



**Guide**

# **FOREIGN INVESTORS COUNCIL**

**in Serbia**

**2012/13**



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Guide  
**FOREIGN INVESTORS COUNCIL**  
in Serbia  
2012/13

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PRINTING  
Rotografika d.o.o.  
Segetinski put 72, Subotica

FIC – "Foreign Investors Council 2012/13"  
published by:  
alliance international media in association  
with the Foreign Investors Council Serbia.

Makenzijeva 67,  
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Phone: +(381 11) 2450 508  
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E-mail: office@aim.rs  
www.allianceinternationalmedia.com  
ISSN no: 1451-7833  
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This issue is  
audited by  
ABC Serbia

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# Unconvincing Business Environment

*Capital and new jobs. Serbia is not the only country on the planet searching for these two levers of economic growth that are worth gold*



**A** cruel game is played in order to attract capital and create jobs and is not only important to participate in this game, but also to win. That is, to attract as much capital as possible with which to create more jobs, increase consumer purchasing power and boost production.

States give their all to attract capital in various forms – for investments, in production flows, in new company headquarters etc. The key “bait” states “fish” for capital with are operating conditions and an economic environment which businesses feel is safe and predictable. In order to help investors more easily decide where to invest their capital, world rankings are available showing countries in order of how favourable they are for investing and doing business in.

On that list Serbia appears pale and unconvincing.

Its economic environment seems unable to be rounded up and completed in a way that would ensure investors and capital would feel comfortable and relaxed when they create new value and profit. Serbia has negative, outdated and cumbersome rules that seem to exist only to impede investing and doing business. Procedures take a long time and laws contain elements that allow systemic

**The key “bait” states “fish” for capital with are operating conditions and an economic environment which businesses feel is safe and predictable**

corruption. When an investor has to waste a lot of time and lose a lot of money in order to invest theirs, they usually decide to opt for another country in which to launch a business. The “regulatory guillotine”, which was announced with pomp and was so strongly suggested and coveted by the Foreign Investors Council, was halted through the resistance of state bureaucracy, which is preserving its acquired positions, while merely repealing unnecessary regulations would yield savings for business of almost €300 million.

Serbia has further deteriorated its business environment in the last four years by allowing the state to additionally finance itself by

introducing new financial burdens on entrepreneurs and businessmen. Para-fiscal burdens are rarely as great as they are in Serbia – there are as many as 256 para-fiscal levies that cost the economy €1.5 billion annually. That is the calculation of Minister Mladan Dinkić, who is announcing the swift passage of a law that will see all of those burdens placed under a magnifying glass, and is likely to result in company signage charges being abolished for small and medium-sized enterprises.

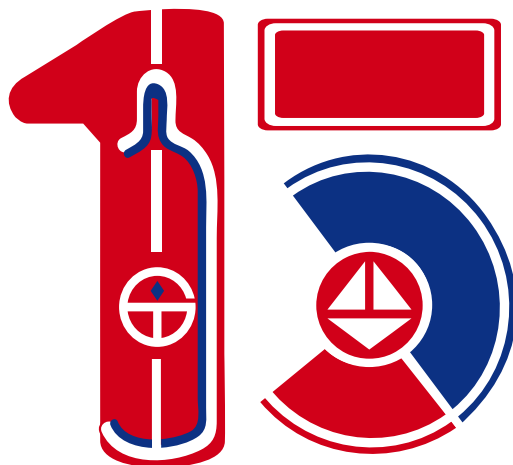
The economic environment is also spoiled by macroeconomic policy, primarily the unstable and unpredictable exchange rate. This creates so-called “foreign exchange losses” that prevent firms from generating a profit and is the reason why some companies are already thinking of relocating their headquarters to one of the other countries of the region. Since the beginning of this year alone, the dinar has lost 20 percent of its value against the Euro and there is not the kind of efficiency and productivity that could offset such a major currency decline in companies with production dependent on import-export activities.

The announcement of the central bank, the National Bank of Serbia, that inflation could reach 10 percent by the end of this year, coupled with further uncertainty related to price movements, is also a very unfavourable element of the business environment. This is because inflation additionally reduces the purchasing power of an already vulnerable population and a lower standard leads to a reduction in orders for manufacturers of consumer goods and food products.

The government's announcement of an increase in the tax on corporate profits from 10 to 12 percent (regardless of how much this was prompted by the state's need to save public finances) is also not a good signal for investors who intended to bring capital to Serbia. If they want to stimulate job creation, the state should relieve businesses of new burdens and leave them with more money to invest. Lower taxes, higher investment in production (which will bring in more tax money) – that would have to be a winning combination for Serbia's economic growth. ■

*The author is the editor of Novi Magazin weekly.*





*15 godina ujedinjene snage  
197 godina iskustva  
u gasarstvu*

Messer Tehnogas AD

# Stability Contributes to Investments

*“If the energy of the new government is directed towards required reform, there’s no reason why 2013 can’t be a very positive year,” says Costin Borc*



**F**IC President and Lafarge Serbia CEO, Costin Borc, is optimistic that Serbia can attract more investors and compete with other countries in the region. However, speaking for the 2012/2013 FIC Guide, he points out that further investments and further reform is essential.

► **How much has the FIC managed to contribute to Serbia’s development during the transition period?**

- The Foreign Investors Council is an organisation that was established in Serbia ten years ago and I think it has helped a lot to the improvement of investment climate in Serbia, and we have some notable successes. The fact that there are still investors coming to Serbia is also partly a result of what the FIC has done in the last ten years.

When you look at Serbia in 2012, compared to Serbia in 2002, we can say that a lot has been done so far and I think the country is much further ahead on the transition path. Having

## Message

**Our message has remained the same for the last ten years: a stable business environment is in favour of investment.**

said that there are also some failings in that we still have a large portion of the economy in state hands and there is still reasonably large bureaucracy in Serbia and many fields that are not yet reformed.

► **Over the last decade the FIC has exerted great efforts with the aim of expediting Serbia’s economic development by applying the positive experiences of FIC members. How willing have Serbian officials been to accept your numerous and well-meaning initiatives?**

- This varies between the decla-

ration level and the implementation level. We have enjoyed a fairly good cooperation with the government, at least in terms of the government’s willingness to listen to us and respond to our initiatives. When it comes to implementation, however, the success is moderate. This may not necessarily be due to a lack of will of the government, but rather due to untimely consideration of the complexity of transition. It’s not enough that a minister agrees with you, as I’m sure most ministers have agreed with the FIC in the past ten years, if the envisaged changes cannot be implemented right down to the lowest level.

► **Since its formation the FIC has insisted on the carrying out of the so-called ‘regulatory guillotine’, aimed at cutting**

We have enjoyed a fairly good cooperation with the government, at least in terms of the government’s willingness to listen to us and respond to our initiatives

## Habits

The regulatory guillotine is about being able to move people out of their comfort zone and change their habits.

## Corruption

Complicated bureaucracy encourages corruption and I'm sure that this exists in Serbia, without a doubt.

## Investors

The fact that there are still investors coming to Serbia is also partly a result of what the FIC has done in the last ten years.

**red tape and increasing the efficiency of administration, among other things. Why do you think this project has so far failed to bear fruit?**

- The project of changing regulations is about the transformation of a society and this is not simple to manage. It's very easy to say that we want to change everything in two or three years, but you can even see that the private foreign companies that came here needed years to implement their strategies, policies and procedures. Therefore, the regulatory guillotine is about being able to move people out of their comfort zone and change their habits, which is not easy. Let's also not forget that the public sector employs a lot of people in Serbia and so there is always an issue of balancing the pace of reform and the depth of cuts in order to minimise the pain of this transition process. In a country that has an official unemployment rate of over 20 per cent, it's very hard to blame the state for keeping some people employed. And when you have this kind of public employment, people will always try to justify their positions and protect their jobs.

**► It is, however, argued that oversized administration and bureaucracy provide a breeding ground for corruption. To the best of your knowledge, what experiences have FIC members had with this often highlighted problem?**

- We wouldn't want to replace the justice process and we always encourage our members to address the competent authori-

ties when they feel that something isn't correct. We are not a body tasked with highlighting individual acts of corruption to the authorities. We don't maintain statistics and I don't have examples but, yes, complicated



**We don't believe so much in subsidies for either foreign or domestic investment, since there are other things the government could primarily conduct to attract investments**

bureaucracy encourages corruption and I'm sure that this exists in Serbia, without a doubt. I think that large companies face this problem much less than small companies, because almost all multinationals have their own codes of ethics and, therefore, simply won't deal in a corrupted environment, but also because they have a much stronger lobbying power and, as such, will simply discuss their problems at a ministerial level. I think it's more of an issue for small enterprises.

In the future the regulatory and bureaucratic environment should be such that there will be very few chances for such activity. The more we restrict them, the fewer the opportunities, the cleaner the business environment and the higher the efficiency.

**► A judiciary and legal system that's slow, outdated and lacking relevant bylaws represents an obstacle to EU integration for Serbia. How are FIC members managing to cope with these current conditions for doing business in Serbia?**

- When we look at judicial reform we can see that major steps were taken in recent years and I think we can talk more and more about some sort of independence for the justice system. The complexity of regulations, coming from the complexity of the former socialist system and the period of turbulence in the 1990s, is not easy to change. As I mentioned, the transformation process is sometimes very hard to put into practice. It's very easy to declare "we want new rules on construction permits", as happened, but implementation is a different story. In this instance I think the authorities often had all the best intentions, but the applying of this system was extremely complicated. This is where the country needs a lot of help: in terms of developing the right path to implementation and putting more effort into bringing the right decisions.

**► Frequently amended laws, regulations and taxes have led to a situation where it's very difficult to carry out predictable planning and implementation of projected business strategies in Serbia. As the FIC President, what's your message to the new Serbian government in terms of prioritising measures that would advance the predictability of the business environment? ►►**

► - Our message has remained the same for the last ten years: a stable business environment is in favour of investment. I think the Serbian governments of the past understood who they were competing against very well. I don't believe that they think Serbia is the perfect destination for foreign investments, but they realise that the very few foreign investors who have come here have a lot of opportunities in front of them. As such, creating a stable business environment, promoting a stable and solid image and, I dare say, nurturing a Serbian brand deemed friendly and open to business, is critical.

► **Serbia needs new investors in order to reduce the strain on an already overstretched budget. Do you expect a realistic influx of investment to be forthcoming even if Serbia fails to start the EU accession process by spring 2013, which would indicate the faster resolving of this and other issues?**

- I personally think it doesn't matter if Serbia starts EU accession talks in the first or last quarter of 2013, because expectations are that the accession process is going to be a long one – not only because of Serbia, but because of the turbulence within the EU itself.

► **So EU membership candidate status is enough?**

- It's a sign. And I think what's important for the Serbian government is that it shows consistency on the path. They will start accession negotiations sooner or later, but it is very important that there is consistency in this process. I think more foreign investors will come to Serbia, but a key point is continued privatisation. There are still lots of enterprises in public hands – both nationally and locally, in the form of public

utilities. There's such a wealth of potential investment, with proper use of the concession and public-private partnership laws, that I think there is a room for further investment in Serbia. The destination is attractive, but lots still has to be done and I think it is up to the Serbian government to show what they are doing to attract investors.

► **Previous Serbian governments have spent a lot of money on subsidies for investors, though the environment in which investors operate hasn't changed that much. Do you think subsidies can compensate for the losses sustained by**



People are talking about a kind of Yugo Business Sphere representing a larger market but it's hard to say if this will ever come to fruition

**investors as a result of inefficiency, legal system shortcomings and corruption?**

- The FIC believes that a level playing field is very important. We don't believe so much in subsidies for either foreign or domestic investment, since there are other things the government could primarily conduct to attract investments.

A decision to come to Serbia should not be based on short-term measures such as subsidies – particularly when there are issues of corruption and a lack of clarity regarding who receives subsidies and who doesn't. A good environment, free of corruption, and good regulations, are crucial. Subsidies can come in later phase and it has been

shown that in some sectors subsidies have done a good job – not least the construction sector, which has since been able to recover slightly as a result of subsidies. Moreover, if competing countries in the region are all giving subsidies for a certain sector, then Serbia must do likewise or face the prospect of not being competitive. However, a decision to invest shouldn't ultimately be based on that.

► **Over the past few years we've heard much criticism of Serbia's education system, which is failing to produce qualified and educated workers in sectors requiring complex skills, modern business practices and IT knowhow. What is your view of this matter?**

- I think Serbia generally has a good workforce, though they probably don't have the necessary soft skills when they leave high school or university. There has been a rush towards university in recent years and fewer people are taking up professional education courses, but this is by no means unique to Serbia. Spending more time understanding how to develop the skilled workers of tomorrow is a must. Unfortunately there is no ready-made solution and this problem exists across the western world.

► **Regional stability is a prerequisite for investors seeking to come and develop region-wide business systems. Do you think the region could become more consolidated, to represent something akin to a single market of 30 million people?**

- It is absolutely clear that regional stability is needed, but the countries are different and are developing differently. We are coming after a period of instability when people want to accentuate those differences to dem- ►



## Stvaramo bolji svet zajedno

Više od 40 godina Srbija je naša kuća i zato je njena budućnost i naša odgovornost. Naši koreni su duboko u ovom tlu, ali se trudimo da uvek gledamo u budućnost. Ovde smo da ostanemo i da svakim danom i svakim svojim delom stvaramo bolji svet.

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SU *veće*

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► onstrate why a given country is unique, though for sure a market of 30 million consumers is more desirable than one of 7.5 million. Nevertheless, people are talking about a kind of Yugo Business Sphere representing a larger market but it's hard to say if this will ever come to fruition.

► **We often hear complaints about the lack of transparency of public procurements, tenders and other state-controlled activities. Do you think domestic and foreign investors receive equal treatment in Serbia?**

- I think the complaints regarding public procurement are well founded and the European Union is working very diligently on this issue, which is also linked to corruption. The most important element is the transparency of the system and also a lack of discrimination between foreign and domestic players.

► **What are the FIC's expectations of the new government as we head towards autumn and do you have projections regarding economic stability in 2013?**

- I think everybody has expectations of a brighter future. There are two things: first is the European context, because Serbia is in Europe and is linked to it, and whatever is going on in Brussels and elsewhere in the EU implicitly effects what is going on here; secondly is the local political and economic environment, because the slow process of forming a new government that was seen, does not help promote optimism about the end of 2012. This is because September is almost the end of the year for most investors and, with the holiday season before that and the formal establishing of the new government just recently happened, I think it's safe to say we're not going

to see any major changes to the Serbian investment environment before the end of 2012.

On the other hand, I see no reason not to be optimistic for 2013, considering that the Serbian political elite is showing understanding of the crisis Serbia is in and the need for reform. If the energy of the new government is



I see no reason not to be optimistic for 2013, considering that the Serbian political elite is showing understanding of the crisis Serbia is in and the need for reform

directed towards tackling these issues, there's no reason why 2013 can't be a very positive year.

► **The FIC is using this year to further work on advancing the business environment. What are the new priorities incorporated into this year's programme?**

- Some things change and some things stay the same. We have always talked about taxation and the effects of indirect taxation; we have always mentioned red tape. What's new is the need to reduce the weight of the state sector in the economy. This doesn't mean that everything has to be privatised, but there are obvious sectors in state hands which aren't generally in state hands elsewhere. That will help to bring new money, new energy and new dynamism to the economy.

► **The FIC is set to establish a dialogue with the new government, albeit it in totally different economic surroundings compared to when the last government was formed. In your**

**opinion what should the new government consider as its three most important and urgent priorities?**

- One priority has to be cash in the economy, because I think there is a distinct lack of liquidity in general and this is a very urgent issue needing to be addressed. Then there is the speed of reform, because I personally don't doubt the desire of the government to reform, but the pace is an issue. And thirdly, and linked to the pace of reform, is tackling employment issues. With unemployment rate of more than 20 per cent, this is an issue that must be addressed.

► **Bearing in mind everything so far discussed, in your position as president of the FIC – an association that brings together the most eminent investors in Serbia, employing over 89,000 workers – how do you envisage the future directions to be taken by foreign investors during the continued economic downturn; do you expect more redundancies?**

- I'm an optimist, so first of all I hope not. On the other hand, as you said, we are a large organisation covering a lot of sectors, some of which function and some of which do not. Some businesses will choose to restructure or even close and leave, but this is normal. So, I would be more worried about retaining false employment than shutting down companies that are not profitable. I think that most of the investors who are here are here for the long-term. I do believe that our members will create more jobs and further contribute to the development of Serbia. In fact, I believe that in the future we are going to get more members, because I am optimistic about the future of development of investment generally in Serbia. ■

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## SERBIA'S ECONOMIC PROSPECTS

# Bleak Horizon

**H**alfway through 2012 Serbia is facing a deep economic crisis with no end in sight, as it seems that the new political coalition that came to power after parliamentary and presidential elections does not

have a clear and realistic plan how to get the country back on the road to progress and development. Prior to the elections it accused transition of causing Serbia's problems, but it remains to be seen whether this conservative/populist elite can really decide to return to the system of state socialism and whether it will have enough political power for such a radical change.

Poor economic forecasts are coming one after another. Thus, according to National Bank of Serbia director Branko Hinić, this institution has again broken GDP estimates for 2012, with an annual increase of 0.5 percent to minus 0.5 percent – which immediately lowered the forecast for GDP growth in Serbia in 2013 from three to 2.5 percent growth – which, in the context of current economic and political circumstances, still seems overly optimistic.

Moves announced for autumn by the new Serbian government, led by Socialist party Prime Minister Ivica Dačić, are far from the pre-election and promotional promises of some sort of policy of “development coupled with savings”, which were launched in the European framework by French President Oland. This is because the large budget deficit, which this year, according to all estimates, will exceed 200 billion dinars (which, therefore, is likely to be in excess of €2 billion), simply leads economic policy leaders to the

**Everyone is scared that in the next year the “stagflation process” will become a vampire, because announced increases in VAT and other taxes, as well as excise duties, will have a necessary pro-inflationary impact**

last resort of further borrowing from abroad, increasing fiscal duties, thus making even greater savings on public sector salaries and pensions. In this regard, it should not be forgotten that public debt has already surpassed 50 percent of GDP and that the current account deficit by year's end is expected to be around €3.1 billion (which means that the current account deficit will again jump by 10 percent of GDP).

Quite simply, the new party coalition in government won the elections by rejecting savings as the basic policy formula for the coming period, but as soon as it took over the reigns of power

it was forced to take precisely this opposite policy of increasing taxes and savings. The problem is that such a last resort will continue to hinder any economic boom on the internal market, which has already been crushed by this perennial recession in industry and the construction sector, all of which is made more dramatic by the problem of extremely high unemployment (at a rate that is already above 25 percent). The mentioned “defiling” of the new Serbian government – between the dream of managing development and the reality that requires crisis management – further “narrows” the urgent need for Serbia to restore close cooperation with the International Monetary Fund, which was explicitly rejected prior to the elections. Alongside all of this, during the summer of 2012 international rating agencies (S&P and Fitch) lowered Serbia's already poor position on international financial markets by one degree – which leads to the conclusion that these agencies do not believe there will be a speedy settlement between Serbia and the IMF – as the starting positions of both sides are, for now, in conceptual conflict. And Serbian does not even have enough money for current spending, let alone for required public investments.

Everyone is scared that in the next year the “stagflation process” will become a vampire, because announced increases in VAT and other taxes, as well as excise duties, will have a necessary pro-inflationary impact. That is why the Serbian government is suppressing all needs to raise prices of electricity, gas and utilities, relying on the notion that in this time of crisis, with a new cycle of devastation of state capital, they should ease the position of citizens (which used to work for Milošević). That pathological “monetisation of state capital” through uneconomical prices of goods and public sector services, replaces the unpopular and stigmatised privatisation of the public sector – which the new government coalition explicitly rejected in the prime minister's inaugural address (at the end of July this year).

The first move of the new Serbian government was to take over total control of the central bank (National Bank of Serbia) in order to use the policy of “stabilisation” of the dinar exchange rate to “donate” to importers (without which there is no domestic production) and further indebted entrepreneurs and citizens with loans with foreign currency clauses, on the account of foreign currency reserves. This is a risky move, considering that those reserves equate to a gross amount of over €11 billion – in net amounts (from less than €6 billion), only cover three-months worth of imports, which is the standard level of economic practices.

All in all, Serbia's prospects in the next year are not good, and as yet there is not a good plan to at least slightly alleviate the many problems, which, of course, makes every bad situation even worse. ■





# Efficiency Issues

*If the government has accepted over half of the FIC's recommendations but only executed a third, then there is a high level of inefficiency within the state administration system*



**G**abor Bekefi, Vice President of the FIC and CEO of Carlsberg SEE, is concerned that Serbia's state administration is not as effective as it should be and is not considering foreign investors recommendations as much as it should.

► **You've been an FIC official for the past two years. What do you think has changed over that time in terms of business conditions for foreign investors?**

- The way we judge how conditions change at the FIC is whether or not those conditions benefit the predictability of business. From that perspective, we do think that the previous government could have done more in terms of creating predictability and transparency of business environment.

There are three areas that I wish to highlight. One is the creation of new laws and their adaptation to the reality. Although 800

## Regulations

**Currently our greatest area of concern is in the area of labour regulations.**

new laws were passed by the Serbian Parliament between 2008 and 2011, we in the investment community feel that many laws have not been followed through with the proper bylaws.

Another area where we think the government could and should have done more is the red tape. We still think that there are many topics in the state administration that create unnecessary difficulties for business.

The third area we recently identified as a problem zone was that the prior government suddenly passed new laws without any prior consultation with other organisations. A prime example of this oc-

curred in December 2011, when the government passed 70 new regulations in a period of around two weeks. This caught many investors by surprise and they could not adjust to the new rules by the start of 2012. Such actions reduce companies' planning ability over the long term and that creates problems.

► **Presumably the government had to pass these laws to satisfy some international requirements of transition.**

- The FIC does recognise and appreciate the need to pass new laws, because Serbia is on its journey towards EU accession and introduces laws to meet the expectations of EU accession negotiations, but we think that passing laws on their own is not enough. After you pass a law, the next step is to issue a bylaw, then the next step is to create organisation within the state administration that ensures they have enough capabilities to

*If the government has accepted over half of the recommendations but only executed a third, then there is a high level of inefficiency within the state administration system*

## Predictability

The way we judge how conditions change at the FIC is whether or not those conditions benefit the predictability of business.

## Topics

We still think that there are many topics in the state administration that create unnecessary difficulties for business.

## Aspects

One of the most critical aspects of the change to the judiciary system is that it must be more accessible online by a larger number of people.

execute, both in numbers and in terms of brainpower, meaning that the system is behind it. Only when this is all done together can we talk about the successful implementation of a new law.

► **Aside from these issues, what were the other most significant FIC complaints discussed with the government over recent years and what positive results, if any, were forthcoming?**

- We have had fruitful discussions and an alignment process with the government and we still think it's successful. On the positive side, our points of view were considered, accepted and incorporated into energy legislation in Serbia, then the real estate legislation also reflected some of our feedback, as did the law on Capital Markets, Enforcement and Security and last year's new Company Law. However, implementation of those regulations is crucial in order to achieve their full effects in practice.

Currently our greatest area of concern is in the area of labour regulations. Though international investors respect the labour regulations of the host country, they have their own systems and expectations and would like labour regulations to be flexible, so that they can hire people, and, accordingly, motivate and incentivise their staff or, where necessary, reduce their workforce.

► **You mentioned red tape and the so-called "regulatory guillotine" has been discussed by the FIC and progressive Serbian governments over a number of years. Do you know of any tangible positive results yielded from**



The lack of a thorough legislative environment is creating a lot of inefficiencies in the system and a lack of transparency and predictability makes foreign investors unsure when it comes to deciding whether or not to invest in Serbia

### this process?

- Within this project, FIC submitted over 120 recommendations to the Serbian government. More than half of those recommendations were accepted, so that's a positive outcome. Less positive, though, is the disappointing fact that only a third of those recommendations have been implemented. Here I again make the point that if the government has accepted over half of the recommendations but only executed a third, then there is a high level of inefficiency within the state administration system. We think that this should change in the future.

► **Complicated bureaucracy and red tape breed corruption – from the local level right up to the highest echelons. What do you think is the key to solving this problem, which is also often highlighted by EU officials?**

- I can only reiterate the need for bylaws. We at the FIC do think that if there were more precisely set rules and regulations it would allow less free interpretation by

members of the state administration. Setting more clear rules and procedures would create less space for corruption.

However, when you create a more robust system you have to increase the capabilities of staff. With so many new laws being created, the government needs to realise that it can only implement these changes once it has trained and educated its people. This should be part of the fight against corruption.

