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Review on FIC **REALITY CHECK** conference 2015

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**4 HOW TO READ WORDS OF
ENCOURAGEMENT?**

Anniversary of reforms

**8 DIALOGUE TOWARDS BETTER
SOLUTIONS FOR ALL**

REALITY CHECK CONFERENCE

**12 GOOD PROGRESS MADE,
FURTHER TASKS AHEAD**

OVE FREDHEIM

President of the Foreign Investors Council



**16 GOVERNMENT DETERMINED TO
CARRY OUT ESSENTIAL REFORMS**

ALEKSANDAR VUČIĆ

Serbian Prime Minister



**20 EUROPE SUPPORTS
REFORMS IN SERBIA**

JOHANNES HAHN

Commissioner for European Neighbourhood
Policy & Enlargement Negotiations



**24 INVESTOR RECOMMENDATIONS
APPRECIATED AND VALUED**

DUŠAN VUJOVIĆ

Serbian Finance Minister



**28 NUMEROUS CIRCUMSTANCES
COMPLICATE THE
PRIVATISATION PROCESS**

ŽELJKO SERTIĆ

Serbian Economy Minister



**32 FIC ENCOURAGES GOVERNMENT
TO CONTINUE REFORMS**

Plenary Session of the 5th
Reality Check conference

36 GRADUAL LIBERALISATION

SESSION 1: RULE OF LAW

Legal framework and labour regulations

**40 MORE CONSISTENCY IN
IMPLEMENTING LAWS**

SESSION 2: LAW IMPLEMENTATION

Anti-illicit trade, food and agriculture

**44 UNIFIED IMPLEMENTATION OF
REQUIRED REGULATION**

SESSION 3: LAW IMPLEMENTATION

Taxes, leasing and insurance

48 POSITIVE DEVELOPMENTS

SESSION 4: INVESTING FOR GROWTH

Real estate and construction,
telecommunications and information
technology

**52 CONCLUSIONS OF THE
WORKING SESSIONS**



How to Read Words of Encouragement?

The praise that was almost simultaneously forwarded to the Serbian government from the International Monetary Fund, the European Commission and the Foreign Investors Council was like those words of support that are offered to someone who has dared to enter the cold water and must wade into a flood of problems up to their chest

Such an approach does not diminish the importance of the positive assessments so far received by the government: after many rejections, the Serbian authorities now face obvious macroeconomic problems that have also simultaneously plagued the business environment, ensuring the cabinet of Serbian Prime Minister Aleksandar Vučić had a serious task of winning the confidence of the International Monetary Fund that generally sits at the negotiating table and today is behind the government's positive assessment of the first revision of the three-year arrangement. From the deadlock in negotiations on the European path, now political progress is discussed at the same time as the initial positive assessment by the European Commission on fulfilling conditions for a competitive market economy in Serbia, which is an equally important requirement for each new candidate country seeking to join the community of European countries. And from the conclusions and recommendations of this year's Reality Check Conference a significant shift can be seen: some laws, such as the laws on labour, inspection oversight, planning and construction, show not only advances in legislative terms, but also in practical application, and they only came to the fore after a year in which the FIC White Book suggested their adoption.

Changes can also be seen in the quality of the dialogue: the business community is increasingly involved in the formulation of leg-



islation, while the government, as noted by Prime Minister Vučić at the plenary session of the Conference, has recognised that this partnership is the key to success in the future joint operations of the government and the Foreign investors Council, which contributes almost a quarter to the Serbian GDP, and, equally importantly, represent loyal members of Serbian society who regularly pay their obligations, impose European standards of doing business and provide jobs for around 100,000 people.

What everyone now expects of the Serbian government once it has entered the reform field is to begin playing seriously. This primarily means that, instead of hesitation, a faster pace solves those problems that lie at the root of the difficult economic position of the country: to reform public-sector enterprises and

close the valve through which – by maintaining the life of a large number of enterprises without market prospects – money is wasted that could be used to significantly encourage public investment and strengthen that part of the economy – foreign and domestic investors – who have managed, even while operating under rather unfavourable business conditions, to fight for their place on the market; to reform public administration such that it becomes a service to citizens and businesses and finally address the reform of the judiciary.

