

**Seminar on the Promotion of  
Foreign Direct Investment to  
Southeastern Europe**

**Yugoslavia**

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**REPUBLIC OF SERBIA**  
**Ministry of International Economic**  
**Relations**

**Mrs. Gordana Lazarevic, Assistant Minister**

**Documentation on the Federal Republic of Serbia**

Document produced in co-operation with the following members of the MIER's staff:

1. Mr. Branko Obradovic, Special advisor, [bobradovic@mier.sr.gov.yu](mailto:bobradovic@mier.sr.gov.yu)
2. Mr. Ernest Hercog, Special advisor, [ehercog@mier.sr.gov.yu](mailto:ehercog@mier.sr.gov.yu)

## 1. Transition to market economy

### ***Case of the Republic of Serbia***

- Republic of Serbia, far larger of the two republics comprising Federal Republic of Yugoslavia, has the territory of 88361 km<sup>2</sup> (86,7% of the area of the FRY) and 89778991 inhabitants (94,1% of the population of FRY).
- The territorial organization of the Republic of Serbia consists of 185 communities and four cities. Within Republic of Serbia are region of Vojvodina and Kosovo and Metohija like a form of territorial autonomy.
- Dinar is official legal tender in the Republic of Serbia. Dinar is exchanged for 61,5 for 1 EUR; 62,5 for 1 USD ;50,1 for 100 Y.

### ***What we inherited***

- Democratic government took its office in January 2001. Serbian economy was in the deepest slump. The new leadership inherited a country wounded by a decade of wars, sanctions, and a mismanaged economy. With its social imbalance, its relations with its neighbours as well as the entire international community severely ruptured, its economy ruined, and its treasury looted:
  - GDP - only 50% of the 1990;
  - Inflation - 120%;
  - Foreign exchange market was non-existent;
  - Banking sector - in bad shape;
  - Government budget running deficit and huge arrears;
  - Foreign debt was in arrears since 1992; amounting 12,2 bill. USD or 145% of GDP;
  - Unemployment – 27,3 %; high redundancy;
  - Industry working only with 60% of its capacities, obsolete equipment;
  - Shortages – electricity, medical drugs, oil and gas, fertilizer, food (sugar, cooking oil, wheat etc).

### **General achievements:**

- ***Serbia's authorities launched a comprehensive program to transform Serbia from a regional instability into a democratic, peaceful and free market oriented nation.***
- Government reestablished its membership in:
  - United Nations – November 2000;
  - International Monetary Fund - December 2000;
  - European Bank for Reconstruction and Development – December 2000;
  - World Bank – May 2001.

- Government has two mayor long term general goals:
  - Accession to the EU - by 2010;
  - Membership in WTO – by 2005.
- Serbian government is moving quickly to place economic policy on a sound footing. Significant changes have happened in Serbia's economy across all sectors. The legislative framework covering the socio-economic reforms in Serbia is aimed to be in line with the prerequisites for integration with the European Union.
- The strong commitment of the Government to sound macroeconomic and structural reform policies resulted in a major improvement of key macroeconomic indicators during 2001.
- Since December 2000 Government entered in three successive financial agreements with IMF to support its stabilization and market reforms policies:
  - Post conflict facility-end of 2000 –June 2001 (154 mil. USD - 100% disbursed);
  - Stand - buy agreement - June 2001 – May 2002 (260 mil. USD -100% disbursed);
  - Enhanced structural adjustment facility – June 2002 – June 2005 (820 mil. USD – two tranche disbursed – regular review underway).

Government fulfilled all the conditions of the two first mentioned agreements. The third is in implementation and under the first review with IMF.

- Entering into the agreements with IMF was the precondition for successful restructuring of the foreign debt :
  - Debt towards IMF was cleared;
  - Paris club debt –66% forgiven; the rest rescheduled under on period of 22 years of which 8 years grace period;
  - Debt towards EBRD (1,815 mil. USD) consolidated and rescheduled on the period of 30 years;
  - Debt towards European Investment bank (225 mil EUR) – debt –to debt- swap - rescheduled on period of 15 years with grace period of 10 years;
  - London club debt under negotiation as the debt towards the third creditors.

### **Movements for the period: 2001-2002**

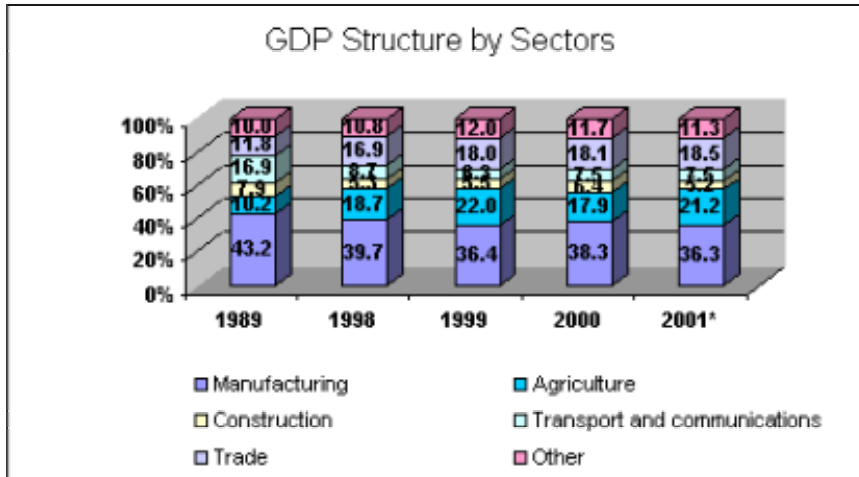
- In order to promote stability and create a business friendly environment, big strides have been made in macroeconomic stabilization, structural reform and reintegration with the international community since its forming on January 25<sup>th</sup>, 2001:

## Main indicators of macroeconomic stability

Indicators	Year 2000	Year 2001
GDP (material product), growth rate	<b>6.4%</b> (The biggest increase: transport, communications, construction and industry, the biggest decrease: agriculture)	<b>5.5%</b>
GDP	<b>USD 8.1 billion</b> (according to IMF) <b>USD 9 billion</b> (according to World Bank)	<b>USD 10.8 billion</b>
GDP per capita	<b>USD 966</b>	<b>USD 1200</b>
Industrial production, growth rate	<b>10.9%</b> (Jan-Dec 2000 / Jan-Dec1999)	<b>6.0 %</b> (Dec2001/Dec2000) <b>0.1%</b> (Jan-Dec2001/Jan-Dec2000)
Retail prices, growth rate	<b>113%</b> (Dec 2000/Dec 1999)	<b>39%</b> (Dec2001/Dec2000)
Unemployment rate	<b>27.3%</b>	<b>27.8%</b>
Fiscal deficit		<b>1.3%</b> of GDP
Real net wage increase	<b>5.5%</b> (2000/1999)	<b>12.6%</b> (Oct2001/Oct2000)
Average net wage in EUR	<b>46</b>	<b>125</b>
Exports	<b>15.6 %</b> (changes to the previous year)	<b>28%</b> (changes to the previous year)
Imports	<b>13.8 %</b> (changes to the previous year)	<b>10.5%</b> (changes to the previous year)
Export in billion USD	<b>1,7</b>	<b>1,9</b>
Import in billion USD	<b>3,7</b>	<b>4,8</b>
Foreign trade deficit in USD billion	<b>2</b>	<b>2,9</b>

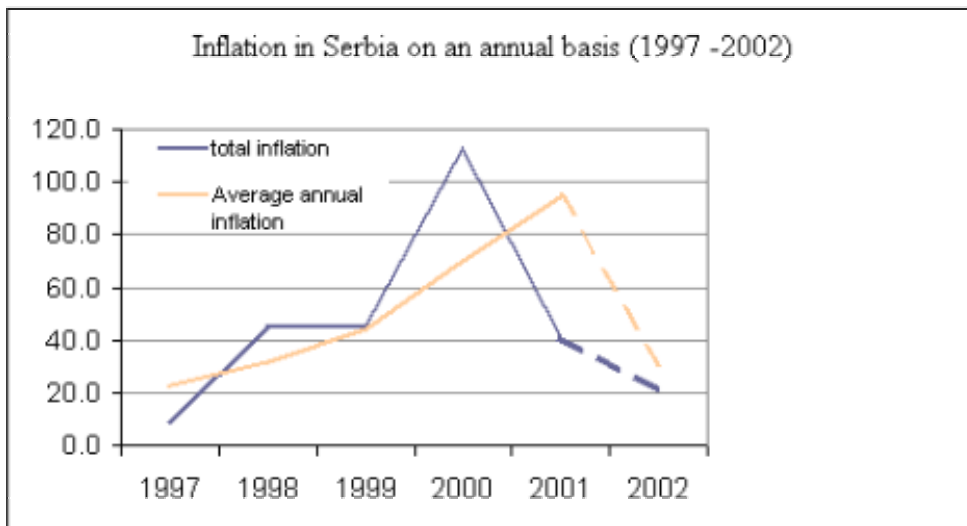
The ongoing reform process, supported by the three-year loan from the IMF approved in May 2002, aims to achieve the following economic objectives in the short and medium term:

- **GDP growth of 4%.** The structure of GDP by sectors is expected to change significantly; the agriculture sector will hardly exceed the level of output achieved in 2001, due to the weather conditions, while an increase of 2,5 - 3% is expected in the construction sector due to the initiation of investment cycle. In the medium term, economy growth rate is projected at 5% per year.



Estimated by Economics institute (figures for Yugoslavia)

- **Inflation is targeted to 20% by the end of 2002.** Over the next three years, further lowering of inflation is expected - 12% in 2003, 8% in 2004 and 7% in 2005.



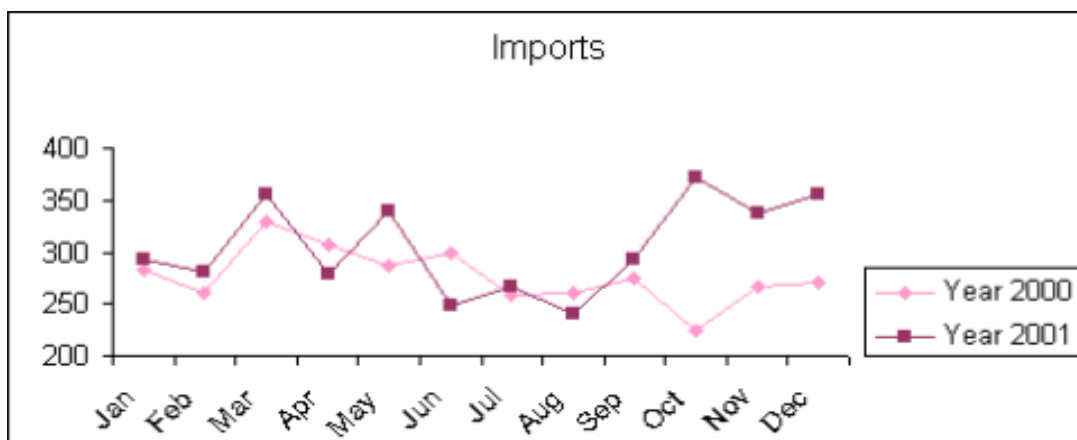
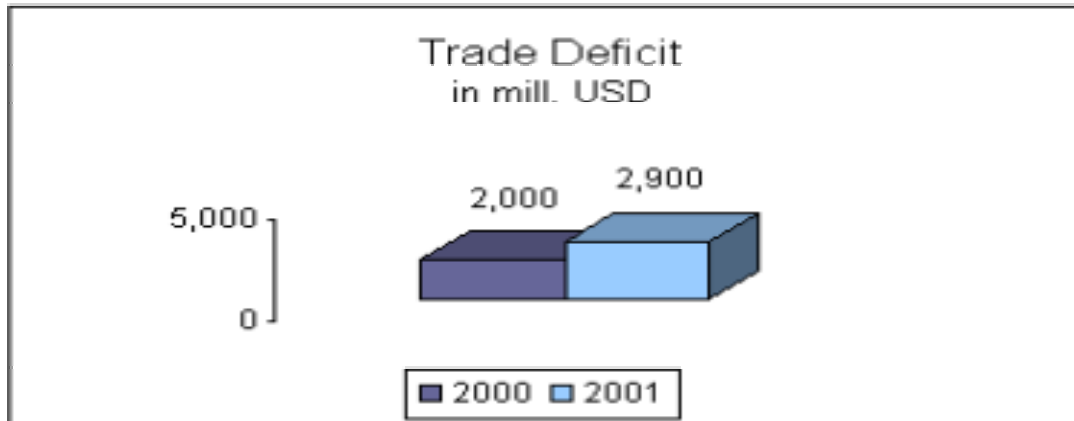
Source: G-17.

