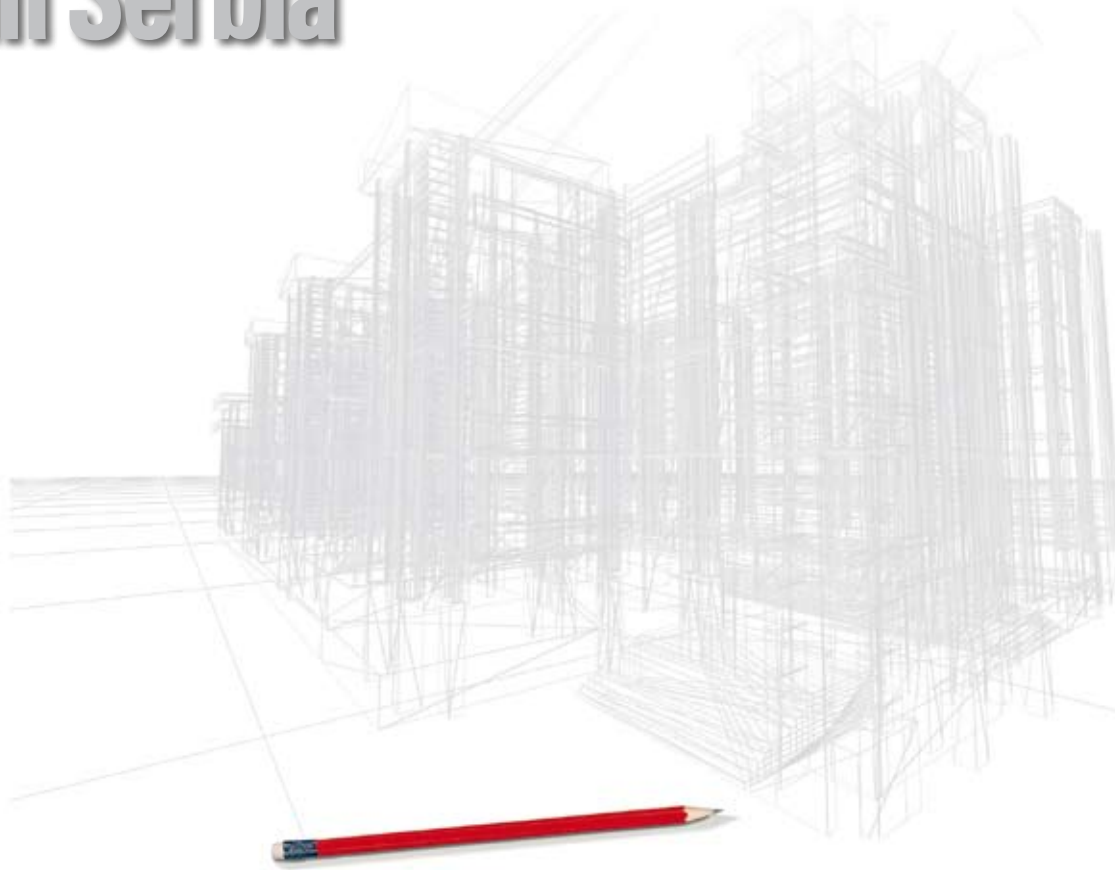


**GUIDE**

# Foreign Investors Council in Serbia



Opinions and advice from the  
foreign business community



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# **Foreign Investors Council**

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through open, informal dialogue***



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between different willing stakeholders.”*

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# Guide to the Foreign Investors Council in Serbia 2010/11

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# Satisfied Investor Best Recommendation

**Tatjana Ostojić**, *Editorial Director*



The Foreign Investors Council has, since its foundation in 2002 and the publication of its first White Book in 2003, set new standards in communication between the public and private sectors. Many people feel that the White Book, which itself has become an institution, has for the first time stated substantiated criticism in regards to the dealings of the public sector. More importantly, the first White Book, and subsequent issues, have not stopped at just criticism, but also come out with clear propositions for improvements and changes, so that the investment climate and business conditions in Serbia can be improved. The recommendations of the President, members of the Board of Directors and FIC members extend from the economic to the political sphere; from the reduction of bureaucracy and corruption, the improvement of infrastructure, adoption of and the application of adopted laws, to the necessity of political stability in the country. According to FIC President, Kjell-Morten Johnsen, the most important message of the White Book 2010 will relate to the necessity of predictability of business conditions. At this moment, the FIC members deem that, in ad-

**According to FIC President, Kjell-Morten Johnsen, the most important message of the White Book 2010 will relate to the necessity of predictability of business conditions**

dition to other relevant prerequisites for successful business dealings of foreign companies in Serbia, as well as for a faster development of the Serbian economy, it is particularly important to focus on fiscal taxes. In particular, ad hoc fiscal taxes and the general predictability of business are major factors when investors decide upon locations for their future investments.

Direct foreign investments are, without a doubt, the basis of the future economic development of

Serbia. The FIC feels that the Government has taken certain steps toward the improvement of the investment climate in the country, but that there is certainly room for further improvement. That is why FIC members insist on staying true to the execution of the 'guillotine of regulations', which started in 2009, but which has still not produced any adequate results. FIC members have actively participated in this project, estimating it as one of the key factors for the further promotion of the entire Serbian investment market.

Investments have dropped from \$12,690 billion in 2008 to \$7,565 billion in South-Eastern Europe, according to data from the UN Conference for Trade and Development (UNCTAD), while the drop of investments in the world went from \$1.72 trillion in 2008 to merely \$1.11 trillion in 2009. The same analysis shows that investments in Serbia totalled \$2.99 billion worth in 2008, and that they dropped to \$1.92 billion in 2009. These figures showing the global reduction in investments point to the necessity of Serbia increasing its competitiveness compared to other countries in the region, so that it will attract more investments. However, the reality of the World Economic Forum's report shows that Serbia, according to the Global Competitiveness Index, dropped from 85th to 93rd position this year. These factors equally affect the entire Serbian economy, and the FIC members, which are among the largest economic subjects of Serbia. It is for this reason the FIC is offering an open dialogue to state officials, so that through joint efforts and by using European and world standards, on whose basis the majority of FIC members have been doing business for decades, they will be able to achieve an improvement in the investment climate in Serbia. As many will be aware, a satisfied investor is the best promoter of any investment location. ■





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# Consistency is the Key



“The government needs to think two or three times about anything that increases public expenditure, and if it has to be increased to try to do it in areas where they are building value for the future”

► From the point of view of a foreign investor, how would you summarise the last 12 months in Serbia?

- Compared to when

we were having these same discussions last year, I would say the panic is over and we are more in a situation where people understand things are difficult, but there is no longer any hysteria. Many businesses have adjusted

their staff levels and cut costs and I sense there is a little bit of optimism creeping in again very slowly. This is also due to the fact the government is increasingly confident that growth will pick up this year and will be stronger over the next two years. However, one has to take into account that the process of economic recovery is slow and gradual and that substantial time is needed to influence the change of key parameters, such as employment. Overall, I would say we are in a better position now than we were 12 months ago, and the key is to not lose sight of the lessons learned during the tough times, so that we can build growth that is sustainable.

By Philomena O'BRIEN

President of the Foreign Investors Council of Serbia (FIC), a non-profit business association of foreign investors, Kjell-Morten Johnsen has strong ideas on where Serbia needs to be heading in terms of foreigner investor support. We talk with Johnsen about what has been achieved and where he thinks there is still work to be done.

**“If private-public partnerships are only devised to cover services that would normally be delivered by the public sector, then maybe we are on the wrong track”**



► **If the crisis has indeed reached its lowest point, what should the government now consider a priority in the coming period as far as consolidating the effects of the economic downturn?**

- The key factor is that Serbia did a fairly good job, I would say, in terms of handling the crisis itself. Now that we are seeing some signs of recovery, it is very important to keep the fiscal discipline in place, and to not start increasing the burden of the public sector. The government needs to maintain a long-term focus and progressively introduce measures to foster economic growth.

The first thing that has to be done is to reverse all, and I mean all, anti-crisis measures so that in the future businesses can trust that whenever the government has to introduce temporary measures, that they will remain temporary. This is important, because it builds confidence. In addition, the government needs to maintain fiscal discipline, which means no extensive hiring in the public sector and the careful adjustment of wages. Many businesses are not increasing salaries at all and are experiencing redundancies, so there needs to be discipline in the public sector also. It is crucial that the increase of public wages, recently agreed upon with the IMF, does not trigger an additional burst of public spending.

In line with that, the gov-

ernment needs to think two or three times about anything that increases public expenditure, and if it has to be increased to try to do it in areas where they are building value for the future – such as in infrastructure - but



not pure handouts and expenditure that does not create long-term impact.

When caught in a tight spot, one can become very creative, and I think the government saw a lot of creative initiatives especially on the tax front. Going forward I think it's important to get back to the principle of collecting taxes and distributing taxes while setting priorities, but not getting into earmarked or industry specific taxes.

► **What is your view of private-public partnerships in Serbia, and what needs to be imple-**

**mented in order to make these enterprises more successful?**

- In general the private-public partnership can be a very good model for project financing. It is able to cover needs that the public sector otherwise wouldn't find possible to cover, and it also utilises the ingenuity of companies in the private sector to do things in more practical and economic ways. However, in order for this partnership to function successfully there needs to be a framework in place which is consistent over central and local levels, and we need to make sure that the rules of the game are clear. If private-public partnerships are only devised to cover services that would normally be deliv-

ered by the public sector, then maybe we are on the wrong track. My understanding is that there have been very different approaches and various misunderstandings of how this partnership should work. The current legislation does not lay down general norms for PPP, leading to a situation where this model has not been sufficiently utilised. And in times of scarce financial resources, these types of schemes can really be beneficial.

► **Are you satisfied with the speed at which the regulatory guillotine is being implemented?**

- It would be difficult for me to be satisfied with it when the government is not satisfied. Yes there has been progress, and the Prime Minister to his credit reconfirmed at the Reality Check conference that he would like to see more speed on this project. ►

**“Getting the basics right for those who are in place now, is in my view a prerequisite for being successful with attracting new investors”**

## Active dialogue

When I stood for election for the FIC I said we wanted to have a more active dialogue with the government. We have gone some way toward this objective with the *Reality Check* conference, but more importantly there are more vibrant activities at the committee level, which are crucial to our type of organisation. When the Prime Minister confirms that the government is ready for a more active dialogue, this is a good sign, but I think we still have to double the speed and double the effort as there is so much left to do.

He was also very open about the complexity of making changes in administrative structures, as they often face strong resistance, particularly from specific interest groups. I respect this, as I do see that complexity. So I think the position of the Foreign Investors Council needs to be as a constructive partner, to push, to criticise, but also to have respect for the complexity that we face in some of these matters. I'm sure that a lot more could have been done on the part of the government so we will continue to be a vocal critic of the pace.

► **What actions of the Serbian government would you classify as good, and as not so good, in terms of the application of the Foreign Investors Council's recommendations from its 'White Book 2009'?**

- I have to admit that we have been very disturbed about the attempts of 'creative' tax collections. The first and foremost recommendation in the White Book editions is predictability of the business conditions, and the sudden introduction of new taxes and fees can definitely not be classified as an improvement.

As I have already mentioned, we would also like to see more progress on the regulatory guillotine, as we think this will help build a more prosperous market. Personally, I am frustrated by how difficult it is for many companies to make even basic commitments into their buildings and factories, and to get various permissions and licences. We need to make sure that the amount of red tape is reduced and that we cut down the complexity of dealing with government agencies and the increasing number of requests. This is especially important for small and medium sized companies, as they don't have the

resources to deal with these time-consuming and costly processes.

The reverse-side of my criticism is the need to give credit and acknowledge those areas where there has been progress. 2010 brought a new framework in the areas of competition pro-



**We need to make sure that the amount of red tape is reduced and that we cut down on the complexity of dealing with government agencies**

tection and intellectual property rights, which is largely harmonised with EU regulations. Also, significant changes have been made in the field of standardisation, bringing WTO standards into domestic regulations. In my view, parallel activities to integrate the market with the world trade network on one side, and to ensure protection of competition on the other, are crucial for an increase in the competitiveness of the Serbian economy. What, however, remains an issue is the implementation of those regulations and the need to strengthen the institutions in order to make full use of the modern laws.

Lastly, the government has responded on several occasions when we have brought up matters related to the introduction of new taxes, outside the White Book framework. The fact that

the government is receptive to the issues raised by foreign investors is a very positive signal, and demonstrates the flexibility to adapt its policies. There is a huge willingness on the part of the government to try and make things better. If indeed they could prioritise the topic of the business environment even higher on their agenda, this would be a good thing.

► **Are there any recommendations that the government has failed to apply despite the Council's suggestions?**

When we talk about the areas that did not show progress, it is important to convey that there is still a lot of work that needs to be done in order to make the harmonization with EU regulations reach

the final phase. I can give you one example. Although the FIC called for prompt adoption of the new Consumers Protection Law and compliance with relevant EU directives, the reality shows that in Serbia there have been no substantial changes in relation to the consumers' protection regulations so far. During the last year the Ministry of Trade and Services has drafted and then redrafted the text of the new law, thus postponing the adoption of the new legislation. The negative implications of this situation are twofold. Firstly, Serbian consumers are still not familiar with their rights and mechanisms for protection of their rights. On the other hand, all market participants face legal uncertainty, both residing in unclear regulations that are in force, as well as in unpredictable dynamics of fu-

ture regulatory changes. The predictability and certainty are important for both present and potential investors. That's why it is important to say that the FIC is ready, as ever, to be constructive partner to the Government and to continue preparing suggestions for improvement of the draft regulations, in order to maximise their positive impact on the ground.

► **Improving the situation in the area of labour laws was one of the recommendations given by the Council in its White Book 2009. Could you tell us what recommendations the FIC gave to the Serbian government in regards to advancing the business environment and attracting foreign investors, bearing in mind that FIC is continuing to point to the downsides of Serbian economy and support structural reforms?**

- We focused on concrete problems that, if resolved, could improve the efficiency of everyday business. We offered suggestions about determining salaries, salary compensation, employment, etc.

In terms of our formal objections, the FIC challenged the government's decision to extend the effect of the General Collective Agreement (GCA) to all employers in Serbia. This act changed the rights and obligations coming from the Labour Law outside the regular procedure and introduced instability and uncertainty. As I understand, many of the provisions are outdated and contradict contemporary business practices.

In the last White Book editions, we made an effort to balance our previous positions even more, in view of the global economic crisis, and to make

proposals that would relate both to the needs of companies and the needs of workers.

► **What is your view of the government's strategy on new investments and higher export levels that is going to be implemented between 2011 and 2020?**

- I understand why the government is keen to attract foreign direct investors and promote exports as it helps with trade and the current account. However it is important that this strategy goes beyond one-on-one negotiations with particular investors and gives systemic solutions that would appeal to investors at large. I see a tendency for people to be always keen to get the next foreign investor to come into the country and to some extent want to take credit for it, but I think it is at least as important to make sure the operating environment is good for the existing investors in Serbia



whether they are foreign or Serbian. Getting the basics right for those who are in place now, is in my view a prerequisite for being successful with attracting new investors. If it becomes a race to get the next new investor then that would not be a sustainable approach.

I think it is important that we who are in business organisations raise this matter because

**"I think the position of the Foreign Investors Council needs to be as a constructive partner, to push, to criticise, but also to have respect for the complexity that we face in some of these matters"**

the government needs to make decisions for the long term, not only for the short term. If you look at the rankings there is an improvement in how Serbia is seen as an investment destination with scores around the eighties, which is an improvement but it isn't good enough, and I can see no reason why it couldn't be significantly higher up in the charts.

Unfortunately in the innovation rankings, which were published a couple of weeks ago, Serbia ranked near the bottom, and that is an alarming signal. Serbia has a lot of very smart people but there has also been a brain drain and many smart people have left and these people are the ones who can promote innovation. We have seen the efforts of Deputy Prime Minister Đelić to try and stem the tide of those leaving and I think that is very important, because innovation in Serbia means value creation in Serbia, and if creative and innovative forces move abroad then most of the potential is lost.

► **You have said that you expect the mobile telephony market to become more stable by the year end. How much does the mobile telephony tax jeopardise planned investments of the telecom industry for the following period?**

- There was a reduction in the volumes last year mostly because of the crisis and partly because of the tax. I think we will see a small increase this year and that's what I mean by stabilising. This is an industry where you have to invest for the long term and you won't see returns within 12 months. So the three players in the industry will continue to invest, but they will probably try to postpone some areas to maintain their

cash flows. I've seen comments from all the companies in the industry, and all three companies have said that the tax is reducing investments. An additional factor is that Serbia has a relatively low usage of mobile telephones in terms of minutes of use and this also is delaying the growth of the market.

► **Do you think that a step forward has been made in terms of reforming tax policy?**

- The proliferation of various taxes on the national and local level can only be seen as a step backwards. To be fair, the government did respond to private sector requests and to some extent stopped this process. This has been an issue that we in the FIC have spent time on.

In general, my impression is that the overall foundations of tax policy are in place, and for businesses it is more a question of how the regulations are applied and executed. Looking from that angle, we salute the recently adopted changes of the tax laws, as they did resolve some of the open issues that we pointed to in the White Book and the regulatory guillotine.

However, inconsistent regulations still remain the key obstacle in the Serbian tax system. Unclear laws provide the basis for various interpretations and lead to uneven enforcement in practice. We are aware of examples of the same tax codes that are applied differently in various areas of Serbia, and it seems sometimes that what is clear at the central level is not clear at the local levels. This is why the FIC called on the government to organise the additional training and education of tax inspectors, during the debate on taxes at the Reality Check conference.

Also, talking to our members we have identified the

need to harmonise the tax regime on the local level. We have seen significant discrepancies due to the lack of national guidelines on how to lead local tax policies, what are the maximum and minimal thresholds of specific taxes and what would the collected resources be used for. We recognise that it is important to enable competition between municipalities, and yet we



**The FIC is ready, as ever, to be constructive partner to the Government and to continue preparing suggestions for improvement of the draft regulations, in order to maximise their positive impact on the ground**

believe that the government should regulate what taxes can be imposed and under which rules.

► **Can Serbia compete with countries that are considered significantly more appealing for investing?**

- To be appealing to foreign investors you need to appeal to them on different levels. Big multinationals are always looking for different opportunities - for them consistency is extremely important. For small investors it is more the issue of not having the resources to deal with lots of red tape.

Can Serbia make itself more

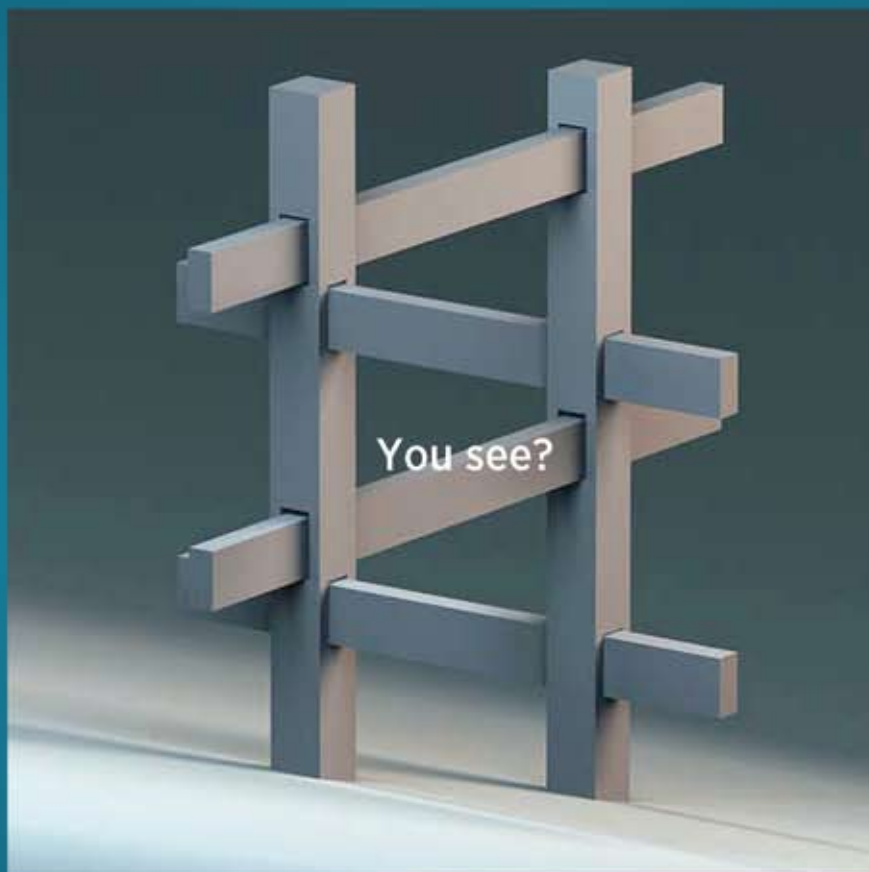
attractive relative to others? That is going to be a constant battle because the steps forward need to be ongoing and constant. Despite the fact that there have been negative observations about Bulgaria and Romania, it is a fact that they are the two countries that have the highest improvement statistics in all of Europe. So there are countries in the neighbourhood who are constantly developing and Serbia needs to develop at the same pace or faster, in order to be of interest as an investment destination. The only way this can happen is for the political leadership to have a clear focus and strong direction.

