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Contract Number: 169-C-00-11-00102

Project: Sustainable Local Development Project in Serbia

Contractor: Chemonics Inc.

USAID COR: Mr. Sinisa Cadjo

Issuance Date: March, 2012

Document Title: Industrial Zone Concept Development Plan for Vranje IMC

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USAID Sustainable Local Development Project

Supporting Inter-Municipal Cooperation (IMC) as a vehicle for sustainable local development

CONTRACT 169-C-00-11-00102

CONSULTANT REPORT

Industrial Zone Concept Development Plan for Vranje IMC

Prepared by: Berman Group

Belgrade, March 2012

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc. The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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1. Introduction and Summary of the Main Findings

This document has been prepared under the framework of the USAID Sustainable Local Development Project for the Intermunicipal cooperation of Vranje, Bujanovac, Preševo and Vladičin Han. The purpose of this document is to analyze potential of these municipalities and provide recommendations on the efforts needed to support local / regional economic development by common activities in the field of industrial sites development, namely by attracting external direct investments.

Structure of the document is as follows: it starts with evaluation of position of Serbia on the FDI market. As a result it states that even if the country has got some potential, foreign direct investment activity in Serbia may remain limited, not only due to the world economic / financial crisis, but also due to a lack of suitable investment ready properties and unfinished transportation infrastructure.

In the next chapter economic sectors potentially attractive to investors have been evaluated. Several criteria were considered with export orientation of local economy and status of the sector in the world economy being the most important. As a result traditional local industries based on local raw materials such as food / beverage / tobacco and wood processing / furniture industry were found as those with the highest potential but of course not the only ones which might be attractive for investors.

Chapter 4 describes the industrial property market in Serbia mostly from reports and databases of real estate companies and developers. All these institutions agree that Serbia market is underdeveloped with few exceptions in Belgrade and Vojvodina. However, one of the places with future growth potential is the area along Corridor X (after it will be completed as a regular 4 lane motorway). Role of property in economic development is discussed in Chapter 5 and it concludes that public sector shall actively prepare sites for businesses and by this way to influence investor's decision-making.

Chapter 6 summarizes current situation in all four municipalities. All of them are preparing business property and all of them face similar problems – mostly legal ownership issues and lack of technical infrastructure. Clear common pro-investment, marketing and business site development policy is also missing. As a result of all efforts between 100 and 200 hectares of greenfield sites shall be on the market in next years and offered to investors.

In the final chapter recommendations have been made for further steps / activities. This analysis should be followed by an Industrial Zones Development Strategy for the Corridor X South which – when implemented – will establish a regional property management system; provide regional “market ready” land and business property and stimulate demand from foreign direct investors. More specifically, the municipalities shall create common managing body, agree on common principles, decide about regional pro-investment policy, prepare market ready sites for investors and implement common marketing strategy.

2. Serbia and Foreign Direct Investments

Global FDI trends and prospects

Global foreign direct investment (FDI) flows rose moderately to \$1.24 trillion in 2010, but were still 15 per cent below their pre-crisis average. This is in contrast to global industrial output and trade, which were back to pre-crisis levels. UNCTAD¹ estimated that global FDI would recover to its pre-crisis level in 2011, increasing to \$1.4–1.6 trillion, and approach its 2007 peak in 2013. This positive scenario holds, barring any unexpected global economic shocks that may arise from a number of risk factors still in play.

For the first time, developing and transition economies together attracted more than half of global FDI flows. Outward FDI from those economies also reached record highs, with most of their investment directed towards other countries in the South. In contrast, FDI inflows to developed countries continued to decline.

International production is expanding, with foreign sales, employment and assets of transnational corporations (TNCs) all increasing. Production of TNCs worldwide generated value-added of approximately \$16 trillion in 2010, about a quarter of global GDP. Foreign affiliates of TNCs accounted for more than 10 per cent of global GDP and one-third of world exports.

State-owned TNCs are an important emerging source of FDI. There are at least 650 state-owned TNCs, with 8,500 foreign affiliates across the globe. While they represent less than 1 per cent of TNCs, their outward investment accounted for 11 per cent of global FDI in 2010. The ownership and governance of State-owned TNCs have raised concerns in some host countries regarding, among others, the level playing field and national security, with regulatory implications for the international expansion of these companies.

Developing economies increased further in importance in 2010, both as recipients of FDI and as outward investors. As international production and, recently, international consumption shift to developing and transition economies, TNCs are increasingly investing in both efficiency- and market-seeking projects in those countries. For the first time, they absorbed more than half of global FDI inflows in 2010. Half of the top-20 host economies for FDI in 2010 were developing or transition economies. In 2010, six developing and transition economies were among the top-20 investors. The dynamism of emerging-market TNCs contrasts with the subdued pace of investment from developed-country TNCs, especially those from Europe. Their outward investment was still only about half of their 2007 peak.

Prospects for inward FDI are positive. FDI inflows are expected to increase in 2011-2012 on the back of a more investor-friendly environment, the anticipated WTO² accession of the Russian Federation, and a new round of privatizations in the major host countries of Eastern Europe. Outward FDI is expected to pick up in 2011–2013, due to stronger commodity prices and economic recovery in countries with large natural resources.

Developing Economies in Europe

In 2010, FDI inflows to South-East Europe (SEE) and the Commonwealth of Independent States (CIS) declined by 5 per cent (to \$68 billion), after falling more than 40 per cent in 2009.

¹ United Nations Conference on Trade and Development

² World Trade Organisation

FDI flows to SEE fell, for the third consecutive year (by 47 per cent in 2010), partly as a result of the sluggishness of investment from EU countries (traditionally the dominant source of FDI in this sub-region). In particular, Greece, which used to be a gateway or conduit for foreign investors into South-East Europe, ceased to be an entry point as its domestic economic crisis worsened. Another reason for the sluggishness of FDI is structural: investors rarely set up export-oriented projects in the sub-region, which has been excluded from international production networks – the engine of recovery in 2010. FDI flows to Croatia and Serbia declined sharply in 2010, while Albania saw its FDI rise to more than \$1 billion for the first time ever, making it the second largest FDI recipient country in the sub-region after Serbia.

Cross-border mergers and acquisitions (M&A) sales in the region declined by 39 per cent in 2010, whereas the value of greenfield projects declined by 4 per cent. A large increase in intraregional M&A purchases – mainly from the Russian Federation – could not compensate for the slump in M&A activity by developed country firms, whose net value (new M&As less divested projects) became negative for the first time ever.

Developed countries remained the largest source of greenfield projects in the transition economies (more than two-thirds), despite a continued rise in the share of developing countries. In both greenfield and M&A projects, the share of manufacturing continued to rise in 2010 at the expense of the primary and services sectors, especially in “non-strategic” industries, which are open to foreign investors (e.g. food and beverages, motor vehicles and chemicals).

Serbia and South-East Europe (SEE) States

Since the onset of economic reforms in 2001, Serbia has grown into one of the premier investment locations in Central and Eastern Europe. In the past five years alone, the country attracted over €12 billion of inward foreign direct investment. The list of leading foreign investors is topped by world-class companies and banks such as Telenor, Fiat, Philip Morris, Mobilkom, Intesa Sanpaolo, AB InBev, and many others. According to Pricewaterhouse Coopers, Serbia is the 3rd most attractive manufacturing and 7th most attractive services destination among emerging economies. Additionally, Ernst & Young recorded over 130 inward investment projects in Serbia between 2007 and 2009 the 2nd best performance in the South East Europe region.

Following a period of decline in overall FDI projects in Europe between 2008-2009, figures for 2010 have returned to a positive trend. The dominant sectors are software, automotive, electronics, food and pharmaceutical, with manufacturing activity accounting for 50% of all projects. Asia (as a source of FDI) continues to grow in importance as the US continues to decline. Serbia faces stiff opposition from neighboring EU accession states and other low-cost countries (Macedonia and Albania, for example). In future, FDI agencies will have to focus less on quantity and more on quality, i.e. attention towards competitiveness, workforce skills and productivity, access to markets and sub-suppliers, research and development (R&D), access to technology, the quality of its aftercare service, and the real estate offer. As for national and regional trends, the Region is well below the average in terms of the volume of business investment. Despite the high profile of the region, in terms of its high and rising unemployment, the region has not attracted sufficient investment. On the basis of these demand trends and a review of the demand for property (as reflected in volume, price, average time to let, geographical breakdown, cross-country comparison etc.), the conclusion is that the Region must tackle both the quantity and the quality of the land and property offer which needs to reflect current sectorial and project needs if there is to be any significant impact on demand and project investment in the Region.

Generally there are only two economies which attract most of the foreign direct investments in the SEE region - Serbia and Croatia. These two countries receive the biggest portion of FDI, however, the per

capita comparison shows a very strong position of Montenegro and Albania as well. Share of Serbia on world FDI inflow varies from 0.11 to 0.29 %. These numbers are strongly influenced by privatization of big state telecommunication or financial institutions. While Serbia received over ¼ of FDI inflow into the region, its per capita stock is one of the lowest showing that there is a big space for improved performance. Nevertheless, the country is relatively strong in greenfield projects (since 2009 receiving over 50 % of regional inflow). In 2011 the per capita inflow of Serbia was the largest in the region and country has got 0.83 % of the world inflow.

Between January 2003 and December 2011, FDI Markets recorded a total of 651 investment projects from 417 companies; the average number of jobs created per project was 276; the leading sector was Food & Tobacco, which accounted for 12% of projects and the leading business activity was manufacturing, which accounted for 39% of projects. The top ten companies accounted for 14% of all investment projects with Mercator (Slovenia), Telenor (Norway) and Metro (Germany) among the top 10 companies. The top three source markets for outward investment were Germany, Slovenia and Italy, providing 13%, 13% and 10% of investment projects respectively. The top three destination cities for inward investment were Belgrade, Novi Sad and Zrenjanin, providing 29%, 5% and 4% of investment projects respectively.

The economy of Jablanica and Pčinja districts is the least developed in Republic of Serbia. The region was among the least developed regions in former Yugoslavia, most of economic activity was in large industrial facilities. The breakup of Yugoslavia and economic sanctions during 1990s caused collapse or at least major decrease of operations of all large facilities. Combined with slow privatization (the slowest rate in Serbia) the region hosts many industrial sites with very low activity. The most significant aspect of economy for industrial zone project is very low capitalization of existing business. Because of this it is important to attract investors from outside of the region (both Serbian and international investors). The unemployment rate in the region is generally high, so the availability of the unskilled work force is also high. Due to almost two decades of low industrial activity in the region there are few specialists or skilled workers available. Nevertheless, the companies who have recently invested in the region have successfully employed required work force.

Estimates of 2012 development³

FDI attraction activities must be related to current and estimated economic situation in Europe / world on the market of mobile investments. It is therefore necessary to understand the latest development and evaluate the impact of current economic problems in Europe. It is expected that if Europe only suffers through a mild recession and China does not experience a hard landing, then world growth will decelerate from around 3.0% in 2011 to around 2.7% in 2012. On the other hand, if the recession in Europe is much deeper or the slowdown in China more pronounced, then the global economy will be headed for much weaker growth and possibly another recession.

1. The United States will probably avoid a recession. The good news is that US domestic risks have diminished somewhat, and growth momentum has picked up modestly. Consumers seem willing to spend and businesses are more disposed to hire—albeit cautiously. This means that over the next year US growth will average between 1.5% and 2.0%. In the near term, the Eurozone sovereign-debt crisis is the biggest threat to the US economy. The longer-term outlook is clouded by uncertainty over how America's burgeoning sovereign-debt problem will be fixed.