**The monetary policy** will remain tight and aimed at lowering inflation. The foreign exchange reserves of the NBY are projected to rise by 37% in 2002. By 2005, the reserves should amount to a level sufficient to finance import payments over 6 months.

**The exchange rate** will take account of conditions in the inter-bank market, although monitored closely as the exchange rate policy will continue to balance between safeguarding external competitiveness and stabilizing inflation expectations.

**The foreign exchange market** will be further liberalized. In general, all restrictions on current account transactions will be eliminated, and capital account transactions will be considerably liberalized with the exception of lending and investing abroad and short-term capital movements.

**The foreign trade deficit** is expected to increase between USD 2.8 and USD 2.9 billion while its share in GDP will diminish. Exports of goods and services will grow at 14% on average. Imports will continue to grow intensively at 15%, although at a slower pace than in 2001 (30%). The current account deficit should amount to USD 1.5 billion (12.9% of GDP) in 2002, reflecting the resumption of the external debt service. External debt servicing will be secured from the budget ranging between 2 and 3 % of GDP. The current account deficit will be financed by FDI and donations, USD 400 and USD 391 million respectively. FDI inflows will particularly play an increasing role as the privatization program and other economic reforms reach an advanced stage.



Source: Republic bureau for informatics and statistics

**The fiscal policy** will aim to support economic recovery and reform while ensuring progress towards further lowering of inflation and fiscal sustainability. The fiscal deficit is projected to 4.3% of GDP. The deficit will be financed mostly through donations, loans and privatization revenues that should amount to USD 539 million.

## Fiscal and Budget Reform

Previous system	New system
<input type="checkbox"/> More than 230 fiscal forms	<input type="checkbox"/> 6 main taxes and few fiscal forms
<input type="checkbox"/> 9 different excise taxes	<input type="checkbox"/> One excise tax
<input type="checkbox"/> 4 sales taxes	<input type="checkbox"/> One sales tax
<input type="checkbox"/> 7 rates of sales tax and many tax exemptions	<input type="checkbox"/> One tax rate, almost no exemptions
<input type="checkbox"/> Numerous special accounts	<input type="checkbox"/> Unified and consolidated budget
<input type="checkbox"/> 7 special services for financial audit	<input type="checkbox"/> Unified financial audit

**Strict wage policy** in the public sector stayed unchanged in 2002, in order to prevent wage pressures from gaining momentum. Ratio between wage bill of the government, that of the state-owned enterprises and the GDP will be constant in real terms. A new Labour law that has liberalized employment contracts and the wage determination increased labour market flexibility during 2002, which should, considering rising unemployment, further compress the growth of wages.

**Law on foreign investment**, enacted in January 2002, opens up the economy by allowing foreign investors to set up businesses in all sectors apart from weapons production and trade. Modelled on similar legislation in more developed European economies, it removes red tape and envisages lower import duties on necessary equipment for setting up production in Yugoslavia. Investors are able to repatriate their funds and buy real estate without restrictions.

For more detailed information on macroeconomic policies please visit the web site of the Ministry of finance and economy at <http://www.mfin.sr.gov.yu>.



## **Reform goals achieved**

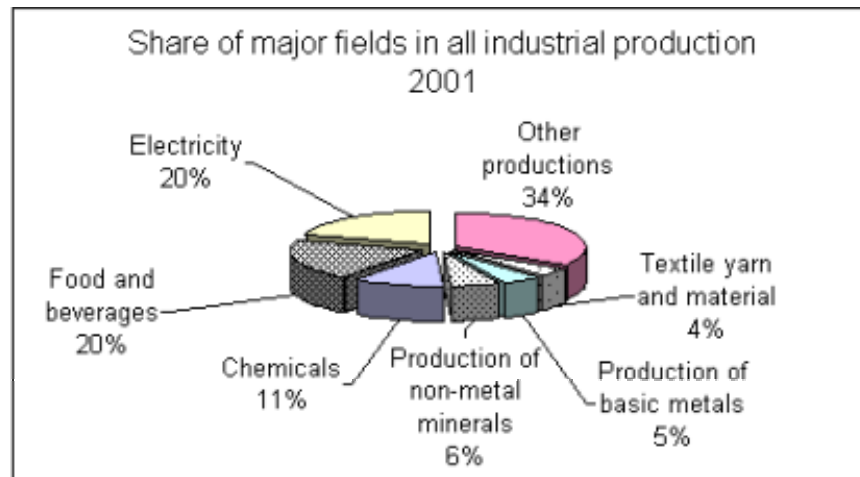
- In the year 2001 and 2002 Government concentrated its efforts on reforms in the:
  - **Financial sector**
    - Rehabilitations of banking sector – closed four banks mayor state owned banks and additional 19 minor banks;
    - Increased census for establishment of a bank;
    - Foreign banks started to operate in the country - HVB bank, Reiffeisen bank, National bank of Greece, Microfinance bank, Alpha bank, Societte Generale and others;
    - Payment system to be transferred from NBY to the banks by 2003 (in implementation);
    - Adoption of International Accounting Standards (IAS) to be implemented in 2004.
  - **Investing in banking sector**
    - The Law on banks and other financial institutions regulates investments in banking sector;
    - A bank should be founded by at least two parties. The founding of any bank is subject to approval by the National Bank of Yugoslavia;
    - NBY also grants licenses for establishing a branch or a representative office of a foreign bank in Serbia;
    - The minimum capital requirement for a bank is USD 5 million;
    - A foreign bank may have its subsidiary in Republic of Serbia. Subsidiary enjoys the status of a legal entity, and as such is entered in the Court Register;
    - NBY makes the decision on issuing or revoking of the operating license of a foreign bank branch with legal entity status (a subsidiary) under the same conditions as those for issuing a Banking License;
    - A foreign bank can found its representative office on the territory of the FR Yugoslavia. Representative office does not have a legal entity status.

For more information please visit National Bank of Yugoslavia, central bank of the state: <http://www.nby.yu>

- **Fiscal and budget reform**
  - Tax Law establishes only 6 main taxes (more then 230 previously); one excise tax (9 ) one sale tax (4) one tax rate almost no exemption (7 and many exemptions);
  - Unified and consolidated budget (numerous special accounts, extra budgetary funds etc);
  - Adoption of VAT (to be implemented from 2004);
  - Treasury established in May 2002.

- Businesspeople in Serbia certainly have a comparative advantage among the nations in transition. Although officially being a country under a communist regime, the former Yugoslavia was heavily involved in the world market economy. It is important to note that the former Yugoslavia was never signatory to the Warsaw Treaty, and was thus never under pressure from the Soviet command economy. This environment produced both management and labour fit to cope with extensive demands of Western markets. In that respect, Serbian managers have had a preferential starting point since the beginning of transition. The majority of Serbian businessmen speak English as a foreign language, and a large number of managers speak other languages as well, such as German, French, Russian, Italian and Spanish.

## 2. Industrial structure



Source: Republic bureau for informatics and statistics

There are a number of industrial sectors in Serbia that will be attractive for foreign investment due to advantages they possess compared to similar industries in neighboring countries and other transitional economies. These advantages are mostly of a location-specific nature such as easier and cheaper access to raw materials or minerals and friendlier government policies towards foreign direct investment. Furthermore, imperfections in international labour markets in the region make Serbia very attractive due to competitive wage-cost differentials. These advantages are present across many industrial sectors and Japanese companies might have special interests in the IT and electronics sector, pharmaceutical sector, chemical sector, automotive assembly and component sector, textiles sector, agribusiness sector and the timber sector.

### a. IT and electronics sectors

This sector will have a key developmental role in areas of infrastructure and in the process of modernisation. The IT sector is expected to form the infrastructure for modern commerce and to become an export commodity itself. It is planned for these sectors to achieve development rates of 6.9% and 14.4% for the periods 2001-2005 and 2006-2010, respectively.

#### **Development basis:**

- a) Solid quality of domestic engineers and workforce in general. However, there is a quality gap in information technology.
- b) Huge world demand for a quality IT workforce
- c) High current export rates of electrical machines
- d) Current competitiveness of most products and the ability to reach an immeasurable level of competitiveness in the future, especially in telecommunications and the electrical industries.
- e) Assuredness that a national informational infrastructure will be developed and deregulation of telecoms undertaken.
- f) Assuredness that a stimulating environment for products and exports will be created and maintained in Serbia.

**Export Strategy:** The export of application software is a big opportunity and we will accept offices of foreign companies and tailor to their programs. Then sectors will be chosen in which Serbia can produce for the world market. The telecom industry has to modernize its products through domestic development and to reach a broader market in middle and less developed nations. The electrical industry has to modernize its products through a transfer of foreign technology or through domestic development or it will not attain a serious level of export. In the field of electrical machines, export is already a substantial component and thus support for the creation of export credits is necessary. Certain infrastructural projects in Yugoslavia would benefit from developments in this field and further the developments of the energy and agro industries.

**Key Strategic Actions and Changes:**

- Modernization of current capacities through domestic development (telecommunications) or foreign direct investment (electrical industries).
- Realization of big domestic watering projects and constructions of mini-hydroelectric power plants.
- Deregulation of telecommunications alongside the gradual formation of national information infrastructure – firstly for e-government and an academic network – and for e-business after June 2005.
- Stimulating tax policy for IT companies and IT personnel.
- Reorganization of the academic system and enlargement of enrolment in the study of information technology and telecommunications.

**Needed investments:** Total investments for technological modernization and the enlargement of productive and export capacities of this sector are estimated at around \$US 150million for the period 2002-2010. The rate of return is high, and the period of return is short, especially for information technology.

**b. Pharmaceutical industry**

The industry aims to secure and provide domestic self-sufficiency in medical supplies and increases in exports of quality medicines. Production of this sector will grow at an average annual rate of 6.8% in the period of 2001-2005, and a rate of 10.7% in the period of 2006-2010. The possible GDP of this sector in the year 2005 is \$US 150 million, and \$US 250million in the year 2010.

**Development Basis:**

- Availability of a high quality professional workforce in this field.
- Relatively good equipment that is on average 5-15 years old.
- The system of quality is at a very good level.
- The existence of strong domestic and export demand.
- Close co-operation with large EU industries.
- Products are competitive in both domestic and foreign markets.

**Export Strategy:** Export of quality final products and engineering services and the sale of technology on markets of the Russian federation, Romania, Macedonia, The Serb Republic, Near and Far East, Africa, Germany and Canada, together with a positive balance of payments in this sector.

**Key Strategic Actions and Changes:** Continual education of all worker groups. The raising of system quality to world-class levels. Partnership formation among domestic companies and together with foreign companies. Investing in reconstruction, modernization, and the broadening of capacities in harmonization with laws and regulations of the EU and FDA. Transparency of domestic regulations and institutions (of production, turnover, quality control, import and export) alongside the administration of certain safety controls during the change-over period (minimum 5 years).

**Needed Investments:** Total needed investments amount to about \$US 150million for the period up to the year 2010. The period of investment capital return is relatively short, and the return rate large alongside a positive foreign exchange balance.

### c. Chemical industry

The role of the chemical industrial sector is to supply domestic enterprises with domestic inputs and increase export levels. In the field of export maximization, polymers, elastomers, organic chemicals and pneumatics are very important. This sector will be developing with the following annual production growth rates: 3.5% for the period 2001-2005 and 9.2% for the period 2006-2010. Export growth dynamics in this sector will be very high – the average annual export growth for the period 2001-2010 will be 15%, that is, a doubling every 5 years. The export of gross production of this sector in the year 2010 will be \$US 950-1000million.

#### **Development basis:**

- Presently built-up primary capacities of base chemicals and the possibilities of valuating available base chemicals through production development of accumulative derivatives.
- The existence of export markets and domestic demand.
- The existence of a competent labour resource.
- The opportunity of attaining needed cost competitiveness of products alongside the acceptable current non-cost level of product competitiveness.

**Domestic supply and export strategy:** 75% of products of the chemical industry go into reproductive consumption (agriculture, construction, other industries) and around 25% into personal and general consumption. Revitalization of current basic and processing capacities and construction of new processing capacities with the goal of maximizing domestic inputs and forming a strategy of competitive supply channels. Export strategy of the chemical industry is based upon higher levels of processing of raw materials from the base sector. Practically all investments should be export oriented.

**Key strategic action and changes:** Reconstruction and modernization of existing capacities (towards a revitalization programme) including parametric, techno-energy and ecological optimization of processes and formation. Construction of new export oriented capacities. Demonopolization in the supply of natural gas, and a world market price for large users that use gas as raw material. This is a precondition for survival and equal/competitive partaking in the market. Preparation of needed personnel for the period after 2010. Coordinated development of technology transfer and engineering services, for

the sake of more efficient technological development and increases in export services.