► **Could you reveal to us some of the key stipulations from 'The White Book 2010'?**

- The process of drafting the book is still ongoing, but it is already evident that the topic of the proliferation of taxes through different systemic laws will be one of the main points raised in the book.

We will also identify the contradictory processes of the cutting of red tape through the regulatory guillotine and at the same time the introduction of new barriers in new laws. If the government wants to make an impact and improve business conditions it needs to make sure that new laws do not create new obstacles, but new opportunities for businesses.

Talking about specific topics, this years' publication will feature texts on public procurement and bankruptcy, as new White Book topics that analyse newly adopted laws from those areas. Last but not least, the book will for the first time analyse the topic of judicial proceedings, as a reflection of the growing need to increase the efficiency of the court system. ■



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# Further Market Liberalisation



"Our goal is the creation of an environment in Serbia which will be beneficial for the development of competition of the highest possible quality, which will be able to provide services over the existing infrastructure, but also to invest in new networks and services"

By Tatjana OSTOJIĆ

One of the basic prerequisites for bringing new investors into Serbia, according to the Foreign Investors Council, is the predictability of business dealings. Introducing taxes to the services of mobile phone operators last year was marked as contrary to this view. This was one of the topics we discussed with Jasna Matić, the Minister of Telecommunications.

► Mobile phone operators expected that with the first signs of recovery to the domestic

economy, the mobile operators' tax would be abolished. However, this did not happen. Are there any indications within the government as to whether this tax will be abolished, and when?

- According to announcements by the Minister of Finance, Diana Dragutinović, the tax should be abolished on January 1st next year. The Ministry for Telecommunications and Informational Society definitely feels that the abolition of the tax in the shortest possible period is justified and desirable.

► Mobile phone operators list the tax as one of the reasons for the reduction of invest-

**I believe that the main problem with attracting foreign investors was the complicated procedures they had to go through**

ments in the coming year, and at the same time say that the introduction of a tax like this is a bad signal for foreign investors. Do you agree with them?

- We agree with the operators and that predictability is the basic prerequisite for attracting investments – the introduction of this tax has significantly compromised this.

► When it comes to the Internet and fixed telephone lines, operators are citing such problems as the lack of good and contemporary telecommunication infrastructure and the absence of clear directives which regulate access to the existing infrastructure and its better usage. What is your comment on this?

- The problem of the lack of clear directives which regulate access to the existing infra-

structure and its better usage was solved by enacting the new Law on Electronic Communications, which gave the necessary authority to the Agency for Electronic Communications to bind operators to the mutual usage of existing infrastructure.

When it comes to the lack of good infrastructure, this is the product of problems which have not been addressed for a long period of time. Development strategies in the area of telecommunications have for decades been relying on the fact that the main, and frequently the only, bearer of the development of fixed infrastructure has been a single state operator, particularly in the conditions of extremely speedy development of informational and communicational technologies, which are being used by a vast part of the population in everyday life. Based on this stand, the MTIS has in the last two years modernised regulations and created conditions for the arrival of new operators and the opening of the market. Our goal is the creation of an environment in Serbia which will be beneficial for the development of competition of the highest possible quality, which will be able to provide services over the existing infrastructure,

but also to invest in new networks and services. This process has just begun in Serbia, but in the next couple of years it will certainly result in infrastructure of much better quality and a more options in the way to connect the ultimate users.

► **When it comes to the new Law on Electronic Communi-**

**ications, adopted in June, operators feel that in some areas the law has not been fully harmonised with all the progress taking place in Europe. For example, full liberalisation in fixed telephone lines has been postponed until 2012, and the service of transferring phone numbers when changing operators has not been harmonised with the newest European Commission's directive in that area (which stipulates that the entire process should be done**



**in a day), so the procedure in Serbia is unnecessarily complicated. Do you agree with this stand?**

- The new Law on Electronic Communications is fully in line with all of the steps forward which have taken place in the European market in the last 20

years. A much bigger problem is that for most of this decade in Serbia there have been no moves to start realignment in the sense of regulations and economic relations in the electronic communications' market. In the last two years the Government and

our ministry have, determined to stop such practices, created conditions for the arrival of new operators and completed the

**The new Law on Electronic Communications is fully in line with all of the steps forward which have taken place in the European market in the last 20 years**

alternation of the legal framework. The new law introduced a new and important value on the domestic market on the very day it came to into power - that is the principle of technological neutrality. That is to say, the possibility to provide all kinds of services via any network infrastructure, with no need for the prior acquisition of the state's approval, working license. The only exception over its one-and-a-half year long duration refers to the services of fixed telephone lines which are still provided via a fixed network. The reason for the introduction of this transitional period for the market of fixed telephone lines is that the very letter of the law is not enough for creating efficient competition in this segment of the market, but it is necessary to finish some additional realignments - from rebalancing tariffs in fixed networks, defining the conditions for the mutual usage of existing infrastructure by Telekom and operators which have so far acquired licenses for voice services, the introduction of the system for the functioning of a universal service and the privatisation of a part of the state's share in Telekom. Since the MTIS and the Serbian Government have started all the above mentioned matters in the previous period, the deadline of less than a year and a half for finishing the preparation of the groundwork for the full liberalisation of fixed line telephones is not long. This is particularly true bearing in mind that similar processes of opening fixed line telephone markets in countries of the EU took a lot longer.

When it comes to telephone number transferability, that is also a question which became active thanks to the MTIS in the previous period and which was

realised with the Law on Electronic Communications. RATEL will by the end of the year set up a system for the management of telephone number transferability and a corresponding data base. Mobile phone operators will be the first ones to be incorporated into that system next year, and it will enable their users to change operators while keeping their telephone number. Currently, RATEL is finalising the agreement with Telekom, Telenor and Orion Telekom in relation to technical details about providing telephone number transferability for fixed telephone line users. It is important to say that the new law provides conditions for fast and simple number transfer, by the one-stop-shop system, while the deadline in which the transfer must be completed and other terms of the transfer are regulated by the rulebook adopted by RATEL. According to the rulebook, the deadline for transfer is not one, but two working days. When the transferability becomes applicable and stable in practice with all operators included in the system, there will be no problems with shortening that deadline from two days to one day. For Serbian citizens it is far more important that they finally get the opportunity to transfer numbers, not to be sent from one counter to the other but to submit the request for transfer once with the new operator. As well as that the cooperation between operators is such that the affect on services during the transfer will be minimal, which are the conditions stipulated by the new law.

► **Has the fixed line telephone market been liberalised in practice or just formally by the introduction of new operators?**

- In the fixed line telephone market, up to recently, there was only Telekom Srbija, but from this year you could also get your fixed line telephone number with Orion Telekom. Telenor is completing talks with Telekom about the mutual usage of existing infrastructure and building



its own network, so we will have three fixed line telephone operators. By the end of this year, we expect the end of the tender for WiMAX operators, who will also have the opportunity to provide voice services. In less than a year when other realignments in the area of fixed line telephony finish (which were mentioned in the answers to previous questions), Serbia will have more new operators, some of which will pose rather serious competition on the national level. So, during this Government's term we will go from completely closed to completely opened markets of fixed line telephony and all other segments of electronic communications.

► **American privatisation consulting firm 'Citigroup', will complete evaluation of the property of Telekom by the end of August, and preliminary data shows that the value of entire company is estimated at €3.2 billion. Also, the Government has been advised to sell over 50% of shares, in-**

**We expect that the consultant will finish the estimation and suggest the best model, based on which the Government will decide what percent of Telekom Serbia it will sell**

**stead of 40%. Is there any Government position on this matter at this stage?**

- There is still no Government stand. We expect that the consultant will finish the estimation and suggest the best model, based on which the Government will decide what percent of Telekom Serbia it will sell.

► **When will the tender for selling Telekom be made public?**

- The consultancy firm has started work on an analysis of Telekom's business dealings and we are expecting that work will be completed in the next couple of weeks. After that, the Government will decide on the actual percentage and the method of selling the state share of Telekom, and it will announce the invitation for interested parties to submit their offers. The expected price depends on the percentage of the state share which will be offered for sale and on the model of selling.

► **Investors state that the fast recovery of invested funds is crucial for attracting new investors, which is possible only if the country has a stable political and financial environment. At the same time, the three indicators of such stability: the political situation, local currency exchange rate and taxes, are also mentioned. What else can the Government do to attract foreign investors?**

- I believe that the main problem with attracting foreign investors was the complicated procedures they had to go through. By adopting new laws and by-laws, as well as taking various stimulative measures, the Serbian market of electronic communications has now become very interesting and attractive to foreign investors. ■



# Jedan od nas!



# EU is Economic Future

“The tax system needs to be predictable, which is crucial for any investor who plans financial parameters and wants to know in advance what obligations he has towards the state”



By Zorana STAKIĆ

“S erbia’s main economic development format is dynamic development that will transform the country into a state that is heading towards European integration and has high value indicators. Serbia should not be considered as the south of the European community. We need to peek around the corner and see a Serbia that will definitely grow into a modern country by 2015”, FIC Vice President and President of the Board of Directors Societe Generale Bank Serbia, Goran Pitić says. He thinks that Serbia’s economic development should be directed toward the evolution of a high quality business climate, which means that the market should be export-orientated,

open to competition and with an educated and highly skilled but well paid workforce. “This is a chance for us to create a modern economy that is brimming with potential”, Pitić outlines in an interview for this special edition.

► **This year marks a decade of Serbia’s efforts to become an EU member and a member of the global community. What is your view of these efforts, and do you think that they have been jeopardised by the global economic downturn?**

- Progress is visible and we are defi-

nately closer to the European Union today than we have been previously. A new political map has been drawn up in Serbia with an increasing number of people who see the EU as a solution to the political and economic future of this country. I understand there are those who think that a lot more could have been done, but in my opinion and bearing in mind all the challenges that we had to face, efforts with joining the EU are still imprinted in Serbia’s vision of becoming a member of the international community.

At the same time, it is very important that Serbia has continued to improve its administrative capacities, even in the times of economic crisis, and that the government has started reforms in the areas which are very significant in the process of European integration, such as the reform of public administration and the legal framework for the fight against corruption.

**One of my suggestions was for the government to draft an economic transformation programme that would be based on education, competitiveness, and innovation as foundations of the economic future of Serbia**

Geo-politics is a dynamic matter. A lot has changed and a lot is changing, especially in the outer environment, which affects the pace at which Serbia is moving toward the EU. Even the European community has had to deal with new challenges like the political and economic development of certain members, the

Greek crisis and the spill-over effect it has had on other countries of a similar profile. Then there is the euro/US dollar



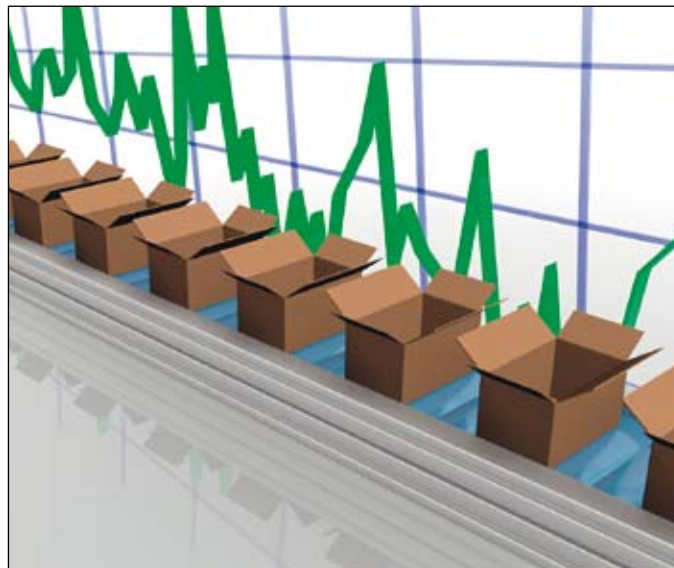
exchange rate, the shift in power ratio and new players on the international political and economic scene emerging.

These are all factors that have definitely affected Serbia's position and, in this context, it is important for our candidacy to be accepted. Gaining the status of a candidate country would trigger the ratification of the Stabilization and Association Agreement (SAA) in the individual parliaments of the EU members, which means that the SAA would finally be given the important status of a binding agreement. We would enter the era of a contractual relationship with the EU, which is unequivocal and not susceptible to different interpretations.

► **In your opinion, what should the Government's first task be post-crisis in terms of continuing with reforms?**

- I would split the government's actions in the post-crisis period in two directions. The first direction has been focused on providing instant solutions to the effects of the crisis and it holds a short-term dimension. I would have to say that Serbia, compared to other countries, created a very efficient response to the crisis. The crisis has been relatively buffered, we are seeing new investments on the market, and these are all good signs which give the basis for future economic growth. In the immediate future, the Government needs to tackle issues related to monitoring basic parameters, like price growth, fighting instability indicators such as fluctuations in the foreign currency exchange rate, repo rates and other reference parameters of monetary policy.

Going forward, the Government needs to shift its attention to long-term chal-



**"Serbia faces big gaps in many fields and this illustrates the potential and the positive challenges for the future"**

lenges and the creation of a Serbia which will not ponder everyday topics, but will rather concentrate on intrinsic subjects that are vital in order for the state to function properly. One of my suggestions was for the government to draft an economic transformation programme that would be based on education, competitiveness, and innovation as foundations of the economic future of Serbia. I believe that this presents the biggest challenge for the Serbian government in the coming period. It is also important to conclude pending processes in infrastructure areas such as traffic, telecommunications and energy. I do still see the need for the Government to continue to actively stimulate economic growth. However, in my view the limited government resources should be allocated to capital investments, and not be

disbursed for current consumption. The Government should make good use of its pool of potential growth, and concentrate on increasing its own and the state administration's efficiency. There are many projects that can be implemented in order to advance the Serbian economy. A thorough application of laws, tackling

corruption, and reforming public administration – these are all issues that the Serbian government will have to continue to deal with.

► **What are the direct and indirect consequences of the economic crisis in the domestic financial sector?**

- The crisis led to the percentage of bad debts growing, but still within acceptable limits. Then there was a short-term capital drain due to the change in key interest rates which again led to the exchange rate depreciation and reduced demand for investment loans. Large corporations, companies and entrepreneurs have been trying to determine their market position. The outgoing demand failed to pick up pace. All these negative elements of the crisis did affect the financial sector, but the banking sector demonstrated outstanding stability and in essence, its liquidity was never in jeopardy. It is worth mentioning that the maintained stability was strongly influenced by the so-called Vienna Agreement and the support given by the headquarters of foreign banks who confirmed their decision to make long-term investments in Serbia.

► **Statistical data shows that in the last nine years the biggest investments by economic branch have been made in the financial sector. Could we say that Ser-**

## Solutions

If we are talking about joining the EU, I am under the impression that the ball is in our court most of the time. The European community will be hard-pressed to find more arguments to delay the process if we strongly demonstrate that we are on the right path towards European integration. The solution lies in deep and high quality reforms that will advance the lives of the country's population, will enable institutions to function much easier, will introduce new values or enhance true European values. I am confident that the number of those who think that Serbia is on a good path is growing.

### **bia's banking sector is stable?**

- Both the financial and banking sector contributed to the fact that statistical indicators, which the Serbian government uses as reference points, were positive. The system we are talking about has long been depreciated. Judging by all banking sector development indicators, we are lagging behind the region and the total volume of credit placement in Serbia, compared to for example Croatia, reveals that the market still has room for growth. Serbia is in the high potential zone when it comes to financial yield, and the quality of the relevant regulation supports new investments, regardless of the fact that the National Bank of Serbia's policy was periodically restrictive. We should not overlook the fact that during the time of the financial downturn, the financial sector demonstrated pronounced resilience and every single stress test that was conducted showed that the Serbian banking sector was able to sustain all these conditions and continue servicing its clients. If you take a closer look at the banking sector, insurance, insurance premiums per capita, as well as other indicators that would make an investor come here, these will tell you a lot about the market potential.

### **► To what extent does the state affect the stability of the banking sector and what instruments does it use to do so?**

- The government utilises a wide range of measures that can affect the stability of the banking sector. And it has used these measures. I am referring to a set of measures that the government implemented in the earlier period, from guaranteeing bank deposits of up to 50,000 euro to subsidised loans. There have been periods when the work done by the National Bank of Serbia was severely criticised for being too restrictive, but as it turns out, it was this restrictive policy that helped the banking sector in Serbia to appropriately respond to the crisis. I think that the Government still needs to be more proactive, especially when it comes to ani-



**"Serbia is in the high potential zone when it comes to financial yield"**

inating the economic life of the country, but without encroaching too much into the business zone and company takeovers. It is important to keep this influence focused on investment, and not current spending, since this will help with the settling of public debt. If we spend and don't create, then the future generations will still be paying off this debt. I think that the Government ought to carry this burden as much as possible, and the biggest challenges lies in maintaining and servicing public debt, preserving macro-economic stability and conducting structural reforms in education, health and pension areas. All of these activities need to be intertwined with the new dynamic economic development format.

### **► At a recent conference, you were very critical of the way in which tax regulation is applied in Serbia. Could you elaborate on that?**

- My criticism came in my capacity as the Vice President of the Foreign Investors Council, and it was designed to be an opinion on behalf of the FIC.

We have pointed out that there are several levels to the existing problems – inconsistency in application and inadequate interpretation of the actual legal framework which pose a problem to tax payers. We specifically pointed to the problems with the interpretation of the 10-year tax holiday, transfer pricing rules and with the application of the rules governing VAT deduction. We have also pointed out the fact that it is really important to create a framework to allow the work of tax administration to be standardised.

In addition to this, we have noticed tendencies to introduce new taxes and various duties in our fiscal system, some of which could be construed as para-fiscal forms of state revenue. They jeopardise the transparency of the tax system, as they are enforced in the middle of the financial year with any prior warning. These charges include the mobile telephone tax that puts additional pressure on one particular sector, as well as the tax on forests that has to be paid by all companies regardless of their line of business. We think that these are bad practices, especially because most of those taxes do not fall under the competence of the Ministry of Finance and thus negatively influence the system of public finances. We strongly believe that the tax system needs to be predictable, which is considered crucial by any investor who plans financial parameters and wants to know in advance what obligations he has towards the state. We have also outlined the issue that harmonising the tax regime on the local level is important, and that the state needs to regulate the legal framework in a way that local authorities have explicit guidelines on how to collect local taxes.

### **► In your capacity as an economist and a banker, could you tell us your views on what the Serbian government needs to do in order to improve the foreign investment climate?**

- You can attract fresh investors in two ways, but you also need to bear in mind that you have to foster relations

with the existing investors and pay them due attention. One way to instigate new investors is to offer something that no other regional country can offer. This is one of the approaches for those sectors in which Serbia has potential competitive advantage, like the car industry. However, this approach will not give long-term results. A more important approach is where an investor, while looking at the regional map and observing the reports about different indicators, will say: "This is a country with the biggest potential". This testifies to serious dedication with advancing the business climate and it demonstrates that there is strong political consensus that Serbia is truly on the way to the EU.

Serbia faces big gaps in many fields and this illustrates the potential and the positive challenges for the future. Serbia needs to be dynamic and not stagnant, in order to improve the investment climate. Firstly there is an infrastructure gap which is being tackled as a priority by the current Government. Then we have the European investment gap, as Serbia does not adequately use the financial resources that are available to her in EU funds like IPA. I've already mentioned the financial gap that provides opportunities for new investments. And finally, there is a reform gap, where the Government should make a strong step

forward towards improvement in the areas of education and innovation, as well as to continue executing firm strategy against corruption. Here, we are going to make huge progress once the Law on Funding Political Parties is enacted, since Serbia is still a country where political parties exert a great influence at the local level. The Serbian government needs to concentrate more on devising a clear regulatory framework with bodies that are independent, with hired professionals that will supervise and warn about system disorders.

► **In your opinion, is Serbia an appealing market for foreign investments?**

- Only if potential investors find here a friendly environment where there are clear and applicable laws, with a transparent and predictable tax system, and macro-

**"The Serbian government needs to concentrate more on devising a clear regulatory framework with independent bodies"**

economic stability, will Serbia have a competitive edge. Foreign investors search for a market where corruption is not an endemic problem, and where inefficient administration is recognised as a hindrance and is something that is being

worked on, where the Government invests in roads and overall infrastructure and continues investing. If we put this together, in the form of an initial package that will attract somebody's attention, then Serbia has a good chance of making a leap towards dynamic development. ■



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# Reforms Continue



By Tatjana OSTOJIC

Last year, the Foreign Investors Council (FIC) was very actively involved in activities pertaining to comprehensive legislation reform (or SRP for short). Although the Serbian government has adopted a substantial number of recommendations removing bureaucratic obstacles for companies doing business in Serbia, only few of these recommendations have been actually implemented. Everybody agrees that bureaucracy and tardiness are just some of the reasons why foreign investors are reluctant to invest in Serbia. We talk with the Head of the Unit for the Implementation of Comprehensive Legislation Reform and the Secretary of the Council for Regu-

**The deadlines for the implementation of certain recommendations have been too ambitiously devised**

“We have assessed that close to 49.2 million euro has been saved by the application of stipulated recommendations, while an additional 69.9 million euro will be saved by recommendations that are going to be implemented soon, which totals 120 million euro annually”

latory Reform of the Economic System, Andreja Marušić, about progress being made in the application of the SRP.

