,917	15,149	16,737	17,695

Source: SORS/IDOM. * Estim. MoF Bilten Jan '05

²¹ E.g. [Cook-Uchida, 2001]

Nominal GDP has been reasonably rising, but both nominal GDP and GDP in euros are severely influenced by factors other than output dynamics, therefore GMP (see chapter 3 section 3.2.1. for explanation of GMP as indicator) in Euros represents probably the most reliable measure.

Table 7.2 GMP and GMP p.c. from 1997 to 2003

	1997	1998	1999	2000	2001	2002	2003
GMP - M CDS	85,165,434	119,584,315	150,565,467	315,388,807	553,303,730	701,473,416	808,012,320
GMP - M EUR	10,623,635	9,157,725	5,646,198	5,895,118	9,307,325	11,560,494	12,420,392
GMP p.c.in EUR	1,357	1,174	726	769	1,203	1,538	1,653

Source: SORS/IDOM

Hereafter the breakdown of GMP across types of ownership is shown in a table and its correspondent graph.

Table 7.3 - GMP by ownership - from 1997 to 2003

'000 EUR	1997	1998	1999	2000	2001	2002	2003
GMP - Private Sector	4,066,543	3,477,631	2,450,962	2,624,002	3,957,017	5,009,211	5,701,329
GMP - Mixed Ownership	2,508,339	2,490,088	1,378,280	1,593,255	2,572,332	3,228,594	3,150,916
GMP - Social Sector	3,973,947	2,928,676	1,618,825	1,342,630	2,256,683	2,352,311	2,168,114
GMP - Rest	74,807	261,329	198,131	335,231	521,294	970,378	1,400,033
GMP - Total	10,623,635	9,157,725	5,646,198	5,895,118	9,307,325	11,560,494	12,420,392

Source: SORS/IDOM

The table above shows that all companies follow very similar trends in the period under study with an initial decline followed by a recovery. The GMP of the private sector grows 13.8% in 2003 over performing mixed (decrease of 2.4%) and social enterprises (decrease of 7.8%) in the year 2003. The share of private sector has increased passing from 38.3% in 1997 (before any privatisation took place) to 45.9% in 2003.

The table below shows the evolution of the sales of the companies in Serbia and the evolution of the sales of the companies that have been privatised between 1998 and 2004 (see chapter 3 section 3.3. for details of the content of the group of "privatised companies"). The share of "privatised companies" on total sales have diminished but moderately. In 2004 they represent 14% of the total sales in Serbia. This is may due to a significant increase of endogenous private companies over the period.

Table 7.4 - Sales of "privatised companies" ('000 EUR)

		1997	1998	1999	2000	2001	2002	2003	2004
All companies	Sales	28,518,898	24,634,228	14,644,807	15,869,899	24,998,841	31,619,368	33,659,517	40,413,050
	Sales evolution		-14%	-41%	8%	58%	26%	6%	
	N. of companies	60,655	62,278	61,685	62,559	64,888	66,613	73,796	75,477
"Privatised companies"	Sales	4,663,685	5,240,401	3,275,200	3,454,554	5,245,758	5,791,256	5,360,638	5,537,794
	Sales evolution		11%	-60%	5%	34%	9%	-8%	
	N. of privatised companies		194	324	641	775	987	1,666	1,932
Share Priv. Co. sales/ total sales		16%	21%	22%	22%	21%	18%	16%	14%

Source: Solvency Centre database/ IDOM

In addition, the table shows that the companies from Serbia have increased their sales more than privatised companies every year since 1999.

7.2. Fiscal Impact of Privatisation

The experience of other transition economies is not clear on this indicator. Most of the countries investigated have placed privatisation revenues (proceeds) into the budget, yet some countries have done otherwise. Some authors consider that budgetary placement of privatisation proceeds typically leads to spending through G (government spending) and/or C (households spending) aggregate, rather than investing in companies. On the other hand, off-budget placement of privatisation proceeds can lead to limited control and lack of transparency in their use. Hence extra-budgetary funds should be regulated, with accounts publicly reported, audited, and subjected to control.

Moreover, privatisation transactions should be transparently reported on a *gross basis*. Costs for restructuring, recapitalisation, or writing off public enterprise debt should be recorded as spending financed by the gross proceeds of sale. Otherwise our measure of privatisation's impact on *fiscus* would be impaired.

Nonetheless, both theoretical and econometric results (in most of CEECs at least) suggest that privatisation receipts ought to be and indeed mostly are saved rather than spent.

Indicators Analysis

The expectedly positive fiscal impact of privatisation in Serbia can be identified along three categories:

- Increased Budget Revenue, which comes either directly through the transfer of privatisation proceeds into the budget or indirectly through increased profitability/liquidity of companies privatised which are then more able to pay taxes and increase the effective tax collection cashed by the government.
- Financial Injection from Privatisation Proceeds transferred for recovery of the Pension Fund (5% of PA sales and 10% of Share Fund sales)

- Decline of Subsidies and other forms of Financial Support for socially owned enterprises.

In respect to the 1997 Privatisation, there were no direct positive impact of privatisation on fiscal stance, apart from the minority stake sales which came after 2001. If there was any positive fiscal impact, it came through surplus revenues originating from increased liquidity of privatised firms in paying taxes and contributions.

In terms of 2001 Privatisation scheme, budget revenues from privatisation steeply rose in 2002 and 2003 and declined in 2004. Moreover, it is expected that the peak of proceeds from socially-owned companies has been reached in 2003 and future privatisation proceeds will most likely come from utilities and banking sector. It is expected that future increases in budget revenues from Socially-Owned companies have to come from taxes (and contributions).

Budget Taxes and Contributions relevant for firms have been steadily rising (apart from the 2001 decrease largely caused by exchange rate jump), which could be an indication that privatisation (and rationalisation) is being slowly enforced throughout the economy, by introducing hard budget constraint and similar benchmarks brought by privatisation. However it is difficult to state if this improvement in Budget Revenues is solely due to privatisation's contribution to economic efficiency and corporate profitability as such, since the introduction of greater finance discipline and VAT fiscal concept also added up to less tax evasion and overall effectiveness of public finance.

