Privatization

What it is

Why I should care

How it works

Jobs
Investment
Salaries
Revenue
Exports
Marketing
Production
Privatization

What kind of benefits would transparent and effective privatization bring to the people of Bosnia and Herzegovina?

The answer is simple: More investment, more production, more jobs, more exports, more tax revenue, more regional development. The list of benefits is long. That is why it is crucial to move the privatization process forward with renewed energy.

The governments of BiH have committed themselves to do just that. But maybe you want to understand privatization better? This brochure explains all that you need to know about privatization. What it is, how it works, and why you should care. Not only in the abstract, but also with concrete examples.

Bosnia and Herzegovina has no choice but to succeed in privatizing many public companies because reviving the failing BiH economy will reduce unemployment in the long-term. We are all responsible for making sure we are informed about the privatization process and engaging in dialogue about the issues that it raises. It is our responsibility to make sure that privatization is carried out successfully to ensure a better future for all citizens.

1 - Privatization drives economic growth
   Why privatize companies?
   Privatization of a company is successful if the three main actors are satisfied.

2 - Case studies
   Celex - Outstanding job creation through sound investment.
   Kiseljiak - Expanding production through private ownership.
   Nerfil - Resurrecting a company through private know-how.

3 - The next steps
   A strong action plan.
   A vital need.
There are several reasons why the public authorities may want to privatize a company.

1. To create long-term jobs and prosperity
   A well-privatized company is a company where private owners invest money in the long term. Over time, private investment creates new opportunities for stable jobs and often better pay.

2. To rescue a company from failure
   The state cannot operate the company anymore. The company may be too old or too unwieldy for the state to run it properly and jobs are at risk. Privatization brings investors with marketing expertise and export networks. As opposed to public owners, private investors take into account market factors, which ensure the prosperity of the company and its employees.

3. To bring long-term tax revenue
   The government needs long-term revenue to finance its budget and public policy programs. Companies run by private entrepreneurs are often more profitable and generate more tax revenue.

“Everyone knows about the vouchers for privatization, but that program ended. How does the BiH privatization program work now?”

Enes Drljevic, Coordinator of Northwest Bulldozer Committee

Response:
At the beginning of privatization, some companies were privatized through vouchers or certificates. This program gave workers and private citizens shares in companies, but it did not inject the capital investment and marketing "know-how" that was needed to revive these companies. Now, the privatization program is focused on revitalizing large "strategic" enterprises by selling companies to entrepreneurs through a tender process. The winner invests new capital, develops creative marketing strategies, expands export networks, adopts good management practices and increases production. Good privatization leads to strong, professional companies that provide stable jobs for workers and steady revenue for the governments through sales and exports.

“Getting the highest buying price is not the aim of the privatization process”

Goran Skrbic
RS Directorate for Privatization

What is important is a combination of several factors:
- the buyer’s investment commitment over time;
- the number of jobs kept by the investor;
- the buyer’s experience in the specific market.

The process aims to increase production and keep workers on the job, rather than provide a large, one-off cash payment to the public authorities. Follow the process step by step to see how it works.
If all three actors work together to determine the most appropriate price, the right investment commitment, and the best possible arrangement for the workers, the privatization will succeed.

**The Public Authorities:**
They are represented by the RS Directorate for Privatization, the Federation Privatization Agency and the Cantonal Privatization Agencies. Their aim is to sell a company on the best terms possible (amount of cash paid, amount of investment over time, amount of jobs retained). For strategic companies, the agencies often have to get agreement from politicians before they can go ahead with what they consider the best solution.

**The Workers:**
The unions often represent the workers who are registered at the company being privatized. In many companies, the workers may not have been paid for a long time. The unions often negotiate with the agencies and the investors to pay the arrears and preserve the maximum number of jobs. Issues such as employee benefits and training may also influence the unions’ acceptance of the potential private investor.

**The Investors:**
Investors buy companies to make a profit over time. They often negotiate with the privatization agency for the lowest buying price because they will inject capital investment after privatization. To determine the price they are ready to pay, they take into account the amount they will have to invest in rebuilding the company, modernizing equipment, marketing the products, bringing in new management practices, paying arrears and restructuring the debt.