► **From more than 200 recommendations for eliminating bureaucratic obstacles pertaining to doing business in Serbia which have been adopted by the Serbian government, only 63 have been implemented since early July. Why have the remaining recommendations still not implemented?**

- Yes, it's true that only 63 recommendations have been implemented since early July, but the majority of them, i.e. 150, are in the process of being implemented. When we say that a recommendation has been implemented, we mean the amendments to the regulation which these recommendations pertain to have come into force and that they are being applied in practice. Alternatively when we say that a recommendation is in the process of being implemented, this means the recommendation has been incorporated into the draft laws or into some other pending regulatory activities. Speaking in percentages, 88.5% of the recommendations

adopted by the Government have been either implemented or are in the process of being implemented. Also, it is worth mentioning that certain regulatory bodies have gone a step further in altering regulations in line with the SRP recommendations, and have even changed other regulations such as the Law on Labour, which did slow down the whole process of adopting certain recommendations.

► **The Foreign Investors Council has been actively involved in activities pertaining to comprehensive legislation reform, so expectations have been heightened that the speed of implementation would increase because of this. What is your implementation timeline?**

- The Foreign Investors Council has been actively involved in comprehensive legislation reform (SRP), and the unit responsible for the implementation of the SRP has received strong suggestions and proposals from the FIC, but their involvement is not directly linked to the implementation of the recommendations. At a Government session at which the SRP recommendations were adopted,

the relevant deadlines were determined, but the implementation itself depends solely on the regulatory bodies which are in charge of it. Also, the deadlines for the implementation of certain recommendations have been too ambitiously devised as, for example, in the case of certain recommendations, a whole series of preceding activities was meant to be carried out, so due to objective reasons, the set deadlines were not met.

In addition to the aforementioned, the alteration of certain regulations in line with recommendations was not envisaged in the day-to-day activities of certain regulatory bodies, so they were not ready to change the regulations based on the recommendations, bearing in mind that they also undertook to significantly revise and supplement those regulations at the same time. With regards to the implementation deadlines, there is a plan to finalise harmonising the recommendations in collaboration with the regulatory bodies and for the Government to adopt another set of recommendations immediately thereafter.

► **The Ministry of Finance and the Ministry of the Economy and Regional Development were the most pro-active in implementing these recommendations. How did other ministries fare?**

- The biggest number of recom-

mendations given by the SRP unit related to economy and finance, so it is quite logical to see that these ministries were the most active since they had to apply most of the recommendations. Many other ministries displayed a proactive attitude towards recommendations including the Ministry of Trade, Ministry of Health and Ministry of Infrastructure. Other ministries, which do not deal with economy related issues, were less active in applying the recommendations such as the Ministry of Culture, Ministry of Education and Ministry of Foreign Affairs.

► **In regards to abolishing redundant regulations, 179 acts out of a total of 196, have been abolished. What other legal acts need to be eliminated?**

- As you have pointed out, most of the surplus regulations were abolished during the Q1 of this year. The problem with the fifteen or so remaining acts that need to be abolished is that these acts no longer come under the jurisdiction of the regulatory bodies that were in charge of enacting them, so the procedure is somewhat more complicated. However, we do hope that they are going to be abolished soon. The remaining regulations that have still not been abolished have not been implemented in

## Legislation reforms

The economic environments in Serbia and other countries are rated in accordance with the World Bank's 'Doing Business' methodology. In the regions of Eastern Europe and Central Asia, which has a total of 27 countries, Serbia takes 19th place according to this methodology. However, in certain areas, such as issuing building permits or executing contracts, we take 23rd place. In other areas, like the time needed to obtain a loan, we are in first place. Legislation reform is doing really well in Serbia compared to other regional countries.

practice for a very long time; hence the economy is not suffering because they are still, at least formally, in force.

► **The adoption of the new Law on the Central Registry of Compulsory Social Insurance has been dubbed as the most important event in eliminating bureaucratic procedures. However, this law is still not being fully enforced as it needs to be supplemented with certain bylaws. When do you expect these bylaws to be adopted?**

- Adopting bylaws, which are necessary for the Central Registry to become operational, is scheduled for November this year in line with Article 38 of the Law on the Central Registry of Compulsory Social Insurance which states that bylaws have to be adopted within six months from the day the law comes into force. Just to remind you, the law was enacted in May 2010. The Central Regis-

**It's true that only 63 recommendations have been implemented since early July, but the majority of them, i.e. 150, are in the process of being implemented**

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try has told us that, for now, the deadline hasn't been moved.

► **Do you have any information as to how much money will be saved by abolishing these bureaucratic procedures?**

- As we have mentioned on several occasions in the past it is virtually impossible to quantify all the recommendations, however whenever possible, the recommendations have contained the amount that can be saved if they are all applied in practice, which is 188.7 million euro annually.

We have assessed that close to 49.2 million euro has been saved by the application of stipulated recommendations, while an additional 69.9 million euro will be saved by recommendations that are going to be implemented soon, which totals 120 million euro annually. In addition to this, we always point out that the SRP results do not include some of the initiatives that have been launched prior to the recommendations being submitted in collaboration with the unit such as the 'one-stop-shop' system for company registration.

► **How much is Serbia losing due to certain recommendations still not being adopted?**

- Once all recommendations adopted by the Government are implemented, our economy will be saving close to 189 million euro per annum. I would like to reiterate that we cannot put an amount on



**Speaking in percentages, 88.5% of the recommendations adopted by the government have been either implemented or are in the process of being implemented**

each recommendation. So, what we are talking about here are savings in the economy, i.e. money that companies will save, not the state. The more recommendations that are adopted, the more money the economy saves.

In order to translate the effects of the implemented recommendations into monetary terms, the SRP unit applies the so-called standard cost method. This is a relatively simple method that considers the time needed for meeting certain administration requirements stemming from the legislation and additional expenses that companies have to bear. The result is the cost of a single procedure which we multiply by the number of procedures that need to be executed annually.

After the recommendations are implemented, we will have the final quantification of savings. Such a quantification will not encompass those laws that are currently being harmonised with the relevant regulatory bodies. The quantification will also be carried out in the case of those recommendations that we haven't managed to quantify as yet, since the amount of money that is going to be saved based on these recommendations depends on the results of their harmonisation with the regulatory bodies and their implementation modality.

► **In what sectors is reform moving the slowest? How much has been done on improving labour rights particularly when it comes to eliminating the negative consequences that the General Collective Agreement and the Labour Law has had on the business sector?**

- As I said before, reform is the slowest in the case of the so-called system laws, where ministries are making changes and amendments to the laws that come under their jurisdiction in addition to

applying the SRP recommendations. This is the case with the Labour Law. However, even in cases where the recommendations have been fully taken on board, like in the case of the Law on Tourism, the draft law on the changes and amendments to this law had to go through the usual procedure of acquiring official opinions beforehand. Such practice has no basis, since these opinions had already been acquired in the case of the draft Programme on the Strategy Implementation, i.e. before it was adopted by the government on 29th December, 2009. Even if these opinions had to be acquired again, in order to see whether the draft law or a proposal is harmonised with the recommendations, such opinions should be considered urgent as this is a matter of a simple verification of the text which is often identical to the text of the amendments. Nevertheless, draft laws and proposals on amendments to the regulation in line with the recommendations are often withheld in the Republic Legislation Secretariat which leads to deadlines being broken.

► **Do you think that foreign investors would understand if the legislation reforms were to stop half way?**

- It is Serbia's aim to attract as many foreign investors as possible, so we do believe that the government will invest a lot of effort into implementing this reform fully, all the way through to the end and in the shortest possible time. The SRP unit will also continue with its own activities and, by mid-October 2010, we are going to try to finish harmonising the remaining recommendations with regulatory bodies. Also, the economic sector will be able to submit its suggestions and proposals to the office that will be in charge of matters of legislation reform and will analyse the effects of that legislation. ■

## Further steps

The plan is to finish harmonising the remaining recommendations with regulatory bodies by mid-October 2010, after which the Government is scheduled to adopt another set of recommendations. Also, the office that will be in charge of matters of legislation reform, that will analyse the effects of the legislation, is going to become operational quite soon. The office will collect and process proposals and initiatives submitted by companies and citizens in an effort to change inefficient legislation at the state level and subsequently submit its own recommendations to regulatory bodies to change inefficient legal acts that come under their jurisdiction.

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## Interview

KRISTIAN KORNERUP JENSEN, MEMBER OF THE FIC BOARD OF DIRECTORS AND GENERAL MANAGER OF BRITISH AMERICAN TOBACCO SERBIA AND MONTENEGRO

# Minimising Administration and Bureaucracy



In order to attract future foreign investors, Serbia has to provide a transparent and predictable regulatory framework along with tax incentives both at national and local levels

By Ana STOJANOVIĆ

“It is quite reasonable to assume that with greater stability and predictability the business sector can deploy a more sustainable business planning process and all foreign investors, both existing and future, will welcome more stability in all business aspects,” says Kristian Kornerup Jensen, Member of the FIC Board of Directors and General Manager of British American Tobacco Serbia and Montenegro for this special edition.

► Do you agree with the views of certain Serbian officials that foreign investments represent a development opportunity that needs to be acknowledged at the local level?

- It is quite certain that a key factor for Serbian economic prosperity is a significant increase in foreign direct investments which would ultimately lead to higher productivity and employment. In order to attract

**We believe that local municipalities can and should do much more in order to attract foreign investments**

future foreign investors, Serbia has to provide a transparent and predictable regulatory framework along with tax in-

centives both at national and local levels. With that in mind, we believe that local municipalities can and should do much more in order to attract foreign investments and look toward municipalities like Indjija and Pećinci as perfect role models in this respect.

► **Do you support the development of local entrepreneurship?**

- We certainly believe that the development of local entrepreneurship is one of the key elements to Serbia's economic growth and prosperity. Also we believe that primarily local self-governments should do much more to stimulate entrepreneurship by minimising administration and bureaucracy on one side and providing incentives on the other. It is quite obvious that for any entrepreneur, es-



pecially start-ups, relatively low administration costs related to the setting-up and running of the business presents significant benefits. In addition, there should be development centres at the local level which provide, ideally free of charge, training to existing and potential entrepreneurs and improve their technical skills and know-how. And finally, the banking sector

**Development of local entrepreneurship is one of the key elements to Serbia's economic growth and prosperity**

should put an additional focus on providing sufficient funding at a reasonable cost to small and medium enterprises especially in underdeveloped regions of Serbia and thus stimulate the development of local entrepreneurship.

► **In your opinion, is there a format that the Serbian government could apply in order to develop local economies in this post-crisis period?**

- There should be training centres and business incubators - the former would be focused on giving future entrepreneurs a set of vital technical and business skills while the latter would help future entrepreneurs understand which business steps to initiate. On top of this, bureaucracy and administration related to the setting up and running of legal entities has to

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be reduced to the very minimum, which would prove to be a great incentive for the development of entrepreneurship.

► **In your view, how does the state treat tobacco growers and tobacco companies? What should the state change in its approach?**

- We believe tobacco companies have fair treatment in Serbia, that we are seen as legitimate business partners and that we are consulted regarding major tobacco regulations. We certainly hope that regardless of certain global initiatives, that current practice will continue in the future as well. With regards to tobacco growers, it would be fair to say that the Government has been unable to create a comprehensive strategy in this area up to this point. This leads to a number of issues which remain unresolved and most importantly, it is deteriorating the sustainability of this sector. Given the global competition amongst major tobacco-growing countries, it is difficult to understand how Serbian tobacco growers can be competitive both in terms of quality and price unless they focus on the niche tobacco leaf segment and this involves oriental tobacco which can be grown in only a few other countries apart from Serbia. It is clear, however, that any future plan for this agricultural sector has to be articulated through the comprehensive Government tobacco strategy.

► **Your company is sending a very clear message to Serbian authorities that you are not giving up despite, to quote you, "not generating the desired profit". Are**

**A satisfied investor is the best advertisement for Serbia and the main generator of future foreign investments**

**you counting on the Serbian government's help with resolving the problems of trading with the CEFTA countries?**

- We certainly remain committed to our business in Serbia and we believe that it is very sustainable despite the issues we have been experiencing in the past and which have had an effect on our overall results. We would certainly like to see the Government helping us with the opening of other CEFTA markets, such as Croatia where we are experiencing issues in distribution, and Bosnia where there are still barriers on free trade. It is certain that these markets present great potential for our company and the Serbian tobacco industry as a whole. In order to be able to compete fairly in those markets, local regulators have to implement all CEFTA requirements and remove all barriers, as Serbia has done for other CEFTA tobacco companies.

► **How much has the Serbian government done in regards to implementing reforms, especially when it comes to macro-economic stability?**

- We believe that a lot has been done

**The Government did a fairly good job during the time of severe global economic crisis**



and the Government did a fairly good job during the time of severe global economic crisis. In addition, the Government has demonstrated the ability to take bold moves and give the necessary support to the struggling economy which led to remarkable results given the circumstances. However, there is much more to be done and we certainly expect that the Government will continue to lead Serbia towards EU integration and economic prosperity.

► **How much has the Serbian government done when it comes to implementing recommendations given by the Council for the tobacco industry?**

- With regards to the White Book of 2009 and the recommendations concerning the tobacco industry which were included in it, we can say that a major component has been successfully addressed, namely the public place smoking regulation where an effective balanced solution has been adopted. Certainly there are things that can be improved upon, and we will have more recommendations in the White Book 2010, yet we are optimistic on all fronts.

► **Can we say that, subsequent to the reforms, certain stability will be achieved which will assist with making successful business plans?**

- It is quite reasonable to assume that with greater stability and predictability the business sector can deploy a more sustainable business planning process and all foreign investors, both existing and future, will welcome more stability in all business aspects. We feel that a satisfied investor is the best advertisement for Serbia and the main generator of future foreign investments. ■

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# Encouraging Steps

According to SIEPA figures, 779 million USD came into Serbia in the first half of the year. Some two billion USD are expected to arrive in Serbia by the end of the year



**Zoran Popov,**  
economic expert and  
professor

By Zorana **STAKIĆ**

The Serbian Deputy Prime Minister and Minister of the Economy and Regional Development, Mladjan Dinkic, believes that Serbia has become as competitive as China, and even more attractive than some members of the European Union. European companies have been moving their sister companies from Romania, Slovakia and other EU member countries to Serbia, said Dinkic at a Business Council meeting between Germany and

**SIEPA currently heads some 90 investment projects for both domestic and foreign companies**

Serbia which took place in Berlin in August, where he emphasised the examples of Dræxlmaier a cable producing company and car cable factory Leoni.

According to German media who covered the Business Council meeting, once-unpopular Serbia might again become a target for foreign investors, including those from Germany. State Secretary of the German Ministry of the Economy and Technology, Bernd Pfaffenbach commented at the meeting that "reliable and stable conditions for investment were a necessary basis for German investments in Serbia."

## Appealing Agreements

In Vlasotince, Deputy Prime Minister Dinkic and investors from Slovenia and Italy signed agreements allocating state subventions of 650,000 euro that will come from the Program of Financial Support to Investors. Minister Dinkic and Prime Minister Mirko Cvetkovic visited the construction works of the Slov-

enian Grah Automotive Factory in Batocina, and then near the end of August, Minister Dinkic, German Norma group director John Stevenson and Subotica Governor Sasa Vucinic signed an agreement on the construction of a new factory belonging to the same company. South Korean car part factory Jura has begun preparation on construction works for a new factory in Nis, whose total value is 15 million euro and which should employ about 1,500 people. In early September in Stara Pazova, Minister Dinkic signed a treaty on the construction of a new boiler factory for the Slovenian company Gorenje-Tiki worth 11.7 million euro.

Different economists have different opinions about the de facto improvements in the investment climate in Serbia. Most of them feel that Serbia is able to offer a strategic position and the necessary infrastructure to potential investors, as well as access to non-customs markets (in a free trade regime or a favourable status) and a favourable customs and investment regime. Serbia also has favourable tax rates (10% tax on corporation profit, 12% payroll tax and a low VAT of 18%). Finally, it has good quality and competitive human resources and encouraging regulations in relation to exports and the inflow of new foreign direct investments.

## Project Realisation

The realisation of one investment project can last up to two years, starting from the first questionnaire to the purchase of land or production halls. Of course there are cases when some companies, such as the Korean company Yura, finish everything in just a few months and start production. However, these cases are very rare. Also, most foreign companies do not wish to publicly talk about their investment plans in Serbia, as this can influence business in their own country. The public recently witnessed the problems that Italian company Fiat faced after the announcement that they would move a part of their production to Serbia.

This was also confirmed by the German media that covered the German-Serbian Council meeting in Berlin that stated that 10% income tax, low salaries, qualified personnel and state subventions are appealing to foreign companies. Among other favourable advantages in Serbia is the agreement on free trade with the EU and other countries in the Western Balkans, as well as necessary agreements with Russia, Turkey and Kazakhstan, which are attractive to export-oriented companies.

German magazine Handelsblatt wrote that the International Monetary Fund was praising Belgrade's budget policy calling it reasonable. The publication said that Serbia expected to have 1.5 to 2% economic growth this year, while other countries in the region were still in recession, and also reported

**German magazine Handelsblatt wrote that the International Monetary Fund was praising Belgrade's budget policy calling it reasonable**

## Inward and Net FDI (USD million)

YEAR	Inward FDI	Net FDI
2005	1,616.4	1,550.4
2006	5,474.4	4,387.4
2007	3,569.1	2,195.3
2008	3,363.2	2,487.0
2009	2,497.6	1,864.7
<b>Total</b>	<b>16,520.7</b>	<b>12,484.8</b>

Source: National Bank of Serbia

that Dinkic hoped to see even faster growth if Serbia could attain candidate status for EU membership.

According to the assessment of the Foreign Investment and Export Promotion Agency (SIEPA), some companies are trying to expand their capacities in Serbia, but there are also countries that are moving their production from other countries to ours. The reasons for this, SIEPA presumes, are more competitive salaries in Serbia than in

the countries of Central Europe, as well as favourable taxes.

Economic expert and professor, Zoran Popov, believes that foreign investors will come on their own, but not before the investment climate in Serbia becomes favourable for foreign investments.

"From that point of view, we have no reason to believe that the situation in Serbia will improve, since the process of counter-investment is in progress, which leads to the



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conclusion that the existing capital is losing its value faster than the fresh investments. To create a favourable investment climate the country has to define a clear strategy of economy growth, set some long-term targets and economic policy directions which must be followed and put into an action",

said Popov and emphasised that the state's top priority was to tackle the problem of corruption and to simplify administrative procedures and define adequate legal regulations.

### Income of Two Billion

According to SIEPA figures, some 779 million USD came into Serbia in the first half of the year. Some two billion USD are expected to arrive in Serbia by the end of the year. However, the Agency's experiences from previous years show that it is very difficult to give any kind of prognosis regarding the inflow of foreign investments, especially in an environment of economic crisis. Multinational corporations often change their investment plans in times like this. Official projections have been considerably underestimated or overestimated in previous years due to the positive or negative turnout of large transactions, which are very difficult to predict. An example of this is the surprisingly large acquisition of Marbo Produkt by Pepsi Co. on one side, and the failure of the prequalification tender for privatisation of Galenika on the other side. In general, the accomplishment of goals regarding foreign investments this year will mostly depend on the realisation of the previously announced plans to



modernise the facilities of the Petroleum Industry of Serbia, and the reconstruction of Zastava's facilities in Kragujevac, as well as tenders for the construction of new blocks in two power plants. However, if investment projects continue according to the planned dynamics, together with the present Greenfield investments, especially the arrival of Fiat's suppliers and the possible commencement of IKEA's investments and the traditionally high level of investments in the banking, trade and real estate markets, the announced amount of foreign investments of two billion USD should be achieved. If we add the sale of Telekom Srbija, this figure may go even higher, SIEPA has assessed.

Companies from Slovenia, Italy and Germany etc. have so far partially moved their productions to Serbia. Of course, it is too early to start discussing the trend of such activities, but there are indications that Serbia could attract a large number of new investments due to the above-mentioned opportunities.