The government is actually expected to show through its work that it is vitally interest-

of the grey economy, corruption, the weaker than expected inflow of foreign investment and the growth of the domestic enterprise sector, as well as the high unemployment rate.

There is no doubt that Serbia launched its programme for the stabilisation of public finances and reform of the economic system at a time when internal conditions and external ones in the region are very unfavourable. Changes were only started when the internal and external debt reached almost the edge of viability, under recession conditions in Europe, which is Serbia's most important export partner, and at a moment when negative tensions spill over into the region, linked to the conflict in Ukraine and the Middle East.

From the way in which the objectives of our three-year arrangement with the IMF are formulated, it is obvious that Serbia is expected to stabilise its finances at a somewhat more relaxed pace than might be the case with respect to the classical approach to the IMF, precisely due to the appreciation of the imposed intention of the government to make endeavours in the economic sector and address problems that have been neglected in the past decade.

A similarly benevolent attitude also prevails in the recommendations addressed to the government through the Reality Check Conference – it is not only asked to continue constructing a more favourable positive environment, but is also offered expert support and constructive suggestions on how to do so. While there is no doubt that Europe is tough when it comes to respecting the assumed political commitments, on the economic side Serbia is also offered technical and financial assistance in the harmonisation process, which was also confirmed by Commissioner Hahn in his speech at the plenary session of the Reality Check Conference.

No one disputes the claim that the Serbian government has a reason for trepidation on the path it has taken, but it is quite clear that the damage of giving up brings more disappointment than that which the government will undoubtedly encounter on its reform path. ■

ed in setting up the fundamentals of a healthy economy. This can be read in the message of the IMF mission, which conveyed the message to the government that it must continue with the fulfilment of all conditions of the arrangement, and in the recommendation of Johannes Hahn, Commissioner for European Neighbourhood Policy and Enlargement Negotiations, that in the future, instead of making individual measures which favour some, the government should concentrate on the adoption of measures that will bring benefits to a large part of society, and in the statement of FIC president Ove Fredheim that, in addition to evident progress in the adoption of specific laws and measures, it is extremely important to ensure the consistent implementation of law in all fields.

The weakness on this front lies in the roots



PHOTO: OLIVER BUNIĆ

REALITY CHECK CONFERENCE

Dialogue Towards Better Solutions For All

This year's fifth Reality Check Conference saw top state officials and directors of member companies of the Foreign Investors Council discuss concrete proposals, initiatives and obstacles that need to be removed in order to create a stable macroeconomic environment and a transparent and predictable business environment

The aim of the FIC Reality Check Conference is to provide the possibility for representatives of the state administration and FIC member companies to engage in an active dialogue, exchanging opinions, views and proposals for the improvement of the macroeconomic and regulatory environment and the creation of better conditions for investment and doing business. Recognising the importance of global integration processes, the Council traditionally invites designated representatives of the diplomatic corps and international financial institutions to such gatherings.

The conference is organised six months after the promotion of the latest White Book and monitors progress in the implementation

of recommendations contained within the annual publication. The White Book is a key publication of the Council. Prepared each year, it provides an overview of Serbia's regulatory framework, with concrete recommendations on how to remove existing barriers to doing business. These recommendations are defined according to the experiences of FIC members and their knowledge of both international practices and those of their home markets, as well as Serbia's domestic market.

The goal of the Reality Check Conference is to reach agreement on specific issues that are important for raising the competitiveness of the Serbian market. To this end, the Council prepares its Position Paper for each conference, in which key regulatory topics of

importance are revealed in a systemic, clear and transparent way, as well as providing relevant recommendations. It also summarises improvements made in specific areas of the course of the preceding six months.