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**What does the law say about the transparency of the privatization process?**

"The purpose [...] is to establish a secure legal environment for the privatization process of enterprises and banks and to permit that such process takes place as transparently and rapidly as possible for the benefit of the citizens of Bosnia and Herzegovina (BH)."

Framework Law on Privatization of Enterprises and Banks in Bosnia and Herzegovina – Preamble, Paragraph 2

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"Often in the past, the agencies were asking for a price that did not match the value of a company’s assets and the market. Several times, we were ready to rebuild companies, but only if the costs of capital investment and debt restructuring were factored into the purchase price. In some cases, the privatization agency agreed with us that investment and protection of worker’s jobs would bring much higher benefits to the public authorities and the citizens than a higher purchase price. Thanks to skilled workers and significant investment, this strategy has paid off."

**INVESTOR**
Dr. Alfred Matzka
Managing Partner
Horizonte Venture Management

"It is clear to us that the unions should support privatization, as long as it is a clear and transparent process. It will bring progress, create stable companies, offer job security to workers, and can contribute to strong social programs in the governments. The unions want to play a central role in the new phase of privatization to ensure that the process is transparent, free and fair, that responsible investors are buying the companies and that workers jobs are protected."

**UNION**
Edhem Biber
Federation Trade Union Leader

"Privatization is an integral part of the economic recovery of Republika Srpska and the creation of a free market economy. We are now entering a new phase where the restructuring of companies is taken into account in the tender process. This means greater cooperation with investors from the start."

(RS Directorate for Privatization)

"Privatization provides the basis for the improvement of efficiencies in production, access to international markets and “know-how”, new technology and improved management techniques and access to new investment opportunities."

(Federation Privatization Agency)
Privatization Case Study
Outstanding job creation through sound investment

Business card

SHP Celex, a.d., Banja Luka

Products: Hygienic Paper Products
Privatized: November 2001
Investor: Ecoinvest, Slovakia
Employees: 420
Sale Price: 500,000 KM
Investment: 17.5 million KM since January 2002
Exports to: Italy, Poland, Spain, Denmark, Great Britian, Hungary, Czech Republic, Slovak Republik, Slovenia, Serbia and Montenegro, Macedonia

Steep decline during public ownership
“The situation before privatization was desperate. Privatization was the only way to improve the lives of the workers’ families and ensure steady pay-checks.”

A Trade Union representative

Before privatization, SHP Celex was part of Incel Holding, Banja Luka, and was one of the largest producers of hygienic paper products in the former Yugoslavia. From 1995 to 2001, “the state” continued to manage the company, but without the ability to market products, restructure the company, and pay salaries to the employees. By 2001, the company had shut down and its employees were no longer working or being paid.

Privatization agency launches Incel tender

Ecoinvest bids for Incel Holding’s company

Ecoinvest wins

November 2001 - Purchase contract signed for 500,000 KM

General Assembly transforms the company to SHP Celex J.S.C.

17.5 million KM invested by Ecoinvest Slovakia in 17 months

WHAT DIFFERENCE DID IT MAKE TO PRIVATIZE CELEX?

Privatizing the company benefited workers and the BiH economy.

1 Privatization has ensured long-term jobs
With the collapse of the Incel Holding factories, the community suffered from the loss of industry. When the factory was privatized in 2001 only 17 out of the company’s 288 registered employees were still working in the factory, and they were not being paid regularly. Today, 420 people, including the original 288 employees, are employed by SHP Celex and all are receiving salaries, health and pension benefits.

2 Increased production
In 2001, the factory was producing less than 3,000 tons of paper products. Now, just one year after privatization, the company runs with production capacity of 26,000 tons/year. By the end of 2004, SHP Celex plans to expand production to 40,000 tons/year.

3 Benefited the entire community
Since SHP Celex increased production in 2002, the workers are paid, more truck drivers have regular contracts, spare-part suppliers have increased business, and the government now receives significant tax revenue that benefits the community.

Before Privatization
- Public authorities, 100%
- Pension funds, 0%
- Restitution, 0%
- PIFs, 0%
- Private, 0%

After Privatization
- Ecoinvest, 65%
- Pension funds, 10%
- Restitution, 5%
- PIFs, 20%
- Public authorities, 0%
The employees: “We feel a sense of responsibility”

“The trade union participated in the tender negotiations and the process was fair and transparent. With careful negotiations between Ecoinvest and the trade union, the investor and the workers were able to reach an agreement on workers’ status and investment plans that satisfied all parties. Now, we have increased job security and we also feel a sense of responsibility for the success of SHP Celex. We know that our efforts to increase production mean more jobs and higher salaries for all of us.”