Statistics regarding investments that are the result of the 'Program on Allocating Grant Assets for Investors' are also encouraging. Since the beginning of the program in Serbia in June 2006 more than 600 million euro in investments has been achieved and thus 17,200 new positions have been created, while 47.3 million euro has been

### Companies from Slovenia, Italy and Germany etc. have so far partially moved their productions to Serbia

allocated to support these companies. Examples include the Italian textile producers Gruppo Fiorentino Company, which will receive 5,000 euro per worker for employing 60 workers in their facility in Vlasotince, while Slovenian Elrad Company, a producer of cable sets for the electronic and car industry, will receive 7,000 euro per employee. Also, through SIEPA's program for supporting direct investments, Slovenian Grah Automotive Company will receive 1.6 million euro to expand its production capacity (i.e. four thousand euro per employee), while the company itself will invest 11.2 million euro.

According to data from the Agency, the eleventh turn of asset allocation, for which 54 companies applied, has been completed and the results will be known by the end of September.

SIEPA currently heads some 90 investment projects, for both domestic and foreign companies. SIEPA also assists companies that have already invested in Serbia, but which are facing certain problems that they are trying to overcome with their help. The majority of projects come from the car and textile industry, but also there are projects from the electronic and other industries. ■

### Net FDI by Countries (2005-2009)

COUNTRY	Investment Value (USD million)
Austria	2,680.3
Greece	1,624.0
Norway	1,555.6
Germany	1,307.2
Italy	951.6
Slovenia	638.4
Netherlands	602.9
Russia	578.7
Luxembourg	443.5
France	393.8

Source: National Bank of Serbia



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# Legal Security is Vital

“What needs to be done is for laws to be ruthlessly implemented regardless of whether an investor is domestic or foreign. The state needs to establish clear criteria and reform is greatly needed in this context”



By Zorana STAKIĆ

Foreign companies that have come to Serbia plan to stay here for a long period of time. Despite the fact that many of these companies, due to the economic downturn, postponed their development projects planned for 2009, they have not given up on establishing regional centres and production facilities in Serbia in order to cover the CEFTA region. “Now is the right time to continue with reforms since they will lead

**“Last year, quite a few companies halted their planned investments until they fully assessed the impact that the crisis had on their operations”**

us out of the crisis. They need to be directed towards raising the competitiveness of this market while emphasis should be put on changing the legal framework and raising the capacity of the administration for a consistent and disciplined implementation of regulations”, says Aleksandar Radosavljević, CEO of Carlsberg Serbia and a member of the Foreign Investors Council (FIC) Board of Directors.

► Due to the economic crisis, foreign investors have post-

poned their investments in Serbia while waiting for an improvement. Is an improvement in the conditions imminent and when do you expect investments to continue?

- If we compare last year to this one, the investment environment has changed for the better to a certain degree. A drop in consumption in all sorts of goods and services was pretty evident, but this has now stabilised. Investments also followed the same model. Last year, quite a few companies halted their planned investments until they fully assessed the impact that the crisis had on their operations. Looking at last year’s overall investments made in Serbia, including the privatisation of the Petroleum Industry of Serbia (NIS), recovery was noticeable in late 2009 and early 2010. However, the crisis has severely affected the consumption segment.

In 2010, we are seeing new investors arriving. It is worth mentioning that many existing investors have continued carrying out their plans which were put on hold in 2009. However, investors are still quite reserved when it comes to large business endeavours, since nobody knows how long the global economy will take to recover and how extensive this recovery will be. In the case of Serbia, it is clear that we need a lot of time to re-achieve the 2007 and 2008 levels, when consumers were spending much more.

I can mention Carlsberg as an example.

In 2009, we stopped certain investment plans due to the crisis in order to see how things would unfold, but, this year, we have decided to implement these plans. We have a great belief that the market will recover and develop. True, it will take some time for that to happen, but we do think that

it is necessary to invest. Serbia has become a good regional destination for potential investors if we consider all the countries that have signed the free trade agreements.

► **Do you think that now is the best time for the Serbian government to continue with reforms?**

- The Government should certainly continue with reforms. There are quite a few things that need to be changed and regulated, and authorities ought to help businesses as much as possible. Still, the state should not exert an influence on the way in which companies operate, but rather determine the criteria for all market participants to be treated equally and to compete amongst each other. What needs to be done is for laws to be ruthlessly implemented regardless of whether an investor is domestic or foreign. The state needs to establish clear criteria and reform is greatly needed in this context.



**“Legal security is a basic requirement from the Government, as investors want to legally protect their investments and operations”**

to be clear and simple, and any problems arising should be resolved automatically. Hence, it is very important to consistently implement regulations and provide legal security.

► **You have said that our state has been doing a lot on harmonising its regulations with that of the EU in order for domestic and foreign companies to be on an equal footing. What else needs to be done in order for the investment climate to improve?**

- The state authorities do want our country to be in sync with the rest of the developed world, but you cannot become a part of that world if you don't open up. The reforms that have been conducted so far

► **You have said that the crisis has shown that the global system is not functioning properly and that it has to be changed. Companies need to devise new business plans and so do countries. In your opinion, what does the Serbian government need to change and to focus on, in order to re-brand Serbia as a favourable investment destination?**

- I would emphasise legal security. This is a basic requirement as investors want to legally protect their investments and operations here. Of course, investors aim to do business in line with existing regu-

lations, but Serbia has a huge number of laws that are not comprehensive and not clear as to what course of action one should take. That means that, on one side, we have laws that have been enacted, but have been insufficiently elaborated by those who need to implement

them. On the other hand, we have various interpretations of laws which differ from institution to institution, or even case to case. This creates confusion as to what you need to do. The system ought



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have gone in that direction, and they have helped businesses to operate better. A foundation has been created that has enabled us to compete with companies in other countries. Still, the harmonisation of regulations and its implementation needs to be at a much higher level than what it is currently. We have seen that good laws have been enacted which included input from businesses, experts and experiences from developed countries. However, what continues to be a problem is their implementation, as the state administration is not consistently implementing these laws. We should not forget that Serbia is not the only country that wants to be appealing to investors. Serbia has a lot of competition not only in Europe, but also globally, so we need to make the country much more interesting than it is currently.

► **In your opinion, how much is Serbia investing in environmental protection?**

- Compared to how much the state has invested in the past, I can say that now, it is investing substantially. Nevertheless, compared to countries that we should consider as the reference point, very little has been done. The Council has been monitoring the situation and proposing solutions for environmental problems for quite a while. When the new minister was appointed the agenda came



**“Compared to how much the state has invested in the past, I can say that now, it is investing substantially”**

to the forefront. A lot has been done in legislation over a very short period of time, and an initiative has been launched for the implementation of this legislation to be improved. The environment as a topic has become increasingly important and quite a few things have been done in the last two to three years. On the other side, investments in environmental protection do not have a strong economic effect, hence it is very difficult to expect for companies that haven't made such investments and who are battling operational problems to come on board. From the point of view of the economy this will be difficult, but sustainable development is impossible without investments in environmental protection. It would be good if new investments partly covered environmental protection. What we need to be aware of is that environmental projects are very complex and take time to develop. On the other side, they do bring long-term gains to both the companies and the local community. That is why it is crucial for the state to help in this matter. The good thing is that several bylaws have been adopted and that there is a state agenda which stipulates

that sustainable development is possible only if environmental investments are made.

► **How many environmental protection recommendations have been taken on board?**

- In the previous White Book editions, there was a whole chapter that dealt with environmental protection issues and quite a few of the recommendations stated in the book have been applied. Laws and bylaws have been enacted, campaigns launched with the aim of raising awareness among ordinary citizens about the importance of environmental protection, and steps have been made towards taking care of packaging waste. Of course, it takes time for all of this to develop to the desirable level.

► **What is the cooperation with local authorities like when it comes to raising and advancing environmental standards?**

- We have had very good cooperation with the local community. They have been open to communication and collaboration, and they have helped in a way that has sped up certain procedures, instead of leaving papers lying in somebody's drawer. They have been willing to help us. We know of quite a few positive examples of cooperation between local communities and investors, which speaks volumes about the progress being made in this field. There are communities that are focusing on the future and want to do as much as possible to benefit the people living in them. Environmental awareness has increased and this is thanks to the Government, despite certain businesses complaining of it being more of a burden. We need to focus on the positive things that investing in environmental protection will bring about. ■

## Asia as a competitor

Asia, which has huge investment potential, has not been affected that much by the crisis - and even if it has been, it was mostly in the Q4 of 2008 and Q1 of 2009. Asia is very interesting in terms of investments as the countries there are still emerging. Since Serbia is in Europe, which again is dealing with its own problems, we also have to share its destiny in a way. Hence, we cannot expect a higher number of investments to be made this year compared to last year. Still, despite investors turning towards the Asian markets, there is quite a strong interest in investing in Serbia among companies that have never operated here and those that have already invested in our market.

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# A Constructive Dialogue

By Harald KUBE, F&A  
Committee President (BASF Srbija)

Food Safety issues in Serbia have to be given a high priority by Serbian officials, the food industry and consumers. Consumers and the Food Production Industry are largely unaware that due to a lack of harmonisation with EU legislation, the risk of unknown chemical impurities entering the food we all consume unfortunately exists.

There is also a lack of proper food safety standards including high quality standards for milk and juices, as well as deficits in laboratory facilities to properly conduct food residue tests on a significant scale. The current legislation on Pesticide Registrations has and is continuing to allow a large number of pesticides with unknown impurities to be registered in Serbia which can potentially find their way into the food we consume on a daily basis.

Most of the pesticides registered in Serbia would not receive approval in the EU due to the lack of proper toxicological and eco-toxicological data which transparently identifies all chemical substances including impurities. International research & development companies on the other hand do adhere to EU standards and provide



**The Registration process for Pesticides needs to be fully harmonised with EU legislation as soon as possible**

complete product dossier information which ensures the required level of transparency. The Ministry of Agriculture, Forestry and Water Management has the responsibility of ensuring that proper food safety standards are in line with international standards including those of the EU and WTO. The Registration process for Pesticides needs to be fully harmonised with EU legislation as soon as possible. High food quality standards and properly equipped laboratories need to be implemented.

Our Committee member companies have the advantage of possessing a vast level of international experience and it is our wish to work closely with Serbian officials, mainly with the Ministry of Agriculture, Forestry and Water Management, to support a process of change and improvement of the current legislation on Pesticides Registrations, the implementing of Food Quality standards, installing reference laboratories and addressing all issues related

We can help support the creation of legislation that is fully harmonised with the EU and which can be fully implemented in due course

to Food Safety. Since the EU has already established strict rules which ensure food safety, it should be viewed as an opportunity to fully harmonise the current Serbian legislation with such international standards.

The Food & Agriculture Committee is ready to engage in a constructive dialogue with the Minister of Agriculture and his team providing expertise and supporting a transitional process toward food safety in Serbia. We can help support the creation of legislation that is fully harmonised with the EU and which can be fully implemented in due course. Serbia and the Ministry of Agriculture will assume a leadership role in the region and create a path towards a healthier society and ensure sustainable agriculture with the growth of food exports into EU markets. Educating consumers, farmers and food exporters will play a central role in our activities. Our Committee is ready to facilitate a dialogue between Serbian and EU officials, as well as with other stakeholders in the area of food production, processing and trade. ■



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# Fiscal System Stability

Foreign investors, but not just foreign, domestic investors as well, look for legal security and political stability in the first place as pre-requisites for a favourable business environment

By Ana **STOJANOVIĆ**

In addition to asking to what extent the economic crisis hit the construction industry and whether there are indications of improvement in the industry, we also ask Costin Borc, Member of the FIC Board of Directors, and General Manager of Lafarge BFC, about problems facing foreign investors in Serbia.

► **In your opinion, what does Serbia need to do in order to overcome the effects of the global economic downturn?**

- The Serbian government has taken measures to overcome the difficulties caused by the crisis but, in my opinion, they have had a limited effect. The current conditions, where the Government is faced with a deficit in the budget, are by no means suited to continuing with reforms, but they are necessary and are the only way. A comprehensive reform of the public sector is needed as well as the administrative one. Furthermore, public expenditure must be reduced and at the same time a predictable business atmosphere must be provided with clear legal framework and political stability of the country. All this will also create a favourable atmosphere for new investments, which will mean new jobs as there is a distinct



**Foreign investors want to be treated equally as domestic companies, without discrimination**

problem with the high unemployment rate.

► **Do you find directing foreign investment toward undeveloped areas justifiable?**

- Direct foreign investments have a significant influence on economic growth, especially in countries in transition. The main benefit is not just that money

is brought into the country, but also new ideas, technologies and knowledge and the management system as well.

► **What incentives should state administration give to foreign investors who decide to invest at the local or regional level?**

- Foreign investors, but not just foreign, domestic investors as well, look for legal security and political stability in the first place as pre-requisites for a favourable business environment. There is certainly a need to have clear property laws and probably a revamping of the fiscal system. Here I'm not talking, like every other business, about reducing taxes. Rather, the most important things are the stability and predictability of the fiscal system, coupled with the fact that taxes should not be arbitrary, i.e. it shouldn't be possible for local, regional or national authorities to impose taxes which are calculated in a mysterious way and thus, cannot be predicted when you prepare a business plan. Today, unfortunately, we still have cases where we see completely arbitrary taxes. Foreign investors want to be treated equally as domestic companies, without discrimination. State administration should also create an environment where problems are solved swiftly, avoiding bureaucratic obstacles. Of course,

it is also very important for people who come to Serbia to feel welcome, which is part of my experience of living in Serbia.

► **Have Serbian authorities succeeded with providing these incentives?**

- One of the greatest challenges of economic policy for the forthcoming period is attracting direct foreign investments and the Government is taking steps in that direction. As I have already said, the state administration has a huge responsibility to create conditions for safe investments; the laws are under their jurisdiction but that is not all. If we look at the current situation in Serbia, which is very inconsistent, we can see that some towns and their local governments like Indjija and Zrenjanin, for example, have been very successful in attracting investors. This means that even within

the existing legal framework it is possible to attract investors but the initiative should come from the local level. Our example in Beocin is also interesting. To my knowledge, our business park is a unique example of business and public partnership in Serbia, where Lafarge BFC, as a private company, acts together with the local community to attract investors. The Beocin Business Park was launched as a corporate social responsibility project aimed at generating employment in Beocin, but now the local authority is developing its plans in conjunction with us.

Most of the business park is on land owned by the plant and now the municipality has allocated land and designed its industrial park close to the plant. The idea is to ultimately offer a complete package: land, infrastructure, and know-how (accounting services, computer

**State administration should create an environment where problems are solved swiftly, avoiding bureaucratic obstacles**

infrastructure and the like). Furthermore, the municipality has promised to make life much simpler for newcomers in terms of permits, land rights and so on.

► **What regional advantages should we highlight in order to attract new investors or to encourage the existing ones to continue investing in Serbia?**

- The Balkan markets and Serbia offer a number of advantages for new investors. Serbia for example has excellent trade agreement preferentials with the Russian market. There are free trade agreements with the EU, with the US market, and recently a trade preferential with Turkey has been introduced. Serbia is linked with regional Central European markets via the CEFTA agreement. There are a number of other positive aspects including Serbia has very low taxes, and income tax is the lowest in

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the region. Besides that, Serbia has a sufficiently big market which is very eager to welcome investors. The environment is very open and suitable for attracting foreign investors. Recently, the Serbian Government has been making efforts to position the country and Belgrade in particular as a hub for regional investments in the former Yugoslav economic space. What is also important and must not be forgotten is that the country has well educated people, and a capable work force which is open to learning.

► **How much have administrative procedures in Serbia been simplified compared to when you were new to this market?**

- Unfortunately, although a great deal of attention has been paid to this problem, most of the procedures are still too complicated and time consuming. There has been certain progress, but I still cannot say that the status of administrative procedures has been significantly improved and both foreign and domestic investors have been pointing that out for years. The Guillotine Project, while a very commendable one in principle, has not yet delivered the expected results in cutting bureaucracy and red-tape.

► **How would you grade the comprehensive regulatory reforms?**

- The Government is making great efforts towards EU requirements and harmonisation with EU regulations, especially in regard to adapting present legislation to that of the EU. The economic crisis that had a global effect has slowed down the process significantly. I think that the effect of the reforms is still not significant but it is not a short-lived process and its application and efforts should continue.

► **As the leading supplier to the Serbian construction industry, do you think that the industry is moving out of the recession?**

- The economic crisis had a significantly negative effect on



the entire industry, especially the construction sector. A great slowdown of construction activities in Serbia by even more than 30 percent certainly brought us all, into an unenviable position. The sharp setback of investment cycles coupled with the decrease of overall demand and significantly lower purchasing power, all had a significant impact on the real-estate market and construction industry. Unfortunately, we still cannot see the end of recession despite the Government's measures to help the construction industry. A significant decrease in construction activities is very visible throughout Serbia and in Belgrade, and at locations where works are ongoing, their intensity is rather low.

On the other side, one needs to bear in mind that it takes time and a lot of effort in order to see a shift in a positive direction. From the legislative aspect, the new Law on Planning and Construction certainly brought some positive changes, but there is still a lot to be done in order to

**The Government is making great efforts toward EU requirements and harmonisation with EU regulations, especially in regard to adapting present legislation to that of the EU**

better regulate the market. The FIC, along with other stakeholders, has been very active in the previous period in alerting the authorities of the need to improve business conditions by cutting the red tape and enacting the necessary by-laws. Specific proposals and recommendations have been channelled through the FIC Real-Estate Committee, and we are happy to convey that many of our comments have been incorporated in new regulations.

► **Are there any pending projects in Serbia that substantially contribute to improving the business environment in the country?**

- Infrastructure, in particular, was defined by the Government of Serbia as a national development priority, and a comprehensive national plan for road and infrastructure reform has been envisaged. Recently, two more development axes have been identified: the development of the Danube corridor and a focus on the fields of science, technology and innovation, in which Serbia can use its competitive advantage, having a very good education system and a good human capital base.

► **What can the Serbian government do in this respect?**

- The Serbian government needs to have a consistent policy regarding economic growth and to follow this policy with the speedy implementation of structural reforms, and continuing privatisations of state enterprises, as the role of the state in the economy is still big. Certainty about European integration goals, as well as the continuity of fiscal legislation is the key to creating a climate of confidence and interest in the Serbian economy. ■



# On the Stable Route

The Bank's loan portfolio experienced growth of 11% during the first semester of 2010, while Piraeus Bank's deposit potential increased by 16% in the first half of 2010

The first half of 2010 was very challenging for all companies operating on the Serbian market, keeping in mind the overall economic situation, slow recovery and the unemployment rate. Despite all of this, Piraeus Bank AD Belgrade during this period continued its trend of positive growth and achieved good business results.

This fact was reflected in the profit of 553.7 million dinars that Piraeus Bank AD Belgrade made during this period. The Bank recorded a growth in their loan portfolio of 24% in the period between June

2009 and June 2010, while total liability has been raised by 31% so it is now 49.877 million dinars compared with the 38.118 million dinars that it was at the end of the second quarter of 2009.

An indicator that Piraeus Bank is recognised as a stable bank is the Bank's loan portfolio growth of 11% during the first semester of 2010, while Piraeus Bank's deposit potential increased by 16% in the first half of 2010.

These good business results are based on carefully monitoring the world's financial market situation and appropriately responding in a local framework. Based on market inputs and global trends Piraeus Bank is constantly improving its product portfolio and

internal organisational structure.

Commenting on their good business results Neoclis Neocleous, Chairman of the Executive Board of Piraeus Bank Serbia says: "I have to point out that I am really proud of what Piraeus Bank has achieved during this period, despite the challenging times and strong competition. We have significantly improved our operations and our internal or-

ganisation, so we can look ahead to the future with confidence and ambition. My vision for Piraeus Bank is to position the Bank as one of the leading Banks in Serbia".

Since the beginning of 2010 Piraeus Bank has launched many different and innovative products and services for Corporate, SME and Retail clients. In addition to new credit lines, leasing and rental services, Piraeus Bank has expanded its offer with Risk Insurance.

The Bank follows world trends using new technology in order to improve the banking sector and create technologically innovative services such as money transfers from card to card by sending a text message or paying bills with debit and credit cards by sending a text message. The idea behind it was to give the options to Piraeus Bank clients. The Bank caters for them whether they want to be mobile, or to use traditional banking

**The Bank follows world trends using new technology in order to improve the banking sector and create technologically innovative services**



**Neoclis Neocleous,**  
Chairman of the  
Executive Board of  
Piraeus Bank AD  
Belgrade, Serbia

services within the Piraeus Bank branches.

In line with the Piraeus Bank AD Belgrade corporate slogan of "Open for You", the Bank has slightly

changed its organisational structure recently and integrated experts from all areas of banking operations into the branches. The main objective was to secure the most suitable solution for any financial problem that clients may have, to ensure client satisfaction and good business results.

Piraeus Bank understands how important it is to contribute to the local community they are operating in, so the Bank has developed and launched together with the Ministry of the Environment and Spatial Planning, the special CSR project "Going Green" and the "Fill to the Top!" internal and external action. This activity con-

sists of the donation of recycling containers and boxes for collecting used paper to 18 cities where Piraeus Bank operates.