The conference includes two parts: the first is reserved for parallel working sessions with the state administration, followed by plenary

atives of relevant institutions, agencies and other government bodies, sharing views, ideas and initiatives on specific laws and subordinate legislation and other documents, while allowing representatives of state bodies to familiarise FIC representatives specialised in particular fields with their future agenda, regulations being prepared or just being worked



PHOTO: OLIVER BUNIC
 Željko Sertić, Dimitrije Krnjeginjić, Aleksandar Vučić, Ove Fredheim, Johannes Hahn, Gabor Bekefi, Dušan Vujanović, Goran Pitić, Snežana Bogosavljević Bošković

sessions with top state officials. The conclusions of the working sessions are presented at the opening plenary session and serve as a basis for further dialogue between the government, other state authorities and members of the Council.

This year saw the organising of the following sessions: Session 1 was dedicated to the general legal framework and labour equality regulations; Session 2 dealt with illicit trade, food and agriculture; Session 3 covered the topic of taxes, leasing and insurance, while session 4 saw discussion of the fields of real estate, telecommunications and information technology.

The aim of the working sessions is the direct exchange of opinions between represent-

The first Reality Check Conference was organised in 2001 and has since represented an important event for business and the wider community, presenting the views and recommendations of this strong association that brings together an increasing number of investors every year

preceding six months and ends with a summary of conclusions which then represent points for the evaluation of progress in the coming six-month period.

and the ways in which the business community can be involved in work related to these regulations.

These kinds of sessions are also extremely beneficial in the sense of facilitating open communication between company members of the Council who are directly interested in specific details related to their operations and more specific interpretations of certain rules or attitudes of national institutions and other bodies.

Each session begins by noting progress achieved in respective areas during the

Considering that representatives of state bodies and FIC member companies and relevant committee members communicate very regularly, discussing outstanding issues posed by practice on a daily basis, these sessions represent a good opportunity to summarise the results of such communication and present them to a wider audience.

The first Reality Check Conference was organised in 2010 and since then it has become an important event for business and the wider community. Recommendations from this conference are all the more important because they are backed up by a strong association that brings together an increasing number of investors each year.

The Foreign Investors Council, FIC, is a business association that was founded in 2002 by 14 foreign companies operating in Serbia. It today comprises over 130 companies that have invested a combined total of more than €22 billion, participating directly with 18 per cent of GDP in 2013 and employing over 96,000 people in Serbia.

The Council brings together companies from around the world – from the European Union and the United States, to the Russian Federation and the People's Republic of China. The largest number of members hail from the European market, reflecting the general trend of inflow of foreign investments into the Serbian market. Council members are registered local companies founded with foreign capital. Additionally, FIC membership is open to domestic companies representing foreign business interests, regardless of the form of presence.

The Council defines its views through active debate within the membership, with the aim of encouraging reforms that are of interest to the broader business community and not the interests of a particular company or group of companies.

The Council has set as its mission the active promotion of a sustainable business environment through an open dialogue with the authorities and other relevant factors, in order to influence the improvement of the business climate in Serbia. The Council achieves its mission by participating actively in dialogue with the authorities, through joint working groups and other forms of communication, as well as providing tangible reform proposals.

The Council also works with other associations in promoting a transparent and predictable business environment.

The interest of the Council is to ensure its members uphold the principles advocated by the association in their daily operations. As such, the Council promotes and encourages high ethical business principles and modern principles of corporate governance within the organisation and in contacts with local companies, the government and other relevant stakeholders.

The association was formed in 2002, on the initiative of the OECD, with the idea of foreign companies operating in the region of Southeast Europe (SEE) providing active support for reform. Similar associations exist throughout the SEE region (including Bulgaria and Romania).