Within the aggregate increase in Total Budget, Privatisation Revenues express fairly impressive dynamics:

Table 7.5 Privatisation revenues 2002-2004

'000 EUR	2002	2003	2004
Revenues through Privatisation Agency	262,646	870,264	139,749
Revenues through Share Fund	81,744	67,905	51,839
Total revenues from privatisation	344,390	938,169	191,588
Share of Privatisation Proceeds in GDP (%)	2.3%	5.5%	1.2%

Source: PA/Share Fund/IDOM

Table 7.6 Budget revenues & Privatisation proceeds

	2002	2003	2004
Total Budget revenues	6,707,784	7,248,980	8,119,300
Total proceeds from privatisation	344,390	938,169	191,588
% of Privatisation Proceeds on Budget (%)	5.1%	12.9%	2.4%

Source: PA/Share Fund/IDOM

Out of these proceeds, 5% of PA's sales (via Tenders and Auctions) was allocated for recovery of Pension Fund (drained by hyperinflation of 1990s) as well as additional 10% out of Share Fund's sales. Thus, the impact of privatisation on improvement of Pension Fund's liquidity amounts to some 82.9 M EUR cashed in during the period under investigation.

The following table shows the subsidies disbursed up to 2004 by sectors.

Table 7.7 Subsidies by sector in M EUR

	2001	2002	2003	2004	Total
Production of Transportation Means	20.4	29.3	29.9	23.7	103.2
Metal Complex	7.5	18.7	20.5	11.2	57.9
Metallurgy	11.5	19.9	13.0	10.2	54.7
Textiles and Leather processing	3.2	6.0	6.3	5.1	20.6
Chemical Industry	2.9	6.5	6.5	5.8	21.7
Non-Metal Processing	1.1	3.0	4.7	3.2	12.0
Electrical Machinery and Appliances	0.8	5.2	5.6	3.4	15.0
Construction	0.0	2.1	2.4	2.3	6.8
Food industry	0.2	2.3	3.2	0.9	6.6
Lumber Industry	0.5	2.2	1.6	2.1	6.4
Rubber	0.3	0.9	0.8	0.5	2.5
Military	0.0	1.3	8.2	8.7	18.2
Shipbuilding	0.3	0.1	0.1	0.0	0.5
Other	0.0	0.6	0.8	0.5	1.9
Total:	48.9	98.1	103.7	77.5	328.1

Source: MoF. Note: In the year 2001 funds were not disbursed to firms as soft credits, but as subsidy-transfers.

On the subsidies side, the amount of soft credits and subsidies disbursed to socially-owned enterprises as well as severance payments for redundant workers fell for the first time in 2004.

7.3. Privatisation vs. Foreign Trade

A working hypothesis foresees a possibly negative impact of privatisation on foreign trade on the short term followed by an increase in the long term²². The short-run reasoning is taking into account that newly privatised companies (especially if bought by foreigners) tend to substantially increase their imports in terms of both machinery and raw-materials and intermediaries, whereas their full-fledged export potential is still not entirely developed. Since the share of FDI in total investment in fixed assets in Serbia has been vividly growing, this same hypothesis could be obtained directly from the open-economy macro identities: For example, if $S < I$, then evidently $X < M$ by definition (S is domestic savings or accumulation, I is total investment in the country in question, X and M are exports and imports). To what extent this is an inevitable scenario, however, remains empirically undetermined since the international evidence is mixed depending upon saving-consumption

²² However, recent econometric evidence (Arsic *et alia*, 2005) shows that from late 2003 onwards, the cause for deepening the Serbian trade deficit is not so much a lowering of tariff barriers nor modernisation of privatised firms materialised through imports, but substantially increased import-oriented demand financed by privatisation proceeds of the state as well as small shareholders.

preferences of small shareholders which may additionally aggravate negative impact of privatisation on foreign trade in the short run.

In Serbia, for instance, Foreign Trade Deficit is clearly deteriorating which is in line with the above working hypothesis.

Table 7.8 Foreign trade: exports & imports of goods from 1997 to 2004

M EUR	1997	1998	1999	2000	2001	2002	2003	2004
Exports	2,238	2,393	1,270	1,681	1,896	2,192	2,445	3,135
Imports	3,052	3,986	2,694	3,618	4,763	5,925	6,597	8,805
Coverage ratio	73.3%	60.0%	47.1%	46.5%	39.8%	37.0%	37.1%	36.0%

Source: NBS/SORS/IDOM

The table below shows that both exports and sales have remained relatively stable for the period 2001-2003. In addition, the ratio exports on sales is also stable 10%-11%. However, the reduction in the number of employees has allowed an increase of the sales per employee and exports per employee ratios. The initial years have not been analysed since the context for exports was troublesome.

Table. 7.9 Figures for “Privatised companies” - Foreign trade variables

(000 EUR)	1997	1998	1999	2000	2001	2002	2003
Total Revenue	4,663,685	5,240,401	3,275,200	3,454,554	5,245,758	5,791,256	5,360,638
Total Exports	284,441	357,816	167,130	164,637	577,341	672,757	571,525
Exports per priv. Co.		185	87	85	299	348	296
Sales per employee	15	13	9	9	15	18	18
Increase (%)		-11%	-35%	9%	56%	20%	1%
Exports per employee	0.91	0.91	0.44	0.45	1.62	2.05	1.91
Increase (%)		0%	-51%	2%	260%	26%	-7%

Source: SC database/ IDOM

The table below shows a significant correlation between the exports of the privatised firms and the exports of all companies. However, in 2003 privatised firms performed worse and saw a decline in their exports while companies from all ownerships present a moderate increase.

Table. 7.10 Comparative figures for “privatised” and all companies - Exports

(000 EUR)	1997	1998	1999	2000	2001	2002	2003
Exports - All companies	1,637,736	1,592,459	566,670	572,120	1,936,593	2,274,555	2,327,586
Increase (%)		-3%	-64%	1%	238%	17%	2%
Exports - “Privatised companies”	284,441	357,816	167,130	164,637	577,341	672,757	571,525
Increase (%)		26%	-53%	-1%	251%	17%	-15%

Source: SC database/ IDOM

The tables above indicate quite justifiable worries in terms of Serbian balance of payments sustainability. Nevertheless, this situation can only be overcome with more efficient companies. Privatisation itself is expected to contribute to this efficiency improvement, which in turn will improve the trade balance of the country in the medium to long run. However, up to 2002 privatised companies exported in line with other companies while in 2003 they exported less.

Although up to 2003 privatisation has not have an effect on exports, the consultant believes no definite conclusion can be stated from this since 2003 is too early to note significant changes. Up to 1999 the country suffered a substantial degree of international isolation. Companies, whether privatised or not, have not had enough time to establish the necessary commercial ties to boost their exports. This analysis should be done again in three years, once the bulk of the privatised companies have re-organised themselves.

7.4. Privatisation vs. Competitiveness

Productivity is commonly defined as a ratio between output and input. However it is rather difficult to properly estimate all inputs at an aggregated level. Therefore it is common to use the cost of labour as proxies for input.