Piraeus Bank understands that it is very important to inform and educate about the environment and as a result they actively involve all their resources to inform, educate, and

inspire citizens and companies and make a special effort to support finding a solution to environmental problems. ■



# Substantial Growth Potential

The potential in Serbia is obvious, yet there are still significant obstacles for investors which need to be improved, especially the bureaucracy and the reliability of rules and regulations



By Ana **STOJANOVIĆ**

**W**hat challenges are currently facing one of the best known representatives of the automotive industry is just one of the questions we ask Andreas Binder, Member of the FIC Board of Directors, and CEO of Mercedes-Benz SCG.

**There are several opportunities to support business, e.g. reducing import duties, reducing registration tax, waiving luxury tax, introducing a scrap bonus for old vehicles etc.**

► **Can Serbia become an appealing member of the unified European market?**

- I have no doubts that Serbia will become a candidate for the EU and it is a very crucial step for the country. Of course there are certain requirements yet to be fulfilled but it is obvious that the current Government is focusing on that topic with considerable efforts.

► **What should the Serbian government do in order to attract large companies and send out a clear message that conditions for foreign investors have improved?**

- Every investor surely has different criteria for their investment decisions. Besides economical reasons it is certainly important to have a business environment with reliable legislation and reasonable bureaucracy. In order to attract more foreign investors it is essential to improve the above mentioned areas in Serbia visibly.

► **Do you think our state has serious potentials for attracting a bigger number of foreign investors? If so, what potentials should we focus on?**

- I think this depends a lot on the level of confidence the investors will gain in the Serbian market and its business climate within the next few years. The potential in Serbia is obvious, yet there are still significant obstacles for investors which need to be improved, especially the bureaucracy and the reliability of rules and regulations.

Another important factor for foreign investors surely will be the quality of local human resources and in my view it is important to focus very much on the education and qualification of people. Many foreign investors still do not rely on local human resources, especially when it comes to management levels. In some specific areas such as accounting or IT it is still very difficult to find well

educated and experienced people. I think it is important that the educational system is improved further and people are given more chances to enjoy an education which is competitive on an international level.

► **What prerequisites does Serbia need to fulfil in the coming period in order to become the main supplier of spare parts for the entire Balkans region, as you have once suggested?**

- In order to become an attractive candidate for regional logistic centres of foreign automotive companies, there are several criteria of relevance. In order to ensure the best possible service for clients, parts logistics must be cost efficient, fast and therefore well located. In order to be fast it is important to have a minimum of trade barriers and a flexible trade law within the region. In addition it is important that the parts suppliers are also located nearby to the logistics centres in order to optimise costs.

In my view it is important for Serbia to attract more parts suppliers of the automotive industry to come to Serbia which will automatically make the location more attractive for car manufacturers to consider also the implementation of their regional parts logistics centre in the country.

► **What conditions should the state create in order to assist with economic recovery?**

- Well, I am afraid that I am

**In such a difficult time it is important to stimulate the markets and not to increase the financial burden on the consumer side**



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**BPI has operated its Serbian activities in Vojvodina and Belgrade since 2006; however the company has its origins back in 1932. This date saw the inception of a family business in agriculture and construction in Ireland that has since has grown to specialise in agriculture, residential, industrial, commercial and pharmaceutical construction. These competencies have been augmented by a close network of long-standing management teams including family members; operating in Ireland, the Baltic States and the Balkans. The family-run aspect of the business has been vital in the formation of clear strategies for BPI and this is crucial as it allows the numerous stakeholders in BPI's businesses to have a clear awareness of how mutual relationships should co-exist in the creation of**



**benefits and value for all. In Serbia BPI has been involved in agriculture and real estate since 2006 and has witnessed first-hand the numerous intricacies associated with the Serbian jurisdiction of the business environment. Since 2006 BPI has adopted a strategy to re-align and strengthen existing business relationships as well as creating new relationships, during a volatile business environment both locally and internationally.**

**BPI firmly believes the aforementioned strategy together with the committed endeavours of its employees, local management as well as business relationships within Serbia should position BPI and all stakeholders in its business at a springboard for future growth in the agricultural, real estate and related markets.**



not in the position to advise the Serbian state about a perfect solution on how to boost the economy in general. Regarding the automotive business there are several opportunities to support business, e.g. reducing import duties, reducing registration tax, waiving luxury tax, introducing a scrap bonus for old vehicles etc.

In such a difficult time it is important to stimulate the markets and not to increase the financial burden on the consumer side. Especially when the purchasing power of each individual is reduced, the introduction of additional taxes and fees slows the economy down further.

I think there are many good examples from other European markets of such stimulation programmes but of course it requires the respective budgets.

► **To what extent, and how, can we improve the private sector?**

- One of the most important factors is that all companies enjoy equal conditions, regardless of whether they are state owned or private. It is very important that the private sector is in the position to develop their business based on a reliable system with a profitable result. Only the Government is in the position to ensure a stable and reliable business environment in Serbia that supports the private sector.

In the current economical situation it also important that financial institutions will again take more risks, especially SMEs which depend a great deal on local financing solutions. For the automotive industry the banks

and leasing companies play an essential role, however they are still extremely cautious with the leasing and financing of automobiles. I guess that is the same problem for all other industries where financing plays an important role.

► **Can such moves, as improved financial conditions for clients, made in partnership with banks and leasing com-**



**One of the most important factors is that all companies enjoy equal conditions, regardless of whether they are state owned or private**

► **panies, lead to the revitalisation of the car market?**

- Absolutely! That is the reason why the majority of automotive companies use those partnerships in order to stimulate the demand. This refers especially to the commercial vehicle business, with a ratio for financing or leasing above 90%, it is only possible to maintain the business with strong financing packages. That's the reason why Mercedes-Benz tied up further with some strong leasing partners

like NBG or Sogelease. But all leasing houses in Serbia need to support this industry more in order to get it back on track.

The Serbian market has completely changed over the past 24 months. We are not only selling cars but also offer financing, insurance and especially attractive service packages for our customers. Two years ago, this picture looked very different and all these topics were a minor issue!

► **Do you think that Serbia can develop its economy with the help of FDIs made via leasing?**

- Generally, I think that FDI plays an important role for the economical development of every emerging market. It is important though that the investment also supports the local industry and helps to increase the qualification level of people in Serbia. In my view it's not important how FDI is made, but it's important that there is enough FDI into the Serbian market in the future.

► **From the standpoint of German companies, what are Serbia's biggest advantages?**

- I can only answer this from my standpoint as member of the FIC Board of Directors. In my view Serbia for sure has good potential because of size, location and also the speed of development over the past years. Investments are usually planned by every investor with an expected return in the long run and not after one or two years; especially for big international investors the timeframe for their investment is rather five to ten years or even longer. Bearing this in mind, even if the current business environment in Serbia might still have some room for improvements, I see a big growth potential for business in Serbia in the long run. ■



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# Serbia at 88<sup>th</sup> Position



By Tatjana OSTOJIC

Based on the report of the World Bank and International Finance Corporation (IFC), in 2010 Serbia is ranked at 88th place out of the 183 economies in the world which were examined. 'Doing Business 2010: Reforming Through Difficult Times' is the seventh in a series of annual reports investigating regulations that enhance business activity, and those that constrain it. Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies (from Afghanistan to Zimbabwe) over time. The data set covers 183 economies: 46 in Sub-Saharan Africa, 32 in Latin America and The Caribbean, 27 in Eastern Europe and Central Asia, 24 in East Asia and the Pacific, 19 in the Middle East and North Africa

**Dušan Vasiljević,**  
Policy Reform Team  
Leader, USAID/MEGA

**Serbia has the worst position in the category of expenses in order to receive a construction permit**

It takes 279 hours, or 35 working days, every year for the administration of paying taxes. This is something which is far more efficient in other countries and is something which is dragging Serbia downwards

and 8 in South Asia, as well as 27 OECD high-income economies as benchmarks.

"This report is extremely significant, because it shows the tendencies in a country's economic movements. So, Serbia went up by two places on the list compared to last year," Dušan Vasiljević, Policy Reform Team Leader, USAID/MEGA says and adds "At the same time, it is a good opportunity to compare ourselves with some countries, if not with those competitive ones, then with those we have traditionally compared ourselves to. For example, DBR Hungary is at 47th place, Bulgaria at 44th, Slovenia 42nd, Romania 55th, while Greece is at 109th place."

According to Vasiljević, one should not only look at the strengths of a certain economy on the list, but also the basis of its competitiveness, that is to say, the quality of its institutions, as well as the quality of the general institutional framework for making a profit in the country. In the report a set of regulations affecting the 10 stages of a business' life are measured: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

"The usefulness of this report is seen in the fact that Serbia was ranked in each of the categories, and based on this, one may gain a perspective of where Serbia is more competitive and where less competitive," Vasiljević stresses.

On the criteria of starting a business Serbia is ranked at 73rd place, dealing with construction permits at 174th, employing workers at 94th, registering property at 105th, getting credit at 4th, protecting investors at 73rd, paying taxes at 137th, trading across borders at 69th, enforcing contracts at 97th and closing a business at 102nd place.

The characteristic of this list is that other categories relevant for the World Economic Forum are not taken into consideration, and those encompass the state of infrastructure, of educational and health systems, which are also needed as the basis for a business. What is relevant with this report is the legal framework and this report is the mark of the legal framework, our interlocutor stresses.

Based on the report, Serbia comes fourth when it comes to getting loans, and according to Vasiljević, one may conclude that the system for getting loans has been significantly improved, and the conclusion is that it is mostly



## Serbia's Ranking in Doing Business 2010

RANKING	DOING BUSINESS 2010
Ease of Doing Business	88
Starting a Business	73
Dealing with Construction Permits	174
Employing Workers	94
Registering Property	105
Getting Credit	4
Protecting Investors	73
Paying Taxes	137
Trading Across Borders	69
Enforcing Contracts	97
Closing a Business	102

due to the reformed banking system and that the procedures are very good.

Vasiljević points out that the procedures for getting construction permits are very precisely dealt with in the report, and the total ranking is based on three criteria: The number of procedures required for one to get a construction permit, which does not place Serbia too badly as there are about 20 procedures, which is not too bad compared with other countries, so one would say that it is average. Secondly the time needed for getting a permit, which was appraised at 279 days for Serbia. To make the methodology comparable among countries, the authors of the report selected a type of project, e.g. construction of non-harmful material storage in the capital. For such a structure, the 279 day time period needed to get the permit is below average. And thirdly, Serbia has the worst position in the category of expenses in order to receive a

construction permit. Namely, the fee for regulating the city construction grounds is seen as the largest expense for getting a construction permit, and it is by default a great burden for investors and amounts to 1907.5% of income per capita.

"That is of the greatest influence on Serbia's position according to this parameter, and the position is very bad," Vasiljević explains.

He says that there are indications that next year a better rank based on these criteria might be expected. Namely, in August last year a new Law on Planning and Construction was enacted and it is being applied now.

"The truth is that Serbia has currently had a drop in efficiency, which is relatively speaking, normal, because it is related to bring-

**Serbia went up by two places on the list compared to last year**

ing in by-laws. But, it may also be said that there is the impression that the new law has created conditions to speed up the process. There is more order in legal frameworks for collecting fees for regulating the construction grounds. Last year, the city of Belgrade had the opportunity to reach its own decisions which caused significant payment reductions, because there were not many construction

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sites at that time and it was one of the city's incomes which dropped the most. If those reductions are taken into consideration for compiling the report for next year, a better ranking of Serbia based on this criterion might be expected," Vasiljević comments.

When it comes to the criteria of tax payments in Serbia, our interlocutor feels that the tax rate is not as big a problem as the administration of paying taxes. In terms of the methodology and the elements used in the report, its authors took into consideration a medium-size enterprise, in order to make it comparable to other economies, and they concluded that it takes about 66 tax payments in one year. Should one calculate how many hours it takes every year to administer paying taxes, the amount comes to 279 hours, or 35 working days.

"It practically means that you should have an employee who will do nothing but pay taxes for 35 working days a year. This is something which is far more efficient in other countries and is something which is dragging Serbia downwards. That is also the reason why Serbia came 137th in the general overview of paying taxes," Vasiljević points out.

In his opinion, Serbia ranks below average in a couple of categories, and one of those categories is the shutting down of companies.

"It is obvious that there are a lot of burdens, both administrative and financial, when a company needs to be closed. Not enough attention was given to the matter when regulations were being reformed. When someone starts a business, he does not only calculate how much money he needs to start the business - where we hold a relatively good 73rd place because the procedure was reformed and there was room for progress. However, when an investor thinks about the expenses of his business, he does not only calculate how much money it takes to start a business,

but also how much the closing of the business will cost, if something goes wrong. This is where Serbia is not competitive enough. If you look at all the expenses and put all the administrative procedures into perspective, this is an element which discourages investors from starting a business," our interlocutor stresses.

As Vasiljević says, one of the greatest problems in Serbia is the implementation of contracts.

"This signifies the number of days needed in Serbia to recognise some right given in a contract in court, and the time is 635 days which is amazing. This criterion refers to businessmen's legal protection. In addition the criterion also takes into account the number of procedures required, which is 36 days, but in this case it is an indicative number of days. Procedural expenses make up 28.9 % of someone's claim, which means almost 30% of your claim has to be written off at the very start. Steps forward may also be expected in this area, or perhaps it is better to say, an upgrade of the entire system," Vasiljević says.

Although elements included in the report where measures which should generally promote Serbia's place are recognised, our interlocutor says that one should still bear in mind that other countries are not staying still. That is why it is necessary to carry out reforms at a fast pace so that there is progress up the list.

Progress is expected in the area of claiming property rights, thanks to the system of registration of property in the cadastre.

"There is a dual system in Serbia: part of property registries is within the courts, and the other part is in cadastres. Serbia has received a large credit from the

World Bank to make a unique system of property evidence in cadastres. The process is slow and it is expected to take about a year and a half," Vasiljević points out.

The criteria for hiring workers



**On the criteria of starting a business Serbia is ranked at 73rd place, dealing with construction permits at 174th, employing workers at 94th, registering property at 105th, getting credit at 4th, protecting investors at 73rd, paying taxes at 137th, trading across borders at 69th, enforcing contracts at 97th and closing a business at 102nd place**

is, according to him, not related to the workers' registration procedure, but to the obligations of the employer in hiring workers, to be more precise - what the working hours are, how rigid they are, and so on. There is the matter of whether those obligations are regulated by law or a contract, how limiting the regulations for firing workers are, and what the expenses for that are. For example, it has been estimated that the expense of firing a worker is equal to half a year of the employee's salary or more precisely to 25 working weeks.

"There are numerous tendencies which indicate that Serbia might move forward on the list, but I am not sure if that will be visible in the next report. The reason being that all the data has already been gathered, processed, and some measures are only in the process of being applied, so I expect that in the next report a substantial progress of Serbia will be shown. I expect this in the areas of employment, the issuing of permits, tax payments, property registration, or property rights claims. I believe that the implementation of contracts will be promoted, and because of those elements we may expect significant growth," Dušan Vasiljević concludes. ■

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# Progressive Moves



By Đorđe VLAOVIĆ

One of the more successful examples of privatisation in Serbia is certainly the privatisation of Merima Leskovac by Henkel. We discuss with Georg Grassl, Member of the FIC Board of Directors, and General Manager of Henkel Serbia, the process of privatisation in this country, and also ask for his assessment of the investment climate in Serbia.

► **What does Serbia need to do in this post-crisis period in order to continue attracting foreign direct investments?**

**“The government has a difficult task in balancing the interests of the whole economy”**

The economy in Serbia is still developing, so it would be unrealistic to expect the same approach to sustainability as seen in mature economies

- Foreign investments in Serbia are currently in the media focus, especially because of the German-Serbian Business Council. Serbia definitely has enormous potential as an investment location; however, those in charge need to start showing some proactive behaviour. There have been several major improvements such as the CEFTA agreement, and visa liberalisation, that have made it easier to invest in Serbia, and more will have to follow in order to sincerely prove that investing money in Serbia is a wise move.

► **Do you think the state has taken a step forward in achieving balanced regional and local development, as well as supporting local authorities?**

- Only recently have the Serbian authorities started dealing with the problem of state decentrali-

sation. We have seen some pretty progressive moves, like relocating several state services from Belgrade to regional centres. This is encouraging and a step forward. Balanced regional economical growth is imperative for long-term stability.

► **How many recommendations for the chemical industry sector have been implemented, especially subsequent to the relevant legal framework being devised?**

- Most of the recommendations have been implemented, although successively and in a certain period of time, but we are satisfied with the results. Bylaws concerning The Law on Biocide Products and Law on Chemicals have been implemented in the adequate time frame, even though there are still bylaw drafts to be implemented.

► **What is your level of cooperation with the Chemicals Agency? Realistically speaking, how influential is the Agency in implementing laws (such as the Law on Biocide Products, Law on Chemicals, Law on Waste Management etc)?**

- We have had direct contact with representatives from Chemical Agency, and they have shown strong interest in our recommendations and suggestions, as well being ready to improve and change bylaw drafts at our request.

► **In your opinion, how much has Serbia achieved in corporate management and with accomplishing sustainable development?**

- The economy in Serbia is still developing, so it would be unrealistic to expect the same approach to sustainability as seen in mature economies. However, in most multinational companies sustainability and corporate social responsibility (CSR) is part of their corporate culture; this should be the path for all Serbian companies as well.

► **Did the lowering of customs duties for the CEFTA members help producers from Serbia, like Henkel, with becoming competitive in those countries?**

- We are particularly pleased with CEFTA which aims to streamline investment and trade and brings countries in the region a step closer to EU membership. It creates a favourable environment for producers in this part of the world to do business without unnecessary obstacles. As a significant part of our production is exported, we find it much easier to operate in these conditions.

► **Do you agree with the statement that further elimination of**



**customs obstacles will lead to an increase in exports? In your view, what should the Serbian Government do in order to further regulate customs duties, procedures and rates?**

- The Government has a difficult task in balancing the interests of the whole economy. Entering CEFTA opens borders in both directions and some producers become less protected. On the other hand, exporters can now access a much more attractive, regional market, which increases their growth possibilities. In the long run, only an open economy can survive and prosper.

► **Do you agree with economic experts that the successful operations of foreign investors in Serbia are a fine example that shows Serbia is a good location for investment?**

- It certainly helps. The situation is not black or white, and there were cases of privatisation that received negative publicity. Therefore, every successful investment can help with convincing indecisive investors that Serbia is the right choice.

► **What is your overall view of the privatisation process in Serbia? What would you commend and what you would criticise?**

- So far, it appears that pri-

**In the long run, only an open economy can survive and prosper**

vatation in Serbia, more or less, has gone in a satisfying direction. There are always those who oppose this process, and not every procedure was done transparently. This is not unique to Serbia; every country in transition has gone through similar problems.

► **What is the biggest fear that German investors have when it comes to investing in Serbia?**

- Most of the trouble comes from the unstable market and currency and sometimes the unexpected changes in legal procedures and regulations, also the fact that regulations are not very practical. Bureaucracy can be a problem in every country, not just Serbia. A lot of work still needs to be done in order to improve and attract more foreign investors, but it is certain that Serbia is slowly becoming the centre of the SEE. ■



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# Predictability is Necessary



“What worries foreign companies is the fact that the rules are being changed while the game is still on”

By Tatjana OSTOJIĆ

By the end of October, the publication of the new White Book of the Foreign Investors Council (FIC) is expected. We discuss some of the new issues the White Book plans to draw attention to, as well the FIC's activities in the previous period, and what their plans are for the coming year with Ana Firtel Vlačić, the FIC Executive Director.

► **The FIC is known for its White Book which contains recommendations from FIC members appropos Serbian legislation. Some would say that the White Book is a brand of the FIC. Putting such a book together requires huge effort and work by all FIC members. How active have FIC members been this year?**

- One could truly say that the White Book is a 'brand'. It is the main project with which the Foreign Investors Council primarily deals, and something which differentiates us from other similar associations. The White Book represents an all-encompassing image of the business climate in Serbia, the way it is observed by the foreign investors. It captures all relevant elements of the regulatory framework and gives a wide perspective of the business environment in Serbia.

In addition to information about the business climate in Ser-

bia, the book covers the progress of the quality of the business climate, points out to issues that remain to be resolved and suggests solutions for problems in regulatory framework. It is not a wish-list, but a deep analysis of the business and legislative framework.

The most important characteristic of the White Book is the way in which it is produced. The book is written through the active dialogue of members. Stances taken in the White Book represent the opinion of the majority of FIC members and this is where the publication draws its strength. Authors of specific texts are experts who are practitioners at the same time, who know the implications of legal solutions in everyday business dealings in Serbia. FIC committees serve as forums for discussion between the members around the issues to be presented in the White Book and even more so the recommendations that the FIC should promote as means to deal with specific problems. I would like to stress that there re-

**The idea is that member-companies actively participate in our platform, and that the FIC builds upon their knowledge and experiences**



ally is a vivid debate among the members on how to tackle specific issues in the best way and what comes out in the White Book indeed reflects the position of majority of FIC members, and not singular interests.