The White Book, which is compiled by the Council each year with the help of its board, as well as the position paper prepared for each Reality Check Conference, represent important documents that confirm the active and constructive approach of FIC members in the building of the overall economic environment in Serbia, creating preconditions for faster economic growth and the creation of the kind of business environment that will enable all participants to guarantee equal status and promote the attraction of new investments and new jobs in Serbia. ■

The conference encompasses two parts: the first is reserved for parallel working sessions with the state administration, followed by plenary sessions with the highest state officials



OVE FREDHEIM

President of the Foreign Investors Council

Good Progress Made, Further Tasks Ahead

In the past six months the Serbian Government has continued to make significant improvements in the business climate, but more serious work is ahead. The FIC's main expectations of the prime minister's cabinet are to continue with reforms and the harmonisation of laws in line with the EU Acquis and to put further efforts into the enforcement of existing laws. The FIC is happy to offer its help and advice, as the majority of its members are from the EU

In half a year, between the latest issue of the White Book last autumn and the Fifth Reality Check Conference, held on 7th May, the Serbian government has made significant progress in improving the business climate, mainly through changes to two important laws

– Construction Law and Inspections Law. In addition to that, the new Construction Law is well implemented and has led to the shortening of deadlines in issuing construction permits, while the Labour Law, amended in summer 2014, was also successfully implemented – says FIC president Ove Fredheim, summarising the positive changes to the business environment in Serbia in the past six months at the plenary session of the Reality Check Conference. On the plus side, he also added changes to the Inspections Law that brought

some improvements aimed at ensuring better coordination of the inspection services.

“This progress is certainly a result of the dedicated work of the present Government”, said Fredheim, addressing the audience at the Conference, which included Serbian Prime

Due to the dedicated work of the present Government, significant progress has been made, but I think we will all agree that we have a lot of work ahead of us

Minister Aleksandar Vučić and members of his cabinet, European Commissioner for Neighbourhood Policy & Enlargement, Johannes Hahn, ambassadors, CEOs of leading companies in Serbia and other distinguished guests.

“Mr Hahn’s presence underlines the Serbian government’s focus on the EU accession process. Needless to say, the harmonisation of

Serbian laws with the EU framework is also among the FIC’s top priorities, especially having in mind that the EU framework would ensure the necessary stability and predictability

of the business environment for both domestic and foreign investors”, said Fredheim. “We would like to use the presence of the EU Commissioner to suggest the prompt opening of negotiations on accession chapters. We believe Serbia is ready for this move now”.

Reforms done through EU accession negotiations and active dialogue with the private sector will foster Serbia’s competitiveness and the FIC can help in this process, as 70% of its members come from the EU. “By being here we know the condition in the Serbian market place and, based on the presence we have in the European Union, we can also relate to how things are working out there,” said Fredheim.

The purpose of the Foreign Investors Coun-

ment of the business environment in the country.

“Better law implementation across all fields should be an imperative to be achieved through public administration reform and increasing administrative capacity in the ministries and other state institutions, with a special focus on the tax administration and inspections,” noted the FIC President.

Based on recommendations from the FIC sector committees, Fredheim specifically pointed out five main areas which call for immediate government action, the first being accelerated and transparent privatisation, especially considering that after receiving a letter of interest in September 2014, the government had been slow to execute the priva-

We, as the FIC, would like to suggest the prompt opening of negotiations on the EU accession chapters, as we believe Serbia is ready for this move now



Ove Fredheim, Johannes Hahn

PHOTO: OLIVER BUNIĆ

ty Reality Check Conference is to have an open dialogue between all the stakeholders in order to discuss the status of reforms and ways towards achieving a sustainable business environment in Serbia. The main objective of this gathering is to provide concrete proposals for the implementation of reforms aimed at creating a sustainable macroeconomic and regulatory environment.

In that respect, Fredheim underlined that the aforementioned changes of laws were done in consultation with the private sector and that the FIC was actively involved in the process.