³ Source: HIS Global Executive Summary, December 2011

2. The Eurozone is headed for a second dip. All indications are that the Eurozone will suffer through a recession in 2012—a mild one if the region’s sovereign-debt problems are resolved, or a deep one if they are not. Fiscal austerity is in full swing, bank credit is tightening, and confidence is plummeting. With few exceptions, the Eurozone economies will see negative growth next year, with the region as whole contracting by about 0.7%—at best. Possible, though unlikely, is a much worse recession triggered by messy sovereign defaults or euro exits.
3. Asia will continue to outpace the rest of the world. While Asia will not be immune to a recession in the Eurozone, growth in the region will remain resilient and will continue to be the strongest in the world (around 5.5%), for a number of reasons. Japan’s post-earthquake rebound will help underpin the region’s exports, offsetting some of the weakness in sales to Europe. Chinese growth can be expected to hold up at around 8% and further bolster Asian growth prospects—provided China’s housing downturn does not evolve into something much worse. Last but not least, easing inflation will give all Asian governments more leeway to stimulate, if necessary.
4. Growth in other emerging markets will hold up, for the most part. The Eurozone crisis and recession will have a differential impact on the rest of the emerging world. **Hardest hit will be Emerging Europe, because Western Europe is its most important export destination and also because the region is dominated by subsidiaries of Western European banks—all of which are tightening credit.** Latin America and Africa are relatively more vulnerable to the United States and China. Barring a catastrophe in either economy or another plunge in commodity prices, the growth in these regions should hold up fairly well.
5. Most of the risks to the outlook are on the downside. While there are many risks facing the global economy, two look particularly threatening over the next year. The first is the possibility of a financial meltdown in the Eurozone, with some countries exiting, or a messy default by one or more of the large Eurozone countries, especially Italy or Spain. Such a “Lehman moment” for Europe would likely push the global economy into recession. The second big risk is a sharp slowdown in China’s growth (say to 5%) triggered by a bursting of its real estate bubble. Such a scenario would have the biggest impact on the rest of Asia and commodity-exporting emerging markets.

Conclusion (for Serbia)

1. FDI is an important tool for country economic development and Serbia does have a potential to attract more greenfield investments. The cost and efficiency of production, primarily driven by labor costs, will continue to support a shift of production from Northern and Western Europe to Central and Eastern Europe in 2012. The SEE country labor costs are at typically least one third the labor cost of Western Europe. The further south and east you go, the lower the cost, which would appear to support production moving further South and East. Potential foreign investors will come not only from EU countries but from Asia as well (China, India, Korea, Japan, Taiwan).
2. Increasing fuel costs and the requirement for a decrease in CO2 emissions will, however, curtail any immediate massive shift in production away from the ‘central belt’. In order for production to move further south and east, a significant shift in transportation infrastructure and quality, which can reduce the cost of getting both products to market and obtaining raw materials, is essential. Shifts in distribution forms, notably from road to rail, and lower production costs allowing for

quicker, more cost efficient delivery will be the catalyst for this alongside improved road infrastructure⁴.

3. The “Serbian post-crisis economic growth and development model 2011–2020” study should act as the basis for the government’s economic strategy. The document calls for more focus on investment and imports as the historical reliance on privatizations may be drying up.
4. Despite, the relatively healthy level of growth expected for 2011 as a whole (2.6%), levels of activity are expected to remain subdued, until sustained stronger fundamentals are witnessed. **Investment activity in Serbia may remain limited, not only due to the lack of liquidity, but also due to a lack of suitable investment ready properties and unfinished transportation infrastructure.**

⁴ A shift away from road and air freight (most fuel inefficient/carbon emitting) to sea & rail freight is already happening, across EMEA more goods are now shipped from Turkey via rail rather than by road, to distribution centers in Poland, Germany and Belgium – the shifts are very significant. In future, this modal shift to rail will support locations which can offer genuine ‘multi-modal’ capabilities, including those which can offer sea freight as an option. This should lead to a shift towards spoke & hub distribution points, rather than activity being concentrated around one or two major distribution hubs.

3. Sectors Attractive to Investors

Food Industry

The food industry is an important source of FDI in the world. Between January 2003 and December 2011, FDI Markets recorded a total of 6473 investment projects from 1611 companies, the average number of jobs created per project was 238 and the leading business activity was Retail, which accounted for 42% of projects. The top ten companies accounted for 32% of all investment projects with Carrefour (France), Schwarz Beteiligungs (Schwarz Gruppe) (Germany) and Metro (Germany) among the top 10 companies. The top three source markets for outward investment were United States, Germany and France, providing 21%, 17% and 10% of investment projects respectively while the top three destination markets for inward investment were United States, China and Russia, attracting 11%, 9% and 6% of investment projects respectively. More interesting for Serbia is the fact, that its neighbours and competitors were very successful – Romania attracted the 4th largest and Bulgaria the 8th largest number of investment projects.

The export of food is an important component of the sector and the trend to export is expected to increase despite the current economic crisis affecting the World economy. WTO International Trade Statistics indicates that the largest trade decline is in Iron & Steel sector, followed by automobile and fuel & mining products whereas food and clothing are the least affected by the ongoing economic crisis. At the same time “Manufacture of other food products” belongs among activities in which Serbia is strong in world growing sectors based on the export data but the country is losing its position.

The agricultural sector is obviously related to the primary production of food but it also includes the industries which add value to agricultural produce such as the processing of the produce into semi-finished foodstuff as well as into finished meals. However because of the specificity of the raw materials which are subject to seasonality, perishability and variability the facilities have to be designed with great care. The facilities will thus depend on degree of processing envisaged which can be from simple handling and preservation of fresh fruits and vegetable to highly complex products like ready to eat foods etc.

Ideal Climate Serbia boasts ideal natural conditions for the growing of fruit. Its soil is still one of the cleanest in Europe, while most of the fruit is grown in perfect conditions, hand-picked, carefully stored, and packaged. Serbian fruit cultivation places an emphasis on quality and flavor. Additionally, Serbia’s diverse climate and ample land resources create unique opportunities for the development of primary vegetable production.

Growing Demand Serbia’s fruit processing industry is well-developed and poised to lead export growth for the country. Currently, the industry exports juices, concentrates, purees, jams, and frozen and dried fruit. Demand for Serbian fruit is growing steadily, with exports showing an upward trend. The vast majority of Serbian exports go to the European Union, and– as the EU’s health standards become stricter– many companies have quickly responded by introducing quality standards, such as HACCP and others.

Top Quality Investment opportunities in the fruit processing sector are provided primarily by the quality of raw materials that can be used in production. In addition, potential investors have strong support from Serbia’s recognized fruit research institutes. In the vegetables sector, Serbia is equally known for the production of high quality crops, with year round supply (potatoes, pepper, onions, tomatoes, mushrooms, cabbage, carrots, and beans) and seasonal vegetable crops, such as lettuce, leek, and spring onion. Creation of improved varieties and development of new cultivation methods are undertaken by a

compound network of state owned institutes, development organizations, and universities. Research is focused mainly on technologically advanced vegetable production and leads to high quality environmentally friendly seed and vegetable crop production.

The World Bank Group/MIGA study (Investment Horizons: Western Balkans - Benchmarking FDI Opportunities) identified natural advantages for Serbia in the production of certain crops, such as berries, which flourish in the local soil. The country's relatively inexpensive labor rates create a cost advantage. Furthermore, a significant national domestic market acts as a draw to market-seeking investment. Opportunities exist for further downstream processing of berry fruits, as well as in the dairy industry and greenhouse produce. Although its brands are considered strong within the region, Serbia has not yet developed internationally recognized brands and may be vulnerable to competition from large Western European produce brands. The study found another weakness in that portions of the raw material production chain in Serbia may require rationalization to ensure cost-competitive production.

The agro-industry in Serbia is an important sector of the manufacturing segment. The outlook for agro-industry is quite important in the Pčinja/Vranje region given the high agricultural output of the region based mainly on fruits and wood.

The average agro-industry company in Serbia appears to be larger and employs about 650 persons. This average number of employees probably reflects the inefficiencies still existing in Serbian companies and the number of employees is expected to fall with improvement in efficiencies.

The production of tobacco leaves is already well established on small holdings with companies buying the green leaves for curing, aging and fermenting prior to selling the processed tobacco leaves to factories in Vranje and Niš for manufacturing cigarettes. This activity is expected to carry on but further extension is not expected. Tobacco industry is represented by British American Tobacco in Vranje and Bujanovac Tobacco Industry (founded in 1937) producing tobacco paper. DIB, Duvanska industrija Bujanovac (about 150 emp. and owned by the state) is the only factory in the Balkans, which produces tobacco foil a product incorporating cellulose often used in locally manufactured cigarettes.

In the Pčinja region one of the main agricultural produce is fruit production. Most of the present fruit production is used in the production of juices, however, there is also significant potential to increase export earnings from other types of fruits and in particular berry fruits, particularly as it is exempt from import duties under the current EU trade agreement. As most Serbian berry fruit is currently exported in bulk or packed under Western European labels, there is ample scope to add value to what is already a high-value commodity. Production of berry fruit is ideally suited to small-holder production in many of the hilly areas of the region.

The analysis of the existing situation indicated that the region continues to have a high potential for agriculture with a few important companies already operating in the region. Some of these companies dealing with fruit processing are looking to increase their production. Nectar DOO, one of the largest fruit juice producers in the Balkans is already established in Vladičin Han. Coca-Cola HBC Serbia, one of the largest non-alcoholic drinks producer in Serbia bottles a natural spring water called Rosa, which originates from a natural spring located at 1.550 m elevation in the pristine natural landscape of Vlasina within the neighboring municipality of Surdulica. Both of these companies serve the local market and export a large proportion of their production. Bujanovac is famous for its SE "Heba" Bujanovac (500 employees) - mineral water and juice company. Since 2009 it has been owned by the Nectar company from Bačka Palanka. Heba is among the five largest producers of mineral water in Serbia. Another firm in the region is

Bi-voda – mineral water and juice company owned by the Jumko textile company from Vranje, and Fluidi - privately owned factory that produces soft drinks.

Wood Industry

Wood industry in Serbia is based on top quality raw base materials, over 2,000 companies engaged in wood processing and many opportunities in sawn wood, engineered wood products, furniture, and paper production. Broad leaves dominate forests in Serbia with 87%, while the remaining part consists of all kinds of conifers. The main tree groups of Serbian natural forests are beech (30%) followed by oak (27%), and other broadleaves. Production of forest-based industry is closely linked to the construction industry matching its outputs to the demand of the construction sector. The Serbian real estate market is growing, which increases local market needs. In addition, numerous Serbian construction companies are employed in the Russian Federation causing the demand to further enhance. The skill set for wood processing industry is constantly built on. There are 22 high schools specialized in wood processing, while the Forest Sciences Faculty at the Belgrade University educates around 1,000 young people each year. Serbian companies also have a long-standing tradition of exporting to Western buyers. The export analysis however shows that the furniture production belongs among declining industries in the world while Serbia is keeping its strong position on the market. The export potential is evident since the volume of export in the sector more than doubled between 2004 and 2009.

The Project "Private Sector Development in the South Serbia" with assistance from the Swiss Agency for Development and Cooperation SDC prepared a Market analysis of the wood Industry in Pčinja and Jablanica District in 2010 including the structure of the wood industry in Serbia as presented hereafter.

The report showed that the potential for continued and increased production are present. The number of Pčinja registered companies operating in the sector has increased from about 30 to about 250 between 2000 and 2009 according to the Chamber of Commerce. Most of the companies are small as can be seen in the structure of the wood industry above and involved in the cutting and collecting part of the supply chain. Simpo, one of the largest companies in the sector is located in Vranje. In the SWOT analysis of the sector, although there are many strengths, the report also highlighted weaknesses such as low productivity, old technology, lack of cooperation and delegation, many of which are symptomatic of Serbian Industry and which have to be addressed. Analysis of the wood industry sector also shows that only a third of the production in the sector is related to finished goods such as furniture and the potential to increase employment by increasing the volume of finished goods has to be exploited.

