

GUIDELINES

Socially-Sensitive Labour force Restructuring in South Eastern Europe

SERBIA

Case Study on Labour Force Restructuring in Serbia

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Introduction

This report briefly reviews the course and effects of privatisation and restructuring in Serbia. It also provides an overview of the key macroeconomic indicators during the implementation of intensive transitional reforms and analyses the basic problems and challenges facing the real sector of the Serbian economy in the course of economic reform.

The focus of the analysis was the course, outcome, experiences and problems encountered in attempting to deal with redundancies, one of the most painful aspects of the transition. The process of workforce restructuring and its results are illustrated by four case studies of Serbian enterprises:

1. Serbian Railways, the only public enterprise that has significantly reduced its workforce in the period since 2001;
2. RTB BOR, a large company in nonferrous metallurgy;
3. Zastava Group, sole producer of cars in Serbia;
4. Goša Holding, leader in the production of railway rolling stock and sole producer of passenger cars in Serbia.

Besides their important positions in the Serbian economy, the analysed companies are either the sole enterprise or the leader in their sector, and so particularly important as regards their methods of workforce restructuring and of assisting employees who were made redundant.

Given that the privatisation of socially-owned enterprises is in its final stages, and that the privatisation and restructuring of a wide range of state-owned is yet to come, the experiences described here will be useful in the course of the upcoming workforce restructuring and in taking measures to reintegrate those who become unemployed.

The National Employment Service (NES) would also benefit from this knowledge, particularly in the design, promotion and implementation of active labour market measures.

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1. Restructuring: Effects and Experiences in Serbia

1.1 The Serbian Economy

Real economic growth and recovery, as well as intensive transitional reforms, were initiated in Serbia in 2001, after the election and the political changes which took place in October 2000. Since then, after seven years of intensive transitional changes, a considerably more favourable economic environment has been created and major changes have taken place in terms of institutional infrastructure. Major developments include: respectable GDP growth, a reduction in inflation, dynamic growth in industrial production, exports and wages, rehabilitation of the copper industry, revival of financial markets, an increase in foreign currency reserves, the intensification of privatisation and the restructuring of the real sector of the Serbian economy.

Despite high real growth rates and a marked recovery in relation to the 1990 level, Serbia's GDP is among the lowest in Europe by purchasing power parity. Applying EUROSTAT methodology, GDP by purchasing power standards (PPS) – which makes it possible to differentiate between countries in terms of purchasing power by eliminating differences in purchasing power, that is, different price levels – was 63 per cent lower in Serbia in 2007 than in the EU-27.

Notwithstanding a number of marked improvements, the Serbian economy faces huge challenges, primarily due to the tardiness in implementing institutional reforms with the aim of harmonisation with the EU, the high foreign trade deficit, excessive public consumption and the high unemployment rate.

The low employment rate and high unemployment rate are among Serbia's main economic and social problems. No positive developments have yet been recorded in the course of transition.

The number of registered employees is around 2 million, around 72 per cent of them working for state and private companies, institutions and organisations, and the remainder for small private entrepreneurs. With an employment rate of 51.5 per cent, Serbia lags significantly behind the EU-27 average of 64.3 per cent, as well as in relation to its neighbours (Croatia, Bulgaria, Romania, Hungary).

Table 1
Major macroeconomic indicators, Serbia, 2001–2007

Indicators	2001	2002	2003	2004	2005	2006	2007
GDP							
real annual growth in %	4.8	4.2	2.5	8.4	6.2	5.7	7.5
€ billions	13.1	16.8	18.01	19.7	21.1	24.2	29.920
per capita (€)	1,757	2,242	2,407	2,643	2,833	3,273	3,934
per capita in PPS (EU = 100)	—	26.6	26.9	29.5	30.1	33.9	37.2
Physical volume of activities							
Industry – growth rate in %	0.1	1.8	–3.0	7.1	0.8	4.7	3.7
Construction – growth rate in %	–5.8	12.7	3.2	9.8	5.8	11.8	19.1
Transport – growth rate in %	9.6	6.9	5.0	4.8	4.4	10.4	1.7
Trade – growth rate in %							
Wholesale trade – constant prices	0.8	12.2	3.2	24.3	17.0	13.3	16.2
Retail trade – constant prices	19.8	23.9	13.8	18.0	26.5	7.7	22.8
Foreign economic relations							
Export of goods – € million	1,922	2,870	2,441	2,832	3,608	2,102	6,432
Import of goods – € million	4,759	5,957	6,586	8,623	8,439	10,463	13,507
Import coverage with exports in %	40.0	37.0	37.0	33.0	43.0	49.0	48.0
Trade deficit – € million	2 837	3 755	4 144	5 792	4 831	5 360	7 075
Share of deficit in GDP in %	2.7	7.9	7.2	11.6	8.4	1.5	16.1
Total external debt – € billion	12.6	10.8	10.9	10.3	13.1	14.9	17.5
Investments							
Investments in fixed funds – dinars billion	81.3	120.5	188.9	253.3	302.0	403.1	448.1
Investments in fixed funds in % GDP	10.4	11.8	16.1	17.7	17.3	19.7	18.0
Foreign direct investments – net, € million	184	502	1,206	777	1,245	3,399	1,602
Monetary indicators							
Foreign currency reserves of NBS – € million	1,320	2,175	2,840	3,117	4,935	9,025	9,641
Value of euro in relation to dinar	59.71	61.52	68.31	78.89	85.50	79.00	79.24
Personal savings, end of period – € million	330	796	1,087	1 461	2,274	3,413	5,028
Prices and living costs							
Retail prices, end of period – %	40.7	14.8	7.8	13.7	17.7	6.6	10.1
Living costs, average of period – %	93.3	16.6	9.9	11.4	16.2	11.7	7.0
Employment, wages and pensions							
Number of employees – average ('000)	2,102	2,067	2,040	2,051	2,069	2,026	2,002
Employment rate – %	50.3	48.6	47.6	53.4	51.0	49.8	51.5
Unemployment rate – %	12.2	13.3	14.6	18.5	20.8	20.9	18.1
Net salaries, average – dinars	6.1	9.2	11.	14.1	17.4	21.7	27.8
Net salaries, real growth rates – %	16.5	29.9	13.6	10.1	6.4	11.4	19.5
Pensions, average – dinars	4.1	6.6	7.8	9.2	11.5	14.0	14.9
Pensions, real growth rate – %	18.4	36.7	9.0	5.7	6.9	9.5	5.8