► **EU officials have reacted strongly to recent judiciary reforms carried out in Serbia. How does the FIC view this matter?**

- The FIC believes that the reform is necessary and that it must be carried through, because it's part of a modern state and administration. We think that the most important issue these days is the reappointment of judges and the process of how they are reappointed, as well as the increase in the number of judges to create a sufficient number of experts dealing with legal matters.

From the perspective of the public, one of the most critical aspects of the change to the judiciary system is that it must be more accessible online by a larger number of people. When you go to court you may find long queues and an inefficient way of settling legal cases.

► **You're suggesting the ability to track the progress of a specific case online?**

- Yes, but at the same time I think progress has been made here on law enforcement, in the sense that deadlines have been set regarding how fast judges need to make ►►

► decisions, which in turn helps the predictability of how long a legal process might take.

► **As you mentioned, Serbia has introduced a substantial number of laws during the process of harmonising regulations with the EU but, again as you mentioned, a lack of relevant bylaws leave the impression that this legislation is ineffective and the state is inefficient. How does this influence the operations of foreign companies in Serbia?**

- The FIC has observed inefficiencies in the work carried out in a couple of areas, which were brought to our attention by members. Examples include quality checks in the phytosanitary certification process, or competition protection as well as in taxation field. These are areas where we have new regulations and where judges and state administrators lack sufficient knowledge of the new laws when they are passed. That's why I also think judges have to be well trained on commercial issues and taxation issues, as many of these areas are very new in Serbia. The government must find a way of educating these experts in timely manner, because if they fail to do so companies will become entangled in long legal proceedings against the state, or against each other, and those inefficiencies reduce the focus on value creation for Serbia and the companies themselves. As such, the lack of a thorough legislative environment is creating a lot of inefficiencies in the system and a lack of transparency and predictability makes foreign investors unsure when it comes to deciding whether or not to invest in Serbia.

► **You think judges and institutional staff should be constantly undergoing systematic retraining to handle new legislation?**

- Yes, but I would take it from a step before and say that when the par-

liament is passing groundbreaking new legislation that differs markedly from the old system then people from the state administration first need to be trained. That knowledge can be updated over time, but first you need training on a whole different set of rules.

As a comparison, when we install new production technol-



**I think judges have to be well trained on commercial issues and taxation issues, as many of these areas are very new in Serbia**

ogy we always send our people on training courses or invite the manufacturer of the technology to come and hold an official training presentation. Then, on an annual basis, the operators attend one- or two-day educational classes to ensure their knowledge is kept up to date. This is essential.

► **How do FIC members cope with the current fact that legal processes are drawn out over years in Serbia?**

- With difficulty, because they waste a lot of effort and energy and direct their focus of attention away from business. One or two isolated situations is not a problem, but here in Serbia it appears that legal proceedings occur in a significantly greater scale and number than is the case in some other countries of the region. That, coupled with the length and complicated procedures, creates unnecessary costs for businesses.

► **As Carlsberg CEO for the SEE region, how would you say that the business climate in the other countries of the region differs**

**from that of Serbia?**

- The countries of southeast Europe that I work with are at different levels of accession to the European Union, so they are at different stages of the same journey towards integration into a larger common market. As such, they reflect a different level of readiness for European standards in the legal environment. I think Serbia has made progress over time, but countries that are now becoming EU members, or joined in the past decade, do have a more advanced, balanced and transparent regulatory environment and, therefore, it is easier to do business in those countries.

► **There's much talk of consolidating the markets of the region to create a single market of 30+ million consumers with similar cultures, habits and languages. Could this really happen and, if so, would it contribute to the efficiency of doing business and attracting investors?**

- When you look at the EU in an economic sense, the fact that there are no borders and a simplified procedure for the transportation of goods and services ensures that much inefficiency is removed. As such, I believe that as the different countries of the Balkans move towards EU accession and the common market, they will remedy inefficiencies in their own systems and companies operating in these countries will find it easier to do business.

I also think that Serbia has quite an advantageous position in that process, because it is in the middle of the region, has improving infrastructure, a good, well-educated labour force and relatively low costs compared to other countries on the Balkan Peninsula. This all predicts that Serbia should come out of this transition as a winner, as long as there is very clear political will and an execution power to do the right things on that journey. ■



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# Challenges Ahead



*“I would say that Serbia is facing big challenges when it comes to shaping Serbia as a modern society, defining the role of the state, handling public debt and the potential for future indebtedness versus productivity gains” says Goran Pitić*

**G**oran Pitić, a banker and former minister of Serbia’s first post-2000 government, is vastly experienced on the Serbian market. He is cautiously optimistic that the country can succeed in becoming the number one destination for doing business in the region, provided the new government takes the right steps to create efficient system.

► **You are one of the veterans of the ten-year history of the Foreign Investors Council. When you look at the development of the Serbian economy from the year 2000 onwards, what do you think were the key positive steps and mistakes made?**

- I think that one of the most important things that happened since the democratic change in October 2000 was the reorientation of political parties and the whole society towards the European Union. Second was the massive clean-up that took place after the year

## Important things

**One of the most important things that happened since the democratic change in October 2000 was the reorientation of political parties and the whole society towards the EU.**

2000, particularly on the fiscal side, with a number of unnecessary laws removed on the fiscal side that were making the system lack transparency and efficiency. Then the financial and banking sector overall was consolidated and privatised and I really believe that today this is one of the anchors of our solid society. So, the overall structure was more or less changed and some other issues were tackled, like systemic based corruption. Education was also significantly reformed to provide investors with a skilled labour force instead of just a cheap one. I think corruption is really one of the key problems that the system is facing today – both at the level of systemic corruption and at the local level, which is one of the biggest issues. The second failing to date is the professionalization of public enterprises. Unfortunately, we have witnessed the asset stripping of number majority state-owned enterprises that have left a shell of a company and not much else. This

is happening in the construction, infrastructure and health sectors, as well as within other companies that lack good corporate governance and are mostly driven by political parties. That leads us to the third issue, which is the extremely significant impact of political parties on business and the overall system, which I think is undoubtedly jeopardising market development. According to reports, mistakes have also been made in the reform of the judiciary and these days we are seeing the overturning of some earlier decisions and interference of high judicial authorities that is bringing uncertainty to the system. I would also say, as a professor, that before and during the crisis not much emphasis was given to continuing reform of the education system and culture, which are actually the essence of the long-term development of Serbia – in the sense of bringing more competitiveness, innovations, creativity etc. And on top of that I would say that we are still in a vicious circle of believing that we need protection instead of competition. Our mindset is such that we still feel we should have this argu-

**Before and during the crisis not much emphasis was given to continuing reform of the education system and culture, which are actually the essence of the long-term development of Serbia**

## Management

Crucial issue is to link management of public resources and manager's responsibilities.

## Fiscal Council

It's very relevant that the Fiscal Council has announced its analysis and I would say that it's certainly correct.

## Banking

The banking sector is one of the anchors of stability in Serbia and one that contributes to us surviving the crisis period.

ment of an infant industry that is still fragile and needs protection instead of being more open to competition, which is actually how productivity and efficiency are raised. Summing up all of this, I would say that Serbia is facing big challenges when it comes to shaping Serbia as a modern society, defining the role of the state, handling public debt and the potential for future indebtedness versus productivity gains.

We are in the midst of some dilemmas and I think the government should focus on trying to improve the transparency of processes, corporate governance, the predictability of the system and not overburdening business with surcharges and new taxes that definitely violate the conditions businesses have been planning for the years ahead. The government also has to try to understand where the limits of subsidies are and follow an FDI-driven policy to really improve the business environment and carry out public administration reform, which is also a field lacking significant results.

► **The Fiscal Council had to alert the nation about high public debt in order to gain an understanding of the seriousness of the economic situation in Serbia. What are the most important components of the economic downturn in Serbia?**

- The situation is serious enough that someone has to carry out a thorough clean-up of inefficiencies in the system. I think it's very relevant that the Fiscal Council has announced its analysis and I would say that it's certainly correct. It's very important to start from a good diagnosis and in that sense I think

we all have to be alerted to the fact that we have passed the public debt threshold of 45 per cent of GDP that we all agreed was the most we could allow ourselves. Today we are witnessing pressure coming from



**The state is late in paying its obligations, meaning huge illiquidity problems for companies dealing with the state**

the high burden on the fiscal side, a fairly significant chunk of our budget is supposed to be used to pay off interest on the debt. So, we have to find the money and today there're major problems of liquidity and solvency. The state is late in paying its obligations, meaning huge illiquidity problems for companies dealing with the state. This is a big problem and should be a major priority, in terms of planning when state dues will be paid so companies can plan their business dealings.

Increasing exports is also vital for us as a stabiliser of the market and a driver of growth. And then there is the question of how to stimulate SME development and how to enhance the system. Then there is the easing of doing business in Serbia and improving the overall business environment, which is essential if we are to attract much-needed FDI.

If the new government realises that it must restructure public finances, must start spending money efficiently, must ease doing business

in Serbia, providing more predictability, stability and transparency, must depoliticise public companies and place business at the fore, then we are on the right track.

► **You have been advocating more responsible management of public resources. The example of Agrobanka, partly owned by the state, raises the question of how efficiently public resources are managed in the atmosphere of politically-appointed positions.**

- There are different stakeholders in this game, one of which is the state – particularly in the areas where the state has its capital. I would have to say again that the system has produced a way of behaving that certainly isn't productive and efficient because people are not chosen as a result of their qualifications but rather as a result of personal or political affiliations. Crucial issue is to link management of public resources and manager's responsibilities. I think this is a crucial weakness in the system that unfortunately produced the situation at Agrobanka, though this is by no means an isolated incident.

► **Do you think that the new government will be able to avoid typically populist measures which are directly destabilising fiscal policy, from pension increases to subsidies for public enterprises?**

- Let's give the new government a chance and see what they will do. It's good news that the government was formed and therefore I would expect some new initiatives and I can say that we at the FIC will try to be a partner to the new government, in the sense of providing ►

► them with a list of things that we think could contribute to creating the desirable environment for doing business.

► **What is your view of the proposals for higher VAT and what will be the positive and negative effects of this decision, which is also endorsed by the IMF?**

- From the point of view of the FIC, we do not enter the realm of policy decisions and it is up to the government to define whether or not it is a good policy. Experience shows, of course, that raising VAT increases pressure on prices and there's no doubt that happenings in Croatia and Romania are leading us to wonder if we should do this or not.

There is also the issue of tax elasticity and the question of whether tax increases are going to crowd out some regular tax payments in the grey economy. So, it's a question of whether this is the solution or whether the government should opt for more business by restructuring the tax side.

► **You have spoken on several occasions about an inadequate structure and inefficiency of the state which are some of the causes of Serbia's "miserable situation", as The Economist puts it. What priority measures should the new government devise on this matter?**

- I've already tackled some of them, but again I'd mention public procurement – both as an issue of efficiency and one of corruption. Then there's the efficient usage of existing funds and I think there has to be a project management unit just to look after usage of these funds, which would both raise efficiency and save money. The third measure, again, is keeping political parties out of public enterprises. There is also the subsidy policy and in this context we have to see how long they last, where the limits lie and how efficient those subsidies are.

► **The Serbian banking sector has been the backbone of the Serbian economy for years. Almost every single European country has been investing a lot of effort into sustaining their banks in order to protect the economy and the population. What is the case in Serbia?**



I do hope that in the future we will have better protection of shareholders and a better understanding of perhaps how to merge some of the banks that are still partly state-owned

- The banking sector is one of the anchors of stability in Serbia and one that contributes to us surviving the crisis period without causing extra problems for the system. Unfortunately, the banking sector is still very fragmented and requires consolidation – 33 banks is obviously too much for this system. Also, the state owes significant amounts of funds to many companies and it's difficult to predict when it will deliver; and that there are problems being brushed under the carpet in the sense of a few potential "bombs" or "volcanoes" in the system. All of these things place pressure on the banking sector, but our banking system is far away from the banking systems outside of this region and that's why it's very sensitive when there are attacks on the banks and attempts to place them on the same footing as banks elsewhere.

► **Despite this situation, a large international bank recently set up its operations in Serbia and there are hints that Deutsche Bank might come to Serbia through the acquisition of Komercijalna Banka. Do you expect imminent changes to happen**

**in the structure of the Serbian banking sector?**

- I don't know what Deutsche Bank is planning, but every new investment that can contribute to good corporate governance through its reputation and its business links is, of course, more than welcome in Serbia.

I do hope that in the future we will have better protection of shareholders and a better understanding of perhaps how to merge some of the banks that are still partly state-owned.

► **Both domestic and foreign experts are projecting a very depressing autumn and winter in Serbia and the region. What is your view of Serbia's future development with the new government at the helm and huge challenges ahead?**

- We cannot expect too much to happen this autumn based on the measures being taken by the government, because it's such a short space of time. Growth is important because it's an issue of employment, budget revenue and stability in the system, but even more important is the structure of GDP growth and where the drivers of this growth are for the long-term future. I think the government should divide its efforts on two sides: short-term measures that can bring a type of stability to the system, create strong efforts and send a strong signal regarding public finances, inflation and some measures that can help companies that are having liquidity issues. There should be efforts on the side of creating a friendly environment, which are not costly, can be done fairly quickly and could help Serbia to become the most competitive country with regard to conditions for doing business. But we have to think also about improving our educational system, enhancing the role of science, innovation, competition that would enable Serbia to modernize its economy and society in the sustainable way. ■



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# Reduce Procedures – Increase Efficiency



**T**he newly formed Ministry of Energy, Development and Environmental Protection is certainly an address recorded in the notebooks and plans of many foreign investors. Although rich in all energy sources, Serbia has not invested in the energy sector for a long time. Minister Zorana Mihajlović announces major changes to the energy and environmental protection sector, the adoption of numerous laws and bylaws and the improving of the efficiency of communication with potential investors.

► **Foreign investors show great interest in investing in the Serbian energy sector, particularly in the production of "clean" energy. To what extent is existing infrastructure ready to accept these projects and where do you see the priorities in the field of foreign investment in the Serbian energy sector?**

- The interest of investors in in-

## Investment

**Not a single facility in the energy sector has been built in Serbia for the past 25 years.**

*One project of the Ministry is to reduce procedures and allow potential investors to bid for a particular location, and then gain all necessary permits under the shortest possible deadlines*

vesting in Serbia's energy sector has always been huge. Unfortunately, my predecessors were more concerned with announcements of billion-euro investments, while the result is different. Not a single facility in the energy sector has been built in Serbia for the past 25 years. Although a Law on Energy exists, as well as additional bylaws, not many projects have been realised. The Ministry of Energy, Development and Environmental Protection actually sees investment in clean and renewable energy as one of the priorities of investment, and we are preparing a document, Plan for the priorities of investment in the energy sector of Serbia, which will be presented to potential investors, the media and the public in Serbia.

The main reason for this document is that in the previous period the state guaranteed for loans with which they funded projects that are not a priority, instead of for projects that can achieve energy security for Serbia, which is the central task of this ministry.

**Launching new investments in the Serbian energy sector is one of the priorities of the Ministry of Energy, Development and Environmental Protection**

► **You have criticised the work of electricity distributor EPS on several occasions. What changes do you plan to realise when it comes to this big system and where do you see the role of EPS in the development of the Serbian energy sector, considering that the privatisation of this energy giant is often mentioned?**

- Public company EPS now finds itself in serious economic and financial strife, and what the Ministry of Energy, Development and Environmental Protection will do is pledge to change the ways of managing this and all other public companies in the energy sector.

This certainly doesn't mean that EPS will be privatised, but besides the rationalisation of operations, the corporatisation of EPS will be performed and special attention will be focused on clear plans for development and investment. EPS is a company that should have been the driving force of development, not something that hinders the development of the country. Introducing order, clear criteria, as well as measurable indicators of the success of operations, are some of the principles with which we will manage it.

► **There are a number of projects related to the launch of wind en-**

## Laws

Although a Law on Energy exists, as well as additional bylaws, not many projects have been realised.

## EPS

Public company EPS now finds itself in serious economic and financial strife, so the ministry will change the way it is managed.

## Thermal energy

In Serbia today not one waste disposal site meets EU standards, so waste cannot be used in the production of thermal energy.

ergy production, small and medium-sized hydro plants, biogas etc., which foreign investors are interested in. Is Serbia ready in these conditions to monitor and implement initiatives emanating from abroad?

- Investing in renewable energy is one of the priorities of the work of the ministry, but also a great challenge. Serbia is not only rich in biomass, but also the energy potential of small water flows, wind energy, solar and particularly geothermal energy. Opportunities exist, as do laws and bylaws. What did not exist, but now does since the formation of the new government and this ministry, is the political will



for Serbia to welcome independent producers of electrical and thermal energy. It is in the interest of Serbia to have enough energy, while the potential capacity of small hydro plants alone is 455 MW.

► Do you think in the foreseeable future it is realistic to realise an oil shale project, or was that merely one of the pre-election campaign platitudes?

- Oil shale has significant energy potential in Serbia. In addition to large-scale investment, modern technology is required for exploitation. The ministry of energy, development and environmental protection will support the selection of consultants, then after that I hope that not only the region around Aleksinac will be developed, but that this will be a comparative advantage of Serbia.

► The government's decision not to sell PC "Resavica" was ►►

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► **met with opposing views in public. What tipped the scales in the decision for that company not to be broken up and not to be privatised?**

- Public company PEU Resavica is an enterprise that has its own role not only in the development of the region, but also in the future energy balance of Serbia. Estimates show that new reserves have also been discovered in Rembas, with which the Svilajnac thermo plant will be supplied. There are additional co-operation opportunities for work with the surface mine at Kostolac, where surface mining operations are closed, but were underground exploitation is beginning. And this work can be performed precisely by Resavica.

► **What are your ministry's priorities when it comes to the energy sector and environmental protection?**

- Launching new investments in the Serbian energy sector is one of the priorities of the Ministry of Energy, Development and Environmental Protection, as well as mine, as minister. What we will work on specifically are transparent procedures and the predictability of operations, not only in the ministry, but also in the work of public enterprises, while that which we will fight against in particular is corruption. Corruption has taken a billion Euros away from the energy sector, which is why we are now a country that consumes several times more energy than our neighbours, because we have not dealt with energy efficiency and are a country where electricity is imported instead of being produced. Someone has made money off the citizens of Serbia.

► **You have announced a change in the tariff system for calculating electricity charges. How will the new system look?**

- Our ministry is currently work-

ing on the introduction of cheap two-hour tariffs during the day for the citizens of Serbia, but will also launch a complete change of the tariff system that has proven inadequate for today's situation in the energy sector, especially considering that the tariff rates meant those who consume the most elec-



**It is in Serbia's interests to gain new facilities as soon as possible, be they for the use of renewable sources of energy, the opening of new mining fields, as well as the construction of large capital facilities for electricity, oil and gas**

tricity were privileged to pay for it at low prices. The task of every energy minister, including me, is to ensure conditions whereby there is sufficient energy, but at sustainable prices or rather prices that the majority of the population and the economy can afford.

► **How far is Serbia from the wider use of alternative energy sources; how much would that cost and how much time would it take to prove profitable?**

- Alternative energy sources cannot solve the problems of energy security, but can increase it to a higher level, as in any other country in the world. Serbia has a potential that is not being utilised. Opportunities are especially good for heating plants in Serbia that today mainly use gas, oil and coal instead of, for example, using biomass and at the same time being cogeneration plants and producing both electrical and heating energy.

► **When it comes to the environment, it seems that recycling waste is one of the untapped resources that could also be of interest to investors. Do you have**

**any plans in this regard?**

- Recycling centres are one of the priorities in protecting the environment, as a method of waste management. Like in the countries of the EU and the neighbourhood, we will define what percentage of waste needs to go for recycling, but the criteria for opening recycling centres will be changed and it will be clearer and more verifiable, while the results will be measurable. Waste management is a special area that has been more spoken about than worked on. In Serbia today, unfortunately, not one waste disposal site meets EU standards... not to mention that waste cannot be used in the production of thermal energy.

► **Foreign investors insist on improving the business environment, reducing bureaucracy and corruption and developing more efficient operations. What contribution to these initiatives could be realised during your term?**

- Besides the fact that I think that this ministry will be able to be more efficient than the previous one, precisely because it has consolidated energy and environmental protection, one of the projects we will launch is to reduce procedures. For example, today some 27 permits are required for the construction of a small hydroelectric plant, while the average time that a potential investor needs to acquire them is measured in years! In addition to enabling potential investors to compete for specific locations, the ministry will also prepare regulations that will provide all the necessary permits for interested investors.

It is in Serbia's interests to gain new facilities as soon as possible, be they for the use of renewable sources of energy, the opening of new mining fields, as well as the construction of large capital facilities for electricity, oil and gas. ■



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# Major Budget Contributor



**T**he Foreign Investors Council is marking its 10th anniversary this year. As one of the biggest investors in Serbia, how do you see the past decade of doing business in the country and what were your main challenges in that period?

Since September 2003, when Philip Morris entered Serbian market through the privatisation of DIN – the Niš tobacco factory, the Serbian cigarette market has evolved and grown to become a very competitive one. During all this time the business environment has developed confidently, undergoing a number of changes, but continuing in the right direction. Serbia has clearly demonstrated openness to embracing international standards and advanced business practices.

The predictability of regulatory and fiscal frameworks are the key prerequisite enabling us to plan business activities and invest. This should always be on the mind of those in charge of policies that affect the business climate

*As a heavily regulated and heavily taxed sector, the tobacco industry provides a vital source of income for the government during times of crisis. Indeed, as Philip Morris's Paul Riley explains: "this industry has turned into one of the major contributors to the state budget, where excise tax and VAT on cigarettes will reach approximately 12% of the total revenues this year"*

► Since you are also about to celebrate your 10th anniversary of operations in Serbia, what do you see as you see as the main challenges and achievement so far?

- Indeed, next year we will mark our 10th anniversary since the privatisation of the Niš tobacco factory. We have come a long way over the past decade. The Serbian cigarette market has changed and evolved to become a highly competitive and dynamic one, with 11 manufacturers, four of which are local, and 280 product variants competing to be the choice of increasingly demanding and sophisticated adult consumers. Our investments in Serbia since 2003 have reached US\$900 million, enabling us to implement a number of technological and organisational changes. Today we are the market leader,

with approximately a 45% share, a wide portfolio of superior quality products, a modern and efficient manufacturing facility in Niš, over 1,000 talented and motivated employees across Serbia and a strong network of local business partners.

► **During times of economic crises, governments usually first come upon the idea of increasing excises, fees and taxes. What is your view of the measures that the government has come up with during these difficult times?**

- This industry has turned into one of the major contributors to the state budget, where excise tax and VAT on cigarettes will reach approximately 12% of the total revenues this year. Over the past decade our contribution to the state budget has grown significantly each year, both in absolute and relative terms. However, I would say that today the tobacco industry in Serbia is going through its most difficult period ever. We reached the point where the taxes continue to go up, while margins are deteriorating rapidly in the whole supply chain. This

is caused by a number of factors, but primarily a lack of systemic regulations in some critical areas. Unless addressed in a timely and appropriate manner, these issues may pose a significant risk to our ability to sustain our business development and our ability to continue generating expected revenues for the state. That is why it is critical in economically challenging times for the government to be even more attentive and understanding of the consequences of any new measure or absence of regulations and to plan its regulatory engagement following a thorough impact assessment. Here I refer not only to fiscal policy, but to all other regulatory measures which may severely affect businesses.

► **As a respected member of the Foreign Investors Council, you are familiar with this important organisation's efforts aimed at improving the business climate in Serbia. What tangible issues should the new Serbian government put on its list of priorities in order to attract new investors?**

- I have said on a number of occasions and will repeat again, as it is absolutely critical, that the predictability of regulatory and fiscal frameworks are the key prerequisite enabling us to plan business activities and invest. This should always be on the mind of those in charge of policies that affect the business climate and attract investments. Predictability does not exclude change. Clearly, when the country is undergoing economic reforms or overcoming a crisis, changes are necessary and welcome. However, to ensure their effectiveness in supporting economic growth, it is vital to introduce them transparently, through a dialogue with business and a thorough analysis of their overall effects.

► **Philip Morris employs over 1,000 workers in Serbia, as well as maintaining ongoing cooperation with a large number of the country's tobacco growers. Does the economic crisis and business conditions in Serbia influence changes to your business strategy or employment policy?**



Over the last nine years Philip Morris has donated over €10 million to the local community for the development of various projects

- As a business person, I always look forward and seek ways in which I can build my organisation and business competitiveness today for the leadership of tomorrow. Even in the times of crisis, we continue investing in critical segments of our business and keep developing our people and our partnerships. Over the past decade we employed around 600 new people, extensively trained and educated them, developing their technical skills and capabilities to successfully cope with complex business challenges. Our ability to employ more people or extend local partnerships depends on how successful we

will be in overcoming the current crisis on the domestic market and expanding our business, primarily manufacturing and exports, in the time ahead of us. We will do our part, in the hope that the government will support us by improving the regulatory framework.