The sector is attracting attention from international companies with Ikea having invested 1.5M € to improve the production line of Simpo in Vranje and the company has indicated a willingness to invest in additional production facilities subject to obtaining the correct conditions and location.

The importance of the sector is reinforced by the large amount of inward investment in the primary processing of wood into semi-finished products such as the recent opening of a particle board factory by Kronospan in Lapovo. This factory is strategically located to rely on the timber resources of the whole of central Serbia. The current volume of felled timber in Pčinja is only about 140,000m³ per year compared to the 200,000m³ of timber required for a primary processing factory, The area of forest in Pčinja is about 138,000ha assuming a volume of timber of 160m³/ha (estimate for Serbia according to Furniture and wood processing industry, Embassy of Denmark, 2010) and an optimistic felling and processing rate of 10%, the production capacity of the forests of Pčinja is about 220,000m³. Such a production will barely

justify the installation of a primary processing plant. it is therefore not expected that any primary wood processor will be attracted to the region. However, it is possible that some fellers and collectors may set up business in the region to collect the wood for dispatching to primary processors in Central Serbia. On the other hand much of the broadleaved timber can be used directly with the minimal processing in traditionally made timber furniture. These enterprises tend to be small and do not require large premises.

Besides of the market leader Simpo (with branches also in Bujanovac and Preševo) there is existing wood industry company Sloga which is under bankruptcy proceedings at present and cannot be saved most probably because the company furniture product line is old as is the equipment. In Bujanovac there is also CLR "Lagado" (260 emp., Italy) – manufacturer of upholstered furniture from natural leather, eco-leather and fabric; sale of furniture, furnishing office and CLR "Enterier" (65 emp.) producing furniture.

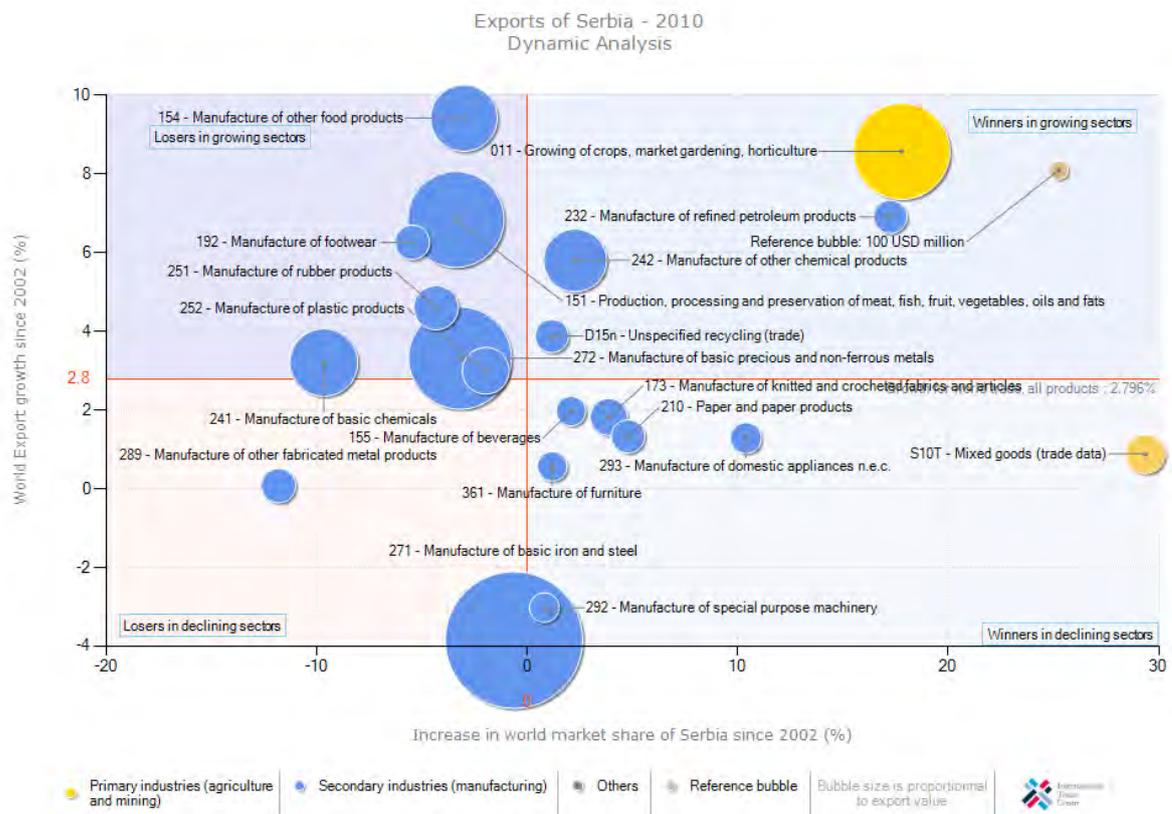


CHART 1 – DYNAMIC ANALYSIS OF SERBIAN EXPORT

Manufacturing Sector

In „The Strategy and Policy development for industry of Serbia“ as adopted by the Serbian Government in June 2011, the government is committed to increasing the volume of all export to 50% of GDP from 27.5% in 2009. However, the volume of export of manufactured goods from Serbia between 2007 and 2009 is stagnating. Data from International Trade Center (see picture 1) show that there are only a few manufactured products in which Serbia has a competitive advantage. Since manufactured goods makes up about 50% of all exports it is logical that particular attention has to be given to this sector of the economy in order that the target can be achieved.

The manufacturing sector can be divided into different segments and this analysis will consider the segments which are already quite important in the region, such as Automotive / Industrial components; Home Appliances, Textile and footwear and Electronic industry.

Automotive / Industrial Components

Most industries do not manufacture from raw materials all the components of consumer goods for reasons of costs and usually it buys in standard industrial components or outsource to specialist factories the manufacture of special components to its own specifications (original equipment manufacturer). Although the industrial components segment does not produce finished goods, it is a very important part of the supply chain of most industries and with the ongoing globalization trends, it is expected that this market segment will continue to develop as producers continue to seek efficiencies in the supply chain. The proximity of Serbia to the main European manufacturing bases in Germany will improve the likelihood that Serbia will increase its market share as consumer goods manufacturers refine their supply chain.

Serbia historically was a center for automotive vehicle production in former Yugoslavia. The Automotive Components Sector in Serbia has decade-long tradition in cooperation with western OEMs; capacities for production of more than 250,000 vehicles annually, high percentage of technically skilled labor force and country location conducive to servicing major growing OEMs in the region. There are about 100 companies directly involved in production of automotive components in Serbia and many of them are exporters to markets in Europe and wider. With total exports of around €100 mil., the sector proves to be competitive internationally. Based on FTAs with South East Europe countries and Russia, Serbia offers strong export opportunities. Furthermore, Serbia's location allows for the establishment of just-in-time supply mechanisms with partners from Western and Central Europe. As a result of lower labor and utility costs in comparison to most CEE countries, automotive production in Serbia boasts high cost effectiveness. Over the years of partnership with Western companies, such as Daimler Chrysler, FIAT, or General Motors, local staff has received specific know-how and adapted itself to advanced technology and rigorous quality standards. Prospects for imminent investment in this sector appear bright, although Serbia has generated minimal automotive-related foreign investment activity to date.

The World Bank Group/MIGA study (Investment Horizons: Western Balkans - Benchmarking FDI Opportunities) found an abundance of highly skilled, low-cost labor available in Serbia. The labor force includes many workers with engineering and technical skills applicable to the automotive components industry. Serbia also benefits from distribution networks extending throughout the Western Balkan region, and a track record in supplying Western Europe. Serbia's FTA and historical links with Russia are also regarded as a major asset in attracting investors. Serbia has the potential to re-emerge as the Western Balkan regional hub for tier 1 supply capability in the automotive components sector. It has the lowest personnel costs in the region and therefore presents a clear competitive advantage in any labor-intensive manufacturing operation. Furthermore, due to the high standard of Serbian engineering skills, engineering design services may emerge as a promising subsector.

The study found weaknesses for this sector to include: outmoded technology and equipment at domestic companies; limited availability of "soft" management skills; limited direct availability of modern industrial property; and the difficulty of attracting back investors lost during the war years.

The general trend for industrial component manufacturers is to forge long term partnerships with consumer goods producers in order to achieve a large volume of sales which will then translate through economies of scale into savings for all concerned.

Activities in the sector include the proposed doubling of production of tyres by the Tigar company of Pirot with the participation of Michelin, the international tyre manufacturers. This proposal together with the installation of the Fiat motor company in Kragujevac are positive signs which will increase the activity of industrial components manufacturers.

As can be seen on the international level the size of potential factory can be quite substantial at 3 ha and an employment of about 400 for the typical company.

Home Appliances Sector

An important segment of the manufacturing sector is home appliances which include leading and prominent national consumer market products. Alongside improved transportation facilities, better availability of electricity and communication systems are also driving economic growth both in the developed and developing regions of the world. The result is increased demand for home appliances such as refrigerators, washing machines, vacuum cleaners, and toasters. In the developed economies the demand is for replacement and also for improved goods either in terms of functionality or increasingly in terms of energy consumption or environmental impact and also in new consumer goods. On the other hand within the developing economies the demand for similar products is also increasing as the quality of lifestyle improves with disposable income. The developing countries are showing higher growth in home appliances than the mature economies such as Europe where the number of new homes is less and most homes already own home appliances.

According to the Economic Intelligence Unit, the demand for home electrical appliances has been growing at an annual rate of more than 10% per year up to 2008. Whilst home audio and video equipment reached a peak growth of 10% in 2007 and 2008, the television market maintained an annual growth of about 4% between 2006 and 2009. However, the recent economic downturn is clearly seen and is likely to continue as the mature economies of the USA and Europe struggle to recover.

The largest white goods enterprise in Serbia is the Gorenje group with factories in Stara Pazova producing thermal and heating appliances whilst the Valjevo factory have been manufacturing refrigerators, freezers and cooling equipment since 2006 on a greenfield site. The company is acquiring the brownfield site of ceramic factory, Porcelan in Zajecar with the intention of converting existing buildings into production lines for washing machines and dryers. The company also has plans to extend its Stara Pazova factory. Most of the production of Gorenje are exported.

The proposed expansion of production by those two companies reflect the buoyant nature of this segment of manufactured goods despite the current depressed growth in the European market for home appliances. The increased production in Serbia provides a good indication of the competitiveness of Serbian labor cost in relation to Asian companies.

In the city of Vranje a Serbian enterprise (Alphaplam) specializing in manufacturing of gas cookers is considering expanding its product line with electrical cookers. In Bujanovac there is AD Alatnica producing hand and cutting tools.

Clothing and Footwear Sector

The introduction of defined standard clothing sizes meant that it is now possible to mass produce ready-to-wear clothing and created the multi-billion ready-to-wear clothing industry. As economies of most nations experience an increase in available disposable income the population acquires a higher interest in fashion. The result of this sophistication is a readiness to change and acquire clothing more often in order

to follow the trend in fashion. This is particularly applicable to the increasingly more sophisticated young population which is an important segment of the market.

The export market for apparel has been growing at about 8% for the last decade except for the recent economic downturn which has caused a reduction of the export market. Following the introduction of the WTO Agreement on Textiles and Clothing (ATC) which came into force in 2005, the export market is becoming even more dominated by the Asian countries like China and India. However, in many instances smaller developing countries have managed to maintain a presence in the market through specialization and improved technology whilst benefitting from their proximity to the main markets in the US and Europe.