I am proud to report that these efforts paid off as the number of companies that are involved in the production of the book has grown, as so did the volume of the topics that are presented in the edition 2010. Members either took on the authors' role, or more frequently used the opportunity to discuss the authors' proposals and provide their comments. As a result, this year's edition will feature new chapters in the section on overall legal framework, as well as new sectoral texts, such as the one on food and agriculture.

► **In addition to the White Book, the FIC has also become an event organiser. One event in particular was the Reality Check Conference that even had Prime Minister Mirko Cvetković attend. Do you also plan to carry out similar activities in the coming period?**

- The Reality Check Conference was organised for the first time with the idea of turning it into a regular annual event. Full credit goes to the FIC Board of Directors which launched the initiative to organise a large event in the first half of the year, with the aim to follow the progress in economic policy reform between the two White Books, and also to track the record in implementation of FIC

recommendations and suggestions. The idea behind the event is not only to enable companies, FIC members, to talk with the state's high officials on a tangible level, but also to provide a wider interested audience with more information about the FIC's work.

► **Are you satisfied with the results of the first conference?**

- The feedback that we have received from the members is mostly positive and that is the most important evaluation factor. The conference accomplished its primary goal - dialogue with the state. We heard the plans of the Government and pointed out the Council's views.

► **What will you remember this year by in terms of the work done by the Foreign Investors Council?**

- Organisation of the first Reality Check Conference really left the mark in work of the FIC. Members gained the opportunity to engage in top level discussion on strategic issues, and this is important for a platform such as the FIC.

However, together with the intensifying workload, the FIC also expanded its internal capacities, by opening the post of administrative assistant and hiring a new office manager in March, and building its expert capacities by



**The White Book represents an all-encompassing image of the business climate in Serbia, the way it is observed by the foreign investors**

opening the position of regulatory officer in August 2010. The FIC executive team now counts five employees and this represents a strong base for further expansion of the FIC work in the future. So, I would remember 2010 as a year of solidifying the administrative capacity of the association.

When we talk about screening of lawmaking process, the state has been very active in the previous period in compiling solutions to legislation which affect the business climate in the real sense of the word. Therefore, the activities of the FIC have included analysing and commenting on legislation, such as the Trade Law and the draft Enforcement Law. On the other hand, we have continued to follow the so-called Guillotine Project - looking at what number of recommendations made by the FIC the Government had adopted, whether those suggestions were being incorporated and at what speed they were being applied.

Looking at the FIC advocacy activities, what has marked our work in the previous period has certainly been the matter of proliferation of taxes. Unfortunately, we noticed a tendency of the state to introduce a variety of new taxes, including promotion of different public duties via sectoral laws, as well as rapid increase of local taxes by municipalities. This tendency concerned us, especially because new taxes were being introduced without prior warning and in the middle of the fiscal year. Such practice has negative effect on the predictability of the business climate, and the FIC alerted relevant authorities of these issues on several occasion throughout the year. We feel that such a policy cannot contribute to improvement of business conditions and it definitely does not have a positive effect on Serbia's competitiveness. What is worrying foreign companies is the fact

## The White Book

The new White Book will feature new texts and topics, which are a result of the increased interest of FIC members. For the first time the Trade Law will be commented on, as well as the system of the Public Procurements Law, the Bankruptcy Law, and the application of the court and other decisions, opportunities to really gain in practice certain acquired rights, and to settle the taken financial obligations. The publication of the White Book is expected at the end of October, or beginning of November. The editor continues to be Mihajlo Crnobrnja, Ph.D.

that 'the rules are being changed while the game is still on'.

► **Have you changed membership criteria for the FIC? Who can become a FIC member and on what terms?**

- The criteria under which a company may become a FIC member was last altered in December 2008. From its founding, the FIC's aim is to gather foreign investors - domestic companies which are registered and work in Serbia, but which are established with a significant share of foreign capital. However, as of 2009, domestic consultancies and law firms can also become FIC members under certain strict conditions. What brought these changes is the understanding that an important pool of knowledge was left outside the FIC. Foreign investors, members of the FIC, engage domestic consultants in efforts to comply with local regulations, and yet these consultant companies were not able to share their experiences within the FIC.

The very process of gaining membership starts with an open conversation aimed to exchange information on the opportunities that FIC membership offers on one side, and companies' business principles and operations on the other side. It is important to us to convey early on to the interested companies what are the benefits of enrolment in the FIC, in order to prevent having members whose expectations cannot be met. The idea is that member-companies actively participate in our platform, and that the FIC builds upon their knowledge and experiences. This is the way in which we formulate the best possible suggestions, with the aim of promoting the business climate.

After the initial communication, if formal pre-requisites are met, the company fills in the application form and signs the state-

ment that it agrees with the FIC Statute. Based on the presented information, the FIC Board of Directors reaches the decision on admission of a new member. Designated representatives of the new member company are included in FIC communication network and active engagement of a new member can start.



► **What can the Council offer to its members?**

- The key benefit is that a company may use its experience and knowledge and incorporate it into the Council's activities, and thus trigger necessary change of doing business conditions. The FIC initiates improvement of the legislative framework. The FIC is not a chamber and we do not offer B2B services. We deal with the analysis of the regulatory framework and serve to identify common proposals for change of regulations based on discussion amongst our members. It is important to point out to current and potential members that active participation in the FIC can bring concrete benefit to the member companies, in terms of acquiring fresh information on upcoming regulations and advocating changes in current policies. In example, if a company is interested in changes

**We noticed a tendency of the state to introduce a variety of new taxes, including promotion of different public duties via sectoral laws, as well as rapid increase of local taxes by municipalities**

which will be introduced by new legislation on Corporate Income Tax and VAT, or specifically how will the voluntary disclosure act be implemented in practice, then it should engage in FIC Taxation Committee which is following this topic. I would like to be clear, this relationship goes both ways and it should bring benefits both to the

members and the association. We are there for our members, to be utilised for analysis of the regulatory framework, exchange of knowledge and experiences between the members, and for joint advocating of necessary changes in doing business conditions.

► **What are your plans for the forthcoming period?**

- When it comes to the FIC's plans, apart from the White Book which is currently in progress, we will continue to call for full

application of the regulatory guillotine, because we want to create the maximum possible benefit from the project in which we have heavily invested. Also, the FIC is awaiting the Serbia 2020 Strategy, which Prime Minister Mirko Cvetković announced for early autumn, and which should increase the level of market's predictability.

December 2010 will feature the regular annual meeting of the General Assembly of the Foreign Investors Council, which draws together all FIC members to jointly analyse the previous work of the association and determine plans for future course of action.

Besides these activities, the FIC will further work to build up the structure of the organisation, strengthen the role of the working committees, and introduce new mechanisms for enhanced dialogue with our members. ■

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# Compromise Above All

By Dejan JEČMENICA,  
FIC HR Committee President  
(Wiener Stadtische osiguranje  
a.d. Beograd)

As an active participant in the process of driving reforms and economic development, the FIC is recognised by the Government as one of the crucial stakeholders. Over the years, the FIC has been playing an important role in this process by providing general and sector specific recommendations, as seen by the foreign investors operating in Serbia. The FIC has formulated and sent to the Government proposals to amend the regulations within the framework of the Regulation Guillotine. In addition the FIC has formed special working groups for tax, customs, and telecommunications, as well as engaged the HR Committee, in order to perform the detailed analysis of the respective regulatory frameworks and produce concrete recommendations for either improvement in or cancellation of certain regulations. All of the proposals pertaining to labour regulations have been consistent with the recommendations published in the White Book 2009. I am glad to report that the Government has accepted some of our proposals, but in most cases their implementation is still pending. Therefore, I would like to call upon the authorities to speed up this process and express hope that our recommendations will be applied in the new legal and sublegal papers that we



**Unfortunately, in 2010 there have still been no changes to labour laws**

The Government has accepted some of our proposals, but in most cases their implementation is still pending

can expect with the adoption of the new labour laws.

Unfortunately, in 2010 there have still been no changes to labour laws. Also our suggestions and rec-

ommendations have not been implemented according to the recommendations that we announced in the White Book of 2009. As the draft of the labour law is in front of the working group - though we are not members of the working group - we have as FIC provided recommendations which are an integral part of the White Book of 2010. We hope for the acceptance of certain suggestions as given by the FIC.

The White Book 2010 will contain FIC comments regarding the Labour Law, the Law on Volunteering, the Law on the Prevention of Abuse in the Workplace, the Law on the Central Registry of Compulsory Social Insurance, the Law on Professional Rehabilitation and Employment of Persons with Disabilities, the Law on Employment, and Human Capital.

I want to emphasise that this year we will give an overview of the current situation considering all the important events that took place in 2010, in regards to Labour and Human Capital, in terms of positive developments and re-

maining issues for each of the above areas. In addition, we will specifically state the FIC recommendations for the improvement of these areas in order to provide recommendations and suggestions that are of mutual interest.

At this time there are still no changes that refer to the revision or change of the Labour Law. Our opinion is and we still emphasise that this is a very important law for employees, the state and employers. We would certainly like to fully share our experiences, knowledge and good practices in the implementation of the new law or changes in the existing Labour Law.

I think it is very important to find a compromise between all sides - foreign investors, employees and the state. The Labour Law should create favourable conditions, and create a positive climate for investment in Serbia, increase the competitiveness of the Serbian economy, and it ought to also ensure that working conditions are the same with EU standards, and promote the approximation with EU legislation. In addition, it is important to emphasise that the law makes such conditions in order to reduce the black market, as well as labour by developing existing flexible forms of labour and introducing new forms of involvement. ■

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# Over 100 Proposals

The Guillotine Project is a process and the Council recognises this. We have submitted proposals in the fields of taxation, customs, labour regulations and telecommunications

By Milica **SUBOTIĆ**,  
FIC Legal Committee President  
(Janković, Popović & Mitić o.d.)

As the procedure for the public discussion of proposed laws is not clearly regulated by the current rules on the subject, in practice the Council is not always in a position to provide its comments and suggestions when proposals of laws are on the agenda. Apart from this, in cases when the Council has been given the opportunity to provide its opinion concerning certain bills, the time we have had for the provision of our comments and suggestions has been limited. However, except for this practical obstacle, we have had the opportunity to give substantial input on a few occasions. For example, at the invitation of the Ministry of Justice and the U.S. Agency for International Development, the Council took part in a conference on the draft version of the Enforcement and Security Law in February of this year, and forwarded its remarks and proposals to the competent ministry. Our proposals primarily refer to certain improvements and clarifications and the precise definition of proposed solutions. In addition, this year we had very good cooperation with the Ministry of Trade concerning the new Law on Trade. Namely, the Ministry and the Council have jointly organised the presentation

of the New Draft Trade Law, which was a perfect opportunity for the Council to engage in the discussion, give individual comments and at the same time ask questions and get clarification on certain articles from the Law itself.

The Guillotine Project is a process and the Council recognises this. We have submitted over 100 proposals in the fields of taxation, customs, labour regulations and telecommunications. As a response, Government officials have expressed their gratitude for such an input by the FIC. In that respect, I believe that we have opened the dialogue between relevant parties, which is something that deserves appreciation. However, we are certain that there is still room for the further participation of the FIC in this project as well as for additional efforts of the authorities to recognise the importance and to implement submitted suggestions which we believe are relevant for the development of the investment climate in Serbia.

Last year we concluded with the new Law on the Protection of Competition, the Law on Foreign Trade, the Customs Law, Bankruptcy Law, Construction and Planning Law, and various IP laws. Many of these Laws are being implemented at the moment. In addition, various by-laws relating to these Acts have been enacted and are being implemented as well. For example, seven by-laws



concerning the implementation of the Law on Protection of Competition have been enacted and are applicable as we speak, which

represents a huge step forward. It is the same in the case of the Law on Foreign Trade and the Customs Law which have been followed by the appropriate by-laws.

As for new regulations which are to be implemented, it is important to note that the amendments to the Law on Foreign Exchange Operations and the new Law on Business Entities are to be expected very soon.

Some of the 'missing' by-laws that are important for the implementation of certain Laws have been enacted in the meantime. Some of them are still missing, in particular those relating to the Law on Construction and Planning.

However, it seems that there is a conceptual problem in this regard. In most of the cases, the competent ministry that proposed the particular law is the one which should pass it, or otherwise be active in regards to the respective by-law, as well. So, it could be questioned as to why the work on the law itself is not followed by the work on the appropriate by-laws, especially having in mind that missing by-laws hinder the full implementation of the particular law and thereby limit the effects of the law itself. ■

**We are certain that there is still room for the further participation of the FIC in the Guillotine Project, as well as for additional efforts of the authorities to recognise the importance, and to implement submitted suggestions which we believe are relevant for the development of the investment climate in Serbia**



# New Age - New Solutions

The telecommunications industry is able to play a new role in society. The vision of Ericsson is that by the year 2020 they will have 15 billion connections

Ericsson is the world's leading provider of technology and services to telecom operators. It is the leader in 2G, 3G and 4G mobile technologies, and provides support for networks with over two billion subscribers and has the leading position in managed services. Ericsson is advancing its vision of being the 'prime driver in an all-communicating world' through innovation, technology, and sustainable business solutions. Today there are over five billion mobile subscriptions worldwide and Ericsson envisions 50 billion connected devices by 2020, according to Antonio Passarella, Country Manager of Ericsson d.o.o. Serbia.

► **Ericsson has a strong presence in the Serbian mobile communications market. What are your predictions for further development, taking into account current global trends?**

- We have seen dramatic changes in the last year in the world's economic environment. Operators have been challenged in their business models and there are new players coming into the market. The Serbian market is constantly developing and growing especially in the mobile telecommunication industry. But, as in the rest of the world, this tendency has been a bit slow due to the current economic trends.

The telecommunications industry is able to play a new role in society. We have always talked about the number of subscribers in the world, and today we are talking more about the number of connections. Broadband is going mobile in the next few years because of the data traffic increase and more and

more consumers use data traffic generating devices, such as Smartphones and PCs. And, what we see, the vision of Ericsson is that by 2020 to have 15 billion connections. Besides voice and data, there will be more devices per person that need to be connected as well as sensors and machines in industry. Serbia will, without a doubt, follow this trend.

► **What is your evaluation of the Serbian market and how do market values compare with other markets in the region?**

- Serbia is one of the 175 countries where Ericsson is doing business, and we always as in every country we operate in, do everything to meet our customers' needs and to ensure the customer is satisfied. Here in Serbia we have different kinds of customers, from operators, to enterprises, to governmental and utility institutions. Each of them, big or small are extremely important to us. We are looking very positively to the future in Serbia, and one of the key factors of this will be the integration of Serbia into the European Union, as this will generate the need, and demand for the implementation of new solutions.



Antonio Passarella,  
Country Manager,  
Ericsson

► **What are the problems facing Ericsson in daily operations, and in your opinion what needs to be changed for Serbia to be even more interesting for FDI?**

- Working in different countries we experience

issues, and this is a natural part of life, a natural part of business. In Serbia lots of positive changes in modernisation have been made, but we believe that still a lot remains to be done. For instance, flexibility and the simplification of procedures and regulations will certainly help and this is always welcome. This will for sure help attract foreign investment in the country.

► **Have you had to rewrite your business plans for last and this year, given the economic situation?**

- We are accustomed to working in a very dynamic economic environment. So, at Ericsson we are constantly changing and adapting our organisation to market needs and trends. We have done this in the past and we are doing it today and we will do it in the future. This is the only way we can meet our customers' expectations and consumer needs, and that we can remain a successful company. ■

## Activities

We were proud to be able to present recently to our users in Serbia our Roadshow Demo Centre with the latest technology solutions and applications which enable Telecommunications companies and government institutions and utilities to modernise their business operations, stay competitive in the market and offer their customers a variety of quality services. We also presented at 112 EXPO our solutions which will enable the state to modernise and optimally utilise all of society's public safety resources and citizens to have simple and efficient access to necessary police, emergency and fire service assistance by calling a unique reference number.

# Problems Still Exist

By Djordje **PAVKOVIC**  
**BUGARSKI**, FIC Real-Estate  
Committee President (Hauzmajstor)

The Real-Estate Committee has been very active in the previous period. Its main actions have been directed towards the new Law on Planning and Construction where constant pressure has been applied to the Government and relevant ministries in order to draft and adopt necessary bylaws with the goal of improving market conditions. This has resulted in two by-laws being adopted, with Committee comments being implemented, and with the plan of measures being adopted by the Government which should increase competitiveness in Serbia. Unfortunately the majority of measures have still not been executed with deadlines given by ministries already in breach.

The majority of issues from 2009 remain unsolved in 2010. It is clear that we don't have mechanisms to implement the tools used for the regulation of developed markets, but we need to have a clear plan on how to arrive in the position to manage our own market. To achieve the status of being able to control the market in a sophisticated way, we need wide reform.

Forming a single real estate cadastre and having all relevant information in electronic form



It is clear that we don't have mechanisms to implement the tools used for the regulation of developed markets, but we need to have a clear plan on how to arrive in the position to manage our own market

**With clear plans and political resolve these reforms can be completed in a period of two to three years**

needs to be completed, but the deadline of the end of 2010 will be most certainly breached. The adoption of spatial and urban plans for the entire area of construction land in Serbia is the second necessity, which will probably be the biggest contribution of the new Law on Construction with the penalty policy of dismissal of municipal parliament already giving results. The implementation of the overall conversion of usage rights in ownership rights on construction land is the third important issue. Since the new Law does not obligate conversion, if this is not forced, the conversion will never be conducted. Ownership rights on construction land the key to carrying out any tax policy.

Lastly, but of no lesser importance is the reform of administration. If the time for obtaining construction permits is measured in years, the risk for investment is unacceptably high and market reaction on Government measures are very slow. The key to bureaucracy system reform is more severe and better targeted penalty policy

with strong independent supervision. Efficient tax administration is the best tool the State can have in the real estate market.

All these mentioned reforms are the pillars of the modernisation of the Serbian real estate market. With clear plans and political resolve these reforms can be completed in a period of two to three years. The new Law on Construction is still not regulated through systematic by-laws. Only a few necessary by-laws have been adopted defining instructions to the local authorities regarding the implementation of the new Law on Construction, but not in all fields. The problem of conversion without fees remains, as well as the problem of registration of ownership rights over construction land through the rigid interpretation of the Law on Planning and Construction by the land registries. The by-laws should provide a more precise interpretation of the provisions of the Law on Planning and Construction or at least a common approach should be formed. ■

# Alliance with BNP Paribas Real Estate

The most important goals of the company are clearly defined within the professional code that they follow - always aiming towards profit, the leading market position and offering the finest professional services

**D**anos Company was founded in 1968 in Cyprus and its operations were expanded to Greece in 1995. As the leading regional real estate consultants, Danos formed an alliance with BNP Paribas Real Estate during 2008, which now operates through more than 80 offices in Europe, the Middle East and the United States, employing over 3,300 professionals. This also creates the long-anticipated opportunity to expand Danos Group and BNPP RE Alliance towards the region of South-Eastern Europe.

The alliance partnership with BNP Paribas Real Estate enables Danos Company to provide services for already existing clients within the South-Eastern Europe region by opening new offices in the Balkans. Danos initially started with new offices in Serbia, Bulgaria and Albania in 2009, while the Crete office was opened in May 2010. Currently Danos, together with the Alliance partners, is working on new expansions within the South-Eastern Europe and Mediterranean region.

The Serbian branch operates through two major sectors - the 'Department for Valuations' and the 'Investment Advisory and Agency Sector' which deals with all types of commercial properties and land transaction services.

In April 2010, they recognised a strong opportunity in the mar-

ket which facilitated the formation of a residential department as their new division for the sale and lease of exclusive residential properties.

The key services the company offers are: Property Valuations and Appraisals and Valuations of Machinery, Feasibility Studies and Property Investment Studies, Property and Project Management, Agency and Transactions, Investment Consultancy and Portfolio Management, Market Research and Corporate Management and Consultancy Services in Development Projects with Taxation and Planning Advisory.

The most important goals of the company are clearly defined within the professional code that they follow - always aiming to

## In regards to growth in the real estate consulting services sector, Danos has a long tradition of more than 42 years of operations

wards profit, the leading market position and offering the finest professional services. The company's credo: Professionalism - Experience - Excellence, describes very precisely the mission of Danos' operations.

Danos and Associates has regular business activities in Croatia, Bosnia and Herzegovina and Montenegro. In the near future, the goal is to establish a new office in one of these neighboring



**Jovan Jovanović,**  
Danos Country  
Manager in Serbia

countries, which will be publicly announced after the finalisation of internal procedures.

In regards to growth in the real estate consulting services sector, Danos has a long

tradition of more than 42 years of operations and during that time they have faced and experienced many of the changes within the market. Undoubtedly, the opening of new offices at a time when the construction and real estate industry are unsaturated doesn't seem to be completely in line with a typical expansion plan; however, on the other hand, they consider it as their major advantage. Starting with company's positioning in such an unstable market allows the company to prove its essential quality and to build a reputable market position where only the best can survive. It is easy to start a business venture when everything is stable, while only the rare ones can swim through impediments.