► **Philip Morris is perceived as an active corporate citizen. Are you satisfied with the efficiency of your donations?**

- Over the last nine years Philip Morris has donated over €10 million to the local community for the development of various projects. All of our community programmes have been developed to respond to the community's needs and address some of its priority issues, in order to boost the development of the local community. Support in addressing unemployment by encouraging entrepreneurship and self-employment is a key focus area of our contributions strategy. Through the "Create Your Job" programme, we extended 157 micro-grants, helping a large number of people in Niš from all age groups to start up their small businesses and secure employment and economic independence for themselves and their families. Also, in the past nine years we have awarded as many as 276 talented students of the University of Niš and 56 student groups' projects. Our community programmes have a long history of success behind them and I am extremely proud of the fact that they provided very tangible solutions to some of the key societal issues. As of this autumn, we will expand our key contribution programmes beyond Niš to the whole Serbia, so that more people throughout the country can benefit and be awarded for their entrepreneurship. ■

# Decisive Turnaround Required



*The period that lies ahead will not be easy for Serbia. Rather it will be full of challenges and the Serbian government and other institutions must direct their efforts towards halting the negative trends in priority sectors, reducing public spending and maintaining macroeconomic stability*

**T**he key directions of the economic policy up to 2016 should be directed towards eliminating imbalances between those employed by the economy and those working in the public sector, employees and the unemployed, employees and pensioners, imports and exports, as well as developed and underdeveloped regions.

The essence of Serbia's new development programme is to turnaround the model of economic development based on reindustrialisation and production and exports of tradable goods. The crisis will not bypass us, but we are creating measures with which we can resist it. As such, without a decisive shift in the strategy we cannot rely on changing the country's existing economic situation.

The priority is public sector reform, fiscal reform alongside reduced taxes and contributions on earnings, as well as stimulating

pean Union debts are settled within a deadline of 30 days, while the average in Serbia is 128 days. In addition to passing laws, settling outstanding debts is also pending, as is the establishing of fair relations in the economy and equal standards for all when it comes to the interest on debts.

The Serbian economy requires a complete, neutral, stimulating tax reform that would significantly reduce operating costs. Announced exemptions and incentives for craftsmen and SMEs are good and positive, but they will only unburden part of the Serbian economy. Through the complete reform of the tax system we would gain reduced fiscal and para-fiscal duties and would enable operations in legal flows for the greatest number of companies, but also halt the fall in economic activity and industrial production. Tax reform could be implemented by year's end.

What also lies ahead in the coming period is certainly reducing the budget deficit. The state can achieve significant savings by reducing administrative costs and the costs it incurs, while savings are also possible through public procurement and reducing the number of agencies and regulatory bodies, whose authority could be transferred to other institutions that can perform their tasks without the use of budgetary funds.

Alongside a large budget deficit that is a result of excessive public spending and the way Serbia borrowed in the past, a problem is also represented by the total public debt of €24 billion.

The current Serbian government should devote more attention to quality dialogue with industry, taking into consideration the suggestions and proposals of the real sector. A proposal for a new economic policy from 2012 to 2016 was developed by the Serbian Chamber of Commerce and has been submitted to the government as a platform for possible talks.

The activities of the Serbian Chamber of Commerce are primarily focused on representing the interests of members and creating an open, supportive and prosperous business environment. With the receiving of candidate status for EU membership, the reliability and stability of operations in Serbia is increasing, which is a good signal to entrepreneurs and investors that Serbia is on the right track to strengthening its competitiveness and the predictability of the business environment. ■

**The state currently owes the economy more than a billion Euros, while the real sector is indebted to the tune of €3.4 billion**

production, then investments and savings, reviews, cancellations or reductions of numerous para-fiscal duties, solving the problem of illiquidity, establishing financial discipline, reducing operating costs by removing unnecessary administrative procedures and reforming labour legislation and the education system in order to increase employment levels.

The state currently owes the economy more than a billion Euros, while the real sector is indebted to the tune of €3.4 billion. This vicious circle of debts and claims can only be resolved by passing a law that would limit payment deadlines to 45 days. In the Euro-



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# Predictability Needed



Since the establishment of the Foreign Investors Council, which brings together the largest investors in Serbia, it has advocated for the reduction unnecessary bureaucracy at all levels and the simplification of the overall business framework, as the most important and beneficial issue for both sides - the government and investors.

► **BAT is one of the founders of the FIC and also one of the companies responsible for this eminent organisation celebrating its 10<sup>th</sup> anniversary. What would you single out as the most important accomplishments of the FIC in the last decade?**

- I believe the fact that the FIC has continuously contributed to the improvement of the business climate in Serbia, by conducting a transparent dialogue with the government, represents the most important accomplishment. Is the business climate today better than it was a decade ago? Yes, absolutely. Is the business climate in Serbia ideal for investments? Not yet. In that re-

## Business climate

The FIC will continue to cooperate with state authorities with the aim of improving the business climate.

Serbia needs to create predictable tax surroundings, where companies can understand the business conditions under which they operate

*One of the key problems in Serbia is the unpredictable way in which para-fiscal duties are introduced and immediately applied*

spect, the FIC will continue to cooperate with state authorities with the aim of improving the business climate and supporting the reform process so as to make Serbia an even better investment destination. Furthermore, the FIC has always been a true ambassador of Serbia as an attractive investment destination, in all domestic and international forums that we have been invited to participate in to talk about our members' experiences in Serbia. As a result of all of the aforementioned, especially the fact that Serbia has generally changed positively as a business destination in the last decade, the FIC has grown from its starting position as a small association with only 14 members to become an association with membership numbering more than 120 companies today. During the course of this period, FIC member companies have invested over €15 billion in the Serbian economy and today employ almost 90,000 people.

► **What measures should the Serbian government take immediately in order to improve the business climate?**

- The government should immediately take steps to reduce unnecessary bureaucracy at all levels and simplify the overall business framework, as this is very important for both present and prospective investors. In that respect, we believe that the "guillotine" project, which has given partial results so far and in which the FIC was a constructive partner to the government, should

continue. Issues such as inadequate law enforcement or an inefficient public sector to implement newly adopted regulations should also be tackled. It is necessary to extract reforms from the current prevailing mindset of "production of laws in the Parliament" in order to enable the transparent and consistent implementation of adopted regulations by effective public services. On top of this, the authorities need to involve both the business and civil sectors in the reform process, as well as organising timely, constructive and transparent consultations in order to prepare the market and society as a whole for the upcoming changes. Bearing in mind that full EU membership is a key political goal for Serbia, changes resulting from EU harmonisation will continue into the next decade. Any abrupt changes to the regulatory framework will send negative signals to both current and prospective investors.

► **The Serbian budget expects to gain over 100 billion dinars from cigarette sales in Serbia, including excises and VAT, which accounts for 14% of the entire budget. How high is this percentage in other countries of the region and Europe?**

- Since the privatisation of the domestic tobacco industry in 2003, a constructive dialogue between the tobacco industry and the government has led to impressive results in certain areas in the past, especially in the field of tobacco tax-

## Business Framework

The government should immediately take steps to reduce unnecessary bureaucracy at all levels and simplify the overall business framework

## Excise

The revenue from excise duties on cigarettes are one of the most important and stable sources of revenue for Serbia

## Budget

According to our calculations, this new excise increase on cigarettes will generate an additional 10 billion dinars for the State budget in 2013

tion. Today the revenue from excise duties on cigarettes are one of the most important and stable sources of revenue for the Republic of Serbia and, in that sense, Serbia is a specific market. For example, the percentage of the share of income from cigarettes in the budgets of neighbouring countries or EU member states is between two and three per cent on average, while in Serbia in 2011 that figure was an incredible 12 per cent, making Serbia the number one country in Europe in that respect by far. An even more important factor is the total contribution of cigarettes to the state budget: from a contribution of less than four per cent in 2003, we have reached a projected 14 per cent for 2012. Namely, the projection of the Ministry of Finance articulated in the Serbian budget for 2012 states that 84 billion dinars will be collected from excise duties on cigarettes which, along with VAT, will provide a total budget contribution of about 105-107 billion dinars or, as I already pointed out, a projected 14 per cent this year.

► **Taxes in Serbia are at an acceptable level, but efficiency in the implementation of laws is not and this certainly reduces Serbia's appeal as an investment destination. To what extent are low tax rates cancelled out by other shortcomings that the state demonstrates in treating foreign investors?**

- The fact is that Serbia has competitive VAT and corporate tax, provided they remain at the current level. However, authorities at both the national and local levels have introduced a number of para-fiscal taxes and charges that have placed an ex-

tra burden on businesses. The key problem here is not only the higher burden, but also the much more unpredictable way in which these para-fiscal duties are introduced and immediately applied. For instance, in the last days of 2011 the govern-



It is necessary to extract reforms from the current prevailing mindset of “production of laws in the Parliament” in order to enable the transparent and consistent implementation of adopted regulations by effective public services

ment suddenly made a significant increase to duties and charges for specific goods, with immediate implementation. This has a very negative effect on the economy. Companies develop business plans and unannounced changes that dramatically affect their operations severely influence their competitiveness and, to that end, the competitiveness of the entire market. In order to attract more investors, Serbia needs to create predictable tax surroundings where companies can understand the business conditions under which they operate.

Moreover, certain segments of the tax policy are not fully regulated, leaving room for discretionary interpretations and the creation of an unfavourable environment for doing business. We are witnessing a lack of consistency in the application of existing taxation legislation, as well as inconsistent interpretation of the same tax rules by different tax offices. These are the

things that should be changed and, as such, we have underlined these issues and provided recommendations in our latest White Book.

► **Bearing in mind the current state of the Serbian budget, do you expect excises to go up in the near future, in addition to announced increases in VAT as one of the government's proposed measures for increasing budget revenue?**

- The Law on Excise, which has been in force since 1st January 2012, envisages a new excise increase as of 1st January 2013. According to our calculations, this new excise increase on cigarettes will generate an additional 10 billion dinars for the State budget in 2013. Hence, total revenues coming from tobacco taxation in 2013 (excise, VAT and health tax) will generate 115-117 billion dinars for the State budget in 2013. What is very important to emphasise is that any additional excise increase on top of the one articulated for 2013 could lead to the appearance of illicit cigarette inflows and the creation of a black market. There are negative examples of countries, even Serbia's neighbours (Romania as the most recent example) that significantly raised excise tax levels overnight. This caused a distortion in the domestic tobacco market in these countries and the appearance of an enormous illicit market. The end result this brings about is that everyone loses – the government, consumers and the industry as well. To conclude, Serbia will have a new cigarette excise increase on 1st January 2013 which will bring an additional 10 billion dinars to the budget and there is nothing disputable about that. ■

# Predictability a Priority

*In addition to making the environment investment friendly, the government has to work on stability, transparency and predictability of business climate*



“These are by far the most desirable elements if you want to entice investors to the country,” says David Vander Schueren, FIC Board Member and Patron of the FIC Telecommunications & IT Committee, speaking for the 2012/2013 FIC Guide about the steps required to bring Serbia up to speed as a destination for doing business.

► **Delhaize is a new arrival on the Serbian market. What major differences have you noted so far compared to the business environment in other EU countries?**

- The thing that I noted as being the most different was legislation, which has been a challenge

## EU

**Regulations on food are in some ways stricter than in EU countries.**

for us every day. Companies are suffering as a result of legislative changes which occurred during the last 20 years, including the transfer of ownership rights and the change from socially-owned to privately-owned capital. It was surprising to understand that some historic documents can no longer be recognized as proof of ownership, or that some administrative documents are very difficult to be replaced, and similar. Also, legislation, and its interpretation, varies from city to city.

Secondly, not being part of the EU was a challenge for us and we quickly noticed that it's

not so easy to cross the border with trucks and goods, that there is a lot of paperwork required – whether you want to import or export goods. Regulations on food are in some ways stricter than in EU countries. They are of course in place to protect customers, but sometimes it goes too far.

Also, the harmonisation process is ongoing but is not progressing as efficiently. As such, now there is a combining of the new set of rules that have been harmonised with the EU, while on the other hand there is still applicable legislation that is not harmonised and it is in collision with the new rules.

As an international company, we together with other foreign companies that are FIC mem-

The new government has to create total transparency in business, in the administration and in the environment

## Legislative

Companies are suffering as a result of legislative changes which occurred during the last 20 years.

## Business Climate

In addition to making the environment investment friendly, the government has to work on stability, transparency and predictability of business climate.

## Planning

Investors make long-term business plans and any uncertainty jeopardises that long-term planning.

bers, came to Serbia bringing standards, ethics and values, so we want to do things right and follow legislation. Mechanisms in place are not strong enough to defend the market from the unfair competition that exists on several layers of the market structure. For years, FIC has been striving to ensure a level playing field for all companies that are doing business in this country. We will continue to advocate for equal conditions, deeming fair competition as one of key preconditions for more mature market.

### ► In your opinion, what can Serbia do to attract more foreign investors?

- A lot can be done in terms of simplifying doing business conditions and making the overall investment environment more friendly. If you look at the FIC White Book you will see a lot of recommendations that the government should look at, but if I had to summarise I'd say that in addition to making the environment investment friendly, the government has to work on stability, transparency and predictability of business climate. These are by far the most desirable elements if you want to attract investors to the country. And if when they come you suddenly change the rules of the game it creates a lot of chaos and jeopardizes predictability. Just to illustrate with an example from our company. In our case there was new legislation introduced just a few months after we entered the country and that really hit hard our business

in terms of profitability.

Investors make long-term business plans and any uncertainty jeopardises that long-term planning. The new government has to create total transparency in business, in the administration and in the environment. And they have to reinstall a fair, competitive game.

Besides directly attracting investors, I think the country



Serbia has to do a lot more on its public relations – not only for investment purposes, but also for tourism, as these both go together

also has to do a lot more on its public relations – not only for investment purposes, but also for tourism, as these both go together. You have to have people visiting the country as tourists, who will spread word of mouth about the country. Knowledge of the country will then spread to investors, who will make decisions based purely on business assessments.

### ► The operations of most FIC members rely on sophisticated logistics, organisation and high-tech solutions. Have you had any difficulty hiring the professionals you need for these jobs in Serbia?

- I wouldn't say we've experienced a lack of talent. On the contrary, we have found a lot of well educated young people. There are a lot of highly educated people in this marketplace, probably more so on the technological side, while there are less of the soft skills of human resources. And, unfortunately, there are too many people available on the market, due to a lack of jobs.

### ► The consent is that the Serbian telecommunication sector is stable with the 2011 annual revenue of €1.6 billion and the GDP share of over 5%. In your opinion, will this tendency continue in 2012 despite the drop in salaries in Serbia?

- While the achieved revenue from telecommunication services indicates that 2011 has been more successful than the previous year, it should be noted that the investment decreased for about EUR 30 mill. in 2011 in comparison to 2010. Nevertheless being such a significant contributor to the Serbian economy, its further development should be necessarily stimulated by the new Serbian government. Set of the measures in Europe asking for major investments in Telecom & IT called "Digital Agenda" are marked as the main tool for fighting the crisis in EU. We have to follow this path and recognize the importance of this sector. ■

# Fulfilling Given Promises

*Serbia must fulfil all its promises to maintain its rating as a good investment destination*



**S**erbia needs the support of foreign investors that will establish new businesses. The crucial point is to have an economy focused on the development of export flows.

► **Your company, along with some other FIC members, was often cited during the recent election campaign. How realistic are Serbia's high expectations of foreign investors if the state fails to create the optimum conditions for them to operate?**

- Foreign investors that come to Serbia generally emphasise the high potential of this country, in terms of available workforce, the low cost of energy and structured support from the government. However, Serbia is making a promise in attracting investors. Should it not be in a

## High potential

Foreign investors that come to Serbia generally emphasise the high potential of this country, in terms of available workforce, the low cost of energy and structured support from the government.

position to fulfil this promise, it would reflect poorly on this country's rating and perception of reliability.

► **As the FIC representative of one of the world's biggest car manufacturers, what are your first impressions of the Serbian business environment and what would you change as a priority measure to improve business efficiency?**

- The Serbian business environment has high potential, but

there are certain key issues to be addressed. We believe that the key priorities at this point in time should be:

Bureaucracy must be simplified. In other words, while establishing a company is initially relatively straightforward, the process is followed by a series of formal acts that are time consuming and robust.

Another priority is improvement of the financial sector and the creation of a solid base for sustainable business.

Equally important is the development of infrastructure: roads and railways must be built in order to allow access, i.e. the connectivity of areas with high potential for new investments.

In conclusion, while Serbia

Some of the key issues are simplification of bureaucracy, improvement of the financial sector and the development of infrastructure

## Financial Sector

Improvement of the financial sector and the creation of a solid base for sustainable business should be one of key priorities.

## Infrastructure

The development of infrastructure: roads and railways must be built in order to allow access, i.e. the connectivity of areas with high potential for new investments.

## Insurance

The harmonisation of regulations will bring order to Serbia and a better business environment in the insurance sector.

has a good industrial heritage on the one hand, it is nonetheless impeded by a lack of knowledge and technological solutions. This gap can be minimised, if not fully neutralised, through the arrival of foreign companies that would bring state-of-the-art technology and operational knowhow to Serbia.

► **Motor vehicle insurance is far cheaper and simpler here than in the rest of Europe. Do you think this fact could result in better vehicle sales in Serbia?**

- Competitive insurance prices can be a good stimulus for fleet sales, in the premium segment and in the LCV segment, because insurance has a strong influence on the final cost of vehicles.

For vehicles costing less than €10,000, which is the market's largest segment, insurance costs are less influential. This is due to the fact that most of these vehicles are retail sales and are subject to financial arrangements where Casco insurance is not obligatory. We believe that the funders of these vehicles should consider this closely, as there are many benefits to be gained by increasing the penetration of full Casco insurance.

► **With Serbia set to move closer to EU membership in 2012 and 2013, it was expected that the harmonisation of regulations would also improve the Serbian insurance sector. What are the current tendencies of the Serbian insurance market?**

- The harmonisation of regulations will bring order to Serbia and a better business environment in the insurance sector. Further regulation will also bring customers a better quality



The harmonisation of regulations will bring order to Serbia and a better business environment in the insurance sector



of service and some new benefits through insurance products. The life insurance segment is not so well developed in Serbia and will become an opportunity for insurance companies.

In the vehicle insurance sector, we should adopt regulations which will define a shorter payment period for claims resolu-

tion and will exert a strong influence over dealership liquidity.

From the other side, the creation of a central register for damages would provide a rating for every insurance user. For some customers with a low rating, insurance prices will be much higher and that will also have some impact. Insurance is in a developmental phase in Serbia generally.

► **What measures will be necessary in order to facilitate the recovery of the leasing market in Serbia?**

- The Leasing market is a key indicator of economic recovery, as leasing is the most common form of financing when companies are planning investment for development. If we are talking about the vehicle market in Serbia, the first indicator is the continuous decline and especially the drop of the LCV market, which is directly related to the leasing market and very clearly shows the level of the economic crisis.

Regarding stimulation, subsidised interest rates can create an environment for increasing the leasing market, though leasing companies also need to work more on development of their products and include more integrated services.

In conclusion, the government's economic programme and measures in the coming period will be important for investments and new employment that can result in a recovery of the leasing market, representing one of the clearest signs, and a reflection, of economic trends in the country. ■



# Challenging Business Environment

*The business environment in Serbia has become very challenging, though with a number of opportunities for development*

**T**he world is undergoing a major economic crisis and, therefore, dynamic dialogue between investors and top government officials is necessary in order to improve areas for the further development of Serbia.

► **Following the 10<sup>th</sup> anniversary of the Foreign Investors Council in Serbia, could it be said that Serbian officials have shown sufficient understanding of the problems facing foreign (and domestic) investors, given the large number of issues that remain unresolved, despite the FIC having warned about these problems for years?**

- I would like to emphasise the importance of The White Book, which is published by the Foreign Investors Council every year and contains many topics and examples related to problems that occur while doing business in Serbia, as well

## Common market

**Serbia is on the right track and hope that it will become a part of the common market in the future.**

as suggestions based on the experiences of member companies. Members of the Serbian Government and important stakeholders always attended the launch of the White Book, thereby showing their high interest in an open dialogue.

Over the last couple of years the world markets, including Serbia's, have been facing difficult times. The economic crisis has inevitably affected all parts of the economy and society. The Macro economy was significantly impacted by high double-digit inflation, a high and growing unemployment rate, as well as low levels of FDI.

Consequently, the business environment in Serbia has become very challenging, though with a number of opportunities for development. We have witnessed a lot of understanding among Serbian officials with regard to making Serbia an attractive destination for foreign investments.

Legislation and requirements

**The liquidity of the banks is fine. However, the level of loans decreased and banks have to manage this issue**

related to business no longer differ greatly from those prescribed in the EU. I am very glad that Serbia is on the right track and hope that it will become a part of the common market in the future.

However, there are still some core issues that need further high level attention. The government must address administration, which is too complex and bureaucratic, at all levels, along with the procedures that need to be greatly simplified and more efficient. Secondly, as a general remark, predictability is already widely used as a buzzword in our dialogue with the government and is still underdeveloped when it comes to taxes, decisions on laws and, in particular, bylaws, financial obligations and the judicial system.

► **What priorities and urgent measures should the new government take in order to maintain existing investors and entice new ones?**

- The first priority for Serbia is a stable government that encourages new investment cycles in the economy and export growth. Ne-



gotiations with the International Monetary Fund must continue in order to achieve currency stability.

Secondly, Serbia needs to urgently resolve political issues with the international community of states. In parallel, Serbia has to accelerate reforms to achieve further harmonisation with the EU. A higher inflow of foreign investment depends on Serbia's readiness to continue reforms, as well as on internal political stability as a positive signal to foreign investors.

Thirdly, the government and its agencies need to improve the business climate and continue reforms in order to attract further foreign investment. Serbia is in competition with the surrounding countries, but has good opportunities to win the race by delivering better services, better infrastructure, open-minded communication and quality of labour force. Serbia has an excellent tradition of industrial production and an education system at a high level.

And finally, the foreign exchange rate of the Serbian Dinar versus the Euro has to be brought under control. A sharply depreciating currency is not only a bad sign for the economy, but also a reason for investors to delay decisions about founding a subsidiary in the country.

We would suggest stronger support to businesses and projects in the area of renewable energies and environmentally friendly energy resources, since we think that the possibilities coming from "separation of waste", biomass, water and wind energy are not sufficiently exploited. The government should also be concerned about the number of SMEs needed to achieve critical mass. SMEs are the backbone of every successful economy.

► **Do you think that exuberant prices of real estate in Serbia play an important role in potential investors choosing locations for investing?**

- I don't think that real estate prices are high at the moment. On the contrary, we may expect a further decrease of prices during this year. You can find many affordable land plots at very good locations in many different communities. The selection of locations depends much more on accessibility, existing infrastructure (roads, energy, and sewage), and the available workforce. It is also very important that investors acquire permissions and licenses to start operations in line with their project plans.



**Predictability, which is already widely used as a buzzword in our dialogue with the government, is still underdeveloped in some areas**

Serbia's investment in infrastructure during the last year, particularly in Corridor 10, has brought much better accessibility to Central and Northern European countries. Serbia has an excellent position between Central Europe and South East Europe and is, therefore, an ideal place for production and logistics operations. Serbia is well connected to many key markets; up to 55 million consumers can be served from Serbia.

► **Banks have injected a lot of funds into real estate during the last ten or so years, but these properties are now valued at a fraction of the original sale price. Banks are experiencing illiquidity and debtors have no money to repay their loans, while there is a shortage of buyers. How can this situation be overcome?**

- There is a certain issue with the value of real estate in Serbia. Market prices have come down significantly and there might be some short-

age in paying back mortgage loans.

However, the real estate crisis is much bigger in other European countries, such as Spain.

I don't think that banks in Serbia are illiquid. The liquidity of the banks is fine. However, the level of loans decreased and banks have to manage this issue.

There is probably lower demand than supply in real estate, but this is another good signal for foreign investors. As already stated, there are a high number of land plots available and investors can choose the right place for their business.

► **What can be improved in terms of the regulatory framework and common practices pertaining to the healthcare and cosmetics industry?**

- In the last year we achieved several improvements for the healthcare and cosmetics industry.

The Serbian Chemical Agency did a great job in establishing a clear and comprehensive system for the registration of chemicals and biocides, which is in line with European standards and practices.