Land requirement for primary textile processors can be large because these factories are designed for 24hours operation and be relatively close to the sources of raw material for the maximum economies of scale. Since Serbia does not have the raw material for yarns and threads such factories are not expected. Dyeing and washing can be carried out on a small scale but the environmental impact from discharge of untreated waste can be important. These finishing techniques are used to achieve certain fashion looks. These techniques used to be applied to heavier fabrics but new developments have allowed some techniques to be used for lighter fabrics. Special requirements have to be identified to ensure that on the industrial area the wastewater from these factories are properly treated.

Serbian competitive advantage is based on high price competitiveness; quick and flexible delivery and low minimum orders; 70% of exports absorbed by the EU market and numerous business opportunities in yarn, fabric, and ready-made garment production. The textile industry in Serbia boasts highly qualified labor, based on its educational system including both high-school and university level. Sewers and technicians are educated in specialized high schools evenly spread throughout the country. Higher levels of education at specialized university departments offer post graduate education in related fields. Serbia has traditionally cooperated with foreign partners and has been one of the leading garment manufacturers for high selling brands. Fashion industries of France, Italy, and Germany have extensively used production capacities in the country, together with highly qualified and low priced labor. Western clients have included Zara, Mango, Benetton, Tommy Hilfiger, Hugo Boss, and many more. The strategic position of Serbia provides quick delivery, while transportation costs are extremely competitive. Hanging transport cost from Serbia to the EU is approximately €0.23 per garment.

Southern Serbia has a history of production in the clothing and shoe industry with factories located in most cities and towns such as Niš, Leskovac, Vranje and Vladičin Han, Although many smaller factories have closed following introduction of the market economy, there are still many quite successful companies (Jumko) in the sector. New companies (Yenice jeans, Benetton) are entering both the clothing and the footwear market.

Electronic Industry

Over the last two decades, the electronics industry has transformed from finding applications in a narrow traditional market comprising mainly of computers, communication devices, electronic equipment or office electronics and moving into a wide range of sectors.

The global electronics market has been showing a consistent growth of 1.8% p.a. between 2005-2009 reaching a total revenue of USD 2,367 billion in 2009. The electronic equipment segment formed nearly 70 percent of the total revenue in 2009 followed by computers with 22 percent. In regional terms, the Asia-Pacific region is the main producer with 51 percent of the production by value, whereas Europe and

US each accounted for 23 percent. The industry suffered a contraction in 2009 following the economic downturn but there has been a rebound during 2010. This downturn is likely to recur with the current pessimism regarding the world economy. Expensive one-off purchases, sales of white goods, audio-visual equipment, televisions, cameras, personal computers and mobile phones are likely to suffer as a result. There are few plans for further international expansion within the sectors, although Asia is the one bright spot where sales are holding up. The economic downturn will put more pressure on the original equipment manufacturers (HP, Apple, Hitachi, Phillips) to seek more efficient supply chain and it is therefore expected that adoption of electronic manufacturing services (Foxconn, Flextronics, Celestica) will become more prevalent. Following the economic troubles of 2008, the worldwide electronics manufacturing services (EMS) market recovered from the 8% decline in 2009 and experienced a massive expansion of more than 30%.

Whilst some of this growth is catching up the growth only confirms the growing trend to increased outsourcing of manufacturing. Even if most of the growth is occurring in the far east the region is also benefitting from this trend as can be seen with the expansion plan of the Turkish EMS, Vestel as European OEMs seek to reduce the time to market of their products. The growth expected in the EMS market as predicted by iSuppli is shown on the following figure. This trend is also expected to be beneficial to Serbia.

The electronics market in Serbia is also quite buoyant with new investors seeking facilities closer to the European market or benefits from the low labor cost base. In 2010, the Embassy Group of India announced the opening of an IT park with 2.5ha of prebuild in Indjija to attract Indian and other technology companies seeking entry to the European market. In 2011, the German company "Muehlbauer Holding AG & Co. KGaA" plans to open a technology centre in Stara Pazova for the development of advanced wireless network devices. The Mayor of Vranje has signed a memorandum of understanding with a Chinese company for the installation of photovoltaic panels to generate electricity within the territory of the municipality.

Conclusion (for Pčinja region)

1. Food processing, wood processing and furniture and textile and footwear have the highest potential to attract investors because of regional industrial tradition, qualified work force and available raw materials. Since the highest competitiveness can be identified in food processing and furniture industry, these are the most probable sectors which could expect interest of foreign investors.
2. Automotive components and electronic industry may become important if construction of Corridor X (E-75) will be finished. In that case it can be expected that tier 1 or 2 suppliers will be interested to locate in the region to utilize the geographic location and fast delivery opportunities to producers of finished goods.

4. Industrial Property Market in Serbia

Industrial Zones

An industrial zone is a collective location, or limited space belonging to a greater number of enterprises from the equal or different industries. Industrial zone is used to provide land for industrial activities carried out in the town sites. Industrial zone can also be defined as a location form of business infrastructure, which apart from the other spatial forms (industrial and technological parks or free zones), represents important instrument for drawing investments into the region or country. As an instrument for attracting foreign direct investments, existence and development of industrial zones should decrease the territorial disparities.

In Serbia there is not much available area for industrial development in the cities in the form of infrastructural organized locations. Investors are mostly offered individual undeveloped locations. In sense of providing attractive industrial sites in towns, Serbia has strong competition in the neighboring countries in the category of green field investments.

Greenfield investments occur when multinational companies enter into developing countries to build new factories and/or stores. All developing countries often offer prospective companies tax-breaks, subsidies and other types of incentives to set up greenfield investments. Greenfield investments are very important factor in the growth of the national economy⁵.

Industrial zones are the key instrument of industrial, regional and spatial development policies of Serbia in accordance with European industrial policy, regarding regional competitiveness and accessibility, an employment growth, eco-restructuring of production, development of small and middle firms, development of low carbon production and technological innovations transfer and encouragement of competition.

Development of industrial zones in Serbia is still in the initial phase. Potential foreign investors have an interest in moving parts of their production from basic location as a consequence of attractive macro and micro location factors. The favorable economic conditions for development and created economic capacities are not equally distributed in all areas in Serbia, as resulted in not equal conditions for entering of new investments and economic development. That is why regional and territorial disparities became large regards to economic development of Serbia.

National support should be focused on less developed areas with influence on creating better economic and social infrastructure to mitigate these imbalances. Disparities of industrial and economical development between different areas in Serbia, caused migration process from undeveloped to more developed regions, and from rural to urban areas.

In order to mitigate the consequences of the before mentioned migration processes, in the Spatial plan of the Republic of Serbia 2010-2020 are presented strategic priorities which refer to connecting rural areas

⁵ Greenfield zones represents an area of undeveloped site earmarked for commercial development or industrial projects. This type of industrial zones means construction on undeveloped localities. Brownfield zones represents erstwhile commercial or industrial site, usually abandoned or devastated. Brownfield investments are very important instrument of functional and urban transformation of a large area in Serbian cities.

with urban areas on the functional basis, by planning and program activities on the regional and local level. Furthermore, reconstruction and building of the local road network and local infrastructure is envisioned. In terms of development opportunities in rural areas in Spatial plan of RS is put emphasis on strengthening of entrepreneurship by plans for encouraging the development of small and middle size firms, as well as projects for processing agricultural products in the regional context, creating cluster systems and networks of retail centers for local products. It should be noted that development and renewal of rural areas in Serbia in sustainable and socially rational manner is very important for total and balanced territorial development of the Republic of Serbia. Renewal of cities and villages in rural areas in economic, physical and social way would affect depopulation in these areas, as well as achieving a higher quality of life in them⁶.

Supply and Demand of Industrial Property in Serbia

Serbia has so far not benefited from its favorable geographic and strategic position at the Pan European corridors VII and X to make a strong and well supplied industrial/logistics market. The industrial and logistics market had a weak performance in 2011. The logistics market, predominantly owner occupied, with very limited modern stock, is mainly concentrated in the Belgrade zone, near to the airport and in the Southern municipalities of Vojvodina. However, with the expansion of the retail market and new entrants on the market, **the demand for the modern logistics premises is expected to intensify along the Corridor X**. Once the economy starts to pick up a large interest in logistic schemes is expected to take place. As consumer spending continues to grow across Serbia more retail distribution will be required. Some international developers, like Helios are searching the market for suitable plots to start their operations in the country. However, **difficulties in finding a site large enough as well as security of land ownership are the major obstacles to penetrating the market**.

Demand for industrial and logistics space in Serbia still remains low, mainly driven by relocations rather than expansions of current occupiers or new investments. The market eagerly awaits strong foreign food retail chains that would kick start demand for modern logistics. Due to the market downturn in 2009 and a substantial lack of demand, some larger sized logistics projects are postponed for an indeterminate period such as Eymaxx Cargo Logistics Center at Konstantin Veliki Airport in Niš.

SIEPA⁷ offers on its sites in Location Database over 500 locations. However, this offer is rather virtual since only a few of them are greenfield sites ready for investors. Brownfield locations, usually small with old buildings create majority of the database and majority of them is not of a big interest to medium sized and big investors. Southern Serbia region is the last one among regions in both total land offered and average site size. At the same time sites from Southern Serbia have the highest buildings area and building to land area ratio which supports the fact that the sites offered are mostly brownfields. Pčinja region is represented only by 12 locations, mostly brownfields (Yumco Vranje, Delises Vladičin Han, Bivoda Bujanovac, Kristal Preševo and other). There are also 3 small locations from Vranje, however, none of the sites offered can attract a serious investor. None of locations reviewed during January due-diligence trip is currently offered in the database.

⁶ Source: Colliers International – Market Research of Industrial Zones in Serbia

⁷ Serbia Investment and Export Promotion Agency

	Number of sites	Median land area	Average land area	Total land area	Buildings area	Number of buildings
Centralna Srbija	125	33 925	257 727	32 215 823	848 326	316
Vojvodina	168	24 446	178 007	29 905 200	927 161	231
Zapadna Srbija	53	24 557	208 846	11 068 852	331 060	129
Istočna Srbija	49	30 625	199 587	9 779 768	322 129	133
Grad Beograd	47	9 800	87 225	4 099 552	155 817	66
Južna Srbija	64	18 020	56 062	3 587 302	1 296 810	208
- Pčinja region	12	20 929	39 104	469 256	229 173	25
Total	506	24 529	179 168	90 656 497	3 881 303	1 083

TABLE 1 – SITES OFFERED THROUGH SIEPA DATABASE

In the long term, with a more clearly open path towards EU accession we expect to see an upgrade and modernization of the logistics and industrial stock. Industrial market Serbia is strategically located on the borders of the EU, neighboring Hungary in the north and Romania and Bulgaria to the east. The attraction of a cheaper labor force and favorable tax regime, compared to the neighboring EU countries, may tempt some investors to set up their production facilities and distribution warehouses in Serbia. Currently, there are only a few new modern logistics developments in Serbia, mostly owner occupied. The limited stock of modern industrial facilities and the prevalence of owner occupied space mean that there is strong demand from prospective occupiers. Most warehouse requirements will come from food retail distribution chains, transportation and pharmaceutical companies. It is expected that further demand for warehouse facilities and industrial units will follow after the improvement of the business environment and the increase of trade and industrial production.

Rents

Industrial rents in Serbia are higher than those in the other Eastern European countries. Due to the high demand, almost non-existent speculative stock and the general immaturity of the market, rents can reach up to €4.5 - €5.0/m²/month for prime modern space. However, as the modern stock increases over the next few years, prime rents are expected to drop to a similar level as in other markets. Production facilities are also seeing higher rent levels compared to the Eastern European average. As a result of limited stock and specific occupiers' requirements, rents of up to €7/m²/month can be achieved for light-industrial unit. Rents for the old non-refurbished warehouses, mainly located in Belgrade's port, range from €1 to 2.50/m²/month. However, there is a limited evidence of market rents as most of the transactions are completed on an off-market basis, no data from Pčinja region are available at this moment.