Their major challenge for the upcoming period is to stay on a clear road to profit, utilising all market opportunities in Serbia and ex-YU markets in order to maintain a high market position within the property consulting industry.

Management-wise, the major challenge is to lead their Serbian operations towards the position of market leader. ■



# Consistency and Transparency



The FIC has established and maintained the image of a renowned institution and we make an effort to improve this image by constantly improving our own work

By Dragana **MARJANOVIĆ**

**W**e discuss with Milica Djordjevic, Communication Officer of the FIC, the importance of communication among the members of the FIC and the presentation of the public views of the Council.

► **You have been heading communications within the FIC since April 2008, up until now. Having in mind that the FIC has been around since 2002, could you please explain how and for what reason FIC management decided to introduce this post?**

- The FIC was established in 2002, with the clear mission of contributing to the improvement of the overall business climate in this market.

Going back to those years, you will recall that a few enthusiastic foreign companies present at that point of time in Serbia, had a vision that bringing to life the idea of establishing an independent association of this kind, would be beneficial for all companies operating in this market, whether foreign or domestic. Since then, the FIC has experienced continual growth, now counting more than 120 member-companies. We are especially proud to point out that without any explicit actions from our side regarding seeking potential new members, continuity in growth remains stable even in this

time of economic crisis. Internal statistics indicate that from the beginning of this year, 18 companies entered into FIC membership, which is a result that speaks for itself. With such an extensive membership base, this naturally resulted in the introduction of the new position – Communication Officer, with the clear idea of bringing focus to the improvement of the internal communication process, and to try to introduce and implement new ways of communication that would benefit the members on the whole. At the same time, there was a need to employ a person to be responsible for securing a stable and consistent approach towards the media and other important stakeholders, in line with the strategic decisions made by the FIC Board of Directors.

**The FIC is open and flexible in terms of cooperation with all parties from whom our members can benefit in an appropriate way**

► **What were the first steps that you undertook and how do you communicate with your members? To what extent have you had, or do you still have certain challenges in this process?**

- First of all, it is important to bear in mind that the FIC is an association not one particular company. This automatically means that you cannot apply the usual internal communication procedures that are suitable for companies, having in mind that you do not have ordinary employees, but a membership base that consists currently of 1236 people sitting in 127 companies that are the FIC members.

One of my first duties was to regularly meet with the representatives of our membership in order to speak to them, and research what they see as the main roads towards better communication and subsequently to gain a better understanding of what the main obstacles on daily basis are that impede their business. Based on experience, we have established electronic communication with our members as an important step towards the overall improvement of the efficacy of the communication process. Having said that, I am happy to advise that the Executive Team invested great efforts to define different types of emails to be used in a consistent way for different occasions. We highlighted even small details such as what format and font the email should have when we for example invite members of the committees to attend meetings.

Also, when sending reminders to the mentioned groups of members, they have an identical structure across the committees, so that when for e.g. receiving reminders, our members in a matter of almost seconds can recognise the purpose of the email. Not to mention the energy that we even now invest in defining the best possible sub-

ject title of the email in order that it be noticed, read and produce a certain action from the recipient. We constantly listen to what our members say, and try to improve communication as much as possible. The only criteria we use is how clear our messages are, and that the criteria of transparency of messages is obtained at the maximum level. What needs to be done in the future is an update of



our entire database at the highest level possible, including a list of external contacts that consists of different stakeholder communities, which is very important to the work and success of the FIC. Up until recently, being a very small team that consisted of three and sometime even two people, we were given the green light from our members to employ two more people and therefore to add value to our team.

In addition to other tasks, one is responsible for active information search and the updating of the database, and the other for bringing added value to the work of the FIC Committees from the point of view of offering expert support. Answering your question in terms of what challenges I face through this work I would say many, even many on a daily basis and I still do face on regular basis. If you envisage that at the meeting of our committees and other similar occasions, you sit and deal

with companies that are in direct or indirect competition, even non-verbal communication counts and could give a certain impression to the recipients. That's why we have very strict procedures in both our electronic and verbal communication. Once again this is worth mentioning, in order to obtain consistency and transparency in the communication process. The key words when dealing with groups

of people that require equal treatment and deserve the same opportunities for their involvement in the FIC's work are 'consistency' and 'transparency'! We like to highlight to potential members that the FIC is an association, which means that all of them have the same opportunities but this relates to how much they will gain from the FIC. This is in direct correlation to how active and involved in the FIC's work their companies

are. More active members, represent better options for satisfying their company's, or better to say, their industry's needs. We exist to produce papers that have a common position relating to the standings of different industries, and to communicate these to the relevant stakeholders and lobby for them in an appropriate manner. On the other side it is important to say that we are limited by the Statute in expanding the portfolio of our activities and we have to stick to the activities we already perform. Sometimes we are confused with the work of chambers or even the work of SIEPA, but the truth is that we don't offer b2b or other commercial services.

► **What about other means of communication? Do you have a newsletter, leaflet or other similar forms of communication?**

- It is worth mentioning that in addition to our website presentation that offers various possibilities to

**More active members, represent better options for satisfying their company's, or better to say, their industry's needs**

our members such as presenting new members and promoting members activities and services, we also have a 'members only' section reserved specifically for members, that consists of all materials, minutes and documents related to the work of the FIC. We can report that in the year 2008 we redesigned the internal pages of our publication the "White Book" in order that it be more readable and visually appealing. Also in 2009 we introduced a new visual identity and produced backboard, new roll-ups and other basic promo materials.

At the same time, talking with the different companies that needed briefing information on the FIC's work and who were considering membership in our association, we wanted to create a useful leaflet in order to be able to automatically respond to their common questions. Also, we created a tool for reporting to our members, and as a result of our deep brainstorming and talks with members we firstly introduced the electronic version of a newsletter called the "FIC Overview" that was published on quarterly basis.

After a certain period of time, we were not satisfied with the results of this launch and the feedback it gained from members. As the timing corresponded with the new FIC Board of Directors being recently elected and in place, we asked for their input to the newsletter and as a result of their great efforts and thoughtful input we created the "FIC News" which is published on monthly basis. So far, feedback from our members is good and therefore we will continue with its publication. As I've said earlier, we are here for our members. If they are satisfied with our work we do not change it, if not, we are always there to listen to them and act accordingly in order to meet their needs. We continuously improve and intro-

duce new sections on our website to meet their needs. I can give you a concrete example of this. A respected member of one of our committees proposed the introduction of a certain type of forum



### **A membership base that consists currently of 1236 people sitting in 127 companies that are the FIC members**

in order to facilitate the members actively submitting proposals in relation to a certain piece of information, for example, a legislative act. We contacted our web administrator and for a certain period of time tried to brainstorm and find the best possible option to bring to life the member's proposal, and at the same time to make our procedures easier and therefore motivate the members to be more active. If we succeed with achieving the ideal solution at the same time as paying attention to the limits of our budget, one can tell you that we will take that step forward in order to make the communication process more up-to-date.

#### **► What about external communication with the various stakeholders, the media, etc.?**

- Regardless of who we talk to, we try to convey that our propos-

als come from either the whole of the FIC membership, or represent the voice of the specific industry, which is by the way true and gives us more leverage in all our arrangements, talks and proposals.

The FIC has established and maintained the image of a renowned institution and we make an effort to improve this image by constantly improving our own work. We have cooperation with all relevant stakeholders based on different ad hoc projects. It is important to say that the FIC is open and flexible in terms of cooperation with all parties from whom our members can benefit in an appropriate way. Even when the organiser of a certain conference, seminar or forum, contacts us and offers cooperation, we have established ways to respond to them in a consistent manner. The criteria we use are always in the best possible interest for our members.

Regarding the media, we have the same approach as that confirmed by the new Board of Directors elected in December 2009, which is to not comment on daily politics while at the same time being moderately present when we have something important to say. Being aware of our limits we established cooperation with a particular PR Agency to supply us with expert support in our communications. Even in the process of choosing the appropriate agency, we acted in a transparent manner by organising the 'pitch', and selecting the agency to cooperate with based on the quality of their offer. It is important to say that whatever we want to introduce requires financial resources. As the association is financed solely from its membership fees, we are limited with our budget and must be very aware of it. Therefore innovations in our work sometimes depend on how much we have in terms of resources. ■



# An Active Role

It is not a good signal to business if the legal environment is not as predictable and secure as it is supposed to be

By Ms Vera **NIKOLIC DIMIC**,  
FIC Telecommunications & IT Committee  
President (VIP Mobile)

**T**he Telecommunications & IT Committee played an active role in the Regulation Guillotine. This project was especially active during the summer of 2009, due to the tight deadlines put on it. The cooperation between the Committee members, who accepted engagement within this project and with the Regulation Guillotine Unit as well, was at a very high level. Although the project has so far broken all time limits that were set for it, we have not officially been informed of what is happening with the proposals we submitted on telecommunications and whether the project will reach a successful end. Namely the Guillotine Project has an aim to decrease the costs of administration for businesses by up to 25 percent in total, but in reality it simply got stuck without achieving the intended results. This is a very unfortunate fact at this moment.

Mobile telephony has been strongly affected, in terms of all mobile operators reconsidering their investment plans. This tax is also a disincentive for higher employment in the mobile telecommunications sector, and for introducing new products and services. We have made some internal analyses on the impact of this tax, also with the help of external consultants, and the impact is very adverse. Without a predictable business environment,



**This tax is also a disincentive for higher employment in the mobile telecommunications sector, and for introducing new products and services**

the reach and the growth of telecommunications are endangered.

Predominantly, the additional taxes have affected existing investors. In addition to the mobile phone tax, numerous other taxes have lately been introduced, as measures resulting from the emerging financial crisis. The irrigation tax was planned, and the forestry tax was introduced, which placed a burden on all businesses in Serbia. In addition to existing investors directly burdened by the recent measures, all potential investors are carefully monitoring the situation and the business climate in different investment destinations. Certainly, it is not a good signal to business if the legal environment is not as predictable and secure as it is supposed to be.

We will continue to focus on consistent harmonisation with the best EU practices in this sector, in order to improve the performance of this area that is a very important GDP driver, especially in developing countries. What this improvement means in practical terms is higher internet speed at affordable prices, new and attractive service packages, and accessible infrastructure which will support all of these aspects. In reaching this goal, we will actively participate in a constant dialogue with the Government in order to simplify construction procedures and rectify what is missing. And last, but not least, we will insist on abolishment of the tax on the use of mobile phones, which was introduced in June 2009. ■



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# FDI Trends and Prospects

UNCTAD expects global inflows to reach more than \$1.2 trillion in 2010, rise further to \$1.3-1.5 trillion in 2011, and head towards \$1.6-2 trillion in 2012



By Ana **STOJANOVIĆ**

**G**lobal foreign direct investment (FDI) witnessed a modest, but uneven recovery in the first half of 2010. This sparks some cautious optimism for FDI prospects in the short term and for a full recovery further on. The United Nations Conference on Trade and Development (UNCTAD) expects global inflows to reach more than \$1.2 trillion in 2010, rise further to \$1.3-1.5 trillion in 2011, and head towards \$1.6-2 trillion in 2012. However, these FDI prospects are fraught with risks and uncertainties, including the fragility of the global economic recovery.

Developing and transition economies attracted half of the global FDI inflows, and invested one quarter of global FDI outflows. They are leading the FDI recovery and will remain favourable destinations for FDI. Most regions are expected to see a rebound in FDI flows in 2010. The evolving nature and role of FDI varies among regions. Africa is witnessing the rise of new sources of FDI. Industrial upgrading through FDI in Asia is spreading to more industries and more countries. Latin American transnational corporations (TNCs) are going global. Foreign banks play a stabilising role in South-East Europe, but their large scale presence also raises potential concerns. High levels of unemployment in developed countries triggered concerns about the impact of outward investment on employment at home.

Overcoming barriers for attracting FDI remains a key challenge for small, vulnerable and weak economies. Overseas development assistance (ODA) can act as a catalyst for boosting the

role of FDI in the least developed countries (LDCs). For landlocked developing countries (LLDCs) to succeed in attracting FDI they need to shift their strategy to focus on distance to markets rather than distance to ports. Focusing on key niche sectors is crucial if small islands developing states (SIDS) are to succeed in attracting FDI.

## Policy Developments

A dichotomy in investment policy trends is emerging. It is characterised by simultaneous moves to further investment liberalisation and promotion on the one hand, and to increase investment regulation in pursuit of public policy objectives on the other.

Economic stimulus packages and State aid have impacted on foreign investment, with no significant investment protectionism observed so far.

The IIA universe is expanding rapidly, with over 5,900 treaties at present (on average four treaties signed per week in 2009). The IIA system is rapidly evolving as well, with countries actively reviewing and updating their IIA regimes, driven by the underlying need to ensure coherence and interaction with other policy domains (e.g. economic, social and environmental).

Global initiatives, such as investment in agriculture, global financial systems reform, and climate change mitigation are

**For developing countries, low-carbon foreign investment by TNCs can facilitate the expansion and upgrading of their productive capacities and export competitiveness, while helping their transition to a low-carbon economy**

increasingly having a direct impact on investment policies.

## Investing in Low-Carbon

TNCs are both major carbon emitters and low-carbon investors. They are therefore part of both the problem and the solution to climate change. TNCs can contribute to global efforts for combating climate change by improving production processes in their operations at home and abroad, by supplying cleaner goods and services and by providing much-needed capital and cutting-edge technology. UNCTAD estimates that in 2009 low-carbon FDI flows into three key low-carbon business areas (renewables, recycling and low-carbon technology manufacturing) alone amounted to \$90 billion. In its totality such investment is much larger, taking into account embedded low-carbon investments in other industries and TNC participation through non-equity forms. Already large, the potential for cross-border low-carbon investment is enormous as the world transitions to a low-carbon economy. For developing countries, low-carbon foreign investment by TNCs can facilitate the expansion and upgrading of their productive capacities and export competitiveness, while helping their transition to a low-carbon economy. However, this investment also carries economic and social risks.

'Carbon leakage' has implications for both global emission reduction efforts and economic development. However, the extent of this phenomenon and its implications are hard to assess. Instead of addressing the issue at the border, it could be

addressed at its source, working through corporate governance mechanisms, such as improved environmental reporting and monitoring. Policy needs to maximise benefits and minimise risks related to low-carbon investment, based on individual countries' social, economic and regulatory conditions. To support global efforts to combat climate change, UNCTAD suggests a global partnership to synergise investment promotion and climate change mitigation and to galvanise low-carbon investment for sustainable growth and development. Elements of this partnership would be:

- Establishing clean-investment promotion strategies. This encompasses developing conducive host-country policy frameworks (including market-creation mechanisms) and implementing effective promotion programmes (with key functions



**Global foreign direct investment (FDI) witnessed a modest, but uneven recovery in the first half of 2010**

being investor targeting, fostering linkages and investment after-care). International financial institutions and home countries need to support low-carbon investment promotion strategies, in particular through outward investment promotion, investment guarantees and credit risk guarantees.

- Enabling the dissemination of clean technology. This involves putting in place an enabling framework to facilitate cross-border technology flows, fostering linkages between TNCs and local firms to maximise spill-over effects, enhancing local firms' capacities to be part of global value chains, strengthening developing countries' absorptive capacity for clean technology, and encouraging partnership programmes for technology generation and dissemination between countries.

- Securing IIAs' contribution to climate change mitigation. This includes introducing climate-friendly provisions (e.g. low-carbon investment promotion elements, environmental exceptions) into future IIAs, and a multilateral understanding to ensure the coherence of existing IIAs with global and national policy developments related to climate change.

- Harmonising corporate GHG emissions disclosure. This involves creating a single global standard for corporate greenhouse gas (GHG) emissions disclosure, improving the disclosure of foreign operations and activities within value chains,

and mainstreaming best practices in emissions disclosure via existing corporate governance regulatory mechanisms (such as stock-listing requirements).

## World investment report 2010 - Investing in a LOW-CARBON Economy

### Higher commodity prices and economic growth should boost inflows in 2010

COUNTRY	FDI inflows					FDI outflows				
	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2010:Q1
Albania	160	417	240	160	215	5	18	5	7	2
Belarus	1014	105	89	665	913	4	16	-2	10	12
Kazakhstan	2541	2443	4162	3465	2951	237	697	1504	638	259
Montenegro	130	328	648	220	175	13	7	12	13	3
Russian Federation	9436	10149	12325	6813	10100	13622	11593	9836	11007	...
Serbia	828	339	200	553	464	2	-3	38	18	67
Ukraine	911	1300	1265	1340	1477	28	21	55	58	610

FDI flows in selected countries, 2009-2010, by quarter (Millions of dollars)



- Setting up an international low-carbon technical assistance centre (L-TAC). L-TAC could support developing countries, especially LDCs, in formulating and implementing national climate change mitigation strategies and action plans, as well as engage in capacity and institution building. The centre would help beneficiaries meet their development challenges and aspirations, including by benefiting from low-carbon foreign investment and associated technologies. Among others, L-TAC would leverage expertise via existing and novel channels, including multilateral agencies.

### Challenges Ahead

The evolving TNC universe, along with the emerging investment policy setting, poses three sets of key challenges for investment development:

- to strike the right policy balance (liberalisation vs. regulation; rights and obligations of the State and investors);
- to enhance the critical interfaces between investment and development, such as those between foreign investment and poverty, and national development objectives;
- to ensure coherence between national and international investment policies, and between investment policies and other public policies.

All this calls for a new investment-development paradigm and a sound international investment regime that effectively promotes sustainable development for all.

### Regional Trends

By UNCTAD

#### Division on Investment and Enterprise

The key message is that foreign banks have played a stabilising role in parts of South-Eastern Europe, but their large scale

presence also raises potential concerns.

#### Declining FDI flows in 2009 to the region have broken an eight year upward trend.

- CIS - Resource-based economies have suffered FDI declines as demand for their commodities fell.
- South-Eastern Europe - Increased sensitivity to the business cycle due to the winding-up of privatisation linked projects.

#### FDI in the largest recipient countries fell in 2009.

- FDI in the Russian Federation almost halved, mainly due to:
  - sluggish growth of the economy and local demand
  - diminishing returns of natural-resource-related projects in the country



- the drying-up of round-tripping FDI

- The global financial crisis dealt a strong blow to flows to the Ukraine, which shrank by more than half.
- The decline in Kazakhstan was modest, thanks to attractive hydrocarbon prospects.

#### Drop in FDI outflows is not as severe as that of inflows.

- TNCs from the Russian Federation, by far the largest investor from the region, continued to acquire strategic assets.
- This helped push the Russian Federation to become a net-outward investor in 2009.

**The key message is that foreign banks have played a stabilising role in parts of South-Eastern Europe, but their large scale presence also raises potential concerns**

#### Foreign banks play a dominant role in the financial sector in South-Eastern Europe.

- FDI in South-Eastern Europe's banking sector has been on the rise since the early 2000s, fuelled by restructuring and privatisation.
- In 2008, 90% of banking assets were owned by foreign banks. Foreign banks have played a generally positive role during the global financial crisis.
- The recent Greek debt crisis however, is reviving concerns that the large presence of foreign banks also poses potential risks.

#### Key policy changes.

- Most recent policy measures have concerned investment promotion
  - Simplifying business registration (e.g. Tajikistan and Turkmenistan)
  - Reducing restrictions for foreign currency transactions (e.g. Kazakhstan)
  - Improving conditions in special economic zones (e.g. Russian Federation)
- In one case local content requirements in the sub-soil sector were reinforced (Kazakhstan)

#### Moderate FDI prospects for 2010, but positive in the medium-term.

- Prospects for inward FDI remain positive in the medium term, thanks to stronger commodity prices, a faster economic recovery in large commodity exporting countries, and a new round of privatisations.
- Outward FDI is also expected to pick up in 2010-2012, largely due to stronger commodity prices and economic recovery in countries with large natural resources. Cross-border M&A purchases from the region jumped 44% in the first five months of 2010. ■

# Opinions and Views

We asked the following question of FIC members:

► **To what extent has the global economic crisis led to investors reducing investments or even giving up on investing in Serbia for this and next year?**



**Srđan LAZOVIĆ,**  
Head of Corporate and Regulatory Affairs,  
BAT, Serbia and Montenegro

## Measured Response

The crisis has forced all potential investors to think thoroughly before they invest, and Serbia is not exempt from this. What British American Tobacco (BAT) always emphasises is that the best recommendation for new investors, are satisfied current investors. BAT being a responsible company present for 15 years in Serbia, always promotes Serbia as favourable investment destination at all international forums we are invited to, especially at forums in the UK where our head office is. On the other hand, we direct our endeavours in the FIC to improve the investment climate in Serbia and enable the arrival of new investors in Serbia. When it comes to investors giving up on investing – we do not foresee it, nor expect it. An encouraging fact is the emergence of relatively 'small' foreign investors with Greenfield investments of several million euros that are extremely significant for small and medium communities like Svilajnac, Indija or Pećinci.