Source: NBS, Republic Development Bureau.

At the same time, the unemployment rate of 18.1 per cent (according to labour survey data) in 2008 is more than double that in the EU-27 (7.1 per cent) and considerably higher than in neighbouring countries (Romania 6.4 per cent, Bulgaria 6.9 per cent, Hungary 7.4 per cent, Croatia 9.1 per cent). After many years of increasing unemployment, the total number of unemployed fell to 15.5 per cent in 2007 according to the Labour Force Survey (number of unemployed was 693,024 in 2006 and 585,472 in 2007).

Young people coming onto the labour market after completing their education face major challenges, despite intensive implementation of active labour market measures and financial support for self-employment. On top of that, significant redundancies accrue from privatisation and restructuring of socially-owned enterprises, as well as the restructuring of state public enterprises.

1.2 Privatisation and Restructuring of the Real Sector of the Serbian Economy

In Serbia, even after 18 years of privatisation on the basis of a number of models and laws, the process has not been completed. Besides that, the privatisation process has been accompanied by numerous controversies related to its implementation and results, including doubts concerning the implementation and final privatisation of state-owned companies.

Since the implementation of intensive transitional changes began (2001), the privatisation and restructuring of companies in the real sector of the Serbian economy have been a priority, not as an end in themselves, but as a key instrument in improving competitiveness and performance.

Between 2002 and June 2008, a significant number of formerly state-owned enterprises were privatised by tender or auction; 2,199 companies were sold, realising revenue of €2.7 billion, €1.2 billion in investments and €267.7 million for accompanying social programmes.

Table 2
Results of the privatisation process, Serbia, 2002–2008

	2002	2003	2004	2005	2006	2007	I–VI 2008	Total
Number of enterprises sold	214	652	247	314	284	365	123	2,199
Number of employees at enterprises	37.6	79.9	42.3	59.9	49.3	54.4	11.1	335.2
Sale price (€ million)	319.4	846.1	163.2	377.7	315.1	537.6	173.5	2,732.6
Total investments (€ million)	320.2	320.6	106.0	102.1	218.6	133.4	24.8	1,225.7
Social programme (€ million)	145.8	128.3	2.6	0.1	0.0	0.0	0.0	276.7

Source: Bulletin of Public Finance of the Republic of Serbia.

Privatisation in Serbia has developed more slowly than expected and the results have been less than satisfactory. According to the EBRD's Transition Report 2008 there have been substantial achievements (its rating was 3.67, on a scale of 1 to 4) in auction privatisation, while results from the privatisation of large enterprises have been more modest (2.67); the lowest rating was given for restructuring (2.33).

Privatisation of socially-owned enterprises is in its final stages. The privatisation of socially-owned enterprises (around 900 enterprises remained unprivatised by the end of November 2008) should be completed by the end of 2008 (or in the first half of 2009). In a case of failed privatisation the procedures for liquidation of these enterprises would be initiated).

To complete the privatisation process, in addition to the privatisation of socially owned enterprises it is necessary to privatise state-owned enterprises, mainly public utilities and a few large public infrastructure companies. The privatisation of 17 major public enterprises of strategic interest to the state is of particular significance for the completion of structural reforms and the development of the economic structure; they employ nearly 10 per cent of all workers and realise around 17 per cent of total revenue in the economy.

1.3 Events that Initiated Restructuring

As already mentioned, **privatisation and restructuring are not considered ends in themselves, but important instruments in completing the transition from a socialist to a market economy. Hopefully the outcome will be more efficient corporate management, technological modernisation and export growth, as well as improvements in efficiency and competitiveness. Privatisation is only the first step on the long path of reform. A mere change of ownership without further developments will have little effect.**

The sooner operational changes occur, the faster the conditions for higher economic growth, improved competitiveness and greater efficiency should be put in place. This applies particularly to companies facing major problems, whose financial situation cannot be improved on the basis of currently irrational operational methods.

Reducing indebtedness and workforce, as well as stabilising the economy are the main reasons why more dynamic restructuring of the real sector of the Serbian economy is required in Serbia.

1.4 Role of the State and Other Institutions

The Privatisation Agency has a major role to play in privatisation and restructuring in Serbia. The Centre for Restructuring was established within the framework of the Agency; it dealt exclusively with the privatisation and restructuring of around 70 large enterprises.

The Ministry of Labour (former Ministry of Labour, Employment and Social Policy) played a particular role in respect of workforce restructuring in socially-owned and state-owned enterprises. The implementation and financing of various programmes dealing with redundancies were the responsibility of this Ministry.