In order to measure competitiveness at the macro level we have attempted to analyse the evolution of a so-called Productivity ratio (defined as Gross Material Product per capita divided by Average net wages), a so-called Efficiency ratio (defined as Sales divided by Average wages), as well as a ratio of Exports per employee.

Table. 7.11 Productivity ratio

EUR	1997	1998	1999	2000	2001	2002	2003
GMP D.C.	1,357	1,174	726	769	1,203	1,538	1,653
Average monthly net wages	99	81	107	159	90	152	177
GMP D.C. / net Wages	13.6	14.6	6.8	4.8	13.3	10.1	9.3

Source: SORS/IDOM

The table above shows that the so-called productivity ratio has been decreasing from 2002 to 2004. In spite of significant production increase, the growth of average net wages has been higher turning the ratio down.

The table below shows that in privatised firms the so-called Efficiency ratio constantly grew until 2000, and then it dropped considerably due to the fact that the growth of Average Wages was higher than the growth of Revenue per Employee in the period 2000-2004.

Table 7.12 Efficiency ratio Privatised Firms

'000 EUR	1997	1998	1999	2000	2001	2002	2003	2004
Revenue per employee	14.9	13.3	8.6	9.4	14.7	17.6	17.9	21.5
Average gross wages - EUR	184	155	99	99	188	268	285	409,0
Total Revenue p.e. Average Wages	80.9	85.8	86.8	94.9	78.1	65.7	62.8	52.6

Source: PA/IDOM

Export per employee in privatised firms and in all firms are used as an additional competitiveness indicator. The table below shows that from 2000 onwards, exports per employee have been rising. However, privatised companies have not outperformed the whole of the Serbian enterprises.

Table 7.13 Exports per employee

'000 EUR	1997	1998	1999	2000	2001	2002	2003
Exports per employee - all companies	0,91	0,91	0,44	0,45	1,62	2,05	1,91
Exports per employee - "Privatised companies"	1,05	1,06	0,39	0,41	1,42	1,75	1,94

Source: SORS/IDOM

In the long-term, privatisation is expected to increase competitiveness and profitability of not only privatised companies, but also to positively influence the overall economy. It is a well-known fact, that in small impoverished transition economies privatisation itself does not bring competitiveness if it is not directed towards finding strategic foreign investors - at least in cases of large, crucially important social as well as public enterprises. This is because only they could be expected to bring in know-how, contemporary technological and corporate governance benchmarks together with the ability to promptly pay a fair non-depressed price for the capital value obtained. Thus, which is also fairly visible in Serbian case, except when foreigners stepped in, privatisation has not triggered much strategic restructuring nor new post-privatisation investment. Therefore, attention has been paid to FDI inflow dynamics in Serbia throughout the predetermined period.

7.5. Privatisation vs. (Un)Employment

In the short term, privatisation is expected to bring about cost cutting, labour downsizing and expanding capital intensity, which substantially decrease national employment figures in the first 2-3 years after privatisation has set off. However, in principle, employment starts increasing again thereafter. Since neither FDI nor domestic savings have yet made their way into the Serbian economy in a large scale, one may safely assume that Serbian unemployment has been and perhaps is to be rising a little bit farther in the period under this study. Furthermore, even in times of transition and dogmatic fiscal austerity, large public enterprises (which typically fall in the category "too-big-to be privatised") often seek subsidies to maintain employment, and still benefit from soft budget constraints. Consequently, there is concern that privatisation may indeed lead to increased

unemployment. Moreover, even if in the medium and long term aggregate unemployment tends to decrease following privatisation, particular groups of workers may still be adversely affected.

Indicators Analysis

The table below shows the evolution of employed and unemployed people in Serbia from 1997 to 2004.

Table 7.14 Employment and Unemployment rate in Serbia (1997-2004)

	1997	1998	1999	2000	2001	2002	2003	2004
Employed	2,197,414	2,158,387	1,963,177	1,907,533	1,904,477	1,848,531	2,041,391	2,028,158
Unemployed	636,000	769,000	736,000	722,000	769,000	843,000	947,000	970,000
Unemployment rate	22.4%	26.3%	27.3%	27.5%	28.8%	31.3%	31.7%	32.4%

Source: SORS/NES. Note: Kosovo-Metohia are excluded

Figures are possibly biased by a significant grey market of labour difficult to estimate, but they show that unemployment has progressively increased up to a level of 32,4%. The number of employed people has increased from 1999 but the number of unemployed has increased at a higher rate. It seems the labour market has not been able to absorb an increasing active population. However, the later partial information indicates that the level of unemployed people has started to decrease for the first time as the National Employment Service has informed that it has reached 890,067 as of 4th October 2005.

As show in the graph below, the population of Serbia has decreased by 3.8% from 1997 to 2003. At the end of 2003, Serbia the census estimated a population of 7,532,613 inhabitants. The above shown level of unemployment has most likely affected the reduction of population in Serbia, often said to be partly due to the lack of employment.

Table 7.15 Population in Serbia²³

	1997	1998	1999	2000	2001	2002	2003	2004
Population	7,830,848	7,800,055	7,772,711	7,661,365	7,736,362	7,515,144	7,531,320	7,498,001

Source: SORS. Note: Kosovo-Metohia are excluded

The table below shows the evolution of employment as reported by the companies themselves. It established a comparison between all companies from Serbia and privatised companies.

²³ The last population census dates from 2002. Therefore 2003 and 2004 are official estimates.

Table 7.16 Evolution of employment in privatised companies and all companies in Serbia

	1998	1999	2000	2001	2002	2003	2004
All companies - N. Of employees	1,506,070	1,441,650	1,394,071	1,360,037	1,300,186	1,199,243	1,182,944
Increase (%)		-4%	-3%	-2%	-4%	-8%	-1%
"Privatised companies" - N. Of employees	393,880	379,106	365,975	356,935	328,877	299,935	257,391
Increase (%)		-4%	-3%	-2%	-8%	-9%	-14%
Share "privatised" on all companies	26%	26%	26%	26%	25%	25%	22%

Source: SC database/IDOM

It shows that on aggregate, all companies from Serbia have progressively decreased their number of employees (by 21% from 1998 to 2004). However, the reduction has been more significant in privatised companies, where the employment has been reduced by 35% since 1998. Consequently, it can be concluded that privatised companies have reduced employment further than other companies. However, although privatisation has contributed to the reduction of employment in the companies, it has not been the unique cause of it since all companies in Serbia have substantially reduced their number of employees.