Land values

With the entrance of foreign investors into Belgrade's market in the last three years, land values here have been increasing. The supply of prime land in Belgrade is limited due to the fact that the vast majority is owned by state. Typically, the land for sale in Serbia is fragmented and it is very difficult to find suitable

plots for offices and retail development in the city and for industrial/ logistics development on the outskirts of big cities. As a general rule, the asking price of land depends on location. The planning consent is also a large consideration if the site density is low and there is demand for a particular product in that area. However, in many cases asking prices are unrealistically high as owners do not understand the investment strategy. In cases where the land is owned by the state, the prices are centrally regulated and structured by zones and development category. The Serbian legal framework recognizes two land categories most commonly used for investment purposes: construction land and agricultural land, both mostly private and state-owned. The price of land is largely dependent on its category. The procedure to change the category from agriculture to construction land usually takes up to six months. Currently, potential investors can acquire building land only to a limited extent. However, an introduction of the new constitutional law will increase the security of land ownership for foreign investors. Prices range from €15 to €60/m² for industrial land depending on zoning and location. Currently, the most expensive sites are residential and commercial sites in the core of Old Belgrade and sites for logistical purposes in close proximity to Belgrade's airport⁸.

Competing Industrial Zones

Any feasibility study for eventual new industrial zone must take into consideration existence of potential competitors. Simply said, it is different whether there is only one zone in an area with diameter of 50 km or there are industrial zones on every 15 km. Direct competitors for zones in Pčinja region can be found especially along Corridor X. The brief characteristics of IZ in Jagodina, Niš and Leskovac shows that Pčinja zones must offer very high quality to outperform its competitors.

Industrial zone Jagodina

Jagodina is a city located in Central Serbia on the banks of River Belica, 140 km from Belgrade and 100 km from Niš. All capital and major cities of Southeast and Central Europe such as Budapest, Zagreb, Sofia, Bucharest, Thessaloniki, are less than 500 km away from Jagodina. Through Jagodina passes the electrified railway line, which connects Central Europe with southern Europe and Asia. Industrial zone in Jagodina is positioned 500 m from the Pan-European Corridor X and 350 m from the toll gate. IZ contains approximately 150 hectares of land available for the construction of industrial premises. Land plots within the industrial zones of Jagodina are generally sized from 3 to 5 ha, but they can occupy an area of over 5 ha as well.

Infrastructure within the IZ in Jagodina comprises the following: adequate water supply network, as well as rain and sewage network. adequate access roads to the industrial zone, as well as internal roads within the industrial zone, the existence of transmission lines, gas pipelines and heating pipelines. Other infrastructure within the industrial zone provided by the City Council of Jagodina are related to the telecommunications and "one stop shop", or acquiring of necessary documentation by the potential investors at one place.

Potential investors are leasing developing plots in period of 100 years, free of charge, but with the requirement of potential investors for obtaining land lots is to employ 23 workers per hectare of land acquired, or 8 workers in the first year of operation and 15 workers in the second year of operation.

⁸ Source: Jones Lang LaSalle, Cushman Wakefield and Colliers International, December 2011

Industrial zone Niš

Donje Medjurovo Industrial Zone contains extensive pieces of land and good infrastructure coverage. This location is located in the City of Niš, in the City Municipality of Palilula, in Donje Medjurovo village near the old regional road Niš-Leskovac. This 10ha location, located in the industrial zone, is intended for the light industry/warehouses. The triangular piece of land with the extensive frontal part is spreading along the regional road R 214. The whole surface of Donje Medjurovo is not constructed, apart from the Fripak building, an old food production complex. The infrastructure is being renovated, by connecting the location to the waste water network, water supply network, by drafting projects and building access roads and internal roads. This is the biggest generator when attracting new investors who are in favor of the fully equipped locations in comparison to those which are yet to be equipped. Despite the fact that the vehicles have an excellent access to the location, and that it is near the railway, another advantage is that this location is very near the City of Niš airport and the plans for building the cargo center are under their way. The urban parameters allow the construction of more than 200.000 m² gross of the construction surface for the industrial purposes/warehouses, from G+1 to G+2 floors. Having in mind the fact that these constructions are not appropriate for the approved purposes, unless building offices, there is a professional endeavor to make use of the location by constructing 70.000m² gross of the construction site.

Industrial zones in Leskovac

By the development of the new General urban plan, the city of Leskovac has come to a spatial direction until 2010. New and spacious areas for all types of production engaged capital in the industrial zone are planned and they could be activated anytime in accordance with the set regulation plans.

Amendments and additions to the GUP enable planning of new areas according to the current needs on other locations of bigger as well of smaller level of construction. By the way, during the development of the spatial plan of the Republic of Serbia, the municipality of Leskovac has been characterized as a municipality in the zone of medium burdened area, regardless of its high level of industrialization.

Eastern industrial zone

The Eastern Industrial zone is located on the M-1 Niš to Skopje road, with available access to it. The ownership is mixed (mostly private and partly state ownership). The overall area of the Eastern Business Zone is 241.1 hectares. Usable area is 60%.

Northern Industrial zone

The Northern Industrial zone of the city of Leskovac represents a unique complex of an area of 59.6 hectares. In terms of percentage the usable area of this business zone amounts to over 70%. Ownership within the zone is mixed (state, private and public ownership).

Southern Industrial zone

The Southern Industrial zone is located between the M-1 Niš to Skopje road and the E-75 Motorway. The ownership is mixed (mostly private and partly state ownership). The overall area of the Southern Business Zone amounts to 110.5 hectares. Usable area is 25%. Distance from the Main highway 4 km, from railway 0.5 km and is partially equipped with infrastructure.

5. Role of Property in Economic Development

Real estate markets play an important role in shaping economic activity in particular locations and, as such, the dynamics of real estate markets need to be carefully considered in economic development planning exercises. In considering how commercial and industrial property markets may influence the location or development of economic activity, three broad issues need to be addressed: the existing stock of land and buildings; real estate market structures and the public policy environment

The Significance of the Existing Stock of Land and Buildings

Urban economic activity generates a requirement for land and buildings that must, initially, be met from the existing stock, given the necessary time lag between a demand signal and supply of new space. The characteristics of the existing stock of space, then, will help determine how successfully changing patterns of demand can be accommodated. Stock characteristics include:

1. the aggregate quantity of space
2. the quality of that space
3. the mix of space suitable for a diversity of needs
4. the flexibility of the existing buildings.

The larger the stock of space, the more firms and workers that can be accommodated. This, in turn, is likely to produce more scale economies and greater agglomeration benefits. The size of the existing stock will, naturally, arise from the historical development of the urban economy. Inadequate supply of business property, however, will be insufficient to help maintain a region's competitiveness.

Quality of stock is another critical dimension. For large, high order service firms in particular, space must be capable of supporting the business: accommodating the technology required for efficient operation, providing a satisfactory working environment for key staff and raising prestige in the eyes of clients and competitors. Equally important, the space needs to be flexible to permit reconfiguration and the implementation of new working practices.

However, it needs to be stressed that this does not imply that a competitive international service or manufacturing center will only have large, modern, high specification accommodation. One key feature in many cities, for example, is diversity. This diversity needs to be mirrored in the property stock. This is important in the framing of real estate policy. Building large prime office buildings to attract major firms to locate in a city is not, in itself, a sufficient solution if the built environment does not offer the range of space for all the necessary support services and suppliers that those firms require.

The flexibility with which the stock of buildings can respond to the new demands of the market is also a critical factor in ensuring competitiveness in the market for mobile investment. As industrial sectors grow and decline and as the occupational requirements of firms change – in response to new technology, business re-organization and new working practices, for example, often leading to lower density of jobs per unit of space and demanding bigger sites – the market must deliver appropriate space. Functionally obsolete space must be replaced and the stock be upgraded continuously.

Conclusion for Serbia

The competitiveness of cities and regions is undoubtedly influenced by the characteristics of their property markets. While a firm's decision to locate in a particular place may well be driven primarily by

quality of labor markets, proximity to customers and competitors and access to capital markets, the cost and quality of real estate will be an important factor. More important, the characteristics of the commercial property market must affect business efficiency – both for incoming firms and those already based in the city. In a global market with intense competition, these impacts may be critical. The supply side MUST not wait until the demand is generated but preparation of business ready property shall form the property market and increase competitiveness of local economy. The simple provision of land and buildings are in themselves not the sole determinants of industrial location decision making as undertaken by companies/investors. Demand factors that influence company locational decision making are often driven by notions of accessing a skilled workforce, increasing market share and production costs. However, numerous academic studies and the experience from regions that have succeeded in securing major company investments have shown the important role played by proactive property players from the public and private sector.

There are three main factors that determine the adaptability of the property market in response to change: the characteristics of the existing built environment, the institutional structure of the property market and the nature of the public policy context.

The industrial/commercial property markets in the Pčinja region, as in other parts of Serbia, are in an embryonic stage of development. On the demand side, the low level of investments (as compared to other European countries successful in FDI attraction) by commercial/industrial investors in the Region has meant that the demand for enterprise space in these sectors has been weak. Supply has been hesitant too. Unsuccessful privatization and ongoing bankruptcy procedures have produced a tangled legal situation in relation to a large part of the existing property stock. New properties are not being produced by the private sector due to the low levels of demand and due to “competition” from the industrial zones developed by the public sector. In particular, the public sector shall be aware that “...industrial zones supported by public money are using their subsidies to sell sites on to investors at below cost...”, thus crowding out potential private developers.

However, the public sector MUST be involved in industrial sites development for the following reasons:

1. “Level of progress in economic development” – Economic development in former socialist countries on SEE is still in its early phases. The majority of external investors are coming to Serbia to construct / relocate new production facilities on green field sites or expand existing facilities. Both of these cases require relatively large pieces of land.
2. “Competence” – Local governments (both municipal and regional) possess only limited competence in the area of economic development and cannot use many of e.g. financial tools which are generally accepted in western Europe and the USA. It is either legally impossible or very difficult to improve skills and flexibility of the labor force; impose / forgive taxes or reduce bureaucratic barriers and improve business climate. On the other hand municipalities can play an important role mostly in urban / spatial planning (they can relatively easily change zoning of agricultural land into industrial), infrastructure improvement and in land banking.
3. “Ownership” – Some municipalities inherited / received substantial pieces of land and became an important player in the real estate market. State – as a major land-owner – also may decide to transfer to municipalities substantial amount of property e.g. former military areas. Since the local government is seen as someone who has got the money, many individual owners may offer their, usually agricultural land, for sale.

6. Due diligence report from the IMC

This due-diligence report has been made in the USAID Sustainable Local Development Project as an input for IZ Concept Development Plan for Vranje IMP of the development of the Industrial Zones in Vranje, Vladičin Han, Bujanovac and Preševo. As a source of information has been used:

- Site visits between January 16 and 19, 2012
- Interview with the Municipal departments for urbanism representatives and or Mayors assistant for investment project development
- Maps with indicative drawings of the infrastructure on site
- Regional maps from www.google.maps and similar resources
- Various internet data sources on local economic development.