Secondly, the sanitary border inspection of detergents and cleaning products, as well as packaging materials, was ceased at the beginning of this year. This was a major step towards shifting from pre-market control to in-market control.

In the field of cosmetics, we still haven't managed to overcome the trade barrier of sanitary border inspections of finished goods and raw materials. We also see issues in waste management, particularly when it comes to the treatment of hazardous waste that is still exported to other countries at high cost.

And finally, the detergents industry is seeking government and corresponding agencies' support for the acceptance of sustainable and compact detergents by the market, as well as investments in water purification plants aimed at decreasing the impact on the environment. ■



# Agriculture - a Key Economic Sector

*Serbia's agricultural sector potential is a result of its favourable climate, good natural soil characteristics and available water sources*

**P**otential investors, not only in food production and the agriculture sector, but also in all other sectors, compare Serbia with other markets, mainly in the region, and a key element in deciding is the overall quality of the business environment.

► **The predictability of doing business, which the FIC has insisted on for years, is particularly important in the agriculture and food production sectors. What are the chances of meeting the high expectations of that sector if the government does not urgently introduce clear, long-term measures that would facilitate the introduction of long-term business plans by agriculture producers?**

- The predictability of business conditions is of special signifi-

## Leaders

**The agricultural sector in Serbia has all the potential needed to become one of the absolute leaders.**

cance in this process. Companies do not invest for the short term and they need a stable framework and clear system in which they can develop both medium and long term plans.

I am convinced that awareness of the importance of the agriculture sector to the Serbian economy and future growth is clear to all stakeholders. This sector should be one of the pillars and motors of domestic GDP. In order to enable this and avoid dependence on some basic agriculture products, certain actions have already been undertaken by the previous administration. However, much more needs to

be done. Serbia has a flawless base for satisfying not only local needs, but also to become an export leader in providing certain agriculture products for some well developed markets globally. Missing that opportunity would cost Serbia significantly – by destroying the agro base that still needs a lot of support in order to fully express its potential, by losing something that the country has natural predispositions for and, consequently, leading to long-term negative effects on future growth and an unfavourable competitive position of the country once it fully joins the EU.

Companies that can contribute with the best practice from their operations around the globe are always available and keen to be a partner to decision makers in dialogue and the creation of local policies that will be to the benefit of all.

It is not necessary to invent “hot water”, rather merely develop the best practices of markets that have strongly developed this sector within EU

## Agriculture

Awareness of the importance of the agriculture sector to the Serbian economy and future growth is clear to all stakeholders.

## Efficiency

Members of the FIC represent a precious base of experience which can make all sectors more efficient with their best practices.

## Bureaucracy

Bureaucratic procedures should be reduced and simplified, while conditions for market growth need to be created by the new administration.

### ► What can be done to improve the business environment?

- The FIC recommends continuous work on improving the overall business environment. Serbia competes for investors with other markets in the region and the only way to retain and attract investors is Serbia to provide better opportunities than elsewhere. I will provide a reminder of some of the FIC's previous recommendations: acceleration of transition reforms with the dual goal of improving business conditions and bringing Serbia closer to the European Union. Bureaucratic procedures should be reduced and simplified at both national and local levels, while conditions for market growth need to be created by the new administration. The fight against corruption should also be continued and, of course, a well-balanced economic policy that will be conducive to business should be conducted.

### ► What do you expect the new government to prioritise when it comes to agriculture and food production?

- Let me remind you that the FIC publishes its annual White Book that is meant to contribute to creating better conditions for investment, not only in the agricultural sector, but all other sectors. We are always open to constructive partnerships with officials, with the aim of strengthening business conditions. Members of the FIC represent a precious base of experience which can make sectors – not only agricultural, but all other sectors – more efficient with their best practices.

Speaking specifically about the

agriculture sector, it is not necessary to invent “hot water”, rather merely develop the best practices of markets that have strongly developed this sector within EU, such as the Netherlands, which could be a useful example.



The conflict between agriculture's role in economic development and its social component has characterised the previous period



Some positive developments that characterise the previous period need to be emphasised. These include EU trade liberalisation on some agriculture products, such as the potato, then the latest agreement between authorities and agriculture producers on subsidies. These are defi-

nately positive trends. However, a lot more needs to be done to primarily enable infrastructural support for a large number of small agriculture producers.

### ► Over 800,000 families in Serbia are engaged in agricultural production. However, despite this fact, agriculture only accounts for 10% of the country's GDP. Why is this economic segment so inefficient?

- The agricultural sector in Serbia has all the potential needed to become one of the absolute leaders. What is needed are significant investments, both in infrastructure and agricultural policies.

Serbia's agricultural sector potential is a result of its favourable climate, good natural soil characteristics and available water sources. However, this potential has not been fully exploited.

Agriculture in Serbia is not considered merely a branch of the economy, due not only to the specifics of production, but also due to the tradition associated with it and its great expectations. Agriculture is an economic branch that can generate more wealth than currently exists and thereby contribute to the development of the country. It can also be a short-term buffer to facilitate the transition process. The conflict between agriculture's role in economic development and its social component has characterised the previous period. Changes in agriculture are taking place and it is important that institutional and legislative policy reforms within this sector are continued in the period ahead. ■

# FIC Improving the Overall Business Climate

*The FIC has been recognised as a strong, constructive and renowned institution offering constructive solutions when it comes to improvements to the overall business climate*



**H**uman resources management in Serbia has improved with the arrival of foreign investors that have outlined the importance of this business segment.

► **What is your view of the level of HR quality in Serbia today?**

- The changes that came about with the arrival of foreign investors in the last 15 years had a significant role in altering the very way of doing business, as well as developing HR functions, both in domestic and foreign companies. The role of HR became more strategic and less administrative. HR has become a partner in many strategic decisions and complex business processes. The development of HR has brought

**Significant role**

**The changes that came about with the arrival of foreign investors in the last 15 years had a significant role in altering the very way of doing business.**

about various changes. For such changes and functions we need people with special knowledge, skills and competences. Their very potential and development are of crucial importance to a company's success. The mentioned characteristics are mostly acquired in the education process. However, the education process should be more adjusted and modified to the market requirements, which, unfortunately, did not happen.

The good thing is that HR as a function is starting to take on a more strategic role in some

companies in Serbia, through the implementation of models from multinational companies that are based on a partnership relationship between HR and business functions. However, the HR function still does not exist beyond 'Administration' and 'Payroll' in a number of companies. Nevertheless, the arrival of foreign investors has motivated the creation of HR as a vocation, so that young people can be educated to embark on careers as HR professionals.

► **We could say that HR management has been readily accepted by the private sector in Serbia and that HR management is virtually non-existent in public enterprises. What**

The HR function still does not exist beyond 'Administration' and 'Payroll' in a number of companies

## Education

The education process should be more adjusted and modified to the market requirements, which, unfortunately, did not happen

## Experience

Students gain broad theoretical understanding, but in the majority of cases, these students have limited or no practical experience

## Reforms

The FIC has supported the Serbian government's economic direction, but also demands faster reforms

### should be done in an effort to change this existing situation?

- The main question you pose is of a strategic nature. What role does human capital play in an enterprise and what kind of a culture is that enterprise seeking to nurture? When a company recognises employees as a critical resource, then the need for development of this resource will naturally surface in an HR function. For example, recruitment based on competencies, rewards based on results, as well as strategic workforce planning, are HR practices and systems that are established in response to clear business needs.

### ► How would you rate the ability of young people graduating from universities and schools? Are they sufficiently educated to handle the modern technology required for current businesses in today's telecommunications and IT sectors?

- Students gain broad theoretical understanding at many local universities and schools. In the majority of cases, however, these students have limited or no practical experience. This is the key area for potential improvement in the local education system.

### ► What impact would you say the FIC has had on Serbia's overall economic development during the past ten years?

- In the last couple of years the FIC has been recognised as a strong, constructive and renowned institution offering constructive solutions when it comes to improvements to the overall business climate. We

participate in different kinds of business activities and the FIC's members account for more than three-quarters of total FDI in Serbia and employ the major part of the local labour force.



## The FIC has been supporting the Serbian government's economic direction, but also demands faster reforms

Our main intention is to share positive international business practices with local authorities and support reforms. The FIC continues to advocate simplification of red tape procedures and the government has adopted 60% of all FIC proposals promoted within the Regulatory Guillotine project, of which a third have already been practically implemented.

The FIC has supported the Serbian government's economic direction, but also demands faster reforms. Our White Book is a kind of a guide for the Serbian authorities, offering guidelines to improve the Serbian business climate. These are long-term guidelines that the government should follow in order to improve the economic situation.

Serbia has been very open to foreign investors. Naturally, the FIC will keep exerting efforts to develop better and more productive cooperation with the Serbian government and will not stop there. Together with the American Chamber of Commerce and the Serbian Chamber of Commerce, the FIC endeavours to improve business conditions in Serbia.

### ► Most initiatives championed by the FIC have been confirmed as relevant by the EU. Do you expect the EU accession process, which is due to start in spring 2013, could accelerate the realisation of your initiatives?

- Candidate country status is certainly a good sign, but EU accession should be a process with a clear beginning and an end. We will not know the direction and pace, nor what to expect, until Serbia is given an exact date to start negotiations. The date will bring a completely different kind of obligations. In addition, if the entire accession process turns out to take too long, people also tend to lose interest and it becomes a never ending story. EU membership provides a better, more transparent and more efficient business framework and that is something which is important for the EU, but even more for Serbia. That is the only way to create conditions to increase employment and citizens' purchasing power and update the social protection system, which is something that is in everyone's best interest. ■

# Macroeconomic Environment – the Key to Planning



*A consistent and sustainable macroeconomic environment set by the state is the key to long-term planning, but also reducing perceived country risk and accessing more reasonable sources of funds*

“This also opens the possibility for banks to conduct their basic tasks and fund economic activities. It could be said that everyone – both the local population and businesses, including banks, but also the state – is under increasing pressure from the current economic crisis. As such, the future platform must and should be a joint one. During the four years that the crisis has been felt in Serbia, we have seen successful examples of joint activities – from the Vienna agreement on maintaining banks’ exposure, to subsidised lending for the economy and agriculture. ProCredit Bank participated in them very actively and intends to support realistically based proposals in the future, with the full support of our German shareholders,” says Svetlana Tolmacheva Dingarac, President of the Executive Board of ProCredit Bank Belgrade.

► ProCredit Bank cooperates with the broadest possible market – from the local population and the smallest businesses, to medium-sized enterprises. What are today’s trends on the banking market and what are your predictions for this year and 2013?  
- This year’s lending activities of

This year's lending activities of ProCredit Bank are at the level of our plans, with a slight increase over the previous year

ProCredit Bank are at the level of our plans, with a slight increase over the previous year. However, there is a noticeable reluctance, most prominent among the population, because investment in the production cycles of the economy and agriculture are a necessity for doing business and developing. Nevertheless, even here there is a sensible precaution, even though the crisis is not an insurmountable obstacle for high quality investments and well-established business, while the investment loans offer is better than ever. In agriculture there have been fewer declines in investment activity, but it is reasonable to assume that this year’s drought will result in further reduction of liquidity next year, which could have a negative impact on further investments.

► What action do you think the state should take in order to support banks’ efforts to maintain liquidity and reduce NPLs?

- In order to improve liquidity, it is important to more strongly regulate the method and pace of the mutual settlement of obligations between businesses, including public enterprises and the state. Payment delays cause a chain of illiquidity, which has the greatest impact on SMEs that are usually the last in the payment collection chain. With that in mind in particular, we can be very pleased that delays in our clients’ repayment are at about 3% of the portfolio, which is well below the banking sector average of over 19%. In addition to accelerating business operations by simplifying administrative procedures, faster and more effective enforcement of court proceedings and settlement would also further contribute to improving liquidity.

► ProCredit Bank was among the first banks to get involved in financing energy efficiency advancements. Who are these loans intended for and how are your experiences to date?

- That is just part of the activities that all banks in the ProCredit Group conduct as part of their responsibility towards the environment. In 2011 ProCredit Bank established its Environment Committee, which is chaired by a member of the executive board and has the main function of authorising and facilitating the implementation of the bank’s environmental policies and activities. They encompass an internal system of environmental management, or rather monitoring and correcting the impact of the bank itself on the environment. Moreover, we actively manage environmental risk in lending, through the monitoring of positive effects and choosing to fund activities from an environmental aspect. The third element is financing the advancement of energy efficiency. Loans are intended for companies’ investments in equipment, vehicles and facilities, as well as citizens for renovating housing, heating systems and energy-saving appliances. We paid out the first such loans in 2007 and have been expanding the programme since 2009. The condition for approval of such a loan is to ensure energy savings and reductions in carbon dioxide emissions of at least 20 percent. Between 2009 and the end of the first half of this year, total payments exceeded €23 million, with effective savings of 25 million kWh of energy and CO2 emission reductions of 8,000 tonnes per year. ■

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# Exports - Potentially Powerful Source of Growth



*Serbia's growth performance prior to the crisis had been solid, but characterised by major imbalances*

In need, in the last decade Serbia's growth relied primarily on domestic demand. In the future, however, Serbia could do much better by emphasising the development of exports as a new, potentially powerful, source of growth. The share of exports in Serbia's GDP, currently only 25 percent, should be double or triple that, which is the current average for new EU member states. The point is not that consumption should be cut, but by pushing exports and thus speeding up growth, all components of the GDP could grow faster.

The global financial crisis has already had a significant impact on Serbia and that will likely continue to be felt in the coming months and years. The inflow of investments and loans has sharply decreased, the economy has slipped into recession, unemployment has increased and living standards have deteriorated.

With monetary policy still focused on controlling inflation, fiscal policy is the primary buffer against any spill-over from the crisis. One of the most serious challenges for Serbia at this point is the rising budget deficit, which may well reach over 6.5 percent of GDP for 2012. Serbia has increasingly had to borrow to cover recurrent expenditures, rather than to finance public investment. As a result, public debt has increased significantly and, while this

**With monetary policy still focused on controlling inflation, fiscal policy is the primary buffer against any spill-over from the crisis**

may not drop back to the legal limit of 45 percent of GDP in the very short term, potential lenders will certainly want to see a commitment to a credible set of actions to bring the trend down. To reduce the budget deficit and associated borrowing, doing everything possible to improve the cost-effectiveness of the public sector should definitely be high on the "radar screen" of the new government. Another issue requiring urgent attention is the cost of the public enterprise sector. Close to €700 million of public resources are transferred every year to cover state-, municipally- and socially-owned companies, while public companies are also responsible for

accumulating a stock of close to €4 billion in arrears and contingent liabilities.

Over the medium term, Serbia needs to concentrate more effectively on making the most of EU accession, as well as expanding its trade with other huge foreign markets. The rising sophistication of Serbia's exports and many "emerging export champion" goods attest to the ability of the economy to produce and export even under current constraints.

The number one task of the authorities now is to accelerate reforms to create an environment that is highly conducive to export-led growth in the private sector, both domestic and foreign owned. In particular, we would recommend that action be taken, as a matter of priority, in four areas where many constraints that hamper the prospects of private businesses and discourage more significant inflows of much-needed FDI remain: skills of available labour force and opportunities for their upgrade, supply of electric power, access to land and property rights and trade facilitation, e.g. the performance of the transport and logistics sectors.

Over the last few years Serbia's government has implemented a series of reforms, including streamlining the procedures for starting and closing businesses, improved access to credit, strengthened competition laws and improved contract enforcement. However, Serbia's relatively low rank suggests there is significant scope for further improvements. To improve competitiveness, it is important to accelerate reforms and urge their implementation; and at all levels of government. Three areas where a better business environment could facilitate export-led growth stand out: (i) the problem of

sub-national differences in administrative procedures and large variations in the efficiency of local governments; this slows down investment decisions and causes increased concentration of investment in certain cities and regions to the detriment of others; (ii) improvements needed in the "national quality infrastructure", such as phyto-sanitary procedures, standards, metrology, accreditation and certification processes, which is critical to trade in - inter alia - promising sectors like the automobile and food industries; and (iii) improvements in the enforcement of contracts, with difficulties related to this currently acting as a deterrent for investments. ■





In the north of the Republic of Serbia, in the spirit of Europe, Subotica is a city rich in history and culture, with a multi-ethnic composition of hardworking and educated people. Subotica today is a modern city with around 150,000 residents, well connected by rail and road to the countries of Europe, and to the rest of the world via the airports of Belgrade and Budapest.

The Municipality of Subotica is a multiethnic community with a population consisting of representatives of more than 20 different nationalities, the most numerous of which are Hungarians, Serbs, Croats and Bunjevci. Simultaneously, Subotica is also a city that for centuries has been home to a harmonious community of people of different religions - Catholic, Orthodox, Protestant and others. In addition to its favourable geographical position, it is also located on one of Europe's main traffic intersections. In the past few years, thanks to creative energy and a vision of development, Subotica has become a leader in attracting foreign direct investment in Serbia and the region. Thus, in the period between 2009 and 2012, renowned international companies launched successful operations in the city's manufacturing sector.

The security of property and investments, as well as stable prosperity, are ensured by a clean property-legality situation, as well as the transparent, professional and efficient work of the local government, which is committed to working in accordance with the quality and standards of the European level.

# Subotica – Rhythm of Success



*In the past few years, thanks to creative energy and a vision of development, Subotica has become a leader in attracting foreign direct investment in Serbia and the region*



Alongside special customs privileges and the maximum simplification of administrative procedures, within the Free Zone in Subotica investors can perform all activities with protection against currency risk. In addition to existing benefits, such as an educated workforce available at competitive prices and a strategic geographical position, Serbia and



**Serbia and Subotica also offer foreign investors many other benefits, such as duty-free exports to the countries of South Eastern Europe, Russia and Turkey, as well as the lowest corporate tax rates**

Subotica also offer foreign investors many other benefits, such as duty-free exports to the countries of South Eastern Europe, Russia and Turkey, as well as the lowest corporate tax rates in Europe.

In the previous period the Republic of Serbia secured direct subsidies for investors based on the creation of a number of new jobs. Namely, investment projects in all sectors, except trade, tourism and agriculture, are eligible to apply for grants. The funds are intended to finance investment projects promoting international trade in the manufacturing and service sectors.

Subotica also boasts a significant tourism resource in the form of Lake Palić, located just seven kilometres from the city centre. The resorts of Subotica and Palić are located at the intersection of roads linking the Balkans to Northern and Western Europe, at an important geostrate-

gic location, right next to the border with Hungary. Palić's development path is organised by the Palić tourist development complex project - Master Plan. This strategic document envisages the construction of a high class tourist destination according to the principles of sustainable development, which is being realised by the company Park Palić Ltd. This public company is both a partner and service provider for all investors interested in investing in projects designed as part of the Master Plan. The plan envisages the construction of four hotels, a convention centre, a golf course with villas and bungalows, an aqua park, thermal pools, tennis courts and other sports pitches, as well as a whole series of restaurants, cafes and associated offers. The total planned investment for all six zones in the first phase amounts to about €116 million. The Municipality of Subotica is working to build the infrastructure needed for the realisation of this project. ■

**Modest Dulić, Mayor of Subotica**

## Industry of Subotica

- ▶ **Foreign Investors 2003-2012**
- SIEMENS 2003.
- DUNKERMOTOREN 2010.
- TATRAVAGONKA 2010.
- NORMA GROUP 2011.
- CONTINENTAL - CONTITECH 2011
- SWAROVSKI 2012.
- CALZEDONIA 2012.
- ... your company 201\_





# E-Government Extremely Important

*None of the electronic public services in Serbia have yet reached the level of full accessibility*

**T**he state administration needs to develop reforms based on implementation of the E-Government Development Strategy in Serbia, which should be fully implemented by the end of 2013.

► **What kind of savings will the application of ICT technology bring?**

E-Government has an extremely important role. It improves the internal workings of the public sector by reducing the financial costs and time needed to better integrate work flows and processes. From the users' perspective (citizens, businesses, organisations etc.), E-Government enables them to carry out activities in simpler, faster and cheaper manner. Although Serbia has improved its online services to citizens, the level of development of electronic public services is still below all EU countries. Based on statistical data on internet use vis-à-vis government organizations, 46.5% of the population of Serbia interacted with state institutions in 2011, in terms of downloading/requesting forms, completing forms online and accessing information from government organizations. At first glance, this data does not look bad. However, on the other hand, none of the electronic public services in Serbia have yet reached the level of full accessibility, which means that in addition to electronic access to government bodies, further formal procedures

Extensive paperwork in the daily operations of state authorities is still present and there is huge resistance to modern technologies here

are required (paper or personal communication) in order to realise the full public service. Implementation of full e-communication with the state will bring millions in savings to the economy, in terms of direct and indirect effects.

► **Serbia will gain a fourth landline operator by the end of this year. Could you tell us more about the situation on the ground in Serbia's fixed telephony sector?**

- Fixed line telephony in Serbia still has the potential to grow. After the long lasting state monopoly, the playing field for new fixed operators was established in January 2012. What happened in the meantime, with the rise of mobile telephony, are a moderate fall in the interest of customers in fixed telephony and, consequently, a falling number of fixed subscriptions. The Serbia Broadband Network's entry on the fixed market is expected in the autumn, which will bring the possible reallocation of customers of the still dominant Telekom Srbija to new players. When it comes to existing players, Telenor has so far orientated its landline telephony activities to its business customers only, thus leaving space for new competition in the fixed residential market. Still, what has to be checked in the first place, and what the existing fixed operators already know, is whether retail prices in fixed telephony will follow the costs. This is one of the basic preconditions in order to attract more players in this area.

► **In terms of the technological and economic aspects of the e-communications market, could you tell us what level Serbia is currently at compared to EU countries and what kind of measures the FIC Committee is proposing?**

- When we look at the electronic communications market as a whole, we could say that some aspects are among the rare areas where Serbia is really keeping pace with the rest of the developed world. On the other hand, use of modern means in everyday communication between citizens and the state is very weak. Extensive paperwork in the daily operations of state authorities is still present and there is huge resistance to modern technologies here. We can classify this behaviour as under underdeveloped e-government. On the other hand, Serbia is slowly advancing in terms of internet technology, although it is lagging behind in the speed of internet connections and is very developed when it comes to mobile telephony and applied technologies there. Looking at the economic aspects of the e-communications market, according to statistical data, it contributes about 6% to GDP, but could contribute even more, subject to certain conditions – including the regulatory concerns that play an important role. The State should intensively stimulate the use of these services and follow what has already happened in the neighbourhood and the EU, where industry associations can be of great help. ■

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# Consumption a Priority

*Consumer spending must be encouraged, while a combination of different measures – taken by the central bank, commercial banks and the government of Serbia – is necessary in order to revive economic activity. Only once we see the revival of the economy in certain areas and the creation of a number of new jobs will we be able to talk about streamlining government bodies, surplus staff and other austerity measures*



In late July, at the end of negotiations over the formation of a new Serbian government, Delta Holding vice president Jelena Krstović made an appeal for the banking sector to exert efforts aimed at creating a more favourable environment for companies and for banks to freeze claims from companies and private individuals for a two-year period in order for them to be able to continue operations. This proposal met with resistance from some experts, though the majority concurred with the assertion that there can be no economic recovery without consumer spending. Many are willing to support such an observation, especially when they come from one of the three largest companies in Serbia and the only one that has managed to significantly invest on the market of the European Union.

Members of Delta Holding are engaged in agricultural production, food manufacturing, retail sales, export, import, representation of foreign companies, distribution of

Medium-term plans will see Delta Holding further develop its core businesses: agriculture and food production, and the real estate sector

consumer goods, car sales, real estate development, as well as financial and insurance services.

Delta Holding operates in Serbia and has business plans that focus on the international market, while operations are carried out through five organisational units: Delta Agrar Group, Delta Real Estate Group, Delta Distribution, Delta Sport and Delta Generali Insurance.

Delta Holding, which operates on the markets of Serbia, Bosnia & Herzegovina, Montenegro, Albania, the European Union, Russia and Switzerland, is the first Serbian company to have made significant investments in the EU market. Delta Agrar has a distribution centre for fruit and vegetables in Russia. A Delta City shopping centre has been built in the Montenegrin capital of Podgorica. Delta Sport is the exclusive distributor of Nike and is the leading sports retail chain in the region (Serbia, Montenegro, Macedonia, Bosnia & Herzegovina and Alba-

nia). Delta Sport also signed the franchise agreement with Costa Coffee to open outlets across the former Yugoslavia and Albania.