**Needed Investments:** Investments for the revitalization of existing capacities amount to \$US 200million and for the enlargement of productive and export capacities around \$US 850million.

**d. Automotive assembly and components industry**

The developmental role of the automotive assembly and components industry in the Republic of Serbia is a) raising quality of its products and services to the level of maximum possible for the needs of the global market. B) average coverage of up to 50% of domestic requirements for automotive assembly and components. C) maximization of its role in exports and decrease in trade deficits of Serbia. D) This sector will be developing with high growth rates: average annual production growth rate of 24% for the 2001-2005 period, and 32.2% for the period 2006-2010. The export dynamics of this sector will follow the production growth dynamics because the strategic goal is to export up to 30% of products of this sector to foreign markets until the year 2005, and over 50% in the year 2010.

**Development basis:**

- real needs and requirements of domestic transport and other industries for automotive assembly and component parts
- great world market demand for products and services of this sector
- automotive assembly and car industry in general is the most vital industry in the world
- Serbia has a 50 year old tradition and experience in this sector
- relatively good worker potentials especially with higher education
- current cost competitiveness and the possibility of attaining non-cost competitiveness in the near future.
- attainable export strategy and attainable strategy for creating foreign partnerships.

Industries of tools and precision mechanics have helped to build a stable foundation for the automotive industry.

**Export Strategy:** Export of final products of the car manufacturing industry (cars, trucks, buses, tow-cars, special vehicles, universal tractors). Strategic export markets: countries of the Former Yugoslavia and neighbouring countries, Russia and CIS countries, EU, Africa and Asia. Targeted export level is \$US 264million in the year 2005 and over \$US 1780million in 2010.

**Key Strategic Actions and Changes:** Strong relationships with strategic partners; product and technology restructuring; decomposition of current capacities to smaller companies; concentration of existing firms and functional integration of existing companies; liquidation of certain capacities and the creation and development of new (small, medium and large) ones; formation of a centre for harmonization with international technical, ecological and other laws; the formation of an information centre of the automotive industry.

**Needed investments:** Investments (production start-up, working capital, reengineering, product and capacity development) of an average annual rate of 10% of sector GDP. It is possible to achieve short periods of return and high return rates.

e. **Textile industry**

The aim of the textile industry is the re-attainment of its past export position through an enlargement of current export capacities. This sector, currently underutilized and jeopardized, is one of the most vital in Serbia, with a potential to develop at a growth rate of 9% for the period 2001-2005, and 7% for the period 2006-2010. Until 2004, the textile industry will export through finishing works almost 95% of its production. After the rejuvenation of its primary productions, in the period of 2005-2010 this industry will export over 60% of its total production.

**Development basis:**

- Very significant production capacities already exist.
- Textile agreement with the EU is already under negotiation.
- Great interest of former and new partners for cooperation.
- The relocation of West European textile industries to Mediterranean countries, the Balkans, the Near and Far East, Central America and Africa. This presents a genuine opportunity for Serbia to take part in the newly formed work segmentation.
- Current cost competitiveness and the opportunity to attain non-cost competitiveness in the future.
- Quality workforce geared towards the demands of the European market
- Only simple training is necessary to enable a large workforce to cater to a large number of jobs.
- Great possibility of opening new, flexible and small enterprises with small investments especially in underdeveloped regions.
- A stimulating environment for growth and development will result following privatization.

**Export Strategy:** Exports of textiles and lohn jobs at 95% of production, to markets of past and currently interested partners: Germany, Italy, Holland, Austria, France, Great Britain and Greece. Return to very accessible and absorbing markets of Russia and other eastern markets, and revitalization of the domestic market. The creation of conditions conducive to exports through vertical integration of primary production, final production and trade. Programs of domestic high quality brand design and development, with the ultimate goal of exporting the most demanding clothes to luxury and high-cost brand customers and eventually also to the majority of middle-cost buyers, by researching new markets in the Near East and in some African countries.

**Key Strategic Actions and Changes:** Enabling faster development through technological modernization of the most dynamic and most resistant firms that have good market access (parts of clothes industry, knitwear, rugs), and of firms that require little investment to become attractive to the European market.

Reduction of production, disintegration and liquidation of firms that do not operate through market mechanisms, or have very old equipment and low product quality. The strongest accent will be given to design and product quality improvement.

**Needed Investments:** Revitalization and enlargement of export production are possible through urgent investments of up to \$US 500 per worker, totalling \$US 50million and a further \$US 70million until the year 2010. After the recovery, the textile and clothes industries would use their own resources to fund their development.

#### f. **Agribusiness**

The key role of this sector is to develop national self-sufficiency in food production and an export surplus. This sector will be aggressively developed until 2005 due to a very low base in the year 2000. The annual growth rate of this sector for the period 2001-2005 is estimated at 4.7% while for the period 2001-2005 it is estimated to be 5%. The possible export component of this sector in the year 2010 is estimated at 20% GDP.

##### **Development basis:**

- Serbia's natural potential (the area of cultivable land per capita is above average for Europe),
- national demand characteristics absorb a large percentage of family budgets,
- dynamics of world demand,
- reputable R & D sectors, with no genetic modifications,
- the existence of developed processing capacities that merely require reconstruction and modernization,
- the ability to create a coherent agricultural policy and institutions that would implement it.

**Export Strategy:** Diversified and pending upon demand dynamics of target markets. The republics of the Former Yugoslavia and other countries of Southeastern Europe can absorb a greater part of strategic agricultural products: corn, oil cultures and oil, and some types of meat. Similar is true for the Russian Federation. EU countries import Serbian fruits, vegetables and processed food products: lamb meat, medical herbs and oils. Certain overseas countries like the US and Japan can be export markets for processed meats, high quality cheeses, fine wines and similar products.

**Key Strategic Actions:** Enlargement of farmland. Modernization of export capacities in the processing industry through strong business relationships with experienced foreign companies. Ownership transformation of large public agribusinesses without segmentation of individual property. Formation of an expert group for market research and export maximization, the majority of whom should be centred around agribusinesses and not around government.

**Needed investments:** Monetary subsidies from the agricultural budget are needed at the present rate of around \$US 150m annually. Necessary investments for watering amount to \$US 530m for the period up to the year 2010. The greatest investments will be undertaken by the producers themselves in individual agricultural sectors.



**g. Timber industry**

The developmental role of the timber industry in the Republic of Serbia is the long-lasting maximization of its role in the enlargement of export capacities and the lowering of trade deficits. If the appropriate conditions are met, this sector can achieve very high growth rates: a productive increase of the order of 10.8% annually for the period 2001-2005, and 17.6% for the period 2006-2010. The dynamics of export growth of this sector will be very high: in 2005 this sector will export, profitably and without export stimulus, around 60% of its key products. The same figures are expected for the year 2010.

**Development basis:**

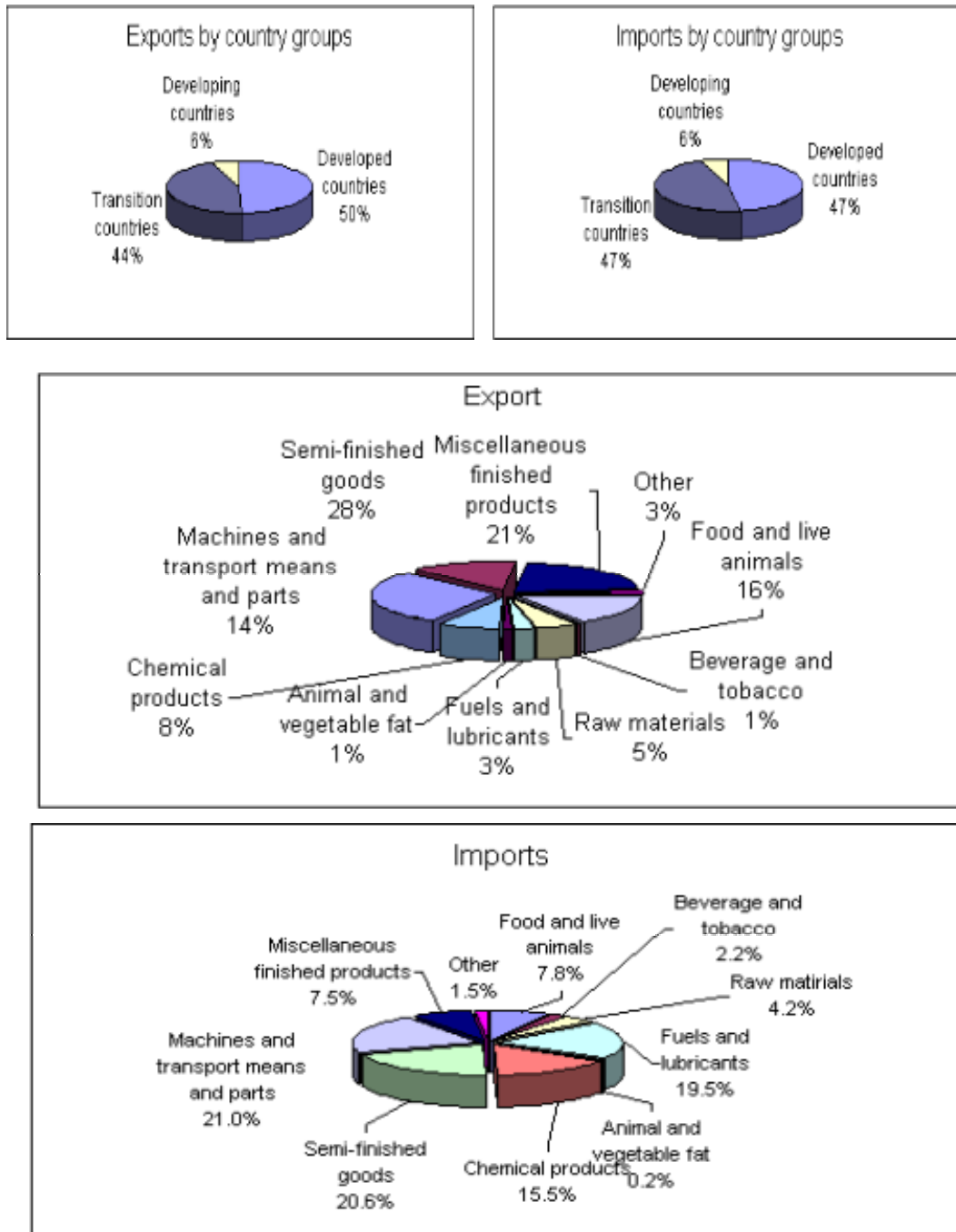
- Sufficiency and quality of domestic raw materials
- Growing demand for timber products in developed countries
- Relatively good current standards of timber industry
- Current price competitiveness and possible future non-price competitiveness

**Export Strategy:** Export of massif furniture; special program for chair exports; innovative design, quality and functionality improvements; focus on markets of Germany, France, Great Britain, Italy and Russia; increases in exports of finished products. Increase in the production and export of veneer, focused on the Italian, German, Belgian and Dutch markets. Increase in joinery exports, floors, and interior furnishings through overseas building projects, especially in Russia and the Near/Middle East.

**Key Strategic Actions and Changes:** Modernization of current capacities. Connection of cooperative producer-business coalitions with the goal of eliminating domestic competition on foreign markets. Decomposition of bulky timber complexes. Creation of a centre for the certification of timber products. Lowering of customs duties for the import of wood-preparing machines to 1-3% with the aim of rapidly modernizing technological processes, increasing wood product quality and wood product competitiveness.

**Needed Investments:** The total investments for technological and other modernization and enlargement of productive and export capacities of this sector for the 2002-2010 period amount to around US \$100million. The period of return is short (2-4 years) and the return rate is high.

The following charts illustrate **domestic exports and imports** by country groups and by industrial products.



Source: Republic bureau for informatics and statistics

### 3. Socio-economic infrastructure

- **Rail and road improvements** have been identified by the government as investment priorities. Despite extensive damage suffered during the previous decade years, the primary transport routes are already back to full capacity. All the remaining roads should be full reconstructed by the end of 2005. Priorities for the current period include Corridor X and Corridor VII networks, railways, air traffic control and airport infrastructure.

Corridor X will allow Serbia to recapture the bulk of north-south trans-European traffic, which will facilitate the movement of goods and trade within Serbia and re-establish regional linkages within the country. Investments are needed along the existing right of way with corresponding commitments from the fiscal budget to increase resources for road maintenance on a predictable basis. A Roads Law has been passed recently, addressing financing issues and how the network is operated.

**Railway operations** alongside **Corridor X** is governed by a new Railway Law which is currently before Parliament. The law provides for the establishment of central government support, regulates access by non-Yugoslav operators and allows for the separation of infrastructure from operations.