The Foreign Investors Council, which comprises more than 130 foreign companies that have collectively invested over €22 billion, contributed to 18.0% of GDP in 2013 and directly employ more than 96,000 people in Serbia, has many expectations when it comes to the further improve-

ment of the business environment in the country. Only 12 were put on tender, while 76 initiated bankruptcy procedures.

Second, there is a need for the prompt creation of a coordination body to enable efficient and consistent implementation of the new Inspections Law and, third, more consistent application of tax regulations and better coordination between the Tax Administration and the Ministry of Finance is required. “At present the Tax Administration does not always apply binding opinions of the Ministry of Finance, which it is obliged to do by Law,” said Fredheim.

Among the priorities, the FIC president also emphasised the need for a more liberal interpretation of the Law on Foreign Exchange Operations, as it is currently interpreted rigidly by the National Bank of Serbia and prevents all transactions and actions not explicitly al-

lowed by the law. “And, finally, we need a unified interpretation of the Law on Employment of Foreigners by relevant institutions that are today interpreted differently by the Ministry of Labour, the National Employment Service and the Labour Inspectorate, as well as requesting a different list of supporting documentation. This might be seen as a small issue, but it still creates problems for companies, especially smaller and medium sized ones,” said Fredheim.

When it comes to the adoption of laws, the FIC suggests strongly the liberalisation of the Law on Foreign Exchange Operations in order to allow for cash-pooling and expand the possibility of issuing guarantees for non-residents and adoption of the Law on Charges to safeguard the business community from new para-fiscal levies. Among the priorities are the long overdue adoption of the Law on Land Conversion, in order to enable ownership over land and attract investments which were impeded to date by the lack of appropriate legislation, as well as harmonisation of the Law on Personal Data Protection with EU regulations. Furthermore, the FIC is looking forward to the regulation of Staff Leasing, which is not currently regulated.

“In the past half a year, some progress has been marked in six out of nine areas,” said Fredheim, citing anti-illicit trade, real-estate and construction, human resources, food and agriculture, insurance and telecommunications. The least progress has been recorded in three areas: overall legal framework, tax and leasing.

Speaking on behalf of FIC members, Fredheim said that this association is happy to see the first signs of recovery in the economy and that the present government is committed and has the ability to push through reforms. “Still, I think that we will all agree that we have a lot of work ahead of us,” said Fredheim, adding that the FIC shares most of the ambitions and priorities of the Serbian government presented at the plenary session by Prime Minister Vučić, Finance Minister Dušan Vujović and Economy

Minister Željko Sertić.

The Serbian government is, as they stated, committed to reforms and further adoption of the agreement signed with the IMF, speeding up of the privatisation process and adopting laws that will improve the investment and business climate and bring sustained macroeconomic recovery. Ministers spoke about several laws in the pipeline, among which are those highlighted at the FIC Reality Check Conference. In the tasks ahead, the government intends to proceed with the good cooperation established with the business community and welcomes the straight to the point concrete suggestions coming from the FIC, ministers said.

“We heard a commitment to further reforms and we from the FIC can assure you

The only way to ensure that the new and current laws are implemented effectively is to maintain the constructive dialogue between the government and the private sector, such as the one we are having at the Reality Check Conference

that we will show commitment and will be engaged in working together with the Serbian government in further improving the business environment here in Serbia,” said the FIC president, addressing PM Vučić and members of his cabinet during his concluding remarks at the plenary session.

“Having this in mind, I will again point out the EU accession negotiations as the ideal mechanisms for improving Serbia’s business environment and competitiveness,” noted Fredheim. “In our view, the only way to ensure that new and current laws are implemented effectively and support economic growth is to maintain the current active and constructive dialogue between the government and the private sector, such as the one we are having here today at the Reality Check Conference,” concluded the FIC president. ■



PHOTO: OLIVER BUNIĆ

ALEKSANDAR VUČIĆ

Serbian Prime Minister

Government Determined to Carry Out Essential Reforms

The Prime Minister expects an improving business climate to ensure Serbia leaps significantly up the World Bank's "Doing Business" rankings and announces that the government will continue to fulfil the obligations accepted with the signing of the arrangement with the IMF. "We are finding it tough, but we will not give up," said Vučić, thanking the Foreign Investors Council for its constant support and suggestions