1.5 Outcomes

In accordance with common practice, attention was directed above all towards: changing the business strategy of enterprises, restructuring often obsolete business portfolios, seeking new markets (domestic and foreign markets), as well as consolidating market competitiveness, developing new and adapting existing products, improving production technology and quality, and business re-engineering processes directed towards the rationalisation of operating costs and so on.

The main objects of change were organisational structure and workforce downsizing, with a view to improving results more quickly.

Although in general the results of privatised enterprises are considerably better, experiences of privatisation and restructuring are very variable:

- Some new owners, often without experience in the sector, were unable to properly manage the enterprises they had acquired. Current operations were jeopardised and sometimes production was terminated.
- The primary change introduced in privatised enterprises was employment reduction. Those mainly affected were unskilled workers and administrative staff. In this way overall operating costs were reduced and productivity increased. Nevertheless, downsizing and lower labour costs alone cannot provide a long-term strategy for higher competitiveness.
- Some major enterprises were reorganised into smaller entities. Efforts directed towards operational reorganisation and modernisation had positive results in a number of cases.
- In the public sector, changes were mainly directed towards employment reductions and reorganisation. The results differ significantly from enterprise to enterprise, and significant restructuring is still to come in this sector.
- Changes in some privatised enterprises, especially major 'strategic' enterprises, were in the first instance directed towards overcoming financial difficulties, above all indebtedness and insolvency. Only if financial consolidation is first achieved – which requires significant resources and time – can substantial investments in modernisation be expected. Most of these enterprises have a domestic orientation. A relatively small part of production is for export (usually no more than 10 per cent of their income), from which it can be concluded that the competitiveness of these enterprises is still low.
- Nevertheless, some substantial improvements have occurred in a significant number of companies, which are reflected in a complete change in the 'anatomy' and 'physiology' of

their operations in accordance with international standards. Business portfolios have been significantly improved, there has been investment in production modernisation, operations are increasingly based on market principles, and these enterprises have a growing export orientation, for now primarily towards neighbouring markets.

- In general, however, the results of privatisation and restructuring remain unsatisfactory. This is understandable, given that the rehabilitation process will inevitably take a long time and often be painful, entailing numerous undesirable effects, such as abandoning obsolete production, dramatically reducing the workforce and closing unproductive operations. Serbia appears to be following the familiar transition path, in which the elements of old structures and operational methods pass away slowly, while new market structures will not become fully formed until economic practices characteristic of EU member states (Serbia aspires to EU accession) have been introduced.

1.6 Lessons Learned

The restructuring of the real sector of the Serbian economy faces a whole range of problems and obstacles. Resistance to change is often the main obstacle to successful restructuring, and often leads to significant prolongation of the process. There is often resistance to the very idea of change, not to mention its implementation. Changes inevitably impact strongly on both management and employees, in relation to their positions, responsibilities and behavioural patterns. Therefore, the majority of employees, including managers, tend to be hostile. Generally speaking, there is little readiness on the part of management to enter into restructuring, that is, to seek to leave behind the gloomy present with only the prospect of an uncertain, though possibly better future. Instead of working to enable enterprises to operate in completely different conditions, management efforts are still directed to a great extent towards maintaining obsolete methods (often by leasing capacity to private companies) or seeking different forms of support from the state. Frequently, managers put their immediate personal interests ahead of the interests of the enterprise and the employees.

Unfortunately, employees are not much interested in restructuring either, because it is difficult for them to see what is in it for them. Most employees are understandably worried about their jobs and wages, and tend to oppose strategic change due to a fear of the future, despite also being dissatisfied with the present.

Before 2005 only modest results were achieved in terms of restructuring. The rehabilitation of particular enterprises is of crucial importance in many cities and regions, not to mention for the country as a whole. After the amendment of the Law on privatisation (from 2005) some progress was made. In the field of restructuring, some large enterprises, such as Azotara Pančevo, FVK Kraljevo, Hisar Prokuplje, Nitex Niš, Partizanski put Beograd and Hipol Odžaci were privatized. Unfortunately, few of these enterprises have so far managed to significantly improve their results and overcome the crisis in which they have languished for many years.

While practically everybody supports restructuring and privatisation in Serbia, new owners tend to cause tensions. Privatisation involving foreign multinationals for many people represents the sale of national assets (the proverbial ‘family silver’). However, domestic private companies, especially large ones (Delta M, MK Commerce, East Point, and so on) are regarded even more unfavourably.

Although generally speaking privatisation carried out by multinationals and even by major domestic companies tends in the medium term to increase efficiency and competitiveness (for example, USS Serbia, VB Sevojno and Juhor Jagodina), almost all serious strategic investors have been sharply criticised and demands have been made for the revision of privatisation transactions. Workers’ shareholdings, a key form of privatisation, formerly existed in Serbia but have been abandoned. However, a general consensus concerning the current model of privatisation, especially in the case of new owners, has not been established. Furthermore, the behaviour of some new owners is not helping to overcome people’s resistance to privatisation and restructuring.

Workforce restructuring has mainly involved so-called passive labour market measures, within the framework of which severance payments and other forms of financial compensation have been the principal means of solving the problems of persons made redundant due to restructuring. Severance payments have mostly served not to generate new employment (for example, in starting new businesses), but for current consumption. The Serbian government recognises the deficiencies of this approach and is trying to abandon it.

Despite the efforts of the National Employment Service (NES), research shows that very little has been achieved in terms of employment. The main reason is the lack of interest among redundant workers in the various employment programmes, and their preference for severance payments and other financial compensation. Besides insufficient information and a lack of understanding of the available measures, other reasons for reluctance include: poor qualifications, age, general distrust, unreadiness to engage in training for new jobs, inability and weak motivation to start up in business and the generally unfavourable environment (political instability, uncertainty about what line of business to go into, lack of own capital for investment and uncertain prospects concerning credit for those wishing to start out on their own).