Corridor X

Corridor VII

- **Corridor VII – the River Danube** - is a vital pan-European trade route. It currently operates under significant free capacity and thus has the potential to become the backbone of a sustainable transport system connecting the Danube countries to the European market. Projects that will integrate the Danube into modern supply chains are thus of strategic importance to the Republic of Serbia and Europe.

Investments along corridors VII and X over the next decade may arise up to 3.5 billion USD.

- Major investment (154 USD) for upgrade will be undertaken for **the air traffic control system**. The Federal Air Traffic Control Association (FATCA) is responsible for operating the current network. The Government is currently evaluating an appropriate mechanism to finance a complete overhaul of the system including the option of IFI funding for transparent and competitive procurement.
- **Public utilities** require institutional reform to improve efficiency of service delivery and to ensure financial stability and accountability. Individual service

companies are not yet in a position to borrow given inadequacies in financial control and the generally low level of tariffs. In most cases they remain effectively divisions of the municipality itself. Progressively as these institutions cover their costs through higher service fees, impose reliable collection methods and demonstrate effective financial management, they will separate from the municipality and become independent companies. Local public utilities will also be offered as private concessions through public/private partnerships. A number of regulatory changes have already been put in place to allow greater transparency and accountability of local government finances which give local government the authority and financial capability to borrow and invest.

- **Environmental protocols and regulations** recently introduced contain new environmental law concerning the requirements for the sustainable use of natural resources and assessments of their ten-year impact on the environment. The attention given to environmental matters is truly unique for a country in its second year in transition. Environmental infrastructure has become a high priority for the government of Serbia.
- **The Energy sector** experienced heavy damage of infrastructure during NATO bombing. The investment needs for rehabilitations are estimated at 2.8 USD. The solution to the problems is in policy adjustment and reconstruction. Foreign aid Serbian budgetary resources have been channeled toward repairs in the electrical power sector and several plants had their capacities increased or restored in 2001. Resolution of the energy problem is an essential step towards attaining sustainable growth.

Power transmission, gas distribution, and the oil sector have been strategically designated for privatization. These sectors have also been problematic in recent years: the coal industry supplied thermoelectric plants with coal below cost, with corresponding losses financed through soft loans; oil refineries suffered significant damage during NATO bombing; natural gas is imported from the Russian federation (80% of consumption).

To obtain financing and cover operational costs, tariffs in these and other energy sectors are set to rise in the near future. Rehabilitation and import of electricity resulted in stable consumption. No shortages have been experienced since 2001. Managing the political impact of reform, particularly of tariff increases and public utilities, is currently a major challenge for the Government of Serbia.

#### **4. Commodity market**

- Serbia concluded a number of different trade agreements with other countries and regions in order overcome trade barriers:

##### South East Europe Free Trade Area (SEE FTA)

The basis for the South East Europe Free Trade Area was laid out in the Memorandum of Understanding on Trade Liberalization and Facilitation signed on 27 June 2001 by the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Federal Republic of Yugoslavia, FYR of Macedonia, Moldova and Romania.

The main points of this agreement are the following:

- Conclusion of bilateral free-trade agreements with all signatory countries by the end of 2002;
- Liberalization of at least 90% of mutual trade by the end of 2008;
- An appropriate common set of preferential rules of origin;
- WTO-consistent provisions for the application of antidumping, countervailing and safeguard measures;
- Transparent and non-discriminatory measures concerning public procurement, state aid and state monopolies;
- Harmonization of trade legislation with that of the EU (especially customs procedures, competition law, company law, company accounts and taxes and banking law);
- Intellectual property protection in accordance with the WTO standards.

##### The Effects of SEE FTA

The South East Europe Free Trade Area will be comprised of eight countries covering an area of 647 379 sq. km and a population of 59,6 million people. The strategic location, good growth prospects and abundant human and natural resources make the SEE Free Trade Area a location with considerable market, resources and economic potential.

The South East Europe region is a good location for the export of goods and services to the European Union, to Central and Eastern Europe and to Western Asia. The transport time is typically three to four days from manufacturing locations within SEE region to the above-mentioned destinations. Over 50% of South East Europe's trade is with the European Union.

South East Europe is the transport, telecommunications and energy crossroad between Europe, Asia, and Africa with six Pan-European Transport Corridors (IV, V, VII, VIII, IX, X) crossing the region and linking it to Northern and Western Europe, Russia, Ukraine, the Middle East and Central Asia. While the traffic density remains high, regional governments, in cooperation with the International Community, are investing billions of dollars in modernizing the infrastructure in key sectors, like transport, energy, telecommunications, water and environment.

The Danube River, together with the Rhein-Main Canal, is the most important link from the SEE Free Trade Area countries to the Western Europe. A new railway and road crossing between Bulgaria and Romania, to be completed by 2003 and situated in the lower part of the Danube, near Kalafat-Vidin, will add to the potential of the region.

In the region's telecommunication sector, telephone line penetration is high. However the mobile telephony segment is still undeveloped compared to that of the Western Europe. This offers a great opportunity for foreign investment.

Internet and IT market is constantly growing, with a high number of well-educated computer specialists developing high quality products at significantly lower costs than in the EU.

A well-developed education system, available throughout most of the region, reflects a modern economy. Illiteracy rates are low, compared to the neighbouring countries in Europe, ranging from 2% to 3%.

In addition, the number of people with a high-level education is comparable to the EU standards. Wages are quite competitive, with hourly compensation for production workers in manufacturing ranging from \$0,8 to \$1,3, compared to the EU average of \$20,2 per hour. Management salaries range from \$500 to \$1 000 per month, while skilled software developers can earn up to \$1 200 per month.

South East Europe is a rapidly developing market with a considerable potential for growth in the future. Political, economic and social reforms implemented in the region have created a healthy environment for profitable investments.

### Meeting the SEE FTA Obligations

The signatory countries have committed to concluding all bilateral Free Trade Agreements by the end of 2002. FR Yugoslavia is actively working to meet this deadline, and has already accomplished the following:

- **FTA with FYR of Macedonia** - A trade agreement with FYR of Macedonia has been operational since 1996. Currently the agreement is undergoing a revision to bring it in line with the WTO and EU regulations.
- **FTA with Bosnia and Herzegovina** - The Federal Republic of Yugoslavia and Bosnia and Herzegovina have agreed on the initial free trade agreement, which will facilitate the lifting of trade barriers between the two countries by 2004 on an asymmetrical basis. So far, the proposed agreement is to immediately abolish import duties for Bosnian products, except for:
  - crude oil and petroleum products and
  - protected and unprotected pneumatics.

For these two groups of products duty and customs rates will be reduced to 60% when the agreement comes into force; from 1. January 2003. customs duties will be further reduced to 40% and from 1. January 2004. imports of these two groups of products will be completely free. The same dynamics are to be applied in the case of the abolishment of import duties for Yugoslav products to Bosnia and Herzegovina. Export duties and technical obstacles are to be abolished on both sides. This agreement will set the rules for determining the origin of products.

- **FTA with Croatia** - Negotiations with Croatia are currently taking place. It is expected that this agreement will envisage a progressive reciprocal elimination of duties and customs. At the moment, each side is preparing a list of industrial and agricultural products to be fully liberalized within the time period to be agreed between the two sides.
- **FTA with Albania, Bulgaria, Moldova and Romania** – Preliminary consultations with Bulgaria were held in April 2001 in the context of the Joint Yugoslav–Bulgarian Commission for Economic Cooperation. The negotiations continued in Sofia in July 2002. Cooperation with Romania has started. A contract on free trade is going to be signed by the end of the year.

The official talks with Moldova are in the preliminary process. On 24. September Albania and Yugoslavia initiated a Free Trade Agreement.

### **Other Trade Agreements**

In addition to SEE FTA, FR Yugoslavia has signed a number of agreements with other countries and trade organizations.

#### **FR Yugoslavia and the World Trade Organization (WTO)**

FR Yugoslavia has applied for membership in WTO, and it has been granted an observer status in February 2001. Negotiations are ongoing.

#### **Free Trade Agreement with Russia**

A free trade agreement with Russia, concluded in August 2000, makes FR Yugoslavia particularly attractive to foreign investors and manufacturers. It provides for a gradual elimination of barriers to export of Yugoslav products to the Russian market by 2005.

The agreement stipulates that the importing country regulates the rules of origin, in accordance with WTO principles. The list of products not covered by the duty free agreement is updated annually, and it currently includes poultry, sugar, chocolate, alcoholic beverages, soap, cotton, carpets, wooden furniture, household appliances, and motor vehicles.

The accord is the first such agreement Russia has signed with any country outside the Commonwealth of Independent States. It is important to mention that although the agreement has been operational in practice for more than a year, it has not yet been ratified by the Russian parliament.

#### **FTA with Hungary**

The initial agreement with Hungary has been concluded and ratified by both parliaments. The agreement, which is asymmetrical and favours Yugoslavia, defines three categories of products:

- **The common list of industrial products**

both countries will relax the import duties until fully abolishing them by 2004;

- **Yugoslav list of sensitive products**

Yugoslavia will gradually reduce import duties until abolishing them by 2006;

- **Agricultural products**

the list of products will be revised on an annual basis, as will the quota and duty levels for the products on this list.

It is worth noting that the above agreement will be in force until Hungary joins the European Union. After accession, Hungary will automatically implement agreements that Yugoslavia has signed with the European Union.

#### **FTA with Slovenia**

An Agreement on Free Trade was initiated on 27 September 2002. After the signing and ratification of the agreement Slovenia will immediately abolish all custom taxes on industrial goods and Yugoslavia will abolish the custom rates gradually by the year of 2007.

#### **EFTA countries (Switzerland, Norway, Iceland and Liechtenstein)**

A preliminary declaration of cooperation was signed with EFTA in December 2000, pledging asymmetric treatment of Yugoslav products in the markets of the four member countries. This declaration has paved the way for a future free trade agreement between EFTA and FR Yugoslavia.

At the first official meeting of the working group in September 2001, EFTA has ascertained its commitment to following the dynamics of liberalization of Yugoslav trade with the European Union.

### European Union

The EU has taken steps to stimulate exports of countries in the region through the establishment of autonomous trade preferences (ATP) that provide duty-free entry for over 95 per cent of goods. Exemptions include wine, meat and steel.



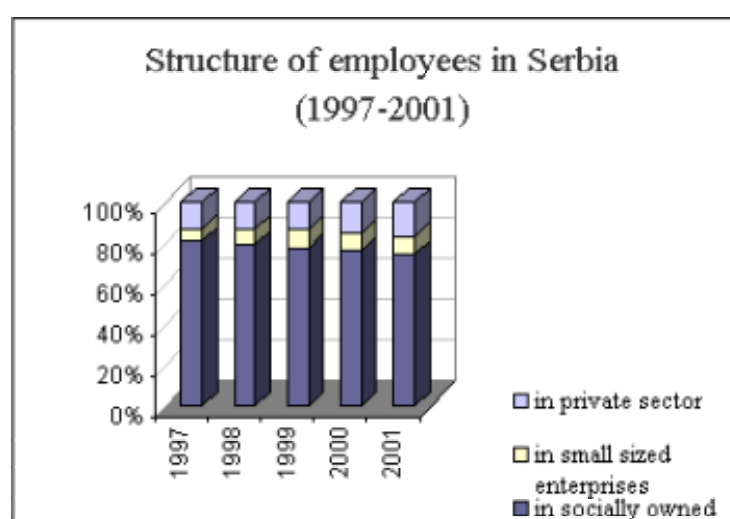
## 5. Labour market

- According to the information released in 2000, there are 2,149,911 people employed in Serbia, among which there are 1,253,015 men and 896,896 women. Average monthly salary is estimated at around US\$ 185. As for the further statistical breakdown of the labour market, please use the tables below;

Employed by the level of education		Total employment	
Higher (including Ph.D.s and MAs)	214.687	<b>Economic activities</b>	<b>1.689.912</b>
Ph.D.s and MAs	(14.547)	Industry	715.633
College	147.439	Agriculture	86.216
secondary vocational	836.188	Forestry	12.536
secondary general	554.174	Water works, supply	16.226
primary or lower	437.813	Construction	108.922
		Transport and communications	161.058
		Trade	298.852
		Catering trades and other	85.114
		Arts and crafts	81.618
		Public utilities	32.231
		Finance, commercial services	91.511
		<b>Non-economic activities</b>	<b>412.723</b>
		Education and culture	166.212
		Public health and other	131.650
		Public services and other	114.860
		Liberal professions	11.366

Employed by status of employment	
employers and self-employed	131.533
employees:	2.018.378
• in public enterprises	1.652.550
• in private enterprises	287.132
• in mixed and cooperative enterprises	78.696
unpaid family workers	156.739



source: Statistical yearbook 2000, Federal bureau of statistics

## Labour Act

- Introduction of new Labor Law – December 2001;
- Amendments on Pension Law – retirement age increased for women – 58 and men –63; further increase might be expected in the near future;

- Law on protection at work;
- General, specific(sector) and individual contracts.