"Our job is to create the best business environment and implement the programme that we agreed with the IMF and we will continue to do that," said Serbian Prime Minister Aleksandar Vucic at the plenary session of the fifth Reality Check Conference, which is traditionally organised to facilitate the exchange of opinions between top government officials and directors of FIC member companies on ways to create a sustainable macro-economic and regulatory environment. The conference is held six months after the promotion of the previous FIC White Book and monitors progress in the implementation of recommendations contained within the White Book. This year it was attended, among other dignitaries, by the European Commissioner for the EU Neighbourhood Policy and Enlargement Negotiations, Johannes Hahn, who came to Belgrade to

encourage reforms and accession negotiations.

PM Vučić particularly emphasised the successes Serbia has so far achieved in macroeconomic stabilisation and reduction of the budget deficit, assessing that the biggest problems are those being faced by economy minister Željko Sertić in the privatisation process.

He said that this government is unique in that it took a great risk by fundamentally implementing fiscal consolidation and that measures carried out to date have yielded very good results. "We in Serbia ultimately always expect something to fall on us from the sky, rather than changing ourselves. In the previous period we have shown

a good desire to change many things in Serbia and whether someone wants to recognise that or not, we have changed it," said Vucic.

The Serbian PM Vucic highlighted the success of the government in the implementation

Fiscal consolidation and macroeconomic indicators suggest that this year we will have perhaps a stronger recovery than that predicted by the IMF, as well as serious growth next year

of fiscal consolidation measures. At the end of April, the budget deficit was 19.3 billion dinars, instead of the planned 72.5 billion, said Vučić, adding that, under these circumstances, he does not believe the government will be able to maintain the budget deficit, which is currently under Maastricht criteria below three per cent of GDP. Vučić said that the budget deficit in 2015 is likely to be 3.75% of GDP, and in the worst case scenario it will remain below four per cent, instead of the planned 4.75%, and that in 2016 it will be at the level of the Maastricht criteria, i.e. three per cent.



PHOTO: OLIVER BUNIĆ
Aleksandar Vučić, Ove Fredheim, Johannes Hahn, Gabor Bekefi

“This will bring us to the European level of deficit,” said the Serbian Prime Minister.

He also stressed that when it comes to the primary deficit – excluding income and expenses from loans and interest – Serbia currently enjoys a

surplus of 32 billion dinars. That is, according to the PM, simultaneously a measure of the previous very negative short-term borrowing with interest of seven and 7.5%, which would be difficult to withstand for economies that are in a better condition.

Addressing the previous successes of the government, he also noted the Construction Law and Inspections Law, as well as recall-

ing the modern solutions of the Labour Law adopted last summer, as well as laws on privatisation, bankruptcy and pensions “which changed our business environment completely.” The PM added that Serbia would advance 30 to 40 places on the World Bank’s new “Doing Business” list, thanks to the great efforts and responsible work of the government in the past six months.

Vučić also spoke with optimism about the pace of economic growth, saying that the IMF is ready to amend its forecast of GDP growth from minus one to zero, but that the govern-

ment believes the result will be something better, because in August the second furnace at the Smederevo steelworks should be lit, while there will also be the launch of the Metalsko Acetic Acid Complex, which is now stopped, Azotara and Petrohemija (fertilizer and petrochemical plant), where existing problems will be resolved in the next month or month and a half.

“We expect a positive growth rate and it is not important whether that will be 0.2%, 0.5% or more. What is really miraculous is when you exit recession during the implementation of fiscal consolidation, which you apply with disciplined responsibility and seriousness. I believe we will have significantly higher economic growth than in 2016,” said Vučić.