► **A changeable economic situation, coupled with the constitution of a new government and reform measures which are under preparation, will change many companies' strategic programmes. Will this lead to changes to the plans of Delta Holding and, if so, to what extent?**

- Delta Holding's strategic plans remain unchanged, because they are not made on the basis of short-term economic changes, but rather on long term goals and assessments of global and regional trends. Plans were adjusted with the emergence of the global economic crisis (2008) and our timely response to those new conditions for doing business yielded good results. In the first half of 2012 the companies comprising Delta Holding achieved 6.5 percent greater

revenue than in the same period last year (a total of 39.1 billion dinars), while operating profits before depreciation and amortization (EBITDA) were up by as much as 24 percent (or, in absolute terms, 3.6 billion dinars). Profit of 2.3 billion dinars has been realised.

Medium-term plans will see Delta Holding further develop its core businesses: agriculture and food production, and the real estate sector – particularly the construction of retail outlets in Belgrade, Novi Sad, Niš and Banja Luka.

► **Foreign investors have been complaining for years about the “business environment” in Serbia – from the bureaucracy, to corruption and slow justice... How does Delta Holding respond to these problems?**

- The business environment is the same for both foreign and domestic companies - and we can say that the response is the same for all business representatives. We are all seeking a reduction in bureaucratic procedures, speedier approvals of necessary permits, greater predictability of doing business both in terms of fiscal levies and in terms of currency fluctuations. Sometimes governments are more willing to listen to the suggestions of foreign investors, because these are large and reputable international companies. The FIC White Book has traditionally represented a significant piece of economic literature in Serbia and that is positive. Perhaps local and foreign investors should actually offer more shared opinions on issues of macroeconomic policy and conditions for doing business, because then one would more clearly see the seriousness of the problems in question. In this way the opinions of business people would gain further momentum.

► **To what extent does Delta Holding, as one of Serbia’s big-**

**gest investors, share the fate and views of the largest foreign investors in Serbia, in terms of the business environment, the predictability of doing business, the dialogue with the government etc.?**

- Delta Holding fully supports the views of foreign investors. This is about elementary conditions for successful operations and about the regulating of the market, and that is precisely what we are seeking from the Serbian government and other relevant bodies.



**Local and foreign investors should actually offer more shared opinions on issues of macroeconomic policy and conditions for doing business, because then one would more clearly see the seriousness of the problems**

► **In your opinion, what should be the realistic short-term priorities of the new government when it comes to overcoming current economic difficulties?**

- Serbia is characterized by a very low standard of living, which fell much faster even compared to the other countries of the region. Consumer spending is very low and the unemployment rate is alarming and is certainly above 25 percent. Consumer spending must therefore be encouraged, while on the other side a combination of different measures – taken by the central bank, commercial banks and the

government of Serbia – is necessary in order to revive economic activity. Only once we see the revival of the economy in certain areas and the creation of a number of new jobs will we be able to talk about streamlining government bodies, surplus staff and other austerity measures. The Euro exchange rate, which suffered dramatic changes in the past year, should also be at the top of the list of priorities of fiscal and executive powers.

► **Despite the economic crisis, Delta has committed itself to serious investments – from shopping centres, to the hotel industry and agriculture. What are Delta’s investment priorities up to the end of 2013?**

- By the end of this year, our priority in current projects is the complete reconstruction of the Hotel Continental. This has already commenced and will last until summer 2013, after which this site will see the opening of a hotel belonging to the Crowne Plaza chain. In agreement with the InterContinental Hotel Group, which owns this hotel chain, Crowne Plaza Belgrade will have five stars, which is relatively rare for this international chain. At the same time, intensive preparations are underway for the Delta Planet shopping mall project, the construction of which should begin in spring 2013, with completion scheduled for autumn 2014, when we will offer Belgrade and the region the largest and most modern retail centre in this part of the world. This investment is worth around €200 million, which will be raised from project financing. We are continuously investing in apple orchards on our Danube-side estate in Čelarevo. With its existing area of 350 hectares of modern apple varieties, this is the largest fruit growing operation in this part of Europe. Our plan is to further expand it to as much as 1,000 hectares by 2015. ■

# Labour Law Should be Aligned With EU Standards

*In times of economic crisis, human capital becomes increasingly important*



**A**lthough demand on the labour market has decreased, resulting in fewer job opportunities, the retention of key personnel is in the focus of HR professionals more than ever, as this is vital for surviving the crisis, says Dejan Ječmenica, President of the FIC HR Committee.

► **What are the current trends in Serbia's HR sector? What has been done over the last year with regard to HR Committee proposals for improving the regulatory environment and enhancing the quality of human resources?**

- In times of economic crisis, human capital becomes increasingly important. Mature companies tend to defend their high potential even more and it is still difficult to find both suitable and immediately available candidates to take over important strategic positions in companies.

The key issue in previous years and also today is even more emphasised attraction, motivation and retention of the best talent. Young leaders with great potential expect

The labour market in Serbia is showing the same trend as the rest of the economy – that of decline

to develop professionally and be involved in decision making. They expect less authoritarian management and new responsibilities in accordance with their duties.

Although the battle for top talent remains fierce, HR managers are nowadays faced with the often equally important question of motivation. Given that organisations are reorganising staff and work processes, HR managers have to know how to train business leaders to help employees who are afraid of change. This is especially true for companies that are experiencing downsizing and where leaders are required to manage others in difficult times when they themselves feel inadequate security.

► **What are the key problems when it comes to unemployment in Serbia and what are the possible solutions?**

- The labour market in Serbia is showing the same trend as the rest of the economy – that of decline. In order to reduce expenses, many companies have decided to reduce their headcount. That trend continues in 2011/2012 – employers downsize the workforce in order to reduce costs. Reduced economic activity and consumption worldwide have brought about a reduction in exports and economic activity in Serbia, while the reduction in income of the Serbian population has resulted in a decline in demand for domestic and imported goods. Such trends in the real sector inevitably lead to reduced demand for labour, as a measure which derives from economic activity. The Serbian

government and its ministries have undertaken some measures in these times of crisis. The government has ratified the National Employment Action Plan for 2012, which is a tool for the implementation of active politics. This employment plan defines the targets and priorities of the employment policy and declares programmes and measures which are to be realised in order to achieve set targets and enable the sustainable rise of employment levels.

► **What proposals has the HR Committee made regarding amendments to the Labour Law and improving the situation in that area, in order to cover the demands imposed by the market?**

- Amendments, additions or changes to the Labour Law have been necessary for years. We believe that this field has to be aligned with EU standards, as well as the necessary needs of business, and the first thing is to enable all employers' greater flexibility in the field of labour relations. Changes in all spheres of business life greatly affect the area of legislation concerning labour relations. Several important provisions that have been cited, such as more flexible forms of work, extension of the period for part time and redundancy payments, are only short-term requirements that would greatly contribute to a better business environment. Changes to the overall regulation of labour relations should make engaging employees more flexible and, thus, increase employment levels and create a positive business climate for all employers in Serbia. ■

# The Advantages of Investing in Serbia



*Serbia is competitive compared to neighbouring countries, considering the main reasons Bosch decided to go launch production here*

Confirmation has been received from the company Robert Bosch that this auto components manufacturer will open a factory for automotive wiper systems in Pećinci, near Belgrade, in August 2013. Initially to employ 100 associates, the ultimate goal of the company is to have 620 employees by the end of 2016.

"In July infrastructure work got underway on the site and then we continued with the construction work, with plans to build 22,000m<sup>2</sup> of office and manufacturing space at the facility in Pećinci," says Jovanka Jovanović, General Manager of Robert Bosch in Serbia, adding: "the start of trial production is planned for August 2013, with serial production to start in the first quarter of 2014. In the second phase, planned for 2016, additional facilities will be built to include a total of 40,000m<sup>2</sup> and employ a staff of 620."

► **How come you opted for Serbia in particular for this investment worth €70 million?**

- After careful analysis of several sites in central and eastern Europe, Bosch opted for Serbia because it was considered a very good location for supplying the markets of Central Europe, primarily because of its good infrastructure and the availability of skilled labour. The

A group of colleagues from Belgrade are the only ones in the world in charge of the North American market for the segment of operations from the parts under their authority

location in Pećinci, near Belgrade, is well positioned for the needs of buyers and suppliers, both in EU countries and in the context of CEE markets. Furthermore, the Municipality of Pećinci proved to be very effective in supporting investors by reducing administrative procedures in a reasonable time frame. The availability of a skilled and competent workforce also proved to be a good opportunity during the recent recruitment of different profiles, where we decided to send a number of engineers for training in Germany over a period of one to two years. So, good infrastructure and the availability of skilled labour are the main reasons for opening our manufacturing facilities in Serbia.

► **How would you describe the climate for investors in Serbia? What are the benefits and in which areas should work still be done?**

- Bosch recognised the benefits of investing in Serbia some four years ago, though of course on a smaller scale than this project of investing in production capacities. The result of that is a team of 40 staff in centres of competence where a certain group of colleagues from Belgrade are the only ones in the world in charge of the North American market for the segment of operations from the parts under their authority. We have been continuously expanding operations in this segment for several years.

Serbia is competitive compared to neighbouring countries, considering the main reasons Bosch decided to go launch production here. The automotive industry is also in a development phase that is accelerating more and more, taking into account the development of Fiat in Serbia, along with its subcontractors.

For investors planning to develop in Serbia long-term, over the coming decades, political stability is very important, as is the continuation of European integration. Economic stability is also very important and should be considered in light of, on the one hand, the objective (difficult) circumstances at the global level and, on the other, the need for work at the local level on reforms that will create an environment conducive to developing the businesses of all participants on the market, both small businesses and international companies.

► **In addition to its range for the automotive industry, what other Bosch products are present on this market?**

- At the regional level, including the markets of Serbia, Montenegro and Macedonia, Bosch is very present with a wide range of power tools, both professional and for hobby use, with over 100 innovations entering the market every year. Bosch power tools are widely used in both household segment and large infrastructure projects, such as the construction and reconstruction of bridges and roads. In the thermo techniques field, Bosch, or rather our Buderus and Loss brands, with their large heating systems, are present in power stations and industrial plants, as well as being present with small heating system and hot water appliances in residential applications. Security systems that include video surveillance systems, access control, anti-fire and evacuation systems, conference systems and the integration of these are present in significant facilities or institutions, such as parliaments, power plants and airports, as well as business and industrial facilities. ■

# Regional Approach for Market Leader



*According to Coca-Cola's Dimitar Andonov, the countries of the SEE region represent an important factor of this soft drink giant's business strategy. "We are proud of our performance track record in the region, despite the complexity of operating in many areas that have their own specificities," says Andonov for this year's FIC Guide*

**“T**he Serbian government has announced difficulties in stabilising the budget and maintaining the social status of citizens by the end of this year. Under such circumstances, how is your company planning to maintain the efficiency of your investment in Serbia?

- The Coca-Cola brand and system have been present in Serbia for over 40 years and by now have become an integral part of the Serbian society, business and community. We are very proud that not only our flagship Coca-Cola trademark is a most beloved brand here, but also that locally acquired brands Rosa and Next have become leaders in Serbia and the region.

During these years of economic downturn even a big system like ours has not been spared. Our philosophy of constructive discontent has led to us making a timely reassessment of business processes and careful planning with our partners across the value chain, thus sustaining our results and achieving ever more ambitious goals. However, the fact remains that almost the entire year to date has been marked by a standstill in the EU integration process and uncertainty regarding the direction of further regulatory reforms, which is never helpful to a business. We hope that, with the new government now in place, the dialogue between the business and public sectors will take off, so that we can enhance cooperation and advance regulatory harmonisation.

Creating and maintaining a level playing field, speeding up the harmonisation process and establishing an ongoing dialogue are prerequisites for creating a predictable business environment

► You are also responsible for regional markets. To what extent does regional stability impact on your business?

- The countries of our region represent an important factor of our business in Europe. We are proud of our performance track record in the region, despite the complexity of operating in many areas that have their own specificities in terms of demography, political landscape, economy and culture, not to mention different currencies.

However, managing the portfolio for these territories is complex in times of political instability, which we are now seeing in some of these countries. One notable example is that of Montenegro, where the government decided that it needed additional revenue and so introduced an exceptionally high, narrow-based, excise tax on soft drinks. While we understand governments' fiscal motives for such a decision, this high and narrow tax proved devastating for the entire sector, leading to sharp volume drop and affecting our plans for further investment in marketing, retail and HoReCa outlets. This can have a knock-on affect on our value chain, as we know that each direct job in the Coca-Cola system in Europe leads to the creation of a minimum of another 9-10 jobs upstream (suppliers) and downstream (with distributors and retailers). In Serbia, for example, every job in the Coca-Cola System is linked to 13 indirect jobs in the broader economy.

We are working very diligently to maintain an open dialogue with all of the region's constituents and decision makers, in order to create an understanding and joint advancement not only for our business, but, more importantly, for the communities in which we operate.

► Do you expect the consolidation of the region's markets to a certain extent, thereby leading to an increase in operational efficiency for large companies operating across the region?

- The EU integration process is crucial to this. There are still many inconsistencies in the food and beverage sector across the region. Differences in the pace and level of implementation of EU compatible legislation adds to the complexity of goods transportation, import procedures, labelling requirements etc. The entire food and agriculture industry in Serbia recognises that we have several cornerstone regulatory acts that require updating. I'll only mention the key ones: harmonising bylaws with the Food Safety Law, simplifying and uniforming import procedures, ensuring thorough quality control and labelling requirements as per EU standards. This will lead to increased transparency of procedures, reducing the potential for corruption, creating a level playing field, easing regional operations and providing greater consumer protection.

► What would you propose the Serbian government includes in its priorities for improving the business environment and attracting new foreign investments?

- Creating and maintaining a level playing field, speeding up the harmonisation process and establishing an ongoing dialogue are prerequisites for creating a predictable business environment. This is the key to ensuring that businesses in Serbia operate to their fullest capacity, as flourishing businesses are the best recommendation for any potential new investor. ■





# A Star Returns

*After years of deterioration and finally abandonment, Belgrade's legendary Hotel Metropol seemed destined to disappear from the face of the city. However, thanks to a major Greek investment, this famous city venue is set to be resurrected as the Metropol Palace, with all the luxury of its predecessor and then some*

**T**he Hotel Metropol was a meeting point for the Belgrade elite for many years. How do you envisage the pace of works needed for the hotel to achieve its full working capacity?

- The legendary status of the Hotel Metropol remained unbroken for so many years and the hotel became a permanent fixture in the power state apparatus of the country.

Initially designed by the architect Dragiša Brasovan, but now refurbished by the famous London based Architectural office MKV, Metropol Palace will soon operate again, in early autumn this year, and – following some additional refurbishment works – will be fully operational, to its full capacity, by the end of the year. Having hosted legendary events in the past, crowned by the attendance of such personalities as President Tito, Louis Armstrong, Sophie Loren and Jawaharlal Nehru, it has built the core of the legendary status that the hotel has retained to this day. Metropol Palace will be managed by Kokari, a hospitality company currently managing the Sheraton Sofia Hotel Balkan, a luxury hotel within the Starwood network. Kokari has adopted a strategy to develop and manage flagship five-star hotel properties within existing properties which have heritage, style and distinctive architecture within some of South-east Europe's major capital cities.

► **Belgrade is undoubtedly lacking a large number of hotels, but also suitable conference and congress venues. What will be the Metropol's contribution**

**in that regard?**

- In Serbia the direct contribution of travel & tourism to GDP is expected to have been 81.1 billion dinars in 2011 (2.3% of GDP) and is expected to grow by 4.4% per annum, a figure that gives a clear indication of the further growth potential in the near future. Serbia is expected to attract 710,000 international tourist arrivals in 2012, while by 2021 international tourist arrivals are forecast to total 1,148,000, growing at an average annual rate of 4.9%. According to World Travel and Tourism Council reports, the travel & tourism sector is expected to attract capital investments of 19.7 billion dinars, rising by



**No other five-star hotel in Belgrade's luxury hotel segment is expected to match the Metropol's breadth of offer and overall quality**

3.4% annually to 27.7 billion dinars.

One of the basic factors limiting tourism development in Serbia was the insufficient investments in this part of the economy, something that seems to have significantly changed with a big line of international hotels set to come to the market during the new few years. In 2011 Belgrade was voted the best tourist destination within the Southeast Europe region.

The prospects of Serbia joining the EU creates conditions conducive to further boosting the foreign direct investments necessary in order to develop the luxury hospitality infrastructure. We truly believe that with the refurbishment of Metropol

Palace, an investment worth approximately €70 million, we will significantly contribute to upgrading the already existing hospitality infrastructure of Belgrade.

► **Which part of the hotel's services are you particularly proud of and what are you preparing as the biggest surprise for your future guests?**

- In its heyday the hotel hosted dignitaries of the highest level, royalty, politicians, celebrities from the arts and famous athletes. The overarching vision was for the refurbishment to recapture its former glory and also generate a great deal of excitement in the local community. Metropol Palace will have 139 rooms and suites, but also the biggest banquet space in the city (2,000 square metres) for staging social events, business meetings and conferences, multiple food and beverage outlets, an amazing spa and fitness centre, with a 25-metre-long indoor swimming pool, extensive verandas with outdoor space and ample parking space.

► **What sort of target group are you hoping the Hotel Metropol Palace will attract?**

- International business and leisure travellers, but also domestic business and the local community will be the heart of our core business related to accommodation, events and the congress sector. The high end local community will also be the target market for our banquet facilities. We are committed to enabling the most discerning traveller to collect a world of unique, authentic and enriching experiences that captures the sense of both luxury and place. ■



# NPLs – Top Problem

*The most striking problem of banks in Serbia arises from non-performing loans (NPLs), which has been further aggravated by this year's continuous depreciation of the domestic currency*

**T**hanks to the regulations of Serbia's central bank, the country's banking sector is highly capitalised and has strong liquidity. This has been of pivotal importance for preserving stability during the economic crisis and has ensured banks' operations continue unhindered.

► **Which key measures should the state adopt to assist the banking sector in overcoming current problems?**

- The banking systems of more developed countries, where some banks only avoided bankruptcy thanks to bailout interventions, cannot boast of the stability of Serbian banks. Moreover, these governments simultaneously intervened by issuing currency to mitigate falling loan activity. This was not the case in Serbia, where the banking sector coped well with these delicate circumstances by maintaining the same level of total loans.

The most striking problem of banks in Serbia arises from non-performing loans (NPLs), which has been further aggravated by this year's continuous depreciation of the domestic currency making the timely repayment of loans even more difficult. On the other hand, the biggest challenge is increasing the level of loan activities and directing them towards sustainable long-term projects that can create

Vojvodjanska's loan portfolio shows a far better performance than the market average, with NPLs below 15 percent

additional value, increase exports and employment. The answer to these two most pressing problems lies in economic recovery. As such, the basic measures the government has to undertake to help banks are identical to those necessary for economic growth and development: fiscal consolidation followed by public administration reform; maintaining price/exchange rate stability; pursuing a credible and mutually aligned monetary and fiscal policy; dinarisation; eradicating corruption; larger investments in infrastructure; stimulating export-orientated branches of industry and agriculture; eliminating monopolies and; creating a legal system that will efficiently protect proprietary and contractual rights.

► **Illiquidity is a general problem of the Serbian economy. Is the legal system providing efficient protection of banks' interests regarding the collection of receivables and how is Vojvodjanska Banka coping with NPLs?**

- The state has to do more in the sphere of financial discipline, find a way of itself becoming a more regular payer and thereby improve general liquidity and use legal solutions to tackle this problem systemically.

Vojvodjanska's loan portfolio shows a far better performance than the market average, with NPLs below 15 percent. This is the result of an adequate risk management policy that implies financing on the basis of a thorough cash flow analysis. It is vital to determine that a company's operations and cash flow ensure smooth loan repayment. Our clients also show

a high level of repayment responsibility and regularity, thanks to our close cooperation and healthy relations with clients facing temporary difficulties. For such clients we reschedule the loan liabilities, naturally, in accordance with their possibilities, and in these cases a timely reaction and the capability of inferring what kind of rescheduling would help the client in the medium term are of great significance.

► **Where does Vojvodjanska Banka see scope for further growth and development in the coming period?**

- Vojvodjanska Banka, of the NBG Group, has supported our country's economy since its foundation. We constantly develop products and services and place special emphasis on enhancing service quality and developing a comprehensive, permanent and solid relationship with clients. We plan to disburse loans of around €160 million during 2012 to companies and individuals in Serbia. Our strategic growth and development in the coming period is mainly based on corporate portfolio increases, with a particular emphasis on SMEs in agriculture and the processing industry, which have the largest capacity to create new values and which are therefore also competent on foreign markets. We can also support exporters via the operative presence of the NBG parent group in the region and the Mediterranean. Vojvodjanska Banka's long-term orientation is to actively support exports which, along with investments, should be the driving force of Serbia's future economic development. ■

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# Constructively and Proactively to Electricity



*We have identified and included in the plan all parties that will benefit from the construction of hydropower plants: local governments, local communities, the environment and the economy, as well as the state and the investor. It is planned for the entire project to be completed in four years and for employment to be provided for around 1000 people during construction*

Company Renewable Energy Ventures (REV Ltd.) has already been present in Serbia for ten years and is the largest private investor in hydropower in the country, with investment of around €140 million. REV Ltd. is owned by the company Reservoir Capital Corp. which is known worldwide for its significant investments in renewable energy.

► **At the start of this year you received government consent to extend your license to build the hydropower plants Brodarevo 1 and 2 and by June you announced that a feasibility study had already been completed. What is the next phase in the implementation of this major project?**

- Although it could appear as though we quickly and easily gained approval for the licenses and studies for the Brodarevo 1 and 2 hydroelectric plants, the fact is that as a company we dedicated much time and quite a lot of effort to the project in order to secure all necessary documentation from the state and local authorities. Over €15 million has been invested in the research and preparatory work for the construction of hydropower plants on the River Lim alone. To date we have completed key segments in the preparation of the project. The feasibility study for a large part of the project is done, as is geological

research. We have created a hydraulic model, while the Serbian government has adopted a spatial plan of the territory for special purposes and an environmental impact assessment has been completed.

Also ready are the project's preliminary route, the adjusting of the flow of the river and the building of two tunnels. Ahead of us is the fi-



**The Brodarevo 1 and 2 hydroelectric power plants will have total power of 59 megawatts. Annual energy production will exceed 230 GWh and we will have the opportunity of supplying 60,000 households**

nal stage before obtaining building permits and agreements with the authorities in order to start construction as soon as possible.

► **It is known that, upon arrival in Serbia, you had to pass through major bureaucratic obstacles which significantly slowed the project's realisation. How is your cooperation with the local government today?**

- For now we have good cooperation and we are finding the correct approach and understanding in terms of the local authorities. The same cannot be said of the local community as a whole, but we're working on communication and all of our efforts are directed towards developing a better understanding of the benefits that all parties will gain from the construction of hydroelectric power plants. Fundamental and serious preparations

for this project have led to a situation where we have identified and included in the plan all parties that will benefit from the construction of hydropower plants. It is planned for the entire project to be completed in four years and for employment to be provided for around 1000 people during construction. Hydroelectric power plants, which have not been built in Serbia for more than 20 years, primarily contribute to the development of local infrastructure, tourism and attractive facilities such as water sports and others. At the same time, during the construction project, but also in the later stages, there is the educating of the local population in the domains of renewable energy, environmental issues and the import of modern technology that they will apply themselves in order to utilise water power.

► **When do you expect the first electricity to be generated at Brodarevo and, once completed, what will this system mean to Serbia's total energy potential?**

- The Brodarevo 1 and 2 hydroelectric power plants represent facilities with total power of 59 megawatts, which means that total annual energy production will exceed 230 GWh and we will have the opportunity of supplying 60,000 households with clean electricity. The project has added significance because it relates to energy from clean sources, without further pollution of the environment, gas emissions, the combustion of non-renewable fossil fuels or undue degradation of the environment at the local and wider level. ■

# Experience Breeds Confidence



*BPI's experience of almost a century, coupled with its high industrial standards, ensures that its partners are confident in the company's ability to contribute to and fulfil the efforts required to confront the challenges caused when transitional changes arise*

**B**PI is a company with almost 100 years of experience that has grown and sustained its business through transitional changes experienced in whatever forms these transitions represent. These transitional changes come from internal strategic moves, as well as external transitions which must be chartered. These changes represent a challenge as a result of the forms in which

our partners early in advance of a season and ensure that the production process risks are borne equally and mitigated as much as possible. BPI's commitment to high standards and our track record underscores this and ensures the model is accepted by our partners.

The residential, industrial, commercial and pharmaceutical construction contracting business remains very exposed to the deteriorating economic

We liaise with our partners early in advance of a season and ensure that the production process risks are borne equally and mitigated as much as possible

they manifest, such as that of the current economic crisis. However, when considered as transitional phases, they can often act as strategic catalysts for businesses.