The Labour Act brought the greatest pro market changes. It made labour market conditions comparable with the rest of Europe. This Act was the base for the beginning of the successful enterprises restructuring in Serbia. For the first time the stress was on entrepreneurs and employers not on unilateral protections of workers and Trade Unions. This is the main reason why gave a very detailed explanation on regulations considering labour.

**The most important provisions of Labor Act 2001 are as follow:**

The provisions of this Law apply to employees working in the territory of the Republic of Serbia with the domestic or foreign legal or natural person (the employer), as well as to the employees that the employer has send abroad.

The provisions of this Law apply to foreign nationals working with an employer in the territory of the Republic of Serbia, unless otherwise provided by the Law.

The Law does not provide the obligation of the employer to announce vacancies in the public information media. The employer may, however, announce vacancies in the public information media if he or she considers it necessary.

General requirements for entering into the labour relationship are: the employee has to be older than 15 years and to be medically fit to work (general work ability).

The labour relationship is established by a labour contract concluded between the employer and the employee. The Law does not prescribe the form of the contract.

**Types of Employment Contracts**

The labour contact may be concluded for an indefinite or definite period of time. If the labour contract does not stipulate the period for which the employment relations are being established, it shall be considered that the employment relations were established for an indefinite period.

**Working Hours**

Full working hours is 40 hours a week. The change to the previous Law is the provision that the employees with less than 18 years of age may not work longer than 35 hours a week.

It is obligatory to introduce reduced working hours for the work done under particularly difficult working conditions involving harmful effects on the employee's working and health capacity. The working hours are reduced in proportion to the harmful effects of the working conditions, but by not more than 10 hours a week.

The employee may not work overtime more than four hours a day and not more than 240 overtime hours in a calendar year.

The working week lasts five working days and as a rule the working day lasts eight hours, unless the nature of the task and organization of work require a different schedule of working hours, which is decided by the employer.

## **Leave and Absence**

### **Annual leave**

The minimum annual leave is 18 working days. The maximum duration of the annual leave, as well as longer leave for older employees and the employees working on the basis of reduced working hours is not prescribed. The Law does not prescribe the obligatory criteria for determining duration of the annual leave.

During the annual leave the employee has the right to compensation of the earnings in the amount that he would have earned if he had worked.

### **Absence from work with paid earnings (paid leave)**

Paid leave may not last longer than five working days in the calendar year.

## **Protection of the Employment**

### **Maternity leave**

Maternity leave lasts up to three months counting from the day of delivery. An employed woman may start using the maternity leave 45 days before the estimated date of delivery and is obliged to do so 28 days before the delivery.

Upon expiry of the maternity leave, the mother or father of the child may use the right to paid leave for the purpose of infant care for the total of 365 days, counting from the day on which maternity leave began.

### **Prohibition of Dismissal**

The employer may not dismiss an employee during the employee's pregnancy, maternity leave or absence from work for the purpose of childcare unless the employee has violated the working obligation or the employment relations were established for a definite period.

## **Wages and Salaries**

The Law provides that all employees should be paid the same for equal work, or for the same value of work, from the same employer. The earning shall be paid only in money, unless otherwise provided by Law.

The elements for determining the earnings are not established by the Law.

According to the previous regulations the earnings consisted of the price of work, the work performance, the time spent at work, the allowance for a meal at the place of work, the subsidy for the annual leave and the field allowance.

### **Increased earnings**

The employee has the right to increased earnings for the following:

- Overtime work;
- Work during public and religious holidays;
- Night work;
- Work in shifts.

### Minimum earnings

The Government, the representative trade union and the representative employers association establish the minimum earnings by mutual consent.

If the agreement is not reached the Government makes the decision. The amount of the minimum earnings is determined by the working hour. This means that the right to minimum earnings depends on the time spent at work.

### Compensation of earnings

The employee is entitled to compensation of the earnings during sick leave (65% of the earnings), occupational disease and injury at work, annual leave, public holidays and paid leave (100% of the earnings).

### **Termination of employment**

The Law provides that the employment shall be terminated in the following cases:

- By notice on the part of the employee.
- By notice on the part of the employer.
- Regardless of the employee's or employer's will.
- By mutual consent of the employer and the employee.

### **Redundancy**

The Law prescribes the obligation to adopt a program of solving the problem of redundancies only in the following cases:

- If the number of employees exceeds 50 persons.
- If the employer intends to cancel the labour contracts of more than 10% of the total number of employees.

The employer with less than 50 employees is not obliged to adopt the program of solving the redundancy problem, regardless of the number of the employees that he intends to dismiss.

### Severance pay

In the case of dismissal the employer is obliged to give to the employee a severance pay equalling not less than two and not more than five of the employee's salaries, depending on the insured years of service.

### **Collective contracts**

Conclusion of the collective contract is voluntary. The collective contracts regulate the rights, obligations and responsibilities in the field of employment relations. The Government and the Chamber of Economy of Serbia are no longer participants in the conclusion of the general collective contract

The collective contracts may be concluded as:

1. General - for the territory of the Republic
2. Special - for the territory under the local government or a unit with territorial autonomy
3. Individual - with the employer

## **6. Industrial policy**

### **A. Privatization**

Recent developments in the process of privatization are:

- Introduction of the Law on Privatization –May 2001;
- Establishment of Privatization Agency June 2001;
- Law on Share fund;
- Plan to privatize all enterprises by 2005;
- Two main methods of privatization – Sale of equity (no less than 70%; Free of charge distribution of shares- up to 30% to employees and citizens);
- Sale by tender and by auctions (English and Dutch models);
- Privatization agency organize and manages the sale of minority stakes owned by the state (through the Share fund) in the companies privatized according to the previous privatization regulations (around 900 companies);
- Total value of stakes in Share fund estimated at 2,5 billion USD;
- Over 100 companies planed to enter the process of divestiture in 2002;
- In 2001 privatized three cement factories; in the first half of 2002 additional 15 big factories; 44 large companies currently in process of privatization- for example :
  - Zastava – car manufacturer;
  - Largest chemical producers;
  - Largest paper producers;

The privatization process enjoys fully pledged support of the donor community. The World Bank financially supports the engagement of the most reputable names as financial advisors like Morgan Stanley, Nomura, CAIB, BNP Paribas, HSBC, Reiffeisen, Mainl Capital Advisory, Fieldstone etc. Simultaneously with tender sale of the big enterprises, the privatization of small and medium enterprises through public auctioning at the Belgrade Stock Exchange is well under way. The plan is to privatize around 1000 SMEs by year-end.

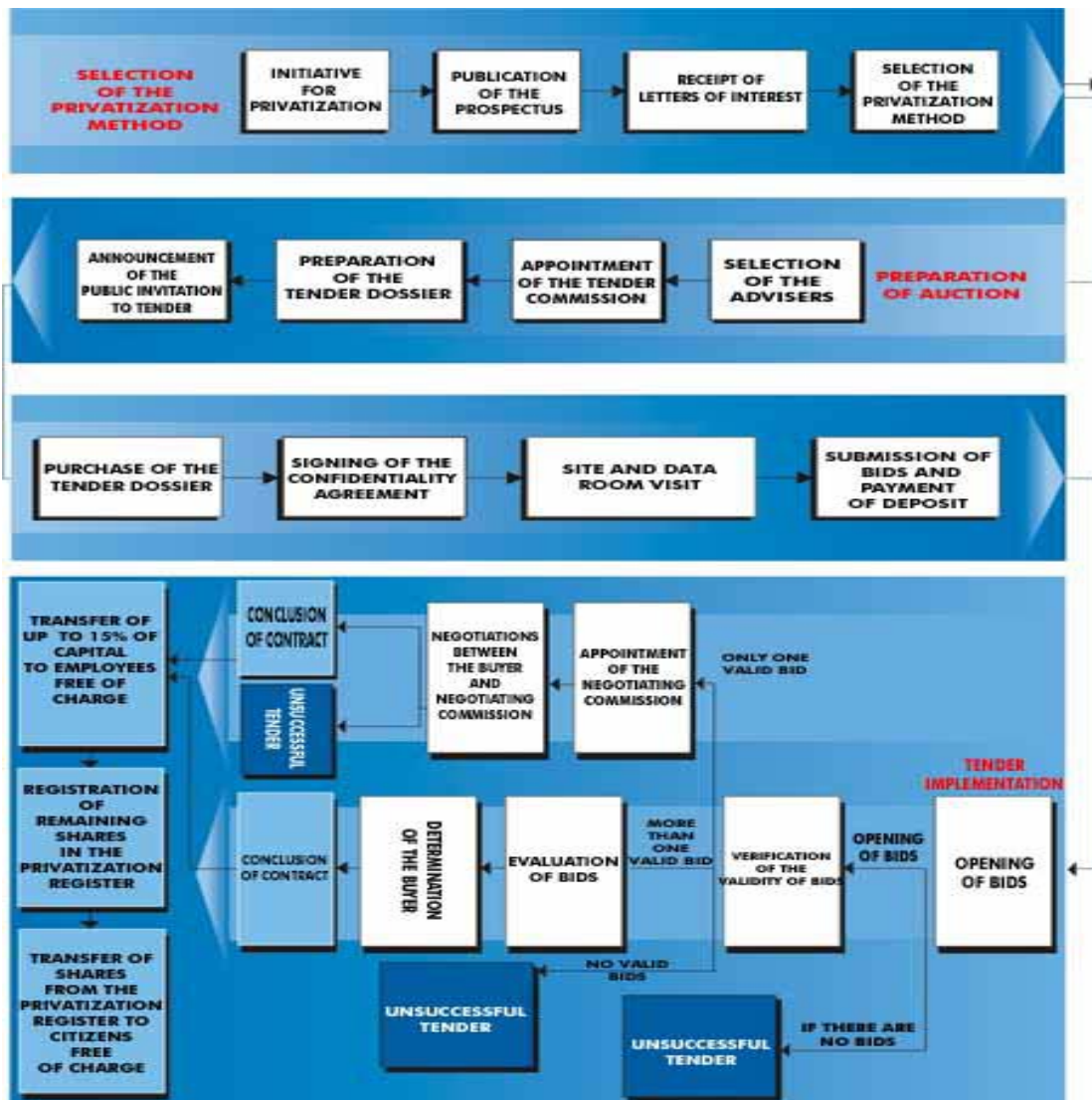
In the third of the privatization routes, the corporate and financial restructuring will take place prior to privatization. The restructuring has 3 phases, and it is expected to last between 18 and 48 months. Six enterprises have already entered Phase 1, and will be followed by additional 40 enterprises in the following year.

The Share Fund, the owner of equity that remained non-privatized under various privatization laws in 1990s, already collected some EUR 22 million in receipts for the sale of minority stakes in the six Serbian enterprises at the Belgrade Stock Exchange.

Natural resources, goods in common usage and goods of common interest are not included in privatization. The buyers of capital or land can be domestic or foreign legal entities or individuals.

Privatization process may be initiated only by the enterprise which is to be privatized, the Privatization Agency or Ministry for Economy and Privatization.

Privatization process starts with an initiative (the foundation act of the enterprise which is to undergo the process, with a corresponding letter of intent) and preparation of documentation (detail data on the subject which is to be privatized). The privatization process is illustrated below:



Privatization process.

For more detailed information on the privatization process, please visit the web site of the Ministry of economy and privatization at <http://www.mpriv.sr.gov.yu>

The speech by Serbian Minister of Economy and Privatisation, Mr. Aleksandar Vlahovic, as well as the FAQ section with regards to the privatisation process can be reviewed in the annex at the end of this document.

## **B. Anti-monopoly policy measures**

There is still a lot to be done in the field of anti-monopoly policy measures. Analysis of market structures in Serbia demonstrates a relatively high degree of supply concentration. Highest supply concentrations occur in the energy sector and heavy industrial sector. Non-manufacturing businesses, with the exception of transportation industries and industries that are legal monopolies, show a lower level of supply concentration. Civil engineering is one of the industries with the lowest levels of supply concentration due to low barriers to entry.

**Political** (non-commercial) risk has been a substantial barrier to new entries in the past, especially in the case of FDI, but also in the case of domestic private entrepreneurs and investors. Risk is perceived on the basis of political instability due to the weak coalition in power, political pressure for new elections, constant international pressure on the political affairs of the country and the uncertain future of the joint state of Serbia and Montenegro.