Workforce restructuring has been based on voluntary redundancies and has involved social dialogue between trade unions (employees), management and the state. Generally speaking, each of the main stakeholders has had its own, often sharply divergent vision of workforce restructuring. The management in the first place turned to employment downsizing (in view of the expected positive financial benefits). Trade unions were consulted in the preparation and implementation of redundancies, but more often than not they were ‘informed’ rather than ‘consulted’. There were major doubts and misunderstandings among the workers, despite the efforts of management and trade unions to inform them, partly because of the qualifications and age structure of employees, and partly due to a natural fear of collective redundancies.

2. Case Study on Labour Force Restructuring

2.1 PE Serbian Railways

PE Serbian Railways initiated a programme to address the problems of redundant employees in 2001, based on retirement and disability insurance law, labour law and the collective agreement of PE Serbian Railways (PE SR).

The measures taken to deal with redundancy at PE SR were not confined to what is laid down by law, however. For example, the company's own solutions were more favourable – especially as regards severance payments – than what is required by law (based on one-off payments in the amount of 10 average gross national wages, one-off compensation in the amount of €100 per year of service or receiving a sum of money from the National Employment Service).

Assistance for redundant workers was based first of all on the principle of voluntary redundancy, taking into consideration the continuing needs of the company and employees' personal circumstances.

Workforce rationalisation was implemented in a number of ways:

- severance payments and compensation for employees who accepted voluntary redundancy;
- organisational restructuring – that is, some employees were transferred to newly-founded affiliate companies (non-core activities) or other employers;
- natural wastage and lay-offs.

The main target groups for redundancy were:

- employees meeting the conditions for retirement;
- employees within two years of meeting the conditions for retirement;
- disabled workers;
- so-called 'unallocated' workers who have no fixed place of work;
- administrative employees.

The social package of severance payments and other incentives changed over time, becoming more differentiated in response to the fact that fewer and fewer workers were ready to take voluntary redundancy. Initially, it involved one-off payments of between one and four monthly wages, depending on the number of years of service, age and meeting the conditions for retirement. From 2002 until 2004, employees who did not meet any of the conditions for retirement and who submitted a request for redundancy were entitled to a payment of €100 for each year of service; this was increased to €200 for each year of service in 2005. In 2006, the offer was further differentiated, ranging from €100 for each year of service to €250 for each year of service (for disabled employees).

In all, 13,623 employees left over seven years. The workforce was reduced from 32,832 at the end of 2000 to 19,890 as of 1 February 2008.

Table 3
Redundancy measures employed at PE SR

Model	Total number of persons	%
Severance payments and other compensation	9,742	71.5
Separating off 'non-core' activities	1,331	9.8
Natural wastage and lay-offs	2,550	18.7
Total	13,626	100.0

The main categories of employees who left PE SR on the basis of voluntary redundancy, with severance payments or other compensation, were the following: employees who met one of the conditions for retirement; employees up to two years away from qualifying for retirement; employees with special needs (disabled); and employees whose skills were no longer needed. The average age and length of service of those made redundant in these ways was high, averaging 55.8 years of age and around 30.4 years of service.

Workforce restructuring was based on so-called passive labour market measures, in which severance payments and other compensation were the principal means of assisting those made redundant due to restructuring.

The redundancy programme was implemented in collaboration with trade union representatives, with the support of the government. At the enterprise level, the Team for Managing Change was created, with 10 members, which included representatives of management, enterprise trade unions and the government. The Team, along with line managers, informed employees what the level of redundancies would be and what methods would be used. Employees were also informed through the magazine *Pruga* – a special issue contained answers to six 'frequently asked questions'. All employees could find out about what was being planned.

The redundancy programme was implemented without too many social tensions (strikes, protests and so on) and unobtrusively (without too much publicity of the kind that characterised labour force restructuring in some enterprises in Serbia).

The government, through the Ministry of Labour, Employment and Social Policy, financed part of the programme. In 2005 and 2006, the government allocated more than €29 million for these purposes from the Transition Fund.

Part of the programme (in the amount of €10 million) was financed by PE SR on the basis of EBRD and EIB loans in 2001.

The majority of employees were aware of the need for downsizing. The severance payments were acceptable for many employees due to low wages and their unfavourable socio-economic situation.

Severance payments were usually not used for the purpose of starting up new businesses or increasing the recipient's employability, but primarily for current consumption. As already mentioned, this approach is fraught with deficiencies and the Serbian government wishes to abandon it. Having said that, this approach was less problematic in the case of PE SR than in some other enterprises due to the older age of target groups and low wages.

Table 4
Active labour market measures, PE SR

Category of employees	Active measures
Persons with special needs	✓ Transfer to protected workshops
Executive personnel	<ul style="list-style-type: none"> ✓ Programmes of retraining and upgrading for work at PE SR ✓ Self-employment within the framework of PE SR ✓ Moving to protected workshops
Skilled and highly-skilled craftsmen	<ul style="list-style-type: none"> ✓ Self-employment ✓ Project "From Severance to Work" ('using severance payments to get another job or set up in business')
Unskilled workers	<ul style="list-style-type: none"> ✓ Public works ✓ Additional training for work at PE SR
Administrative personnel	<ul style="list-style-type: none"> ✓ Training for employment with a specific new employer ✓ General training ✓ Self-employment ✓ Regional programmes ✓ Subsidies to employer ✓ Project "From Severance to Work" ('using severance payments to get another job or set up in business')

2.2 RTB BOR

The restructuring of RTB Bor Group began in 2000. In 2002, with a view to privatisation, 10 enterprises were separated from RTB Bor and the first social programme to assist redundant employees was implemented. Under this programme, 3,293 employees left RTB Bor voluntarily, with severance payments of DM 200 per year of service.