Privatisation itself influences employment level both in pre-privatisation phase (restructuring coupled with severance schemes) and in post-privatisation phase in which financially generous rationalisation takes place. Thanks to such a labour-conscious privatisation scheme, the level of self-employment has had an upward trend. Mostly due to the developing private sector initiative, boosted and reinforced by the privatisation process, in parallel with required layoffs there is also a slow but stable increase of vacancies.

Table 7.18 Evolution of recorded vacancies in Serbia

	1997	1998	1999	2000	2001	2002	2003	2004
Vacancies	30,151	33,923	26,684	37,616	45,180	38,663	42,278	42,716

Source: SORS

Overall, the situation is worrying since the large state-owned overstaffed enterprises still have not been tackled in terms of restructuring and inevitable layoffs. It is also said that during the first couple of years after political changes in October 2000, there was a trend of somewhat excessive creation of employment in government administration (although no reliable figures could be found). In any case, the IMF is requiring a reduction in public sector levels of employment. Therefore the future development of employment would depend on the capacity to generate new jobs of the new private companies, the self-employment, and to a lesser extent to the restructured privatised companies.

7.6. Privatisation vs. Investment

The table below shows that investment in fixed assets has had a positive trend for the period under study and the amounts invested have increased by 115% from 2001 to 2003. However, in 2003 it still represents the same proportion of GDP it did in 2000 so it has only increased in absolute terms.

Table 7.19 Total investment in Fixed Assets (M EUR)

	1997	1998	1999	2000	2001	2002	2003
Total Investment in Fixed Assets	1,580	1,280	840	935	1,123	2,026	2,418
GDP - current prices	13,023	10,792	6,661	6,639	11,917	15,149	16,838
Investment in Fixed Assets / GDP	12.1%	11.9%	12.6%	14.1%	9.4%	13.4%	14.4%

Source: SORS/IDOM

The table below shows a strong recovery of investment in fixed assets in 2002-2003, after the crisis. Private investment still represents a low contribution of total investment, but its share is growing sharply after 2001 privatisation Law was passed.

Table 7.20 Private and Non-private investment in Fixed Assets (M EUR)

	1997	1998	1999	2000	2001	2002	2003
Non-Private Investment in F. Assets	1,242	1,025	656	745	928	1,695	1,778
Private Investment in Fixed Assets	338	255	184	190	195	331	641
% Private /Total Investment in F.A.	21.4%	20.0%	21.9%	20.3%	17.3%	16.3%	26.5%

Source: SORS/IDOM

The increase in private sector investment is partly driven by privatisation through committed investment of buyers. The table below shows the investment committed per year as per privatisation contracts. It shows that buyers of companies privatised between 2002 and 2004 have committed to invest 824,3 M EUR. It should be noted however, that the time span to disburse this amounts depends on each individual investment plan.

Table 7.20 Committed investment as per privatisation contracts (in M EUR)

	2002	2003	2004	Total
Tender	305.9	319.9	75.4	701.2
Auction	14.2	60.7	48.2	123.1
Total per year	320.1	380.6	123.6	824.3

Source: PA

Table 7.21 FDI and Privatisation (in M EUR)

	1997*	1998	1999	2000	2001	2002	2003	2004
Foreign Direct Investment	655	81	105	27	160	475	1,204	716
Investment Committed in privatisation								
Tenders						305.9	319.9	75.4
Auctions						14.2	60.7	48.2
Total						320.1	380.6	123.6
Privatisation Proceeds						262.6	870.3	139.7

Source: NBS / SORS / World Investment Report. Note: * Telecom privatisation

Almost the entire FDI inflow in subperiod 2002-2004 can be pretty safely accredited to privatisation, since green-field investments were very few. This is corroborated by the strong correlation between FDI and the total proceeds from privatisation shown above. FDI from privatisation have been cashed in not only from proceeds but also via committed investment. It has not been possible to assess the disbursed investments since each privatisation contract has its own investment plan (except auctions where investments have to be implemented within one year). However, as identified in chapter 4 in the analysis of impact on companies, the majority of the companies do not only achieve the agreed figure in accordance with the plan, but invest more.

Data on Inflow of Foreign Direct Investments in Serbia are highly unreliable for the subperiod 1997-2000. FDI according to officially applied statistics, consist only of foreign currency inflow made by non-resident investors and import of equipment for such investments, yet it fails to record reinvested capital and import of intellectual property rights.

Moreover, in the FDI account, NBS also accounts real estate investments from abroad and still rather small portfolio investment (which normally should be recorded separately). There is presently no institution in Serbia which can reliably split FDI into green-field and brown-field investment (the latter being further complicated by the fact that brown-field could be made via either stock exchange or directly by striking a deal with a targeted enterprise). Therefore, foreign investment statistics in Serbia (especially Serbia before 2001), is to be taken carefully. One thing is, though, certain for the period 1997-2001: due to the isolation of the country and the inward-oriented privatisation method deployed in this subperiod, there were too few FDI worth mentioning, apart from much disputed 1997 sale of Telecom Serbia to an Italian partner (later repurchased by the authorities). On the other hand, it is certain that the flow of FDI after 2002 is mostly due to privatisation.

7.7. Privatisation vs. Capital Market Development

In many emerging countries, the development of the capital market has usually been closely linked to the privatisation process. This, however, was not the case in Serbia. The main consequence has been that potential investment/ savings which might have otherwise been invested via capital market, have likely been spent in consuming.

First issues of shares on Belgrade Stock Exchange began back in 1997, at first glance sort of along with the insider privatisation process. However, first enterprises to be quoted were 29 socially or publicly owned banks and/or some insurance companies later on. However, these quotations were rather symbolic.

More pronounced development of Serbian capital market has begun in 2001, after positive privatisation legislation has been passed. Namely, more decisive privatisation stance taken by the 2001 Law, envisaged and enabled massive privatisation of socially owned assets through tenders, auctions and especially privatisation of minority stakes of already privatised firms under 1997 Law. All that made possible to enforce market evaluation of capital and its conversion into stocks which were to be quoted and traded on Belex.

In principle, stock exchange turnover is a better measure in comparison with mere stock market capitalisation, because many of the listed shares may not be effectively traded, which is indeed often the case at emerging capital markets. In Serbian case, this initial growth in stocks exchange has been used mainly i) to channel majority stake takeovers and ii) to reconsolidate private ownership in partially privatised companies according to 1997 (sales of Share Fund stakes).

From 2002 onwards, a significant increase of Belex Annual Stock Turnover is evident. Equally so, rather impressively developing are the share of stocks in total market turnover and the share of stocks in total number of transactions. This is partly to be credited to recent privatisation efforts in Serbia.