**Economic** barriers to entry are the most resistant of all barriers to entry as they are generated by factors that are hard to change or eliminate. Economies of scale represent a significant barrier for Serbia (and indeed many other small countries) as many companies require a certain threshold market size as a prerequisite for investment. This barrier can only be overcome by developing export markets. Furthermore, the underdeveloped capital market in Serbia, both in terms of financial and real capital, generates high costs of exit and entry to virtually all industries and constitutes one of the crucial economic barriers to entry.

**Institutional** barriers to entry are technically easy to remove but require strong political will. Although they have been slightly reduced over the past two years, current institutional barriers remain high.

**Foreign trade reforms** introduced at the end of 2000 and mid 2001 led to the abolition of non-tariff barriers, the reduction and simplification of custom tariff rates and considerable reductions in import procedure barriers. However, substantial barriers to import still exist, primarily tariff and technical barriers. Naturally, these barriers vary from product to product, the highest being in the case of agricultural products, consumer goods and durables.

Import barriers are being reformed within the context of joining the World Trade Organization and the obligation to conclude the agreements on Free Trade Zones. Import liberalization has most significantly reduced the supply concentration of durable consumer goods and capital goods. Industries producing aluminium, ceramics, glass, paper and iron products, construction materials, and the basic chemical industry were least affected. Thus the most non-competitive markets are those for raw materials and inputs and components.

**Domestic competition regulation** is codified in a Federal Competition Law, but there is also a whole string of laws and decrees regulating competition, some provisions of which are contrary to the Competition Law.

The competition legislation is exclusively concerned with the abuse of monopoly power and the consequences of non-competitive market structures – *not* with those structures themselves and *not* with the process of their initiation. As a result, it does not halt acts that lead to the creation of these structures. Therefore, the law does not provide for merger control, and does not differentiate between horizontal and vertical mergers.

Attempts to prevent free entry and exit go unpunished under the current legislation. Large powers of discretion are left to the authorized institution to decide quite arbitrarily whether a company has a dominant position and whether it is abusing it. Cartel agreements are punishable by law, even though they are not a violation of the law *per se*.

The central competition legislation is the Federal Antimonopoly Commission.



Generally speaking, the current legislation and accompanying institutional solutions do not satisfy the needs of a modern competition policy. This is largely due to the fact that existing legislation was made with conceptual solutions borrowed from the period of self-managed socialism. Consequently, **as it is not possible to reform the existing legislation, it will be replaced in its entirety.**

The introduction of new regulations will be accompanied by the construction of a new competition institution, primarily a Competition Commission, which will implement a consistent competition policy.

## 7. Trade and investment system

Serbian government quickly recognized the necessity to change domestic policies in order to attract foreign investment. This especially applies on legislation sector where dramatic changes are taking place. There is already new Law on Foreign Direct Investments which regulates national treatment for foreign investors. The new law provides freedom of payment, exchange and transfer for the investors. Furthermore, there is Law on Concession, which is awaiting ratification by the parliament. The Law on Concessions is aimed to provide modern investing environment in infrastructure. It also outlines sectors subject to concessions, simplifies procedure for giving concessions and provides regular tender procedures.

## **Trade liberalisation**

Trade liberalization was one of the first measures implemented as the Government took office. Though these regulations are under authority of the Federal Government of FRY all the laws were drafted within the Centre for Legal Reforms Ministry for International Economic Relations (MIER) Republic of Serbia. The area of foreign trade is regulated by the following laws: the Foreign Trade Law, the Customs Duties Law, and the Law on foreign currency transactions.

### **o Law on customs and Tariffs**

Law on Customs and Tariffs was enacted in June 2001. The new Law on Customs Tariff did not change the legal aspects of the previous law, but only modified the level of customs that are specified by the Customs tariff nomenclature, which is an integral part of the Law on Customs Tariff.

- The goals were: fewer tariff categories; simplification of procedures; removal of non tariff barriers, decreased tariff rates. Instead of 36 tariff rates, the new law contains only 6. The new rates are 1, 5, 10, 15, 20 and 30%.
- All restrictions were eliminated – no import quotas; minimal export quotas. Out of a total of 8538 products specified in the Customs tariff nomenclature, 296 require an export license, 344 an import license, while quotas regulate the export of 37 products.
- Customs duties were decreased: tariff rate were reduced from an average rate of 14,6% to 9,4% (level acceptable by WTO for developing countries); custom rate (clearance rate) reduced from 1% to 0,5%

### **o Law on Foreign Trade**

- The import and export of goods is free (LB), except for goods that are necessary for the adequate supply of the local market. The latter are regulated by export quotas and mainly relate to agricultural products (wheat, corn, soy beans, sunflower seeds, sugar, molasses, noodles made of sugar-beet, oil pies, cattle-feed and wood).
- In order to be imported or exported, certain goods require additional approvals from the following bodies:
  - Federal Ministry of Health and Social Policy.
  - Federal Ministry of Agriculture.
  - Federal Institute for Measures and Precious Metals.
  - Federal Institute for Standardization.

Detailed information on tariffs can be found on Serbian Investment and Export Promotion Agency – Business Opportunities in Serbia <http://www.siepa.sr.gov.yu>

- **The Foreign Exchange Law**

- New Law adopted in April 2000 significantly liberalized and simplified the foreign exchange market and the foreign payment operations.
- Dinar became convertible in Accordance with Article 8 of IMF
- Non-resident may freely make transfer of proceeds of current international transactions from a foreign currency, or dinar account, provided that has met the obligations with regard to income or profit taxes due to the amount to be transferred.
- Firms can make advance payments for exports of goods and services and simplifies foreign payment transactions, which will result in a significant decrease in banking costs.

### **Foreign investment regulations**

Government looks at the increase of FDI as the main instrument of achieving long-term balance of payment sustainability. To achieve this main reform has been done in a very short period of time. Basic legal framework was changed. In the Parliament is a set of laws to be adopted concerning additional incentives to attract foreign investors.

- **Foreign Investment Law**

- The new Foreign Investments Law came into force on January 19, 2002
- Long-term goal was to create a legal system that is compatible with the EU legislation.
- Law equalizes the rights and responsibilities of domestic and foreign investors
- The law regulates foreign investments in enterprises and other forms of establishment engaged in profit generating activities in the FR Yugoslavia.
- Foreign investments in insurance companies, banks, other financial institutions and free trade zones are regulated in conformity with federal law governing their founding and legal status.
- Foreign investment may be made by founding a new enterprise or by buying stakes or shares in the existing domestic enterprise
- Additionally, a concession may be granted to a foreign investor for exploitation of natural resources or goods in general use (e.g., roads) or for carrying out activities of public interest, in accordance with the law. B.O.T. (build, operate and transfer) schemes are also permissible.
- The separate law regulates the concessions.

### **A foreign investment is:**

- Investment in a Yugoslav enterprise granting the foreign investor stakes or shares in the initial capital of that enterprise;
- Acquisition of any other property right through which the business interest in the FRY is being realized.

### **Restrictions**

- Foreign individual or legal entity may not, by itself or with other foreign investor, establish an enterprise in the field of production and trade in armaments, or in areas defined as restricted zones by law.
- Foreign investor may establish an enterprise in the above-mentioned field and areas, or invest its capital in it together with a domestic entity, but without acquiring the majority rights in management of such enterprise and only upon the consent of the Federal Ministry of Defence.

### **Forms of investment:**

- A foreign investment can be in the form of foreign convertible currency, goods, intellectual property rights, securities and Yugoslav dinars, which are transferable abroad under the foreign exchange regulations.
- A foreign investor may convert its established claim into a business share or stake of the debtor company.
- A foreign investor has the same status, rights and duties as a domestic legal entity and enjoys full legal security and legal protection in respect of rights acquired by virtue of the investment.
- A foreign investor may, in the respect of any payment related to the foreign investment, freely convert domestic currency into foreign convertible currency.

### **A foreign investor has the right to:**

- Control or take part in management of the enterprise he has founded or in which he has invested his capital;
- Transfer the rights and obligations (set out in the investment contract or the founding act) to other foreign or domestic persons;
- Share and freely dispose the profit accruing from its investment;
- Inspect the books and business operations of the enterprise in which he has invested;
- Audit the interim and annual financial statements either himself or through an authorised representative;
- Foreign investor is also allowed to buy real estate business and residential premises, provided the reciprocity condition is met.
- Urban construction land is still state-owned, implying that a foreign investor (as well as a domestic investor) may be given only the right to use it, for which it's charged.
- A foreign investor may, once commitments are met in accordance with domestic law, freely and without delay transfer abroad in convertible currency all-financial and other assets related to the foreign investment (profits, dividends, additional payments, property upon dissolution of the enterprise etc.).

## **Foreign Investment Incentives**

- Foreign investor is free from paying customs duties and fees on the imported equipment on the basis of foreign investment, except for the passenger's transport vehicles and slot machines.
- Import of goods that represent the investment share of a foreign investor is unrestricted, providing such goods comply with environmental protection laws.
- A foreign investor and enterprise with a foreign investment enjoy tax and customs benefits in accordance with the law.

## **Concessions**

- New law in the Parliament waiting to be adopted;
- Under the existing Concessions Law, exploitation of natural resources or public goods is subjected to the provisions of this Law. Issuing of permits for undertaking public activities is also subjected to this law. The BOT contracts are specially noted in the law. Concession can be granted to both domestic and foreign citizen. The Law contains a list of relevant sectors (including oil, gas, minerals and telecommunications). At present, concession can be granted for 30 years at longest. The concessionaires are chosen through the public tender, while the result of the tender must be published.

## **Free Trade Zones**

- Companies which operate in the free trade zones are entitled to import and re-export products from these zones without restrictions and without paying the customs duties, charges or the Sales Tax. A permit for opening a tax free zone is issued by the Federal Government.
  - There are currently 12 free trade zones in Serbia with more than 170,000 square meters of production and storage space and related infrastructure. The free trade zones are located in Belgrade (with sub zones in Pancevo, Smederevo and Kovin), Sabac, Novi Sad, Sombor, Prahovo, Pirot, Lapovo, Sremska Mitrovica, Senta, Nis, Vladicin Han and Backa Palanka.
- There are also solutions suggested to simplify company registration procedure and the process of obtaining work permit and other permits necessary for performing business in Serbia:
    - a. One-stop shop**

The goal is to simplify procedures of obtaining permits by issuing all necessary documents in one spot as well as offering complete information about starting a business in Serbia.
    - b. Self-certification**

The person or entity submitting documents guarantees their authenticity, significantly accelerating the procedure.
    - c. Default approval of the administration office**

If the investor does not receive an answer from the administration office within the defined time period, approval is automatically given.
    - d. Business Ombudsman**

Position would observe the work of government administration and courts, reinforcing transparency.

**The following laws are to be approved by the end of year 2002:**

1.	Law on public companies and services of general interest
2.	Law on preventing conflicts of interest
3.	Law on denationalization
4.	Law on the construction
5.	Concession law
6.	Accounting law
7.	Law on banks and other financial transactions
8.	Law on telecommunications
9.	Energy Law
10.	Securities Law and Investment fund law
11.	International Arbitration Law
12.	Leasing law
13.	Anti Trust Law
14.	Law on Foreign Trade Regulations

**8. Dispute resolution systems**

- Serbia/Yugoslavia recognizes international arbitration which is regulated by the Law on legal proceedings. The court in charge of foreign trade arbitration at the Yugoslav Chamber of Commerce in Belgrade was established in 1947. There is a possibility of application the UNICITRAL rules. Serbia/Yugoslavia is also an endorsee of all important conventions related to arbitration: the Convention on recognition and application of foreign arbitration award in New York, the European Convention on international trade arbitration, and the Convention on settlement of investment disputes in Washington.

## **9. Institutions to promote foreign investment**

- Ministry of International Economic Relations of Republic of Serbia ([www.mier.sr.gov.yu](http://www.mier.sr.gov.yu))
- SIEPA – Serbian Investment and Export Promotion Agency ([www.siepa.sr.gov.yu](http://www.siepa.sr.gov.yu))
- Ministry of Privatisation ([www.mpriv.sr.gov.yu](http://www.mpriv.sr.gov.yu)) / Agency for Privatisation ([www.pa-serbia.co.yu](http://www.pa-serbia.co.yu))
- Ministry of Finance ([www.mfin.sr.gov.yu](http://www.mfin.sr.gov.yu))
- National Bank of Yugoslavia ([www.nbj.yu](http://www.nbj.yu))
- Federal bureau of statistics ([www.szs.sv.gov.yu](http://www.szs.sv.gov.yu))
- Chamber of Commerce ([www.pkj.co.yu](http://www.pkj.co.yu))
- Ministry of foreign affairs ([www.mfa.gov.yu](http://www.mfa.gov.yu))

## **ANNEX**



**Facts about privatization:** Supplied below are excerpts taken from a speech by Aleksandar Vlahovic, Minister of Privatization and Economy, at the opening of a parliamentary debate of the new legislation on privatization.