Based on the government's action plan for restructuring RTB Bor, in 2004 the Privatisation Agency proceeded with the restructuring of the remaining enterprises of RTB Bor, involving reorganisation and redundancies.

RTB Bor Group consisted of eight enterprises: the parent company RTB Bor, the smelter and refinery RTB Bor-TIR, the copper mine Majdanpek RTB Bor-RBM, the copper mine RTB Bor-RBB, equipment and parts manufacturer RTB Bor-FOD, the enamelled copper wire plant RTB Bor-FLŽ, the Copper Institute RTB Bor and Jugotehna Beograd. It was anticipated that this action plan would be implemented at all enterprises in the RTB Bor Group, though in the case of FOD, FLŽ and the Copper Institute only in respect of redundancies.

During 2005, preparations were launched for a redundancy programme affecting the remaining 8,500 employees, including forms of assistance. In collaboration with the World Bank and the Ministry of Labour, Employment and Social Policy, a survey was carried out among current employees on their willingness to accept redundancy and under what conditions; former employees were also questioned in an effort to find out their current labour market status and socio-economic situation and how they had spent any severance payment they might have received.

By the end of 2005, the managing director of RTB Bor, in collaboration with the Ministry of Labour, Employment and Social Policy, set up the Centre for Transition of Employees RTB Bor within the framework of the project 'Promotion of Employment in Serbia', which included a group of pilot transition centres in Serbia (led by consulting company Worldwide Strategies).

The Centre for Transition of Employees RTB Bor was the first of a series of short-term measures for assisting redundant employees. The main tasks of the Centre for Transition of Employees were defined on the basis of a survey of employees concerning the services they expected from the Centre. In the first instance, they involved information and consultation of redundant employees regarding assistance, training and setting up contact with various institutions in the vicinity that were obliged or might be able to help redundant employees in solving their problems arising from redundancy. The intention was to act at an early stage, before redundancy, and to assist future redundant workers and their families, as well as help former redundant employees of RTB Bor, who had left the job under the first social programme in 2002.

The Centre for Transition of Employees has two offices, one in Bor and the other in Majdanpek. It has a team of experts consisting of 15 employees (nine experts of RTB Bor employees, four

trade union representatives and two NES experts) who have undergone training in working with redundant employees.

The Centre established intensive collaboration with the NES office in Bor, the office for SMEs in Zaječar, the Business Incubator Centre, educational institutions and the local media, as well as other institutions in the field of employment. The Centre is operating as part of a network of 13 similar centres established in Serbia and put under the coordination of a special management unit by the Ministry of Labour, Employment and Social Policy.

In the preparation of the social programme, a survey was organised among employees with the aim of collecting information required for implementation of the programme at RTB Bor. Employees were asked about their preferred redundancy options and how they would use severance payments. In the survey, 940 employees declared that they would accept a severance payment.

Under the project 'Promotion of Employment in Serbia', studies of local economic development were prepared for Bor and Majdanpek, with the aim of encouraging economic development in the locality of RTB Bor with a view to making redundancies easier to cope with.

The principles and criteria for determining redundancy and options for severance payments were laid down in the social programme drafted in June 2006. The programme laid down that the first stage of redundancies should be voluntary, with severance payments.

Under the terms of the Programme, if voluntary redundancies were insufficient to achieve the required workforce reduction, in compliance with the Labour Code employees who met the conditions for retirement, or who were less than two years away, should be next in line for redundancy.

If even this was insufficient, additional criteria would be used (quality of work, skills, reliability, diligence, creativity, attitude toward work, work discipline, average work involvement in the last five years) and supplementary criteria for determining redundancy (number of dependents, employees with several dependents also employed at the enterprise, health status).

It was also decided that some categories of employees should not be made redundant without their consent (pregnant women and women who had just given birth, self-financing parents and disabled workers whose disability was due to a work injury or occupational disease, seriously ill employees). Spouses also belonged to this group if both were employed at the enterprise.

Employees who wished to accept voluntary redundancy, as well as employees made redundant on the basis of supplementary criteria, could choose the redundancy option they preferred.

Option 1: Payment of one-off compensation

Redundant employees have the following rights in respect of severance payments:

Table 5
Severance payments

Category of employee	Severance amount
More than 10 years of insurance and less than two years until meeting retirement conditions	10 national average gross wages, plus €50 severance pay per year of insurance
	€100 per year of insurance, plus €50 severance pay per year of insurance
More than 10 years of insurance and more than two years until meeting retirement conditions	10 national average wages, plus €100 severance pay per year of service
	€100 per year of insurance, plus €150 severance pay per year of insurance

Option 2: Redundancy and registration at the National Employment Service

Employees who take this option are entitled to:

- severance pay calculated at one third of the gross wage for each completed year of insurance for the first 10 years of insurance, and one quarter of the gross wage for each year of insurance over 10 years of insurance; and
- compensation from the National Employment Service, calculated at 60 per cent of the average wage over the last six months prior to redundancy for the first three months, and 50 per cent of the average wage in the period prior to redundancy for the remaining time (up to two years). This compensation cannot be higher than the national average wage or lower than the minimum wage.