As a main goal it has been reviewed whether zones in these municipalities have the following parameters based on general needs of manufacturing /logistics investors in Central and South East Europe:

1. a site with 15-40 ha of flat land, without any physical barriers or historical pollution;
2. at least 50.000 inhabitants in the catchment area (up to 40-45min. accessibility by car/bus);
3. no legal-ownership obstacles;
4. a maximum distance of ten kilometers to the national and regional road network;
5. the site offers flexibility, allowing a division into sub-sites/plots (0,5-3,5 ha) for different owners;
6. the plots will accommodate industrial productive halls of various sizes (from 800 – 8.000 sq.m.), or flexible spatial combinations of these;
7. a concrete plot offered to an investor should be able to accommodate future extensions of the investor's production facility - this means that the initial development shouldn't be too intensive and a step-by-step development ensuring the flexibility and opportunities to adapt to changing demands;
8. the availability of infrastructure for an adequate accessibility of both the entire site and the individual building plots with the following capacity: calculated based on the following formulas derived from the experience from Central European industrial parks:
 - a. gas demand for heating: $Q_{max} = \text{gross floor area (ha)} * 100$ (average relative consumption in m³/hour,ha)
 - b. electric energy demand for light industrial production and assembly: $Q_{max} = \text{productive area (ha)} * 400$ (average relative consumption in KW/ha) + number of persons * 2 (average relative consumption in KW for administration)
 - c. potable water demand for light industrial production and assembly: $Q_{max} = \text{size (ha)} * 0,8/s + Q_{fire} = 6,0 - 10,0/s$
 - d. wastewater capacity for light industrial production and assembly: $Q_{max} = Q(\text{water}) * 1,1$ ⁹

⁹ It is expected that the rain water will seep into the ground locally. The water from solidified surfaces within the premises will be drained to the surrounding areas - lawns that will securely meet the infiltration parameters needed. Water from the roofs will be infiltrated through the drainage system individually. Rain water from the car parks will be drained into the drainage structures located under the lawns.

9. the possibility of having special services on site (a multifunctional center with some potentially shared services as a minimum: copying, legal services, catering, retail);
10. a decentralized Park Management Unit (PMU) is recommended but not necessary; this can also be provided for by a city official from a centralized basis (e.g. city hall).

In general, all sites meet the requirements number 1, 2 and 4 without any problem because of the natural characteristics of the region. At the same time all municipalities have established Local economic development departments (or at least specialists) which are ready to take the responsibilities for items number 9 and 10. On the other hand items 3 and 8 create the biggest obstacle to ability of municipalities to offer site for investors.

Basic characteristics of the region and transportation connection

The region is located on the South of Serbia, close to border with Bulgaria and Macedonia. There are very important international communication routes: highway E-75 connecting this region with Macedonia and also central Europe with Balkan and railway Budapest-Belgrade-Skopje-Athens. The E75 is part of the International Road network starting from Vardo, Norway in the Barents Sea and runs south through Finland, Poland, Czech Republic, Slovakia, Hungary, Serbia and Republic of Macedonia to Sitia, Greece on the island of Crete in the Mediterranean Sea. The railway system is the oldest in Serbia and although maintenance is average, the modernization and replacement program has been lacking and maintenance costs are escalating. The Belgrade – Niš section was constructed in 1884 and extended to Vranje in 1885 eventually connecting to the Skopje – Thessaloniki section completed 10 years earlier. Investment in railways carried on until the Second World War when most investments were directed to road transport. The rolling stock is relatively old and unreliable. The average age of railway cars is over 30 years and the degree of availability, depending on the type, varies between 26% and 61%.

There are 3 airports well accessible from the region. Skopje Alexander the Great airport is only 48 km from Preševo, 80 km from Vranje and 104 km from Vladičin Han. Konstantin Veliki Airport in Niš is 95 km from Vladičin Han and Sofia airport is 148 km from Vladičin Han.

The distance between Vranje and the most important economic centers in the country and the nearest surrounding is: - Belgrade – 347 km; - Priština – 115 km; - Niš – 120 km; - Skopje – 91 km; - Thesalonika – 354 km. Border crossings with Macedonia are at 35 km (Prohor Pčinjski) and 48 km (Čukarka), and with Bulgaria at 74 km (Strazimirovce) and 115 km (Ribarce).

Vranje

Vranje is an economic, administrative, health, educational and cultural center of the Pčinja District. The Municipality of Vranje covers the space of 860 square kilometers, and is one of the largest in Serbia. The town is located on the crossroad of the communication directions (corridor E-10), which represent traffic arteries of tremendous international importance. The highway and the railway Budapest-Belgrade-Skopje-Athens pass three kilometers away, and they connect Serbia with Macedonia, as well as middle Europe with the Balkans.

Vranje is the largest municipality in the region with population of almost 90,000 and long industrial tradition namely in wood and food processing, textile and shoes production, best offer of labor force and schools preparing new specialists. Existing businesses in basic processing of raw materials can become

suppliers to new investors and the city can also provide service operators serving the needs of newly established / coming firms. The most important industrial park of the region should naturally be located here mainly because of

- the best availability of qualified work force and possibility to cooperate with schools directly;
- active role of municipal government;
- certification as business friendly municipality by NALED;
- best transportation connection within a region.

City understands its role and position and its strategic plan relevant to economic development includes strategic goals such as: “Creation of convenient surrounding for investment attraction”; “Development of General plan and detailed regulation plans”; “Development of industrial zones with complete infrastructure”; “Maintenance of existing economy infrastructure and construction of new ones” and “Decrease and shortening of administrative procedures”.

However, at this moment, the city is neither able to offer a suitable site for potential single investor nor play an active role on property market and in FDI attraction for the entire region. The further development is oriented to the western part of the city to Bunuševac. The key industrial property for city of Vranje as a greenfield site is the former military area which is currently in the process of conversion – more than 100 ha which can be developed in phases, if necessary and more efficient.

The second option in Bunuševac might be industrial zone located mostly on 11 ha of private land from the left and right side of Regional Road R 214 and next to the left side of the border in General Urban plan of City of Vranje. This area is partially built and equipped with infrastructure (doubled water system and optical cable) but strengthening of capacity of water and electricity lines would be necessary. Construction of one main 100kV transforming station which will provide adequate capacity for IZ is planned. There is currently no sewage system in Bunuševac area. Solution includes construction of small pump station (<1kV power) for pumping of waste water to existing sewage infrastructure.

Characteristics	Situation in Vranje
Area of flat land	100 ha +
Potential number of jobs in manufacturing	4,000 persons
Number of inhabitants in the catchment area	227 690
Ownership	State / military
Distance to national road network	Ca. 3 km after bypass and E-75 is completed
Site flexibility	<i>Depends on conceptual design</i>
Gas demand for heating	5000 m ³ /hour, however, no gas currently available
Electricity demand for production	48 MW
Water demand for production and fire	32 l/s
Wastewater capacity	35 l/s
Special services on site	<i>Depends on decision of Vranje LED</i>

It can be seen that one of the most important requirements – “no legal ownership obstacles” – is not met. From strategic point of view development of the former military area has got more advantages but it is questionable whether and when the city will own the land. Its bigger area also requires higher capacity of technical infrastructure meaning higher demand on municipal budget.

However, the main activity planned to support development of the area is the new bypass construction to enable access to new locations in the Industrial zone. This new road is already drawn on the map and connects Bunuševac industrial area with the Regional road 214 and Corridor X – E-75. It would both remove heavy traffic from the city and (more important) connect the zone directly to European highway system.

The specific priorities within the Strategic Plan¹⁰ require: “Making of Urban Plan for Bunuševac industrial zone”; “Traffic connection of IZ Bunuševac and Suvi Dol – property issues”; “Construction of 2 transformer stations in IZ Bunuševac”; “Connection with 10kV cable of TS 35/10kV Vranje to IZ Bunuševac” and “Bypass which will connect corridor X with Bunuševac”, however the actual goals of the city related to the industrial zone may be rephrased into:

- The first and most vital key step is to totally secure the transfer of the necessary development land. Without the land there can be no project. Finish negotiations with the state / ministry of defense to get the property into municipal hands;
- Prepare conceptual design of the high quality, multi-use business park with phasing. in order to allow flexibility of development, allowing a division into sub-sites/plots (0,5-3,5 ha) for different owners;
- Resolve the transportation access issue – finish the project of the new bypass connecting the site with E 75, buy / expropriate the land under the planned road;
- The next key step is to progress and complete the detail design of the infrastructure for the business park. Calculate the infrastructure demand and propose technical solutions for utilities (water, sewage, electricity);
- Prepare feasibility study for development of the site as an industrial zone of regional importance serving the needs of entire Pčinja district and being able to attract flagship investors;
- To complete negotiations with utility companies and prepare technical documentation for utilities.

¹⁰ Vranje Sustainable Development Strategy 2010 - 2020

Vladičin Han

Industrial zone "Jug" in Vladičin Han Concept I, phase 1 - Land occupation



CHART 3 – CONCEPT OF DEVELOPMENT OF INDUSTRIAL ZONE JUG IN VLADIČIN HAN

Vladičin Han is the smallest municipality in the group but at this moment is best prepared to play a role of “industrial site of regional importance”. Industrial zone in Vladičin Han is located from the right side of corridor 10. It begins about 5km from the town towards Vranje and is located next to the village Gramadje. Precisely it is located between rivers Lepenica and Južna Morava from one side and railway corridor from the other side. Total area is approximately 350 ha which has been divided in three separated zones named Zone “A”, “B” and “C”. Zone “A” is current industrial zone with area of 145.6 ha and has been 70% occupied with industrial objects. Zone “B” and “C” is location prepared for greenfield investment. It is expected that the IZ would attract investors mostly in food and wood processing, textile and footwear sectors.

All three zones have been included in Spatial plan of Municipality of Vladičin Han. On the other hand, only Zone “A” is covered with Detail Plan of Regulation (“Plan Detaljne Regulacije” - **PDR**) and in this area, procedure of expropriation is underway. Zone “B” and “C” have not been included in PDR and, based on info from urban department, will not be in next 5 years. Property issues in Zone “B” and “C” have not been resolved.

The industrial zone “Jug” in Vladičin Han is settled between river Južna Morava from the east and main railway corridor from the west side. At the very near distance to the railway track is the existing national road R-214 which connected Vladičin Han and Vranje. National road R-214 is intersected with two approaching roads which lead to the industrial zone “Jug”. The two accesses to the industrial zone “Jug” crossing the existing railway line at grade without any barrier. Such access can be dangerous for lorries going to and from the industrial zone. Along east side of the industrial zone “Jug” passes part of the European road E-75 (national road M-1), Belgrade-Niš-Skopje-Thessalonika. Access to the industrial zone “Jug” from the E-75 road is via national road R-214a and R-214.

Characteristics	Situation in Vladičin Han
Area of flat land	47 ha
Potential number of jobs in manufacturing	2,000 persons
Number of inhabitants in the catchment area	370 000
Ownership	Private, partly public (municipality)
Distance to national road network	Ca. 1 km after bypass and E-75 is completed
Site flexibility	Yes – see Concept of development
Gas demand for heating	2500 m ³ /hour, however, no gas currently available
Electricity demand for production	24 MW
Water demand for production and fire	16 l/s
Wastewater capacity	18 l/s
Special services on site	<i>Are envisioned by the MISP feasibility study</i>
Park Management Unit	Within Vladičin Han or Intermunicipal Commission

TABLE 3 – BASIC CHARACTERISTICS OF INDUSTRIAL ZONE JUG

In January 2012 Feasibility study for development of the Zone has been completed. It concerns all technical aspect that are required to construct and connect basic infrastructure services in Industrial zone „Jug“ of the Vladičin Han (145.6 ha – total industrial zone area; total useful area of 92.71 ha – 64.1 ha of greenfield, out of which separate plots cover 47 ha). Proposed infrastructure development is:

- Improvement of 1 km of existing road access to the industrial zone
- Construction of about 5km of internal roads with street lighting
- Construction of flood protection
- Development of about 50 hectares of farmland into disposable plots
- Construction of 5km of new underground 35kV and 110kV electricity cable
- Construction of 9 new transformer stations 10/0.4kV, 630kVA and 16.200km of 10kV underground cable network
- Construction of street light lightning with 150 pole mounted luminaries supplied by 5.6km of 0.4kV underground cable
- Installation of 3km of ducts for telecommunication system
- Construction of new well-field with initial capacity of 50l/s
- Construction of about 5km of water supply pipelines
- Construction of about 6km of surface water drainage network
- Construction of about 4 km of wastewater network with a 3000 population equivalent WWTP

The total costs represent about 13.5 mil. €, this amount is justified by benefits created by new jobs and taxes paid by investors. Municipality of Vladičin Han is ready to apply for external funding and take a credit to guarantee its own contribution. If implemented, the zone would create jobs also for Vranje (and other municipalities citizens) and cooperation and coordination of other activities would therefore be recommended.