### **Public support**

*Governed by the fact that privatization is of extreme importance, not only for one political party, but for our entire society, we made an effort within the Government and the Ministry to set in motion a powerful public campaign, with the goal of educating all citizens and participants in the process concerning the new concept of privatization, in order to achieve the social consensus and consensus of all the participants in privatization. This was driven by the fact that even the best of privatization regulations will not have a chance for successful implementation if they lack support from participants.*

*In the course of the public campaign, we had more than 30 meetings with entrepreneurs across Serbia and eight talks with all the relevant trade unions where we presented the chosen route of privatization, the proposed concept of privatization. We also held presentations at five conferences, because all professionals should also support this Law on privatization. We had presentations at eight investment forums. We met also with privatization experts from other countries, who used privatization as a powerful instrument for effective transition. Thus, we consulted the former directors of agencies and ministers for finance from Hungary, Czech Republic, Poland, Slovenia, Estonia, therefore, from countries where the privatization process had been successful. We had strong support of the World Bank and its experts. In short, we made sure that we utilize all the positive experiences and practices that these countries had in the course of creating this concept of the Law on privatization and other corresponding regulatory acts that will enable the implementation of the privatization process in our country.*

### **State of the economy**

*We began by analyzing the present state of our economy when the creation of the privatization process was initiated. We came to the conclusion that the economy of Serbia today is in deep financial and operational crises, that we lack over 660 billion dinars of working capital, that the last year's accumulated losses exceed 500 billion dinars, that the external debts are extremely high for a country in transition, that the internal debt exceeds 847 billion dinars and that a latent insolvency is present, all this due to the economy with an inherited structure from the seventies and beginning of eighties. We have come to the conclusion that the process of privatization has to produce an open structure of the economy and capital for new investments.*

*That is why when I mention privatization; I actually mean investments, strong corporate governance and strong management. When I talk about privatization I do not mean that we should sell out Serbian enterprises. Here we are talking about the arrival of foreign strategic investors who will invest in our enterprises and our economy, who will inject the essential capital not only in the funds for the working capital but into the fixed assets funds as well.*

*When I mention privatization, I am thinking also about two other elements in the economic reform, those are: development of small and medium sized enterprises and direct investments into new industries.*

*I feel that privatization is a strong, powerful instrument in the transition of our country, due to the poor results in our economy to date. In the past, we had regulated the transformation of ownership from socially owned capital into other forms of ownership. Actually, we had laws whose headings spoke for themselves about the extent in which this country has been involved in the process of privatization.*

*For the first time, we have wide categories of participants in privatization. That includes not only the employees but also the structures outside, all citizens aged above 18, because I believe that all generations who contributed towards the creation of the social ownership have to participate in privatization.*

### **The social consensus**

*The social consensus is crucial; all citizens are welcome to participate, both the employed and unemployed. Our country has an unemployment rate of 27% and most of all, over 600 thousand of the employed are only working in enterprises which exist only formally and which failed to distribute salaries at regular intervals for more than six months, or even a year.*

*This army of people, of citizens, will get a chance to participate in a part of the privatization process. This package of regulations adequately forms a balance between the centrally conducted privatization process and the initiative to decentralize the process to the enterprise level.*

*In other transitioning countries, the privatization process of the entire economy was carried out by the state privatization agency. We did not think that this was appropriate, because we believe that management in our country is at a higher level than it was in the countries of central Europe in the beginning of the nineties.*

*For this reason, a large number of enterprises will be allowed a complete decentralized initiative and implementation of the privatization process. The Agency, as a central institution, will focus mostly on the privatization of the state-owned capital and privatization of the largest socially owned enterprises.*

### **What are our objectives?**

*Our main objective is to build an efficient economy. An efficient economy needs efficient privatization. Our goal, as well, is to have a clear ownership structure, since that is the only way to be efficient and to prevent illegal privatizations and detrimental contracts for the enterprise. When social ownership is present, there is no other way to prevent this.*

*Our goal is to maximize the inflow of foreign capital and foreign direct investment through privatization. That is why when I say privatization, I really mean investments in enterprises.*

*Our goal is to have strong corporate governance, and to have better management. Privatization will create a market economy where, in addition to the competition on the enterprise level, competition will exist among the workers and the management, where the management will be appointed according to their expertise and not political ties and connections.*

*Management's main task will be to provide the highest profit possible for the owners, and that will be the only criterion on whether they will stay on as managers or be replaced by better performing ones.*

*Our goal is to create an open and liberal economy through the process of privatization. In addition, we plan to support the development of the stock exchange, and to allow for all shares to be traded, including the shares from previous privatizations whose trading was forbidden in the secondary market. We hope that this concept will result in all companies being quoted on the Belgrade Stock Exchange.*

*It is certain that the above-mentioned procedure will be realized for the large enterprises. In accordance with that fact, we have created the basic premises, economic growth and social stability. Another important premise is the price, where the value of the capital is determined in accordance with the market conditions, based upon flexibility and complete transparency.*

*Because of these facts it would be beneficial to conduct a debate on these three laws, in order to be able to see things clearly. This time privatization is going to be compulsory and time-constrained.*

*Our task is to have a completely efficient, objective regulatory framework. As you have already seen, the object of privatization is going to be capital and property.*

### **Tenders and auctions**

*Even though it has not been explicitly stated in the Law, all large enterprises, their number not exceeding 150, will be privatized by tender privatization carried out by the Privatization Agency, and all small and medium sized enterprises will be privatized through auctions. We have more than seven thousand small and medium sized enterprises and we defined the auction privatization to be highly decentralized on an enterprise level.*

*The enterprise organizes and carries out the auction. The commission for auction just assists the auction while the enterprise completes the necessary preparations. The Agency organizes the tender, because the tender procedure is highly serious.*

*The Ministry and the Government have control over the Agency, therefore, it is not correct to say that the Agency controls itself. Governed by the principles of transparency of all the processes, we have delegated to the Agency responsibilities and rights making sure that the entities to be privatized are promptly announced to the public.*

*The overall transparency of the process will be guaranteed only when a coordinated, coherent action by all bodies is established. For that reason a proposal for the foundation of a separate committee, appointed by the Assembly, whose task will be to monitor all the processes, is necessary.*

*The law provides for a strong initiative coming from the employees in privatization through auction. In the case of auction, 30% of the employees, prior employees and pensioners have the right to distribute their shares. I expect that the competition will be formed within the enterprise and that several different groups will make their offers and compete for its purchase.*

*In the case of large enterprises we need strategic partners. Also, we need to offer our citizens a quality portfolio of shares and the Privatization Register, proposed by this law, has to contain a limited number of portfolio shares, which, once we complete the tender privatization, will deliver to the citizens shares from the Privatization Register free of charge, and I am confident that those shares will be traded on the stock exchange.*

*Only then, the citizens will be given quality shares and not worthless paper. That was our objective, to achieve this fairness.*

*In the tender procedure 70% of capital is sold to the buyer, probably a strategic partner, because here we are talking about large enterprises which require extensive investment, 15% will be distributed to the employees, and 15% will be distributed through the Privatization Register.*

### **How do we distribute the shares, and when?**

*First comes the sale and only then the distribution to the employees, because when you sell 70% of the capital for 7 million DEM, than you know for sure that 30% of the remaining capital is worth 3 million DEM; then there are no frauds, no illusions, and no surprises.*

*In that case, the person holding the paper will see that the nominal value is equal to the real value. The majority of the capital is in the hands of the strategic partner who has the finance to invest into the enterprise, taking into account the opportunity of those shares to grow. If we introduce the free distribution of shares, the economy would freeze and slowly sink further down, because the employees and all citizens do not possess the funds to invest, and do not readily see that the crucial criteria for participation is the amount of investments.*

*Therefore, the privatization through auction, with its incentives scheme, is based upon the assumption that all the various interested groups, employees, will compete. Besides the national currency, in accordance with the Foreign Currency Operations Law, we have allowed foreign currencies as instrument for payment, as well as the bonds issued for the old hard currency savings.*

*We have defined specific assignments for making use of the revenues.*

*Privatization will not produce unemployment. Unemployment already exists due to the inefficient structure of our economy. Privatization will resolve such problems: inefficiency, excess labour force, excess external debts and old hard currency savings debt that tumbled down through this inefficient economy.*

*These problems were derived from an erroneously structured economy. That is why we have to utilise the revenues of privatization in order to eliminate the negative effects. Based on the premises of the restructuring in Privatization law, we will use the proceeds of privatization i.e. revenues, to support the social security programs implemented in every enterprise independently, and also, use those funds for repayment of the external debts and of the old hard currency savings debt.*

*That means that the State is going to take over the existing debts, and these are going to be covered with the revenues from privatization. Why is the State taking over the responsibility to cover debts - because it has been estimated that we*

*have at least 30 large enterprises, unattractive for privatization due to their insolvency.*

*Part of the revenues should also be distributed towards special purposes like the compensation for owners of nationalized property, therefore, the restitution will be conducted wherever feasible. The restitution of property will be regulated by the Law on denationalization, but here we speak mostly about enterprises. Enterprises of today are not the same as the ones from 1944. The restitution of property is not feasible, therefore we propose financial compensation, because money is the most liquid of assets. We think it is the best possible way to deal with this problem.*

*Part of the proceeds will be used for the development of the small and medium-size enterprises, for the creation of the flexible economy.*

### ***Institutions conducting the process***

*In the case of the tender privatization, the decision making process is split between the Agency and the Tender Committee. The Tender Committee is appointed by the Ministry of Economy and Privatization with the aim to organize the tender, evaluate the bids, and participate in all stages of the bidding process. The Tender Committee has the last say.*

*When the Auction Sale is the case, the role of the Agency is only one of organizing of the Auction, all other activities are done by the enterprises. According to the Law, the Agency has to promote, initiate, conduct and control the process of privatization. The Agency is controlled by the Government, i.e. by the Ministry through the Managing and Supervisory Boards. Once more, I would like to mention that the Assembly will form a Committee, which will conduct monitoring and control related to all entities participating in the process of privatization.*

*What is the role of the Share Fund? The role of the Share Fund is to operate efficiently, that means to release shares from its portfolio and this should be done in the limited period of time. As you know, the Share Fund was created as a consequence of the previous concept of privatization and has little in common with the new concept of privatization, but nevertheless the Share Fund should operate with due professional care, which means that we care a great deal about the potential buyer of shares from the Share Fund. These are aimed, whenever the Share Fund sells more than 25%, at securing a strategic partner, which is why we shall negotiate with our enterprises with a view to forming a majority offer. Only by tender sale we can control the level of investment revenues. This will be the task of the Share Fund which will have to conduct this process within the period of six years with due professional care.*

*This Law does not include retroactive provisions. As promised the legal procedures will not include retroactions related to the privatization process, because retroaction would mean risk involved in ownership. Obviously the monitoring of all performed activities is a continuous process. Let me remind you that 400 enterprises entered the privatization process in the period from November 2000 to January this year, while prior to this period only 354. What is going to be our priority? Our aim is to create conditions for the transactions of shares on the secondary market. If we intend to develop financial markets, than it is necessary to abolish the Preferred Purchase Rights, because we are talking about the shares issued in the privatization process. With the Preferred Purchase*

*Rights in operation, the functioning of the Stock Exchange is out of question, it disables the operation.*

*Our task will also be to release part of shares from the Fund for Pensions and Disabled Insurance and to transfer these shares into the Share Fund. By the formation of the majority share offer we intend to attract prospective strategic investors to join the bidding process. Also we do not intend to keep 10% of shares in the Pension Fund, because they proved to be completely ineffective. 10% of revenues from the privatization will be available for financially strengthening the Fund.*

*The initiative, ladies and gentlemen, is on management, and I hope that this initiative will be used wisely and strongly, because we have strong support to conduct economic reforms in our country and that is it. We are talking about efficient transition, new economy structure, and about Privatization Law as a solid base which enables us to build an efficient structure of our economy.*