Table 6
Redundancies at RTB Bor enterprises, 2002 and 2006–2007

Enterprise	Number of employees accepting redundancy			
	2002	2006	2007	Total
RTB RBB	897	575	36	1 508
RTB RBM	1,071	212	26	1,309
RTB TIR	795	742	28	1,565
RTB d.o.o.	29	29	2	60
RTB Copper Line	2,792	1,558	92	4,442
Other	501	627	22	1,150
Total	3,293	2,185	114	5,592

Table 7 presents data on redundancies at RTB Bor in 2006 and 2007.

Table 7

Structure of redundant employees, by qualifications and age group, 2006–2007

Qualifications – number of employees								
Lower education	Unskilled	Semi-skilled	Skilled	Highly-skilled	Secondary education	Higher education	High education	Total
64	331	188	592	166	597	98	149	2,185

Age group – years								
25–30	31–35	36–40	41–45	46–50	51–55	56–60	+60	Total
42	124	141	228	369	765	432	84	2,185

Among the characteristics of those made redundant in 2006/2007 we might highlight the following:

- there was a high proportion of disabled workers (36–37 per cent);
- as regards qualifications, there was a high proportion of skilled and highly-skilled workers, as well as employees with secondary, higher and high education (73.3 per cent of the total); however, many of them had obsolete occupations or skills and for that reason substantial and long-term programmes of retraining and upgrading are required for them;
- the average age of those made redundant was 49.4; as it would be hard for them because of their age to find new jobs, a set of different incentives for their employment is necessary.

The first group of redundant employees who left RTB Bor in 2002 did not receive any particular assistance, other than from the National Employment Service. Negative experiences from that period stimulated the development of new solutions in the social programme in 2006/2007, for example, the establishment of the Centre for Transition of Employees.

The Centre for Transition of Employees RTB Bor engaged in numerous activities during the period 2006–2008 to address the problems arising from redundancy, first by the dissemination of information, consultation and contacts with redundant employees, but also with other employees of RTB Bor, then through numerous training programmes, intensive collaboration with the National Employment Service and various actors in the local community to develop active labour market measures, open a new production area in cooperation with entrepreneurs, create databases of those utilising the Centre, intensive media activities, and so on.

The general conditions under which the Centre operated were not favourable: the whole of 2007 and the first half of 2008 were characterised by uncertainty, including the failure of the first and second tenders for RTB Bor's privatisation. This was followed by a lack of coordination in the network of transition centres in Serbia and the ending of special-purpose financing of the work of the Centre due to the ending of the Promotion of Employment project.

On the other hand, favourable circumstances included the support of RTB Bor management and trade unions, exceptionally good collaboration with the National Employment Service office in Bor, educational institutions and the media, as well as the beginning of more active work on the part of the Local Employment Council in Bor and a more substantial inflow of special-purpose funds to promote employment through the NES and the Development Fund.

The office of the Centre in Bor has almost 3,500 beneficiaries – current and former employees of RTB Bor and members of their families. The Centre in Bor deals directly with current and former employees and is engaged in training programmes, as well as enhancing possibilities for self-employment, organising ‘job fairs’ and the project ‘From Severance to Work’ (using severance payments to get another job or set up in business).

The second key area of activity was the organisation of training in new skills, retraining and upgrading. A total of 446 persons took part in training during the one-year period from mid-2006 to mid-2007. This involved 21 training programmes, including IT training (56 participants), environmental training (60), traditional crafts (9), modern crafts (90), accounting and virtual (Internet-based) enterprises (34) and seminars (197). According to NES data, 80 of these persons, who took part in training programmes, kept their current job and 64 found new ones. The certificates issued for these training programmes were external.

In order to obtain an overview of training outcomes, the Centre for Transition of Employees, in collaboration with the Regional Centre for Adult Education in Bor, organised a survey. The results show that the knowledge acquired by training has been used by two thirds of participants; three quarters of participants were interested in continuing training; a third have found a job in the field for which they have been trained and a third in other fields. The majority of those who found jobs had received training in accounting, computing, carpentry and cosmetics.

Through contacts with redundant employees, the Centre has assessed people’s interest in new training programmes. It has received 420 requests for training, mostly in the fields of the environment, accounting, services and construction. Previous experiences with training are also under assessment, forming the basis for the planning of future training.

The personnel department of RTB Bor has investigated the training needs of current employees. For example, several hundred employees currently lack adequate qualifications to do their jobs or need to acquire knowledge of new technologies and equipment that has been or is being introduced in copper production and manufacturing. RTB Bor has also been partly responsible for another programme intended for workers who have remained at the enterprise, covering safety at work, environmental protection, geo-drilling, mine supervision and other areas.

The Centre for Transition of Employees RTB Bor has developed contacts with entrepreneurs to promote employment growth.

Since one of its main functions is to act as an information centre, the Centre for Transition of Employees has made considerable efforts to create an adequate database on redundant employees. This includes data on 940 employees made redundant by the end of 2006; persons who were employed (109 redundant employees); workers who were removed from the unemployment register because they sought other solutions to their problems; those who participated in training programmes; and those awarded grants for self-employment or business loans.

The Centre created a database of entrepreneurs and SMEs, as well as redundant workers. The database includes around 1,200 SMEs from the municipality of Bor, around 100 entrepreneurs and redundant workers who have decided to set up their own businesses (beneficiaries of incentive funds for self-employment, 'start up' and micro-loans).

2.3 Zastava Group

The redundancy programme at Zastava Group began in 2001. The Serbian government launched the programme on the organisational transformation and strategic consolidation of Zastava Group in August 2001. In accordance with this programme, a limited liability company providing employment and educational services was formed – Zastava Employment and Education (ZZO) Kragujevac – as the legal successor of Društvo Zastava Education.