One way to achieve that is to continuously improve the business environment. Responding to the recommendations of the Foreign Investors Council’s Committees, who have sought the amending of five laws –on foreign exchange operations, para-fiscal taxes, land conversion, harmonisation of the law on personal data protection of with the European legislation and the regulation of agencies dealing

The government is determined to implement reforms in the civil service and public sector in order to improve the efficiency and attractiveness of the country for investment

with staff hiring – Vučić said he believes that in these four cases the government will most likely be in a position to respond positively to these requests and will only need to further consult with legislators in one case. Although Vučić did not state explicitly which law this applied to, from the comments made by representatives of Serbian institutions during the working session of the Reality Check Conference one can conclude that he meant the law on foreign exchange operations, where the stance of the National Bank of Serbia is that liberalisation must be embarked upon carefully, in accordance with the overall macroeconomic indicators in Serbia.

Vučić also reacted positively to the FIC appeal to accelerate the privatisation process, which was also emphasised by the IMF delegation during its visit to Serbia. “We’re finding it tough, but we will fight. I accepted the suggestion of the IMF, despite the political damage such a move brings us, because it is essentially good for Serbia,” said Vučić, adding that exemptions will only apply to 16 companies currently under restructuring, which are being protected from creditors until 31st May.

“The state is trying to save the 16 largest companies that employ the most people and we expect to receive a year to do that from the IMF. We will try to save them earlier, but we will give ourselves a deadline of one year” – said Vučić, noting that some of these compa-

nies are from the chemical complex, then “Petoletka”, which has attracted interest from Germans and Italians, FAP and Simpo. He stressed, however, that the Economy Minister Željko Šertić, whose ministry is tasked with carrying out privatisation, is being awaited by one of the most difficult tasks in the coming period.

Vučić also said that reforms in the public administration and the public sector will continue

in 2015 and 2016, which is also one of the recommendations of the Foreign Investors Council from this conference. “The goal is not to see how many people will be laid off, but rather how efficient we will be,” said the Prime Minister.

“I would like to thank the Foreign Investors Council, which has always understood well the efforts and hard and responsible work we have had to do in the previous year,” said the PM, adding that in Serbia there is a huge gap between verbal broad public support for reforms and real support for tangible measures in their implementation. “I am especially



PHOTO: OLIVER BUNIĆ
Aleksandar Vučić

With us you will always have a partner with whom you can talk and with whom, it seems to me, you share a majority of positions, said the prime minister, adding that the government would accept the majority of proposals offered at the fifth FIC Reality Check Conference

grateful to the members of the Foreign Investors Council, who have not hesitated to speak fairly and openly about this in public,” said Vučić, stressing the importance of the companies gathered within this association in terms of the generating of Serbia’s GDP. “With us you will always have a partner with whom you can talk and with whom, it seems to me, you share the majority of positions,” concluded Vučić. ■



PHOTO: OLIVER BUNIĆ

JOHANNES HAHN

Commissioner for European Neighbourhood Policy & Enlargement Negotiations

Europe Supports Reforms in Serbia

Following its encouraging results, the Serbian Government should continue with reforms aimed at creating the preconditions for economic growth and employment. The EU and the European Commission encourage Serbia to stay on the reform path, as well as encouraging the business community to continue its constructive support to the Vučić cabinet

“The EU welcomes Serbia’s comprehensive programme of economic reforms. Its initial results are encouraging and now it is important to take further steps in order to strengthen them – mainly through the privatisation process, reform of state companies and the creation of the kind of business climate that will embolden new investments, as well as strengthening activity among SMEs and encouraging new employment,” said Commissioner Hahn, addressing attendees of the plenary session of the fifth FIC Reality Check Conference.