BPI's standards in its industries have ensured that when transitions arise our partners are confident in BPI's ability to contribute to and fulfil the efforts required to confront those challenges. This means that in the agriculture industry, where BPI's primary production is focused, we liaise with

conditions and associated existing transitions. These conditions increase investment sensitivity at both personal and corporate levels. Considering that the end users of BPI's construction services are from both of these levels, the business is experiencing a period of continued stagnation. Consequently, BPI is developing its operations internationally and ensuring that the standards engaged there will be re-directed to Serbia once the tide of recovery flows. ■



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# Necessary to Change Tax Regulations

*Changes to the tax regulations are necessary in order to reduce the burden on the leasing sector and provide it with a growth incentive*

**T**he FIC Leasing & Insurance Committee stands ready to engage in a dialogue with tax authorities in respect of setting the business rules of the operations of leasing activities in Serbia. Besides other areas, the Committee advocates changes in the form of abolishing VAT on leasing fees related to interest and amending the Law on Corporate Income Tax.

► **Apart from the real sector, the insurance market has also recorded positive growth trends over the past few years. What do you think is likely to have happened in this sector by the end of 2012 and what kind of measures does the Committee propose in order for the insurance sector in Serbia to develop further?**

- The following issues need to be resolved promptly: the carrying out modifications and amendments to the Decree on voluntary health insurance that would enable the adoption of new terms and tariffs, or modifications and amendments to existing ones; the modification and amending of the Law on Personal Income Tax, the Law on Compulsory Social Insurance and the Law on Corporate Income Tax, in order to stimulate development of private health insurance; the reforming of the legal framework for registering a vehicle, which is currently too complex administratively; focusing on the monitoring of technical re-

We think that clear definitions of the business operating rules for leasing would improve the competitiveness of the national economy for both further investments and the regular performance of the economic activities of existing corporate companies

serves that will give insurance companies full authority to regulate the general conditions of insurance.

► **The focus in 2012 has been more on controlling mandatory vehicle insurance. How important is the development of the actuarial profession as an important factor of risk management?**

- The regulatory body of NBS invested some efforts in disciplining the market of compulsory motor third part liability insurance, which can be concluded, and changes to market sharing in this type of insurance.

The growing role of actuaries in respect of risk management arises from the need to develop reasonable models to quantify risk by type and in aggregate using tools and techniques and supporting mathematics, running the models to obtain relevant results and explaining the models and the results to a variety of audiences. The sufficient level of technical reserves and positive results in MTPL at the end of 2011 implies that actuaries measure (price and reserve) and manage (reinsure) identified hazards properly, protecting the insurers as a primary goal.

► **Could you tell us something about how leasing in Serbia is treated in terms of tax and what are the current problems in this area? What measures need to be devised in order to regulate**

**a special framework that would enable the proper functioning of operational leasing?**

- Tax regulation changes are necessary to reduce the burden on the leasing sector and provide it with a growth incentive. The changes advocated by the FIC Leasing & Insurance Committee include abolishing VAT on the part of the leasing fee related to interest, which would equalise tax treatment of interests in financial leasing with that of the banking sector, as well as amending the Law on Corporate Income Tax to enable tax credit of 20% for investments in fixed assets, to apply also to investments realised through leasing contracts. With regard to operational leasing, our committee stands ready to engage in a dialogue with tax authorities to address the setting of business operating rules for leasing activities in Serbia. We think that clear definitions of the business operating rules for leasing would improve the competitiveness of the national economy for both further investments and the regular performance of the economic activities of existing corporate companies. The committee's priorities also include abolishing the statutory reserve for financial leasing, which would also bring Serbia into line with EU practices, as Serbia is the only country in Europe which imposes an obligation to maintain a reserve balance for loans from abroad for companies operating in the area of financial leasing. ■

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# Responsible Leadership



*Pernod Ricard is the leader in the import segment of the distribution of alcoholic spirits and wines in Serbia. We have a dominant market share in Serbia and our goal, in the context of long-term plans, is to further strengthen our presence. Some of the most famous brands in our portfolio are: Ballantine's and Chivas Scotch whisky, Jameson Irish whiskey, Absolut Vodka, Martell cognac, Havana Club rum, Beefeater gin, Olmeca tequila, Mumm champagne and Jacob's Creek Australian wine*

**C**ompany Pernod Ricard is co-leader on the global alcoholic beverage and wine market, with a very strong position on all continents. The company was founded in 1975 through the merger of two prestigious French companies: Pernod and Ricard. Today, 37 years later, the group is one of the leading companies in its sector and owns more than 100 brands, as many as 19 of which are among the 100 biggest brands in the world. Pernod Ricard has been present on the Serbian market since 1996 as the market leader, while its portfolio of world-renowned brands provides a safe choice for all consumers.

► **Pernod Ricard is one of two co-leaders on the world market of alcoholic spirits and wines. Considering the economic crisis, what are the trends in the consumption of alcoholic beverages in Serbia compared to the rest of**

**Pernod Ricard has nothing against the excise duty increase, as long as they meet the requirement that the playing field is fair for all participants in the distribution of alcoholic beverages**

#### **the region and Europe?**

- The global economic crisis has taken its toll in terms of consumption of spirits and wine by reducing the demand for high-quality imported products and with consumers turning to cheaper versions. However, total alcohol consumption has not decreased. Rather, we have seen a shift in the direction of buyers towards home consumption and the consumption of lower-quality products. This trend is not specific to Serbia; it is also notable in the other countries of the region and Europe.

#### ► **What is your company's market share in Serbia and which are the strongest brands that you distribute?**

- Pernod Ricard is the leader in the import segment of the distribution of alcoholic spirits and wines in Serbia. We have a dominant market share in Serbia and our goal, in the context of long-term plans, is to further strengthen our presence.

Some of the most famous brands in our portfolio are: Ballantine's and Chivas Scotch whisky, Jameson Irish whiskey, Absolut Vodka, Martell cognac, Havana Club rum, Beefeater gin, Olmeca tequila, Mumm champagne, Jacob's Creek Australian wine etc.

#### ► **The Serbian government plans to increase the excise duty on alcoholic beverages again, in order to reduce the budget deficit. If we add to this the constant growth of the euro, what kind of expectations do you have regarding your final bill for 2012?**

- Pernod Ricard has nothing against the excise duty increase, as long as they meet the requirement that the playing field is fair for all participants in the distribution of alcoholic beverages. However, we think that the increase in excise duties, coupled with the depreciation of the dinar, certainly has a direct impact on the final price of the product and thereby might increase consumption of locally made non-taxable products. We also think that the government should pay much more attention to illegal sources of supply, because that often hides a potentially large source of revenue.



► **Your company relies on the high quality of its products. According to which established criteria does one measure the quality of “hard drink” and what are the essential characteristics of good quality wine?**

- The quality of alcoholic spirits is measured by the quality of the ingredients used to make the drink, years of aging, as well as the percentage of artificial ingredients that are added or not in order to improve taste, colour and aroma. The story is more or less the same when it comes to wine, except that in this segment additional value lies in the possibility of pairing the drink with different types of food, as well as country of origin – although I must say that, despite the origin of a particular region or country, the wine may still be of poor quality. Certainly, the countries that are major producers of quality wines solve this problem by introducing so-called appellation, which is legally regulated and guarantees consumers quality and the origin of the wine.

► **Despite the fact that your company makes a living out of alcohol, Pernod Ricard is extraordinarily active in education about responsible drinking. How can these be reconciled?**

- Corporate social responsibility has been the leading principle of Pernod Ricard since its creation. Promoting responsible drinking has been identified as one of the key issues. Any abuse or inappropriate consumption of our products could have an adverse impact on the health of our customers, which is contrary to our values and the group’s ethics.

► **When it comes to promoting responsible drinking, which are the most interesting international initiatives that Pernod Ricard has implemented?**

- One of the most interesting ini-

tiatives within the group is the so-called “Responsib’All Day”, a twenty-four hour action during which Pernod Ricard engages all of its employees from all five continents. This year 18,000 Pernod Ricard employees around the world stopped all work activities for 24 hours in order to devote themselves to education on responsible drinking. Thanks to programmes like “Let’s talk about alcohol” in Sweden, “Say no to binge drinking” in Japan, “Responsible party” in Europe, in cooperation



Thanks to programmes in Japan, Brazil and Europe, almost half a million young people have been educated on the topic of responsible alcohol consumption

with the Erasmus programme, and “That’s enough” in Brazil, almost half a million young people have been educated on the subject of responsible drinking. It is also important to emphasize that each Pernod Ricard employee also sets an example as an ambassador of responsible consumption. Each employee receives a simple pocket-size brochure, in order to fight inappropriate alcohol use, as well as to relay that knowledge to their families, friends, and others. Through this initiative, all 18,000 Pernod Ricard employees personally educated about 100,000 people just this year.

► **It is interesting that you recommend abstinence from all alcohol at least one day a week, which contradicts traditional Mediterranean habits. Why?**

- A WHO expert group has set thresholds above which consumption starts to be risky : 2 units of alcohol per day for women, 3 units for men, 4 units on special occasions, 0 units at least one day per week and at all times in high-risk situations (during pregnancy and breastfeeding, below the legal drinking age, driving a vehicle or operating dangerous machinery, whenever care and vigilance are required, when taking medication, etc.). One unit equals 10 grams of pure alcohol, which represents 1 glass of whisky (3cl at 40%).

► **Pernod Ricard also has a strong dedication to education about responsible consumption in our country. How satisfied are you with the response and performance of the projects organised in this area?**

- We are very pleased with the public response to the actions we organise promoting responsible consumption. For example we can mention the action “Do not drink and drive” in May 2011, with which we joined the global campaign of the same name within the group. As part of this campaign we organised an exhibition entitled “Do not drink and drive,” at which the most original social responsibility campaigns were presented. The exhibition included the screening of a video filmed during the Ballantine’s action, showing how to choose a driver from your social group in a simple and creative way. The video sends the message that you should not risk drinking and driving while enjoying the night out, that you should not jeopardise your safety and the safety of others. This year, with the Ballantine’s VIP safe driver initiative, we are continuing in the same vein. ■

Serbia's construction and real estate sectors are greatly influenced by local regulations and bureaucracy, which are usually slow, inefficient and often subjected to the individual actions of municipal and other officials. If we add to that the long wait required to obtain a great many permits, coupled with the economic crisis that has hit these sectors, it is obvious that the entire sector is in a very difficult situation. ►►

# Simplified Procedures Needed



*The FIC Real Estate Committee desperately needs increased consultation with the government in order to simplify procedures and avoid the high costs that could potentially be incurred*

ANDREW PEIRSON, FIC Real-Estate Committee President (Jones Lang LaSalle d.o.o. Beograd)

The issues are clear, but the repercussions are at times underestimated. The current legal and planning system discourages foreign investors from developing and investing in Serbia and, as such, we are witnessing a dearth of new development.

What this means is that the lack of new commercial and residential development has a direct impact on employment and so this isn't just a case of developers being unable to generate a profit from real estate development. Firstly, the construction industry is clearly affected, but the impact on employment is much more widespread, from white collar work in offices to blue collar work in factories and logistics facilities.

Companies are less willing to start doing business here when there is nowhere to house their business. We are not witnessing further office development in either Belgrade or regional cities to satisfy foreign BPO requirements. We are not witnessing retail development for further foreign retailers to enter the market and we are not witnessing industrial and logistics development to satisfy the high de-

mand for such space in the country.

The first, and perhaps most important, issue is that of land conversion and the additional time and fees incurred. Given the difficult economic climate we are all working in, it is now very difficult to make real estate development viable. Falling rents, coupled with the high cost of financing, means that only the most sensible development can work. The issue we have here in Serbia is that the additional costs that a developer can incur from costs and delays due to land conversion can ensure a scheme is simply unviable.

The new bylaw, from September 2011, has done little to resolve this issue and is littered with errors and inconsistencies. Therefore, we desperately need increased consultation with the government in order to simplify this process and avoid the high costs that could potentially be incurred. Within the FIC team there is an exceptional level of knowledge on this subject and we will be working hard to further explain and advise the government of the need for simplification and that a practical and commercial approach is necessary. The problems here are clear and addressing them will be our biggest challenge.

In addition to the need to address the land conversion issue, there is the further issue of creating

an investor friendly environment for developers to enter. The numerous developers we speak to are undoubtedly attracted by the level of growth potential here, but are not naïve in realising that much of this is due to the difficulty foreign developers have in operating in the country. Reforms are necessary and we need to see a consensus from all parties that changes to the legal and planning system are necessary and will be implemented by whichever party is in power.

The problems facing development have led to a two-tier capital city. Given its fairly recent birth, New Belgrade does not face as many issues when it comes to real estate development. There we have numerous office buildings and even two international style shopping centres. Old Belgrade, on the other hand, is suffering badly and needs growth across every sector. The city centre is suffering from a falling population and its lack of office buildings reduces the number of employees working in the city. This has a knock-on effect on shops, cafés, restaurants and the general vitality of the city. Improving the efficiency and level of bureaucracy will play a big part in the much-needed regeneration of Serbia's capital. Such regeneration opportunities will whet the appetite of foreign developers, who are showing high levels of interest in developing here. ■

The current legal and planning system discourages foreign investors from developing and investing in Serbia

What measures are realistically possible in order to improve the general situation in the construction and real estate sectors to an extent that would entice larger investors to the country?

# Ownership Issue Regulated

*What has been created is a legal opportunity for local governments and autonomous provinces to register their public ownership rights over construction land plots. This means that they can utilise property freely and without any restraints*

ALEKSANDRA DAMNJANOVIĆ, assistant to the Minister of Construction and Urban Planning

In terms of advancing the current situation, with trends and expected measures that would improve working conditions in the real estate and construction sector, the most important thing that has been done so far is passing the Law on Spatial Planning and Construction, the Law on Public Ownership and the Law on the Restitution of Confiscated Property and Compensation, in addition to relevant complementary regulations and bylaws.

The Law on Spatial Planning and Construction initially came into force on 11th September 2009 and was changed and amended in 2011. In its overview of recommendations, the Foreign Investors Council said that 'certain progress' has been made in the area regulated by this law.

The greatest progress has been made in the area that regulates construction land. What has been created is a legal opportunity for the municipalities, cities and the City of Belgrade to register their ownership rights over construction land plots. When it comes to spatial and urban planning, local governments have to draft two planning documents – a spatial plan for the specific local self-government unit and a general regulatory plan for the inhabited area that is the centre of the local self-government. Also, for the first

time ever, the Law on Construction regulates energy efficiency and urban land management. The procedure for obtaining the documents required for the construction of facilities that generate power from renewable energy sources and linear infrastructure facilities has also been simplified.

Private ownership rights over city construction plots were reinstated for the first time in 1958, when the Law on the Nationalisation of Rented Premises and Building Sites was enacted. This right is being exercised through the possibility of converting the right to use into the right to own. The conversion can be free of charge or not. In the case that the current users are applying for conversion, they are not obligated to pay the fee. This is important because, for the first time since 1995, this law creates a legal opportunity for local governments and autonomous provinces to register their public ownership rights over construction land plots. This means that they can freely and without any restraints utilise that property.

Conversion of the right to use to the right to own is not free of charge for privatisation, bankruptcy or enforcement subjects, nor for those who acquired the right to use construction land based on a decision made by a relevant body



The greatest progress has been made in the area that regulates construction land

prior to 13th May 2003 and that failed to use the land for its designated urban planning purpose by the date the Law came into force (11th September 2009). The existing act does, however, simplify the clerical procedure for acquiring the right to own construction land for the said land user category.

Further progress in this area has been marked with the adoption of the Law on Spatial Planning and Construction, the Law on Public Ownership and the Law on the Restitution of Confiscated Property and Compensation. The time line for enactment of these three laws was not coordinated, so the Law on Spatial Planning and Construction dealt with issues that essentially should have been regulated by other special laws, which is something that should be considered when the new law on construction is enacted.

All of the aforementioned solutions have been proposed and are being realised with the aim of increasing legal security for developers, protecting the public interest and the rights of previous owners, creating ownership records and contributing to the establishment and development of Serbia's real estate market. ■

Agriculture has gained prominence over the past few years as a development option for the Serbian economy. However, the predictability of operations, a lack of incentive measures and frequent changes to the conditions for doing business represent major problems for agricultural producers and processors. ►►



# Practice Behind Declarations

*A strong dedication to maintaining agriculture high on the agenda did not follow these declarations*

MILICA STEFANOVIĆ, FIC Food & Agriculture Committee President (Coca-Cola Company-Barlan S&M d.o.o.)

As correctly pointed out, agriculture has been cited by most governments in our recent history as a development opportunity; a possible growth engine, an export-boosting sector, a source of competitive advantages in the region and a lucrative investment area, all governments have declared their dedication to agriculture as one of their priorities. Unfortunately, a strong dedication to maintaining agriculture high on the agenda did not follow these declarations and, as we have seen, frequent policy changes and altered subsidy programmes, coupled with a lack of consistency in the implementation of adopted legislation, have led to an increased level of uncertainty and a lack of predictability.

Starting from the lack of systemic and consistent support in infrastructure investment and subsidies programmes, through speedy adoption of horizontal legislation without an appropriate consultation process, to a lack of implementation of adopted regulations or follow-through with relevant bylaws – these have all contributed to the uncertainty be-

ing faced by all those operating in the agriculture sector.

Significant improvements were made with the adoption of EU compliant legislation, providing grounds for the adoption of procedures and practices that are in line with relevant European experiences in this sector, but a significant part of bylaws that would cement the implementation of the Food Safety Law, adopted more than three years ago, are still lacking.

To mention only some, the Regulation on Labelling and Marking Packaged Foodstuffs (Official Gazette SCG, No. 4/2004, 13/2004 and 48/2004) is one of the most prominent examples of the lack of a follow-through. Although this applies to all foodstuffs and is a legislative act defining the look of any product for the consumer, this bylaw is outdated, largely inconsistent with the relevant EU Directive on the Labelling, Presentation and Advertising of Foodstuffs (2000/13/EC), completely omits a definition of advertising of foodstuffs, as probably the most significant element of this regulatory act in terms of consumer protection.

This, coupled with the non-

functioning of the National Reference Laboratory and the lack of a clear role defined between trade and agriculture inspections, leads to inconsistent implementation of existing regulative acts, creating an uneven playing field and an unfavourable environment for law abiding market players.

As representatives of foreign capital invested in food and agriculture industry in Serbia, FIC members hope to be able to continue a candid, open dialogue with the government, influencing the adoption and consistent implementation of EU compliant regulations, increasing the competitiveness of Serbia's agriculture sector among CEFTA and EU member countries of the region, while providing a level playing field for existing market players.

We see a continuing need for an open dialogue, close cooperation on setting priorities for resolving pending issues and advancing the agenda of EU integration in the field of food and agriculture. We also hope to be able to continue contributing not only by continuing investments, but also by sharing the vast experience and understanding of the market enjoyed by our member companies. ■

A significant part of bylaws that would cement the implementation of the Food Safety Law, adopted more than three years ago, are still lacking

Where do you see a solution to this problem, given the budget deficit, a lack of funds for incentives and undefined conditions for doing business in this sector; and what do you recommend as priority measures?

# Fuelled by Agriculture

*“The existence of excellent climatic conditions for agriculture, coupled with a skilled workforce and a favourable geographical position, ensures that the Serbian agriculture sector has large manufacturing and investment potential”*

DANILO GOLUBOVIĆ, State Secretary



**A**s an economy where agriculture is the only industrial branch that generates a surplus in foreign trade, Serbia has an obligation, but also a great opportunity, to advance its entire economy through the advancement of agriculture. If one considers that agriculture and the food industry contribute nearly a quarter of GDP and that agricultural and food products account for a fifth of our exports, one gets a clear impression of the contribution and opportunities of this sector, as well as its importance to the Serbian economy.

Unfortunately, as with other sectors, agriculture has a problem in terms of a lack of financial resources and insufficient investment. This is certainly greatly contributed to by the disturbed investment climate that has been caused by the economic crisis in recent years and which has led to reduced interest from foreign investors and, thus, the slower inflow of foreign capital in agriculture. As such, during the last year approximately \$99 million was invested in our agricultural complex, representing a significant decrease compared to 2009, when record investment activity worth around \$365 million was recorded.

Such a downward trend in the inflow of foreign investment is particularly unfavourable for Serbia as a candidate country for EU membership, given that the period from gaining candidacy status to becoming

a full member is precisely the period when transition economies should improve their competitiveness and prepare for the arrival of competition from the EU.

Foreign investments play an extremely crucial role in transition countries in terms of securing the initial development capital and new technologies, whilst they should also contribute to the restructuring, revitalisation and modernisation of agro-industry enterprises, with a favourable impact on other parts of the food production chain, primarily in safer and higher income primary manufacturers, which provide the required raw materials for this industry.

In general, Serbian agriculture is a sector that offers foreign investors great advantages, especially if one considers preferential market access to countries with which Serbia has signed free trade agreements, or otherwise regulated by preferential status. Signed agreements on free trade with the members of CEFTA, as well as Russia, Turkey, Belarus and Kazakhstan, the implementation of the EFTA agreement, and the Stabilisation and Association Agreement, as well as the use of the Generalised System of Preferences for placements on the U.S. market, are prerequisites that enable Serbian products to be preferentially placed on markets with exceptionally high potential.

Serbia's agricultural complex has enough processing capacities,

Foreign investments play an extremely crucial role in transition countries in terms of securing the initial development capital and new technologies

which are not sufficiently utilised, but that offer good opportunities for investment in expansion and modernisation through brownfield investments. There are also favourable conditions for the realisation of greenfield investments, especially in the case of introducing completely new technologies.

A particular advantage for foreign investors could be an advantageous fiscal policy that favours foreign investors. The VAT rate of 18% is at a lower level than in most European countries, while the corporate tax rate of 10% is the lowest in the region, with the possibility of further reductions or exemptions for foreign investors in the case of concession investments, employment of workers and improving the ecological situation, as well as by exercising the right to tax credits and the option of accelerated depreciation.

The existence of excellent climatic conditions for agriculture, coupled with a skilled workforce and a favourable geographical position, ensures that the Serbian agriculture sector is defined as having large manufacturing and investment potential. Through the increased activity of economic entities and inflow of foreign investment, as well as appropriate action and government support, this sector could be transformed into a modern, progressive and highly attractive sector that could carry the weight of the economic development of Serbia in the future. ■



# New Reality Requires New Solutions

*The current challenging environment simply represents a new reality that we all have to deal with in the coming period and it requires relevant and innovative solutions*

**A**lexandros Daniilidis, Managing Director of United Serbian Breweries, a member of the HEINEKEN group, fully believes in the capabilities of the company and its employees to offer to the consumers the products, services and experience needed in order to build stronger relationships based on trust. This environment inspires the company to be entirely committed to delivering more.

► **Having assumed the position of General Manager of United Serbian Breweries, a member of the HEINEKEN Group, you announced that you expect “great challenges” until the end of 2012. After the first few months, how do you now see the intensity of these challenges; are they bigger or smaller than you expected?**

- We manage to persevere and achieve good business results year on year. In 2011 United Serbian Breweries, achieved a positive growth trend compared to the previous year, which was by no means easy. We have the same expectations for the second half of the year, during which we have already managed to increase our sales volume and market share, as well as to improve our financial results.

Our priority is to work sustainably. This means keeping this positive trend, maintaining the top-

An optimal competition situation always leads to higher consumer satisfaction and works in favour of consumer interest in terms of variety of products and prices

quality of our products and further improving our relations with Serbian consumers. I believe we have succeeded in doing this so far and I am confident that we will continue in that direction.

► **The economic crisis has caught all types of fast moving consumer goods, including the beer industry. What are the global trends of the Serbian beer market today?**

- The economic crisis is present at all levels of business operations. The domestic market, just like the world market, has faced difficulties that influence all operational plans for all industries.

In a local context, apart from the recession, credit limits and volatile exchange rates, there is a major concern of the noticeably decreased purchasing power of citizens, inevitably leading to a decreased number of nights out, which in turn lowers consumption in the HoReCa sector itself. However, the numerous challenges ahead of us should be viewed as an opportunity for further innovative and an advanced approach. We have realistic expectations and belief in Serbia.

In a challenging environment such as this one, it is also necessary to stress our intention to offer Serbian consumers a combination of top quality products at the most affordable prices. Quality, followed by the best possible price of our products, is an undisputed priority

of our company. This is a country that likes to enjoy itself and knows how to recognise quality – this is a respectable motive for us.

► **Bearing in mind the significance of large foreign investors like Heineken to the entire economy of a country, do you think the state exerts proportionally sufficient efforts to provide investors with an adequate, high quality business environment?**

- A stable, predictable and incentive-providing business environment is something that foreign investors seek when considering potential locations for investing and this is what the state should offer if it wants economic growth.