The basic objective in transforming the former company into Zastava Employment and Education was to create conditions for implementing the agreement signed by representatives of government, management and trade unions on assisting redundant Zastava Group employees.

In the course of the organisational transformation of Zastava Group, out of 29,957 persons employed by the 45 affiliated companies, 13,693 persons were deemed surplus to requirements in August 2001.

By 31 December 2001 9,519 employees had agreed to accept paid leave for four years on 45 per cent of their previous wage, to be financed by the state.

The Action Programme concerning Redundancies at Zastava Employment and Education was adopted on 7 April 2005, within the framework of which 1,735 persons received severance payments and left the job.

Application of the agreement was prolonged until 31 August 2007. The number of employees at ZZO was 4,412 as of 1 July 2007, a reduction of 5,137 persons in comparison with December 2001.

The qualification and age structure of employees at ZZO is distinctly unfavourable. Most employees have only a secondary education (57.3 per cent), and 35.65 per cent have even

lower qualifications. Around 3,000 employees are above the age of 45, and 1,850 employees over the age of 50. In terms of years of service, more than 50 per cent of employees (2,324) have a length of service between 21 and 30 years, while 1,128 employees have lengths of service between 31 and 40 years.

Between 2001 and 30 June 2007, substantial state funds (6.37 billion dinars in total) were allocated for payment of wages and financial compensation, solidarity aid, retirement-based severance payments, financial aid related to disability, occasional operational costs of ZZO and implementation of the redundancy action programme at Zastava Employment and Education.

As regards further redundancies at ZZO (involving 4,412 persons in total) the government has proposed the following:

- for employees with fewer than 10 years of insurance, a severance payment of €300 per year of service;
- for employees with more than 10 years of insurance, a severance payment of 10 national average wages (based on the latest data of the Serbian Statistical Office), plus €50 per year of insurance;
- for employees with up to two years to go before retirement, a severance payment in compliance with the Labour Code, plus an entitlement to financial compensation in accordance with the regulations of the Law on Employment;
- for employees who meet at least one of the conditions for retirement, a severance payment of four national average wages.

The resources required to assist the remaining 4,412 employees at ZZO – around 1.96 billion dinars – were provided from the Transition Fund of the Republic of Serbia in 2007.

Besides severance payments, it was anticipated that redundant employees at ZZO would also receive other entitlements in compliance with the law, as follows:

- in case of self-employment:
 - through the Development Fund, a business start up loan or a micro-loan;
 - through the National Employment Service, a grant for self-employment;
 - consultation or other expert assistance in the preparation of business plans; training for entrepreneurship;
- in case of employment at a new employer:
 - training for specific work;
 - refunding of contributions paid by an employer and taxes on wages for newly-employed workers, in compliance with the law;
- inclusion in the project ‘From Severance to Work’ through the National Employment Service;

Besides providing assistance in dealing with redundancies at ZZO, assistance was also provided at AD Zastava Car Factory. In the period 2006–2008, around 240 million dinars were allocated by the state for severance payments for 729 persons who had been made redundant. In 2008, severance payments were €300 per year of insurance.

2.4 Goša Holding Corporation

Goša was transformed into a joint-stock holding company in the early 1990s. There were 24 entities within Goša Holding, with over 7,000 employees, including a high proportion of administrative personnel (62 per cent).

In accordance with the complexity of this business organisation, the number and structure of employees, the diverse production programme and its importance for the national economy, in 2002 the Serbian government included Goša among the enterprises to be privatised under a special programme, involving restructuring and the implementation of a social programme by the state.

Since Goša Holding could not be privatised as a single entity, it was broken up. Non-core enterprises (construction company, trading company, printing house, savings and credit organisation), as well as dislocated companies (out of S. Palanka where the headquarters of Goša are situated), were privatised without restructuring.

In light of the experiences of other enterprises with privatisation and restructuring, and to protect as many employees as possible, the independent trade union at Goša, established in its two largest and most successful factories – ‘Equipment and Machinery’ (FOM) and ‘Installation’ – initiated the formation of a consortium of employees to purchase the companies.

In both these companies (2,100 employees in total), over 600 employees formed consortiums and bought their own enterprises by tender in 2005 and 2006. This was a rare example in Serbia of workers becoming the owners of large factories.

Restructuring and privatisation were developed within the framework of social dialogue between management and trade unions. Since Goša was a centralised organisation, the process of breaking it up and the provision of assistance to those made redundant was conducted by the holding and in agreement with the representative trade union.

In the preparation of smaller enterprises for privatisation – between 1 January 2002 and 19 March 2003 – Goša provided redundancy assistance for 181 employees from internal resources. Another 305 persons left the enterprise by natural wastage and re-employment elsewhere. As a result, Goša embarked on restructuring with 6,551 employees.

A social programme was introduced for 13 enterprises (with 4,732 employees); the other 11 enterprises (with 1,819 employees) had no social programme.

In the first set of enterprises, the proportion of administrative workers was 66 per cent, the remainder being production workers.

Table 8

Structure of employees at the 13 Goša enterprises for which a social programme was introduced, selected characteristics

Qualifications – number of employees						
Higher education	Secondary education	Skilled and highly-skilled	Other	Total		
725	1,238	1,949	817	4,732		
Age groups – years						
up to 25	25–30	31–40	41–50	51–60	+60	Total
102	293	1,088	2,045	1,163	41	4,732
Years of service – years						
up to 5	5–15	16–25	26–35	+35	Total	
281	721	2,164	1,400	166	4,732	

Analysis showed that the Goša group needed 3,116 employees, and so 1,616 persons would have to be made redundant.