Table 7.22 Annual Belgrade Stock Exchange Turnover ('000 EUR)

	1997	1998	1999	2000	2001	2002	2003	2004
Total BELEX Turnover	35,479	9,563	11,628	5,620	1,619	115,794	468,646	351,723
Sub-total of Stocks turnover	2,484	191	581	169	3	7,955	153,529	221,198
% Stocks in Total Turnover	7.0%	2.0%	5.0%	3.0%	0.2%	6.9%	32.8%	62.9%

Source: BELEX/IDOM

7.8. Privatisation vs. Welfare (Purchasing Power)

The relationship between privatisation and welfare, if any, is indirect. The hypothesis is that privatisation increases the purchasing power of inhabitants via an increase in their wealth. Wealth increases would come from higher wages and privatisation proceeds.

The table below shows that in the subperiod 2001-2003, personal consumption rose sharply (30% in two years). This consumption increase is largely financed by donations and other one-off transfers (privatisation revenue included). This level of increase in the demand is unsustainable in the medium and long-run. Moreover is having a effect on prices which are creating unbalances in the economy.

Table 7.23 Personal and Public Consumption (in M EUR)

M EUR	1997	1998	1999	2000	2001	2002	2003
Personal & Public Consumption	11,783	10,577	6,278	6,472	12,743	15,952	18,032
Personal Consumption	9,590	8,408	5,114	5,308	9,690	11,204	12,694
% Personal / Total Consumption	81.4%	79.5%	81.5%	82.0%	76.0%	70.2%	70.4%

Source: SORS/IDOM

The table^{24, 25} below shows that the average net monthly wages in Serbia more than doubled in the period 2001-2004, passing from 90 EUR in 2001 to 195 EUR in 2004. Again, an increase of this order is not considered sustainable. Moreover it is having negative long-term effects since the average Serbian wage has been increasing over the economy's productivity. To illustrate that, we wish to draw readers' attention to year 2002, in which Serbia recorded 68.13% annual growth rate of real wages (expressed in EUR).

Table 7.24 Average monthly wages in Serbia (in EUR)

EUR / month	1997	1998	1999	2000	2001	2002	2003	2004
Average gross wages	165	130	75	71	147	219	256	284
Average net wages	100	81	47	45	90	152	177	195

Source: SORS/IDOM

The table below shows a comparison between the evolution of wages in all companies in Serbia and privatised companies. It shows that on average the wages in privatised companies are always slightly higher than in other companies. At this stage, privatised companies have not increased the wages of their employees above the average. However, from 2002 to 2004 average wages in privatised companies have increased less (53%) than in the whole companies of Serbia (72%). It should be noted however, that the figure included in the section of the balance sheet "Wages" also includes severance payments. Therefore, severance payments are partly responsible for this outstandingly high wages reported by the companies.

²⁴ There have been methodological changes in the Statistics during the period observed

²⁵ Kosovo and Metohija are included until 1999

Table 7.25 Evolution of average gross monthly wages (EUR)

	1997	1998	1999	2000	2001	2002	2003	2004
Average gross monthly wages - all companies	168	140	87	86	165	230	268	394
Average gross monthly wages - "privatised companies"	184	155	99	99	188	268	285	409

Source: SC database/IDOM

The 2001 Law privatisation has also affected the wealth of Serbian individuals through the implementation of social programs in overstaffed companies. Social programs were to mitigate the effect of lay-offs through the distribution of generous severance payments to employees. The table below shows the amounts committed by buyers of companies in social programs.

Table 7.26 Total investment committed for social programmes (in EUR)

	2002	2003	2004	Total
Total amounts committed for Social Programmes in Serbia	140,690,000	129,172,000	2,580,000	272,442,000

Source: PA

If privatisation has increased the wealth of Serbian population it has been indirectly, through the distribution of proceeds, and in some cases with generous severance payments. So far, privatisation has not brought in an increase in the wages relatively higher than in other companies.

7.9. Conclusions

Findings from the macro analysis, as can be expected, do not allow to reach significant definite overall conclusions. The privatisation according to the 1997 law does not show any significant impact on the various macro indicators while it is still too early to see any impact from the privatisation by 2001 Law. However, a limited number of impacts can be detected at four levels:

Fiscal revenues

The proceeds of privatisation (Law 2001) have had an immediate impact on the national budget, as they are immediately transferred to the budget after the closing of the deal. Privatisation proceeds are expected to have a high impact on the budget over the coming two or three years, but proceeds they will possibly come from other groups of companies, notably banks, and public state owned companies.

Other impacts, such as the increase in taxes and other social payments, are only felt once the company has been turned around and its new strategy has been implemented, which generally occurs 2 to 3 years after its turn around. Companies privatised under 1997 Law generally were not turned around. In addition, the economic environment in Serbia was difficult and affected all spheres of the economy. Consequently, this potential impact has not been appreciated. On the other hand, the level of subsidies has decreased for the first time in 2004, but not much can be concluded for the coming years at this stage.

Exports

Serbian exports have experienced a significant increase, which could partly attributable to an increase in the competitiveness of companies which in turn could be partly due to privatisation. Although this trend is expected to continue over the coming years, it cannot be concluded that this it was caused by privatisation since the level of exports of Serbia was uncommonly low for the period before 2001 due to the well-known circumstances.

Employment

Privatisation has negatively impacted employment. Privatised companies have decreased employment above other companies. Furthermore, the downsizing of employment in companies is expected to continue in the coming years with the privatisation of large highly overstaffed state-owned enterprises. The future development of employment would depend on the capacity to generate new jobs of the new private companies, the self-employment, and to a lesser extent to the restructured privatised companies. Programmes to encourage entrepreneurship, develop SMEs and micro enterprises should be developed in order to mitigate the lay-off. This would also contribute to avoid that employees spend rather than invest their severance payments.

Investments

Macro economic data show that investments and FDI have started to increase significantly. This trend is expected to continue and even increase as i) state-owned enterprises and banks are privatised and ii) buyers of socially-owned enterprises disburse their committed investments according to their investment plans (normally up to 5 years). This impact is most certainly due to privatisation itself. These investments will indirectly have positive impacts on other variables analysed in this report. However this can only be observed in the coming years.

8. SPECIFIC POST-PRIVATISATION ANALYSIS

This chapter summarizes the main findings of the seven case studies undertaken to better understand the key changes the companies implemented after privatisation. Companies represent both companies privatised according to 1997 and 2001 laws, and cover various sectors and size of enterprises. The table below shows the main characteristics of the analysed companies.

The main findings from the specific post-privatisation cases are analysed hereafter. These cases are illustrative and complementary to the analyses carried out at different levels.