Serbia has a lot of quality and advantages that make it attractive to foreign investors, such as a high level of educated human resources, special trade agreements and an excellent position in the region.

On the other hand, there are undoubtedly particular areas where certain practices should be changed in order to improve the competition on Serbian beer market. HEINEKEN is willing to contribute to further development and is ready to make some constructive proposals that could lead to the optimisation of competition conditions that would, ultimately, have an absolutely positive impact on consumers. An optimal competition situation always leads to higher consumer satisfaction and works in favour of con-

sumer interest in terms of variety of products and prices.

► **Heineken Group is well known for its worldwide CSR campaigns, support for and development of humanitarian projects and sports. What is Heineken Serbia doing in this regard?**

- In such a challenging economy there is an increased need for responsible development of the beer category, as well as prevention of its potential misuse.

Beer is a product made of natural ingredients. It is one of the world's favourite alcoholic drinks and, as such, is an integral part of a well-balanced lifestyle. As a responsible company orientated towards sustainability, we have the opportunity to use our brands to promote responsibility in a creative and entertaining way.

With a focus on our consumers, we are trying to make a positive im-



The numerous challenges ahead of us should be viewed as an opportunity for further innovative and an advanced approach

pact on our brands, our company reputation, the future of operations and our orientation towards sustainability. This represents a precise cornerstone of the sustainability strategy of United Serbian Breweries, called Brewing a Better Future.

In terms of actual campaigns, the Heineken brand has always taken a leading position when it comes to responsible consumption through "Enjoy Heineken Responsibly" campaigns, as well as through new initiatives, such as "Sunrise belongs to moderate

drinkers", which took the entire story to a completely new level.

During this year we have had the opportunity to join the nationwide "Battle for the Babies" campaign, with a wish to encourage the development of donating and philanthropy in Serbia by setting a good example.

We also successfully realised cooperation with the Olympic Committee of Serbia and joint projects, such as PilsPlus Olympic Caravan, which visited the whole of Serbia in order to promote the main principles of the Olympic movement and spread the Olympic spirit.

We are regularly present at all major music events, such as the Belgrade Beer Fest, with the idea of promoting desired behaviour among all consumers.

Additionally, various media channels, particularly through social networks, are used to relay messages of responsible consumption. ■

The advertisement features a large, stylized star in the center, with a city skyline and a rising sun visible through its shape. The background is a dark green gradient. In the top right corner, the Heineken logo is displayed with the tagline "open your world". Below the logo, the text "SUNRISE BELONGS TO MODERATE DRINKERS" is written in large, bold, white capital letters. At the bottom, the word "Heineken" is written in a large, dark, stylized font. A circular logo with the text "ENJOY RESPONSIBLY" and a central 'e' is located in the bottom right corner.

# Reforms Should be Redone



*Conducted reforms have to be redone, considering the Constitutional Court decision calling for a review of the recent election of judges*

Every legal system has its regulatory and institutional aspects. Obviously, though, the noted major criticisms received from the international public, including relevant EU bodies, concerns failures in institutional reforms, in this case the overhaul of the Serbian judicial system. Main problems come from the fact that the judicial network has to be re-established, while the reforms carried out have to be redone, considering the Constitutional Court decision calling for a review of the recent election of judges. Furthermore, we still have a problem of court efficiency. Courts are overloaded with cases and some litigation proceedings seem endless. The new Law on Litigation Procedure, adopted in September 2011, prioritises greater efficiency of court proceedings in terms of timeliness. This is prescribed by Article 10 of the new Law, according to which courts are obliged to conduct a trial without any unnecessary procrastination. This is to be done in accordance with period of time previously determined as necessary for every specific case by judges themselves. In the case that judges fail to follow this timeframe, disciplinary action against the judge in question is envisaged. Now, the question of whether or not that

not provide sufficient guarantees of all of the procedural rights of the parties. The Commission's serious lack of requisite economic knowledge and respective methods is still apparent. A further issue is the transparency of the Commission's work. A dialogue among all relevant stakeholders, including a proper dialogue between the private sector and the Commission, has not been established in a sufficiently institutionalised manner.

In that sense, an additional legislative framework is needed in order to increase predictability and transparency to the Commission's work, as well as consistent application. This could be done by a) drafting guidelines for market participants, re. anti-trust adherence; b) drafting bylaws for certain categories that are crucial for the anti-trust framework e.g. dominant position (as done in BIH), developing the leniency procedure in more detail, excluding certain types of agreement with respect to industry i.e. insurance, auto industry; c) having workshops or regular meetings/conferences where market participants would be able to obtain certain advice/guiding principles.

Regarding the need to cut red tape, i.e. simplify and reduce bureaucratic and formal procedures which are over-regulated and subsequently hinder business development – cutting red tape remains a popular electoral and policy promise. However, even though some progress has been made, it is evident that Serbian regulations and the practices of certain authorities still impose a significant yet unnecessary formal burden for many issues. This is probably the most evident in the real estate sector where, for example, excessive paperwork is both needlessly time-consuming and outdated as a heritage of legal notions formed in previous decades.

A persistent and significant effort should be exerted to organise discussions and gather ideas and opinions from the general public, as well as from businesses themselves, in order to identify which red tape procedures really are the most inadequate and burdensome in everyday practice. This method of identifying red tape has proved successful in the EU and should be persistently followed in Serbia. ■

**An additional legislative framework is needed in order to increase predictability, transparency and consistent application**

will actually happen brings us to the implementation of laws and rendering of adequate bylaws as the main obstacles hindering the regulatory aspect of our legal system. The timeframe for court proceedings is an admirable novelty in our litigation regulations. Time will tell whether this will be applied as intended by the legislator, which in turn will surely influence the efficiency of court proceedings.

In the area of competition law, though, the Commission somewhat improved its track record before the Administrative Court, while proceedings before the Commission still do



# Inconsistency – The Main Issue

*Even the best legislative framework would have limited effects on increasing state revenue if it is not consistently applied and interpreted by the government*



Judging from media reports, it can be concluded that tax reform will be one of the main priorities of the Serbian government in the coming period. Lately I have been tempted to suggest that the words “tax reform” have even been given “mystical powers” to resolve all the problems of the state budget and the Serbian economy generally.

The views of the FIC Taxation committee on this matter are somewhat different. Namely, there is absolute agreement among foreign investors that inconsistency in the application of existing legislation by the tax authorities is the main issue hindering the Serbian tax system and it is only logical that the main focus be placed on this matter. Therefore, the Serbian tax system does not primarily require tax reform but rather, more importantly, reform and improvement in the application of existing tax legislation.

I firmly believe that even the best legislative framework would have limited effects on increasing state revenue if it is not consistently applied and interpreted by the government body in charge of auditing taxpayers, which is the tax authority of the Republic of Serbia.

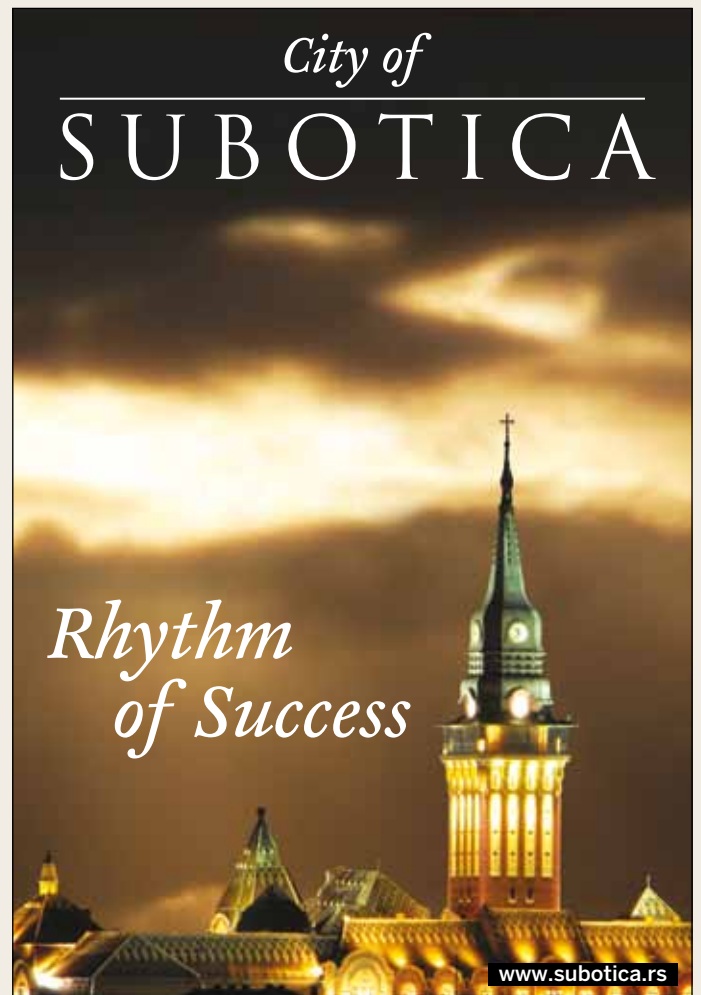
Notwithstanding the aforementioned, there are also certain legislative framework steps that should be taken in order to im-

**The Serbian tax system does not primarily require tax reform but rather, more importantly, reform and improvement in the application of existing tax legislation**

prove Serbia’s overall business environment and thereby make it more attractive for foreign direct investments (e.g. addressing the surge in local duties and taxes), but the main priority should be improving consistency in the application of existing legislation by the tax authorities.

I also firmly believe that taxpayers should contribute to improving the overall tax system of Serbia, as taxation is a “two way street” which involves both taxpayers and tax authorities. In this regard, the FIC White Book is a fine example of the willingness of foreign investors to come together and provide input for the Serbian government on issues they face while doing business in Serbia. Over past years the FIC Taxation Committee was a trustworthy partner of the Ministry of Finance and provided its input to draft new tax legislation. It will continue to provide its contribution in this regard.

Therefore, in order to achieve the desired goal of increasing foreign investments, which would result in the creation of new jobs, as well as increasing exports and Serbia’s overall GDP, it is absolutely necessary for the overall business climate to be improved and the key contributor to that improvement from the tax area should be the improvement of the application of tax rules and not just legislative changes. ■



# Great Potential – System Lacking



*With its good position and growing market, Serbia has a great opportunity to become a strong and competitive figure on European markets*

**D**espite having strong administration in force, a lack of coordination between ministries/branches is increasing the complexity and costs of the entire F&A business without adding value.

► **What are the FIC's recommendations for improving the current regulatory situation in the F&A sector?**

- As a proposal we suggest the organising of regular roundtables in order to establish strong system, as well as performing independent studies of the economic situation with the help and support of business. The government should accept their recommendations and act on them. This will provide insight into the scale of the grey economy in Serbia, which is unofficially esti-

**A lack of proper bylaws and implementation has been driven by strong bureaucracy and the overlapping of responsibilities**

mated to be around 30% of GDP. This would lead to a reduction of lost revenue from taxes, where the EU has already exerted significant efforts.

As a regional leader, the Serbian government should focus on accepting laws, proper and timely execution, publishing bylaws and regulations and, thus, show its readiness to cooperate with the business sector. Enforcement of the aforementioned has to be carried out with a unique focus on inspections, compared to the current approach where a lack of coordination is evident.

► **Food safety is becoming more important these days. Has the Serbian government taken significant steps with the introduction of the Food Safety Law?**

- The Serbian government took a significant step in 2009 by establishing the Food Safety Law. Since then, though, a lack of proper bylaws and implementation has been driven by strong bureaucracy and the overlapping of responsibilities. This resulted in

increasing business costs, slowing food operations and failure to accept international certificates and tests (EU region).

A lack of independence among inspectors, in terms of proper judgements over disputes arising from old regulations and a reliance on laboratory analyses, actually caused delays in trade, additional costs and the wasting of time and efforts.

The establishing of a National Reference Laboratory to ensure uniform testing standards, provide recommendations, final opinions and proper quality controls, has been initiated. However, its execution has thus far failed and to this date this body is not operational.

Harmonisation with EU standards is a must for future business and certifications issued by the EU should be validated by the Serbian government.

The government should focus on the additional education and development of its staff, including modernised techniques and trends, while insisting on the modernisation of laboratories in terms of equipment and methods use. ■

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# Transparent Market Competition

*Limiting unfair competition in public tenders for property, vehicles and employees kind of insurance of state assets and public enterprises, will contribute to equitable allocation of insurance premiums on more market participants*

**A**s for the insurance market, several problems appear as a limiting factor for market growth and equitable development of competition among insurers.

► **What are Leasing & Insurance Committee general proposals for improvement in Serbia's insurance sector?**

- The development of life insurance, would encourage more frequent information of the population by the insurance industry. Also, liberalization of labour laws in the area of part-time work, encourage the development of internal and external sales network, which would lead to an increase in the number of sellers of life in-

surance as well as the reduction of fixed costs of salaries sales persons who are already employed outside of the insurance companies should be allowed to be outside normal working hours to contribute to selling life and non-life insurance, which is already the case

The development of life insurance, would encourage more frequent information of the population by the insurance industry

in European countries. This does not jeopardize the employment of such persons as are already in employment, and in this way allows the real growth market, and state benefits.

In non-life insurance, limiting unfair

competition in public tenders for property, vehicles and employees kind of insurance of state assets and public enterprises, will contribute to equitable allocation of insurance premiums on more market participants, and optimal allocation of insurance premiums relating to public service.

Transparent market competition in the use of compulsory insurance of motor vehicles from liability to third parties (motor Third part liability insurance) in the part of the acquisition cost will discipline to ride legally defined commission in this type of insurance, which would encourage the development of new external sales channels as well as long-term financial stability of insurers, while, as to eliminate the hidden commission for technical inspection and registration agencies and related entities owning certain insurers registered only for the coordination of the technical inspection. ■

## Novi pneumatik MICHELIN *Pilot Alpin* SNAGA U POTPUNOJ BEZBEDNOSTI.



(1) U proseku, u odnosu na svog prethodnika. Kočenje od 90 do 0 km/h na mokrim putevima i od 50 do 0 km/h na snegom prekrivenim putevima. TÜV Süd 2012 testovi na 245/40 R 18 V pneumaticima.

(2) U proseku, u odnosu na svog prethodnika. TÜV Süd 2012 testovi na 245/40 R 18 V pneumaticima.

(3) U proseku, u odnosu na svog prethodnika (upravljivost na mokrim i snežnim putevima, bočno prijanjanje na mokrim, snežnim ili zaleđenim putevima). TÜV Süd 2012 testovi na 245/40 R 18 V pneumaticima.



# Predictability and Implementation Consistency

*Tax laws in Serbia have not changed significantly over the last few years and it remains to be seen what will be the policy of the new government*

**T**he defining of the market interest rate, deductibility of marketing expenses, bad debts provision and write off and VAT treatment of supplies without consideration are the most important issues for improvement of the current tax rules.

► **What are the FIC Taxation Committee's recommendations for this year?**

- As in previous years, we insist on predictability of the tax system and consistency in the implementation of tax rules. Our recommendations could be divided into three general areas. The first relates to the predictability of

our tax system. One of the major issues is the introduction of para-fiscal duties and charges that increase the tax burden and make our tax system less favourable, which is why we believe this practice must be abandoned. The second area relates to a lack of regulations. Namely, certain areas, such as the taxation of permanent establishment, transfer pricing, VAT registration of foreign companies etc., are still not regulated and this has a direct impact not only on companies, but also on state revenues. The third area relates to the interpretation of current tax rules by the Ministry of Finance and the Tax Authorities and improvements in this area. Namely, different tax offices, or even the Ministry of Finance

and the Tax Authorities, interpret tax rules in a different way. It is not uncommon for the Tax Authorities not to accept rulings issued by the Ministry of Finance, although the ruling system is the only mechanism available to taxpayers when they face certain unclear tax rules. With respect to the improvement of current tax rules, the most significant issues are: definition of market interest rate, deductibility of marketing expenses, bad debts provision and write off, VAT treatment of supplies without consideration etc.

## Different tax offices, or even the Ministry of Finance and the Tax Authorities, interpret tax rules in a different way

► **Looking at Serbia as a country with moderate taxation levels, what**

**are the key advantages for luring foreign investments?**

- Key advantages include the low corporate income tax rate and certain tax incentives for investors. However, over the past few years many countries decreased their tax rates and many of them introduced certain incentives. Also, when deciding whether to invest in a given country, investors consider the overall quality of the business environment. Therefore, we believe that all of the aforementioned will not be recognised as an advantage without improvements to the predictability of our tax system, consistency in the implementation of tax rules and reducing bureaucracy. ■



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# Priority: Labour Law



## *The new Labour Law requires urgent amendments*

**M**ilena Jakšić Papac insists that the existing Labour Law needs to be modernised in terms of introducing flexible forms of working engagements.

► **What improvements to labour related regulations would the FIC HR Committee**

**recommend to the new government?**

- One of the main goals of the new government in the field of legislative reform should be adoption of a new Labour Law, which would improve the attractiveness of the Serbian business environment for foreign investments. The existing law requires urgent amendments in numerous aspects, whereby certain topics need to be regulated in a more detailed manner. Additionally, the law needs to be modernised in terms of introducing flexible forms of working engagements, such

The improvement of Serbia's labour framework also requires amendments to some other labour-related regulations

as staff leasing, which is already widely applied in practice. The FIC carried out comprehensive analysis of this law and formulated proposals for its improvement in the White Book. The improvement of Serbia's labour framework also requires amendments to some other labour related regulations, such as the Law on the Protection of Citizens of the Federal Republic of Yugoslavia Working Abroad, the Law on Foreigners, the Law on Vocational Rehabilitation and the Employment of Persons with Disabilities, etc.

► **What is the HR Committee's stance regarding industry-wide collective agreements?**

- In general, the HR Committee is not against social dialogue, but it does have serious objections to the extension of industry-wide collective agreements to employers who are not members of the Association of Employers, which participates in their conclusion. Besides objections regarding the content of these collective agreements, the standpoint of the HR Committee is that extended application increases legal uncertainty on the Serbian market (as an agreement between two parties is extended to a third party which did not participate in reaching it); collective agreements obtain

the legal status of a law, without undergoing the regular parliamentary procedure; the decision to extend an application is of a political nature and it is questionable whether the legal requirements for its adoption have been

met. For all these reasons, the extended application of industry-wide collective agreements should be nullified and the relevant provisions of the law regulating the extended applicability of collective agreements should be amended. ■



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- Health protection of pregnant women and delivery



# Efficient Legislation with Practical Value

*In order to be able to enact good laws, the legislators should listen to the stakeholders and understand the environment*

The FIC Legal Committee has articulated a need for specific changes to the legislative system of Serbia for years.

► **What are the FIC Legal Committee's general proposals with regard to the current state of Serbia's legislative system?**

- We have provided a number of requests, all of which were supported by specific proposals. Apart from specific laws and regulations, on several occasions we have pointed out the need to change the legislation enactment procedure itself, in a way that would provide an opportunity for all stakeholders to actively participate in the procedure of enacting new laws in order to create more efficient legislation with a practical value for everybody.

The worst possible scenario

The worst possible scenario would be to enact a number of new laws that would be very difficult to implement in practice

would be to enact a number of new laws that would be very difficult to implement in practice. The possibility to debate specific drafts of proposed laws should be used as much as possible, because these laws are enacted with the purpose of creating a better legal environment. In order to be able to enact good laws, legislators should listen to the stakeholders and understand the environment.

► **Serbia gained EU Membership Candidate status in March. What can we expect in the process of adopting various regulations set by the EU as part of Serbia's pre-accession process?**

- As we all know, we have a new government that was confirmed just a few weeks ago. The former government enacted a number

of new laws during its mandate, some of which were enacted in a great rush and without obvious reasons. We hope that the new government will continue our journey towards the EU, but we also hope that it will use the positive experiences of the past and make the process of adopting various regulations set by the EU smoother, while having the sense to listen to all stakeholders in that complicated process.

Additionally, a lot of effort should be exerted to adopt good bylaws that will support a number of the new laws recently enacted. A lack of quality bylaws that should follow the enactment of major laws has already been identified as one of the serious problems that could lead to continued uncertainty in some legal areas. ■

# Long Term Strategy Needed

*Given that the telecom sector contributed nearly 6 per cent to Serbia's GDP in 2011, the FIC Telecommunications & IT Committee expects further sector development to be incentivised by the Serbian government*



Telecommunications & IT are key sectors for the development of Serbia as an investment destination and the development of skilled workers in Serbia, while the FIC's view of efforts to advance these fields is of crucial importance.

► **What are the recommendations of the FIC Telecommunications & IT Committee when it comes to improving the framework governing this sector in Serbia?**

- As a first step for the new government,

we would recommend the creation of an Action Plan for the Strategy of Development of Electronic Communications until 2020. That would bring stability and predictability to the telecom industry. Secondly, any kind of para-fiscal duties imposed

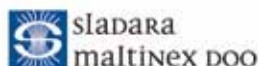
indirectly on the telecom sector, such as the one introduced by the Law on Cinematography, should be abolished. Further competition in the area of fixed telephony should be enabled by the timely and user friendly introduction of fixed number portability as of 1st December 2012. We would recommend the government speed up adoption of the Frequency Allocation Plan, based on technology neutrality. Finally, public consultations and active sector involvement in important legislative decisions are a prerequisite for the creation of a predictable and stable business environment that would subsequently bring more investment to Serbia.

► **How can the problems faced on a daily basis by foreign investors in the ICT sector be overcome?**

- Our problems could be solved with the support of the Serbian government and the regulatory body. Swift adoption of the Frequency Allocation Plan based on technology neutrality should be



We would recommend the government speed up adoption of the Frequency Allocation Plan, based on technology neutrality



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a priority of the new government. The development of new innovative telecommunication services (i.e. mobile financial services), in line with global trends, are crucial for Serbia to catch up with the rest of Europe. This requires the involvement of different state institutions, which need to understand the nature of these services and trends. Cooperation and coordination of the National bank of Serbia, the Ministry of Finance and the ministry responsible for the ICT sector would be crucial. Also, attempts to introduce to Serbia the latest regulatory trends from the EU without providing enough time to develop an institutional framework and the market itself could be dangerous. Therefore, the gradual introduction of EU telecom legislation, supported by the right market and institutional developments, is extremely important for the healthy development of the sector. ■

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# Fair and Transparent Sales

*Auction -SEE is offering three major advantages: legal security of offered properties for sale, as well as accurate and applicable market values*

**A**uction-SEE is bringing a brand new business to the Serbian market, relying on the standard procedures of the British Association of Valuers Auctioneers and the support of Harrison's Solicitors, KPMG and Jones Lang La Salle. The first auction will be led by Guy Charrison, President of the British Association of Valuers and Auctioneers.

► **Real estate auctions, as they function in the world, are a brand new business in Serbia and the region. What are the advantages of this way of selling?**

- Given the completely new market facility that will be provided by Auction-SEE, asset auctions and the transaction management of properties within the Serbian real estate market present a fast, accurate, legally secure and substantially shortened way for end-buyers and strategic partners of our business. On the other hand, due to a highly increased offer of distressed properties, our operations have a pioneering role in the risk mitigation of the selling procedure and offer vast financial relief to current owners, who at this moment predominantly hail from the commercial banking sector, along with a slightly lower portion from the investment and development sector, creating overall healthy and transparent transaction activity.

**Auction-SEE will also inform our international network of partners who are interested in the purchasing process in a timely manner, which will lead to generating much stronger interest of their direct investments through the transaction process**

Finally, our procedures and auction based property sales will bring a breath of fresh air to a transaction market in Serbia that has been almost inactive during the recent period, whereas the complete structure of our operations includes benefits for the entire real estate market during the period of recession that we are going through.

► **What does Auction-SEE offer sellers and buyers compared to that which they already have on the Serbian real estate market?**

- Our selling procedure operations offer three major advantages: legal security of the properties offered for sale, accurate and applicable market values of subject assets, enabling a wider buyer pool to be in position to acquire new housing, office, retail and what we will be focused on in the future – distressed projects. As a final advantage, I would like to point out that Auction-SEE, with its vast international coverage, brings heavily needed capital influx within the market, whereas our clients will be in a position to sort out bad debts and restructure their current balance sheets. Last, but not least, our operations, along with our venture partners, will enable many of our citizens to have simplified and much more affordable solutions when it comes to buying residential properties and in the SME sector.

► **We are witnessing a large number of NPLs in banks and,**

**on the other side, the illiquidity in the market. What are the benefits for banks using auctions as a vehicle to partially collect on NPLs?**

- The clearance of distressed debt, capital improvements and a fresh start with clear financial balances. Acquired profit from auction sales will represent highly welcome new capital increases for fresh lending to more secured projects and, certainly, revitalisation of the real estate market that will benefit from the improved image of a fast and risk-free transaction market. It is important to re-iterate that our procedure will lower the marketing costs of property owners, considering the fact that Auction-SEE has complete know-how, a network and sources of promotion that will be offered within the package arrangement with sellers. We don't want them to spend additional money on expensive ads; our mission is to generate profit for both sides and ensures the purchaser's satisfaction with a completely simplified acquisition procedure under conditions that will be much more affordable than at present on the transaction market.