Rade Vranjes, Celex Trade Union Chairman representative

The management: “We can finally apply free-market and good governance principles”

“I have been working at the factory since graduating from University more than 30 years ago. This means that I have grown with the company. I have seen it while it was operated under public ownership and I have seen it under private ownership. I can clearly see the benefits of private ownership. Now the company has become large and profitable as a member of the international “Slovak Hygienic Paper Group”. Under private ownership, it is possible to apply free-market principles and good corporate management that benefits both the production and the workers.”

Milan Milakovic, SHP Celex Deputy Director

The public authority: “They are professionals of this market. The public owners were not”

“SHP Celex is one of the most important exporters in Republika Srpska. In one year, SHP Celex has exported 1,600 tons of paper products, which is 84 percent of the company’s total production. Growing exports are essential for revitalizing the economy, providing revenue for social services, and creating jobs. All this has happened because of the important amount of investment that was brought into the company by the new private owner. On top of bringing a lot of money to reconstruct and modernize the company as well as to invest in workers’ skills, Ecoinvest is very experienced in marketing paper products internationally. They are professionals of this market. The public owners were not.”

Goran Skrbic, RS Directorate for Privatization
Privatization Case Study
Expanding production through private ownership

Private ownership revitalized a company that has served generations in BiH.

“Citizens have been drinking this mineral water for more than one hundred and fifty years. The only way to preserve that heritage in a cost-effective manner was to move towards a market-driven approach. Privatization allowed just that.”

Branko Pusic, Secretary of the Company, Kiseljak Water

Privatization has increased Kiseljak production, domestic sales and exports.

1 Privatization has increased production by 50%
A skilled labor force, 24 million KM in investment and responsible management has allowed Sarajevski Kiseljak to exceed pre-war production in only a short time since privatization. By the end of 2003, the company will have exceeded pre-war production levels by 50%. This rapid growth in production is a sign of a strong company that has developed a stable market for its products.

2 Increased distribution and exports benefit all in BiH
Kiseljak products are sold domestically to more than 10,000 retail shops, whose revenue increases with each and every bottle they sell. This widespread domestic distribution also spurs growth in the Business to Business sector. For instance, more than 100 suppliers sell components or services to Kiseljak. On the export side, Kiseljak used to export 2% of its production two years ago. Today, it exports 15%. This kind of growth reduces the trade imbalance of BiH.

3 Stable jobs
In 2000, before privatization, 100 people were employed by Sarajevski Kiseljak. All of these people retained their jobs after privatization. With expanded production and markets since privatization, Kiseljak has been able to employ an additional 85 people. Which means that today, 185 employees receive regular salaries and benefits. Among the benefits that the workers receive, continuous education and training is an important part. The average age of the employees is now 37 years old, as opposed to 45 before privatization.
The Union: “Everyone can see that things are better”

“In the beginning, the trade union and the workers were against the privatization of Sarajevski Kiseljak. We were afraid that it would mean cuts in jobs. Now, though, we see the benefits of privatization. Through private ownership, export markets are growing and increasing exports requires higher production and more workers. Privatization has been the way to achieve greater job security and regular salaries for the workers. Everyone can see that things are better.”

Mr. Pavo Rajic, Kiseljak Employee for 20 years

The management: “Today, Sarajevski Kiseljak exports 15 percent of total production”

“We are not limited by public ownership anymore. We can take full advantage of the network of customers and suppliers provided by our private investor, Jamnica. We are now part of the larger investment group Agrokor, which has 10,000 skilled water industry people. We benefit from Agrokor’s know-how, export network, consumer access and marketing expertise. This was extremely helpful to meet and exceed EU standards, which brings us one step closer to the EU market.”

Mr. Tomislav Sliskovic, Sarajevski Kiseljak Director

The investor: “We achieve top-class results”

“We achieve top-class results by implementation of innovative technology, up-to-date methods of environmental protection, educational and professional development of employees, a team-work environment, and promoting the highest value of professional ethics at all levels.”