## **Section 6 – Industrial Policy – Privatization - Public Tender Procedure:**

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<b>What is a public tender?</b>	A public tender is a method of selling capital or property by obtaining offers from potential buyers through a public announcement in conformity with defined conditions of sale.
<b>When is a public tender used as a method of privatization?</b>	When an enterprise fulfills the criteria in terms of: <ul style="list-style-type: none"><li>• size (a large enterprise);</li><li>• strategic importance and</li><li>• there is interest from buyers</li></ul>
<b>What is sold by a public tender?</b>	Social or state capital of an enterprise is sold by a public tender. The value of that capital is expressed by the nominal amount or as the percentage share of that capital in the total value of an enterprise.
<b>What are the rights of employees in an enterprise privatized through a public tender?</b>	Employees may acquire shares free of charge up to 15% of the capital that is privatized. Through the preparation of the tender dossier and through their member on the Tender Commission, employees actively participate in the preparation of the tender conditions and criteria, as well as in monitoring the procedure and approving the results of a tender.
<b>What are the rights of citizens arising from privatization of enterprises by public tender?</b>	At least 15% of the capital of every enterprise privatized by public tender is for distribution free of charge to citizens. All citizens of the Republic of Serbia who are over 18 years of age at the time of the distribution of capital are eligible to participate.
<b>What is the Privatization Register?</b>	This is the register in which a record is made of the capital which is reserved for distribution among the citizens. Entries are made throughout the privatization process. Capital will be distributed within two years from the expiration of the period envisaged for privatization.
<b>Who organizes a public tender?</b>	A tender is organized and carried out by the Privatization Agency which may engage consultants for the organization of the tender and selection of the best offer.
<b>What are the powers of the Agency?</b>	The Agency is authorized to: <ul style="list-style-type: none"><li>• organize the public tender;</li><li>• prepare the tender dossier;</li><li>• issue the public invitation;</li><li>• organize a visit to the enterprise being privatized;</li><li>• evaluate the offers received from bidders;</li><li>• propose the selection of the best bid to the Tender Commission.</li></ul>

- What are the powers of the Tender Commission?** The Tender Commission, set up by the minister for privatization, is authorized to:
- monitor the tender procedure;
  - approve the results of the tender as proposed by the Agency.
- The Tender Commission consists of five members. Three members are the representatives of the Government of the Republic of Serbia, one member is the representative of the local municipality at which the head office is located, and one member is the representative of the enterprise being privatized.
- Who cannot be involved in carrying out the tender?** Neither persons from the Agency nor from the Tender Commission may be involved in the tender process if they:
- have ownership rights in the enterprise being privatized,
  - participate in the tender,
  - have a relative up to the third degree in a straight line who participates in the tender
- Who is eligible as a buyer in a tender?** A domestic legal entity or individual and a foreign legal entity or individual.
- Who is not eligible as a buyer in a tender?** Participation in the tender as a buyer is not permitted for:
- a domestic individual or legal entity who has not settled its liabilities under the Law on the Lump-Sum Windfall Profit Tax and
  - a subsidiary company in the case of the sale of the parent company.
- What are the stages in the tender process?**
- initiation of the privatization procedure;
  - preparation of the tender;
  - tender implementation.

<b>Who can initiate privatization of an enterprise and how?</b>	Privatization of an enterprise can be initiated by: <ul style="list-style-type: none"> <li>• the enterprise,</li> <li>• Ministry for Economy and Privatization,</li> <li>• A potential buyer.</li> </ul> by submitting to the Agency the initiative for privatization, which represents a written intent to privatize the enterprise.
<b>How is the public informed of the privatization of an enterprise?</b>	The Agency announces the Prospectus in the public media (press, television, the Internet).
<b>What is a Prospectus?</b>	A Prospectus is a presentation of the basic data about the enterprise being privatized by which the Agency invites potential buyers to submit their letters of interest.
<b>What is a letter of interest?</b>	A document expressing the interest of a potential buyer in the privatization of an enterprise.
<b>How is the enterprise informed about the selected privatization method?</b>	The Agency submits to the enterprise information about the privatization method selected on the basis of the Prospectus and received letters of interest submitted by potential buyers.

What are the restrictions on the enterprise during the tender procedure?	During the course of the public tender, the enterprise can make decisions on the following matters only with the consent of the Ministry for Economy and Privatization: <ul style="list-style-type: none"> <li>• capital increase;</li> <li>• capital decrease;</li> <li>• reorganization;</li> <li>• restructuring;</li> <li>• investment;</li> <li>• conclusion of long-term arrangements;</li> <li>• sale of part of the property.</li> </ul>
How is a tender prepared?	A tender is prepared in three stages: a) selection of the adviser and appointment b) of the tender commission; b) preparation of the tender dossier; c) announcement of the public invitation to tender and receipt of bids.
Who is the adviser and how is he selected?	The adviser is a consulting company, investment bank or a legal firm which has experts in the field of sale of companies, corporate finance, share sale and purchase agreements, etc. The selection of the adviser is made through public request for bids or by invitation.
What does an adviser do?	The adviser is engaged to provide technical assistance in the organization of the tender and selection of the best bidder. In cooperation with the enterprise and the Agency, the adviser prepares the tender dossier.
What is a public invitation?	A public invitation is an offer to potential buyers to submit their bids for the purchase of the enterprise. The date of the publication of the public invitation in the media (at least one daily paper, the Internet and, as required, the foreign press) is considered as the date of the opening of the tender.
How is the buyer informed about the enterprise which is being sold and about the tender conditions?	<ul style="list-style-type: none"> <li>• the confidentiality agreement;</li> <li>• information memorandum on the enterprise;</li> <li>• conditions and timing for participation in the tender;</li> <li>• description of the procedure;</li> <li>• timing and procedures of site and data room visit;</li> <li>• criteria for the evaluation of bids as determined by the Agency;</li> <li>• a copy of the Regulation on the Sale of Capital and Property by Public Tender;</li> <li>• draft share sale and purchase agreement and</li> <li>• other information and documentation necessary for sale by tender.</li> </ul>
What actions must the buyer undertake prior to submission of a bid?	A buyer is obliged to: <ul style="list-style-type: none"> <li>• buy the tender dossier,</li> <li>• sign the confidentiality agreement,</li> <li>• pay the deposit.</li> </ul>
Can a potential buyer visit the enterprise during the course of the tender?	Yes, after he signs the confidentiality agreement.
What is a deposit in a tender?	The amount paid which ensures that only serious potential buyers participate in the tender.
How is a bid in a tender submitted?	A bid is submitted to the Agency directly or by registered mail in a sealed envelope which contains another two envelopes: <ul style="list-style-type: none"> <li>• an envelope marked "original" containing the original bid and</li> <li>• an envelope marked "supporting documentation" containing:  <ul style="list-style-type: none"> <li>• a copy of the original bid;</li> <li>• documentation for identification of the participant (a copy of an identity card or passport, or a copy of the registration document for legal entities);</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>• certificate of the payment of the deposit;</li> <li>• the number of the bank account to which deposit refund in case the bid is not accepted, will be remitted.</li> </ul>
What is the procedure for opening bids ?	<p>Opening of bids is public and may be attended by all participants in the tender or their representatives, or agents with power of attorney. The Agency, in the presence of the Tender Commission, opens the bids and determines:</p> <ul style="list-style-type: none"> <li>• whether the bids were sent in on time</li> <li>• whether the envelopes marked as "original" and "supporting documentation" contain all the required information.</li> </ul>
What bids are considered invalid?	<p>A bid is invalid if it:</p> <ul style="list-style-type: none"> <li>• does not fulfill the tender conditions (as assessed by the Agency and confirmed by the Commission);</li> <li>• was not received on time;</li> <li>• is incomplete.</li> </ul>
Who evaluates the submitted bids?	<p>The bids are evaluated by the Agency, within 30 days from the date of opening the bids. At the proposal of the Agency, the results of the tender are approved by the Commission.</p>
What happens if there is only one participant in the tender?	<p>If there is only one participant in the tender, and the bid is assessed as timely and complete, the Tender Commission, at the suggestion of the Agency, may decide:</p> <ul style="list-style-type: none"> <li>• to complete the tender procedure with one participant with the aim of concluding a contract, or</li> <li>• to repeat the tender.</li> </ul> <p>If the tender is carried out with one participant, the minister in charge of privatization will appoint a new commission - the Negotiation Commission - which will complete the tender procedure.</p>
What is a tender list?	<p>A tender list is a list, done by the Agency that ranks bids according to predetermined criteria. The best bid is ranked first on the tender list.</p>
According to which criteria are the participants ranked on the tender list?	<p>The criteria for ranking the participants on the tender list are:</p> <ul style="list-style-type: none"> <li>• continuity of the enterprise operations;</li> <li>• investments in the enterprise;</li> <li>• social program;</li> <li>• environmental protection program;</li> <li>• price offered for capital or property of the enterprise.</li> </ul> <p>The offer of the tender participant for each of the criteria shall become an integral part of the Share Sale and Purchase Agreement.</p>
Who is considered the buyer of an enterprise at a tender?	<p>The buyer is the person whose bid, after the analysis of all criteria, is assessed as the most favorable, and who is ranked first on the tender list. The Agency shall inform this person of their selection and invite them to conclude the Share Sale and Purchase Agreement.</p>
How are participants informed of the results of the tender?	<p>Within three days from the approval of the results of tender the Agency shall inform in writing all ranked participants.</p>
Do the tender participants have the right of appeal?	<p>Yes. An objection concerning the legality of the tender procedure is to be lodged with the Ministry for Economy and Privatization within eight days of the day on which the result of the tender was announced. The ministry is obliged to make a decision concerning the objection within a period of eight days from the day on which the objection was received.</p>

When is the tender declared unsuccessful?	<p>A tender is deemed unsuccessful if:</p> <ul style="list-style-type: none"> <li>• none of the bids fulfills the conditions of the tender,</li> <li>• a satisfactory agreement was not reached in negotiations with a sole tenderer</li> <li>• the first-ranked bidder, and after that the second-ranked bidder on the tender list both refuse to sign the Share Sale and Purchase Agreement.</li> </ul>
Is the deposit refunded to the participants?	<p>The deposit is refunded to:</p> <ul style="list-style-type: none"> <li>• the participant who withdraws his bid;</li> <li>• the participant whose bid is assessed as invalid and</li> <li>• the participant whose bid is not accepted.</li> </ul> <p>The deposit is not refunded:</p> <ul style="list-style-type: none"> <li>• to a participant in the tender proclaimed as the buyer (it is credited against the sales price);</li> <li>• to a participant in the tender whose bid is evaluated as the most favorable, but who fails to sign the Share Sale and Purchase Agreement;</li> <li>• to the tender participant whose bid is evaluated as the most favorable, but who refuses to sign the contract or who fails to make payment of the sales price within the specified time.</li> </ul>
Who concludes the Share Sale and Purchase Agreement?	The Share Sale and Purchase Agreement is concluded by the buyer and representatives of the Agency and the enterprise.
What are the means of payment used in a tender?	<p>The buyer may pay the sales price in:</p> <ul style="list-style-type: none"> <li>• domestic currency;</li> <li>• convertible foreign currency;</li> <li>• bonds issued to the nationals of the Republic of Serbia according to the conditions for the frozen foreign currency savings of citizens, which mature at the latest by the date of sale of the enterprise.</li> </ul>
What happens if the buyer withdraws from the purchase?	If the buyer fails to sign the The Share Sale and Purchase Agreement within the specified time, the Agency shall offer it to the next best bidder on the tender list. If this bidder also fails to sign the contract, the Agency shall decide, in cooperation with the Ministry, on the further course of action.
By what means is it ensured that contractual obligations on the part of the buyer are fulfilled?	For each contractual obligation the buyer shall provide a performance bond issued by a bank, which is activated if the buyer fails to perform the obligation within the specified time or in the specified amount. The Privatization Agency regularly controls the execution of buyers' obligations.
When does the buyer become the owner?	The buyer becomes the owner of the enterprise upon the payment of the full amount of the contracted sales price, minus the amount of deposit, in accordance with the Share Sale and Purchase Agreement. From that moment on, the buyer takes possession of the enterprise and enjoys free use of the acquired property.
What are the legal consequences of the change of enterprise ownership?	The change of ownership of the enterprise capital is entered in the court register. Appropriate changes to the Statute and other internal regulations of the enterprise are also made, and the owner acquires the right to participate in the management of the enterprise in proportion to the amount of his ownership share.
Is the tender documentation preserved?	Yes. The Agency is obliged to keep the tender documentation at least three years from the date of the conclusion of the Share Sale and Purchase Agreement.

<p>Who receives the proceeds from the tender sale?</p>	<p>The proceeds from the sale of enterprise capital in the privatization process are paid to the account of the budget of the Republic of Serbia and are to be used for the following purposes:</p> <ul style="list-style-type: none"> <li>• 10% for financing the Republican Employees Pension and Disability Insurance Fund,</li> <li>• 5% for financing infrastructure development of the territorial region where the enterprise headquarters are based,</li> <li>• 5% for financing infrastructure development of the local municipality where the enterprise has its headquarters,</li> <li>• 5% for identification of persons whose property has been nationalized,</li> <li>• financing of the economic development and environmental protection programmes,</li> <li>• servicing of debts where the Republic of Serbia is the creditor or guarantor,</li> <li>• to cover the costs of sales incurred in the privatization procedure,</li> <li>• other purposes.</li> </ul>
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