**Francois-Xavier MAHOT,**  
General Manager, United Serbian Breweries

## Reduction of Investments

The economic crisis is global, and it has been felt in all world economies and has affected all markets including that of Serbia. Of course it has resulted in a reduction of investments, and also the purchasing power of the population. In addition to that, in Serbia we have an unstable exchange rate, which has also affected overall business results. Yet even in conditions like these, we have had good results. Even though the beer market in Serbia in 2009 recorded a 12% drop in sales, USB increased its sales by 20% in comparison to 2008. All our market research shows that consumers remained loyal to beer as a category, so the number of customers did not drop. Yet, the frequency of beer purchasing did drop so that, overall, we also felt the consequences of the crisis. In regards to market share, USB recorded the biggest growth in this category, but overall results were poorer than what was expected prior to the crisis, with a decreased inflow. However, once the crisis has passed, the market will grow too. We find that despite all of this, Serbia will be one of few countries in which the beer market will increase.

Personally, I am not expecting any political instability and I believe in this country. We do not feel 'captured' in Serbia, as we are all passing through unfortunate times. Therefore, we do not intend to withdraw from this market because of the crisis. The crisis has had a negative effect and, after it is over, I expect a rise in market share and in sales. Three key players are left in the beer market in Serbia – Apatin Brewery, Carlsberg and United Serbian Breweries as a member of Heineken Group. The others do not have a significant influence and I expect no changes in that regard. We are doing all that we can to take a leading position in the market, but are doing this step by step, carefully observing the needs of consumers.



**Jovan JOVANOVIĆ,**  
Country Manager Danos / BNP Paribas  
Real Estate

## Without changes overnight

Certainly the crisis has created a substantial decrease in investments especially in the construction industry and the commercial real estate sector. Moreover, considering that the sectors concerned belong to the hardest hit industries worldwide, its impact in Serbia is even tougher. Taking into consideration that our country's market has reached the bottom, it isn't likely to expect the first visible signs of recovery at least until the first semester of 2011. As consultants we are in constant contact with investors, and since first quarter of 2010 we have been receiving increased interest in future developments and investment opportunities within the Serbian market.

Anyhow, this doesn't mean that things will change overnight, but we cannot deny that our market will have the opportunity to seize fresh investments once the initial upturn signs become clearly visible through key macroeconomic drivers. ■

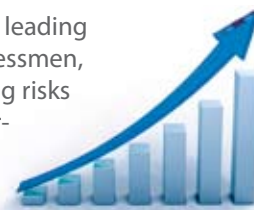
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- How to preserve banks and the economy for the post-crisis period?
- To which extent has the macro-economic stability been restored in Serbia and what are the next steps towards the final objective of permanent stability?
- Possibility of banks' entrance into the ownership structure of the indebted companies.
- Are banks ready to reprogram the loans due, and for how long is such policy possible?
- Consequences of heavy indebtedness of companies on the regional level – influence on the general development of the country and possible solutions.



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# Improvement Required



The majority of our proposals in the process were rejected by the State Authorities, but we will not give up and we will continue our mission of contributing to the improvement of the Serbian taxation system

team to be a recognition of the efforts made by the FIC in previous years in the improvement of the overall business climate in Serbia. In my capacity as a coordinator of the Tax Working Group, I was charged with

the task of highlighting tax challenges firstly on a theoretical level, and also to come up with initial suggestions on how to improve practical aspects of the existing taxation system. After investing three months of considerable efforts and great enthusiasm, representatives of the taxation committee were able to put forward 74 specific proposals and suggestions to the central Guillotine team, which addressed a number of fiscal matters. Certain issues such as the introduction of the voluntary disclosure concept, the issue of binding opinions, changes to the existing transfer pricing rules, the overhaul of tax crimi-

nal act provisions, the VAT registration of non-residents, etc. were regarded as some of the key points that were brought up for consideration in order for Serbia to be able to modernise its taxation system and adapt it to more sophisticated and westernised standards.

► **How many of these recommendations have been applied so far?**

- Personally, I'd rather focus on the quality than the quantity of the proposals accepted. Having said that, we have put efforts into securing the adoption of our key proposals, which we believe will bring noticeable change to our out-dated taxation system. Consequently, following the submission of our proposals to the Ministry, we concentrated our efforts on maintaining an open and direct channel of follow-up discussions with the Ministry of Finance and the tax administrations on our suggestions with a view to assisting them and agreeing with them on the for-

By Ana STOJANOVIĆ

**T**he Taxation Committee has been a coordinator in the task force that worked on the Regulation Guillotine. We discuss this process and other matters with Ivan Rakić, the FIC Taxation Committee President (Ernst & Young Beograd d.o.o.).

► **How many recommendations did the FIC give in this area?**

- The FIC was invited to participate in the Guillotine Project in several areas including the area of taxation and I found this invitation from the central Guillotine

**We still have some significant challenges in the system, which require heavy and prudent legislative activity**

the task of highlighting tax challenges firstly on a theoretical level, and also to come up with initial suggestions on how to improve practical aspects of the existing taxation system. After investing three months of considerable efforts and great enthusiasm, representatives of the taxation committee were able to put forward 74 specific proposals and suggestions to the central Guillotine team, which addressed a number of fiscal matters. Certain issues such as the introduction of the voluntary disclosure concept, the issue of binding opinions, changes to the existing transfer pricing rules, the overhaul of tax crimi-



mulation of the final wording of all required amendments to the Serbian tax legislation, prior to their adoption by the Government of Serbia. These discussions covered approximately fifty of our proposals mainly in the area of tax procedure, corporate income tax and personal income tax. Despite the fact that the majority of our proposals were directly or indirectly rejected by the Ministry, we managed to reach a consensus with the Ministry and the tax authorities on a few key-proposals – these include the possibility of submitting adjusted tax returns within a period of five years (a maximum of two for the same period for the same type of tax), the possibility of disclosure on a voluntary basis within the statute of limitation period (i.e. the possibility of taxpayers to report previously unreported items of income without triggering any penalties within a period of five years with payment of principal tax debt and interest), as well as the recognition of the tax deductibility of severance payments. More importantly, the above proposals were incorporated in the latest changes of the tax legislation. In addition, a certain number of proposals which were agreed upon with the Ministry are yet to be applied in practice, as they require the adoption of by-laws, which will regulate the specific matters in the agreed manner. In this regard, I have to note that the Ministry of Finance informed us that they are preparing certain by-laws, which will be submitted to the Taxation Committee of the FIC for its comments (e.g. the by-laws on Corporate Income Tax and VAT). In my view, this presents an excellent opportunity to follow up on the implementation of our proposals.

However, one important aspect, which I find to be crucial,

is that the mere adoption of any given proposal will not contribute to the improvement of the Serbian taxation system, unless the said rule is applied correctly and consistently by the tax authorities throughout Serbia.

► **What tax issues still need to be resolved?**

- There are a number of key issues on which we are still awaiting a positive reaction from the state authorities. These issues refer primarily to changes of provisions in the Tax Criminal Act, which fail to take into account important analogies in their application, such as the size of a taxpayer's business or the amount of taxes due by any given taxpayer; or, for example instances where the opportunity to ask for a refund should



be given for taxes which were assessed in the course of a tax audit, in cases where the tax administration fails to respond to appeals, which are submitted in a timely and legal fashion within prescribed deadlines.

In addition, we noticed that certain key-proposals, which were initially accepted by the Ministry, such as the cancellation of the 'deemed income-payer concept' with respect to offshore payments to expatriates were not properly implemented. Recently published guidelines

**The mere adoption of any given proposal will not contribute to the improvement of the Serbian taxation system, unless the said rule is applied correctly and consistently by the tax authorities throughout Serbia**

of tax authorities pertaining to the review of the above matter, prescribe the exact opposite and incorrect approach compared with the one previously agreed with the Ministry and essentially the one prescribed by the law itself. This, for example, is the area where we will have to focus special attention in our dealings with the Ministry and the tax authorities.

► **Did relevant authorities in Serbia implement your recommendations from last year's White Book?**

- The tax recommendations in the 2009 edition of the FIC's White Book reflected the proposal we submitted in the Guillotine process. In this regard, yes, we have seen certain issues being introduced in the latest changes of the tax legislation; however, we still have some significant challenges in the system, which require heavy and prudent legislative activity.

► **What are you going to focus on in this year's White Book?**

- During the presentation of the Taxation Committee's previous year's activities to the Board of Directors of the FIC with respect to the Guillotine process, I have stated that the majority of our proposals in the process were rejected by the State Authorities, but we will not give up and we will continue our mission of contributing to the improvement of the Serbian taxation system. To this end, in the 2010 edition of the "White Book" we will again put an emphasis on the remaining issues which we firmly believe should be embraced by the State Authorities in order to upgrade the Serbian taxation system and convert it into a transparent and 'easy to follow' system. From my perspective, the saga continues... ■

# Serbia at 93<sup>rd</sup> Position



Last year's report placed Serbia at 85th out of 134 countries, and the year before that Serbia was 91st out of 131 countries

By Ana **STOJANOVIĆ**

This year Serbia sits at the position of 93rd out of the 134 world economies which were examined in the Global Competitiveness Report 2009/2010, which is compiled by the World Economic Forum.

Klaus Schwab, Executive Chairman of the World Economic Forum said that the current Global Competitiveness Report was published against the backdrop of the deepest global economic slowdown in generations. What began as a financial crisis in a handful of industrialised economies continues to spill over into the real economy, engendering massive contractions in consumer demand, rising unemployment, and mounting protectionist pressures worldwide. Devel-

**Dušan Vasiljević,**  
Policy Reform Team  
Leader, USAID/MEGA

oping countries have not been spared from its fallout; many are now facing slumping demand for their export products along with falling commodity prices, significant reductions in foreign investment and remittances, and a more general liquidity shortage. The strong interdependence among the worlds' economies makes this a truly global economic crisis in every sense. Policy-makers are presently struggling with ways of managing these new economic challenges while preparing their economies to perform well in a future economic landscape characterised by growing uncertainty. In a difficult global

economic environment, it is more important than ever for countries to put into place strong fundamentals underpinning economic growth and development. The World Economic Forum has, for the past 30 years, played a facilitating role in this process by providing detailed assessments of the productive potential of nations worldwide. The Report is a contribution to enhancing the understanding of the key

factors determining economic growth and to explaining why some countries are more successful than others in raising income levels and opportunities for their respective populations; hence it offers policy-makers and business leaders an important tool in the formulation of improved economic policies and institutional reforms.

The Global Competitiveness Index is, according to Dušan Vasiljević, Policy Reform Team Leader of USAID/MEGA, a little bit more encompassing than the reports prepared by the World Bank, because it includes not only elements related to the legal framework,

but also those related to infrastructure, macroeconomic stability, the health system, basic education, technological aptitude, the size of the market, innovations in economy, efficiency of the labour force market, etc. The report

**In general, Serbia is ranked 93<sup>rd</sup> out of 133 economies, whereas in last year's report it was 85<sup>th</sup> out of 134 countries, and the year before that 91<sup>st</sup> out of 131**

includes 12 categories. In general, Serbia is ranked 93rd out of 133 economies, whereas in last year's report it was 85th out of 134 countries, and the year before that 91st out of 131.



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When it comes to institutions Serbia is ranked at 110th place; for infrastructure it is ranked at 107th; macroeconomic stability 11th; health systems and basic education 46th; higher education and training 76th; efficiency of the goods market 112th; efficiency of the labour force market 85th; financial markets 92nd; technological aptitude 78th; size of the market 67th; business sophistication 102nd; and innovations in the economy 80th.

"The World Business Forum's ranking list is compiled using businessmen's responses, so it should be taken with slight reservations, due to the fact that businessmen in progressive systems are sometimes more demanding, so they tend to give lower marks to the state of their country, while others can be more satisfied, so they give better marks to certain elements," Vasiljević explains.

Our interlocutor says that businessmen list corruption as the biggest problem and give it 14.3 points, followed by political instability with 12.5 points; access to finances 11.7; inflation 6.7; instability of the authorities 5.6; while inadequate infrastructure comes ninth with 5.2 points. By observing the list, one notices that the biggest problems are things relating to the state's efficiency.

"Thus, in order to promote the ranking list it is not necessary to invest billions of dollars in infrastructure, since those things are related to the functioning of the state," Vasiljević stresses.

Comparing, for example, Serbia, Bulgaria and Croatia, it is noticeable in the total score that Croatia is ranked at 72nd,

which is a drop of 11 places on last year. Bulgaria comes in at 76th, which is the same place it held in the last report, whereas Serbia dropped eight places.

"Through the categories, we see that Serbia is mostly lacking in the basic categories of institutions, infrastructure, macroeconomic stability, and efficiency indexes which includes the quality of education, the financial market, quality of the labour force market etc. When it

**The quality of institutions in Bulgaria is at 116th place, in Croatia at 85th, and in Serbia at 110th place**

comes to efficiency enhancers, Serbia is above average and it comes in at 86th place while Bulgaria is at 62nd place. The quality of institutions in Bulgaria is at 116th place, in Croatia at 85th, and in Serbia at 110th place. It is interesting to observe the situation concerning infrastructure where Bulgaria is ranked as 102nd, Serbia 107th, and Croatia 49th. Serbia is falling behind the most in the area of macroeconomic stability where it is ranked 111th, whereas Croatia is 50th, and Bulgaria 45th. Serbia has a very good level concerning the health system and basic education - it is at 46th place, Bulgaria is 58th and Croatia 44th. By the way, it is a characteristic of South-Eastern Europe to have a sta-



**Serbia has very bad standards with property rights, where it is ranked at 111th place, then with the burden of Government regulations at 129th place**

comes to efficiency enhancers, Serbia is above average and it comes in at 86th place while Bulgaria is at 62nd place. The quality of institutions in Bulgaria is at 116th place, in Croatia at 85th, and in Serbia at 110th place. It is interesting to observe the situation concerning infrastructure where Bulgaria is ranked as 102nd, Serbia 107th, and Croatia 49th. Serbia is falling behind the most in the area of macroeconomic stability where it is ranked 111th, whereas Croatia is 50th, and Bulgaria 45th. Serbia has a very good level concerning the health system and basic education - it is at 46th place, Bulgaria is 58th and Croatia 44th. By the way, it is a characteristic of South-Eastern Europe to have a sta-

ble health and educational system," Vasiljević explains.

Our interlocutor says that Serbia is starting to significantly fall behind with higher education and training where it is ranked at only 76th, while Bulgaria is 60th, and Croatia 56th. Based on the criteria of market size Serbia is 67th, Bulgaria 58th, and Croatia 65th. When it comes to innovations, Serbia comes in at 80th, Bulgaria at 91st, and Croatia at 61st. Romania has a better standing than both Bulgaria and Croatia, and its total ranking is at the position of 64th. Bosnia and Herzegovina

is at 100th place based on basic parameters, 109th in total, which is a drop of two places. Montenegro is ranked 62nd, Macedonia 84th, Slovenia 37th, and Albania 96th.

Serbia has very bad standards with property rights, where it is ranked at 111th place, then with the burden of Government regulations at 129th place; efficiency of anti-monopoly policy 130th; volume of market domination 131st; intensity of local competition 120th; and brain drain at 132nd place," Vasiljević says.

Apart from being well ranked when it comes to the health system and basic education, Serbia holds a good position in the categories of life expectancy at 59th place; infant mortality 36th; enrolling students to primary schools 52nd; spending on education 61st; quality in the areas of mathematics and natural sciences 43th; while in the volume of employees' training Serbia comes in at 120th; internet access in schools 83rd; and the number of students enrolled in higher education institutions at 59th place. ■



# Growth in Exports



During the first six months of this year a significant growth of exports has been recorded. This is primarily the result of the increased export of ferrous and non-ferrous metals, as well as the export of agricultural products. This is sending encouraging signals that positive trends will continue, bearing in mind the importance of these products in the structure of Serbian exports

By Ana **STOJANOVIĆ**

According to the report of the Statistical Office of the Republic of Serbia, the total foreign exchange of goods in Serbia for the period January-July 2010 was worth 14429.7 million USD, which is a 7.6% increase compared to the same period last year. That

is, 10963.2 million EUR, which is a 10% increase compared to the same period last year.

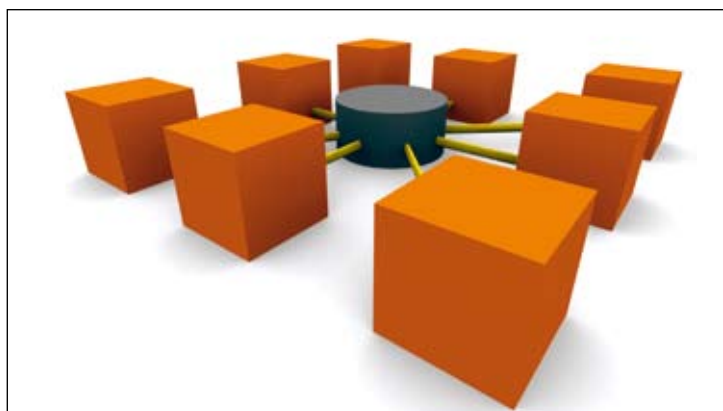
Goods worth 5261.4 million USD were exported, which is a 16.5% increase compared to the same period last year, and imports were worth 9168.3 million USD, which is a 3.0% increase compared to the same period last year. The deficit was 3906.9 million USD, which is a 10.9% decrease compared to the same period last year. Exports cover 57.4% of imports and this coverage has increased compared to the coverage in the same period last year, which was 50.7%.

According to the report of the Statistical Office, in the period of January-July this year, a significant growth of exports in Serbia has been recorded. This is primarily the result of the increased export of ferrous and non-ferrous metals, as well as the export of agricultural products. This sends encouraging signals that positive trends will continue, bearing in mind the importance of these products in the structure of Serbian exports. The results of imports and exports in this period were influenced to some degree by the depreciation of the dinar and a decrease in domestic demand, which stimulated exports and which was responsible for the faster growth of exports compared to imports. In the structure of exports by product destination, the most prevalent are manufactured products 65.4% (3443.2 million USD), followed by consumer goods 26.2% (1378.9 million USD) and equipment 8.3% (437.5 million USD). In the structure of imports by product purpose, the most prevalent are manufactured goods 55.5% (5091.0 million USD), followed by consumer goods 17.1% (1565.9 million USD) and equipment 9.7% (888.4 million USD). Goods of unclassified destination were

represented with 17.7% (1623.0 million USD).

In exports, the main foreign trade partners were, individually: Italy (613.6 million USD), Bosnia and Herzegovina (586.0 million USD) and Germany (568.9 million USD). In imports, the main foreign trade partners were, individually: the Russian Federation (1153.3 million USD), Germany (976.0 million USD) and Italy (819.3 million USD). Foreign trade exchange of goods was highest with EU member states (more than 50% of the total exchange). The highest surplus in the exchange of goods was with Montenegro, Bosnia and Herzegovina and Macedonia. The highest deficit in exchange of goods was with the Russian Federation, due to the importa-

**In exports, the main foreign trade partners were, individually: Italy (613.6 million USD), Bosnia and Herzegovina (586.0 million USD) and Germany (568.9 million USD)**



tion of energy products, predominantly petroleum and gas. The second most important partners are the CEFTA Agreement countries. In the exchange of goods with CEFTA, Serbia had a surplus of 722.1 million USD, which is mostly the result of the export of agricultural products (grain and grain products and different types of beverages), as well as the export of iron and steel. Electrical energy, iron and steel, stone coal and non-ferrous met-

**The deficit was 3906.9 million USD, which is a 10.9% decrease compared to the same period last year**

als, as well as fruits and vegetables have the biggest prevalence in imports. The exports of Serbia, for the above-mentioned period, are 1507.6 million USD, and imports are 785.5 million USD. Exports cover 191.9% of imports.

According to the divisions of the Standard International Trade Classification, the most prevalent goods in exports are: iron and steel (540 million USD); non-ferrous metals (387 million USD); electrical machines and apparel (297 million USD); fruits and vegetables (253 million USD) and grain and grain products (252 million USD). The export of these five divisions amounts to 32.9% of total exports. The five divisions with the highest representation in imports are: oil and

oil derivatives (766 million USD); natural gas (614 million USD); non-ferrous metals (354 million USD); electrical machines and apparel (336 million USD); iron and steel (333 million USD), and the importation of these five divisions amounts to 26.2% of total imports. The division of unsorted goods, which

now includes goods in customs warehouses, participates in total exports at 17.8%.

In July 2010 goods worth 826.7 million USD were exported, which is a 9.2% increase compared to the same month last year. Imports were worth 1342.4 million USD, which is a decrease of 3.1% compared to the same month last year.

The de-seasoned index for June/July 2010 shows a decrease in exports of 3.9%, and a decrease in imports of 3.8% (in USD). The de-seasoned index June/July 2010 (in EUR) shows a decrease in exports of 5.4%, and a decrease in imports of 4.7%. ■



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