The main goals (according to the feasibility study) at the moment include:

- land appropriation,
- detailed regulation plan with a new transportation connection to E 75, water supply and storm water solutions;
- preliminary design and detailed design to be completed.

Preševo

Preševo biggest advantage among Corridor X municipalities is its geographic position directly on the border with Macedonia with border crossing on the road E 75. Once the Corridor X is completed (4 lanes) this will be very attractive mostly for logistic / warehousing. Municipal strategy includes both SME development and FDI attraction and among other projects there is also industrial park development.

Future industrial zone in Preševo is planned on location called Čukarka. It is located on the right side of highway Belgrade-Niš-Skopje, 5km from the center of Preševo, next to the corridor X including main intersection. Currently the site can be served by the magistral road M25.2. The strength of this location can be found in the fact that part of the land is municipally owned. Total area is about 60 ha where approximately 13 ha is in the property of the municipality and the rest (50 ha) is a private property. The

entire area has been included in Spatial plan but Plan of Detailed Regulation (PDR) shall be developed by mid of this year 2012.

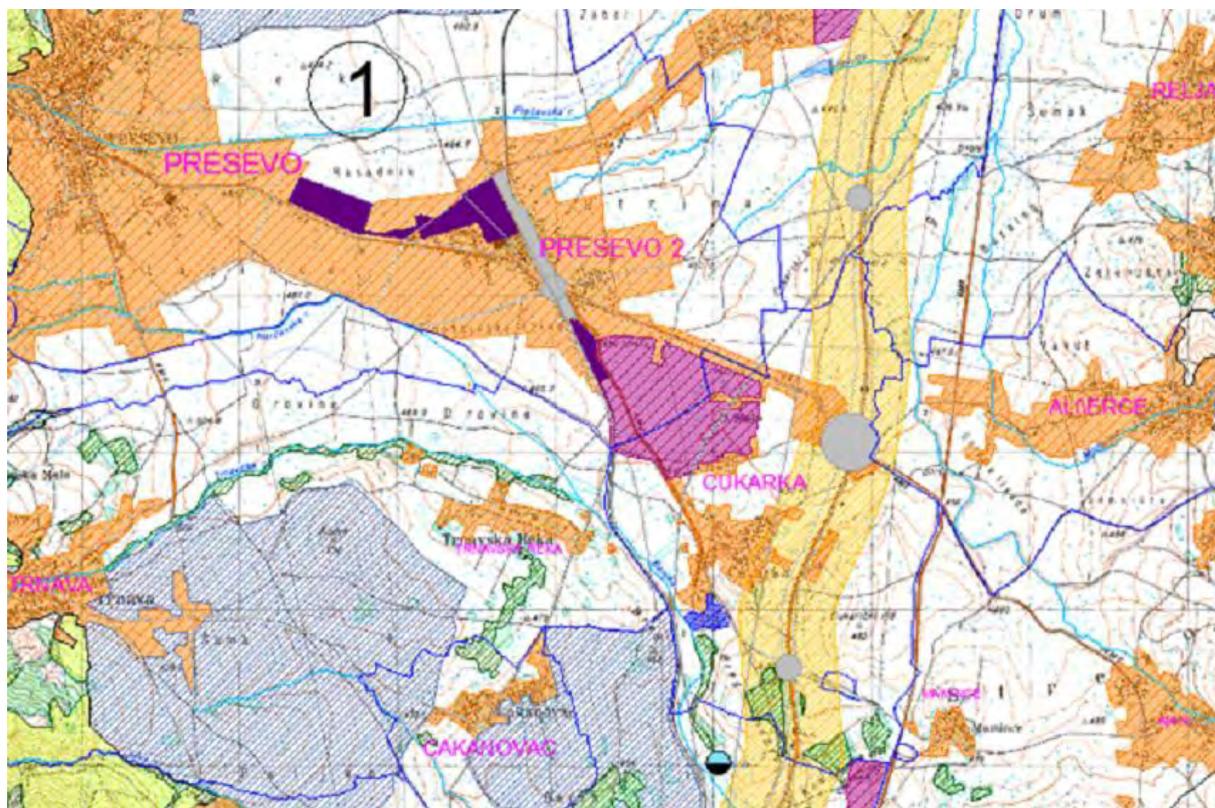


CHART 4 – EXCERPT FROM GUP PREŠEVO WITH IZ ČUKARKA

Characteristics	Situation in Preševo
Area of flat land	13 ha
Potential number of jobs in manufacturing	550 persons
Number of inhabitants in the catchment area	170,000
Ownership	Public
Distance to national road network	3 km
Site flexibility	Depends on conceptual design
Gas demand for heating	650 m ³ /hour
Electricity demand for production	6,3 MW
Water demand for production and fire	11 l/s
Wastewater capacity	12 l/s
Special services on site	<i>Depends on the management model of the zone</i>

Park Management Unit	<i>Depends on the management model of the zone</i>
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TABLE 4 – BASIC CHARACTERISTICS OF INDUSTRIAL ZONE ČUKARKA

Infrastructure capacities will have to be strengthened in order to serve the needs of investors. In Čukarka there is spring with 5l/s capacity. This spring supplies Preševu itself so it cannot provide necessary 15 l/s for the light industry use. There is also no sewage system.

The main goals for the city include:

- Resolve the legal ownership issue, make sure that the land is owned by municipality;
- Prepare a simple conceptual design of the site and elaboration of the cost feasibility and efficiency for leasing of land;
- Develop a management model for the zone;
- Design and cost appropriate infrastructure “to edge of site” – water, sewage and electricity;
- Be ready to finalize and refine infrastructure design when investor identified.

Bujanovac

The municipality Bujanovac is rich with mineral water as well as thermal water sources, and thermo mineral water Bujanovacke Banje – Rakovica spring has a significant importance. With these characteristics thermal waters in Bujanovac are being recognized as a type of tourist motive for spa tourism development. However, the city has also an industrial tradition and its skilled labor can be attractive to investors which is already incorporated in municipal strategic plan.

The main strength of Bujanovac with regard to investors follows from the pro-active role of local government. Municipality belongs among the first wave of “business friendly” municipalities certified by NALED. However, the potential has not been utilized at all, neither NALED nor municipal web page does not provide relevant information for investors.

Bujanovac is offering to investors its qualified work force strengthened by the positive demographic development and growing number of young people together with ethnic / national diversity creating good conditions for location of new coming foreigners.

For the industrial purpose the municipality does have two options of further development. There are several brownfield facilities in the “old” industrial zone on the southern / southwestern side of the municipality. Some of the facilities (DP Svetlost, DP Jugokoop Export Import) can be offered to investors. The second option is development of “production-business zone” in the northwestern part of the town (between Bujanovac and Trnovac. The land is privately owned, however it is flat, well accessible and can be easily developed to industrial use.



CHART 5 – GUP BUJANOVAC INDUSTRIAL ZONE

Characteristics	Situation in Bujanovac
Area of flat land	60 ha, out of which 25 to be developed
Potential number of jobs in manufacturing	1000 persons
Number of inhabitants in the catchment area	250,000
Ownership	Private
Distance to national road network	2 km
Site flexibility	Depends on conceptual design
Gas demand for heating	1250 m ³ /hour
Electricity demand for production	12 MW
Water demand for production and fire	20 l/s

Wastewater capacity	22 l/s
Special services on site	<i>Depends on the management model of the zone</i>
Park Management Unit	<i>Depends on the management model of the zone</i>

TABLE 5 – BASIC CHARACTERISTICS OF INDUSTRIAL ZONE BUJANOVAC

The main goals for the city include:

- Resolve the legal ownership issue – in this case sign contracts of future purchase with private land owners;
- Prepare a simple conceptual design of the site and plan for site management;
- Design and cost appropriate infrastructure “to edge of site” – water, sewage and electricity;
- Be ready to finalize and refine infrastructure design when investor identified.

7. Recommendations and Further Steps

This Concept development plan should be followed by an Industrial Zones Development Strategy for the Corridor X South Region that will define land and property-related priorities, initiatives and a budget for the short and medium term horizon. It does not necessarily have to be a formal document prepared by several consulting firms in the course of two years but rather an agreement of the political representatives of all four municipalities on issues of potential conflicts, such as:

- how many hectares of land shall be developed in the region by public sector and/or
- whether the IZ of regional importance will be located in Vladičin Han or in Vranje;
- whether additional evaluation of the IZ Jug is needed taking into account missing demand scan;
- whether not to develop less area for less money in Vladičin Han if there are / will be big zones in Leskovac and Vranje;
- how / whether will be other municipalities involved in the management of the industrial zone “Jug” in Vladičin Han, etc.

The strategy shall include a set of proposed land and property development measures that will:

- improve the general business environment in the region;
- enhance the competitiveness of the region in the international marketplace for mobile investment;
- improve the physical aspect of the region and contribute to a process of urban and rural regeneration;
- improve the job creation record of the region and, in turn, reduce unemployment;
- in the medium- to long-term, stimulate private sector involvement in the business property market in the region;
- help the Region prioritize and structure its land and property initiatives and prepare funding bids to relevant organizations.

To sum up, the proposals should be a combination of demand-side and supply-side initiatives aimed at stimulating property development and, in turn, economic activity in the region.

The first and most important intervention is the planning and development of the land and property available for the operation of economic activities. At this stage of the economic development of the region, the initiative for land and property development will not come from the private sector. High risks and poor returns mean that local and foreign investors, as was the case in many other EU countries faced with similar economic challenges, will be slow to emerge. In the meantime, the public sector needs to fill the gap left by the failure of the market to supply the property necessary for the operation and attraction of business. In an international environment, the clear and unambiguous availability of enterprise space is an increasingly important factor in the location decision of mobile investors, particularly those considering countries of SEE as an investment location.

The Region Pčinja along Corridor X is not able to attract substantial foreign direct investments at this moment. Reasons include the absence of a large 100 ha + strategic site, the lack of large parcel sizes, the uncoordinated way that investment promotion and industrial site management and marketing is organized, the poor image of the region and the reluctance of the region to adequately resource industrial zones development.

The common work of municipal representatives shall address a number of these issues in a very practical, workable way. The measures included will be discussed with the local stakeholders throughout the different stages of the project and must be both appropriate and feasible.

Improving the co-ordination of activities in the property markets through a properly functioning property management system needs to be done in conjunction with measures that increase the demand for property, both from FDI and indigenous (start-ups, regional clusters and existing SMEs). In summary, the strategy shall outline the need to reduce the gap between the current property offer and current business needs with a particular focus on (1) Market ready status and (2) Qualitative improvements.

Strategic Objectives

According to the SWOT analysis undertaken, the region has certain advantages, including a supply of well-educated low-cost workers, access to a regional airport in Niš with potential for growth and access to neighboring countries. However, these are offset by a number of weaknesses, namely, a poor image of the region, infrastructural deficiencies (delays in the construction of the Corridor X motorway, for example) and stiff competition from neighboring countries / regions in Serbia. To overcome the weaknesses in relation to land and property development (such as no large strategic site, no Class A offices, no prestigious business parks, insufficient development land pipeline) and take advantage of the region's strengths, the Strategy should identify the following priorities:

1. Establishment of a regional property management system
2. Provision of regional "market ready" land and business property
3. Stimulate demand from foreign direct investors
4. and, Encourage demand from indigenous firms

As part of the strategy for Industrial Zones Development, there shall be discussed and adopted a number of measures or initiatives that can help stimulate the business property market in the Region. As with any other market, the proposals must address both the demand for and supply of property. Given these overall conclusions it would seem that strategic policy recommendations should focus on four broad issues:

1. Increased and improved demand stimulation measures along with improved coordination of regional and national partners for investment promotion and marketing;
2. Reducing the gap between the current property offer and current business needs with a particular focus on market ready status and qualitative improvements;
3. Improving the development pipeline system for bringing forward market ready sites, either brownfield or greenfield and
4. Identification of strategic property market interventions: advanced factory of office building, strategic sites, sector specific sites etc...