► **What is the core mission of Auction-SEE, given that such activities have not yet been developed in Serbia?**

- Every start-up certainly brings new challenges and idiosyncrasies for business vehicles that haven't so far been present on the



market, but we see that as our advantage. Auction-SEE has been formed by the most prominent auditing, legal, marketing and international property experts, therefore our core mission is to develop the market from zero level to a clearly transparent one, in which our educational mission is also highly important. We are aware that not all potential clients will immediately accept the procedures, mission and operational guidelines of Auction-SEE, but with our operations having such vast coverage it is inevitable that the results of our hard work and dedication to the highest professional standards will, over time, persuade all relevant financial and investment institutions to establish close cooperation with Auction-SEE's operations, which will initially start in Serbia and, in accordance with our business philosophy, spread to cover the whole of South East Europe. The company will offer only a premium service and, as such, our international partners and local and regional staff are already well known as highly reputable experts, each in their own field of expertise, therefore we don't expect anything other than clear success.

## **auction•see**

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► **In a few words, how will the auction strategy look and when do you expect the first auction?**

- The auctioneer will be presented through the supporters of our company and this process will include regional business partners who are clear leaders in their existing businesses. We are proud of the fact that from day one Auction-SEE will bear the same flag and target as Harrison's Solicitors and KPMG, to mention but a few. There are clear procedures for gathering marketable assets that we will follow, provided by the British Association of Valuers and Auctioneers, and they form several circles, each by property sector, where our buyers will be supplied with all relevant materials in order to assess their core interest during the purchasing process at auction. This will be the local pool of clients. However our company will also

inform our international network of partners who are interested in the purchasing process in a timely manner, which will lead to generating much stronger interest of their direct investments through the transaction process, completely fair market values and increased awareness of the portfolio to be offered.

As far as the first auction is concerned, we stand for a qualitative offer – not just to gather the bulk of distressed assets and offer them within our business network. A clear action plan, targets and mission statement are our principal guidelines that we at Auction-SEE will follow in order to select, assess, analyse and make an initial auction portfolio that is as attractive as possible to all interested parties. Our aim is to start with sales during Q4 2012 and certainly not later than Q1 2013. As such, these are very thrilling times for us and the complete Auction-SEE team is convinced that, with our proactive approach, clear marketing and sales strategy, our company will start generating business flows as soon as possible. We are certain that, once applied, this transaction approach will vastly change the property market as we presently know it. ■

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# Competitors Unite

*The FIC's members come from various sectors and include companies from related and competing industries and companies competing in the same sectors who set aside their daily differences in order to unite to tackle issues that concern all of them*



**H**ere we speak to FIC Executive Director Ana Firtel about the FIC's work and structure, as well as its expectations of the newly formed Serbian government.

► **Foreign investors established the FIC with the aim of actively promoting a sound business environment and an open dialogue with the government and stakeholders. Could you tell us about the FIC's most important projects and activities over the last decade?**

- By far, publishing of the annual White Book edition has been the most important activity of the FIC over the past ten years. This publication builds on the experiences of member companies to portray the current business climate and give very tangible proposals on how to improve it to the benefit of all. When I say "all" this means foreign companies that are FIC members and those that are not, domestic companies, social actors, government, the overall needs of the society. Thus we confirm that the FIC is a kind of CSR project, where member companies share their knowledge and jointly promote solid business climate. Let me remind that the FIC was the organizer of

## Law implementation

**One of the main challenges and a main focus for us, previously, currently and as we head into the future, is the law implementation.**

the first CSR conference in Serbia, back in 2005...

Although the most important, the White Book is essentially a tool for transparent dialogue with the government and other stakeholders, which the FIC continuously organizes through meetings, discussions, presentations, expert level roundtables, etc. As of 2010, the FIC organizes the Reality Check Conference as a high level event where members and government officials track the record of reforms and realization of White Book recommendations.

In all its activities, the FIC continuously advocates for increased predictability and consistency and all our recommendations are targeted in this direction. This also means that we strive to be as consistent a partner as we can in promoting those values.

► **And these recommendations are compiled by companies that are essentially competitors?**

The key value of the association is its multi-sectoral nature and that it brings together both industrial sectors that are competitive and then competitor companies within those sectors

- Yes, exactly. The key value of the association is its multi-sectoral nature and that it brings together both industrial sectors that are competitive and then competitor companies within those sectors. And they all come together in order to identify the common denominators that they all share vis-à-vis the business environment in which they operate. And they do understand that our strength comes precisely from the fact that we only promote what the 130 members of the FIC see as relevant and important.

► **By taking an active role in the transition process the FIC contributes to improving the investment climate in Serbia by engaging in dialogue with stakeholders and voicing the position of investors. In this jubilee year for the FIC, what are the association's main activities and key achievements?**

- The beginning of this year was marked by elections and, as FIC's main interlocutor is the government, the working plan was adapted to this reality. In the first half of the year we focused a lot on building our internal strengths, as we re-organized the structure of FIC committees and launched new internal commu-

nication project to re-enforce dialogue with members.

With regards to FIC regulatory agenda, we conducted members' survey to re-assess the current set of regulatory priorities. We understood that the main issues concerning our members remain the same – the overall legal framework, labour regulations, and the tax system in Serbia, while the border management and work of inspections are also recognized as a high priority.

In advocacy, we concentrated on one of the key, newly enforced legislative product: the Company Law. In May this year, we organised a roundtable to raise awareness of specific grey areas and seek their clarification from all relevant

► **The FIC plays a very important role in the process of driving both reform and economic development. What has been done over the recent past in this regard and what have been the greatest challenges confronting the FIC's mission?**

- If you look at the way Serbian society and the country's economy were operating back in 2002, when the association was established, and the way it is operating now – specifically in terms of the regulatory environment – a lot has been achieved. If you were to assess the regulatory framework today you would see that almost 80% of Serbian regulations are now harmonised with the EU acquis. I think that sends a

The FIC has been very consistent in terms of its expectations of the government and that is to create predictable and stable business climate

state institutions. As FIC gathers companies with strong corporate governance, our members have a high interest in understanding the legislator and fully understanding what their obligations and rights are, in order to act accordingly.

Going forward, we'll have a very important activity marking the tenth anniversary of the establishing of the FIC, which will be organised to coincide with the launch of the 10<sup>th</sup> FIC White Book. Currently, we are focusing our efforts on preparation of the 2012 White Book and edition and organization of this significant event. Nearing the year end, FIC will organize a regular meeting of its Assembly to discuss prior achievements and agree on future goals and activities.

really strong message.

On the other hand, one of the main challenges and a main focus for us, previously, currently and as we head into the future, is the law implementation. Serbia has adopted more than 800 business –related laws in the past four years. Not even the more organised and modernised countries in the world have the capacity to adopt and really implement that many laws in practice.

Role that FIC has undertaken is to be a reliable partner in reforms processes. FIC worked to position itself as a constructive critic, the one that recognized overall needs of the society and proposed doable solutions to overcome identified obstacles. Since its establishment, FIC has surely ►

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► been one of the key stakeholders which the authorities relied on for productive consultations. At the same time, our constant growth suggests that the foreign investors' community validated FIC's role.

I would also add that, by nature, transition reforms represent a complex long-term process. The challenge for FIC and other "advocacy players" lays in careful monitoring of vast regulatory playfield and at the same time maintaining the focus on the most important priorities. Overcoming reform fatigue is also a challenge for all those involved in the process. As a grassroots organisation, we rely on our members to keep us up to speed and keep us in line in terms of reacting to the highest priorities.

► **Aside from the government and your members, who else does the FIC cooperate with?**

- We very much understand the importance of communicating with the broader stakeholder community and all the actors that have influence on changes in regulatory setting. FIC places great emphasis on dialogue with international organisations like the IMF, World Bank, OECD, etc, development agencies like GIZ, USAID etc. and diplomatic core. As a supporter of economic integration of Serbia into EU, FIC keeps close communication with Delegation of European Union. We interact with all these stakeholders regularly as we try to ensure that they take the views of our members on board in formulation of their platforms. Also, we cooperate with colleagues from other business associations, like the American Chamber of Commerce, Serbian Chamber of Commerce, NALED, the Serbian Association of Managers and different sectoral and national associations as well. We try to coordinate our work and even join efforts in pursue of a shared goal to improve business environment in Serbia.

► **The FIC operates through relevant sector-based and cross-functional committees. Have there been any changes regarding the organisational structure?**

- Yes, but before I mention the organisational structure I would say that there have been a lot of changes in general. Five years ago the FIC had three standing committees, while today it has seven. Moreover, the number of activities car-



**In terms of organisational structure, we have recently made certain adaptations in order to correspond to the changing needs of our members**

ried out within these committees has grown massively. We are very proud of this, because we see it as a sign that our members are willing to invest in this platform and engage their representatives in specific committees to promote their particular experiences and views.

In terms of organisational structure, we have recently made certain adaptations in order to correspond to the changing needs of our members. So, in December last year we changed our statute and introduced two models for membership in FIC committees: active and observer. Thus, we recognised the different needs of those com-

panies wanting to be actively involved in a given committee and those wanting to receive regulatory update and information on a committee's work...

► **What are your expectations of the new government and what should be tackled during the first year of its mandate?**

- The FIC has been very consistent in terms of its expectations of the government and that is to create predictable and stabile business climate. This was our expectation when the FIC was founded and it continues to be our expectation now. However, of course, in changing times and settings this can mean different things.

What we really expect of the government today is, firstly, to ensure it has the strong political capacity to conduct reforms and make sure that structural reforms are now re-launched. We don't believe in fairytales and expect this to be done within a year, but we do expect an action plan to be put in place and set in motion.

When it comes to macro topics, I would say that reaffirming and reinforcing macroeconomic stability is important. We believe that both the National Bank of Serbia and the government need to work together to create a joint macroeconomic strategy, to address burning issues, to basically set short-term, mid-term and long-term goals and then to act upon them in a coherent and coordinated manner.

On the micro level, we expect more predictability. As such, we would really encourage the new government to better plan the process of adopting new laws, by-laws and decrees... When putting in place new legislative solutions, we would urge the new government to discuss this – not only with the FIC, but with all relevant stakeholders – and assess the impact specific legislation could have before taking action. ■



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# Keep Improving Communication

*Coordinating communication between 130 member companies, the media, various government and non government institutions and other organizations is no mean feat, but FIC Communication Officer Milica Đorđević believes improvements have been made despite growing membership and growing external interest in the FIC's activities*

“**T**he FIC has grown since it was first formed as an association of 14 companies back in 2002 and we now have 130 members. As such, the internal database obviously grew a lot and we now have around 1,500 contacts within our internal database alone, with almost 2,000 contact in our external database. I think these numbers actually speak for themselves,” said Milica Đorđević.

► **You are responsible for the coordination and implementation of the FIC's internal and external communications strategy. What are the main challenges you've faced in terms of internal communication, coordination and circular correspondence with FIC members?**

- The position of Communication Officer was established in 2008, with the clear idea of improving the communication process and thereby gaining a transparent process that would ensure all our member companies are treated equally by us. I realised instantly the need to create communications templates for different situations – in terms of the essence of messages and the format. This is because we witnessed that, for

The position of Communication Officer was established in 2008, with the clear idea of improving the communication process and thereby gaining a transparent process that would ensure all our member companies are treated equally by us

example, when we send invitations to committee meetings, then members immediately realised that it is an invitation to attend a meeting, while if we invite them to attend a presentation or send them minutes there is always a bespoke template that ensures transparent process. The fact that our committees include competitors, means that we have to ensure they all receive the minutes from meetings at the exact same time. If we failed to do this we could be accused of favouring one member over another. I think this has proved quite successful, not only in terms of coordinating communication, but also establishing procedures for different cases.

In terms of external communication, we had a real challenge in finding a reliable partner to provide us with support in PR communication and the formation of media plans – both annual plans and separate publicity plans for our big events. To this end we organised a pitch to choose a PR agency, but that also proved a challenge because we are financed purely through membership fees and our budget is limited. We couldn't just identify and pay the best PR agency. Rather we had to find a partner who would become our member company and support us in the principle of in-

kind contributions. That was pretty challenging, but in the end we managed to find a great partner.

► **External communication includes coordinating specific activities of the association, follow-up and participation in the planning and implementing of FIC actions. Could you describe your main duties in this domain?**

- As we've grown as an association, I have to say that our power and influence has also grown and a lot of stakeholders started establishing daily contact with us, wanting us to support and sometimes even promote their activities, but we do not provide B2B services – neither to our members nor the external community.

I have a lot of duties with regard to both internal and external communication. For example, when a stakeholder initiates communication with us I am the focal point when it comes to considering the request, giving a concrete recommendation – even if non-active participation is requested – and then further pursuing those activities. As such, I would say that the area of external communication has increased a lot over the years and become more demanding.

► **Media relations are very im-**

portant when it comes to realising publicity plans. What is your experience of nurturing these relations and what are the specifics when it comes to the FIC?

- I would say that nurturing media relations is a job in itself, but with an awareness of our limited capacities in that regard we found great support in our PR agency.

There are a lot of media requests that come to us directly and it is my duty to check out the request, make a recommendation, consult with the board of directors and propose whether or not we should accept the request. In that sense, I would say that I have developed good relations with some media companies that are relevant to our work and, compared to previous years, we now have a greater presence in more relevant media.

► **I presume you're asked for quotes on new laws and similar happenings?**

- Yes, all the time, but we do not comment on daily politics and we do not go public just for the sake of it. A lot of our activities are carried out without media, because our job is specific and if we want to develop open communication between our members and mid-level government officials, experience tells us that it is better to organise presentations without a media presence, as it is easier to generate



an open discussion and gain clear answers when there are no journalists around.

► **You are constantly working to improve the extent and quality of publicity for the FIC. Tell us about what tools you use and whether there is a specific way of communicating?**

- Bearing in mind that our members come to the FIC and contribute a lot to our platform on a voluntary basis, despite being very busy in their own jobs, we started receiving indications that our communications are sometimes too long and sometimes lack clarity and focus. In response, we implemented a change by shortening messages and using more business words. The effects of this change are yet to be seen, but our door is always open to listening what our members say.

► **What are the key novelties in term of communication this year?**

- Our changes have streamlined com-

We do not comment on daily politics and we do not go public just for the sake of it

munication to an extent, but another innovation will help us assess our own work. At the beginning of this year we started a new project in order to give a chance to our members to evaluate our work and propose improvements. We also wanted to use the opportunity to inform them about current activities and maybe motivate them to be more involved in FIC. So, we launched a project to visit member companies throughout the course of the year and talk to them in a structured way, through a one-hour interview, before then analysing the data qualitatively. We believe that by next year this will have provided us with a very solid basis for development.

► **Are you planning any specific activities for the association during the remainder of 2012?**

- Apart from the launch of this year's White Book and associated celebration of the FIC's tenth anniversary, we also have the annual assembly which brings together all member companies to decide on strategic issues and adopt the annual report.

Of course, we are also specific because we only make a rough annual plan and then monitor developments in the economic sphere and inquire as to the interests of our members on the other side, before correlating and comparing in order to decide which activities to pursue. ■

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# Creating Dynamic Networks

*Together with Committees' chairmen, our goal is to create a dynamic network for our members by focusing on topics for discussion and activities*

**W**orking Committees have one of the key roles in FIC functioning, considering that their main goal is improvement of the overall regulatory framework or of a specific industry.

► **You are responsible for the general organisation of the FIC's committees and meetings, in accordance with internal regulations and legal requirements. Could you describe your day-to-day operations?**

- FIC operates through 7 working committees, some of them are related to the common issues of different industries (Legal, Human Resources and Taxation Committee) and some are related to specific industries (Food & Agriculture, Leasing & Insurance, Real-Estate and Telecommunications & IT Committee).

Working committees gather experts, employees from our member companies who work jointly on formulation of the FIC positions. Through open discussion, members share experiences from their daily business operations in order to identify obstacles in doing business and to formulate proposals and rec-

ommendations for their overcoming. Their joint work, and let us not forget, our members are often competitors on the market, achieved common positions on the concrete topics, represent the greatest strength of our association.

Together with Committees' chairmen, our goal is to create a dynamic network for our members by focusing on topics for discussion and activities which could lead to the improvement of the business environment and which are relevant to most of our members. Members' needs are our main priority and therefore my role as FIC Regulatory Officer is to have direct communication with members, to collect and share information on the issues which could be considered by the relevant Committee, to ensure organization of the committees' meetings and to coordinate specific advocacy activity.

► **Another important factor is the member awareness func-**

**tion, including sharing information about ongoing advocacy activities and collecting information on the issues to be considered by committees. Could you reveal to us which rules you are applying in your daily communication with the FIC's members?**

- As I mentioned, FIC represents and promotes common interests and positions of its membership, more than 130 members from various industries. In order to ensure that FIC's positions, which serve as basis for discussion with the Government, truly represent the opinions of its membership, transparent and consistent communication with members, clear rules of functioning and strict procedures are of the utmost importance. Members need to be familiar with ongoing projects, rules in decision making and what will be the future steps in executing these activities and projects. The role of FIC Executive Office, and mine as Regulatory Officer, is to ensure that all pre-defined FIC mechanisms function efficiently in the way that members' needs are met, that rules of FIC prescribed

The role of FIC Executive Office and Regulatory Officer is to ensure that all pre-defined FIC mechanisms function efficiently



in our statutory documents are applied in a consistent and transparent manner.

► **One of your duties is to perform a public policy function, including screening government law-making activities and preparing background documents for a dialogue with the government. What do you expect from the new parliament and what has to be done to continue this process?**

- During the previous period, FIC has been dedicated in achieving open communication between the Government and foreign investors. We are recognized as a significant stakeholder, as one of the partners to the Government in achieving a successful and sustainable business environment in Serbia. Our contribution to this goal has been and will be not only through the identification of obstacles in doing business, but also through concrete recommendations on how to overcome these obstacles.

It is important to mention that improvement has been made in the Serbian market, especially bearing in mind that Serbia was granted the status of an EU candidate country, but there is still a lot of room for improvement. Law implementation, bureaucracy and sudden unannounced regulatory changes, remain challenges for the new Government as well as investors. Moreover, involving business and civil sector in the legislative process, organization of timely consultations with interested groups and through public discussions is very important for the efficient regulatory framework, for the proper implementation and positive impact of new regulation.

► **Over the years, FIC has maintained an active role in introducing European standards to**

**all aspects of the legal framework. What are FIC's current general and sector-specific recommendations to maintain the course and keep engaged in the shaping of contemporary legislative and regulatory solutions?**

- Transparency, predictability, consistency of the business conditions and a level playing field for all participants in the market are the main factors for a favourable business environment overall, but also for specific industries.



**The main messages of this year's White Book will remain transparency, predictability and consistency**

As part of the EU integration process, we have witnessed the adoption of numerous laws during the previous period and progress certainly has been made, however, due to the lack of capacity within the Serbian administration, law implementation has been one of the biggest challenges. For example, even though the food and agricultural sector is one of Serbia's biggest market potentials, the functioning of the National Reference Laboratory has not been secured,

although its authority was clearly prescribed by the Food Safety Law and is of great importance in food safety control, need for level playing field in the market and consumer protection.

With an aim to expand the current investments and to attract new ones, the competitiveness of the Serbian market needs to be increased. In order to facilitate market expansion in the real estate sector, reducing all construction start-up costs and simplifying the process of issuing permits should be considered.

► **You are also engaged in the process of coordinating the compiling of editions of the White Book. How will it differ compared to last year's edition?**

- The White Book as a key publication of FIC will continue to cover all important segments of regulatory framework in doing business, from overall legal framework to specific sectoral topics. The main messages of this year's edition will remain transparency, predictability and consistency, so in that sense it will not differ much compared to last year's edition. Surely, some new topics will be included, identified as crucial during the previous year, and some will be highlighted, such as inspections, bearing in mind their significance.

Keeping in mind the previous election period which influenced that significant structural improvements in the business environment have not been made and considering that the new edition of the White Book will be published during the first quarter of the new Government's functioning, I would like to underline that high energy of our members invested in this year's publication and great expectations illustrate the WB 2012. ■

# Advices for a Brighter Business Future



**Costin Borc,**  
*FIC President, Lafarge  
Serbia CEO*

"If the energy of the new government is directed towards required reform, there's no reason why 2013 can't be a very positive year."



**Gabor Bekefi, FIC**  
*Vice President, Patron of the  
FIC Legal Committee, CEO of  
Carlsberg SEE*

"The way we judge how conditions change at the FIC is whether or not those conditions benefit the predictability of business. From that perspective, we do think that the previous government could have done more..."



**Goran Pitić, FIC Vice**  
*President, President of the  
BoD of Societe Generale  
Bank Serbia*

"I would say that Serbia is facing big challenges when it comes to shaping the country as a modern society, defining the role of the state, handling public debt and the potential for future indebtedness versus productivity gains."



**Srđan Lazović,**  
*FIC Board Member, Patron  
of the FIC Taxation Com-  
mittee, Head of Corporate  
and Regulatory Affairs, Legal and Security  
Serbia & Montenegro at British American  
Tobacco SEE d.o.o.*

"One of the key problems in Serbia is the unpredictable way in which para-fiscal duties are introduced and immediately applied."



**David Vander Schueren,**  
*FIC Board Member, Patron  
of the FIC Telecommunica-  
tions & IT Committee, COO  
of Delhaize Serbia*

"In addition to making the environment investment friendly, the government has to work on the stability, transparency and predictability of the business climate."



**Antonio Cesare Ferrara,**  
*FIC Board Member, Patron  
of the FIC Leasing & Insur-  
ance Committee and CEO of*

*Fiat automobili Srbija*

"Serbia is making a promise in attracting investors. Should it not be in a position to fulfil this promise, it would reflect poorly on this country's rating and the perception of reliability."



**Georg Grassl, FIC Board**  
*Member, Patron of the FIC  
Real-Estate Committee, CEO  
of Henkel Serbia*

"Legislation and requirements related to business no longer differ greatly from those prescribed in the EU. I am very glad that Serbia is on the right track and hope that it will become a part of the common market in the future."



**Michalis Orfanoudakis,**  
*FIC Board Member, Patron  
of the FIC Food & Agricul-  
ture Committee and Com-  
mercial Director of PepsiCo Western Balkans*

"Serbia competes for investors with other markets in the region and the only way to retain and attract investors is Serbia to provide better opportunities than elsewhere."



**Kjell-Morten Johnsen, FIC**  
*Board Member, Patron of  
the FIC HR Committee, CEO  
of Telenor Serbia*

"The FIC has been recognised as a strong, constructive and renowned institution offering constructive solutions when it comes to improvements to the overall business climate."



**Vera Nikolić Dimić, FIC**  
*Telecommunications & IT  
Committee President, VIP  
Mobile*

"The state administration needs to develop reforms based on implementation of the E-Government Development Strategy in Serbia, which should be fully implemented by the end of 2013."



**Dejan Ječmenica, FIC HR**  
*Committee President, Wien-  
er Stadtische osiguranje a.d.  
Beograd*

"Although demand on the labour market has decreased, the retention of key personnel is in the focus of HR professionals more than ever, as this is vital for surviving the crisis."



**Vlastimir Vuković, FIC**  
*Leasing & Insurance Com-  
mittee President, Intesa Leasing*

"Changes to the tax regulations are necessary in order to reduce the burden on the leasing sector and provide it with a growth incentive."



**Milica Stefanović, FIC Food**  
*& Agriculture Committee  
President, Coca-Cola Com-  
pany-Barlan S&M d.o.o.*

"All governments have declared their dedication to agriculture as one of their priorities. Unfortunately, a strong dedication to maintaining agriculture high on the agenda did not follow these declarations."



**Andrew Peirson, FIC Real-Es-  
tate Committee President, Jones  
Lang LaSalle d.o.o. Beograd**

"The FIC Real Estate Committee desperately needs increased consultation with the government in order to simplify procedures and avoid the high costs that could potentially be incurred."



**Milica Subotić, FIC Legal**  
*Committee President, Janko-  
vic, Popovic & Mitic o.d.*

"Conducted reforms have to be redone, considering the Constitutional Court decision calling for a review of the recent election of judges."



**Ivan Rakić, FIC Taxation**  
*Committee President, Ernst  
& Young Beograd d.o.o.*

"Even the best legislative framework would have limited effects on increasing state revenue if it is not consistently applied and interpreted by the government."



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