8.1. *Management and ownership issues*

Need of majority ownership

Managers from all companies (whether privatised according to the 1997 or 2001 Law) stressed the importance of the existence of a majority shareholder to provide stewardship to the company. Despite the starting point was different depending on the Law by which the company was privatised, all companies have tried to join forces with a strong investor (either financial investor or a strategic partner) to back their development. In many cases, the majority shareholder has tried to buy shares from small shareholders (mostly current and past employees) to strengthen its position.

Change of management

In a number of companies, the top management has been changed after the acquisition of a majority package by the new owner. Most companies mentioned that the previous management had little margin of manoeuvre since effectively the workers held the power in the companies. Most managers came from outside the company, but there are also cases of in-house promotion. On the other hand, management structures have been simplified to improve efficiency. A constant issue is the shift towards a more efficient management board with less but more executive people.

Table 8.1 - Main characteristics of the companies (capital, employment)

Name of enterprise	Sector	Date of privatisation	Ownership at time of privatisation	Ownership now	Employees at time of privatisation	Employees at the end of 2004
1997 Law						
UMKA	Production of paperboard for packaging	8/31/1999	Small shareholders: 77.4% Share Fund: 22.6%	Kappa Star: 61.29% Small shareholders: 21.11% Share Fund: 17.60%	644	396
HEMOFARM	Pharmaceutical industry	11/30/2000	Physical persons: 65.8% Share Fund: 14.73% Legal persons: 9.47%	Aktive SEI: 31% Vodal AG: 14.9% Management: 10.9% Employees: 12.5% Other physical persons: 15.4% Other legal persons: 15.3%	1,275	1,647
2001 Law						
LAFARGE BFC	Cement	1/31/2002	Lafarge BFCI 69.41% Employees and small shareholders 15.72% Privatisation registrar 14.87%	Lafarge BFCI: 84.05% Employees and Small shareholders: 1.8% Privatisation Registrar: 14.87%	2,400	934
IMPOL SEVAL	Processing of aluminium, and aluminium alloys	10/1/2002	Impol 70% Employees and Small shareholders: 15% Privatisation Registrar: 15%	Impol: 70% Employees and Small shareholders: 15% Privatisation Registrar: 15%	1,123	770
ATEKS	Trade	5/23/2003	FIBEST 68.056% Employees and small shareholders 31.954%	FIBEST: 87.64% Employees and small shareholders 10.77% Other Legal persons: 1.59%	580	554
PROGRES	Machine building	9/10/2002	MPS group 70% Employees and small shareholders 30%	MPS group: 78% Employees and Small shareholders: 22%	335	291
HALAS JOZEF	Agriculture	22/12/2003	Ivan Jakovljevic 72.41% Employees and Small shareholders 27.59%	Ivan Jakovljevic 72.41% Employees and Small shareholders: 27.59%	300	208

Source: Companies

Note: figures for Hemofarm Group refer to the holding company. It does not include employees from all subsidiaries. As of today the sum of all subsidiaries is 3,101.

Decrease of indirect costs and employees

Most companies (except Hemofarm) have decreased the number of employees, especially administrative and non-skilled personnel (see table above). This has been accomplished either through implementing social programs or through natural attrition and soft incentives.

Before privatisation, most companies had been stagnating for ten years. As a consequence, the average age and seniority of the staff at the time of privatisation was very high. So companies have also tried to introduce new blood in their staff. Recruitment has focused in young skilled employees. This has changed the skill mix of their staff.

Table 8.2 - Structure of employment

Company	Percentage of higher education at privatisation	Percentage of higher education now
1997 Companies		
UMKA	5.64%	8.08%
HEMOFARM	na	25.03%
2001 companies		
LAFARGE BFC	5%	9.42%
IMPOL SEVAL	8.55%	11.71%
ATEKS	1.86%	2.17%
PROGRES	na	3.09%
HALAS JOZEF	na	na

Source: Companies

Training

All companies mentioned training as an important aspect for introducing changes in the enterprises. Depending on the situation/sector of the enterprise, the companies have adopted different solutions:

- Progress is financing a course in the Technical School in Mladenovac so as to get young skilled workers
- Lafarge is sending new staff in training in other plants of the group in Germany and Austria, and has spent 0.5 million EUR in training
- Hemofarm Group has created a business school “Hemofarm Business School” to train and update its staff

8.2. Turnaround strategy

All analysed companies had significant problems at the time of privatisation. They have all implemented turn around strategies. The specific turn around strategy adopted by the new owner depends on the financial situation of the company, its activity, its strengths and weaknesses. Most companies have invested significant amounts for this purpose, often beyond their committed investments. Issues addressed by the companies include:

Improvement of the financial situation of the company

A number of companies were heavily indebted and making significant losses. Actions undertaken to address this situation and restore a sustainable financial situation are:

Re-capitalisation of the company with injection of funds

A few companies were close to bankruptcy before privatisation (ATEKS, Progres, Halas Jozef). The new owner has focused its efforts in recapitalising the company.

Renegotiation of the existing liabilities

Capital intensive industries such as cement or carton need heavy investments for modernisation. New owners have normally renegotiated existing expensive liabilities by loans with lower interest rates and longer maturity or have obtained new loans necessary to finance investments thanks to the provision of guarantees by the investor.

UMKA was making investments when the new investor arrived, but it was close to bankruptcy as it was unable to finance the investments. BFC needed a serious modernisation implying significant investment. In both cases, the new owner arranged for the long term financing of the investment. On the other hand, Hemofarm Group has financed its investments through a combination of capital increases with issues of new shares on the Stock Exchange and long term loans.

Restatement of financial statements

New owners often find balance sheets which do not correspond with reality. They often include old unrecoverable receivables, overvalued inventories, unpaid salaries, unpaid taxes, etc... The first year, companies are normally dedicated to “clean” and restate the financial statements according to the real situation of the company.