Supply Side

Specific Supply-side Objectives should consist of

1. Establishment of a regional property management system which would help maximize business opportunities in the region by creating a viable network and management system that coordinates activities of public institutions and organizations and private sector actors active in the regional supply of land and business property; and
2. Provision of regional land and business property by providing a structured portfolio of "market ready" business land and property throughout the region that will match the expectations of anticipated investors. Development of these sites would give the region a good mix of a strategic

site to attract a large sector-specific FDI project, a medium-sized zone, and successful rural-based industrial parks.

The first measure concerns the establishment of a regional property development system which provides the context and means for identifying the priority sites, including the pilot projects that need to be brought forward. So far in the Region does not exist any coordinating body for land and property development issues even if there are several institutions which might play this role, such as RDA for Pčinja and Jablanica districts, NALED, SIEPA and/ or coordinating body of municipal LED offices. There also does not exist any single source of information from where to find what is available by way of industrial land in the Region and no plan / strategy answering what sites shall be developed with standards applied in relation to quality, costs, lease and sale terms etc. as a part of coordinated plan for the provision of a comprehensive portfolio of sites throughout the Region. The impact is that for a potential investor it is extremely difficult to review / consider all the options available and for public sector the scarce financial resources may be spent unwisely.

The regional property development system would mean establishment of a **body to co-ordinate activities of business property provision** that can ensure that the measures will be implemented in a coordinated, cost effective and efficient manner, by those individuals and organizations best positioned to undertake them, and, in a manner which creates synergy within the Region. Certainly, if the measures are to be implemented, and more generally, if the Region is to generate more economic activity – from indigenous (new and/or existing) and foreign investors – a responsible, visible and effective coordinating body is required. **That is why we recommend** to create an **IMC platform / committee / partnership for LED** which will play the role of managing, implementing and co-ordinating body for Regional Development and substitute so far not existing Regional Office of SIEPA. There currently does not exist link between national level and regional level and no official body is representing the interest of Pčinja region in FDI attraction. Investors who are generally interested in Serbia are not “attracted enough” to make a site visit in the South Serbia / Pčinja district. This has to be changed immediately.

This platform will address economic development investment issues, and, in particular, property development. It will provide the framework to involve other key stakeholders such as private sector and key organizations such as SIEPA, NALED and RDA. Its task is to formulate and coordinate policies and priorities in relation to economic development matters pertaining to property provision and development. As one of the main roles is to plan and allocate public resources, it is obvious that all 4 municipalities must be members of the platform. However, it is worth considering involvement of also the private sector to contribute to the deliberations and decisions of the body. The main functions will be land and property management, investment promotion and entrepreneurial support.

As the first task the platform shall agree on common pro-investment policy. This means agreement on basic principles of co-operation in the area of FDI attraction. All partner municipalities shall understand that location of an investor in any of them brings benefits to the entire region such as reduced unemployment, new skills for work force, taxes to public budgets and opportunities for local suppliers. Partners therefore shall exchange information about their contacts with investors and under no circumstances try to underbid other municipalities in the region. Land prices and compensation for construction land development shall be transparent and known among partners as well as all incentives offered in order to avoid unconstructive competition among municipalities.

Another “early” task should be creation of **industrial property database**. The purpose of producing a summary industrial sites schedule is:

1. To provide a “market orientated” summary of the key regional industrial and business zones with a strong focus and emphasis on criteria that are indicators of being market ready sites (i.e. land available, ownership issues resolved, no planning or infrastructure problems etc.);

2. To bring together brownfield and greenfield sites;
3. To provide an outline of the type of approach that should be implemented by the platform responsible for property development and management to allow this group to monitor the mismatch between supply and demand.
4. To provides a rapid ranking exercise of available land based on market needs.

At this moment there are sites offered on SIEPA webpage, sites which are “under development”, brownfield sites (some of them with unclear ownership). Common database should contain information about size, ownership and price, purpose and infrastructure available but also about measures needed to finalize the site so that it becomes “market ready”.

As a part of local incentives there can be also a **suppliers database** prepared which would build on local competitiveness in specific areas, support local SME’s in their ability / competence to serve the needs of foreign investors and include local business community in FDI attraction. On the other hand suppliers shall meet basic requirements for being able to serve the needs of multinational companies.

Provision of regional land and business property specifically in Vranje region means:

1. Development of a strategic site in Vranje – Bunuševac

Economic development of the region will not be stimulated with only small and medium-sized businesses. Region needs to attract a “flagship” – big investor preferably producing final products but eventually also tier 1 supplier to automotive industry employing 1000+ people and attracting additional suppliers. Vranje is the only municipality which can host it, however at this moment there is no appropriate space. The only option would be development of former military area (around 100 ha) at Bunuševac, which will among others require construction of road connection to the Corridor X. The future tasks include:

- The first and most vital key step is to totally secure the transfer of the necessary development land. Without the land there can be no project. Finish negotiations with the state / ministry of defense to get the property into municipal hands;
- Prepare conceptual design of the high quality, multi-use business park with phasing. in order to allow flexibility of development, allowing a division into sub-sites/plots (0,5-3,5 ha) for different owners;
- Resolve the transportation access issue – finish the project of the new bypass connecting the site with E 75, buy / expropriate the land under the planned road;
- The next key step is to progress and complete the detail design of the infrastructure for the business park. Calculate the infrastructure demand and propose technical solutions for utilities (water, sewage, electricity);
- Prepare feasibility study for development of the site as an industrial zone of regional importance serving the needs of entire Pčinja district and being able to attract flagship investors;
- To complete negotiations with utility companies and prepare technical documentation for utilities.

2. Development of medium sized zone “Jug” in Vladičin Han

At this moment this is the most probable location which would attract investors because of its redness status. The feasibility study for the zone proved feasibility of site development at former industrial zone in Vladičin Han. 40 + ha of greenfield can be developed with total costs of about 13 M€. The project is ready to apply for external funds, however there are also problems, the first one being the necessity to negotiate with private owners of the land. Even if completed, this zone will hardly attract the “flagship” investor because of the small size of municipality and insufficient pool of skilled labor needed for such a big investor. The main goals (according to the feasibility study) at the moment include:

- land appropriation,
- detailed regulation plan with a new transportation connection to E 75, water supply and storm water solutions;
- preliminary design and detailed design to be completed.

3. Development of rural area /close to border crossing zone in Preševo

Preševo municipality is able to provide 15 – 20 ha of greenfield with the advantage of being close to border crossing and therefore attractive both for logistics and warehouses but also for light processing industry. The main goals for the city include:

- Resolve the legal ownership issue, make sure that the land is owned by municipality;
- Prepare a simple conceptual design of the site and elaboration of the cost feasibility and efficiency for leasing of land;
- Develop a management model for the zone;
- Design and cost appropriate infrastructure “to edge of site” – water, sewage and electricity;
- Be ready to finalize and refine infrastructure design when investor identified.

4. Development of suppliers oriented industrial park in Bujanovac

Greenfield site in Bujanovac might be oriented to attract both investors in locally strong industries and potential suppliers to investors in Vranje (eventually Leskovac, Niš). The main goals for the city include:

- Resolve the legal ownership issue – in this case sign contracts of future purchase with private land owners;
- Prepare a simple conceptual design of the site and plan for site management;
- Design and cost appropriate infrastructure “to edge of site” – water, sewage and electricity;
- Be ready to finalize and refine infrastructure design when investor identified.

5. Brownfield development of sites in Bujanovac, Vladičin Han and Vranje

All municipalities have on its territory vacant brownfield premises. Some of them might be offered to less demanding investors after the property is transformed to municipalities, and may complete flexibility of total supply. In order to put the brownfield sites on the market it is necessary :

- Resolve the legal ownership issues;
- Make sure there are no ecological damages on the site;
- Prepare detailed information package about each building / property.

Demand Side

Apart from these supply initiatives, it is important that the demand for property is stimulated. This can come from two sources, inward investment and the pool of indigenous industry. In this regard, we propose two measures that will contribute to the demand for property and, in turn, economic activity.

The specific Demand-side Objectives should consist of

1. Stimulate demand from Foreign Direct Investors; stimulate interest of foreign firms to invest in the Region, make it easy for them to navigate/orient in the Region and provide them with world class business support services both during the location selection/investment process and afterwards by means of customized aftercare; and
2. To support and encourage indigenous firms to do business in the Region, offer superior conditions to expand and grow within the Region.

The first objective brings a proposal **to implement a regional investment promotion strategy** by developing a regional brand image as an “investor friendly region” (IFR) and ensuring that a global marketing strategy is in place. The Region is in competition for investment with not only international locations but also with other regions within Serbia. If it is to achieve its share of incoming foreign investment (but also investment from within the country) then it must not only develop its infrastructure to meet the needs of those investors but must also be able to present an image that will attract the attention of potential investors. Furthermore, if it is to gain maximum benefit from those who do invest it must manage the relationship with those investors on an ongoing basis after they have located here.

Main tasks should include preparation, organization and management of “IFR” initiative; in conjunction with SIEPA develop a brand image for the region and draft a global marketing strategy; manage relationships between regional municipalities and potential / existing investors; identify and communicate with business prospects and create a regional investor relations system.

The Investment Promotion Strategy team shall agree on the following:

- web presentation of the region
- outlook and contents of printed marketing materials
- information provided for investors in written and electronic form
- organization of investors visit in individual municipalities
- participation and presentation at international fairs
- databases of potential investors to be contacted by direct mail
- organization of marketing events such as trips for business journalists or business chamber representatives

The second / optional proposal should aim at the indigenous pool of entrepreneurs, both established SMEs and start-ups. Here, the proposal would be to make SME development a political priority, encourage and develop links between indigenous firms, FDI and the education sector and to strengthen the entrepreneur supports package by, among other initiatives, developing and networking regional One Stop Service Centers and up-to-date surveys of SME needs. These two measures aim to assist and support both FDI and indigenous businesses.

The steps taken by the Platform shall include:

- Survey and review of the needs of indigenous businesses in the Region
- Encourage linkages between businesses and the universities and research facilities
- Support cluster initiatives in the Region
- Development of support systems, both advisory and financial, for the encouragement of creation of new businesses
- Create business incubators
- Help with export activities of local businesses

Concluding Remarks

On the basis of international experience and evidence, the development of the industrial property market in the Region will only happen with coordinated approach of local municipalities, strong public sector intervention and, in particular, a necessary central government funding role. Whether it is local economic development measures, support to business start-ups, clusters, industrial zones or property development, the initial stimulus needs to come from the public sector. We hope to see that after the stimulus is provided by the public sector, risks and returns will evolve over time so that there are enough incentives for the private sector to play its part and eventually, to largely replace the public sector in the development of industrial zones/business parks. It is also the case that the public sector, when developing

and supporting industrial zones, needs to be aware of the danger of crowding out any private sector involvement. It is a delicate balance and any package of supports made available by the public sector must be drafted with this in mind.

As for the measures, it is necessary to fight the inadequate levels of demand for property by proposing a number of specific demand-side and supply-side initiatives. This combination of measures will go some way to close the gap between the demand for and supply of property. Furthermore, there can always be a problem of coordination i.e. many players but insufficient coordination between them. We propose to overcome this problem by the establishment of a partnership structure capable of coordinating policies and actions and making the responsibility of different players transparent, realistic and accountable.