The first social programme for redundancy assistance Goša Holding was implemented in 2003, based on the redundancy assistance programme and with state financial aid.

The severance payment was 6,000 dinars per year of service; 1,630 employees took up this option, 120 of them declaring that they intended to leave the labour market (employees with up to two years before retirement).

The second social programme was implemented in 2007, involving around 400 redundancies. Assistance was provided by the state. The majority of employees opted for the payment of 10 national average gross wages per year of service, and some opted for registration on the labour market with the National Employment Service.

For those Goša enterprises that are being restructured, but which have not yet found a buyer, the third social programme is under way, involving around 100 employees. Besides that, 30 employees, with less than five years before retirement, opted for the Regulation of the Government of the Republic of Serbia dated 16 September 2008 (for enterprises in

restructuring), leaving the job and receiving a payment from the National Employment Service until reaching retirement age.

A social programme has been included as an annex to privatisation sales contracts. Under the third programme, the representative trade union obtained an agreement that there would be no redundancies within three years of privatisation, as well as a wage increase, obligatory social benefits, protection of workers' rights as regards working conditions, the possibility of 'preventive' and recreational vacations, housing grants, and respect for collective agreements and trade union rights.

In addition, between €250 and €400 per year of service was laid down for severance payments for employees made redundant at the new employer after three years.

After the social programme was implemented in the privatised FOM, Installation and Railroad Rolling Stock factories, new workers were taken on. The FOM and Installation factories – which were privatised by consortiums of employees – employed, after privatisation, between 100 and 300 workers in full-time or part-time jobs, whereas Railroad Rolling Stock Division employed 200 workers, as follows:

- 70 persons were employed within the framework of the programme for employment incentives run by the National Employment Service, with incentives of 150,000 dinars per employee;
- 130 persons have been employed so far under the agreement to grant funds for direct investment (funds intended for starting up new plants and the employment of 300 workers in the amount of €750,000).

3. Summary of Selected Cases

3.1 Similarities and Differences

The common characteristics of workforce restructuring at all the analysed enterprises in Serbia are as follows:

- the number of employees was significantly reduced, helping to improve efficiency;
- the state played a significant role in both creating redundancy programmes and financing social programmes (severance payments);
- voluntary redundancy dominated;
- the majority of employees opted for voluntary redundancy with severance payments and other passive labour market measures;
- the severance payments were insufficient for starting up new businesses;
- severance payments were mainly spent on consumption;
- reorganisation and breaking up of larger units did not produce the expected effects, in the first instance due to the difficulties experienced in finding a market by most of the enterprises separated off as non-core activities from larger bodies, but also because of the slowness of their privatisation of separated enterprises (non-core activities);
- in the restructuring process, redundant employees who were entitled to retire in the near future were in the best position;
- employees with lower qualifications and older employees predominated among those made redundant;
- administrative employees were relatively reluctant to accept voluntary redundancy;
- the role of representative trade unions in the redundancy process was significant;
- there were various forms of collaboration between government, management and trade unions.

The most significant differences as regards restructuring between the enterprises under consideration here were as follows:

- the results of workforce restructuring (the extent of workforce reductions and changes in employment structure) were not the same at all enterprises;
- severance payments differed significantly from enterprise to enterprise, as did payment schedules;
- the treatment of disabled workers differed between enterprises;
- the information provided to employees concerning the conditions of redundancy and the possibilities of reintegration in the labour market were not the same at all enterprises. The best information system was realised at the enterprises that established a Transition Centre.

3.2 Lessons

The main lessons learnt from the case studies are as follows:

- Redundant employees, and even the trade unions, were primarily interested in severance payments.
- The current approach based mainly on passive labour market measures, in which severance payments and financial compensation are the main instrument for assisting people who lose their jobs in the process of restructuring, should be adapted and augmented. It has been shown that severance payments tend to be spent relatively quickly, as a result of which redundant employees tend rapidly to find themselves in difficulties. However, passive labour market measures do achieve good results in many cases, primarily for older employees and those on low wages.
- The re-integration of redundant employees in the labour market is impeded by both their age and their qualifications, not to mention the unfavourable business environment and lack of demand for labour.
- Worst off in terms of re-employment are specialist workers such as miners or railway workers.
- Redundant employees are reluctant to enter into self-employment, both due to lack of entrepreneurial skills, the risks entailed by starting a new company, lack of own capital and expensive bank loans.
- Interest has also been weak in the Project 'From Severance to Work' (using severance payments to get another job or set up in business), which provides an opportunity to accumulate the initial capital for starting up a business by bringing together a number of severance payments or to give severance payments to an employer to provide new employment.
- Redundant employees are insufficiently informed about active labour market measures, so it is scarcely surprising that they show little interest in them.

- The Centre for Transition of Employees created at RTB Bor more than justified its creation, contributing significantly to the dissemination and acceptance of active labour market measures.
- The Centre for Transition of Employees proved that programmes of training, upgrading and retraining can help people to find new employment, even in undeveloped areas such as Bor, where almost all employment was linked to RTB Bor.
- The National Employment Service must make much more effort to promote and implement active labour market measures, so that current and future redundant employees have more opportunities to acquire additional knowledge and skills and to find new jobs.
- It is necessary to improve social dialogue between trade unions and management, so that it is a partnership. Employees should have the possibility to give their opinions and realise their interests through their representatives. In that respect, rules are needed and the process of social dialogue should be made more transparent.

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