Table 8.3 - Investments and main turn around focus

Company	Committed investment (M EUR)	Investment since privatisation/new majority investor (M EUR)	Main turnaround focus
1997 Companies			
UMKA	-	4.2 M	<ul style="list-style-type: none"> - Improve investment financing through refinancing with long term loans - Cost reduction through better procurement and use of recycled waste paper as raw material (collection of waste papers) - Sale growth through export, and group support
HEMOFARM	-	25.1 M	<ul style="list-style-type: none"> - Increase sales on export markets, notably in Russia - Actively looking for a strategic partner - Focus on core business, mostly generic drug production and disposal of non-core activities
2001 companies			
LAFARGE BFC	37.4 M	55 M	<ul style="list-style-type: none"> - Focus on cost reduction through implementation of new technology, and better procurement - Re-organisation with focus on production and sales, and improved management - In process of rationalisation of distribution with more bulk transport
IMPOL SEVAL	14.8 M	14.4 M	<ul style="list-style-type: none"> - Increase of sales, especially on export markets thanks the network of the new owner - Investment to improve and diversify product quality and specification - Change in energy supply to decrease costs
ATEKS	5.1 M	6 M	<ul style="list-style-type: none"> - Recapitalisation to improve the financial viability - Change in product mix - Modernisation of shops - Increased sales through the acquisition of new shops
PROGRES	0.185 M	1.73 M	<ul style="list-style-type: none"> - Change in product mix and development of export sales - Improve productivity through better work organisation, incentives, and recruitment of young skilled workers - Intends to buy other workshops with skilled workers to expand their production
HALAS JOZEF	0.8 M	6.5 M	<ul style="list-style-type: none"> - Change in product mix, from cereal production to animal breeding with investment in modern breeding facilities - Improve efficiency through significant staff reduction (non-skilled workers)

Source: Companies

Business development

In a number of cases, the sales of the company prior to privatisation were very low. Progress had almost no activity for two years; ATEKS sales were outstandingly low; Halas Jozef was selling, but with negative margins due to the low prices of cereals. In all these cases, the new owner has focused on changing the product mix and identifying new markets (often export markets) to increase sales. In the case of Halas Jozef, the new owner completely changed the production focus, transforming the company from a cereal production farm to an animal production farm.

In a number of cases, the companies have already achieved a significant market share on the domestic market (e.g. Hemofarm), with limited growth ahead. Consequently, their growth strategy has focused initially on exports market.

The table below shows the evolution of sales of the analysed companies. All companies, excepting Halas Jozef have increased their sales notably. It should be noted that Halas Jozef's strategy has focused in profitability rather than in business development.

Table 8.5 - Sales in '000 EUR of the companies

Company	Sales 2000	Sales 2004
1997 Law		
UMKA	15,568	20,635
HEMOFARM	35,100	186,525
2001 Law		
LAFARGE BFC	21,376	50,762
IMPOL SEVAL	15,826	61,073
ATEKS	3,119	6,141
PROGRES	471	6,249
HALAS JOZEF	3,513	2,923

Source: Companies

Cost reduction

Most companies have been working to improve their competitiveness decreasing their operating costs. This cost reduction has often focused on personnel, raw materials and energy costs. The effort has been mainly in two directions:

- Decrease the cost per unit through technological improvements. For instance, Lafarge has constructed a new unit which saves up to 30% of energy. Impol has built new facilities to shift from butane-propane to natural gas and achieve considerable savings.
- Decrease the cost of raw materials. Lafarge has integrated its procurement function into the group's procurement in order to get better prices. UMKA has set-up a unit to organise the collection of used paper and recycle it to achieve significant savings.

8.3. Improved performance

As seen above, most companies have improved their basic parameters, sales, direct costs, liabilities. This is progressively being reflected on their main performance indicators, especially in those companies that were privatised earlier. However, most companies will still need an additional two or three years to get the full results of their turnaround strategy.

Some companies are clearly out of the pre-privatisation difficulties and with a clear future (Lafarge BFC, Hemofarm Group, Progres). Others are still in the process of recovering from a difficult situation (ATEKS, Impol-Seval, Halas Jozef) . However, all companies have at least already taking steps to improve their competitive position.

It is also to be noted that all companies, regardless of their privatisation method, have in the end approached an investor.

Table 8.6 - Main performance characteristic of the companies

Company	Sales per employee 2000 (000 EUR)	Sales per employee 2004 (000 EUR)	Exports 2000 (000 EUR)	Exports 2004 (000 EUR)	Operating profit/sales % 2000	Operating profit/sales % 2004	Total liabilities/ sales % 2000	Total liabilities/ sales % 2004
1997 Law								
UMKA	24.2	52.1	2,032	12,123	10.5	6.2	63.8	82.1
HEMOFARM	27.5	113.5	9,769	63,843	16.3	13.9	99.8	86.23
2001 Law								
LAFARGE BFC	10.2	54.3	196	-	(21.7)	4	66.8	143.0
IMPOL SEVAL	13.9	79.3	1,513	52,373	8.6	(5.1)	89.8	51.4
ATEKS	4.8	11.1	-	228	(12.7)	(38.6)	103.4	179
PROGRES	1.2	21.5	-	3,301	(1.1)	3.8	39.5	19.3
HALAS JOZEF	8.4	14.1	-	-	25.1	(19.9)	36.9	154.2

APPENDICES

1. SOURCES
2. REFERENCES
3. STRUCTURE OF THE SAMPLE OF PRIVATISED COMPANIES

Appendix 1 - Sources

- **NBS** - Narodna banka Srbije (*National bank of Serbia*), dr Diana Dragutinović, viceguverner, ul. Kralja Petra 12, www.nbs.yu
- **RDB** - Republički zavod za razvoj (*Republic Development Bureau*), dr Edvard Jakopin, direktor, ul. Makedonska 4, www.rrazvoj.sr.gov.yu
- **SORS** - Republički zavod za statistiku (*Statistical Office of Serbia*), dr Dragan Bukumirović, direktor, ul. Milana Rakića 5, www.statserb.sr.gov.yu
- **PA** - Agencija za privatizaciju (*Privatisation Agency - Monitoring Center*), ul. Terazije 23, www.priv.yu
- **SDE** - Fond za razvoj (*Serbian Development Fund*, Olivera Božić, direktor, ul. Knez Mihailova 14, www.fondzarazvoj.co.yu
- **NES** - Republički zavod za tržište rada (*National Employment Service*), ul. Kralja Milutina 6, www.rztr.co.yu
- **SE** - Akcijski fond (*Share Fund*), ul. Trg Nikole Pašića 5/6, Aleksandar Gračanac, direktor, www.shar-fond.co.yu
- **ME** - Ministarstvo finansija (*Ministry of Financ*), ul. Nemanjina 22-26, www.minfin.sr.gov.yu
- **CC** - Privredna komora Srbije (*Chambre of Commerce*, ul. Resavska 13-15, Slobodan Milosavljević, predsednik, www.pks.co.yu
- **BSE** - Beogradska berza (*Belgrade Stock Exchange* -), Gordana Dostanić, direktor, ul. Omladinskih brigada 1, www.belex.co.yu
- **SIEPA**, ul. Vojkovićeve 3, www.siepa.gov.yu, Goran Radosavljević Advisor tel. 011/3398-772
- **ME** - Ministarstvo za privredu i privatizaciju (*Ministry of Economy*), Mira Prokopijević, pomoćnik ministra, ul. Kralja Milana 16, www.minpriv.co.yu
- **SME** - Agencija za razvoj malih i srednjih preduzeća (*Agency for SME*), Topličin venac 19, www.sme.sr.gov.yu
- **NBS-SC** - Narodna banka Srbije-Centar za bonitet (Solvency Center) Ružica Stamenković, direktor, Pop Lukina 7-9
- **FSO** - Savezni Zavod za Statistiku (Federal Statistical Office) www.szs.gov.yu , Dragi Stamenković, Deputy Director
- **EAR** - European Agency for Reconstruction, Vasina 2-4; 11000 Belgrade, www.ear.eu.int