Jammica Website
In August 1999, only 17 employees were still working. In October 2001, Lemano buys the company through the Cantonal Privatization Agency for 1KM. After extensive repairs and 7.5 million in investment, the company reopens as Nerfil in December 2002.

Today, 232 employees are receiving regular salaries and benefits.

Business card

Nerfil, Mostar

Product: High-quality cotton-elasthan blend thread used by textile companies such as Benetton and Fila

Privatized: October 2001

Investor: Lemano Company, Switzerland

Employees: 232

Sale Price: 1 KM

Investment: 7.5 million KM since October 2001

Exports to: France, Greece, Holland, Italy, Turkey

A long but successful tender process

Lemano and the Canton 7 Privatization Agency were able to reach an agreement on terms of privatization in 16 months.

The share purchase agreement was signed in October 2001 for the sale price of 1 KM. This price reflected the value of the assets estimated at 19 million KM minus the liabilities that Lemano had to pay in company debt to banks, suppliers, and employees, as well as the cost needed to rebuild the company facilities that had been heavily damaged during the war.

Lemano agreed to re-employ the 215 employees on the waiting list and invest 2.5 million KM in capital.

Today, with 232 employees hired and 7.5 million KM invested, Lemano has exceeded the requirements of the purchase agreement.

Privatization revived a company that could no longer produce or pay employee salaries.

Resuming production has saved jobs

Since resuming production in December 2002, all of the original employees have been rehired. Today, 232 employees are receiving regular salaries, pension benefits, and health insurance. The successful restart of production has been possible because of the high degree of skill of the employees and Lemano’s commitment to invest new capital, explore additional product markets, and ensure good management.

Increased production and exports

Nerfil operates 7 days a week, 24 hours per day, and is currently producing between 50 and 85 tons of cotton-elasthan thread per month according to the market demand. Nerfil is currently exporting 60 percent of its product to Italy, with the remainder of the product going to France, Germany, the Netherlands, Turkey, and Greece. The company hopes to double its capacity for production by the end of 2004, and is exploring new export markets in Spain, Poland, Belgium, Hong Kong and the United States. Increased production and exports means more jobs for workers.

“A brilliant future”

The General Manager, the trade union, and the employees of Nerfil are all extremely optimistic about the future of the company. With the high level of employee skill and dedication, the substantial investment in modernization, and Lemano’s efforts to expand its export market, Jean-Paul Bondaz is right to expect “a brilliant future for this company.” The success of Nerfil guarantees workers’ jobs and a stable future for their families.
The Union: “Privatization has given the employees hope and reliable salaries”

“For ten years, the employees of Tekstilni Kombinat did not know if they would ever have a reliable job with the company and they were struggling to care for their families without salaries. In August 1999 when the company closed, the employees could not have imagined that they would soon have reliable jobs in a new factory under private ownership. Privatization has given the employees hope in the future of their company and reliable salaries for their families.”

Branka Repesa, Nerfil Trade Union President

The management: “The employees have played a very important role in the success of Nerfil since privatization”

“The employees have played a very important role in the success of Nerfil since privatization. I was extremely pleased to see the level of technical skill of the company’s employees. Their skill and dedication was extremely important as the company struggled to resume production in 2002 under very difficult conditions. In 33 years of working in the textile industry, this is the best quality product I have ever seen and Nerfil is within the top 5 percent of spinners in the world.”

Jean-Paul Bondaz, Nerfil General Manager

The Canton 7 Privatization Agency: “The sale price was not important”

“Negotiating the purchase agreement with the investor, Lemano, took some time because the price of the company had to be reduced. The tender price was not realistic considering the amount of economic and physical damage the company had suffered over time. Our main goal was to resume the company’s production and rehire the workers. Eventually, we agreed on a sale price of one KM, which allowed Lemano to purchase the company, repair the facilities, purchase new equipment and rehire the workers. It is clear to us that the sale price was not important after all. The money Lemano has invested to build a strong company has been much more valuable to the people of Canton 7 than a high sale price would have been. For instance, since the firm was privatized, the company has paid around 60,000 KM each month to the Canton and Municipality in taxes and contributions. Before privatization, the company was not able to pay any taxes, since it was not operating at all.”