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Appendix 3 - Structure of the Sample of Privatised Companies

Table. Sample of privatised companies

PA Regional Office	2001				1997			Total sample 1997 + 2001		
	Total Sample	Size	Breakdown by size	of which tender	Total Sample	Size	Breakdown by size	Total sample	Size	Breakdown by size
Belgrade	36	L	11	3	35	L	11	71	L	22
		M	13			M	12		M	25
		S	12			S	12		S	24
Novi Sad	71	L	24	7	58	L	18	129	L	42
		M	24			M	20		M	44
		S	23			S	20		S	43
Kraljevo	37	L	14	8	6	L	2	43	L	16
		M	12			M	2		M	14
		S	11			S	2		S	13
Kragujevac	28	L	10	2	14	L	5	42	L	15
		M	9			M	5		M	14
		S	9			S	4		S	13
Nis	33	L	10	7	7	L	2	40	L	17
		M	12			M	3		M	20
		S	11			S	2		S	13
TOTAL	205	L	69	27	120	L	38	325	L	107
		M	70			M	42		M	112
		S	66			S	40		S	106

Table. Largest companies in the sample by decreasing volume of sales in 2002

Name	Year of privatisation	2002 Sales '000 EUR	2002 Operating Profit(loss) ('000 EUR)	% of sample (sales)	Cumulated sales %	2002 Exports ('000 EUR)	Sector
BEOPETROL ²⁶	2003	266,610	(1,776)	10.5%	10.5%	-	Oil products
IMLEK	2001	134,442	8,832	5.3%	15.8%	-	Food
PEKABETA	1999	117,557	(3,249)	4.6%	20.4%	-	Trade
DIN "FABRIKA DUVANA" NIS	2003	114,176	12,152	4.5%	24.9%	1,536	Tobacco
HEMOFARM	2000	106,880	24,673	4.2%	29.2%	35,152	Pharmaceuticals
BOCINSKA FABRIKA CEMENTA	2002	61,325	3,010	2.4%	31.6%	4,404	Cement
KNJAZ MILOS	2000	56,203	8,959	2.2%	33.8%	2,717	Food
SOJAPROTEIN	2000	55,437	3,001	2.2%	36.0%	6,532	Food
VALJAONICA BAKRA	2004	53,959	(3,744)	2.1%	38.1%	39,791	Metal processing
FABRIKA CEMENTA NOVI POPOVAC	2002	50,728	(15,544)	2.0%	40.1%	-	Cement
VITAL	2000	49,177	3,098	1.9%	42.0%	300	Food
SOKO-NADA ŠTARK	2001	45,512	2,734	1.8%	43.8%	6,231	Food
FABRIKA SECERA BACKA	2000	44,991	9,895	1.8%	45.6%	36,425	Food
SUNCE	1998	42,096	185	1.7%	47.3%	1,098	Food
NEOPLANTA	1998	38,959	516	1.5%	48.8%	1,922	Food
ZDRAVLJE	2002	38,452	8,187	1.5%	50.3%	3,744	Pharmaceuticals
HENKEL MERIMA	2002	35,987	(168)	1.4%	51.7%	1,889	Detergents
SEVAL	2002	35,220	(1,567)	1.4%	53.1%	20,161	Metal processing
BAMBI	2000	34,090	5,036	1.3%	54.5%	5793	Food

²⁶ After the privatisation some companies has changed their names, especially by the request of the new owner: e.g. "Beopetrol" changed the name to "Lukoil Beopetrol", "Beocinska fabrika cementa" to "Lafarge BFC", "Seval" to "Impol Seval", "Tehnogas" to "Messer Tehnogas", "Merima" to "Henkel Merima", etc.

Table. Largest companies in the sample by decreasing volume of sales in 2004

Name	Year of privatisation	2004 Sales '000 EUR	2004 Operating Profit (loss) '000 EUR	% of sample (sales)	Cumulated sales %	2004 Exports '000 EUR	Sector
LUKOIL-BEOPETROL	2003	177,262	(8,485)	7.1%	7.1%	1,354	Oil products
DIN "Fabrika duvana" Niš	2003	131,507	(61,825)	5.3%	12.4%	2,921	Tobacco
IMLEK	2001	112,389	12,949	4.5%	16.9%	-	Food
HEMOFARM	2000	109,777	23,893	4.4%	21.3%	35,962	Pharmaceuticals
SOJAPROTEIN	2000	92,709	7,291	3.7%	25.0%	13,868	Food
VALJAONICA BAKRA SEVOJNO	2004	86,737	(855)	3.5%	28.5%	68,316	Copper Metal processing
KNJAZ MILOŠ	2000	65,332	1,453	2.6%	31.1%	-	Food
IMPOL SEVAL	2002	61,812	(2,393)	2.5%	33.6%	35,455	Metal processing
PEKABETA	1999	53,937	(4,682)	2.2%	35.7%	-	Trade
LAFARGE BFC	2002	50,822	2,070	2.0%	37.8%	-	Cement
VITAL	2000	49,862	3,166	2.0%	39.8%	1,912	Food
SOKO-NADA ŠTARK	2001	48,188	2,321	1.9%	41.7%	7,387	Food
HENKEL MERIMA	2002	46,330	2,845	1.9%	43.6%	2,947	Detergents
FABRIKA CEMENTA NOVI POPOVAC	2002	45,442	10,749	1.8%	45.4%	na	Cement
FHN "ZDRAVLJE"	2002	35,669	7,852	1.4%	46.8%	3,679	Pharmaceuticals
NAPRED	1999	34,753	1,100	1.4%	48.2%	-	Construction
PKB "FRIKOM"	2003	34,399	2,194	1.4%	49.6%	846	Food
BAMBI A.D.	2000	33,649	4,364	1.3%	50.9%	na	Food



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