Maid Ljubovic, former Director and Deputy Director of the Cantonal Agency for Privatization
Privatization
The governments’ next steps: tender 10 companies

A strong action plan

During the June 15th 2003 session of the Coordination Board for Economic Development and European Integration, held in Mrakovica, representatives of the BiH Council of Ministers and the Entity governments discussed the action plan for the implementation of the most important reforms over the next six months. One of the key elements of this action plan is to re-start the privatization process. They committed themselves to launching tenders for at least 10 companies within the next six months. Many of these tenders will be launched this summer.

“We will successfully tender 10 companies”

Chair of BiH Council of Ministers Terzic, Prime Minister Hadzipasic, Prime Minister Mikerevic and representatives of the International Community in Mrakovica on June 15th.

10 tenders – What does it mean?

A good tender is a realistic and transparent tender. The price of the company should be determined by taking many factors into account.

Watch the newspapers to see if the government representatives launch at least 10 tenders, and if they identify a buyer for each company. Use your judgment to determine whether the price demanded by the privatization agencies is right or not, and if it corresponds to realistic market conditions.

How to judge if a tender is realistic and has a chance to succeed?

Just use your common sense and answer these questions

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<th>Example</th>
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<tr>
<td><strong>E Company</strong></td>
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<tr>
<td><strong>Product</strong></td>
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<tr>
<td><strong>Number of employees</strong></td>
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<tr>
<td>13 active, 76 inactive</td>
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<tr>
<td><strong>Debt Liabilities</strong></td>
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<tr>
<td><strong>Planned Tender</strong></td>
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<td><strong>Responsible Agency</strong></td>
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<td><strong>Reason to Privatize</strong></td>
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Does this company have a recognizable name in the market?

Will the investor have to pay debts and arrears on top of sales price?

Who is controlling the process? Is all information public?

Is there a market for the product and are there existing clients?

How many workers are actually working? How many are just “on list”?

What will happen to this company if it does not get private investment?

D. Stojnic
Many workers, agencies and political representatives support the privatization process for one simple reason: Without the injection of private capital, companies will fail and jobs will be lost.

What do government and private sector representatives say about privatization?

**TERZIC:** “Privatization is NOT stealing from the State”

“The benefits of privatization to the state are enormous. Privatization is not stealing from the state. Many of these failing companies are a burden to the state, which cannot manage them effectively. Meanwhile, the workers continue to be unemployed. I vigorously support privatization because it can revive our economy.”

**HADZIPASIC:** “The only way to save companies and jobs”

“I used to be in business, so I know what it takes to run a company, and I can see that if some companies do not get privatized urgently, they will simply fail. The only way to save those companies and all the jobs that go with them is to privatize them. In the Federation, we are now giving full support to the Privatization Agency so that the process can move forward more rapidly. We are doing this so that all citizens can benefit from companies that are salvaged through private investment.”

**MIKEREVIC:** “I commit to a non-political and transparent process”

“One of the mistakes of the first round of privatization was that the politicians usually wanted to be involved. That created an unfair process sometimes. Now, I personally commit to making the privatization process non-political and transparent. We are no different from other transition countries that also had to go that way. We are now applying the same good practices they used.”

**HAJRIC:** “Bringing much-needed foreign investment into the country”

“Today, we live in a global market. In order to succeed, most companies need to export and to be linked to a wider distribution network with neighboring countries. Only a private investor enables that. Even if a company is working fine under state ownership, the benefits of an experienced investor in terms of know-how and market connectivity are enormous. Private ownership will bring new technology and will help reduce the gap between us and the other countries in Eastern Europe that have already undergone transition. I see privatization as an opportunity, not a threat. An opportunity to bring much needed foreign investment into the country.”

**BULLDOZER COMMITTEE:** “The private sector is demanding rapid privatization of more companies”

“The achievement of the Bulldozer Committee in passing 50 economic reforms has proven that we know the conditions that need to be in place for a good business climate. Now, the private sector is demanding more privatization because private ownership is a key element of a healthy modern economy. As representatives of the private sector, we can see that first hand every day. Many companies with huge potential are rusting and abandoned by the state. Private owners could invest money and technology in order to make these companies modern, profitable businesses that produce quality Bosnian goods that could be competitive in foreign markets.”
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