Hahn, who came to Belgrade for talks with Serbian Prime Minister Aleksandar Vučić about what could be done to open the initial chapters in Serbia’s EU accession negotiations by the end of the year, used the opportunity to address the audience at the plenary session of the fifth Reality Check Conference, which included the PM and members of his cabinet, members of the Foreign Investors Council, general managers of major companies, diplo-

ats and other distinguished guests – and to share with them the latest assessment of the EU and the European Commission regarding Serbia’s progress, as well as offering his comments on government plans and FIC suggestions and recommendations presented at this event.

Hahn shared some of the assessments of EU finance ministers (officially communicated on 12th May) regarding the results of government reforms carried out to date and recommendations for encouraging economic growth in Serbia.

According to Hahn, EU foreign ministers acknowledge that macroeconomic stability has been achieved and that the first set of measures has already produced encouraging results. “Macroeconomic stability appears to be in place now and is backed up by the agreement concluded with the International Monetary Fund,” said Hahn.

Budget consolidation should be reinforced by crucial public sector reform. “The huge number of state-owned enterprises consumes

I know the government led by Prime Minister Vučić is strongly committed to getting Serbia's economy back on track. Today I would like to stress that the European Commission and the European Union are here to support your efforts

a large share of the budget. Prime Minister Vučić, I know you are fully aware of this situation and this is the reason why your government is engaged in an ambitious programme to restructure and privatise more than 500 state-owned companies," said Hahn.

According to him, the finalisation of this process is a key priority underlined by the ECOFIN Council on 12th May.

The meaning of the current reform of public finances is to generate savings that can be used for investments which stimulate economic growth. In this regard, the EU's recommendation is to focus investment on the energy and transport network and support the Western Balkans and EU interconnectivity agenda, said Hahn. In this context, the EU commissioner reminded those gathered that the prime

Speeding up the process of privatisation and public sector reform will create the space for new investments, preferably in the energy and transportation sectors

ministers of the region agreed just two weeks ago to build a regional core network by 2030, linking all capitals and main economic centres.

Provided they are properly implemented, these infrastructure projects have the potential to boost competitiveness and growth throughout the entire Western Balkans, and in Serbia in particular, noted Hahn.

This is even more important given that Western Balkan countries currently import much more than they export; unemployment across the region is very high and poverty has increased significantly. This state of economic development makes the fulfilment of the economic accession criteria more difficult to meet.

Improving economic governance and competitiveness to support long-term growth is one of the "fundamental pillars" of the EU's enlargement policy, said Hahn. The EU wants to ensure that new members are competitive within the EU.

"In order to tackle these challenges head on, we have engaged jointly with the countries of the Western Balkans in a thorough analysis of their Economic Reform Programmes. The aim is to reach agreement on what needs to be done and when," said the EU commissioner, highlighting that the review of the enlargement countries' Economic Reform Programmes is not just a theoretical exercise, but rather a summary of concrete assessments and recommendations for further reforms.

In that context, said Hahn, "It is vital to implement all reform laws", emphasising that the Commission can provide these countries with financial and technical assistance to facilitate the implementation of these reforms.

Addressing the Prime Minister, Hahn said that he knows the government is strongly committed to getting Serbia's economy back on track. "Today I would like to stress that the European Commission and the European Union is here to support your efforts," said Hahn.

Hahn particularly underlined the importance of systematic measures, as opposed to individual measures, to encouraging foreign investment. "For instance, support to large foreign investments through subsidies has its limits. It can be very costly and can result in excessive dependence on a few companies," said the EU commissioner, noting that since the beginning of the global economic crisis the level of foreign investment in Serbia had fallen by an average of 50 per cent every year.

That is why, said Hahn, it is important to put in place measures with the potential to benefit the whole economy, which is likely to take more time than individual measures, but which will lead to robust and sustainable growth, benefiting a large share of the population. With this in mind, EU recommendations also will focus on other areas.

"For example, we want to encourage the state and municipalities to better control the many charges that businesses must pay in addition to taxes. I hear from members of the

Foreign Investment Council that these charges are high and unpredictable. We are encouraging you to work with private banks to increase their lending to companies, especially SMEs."

Hahn said that the EU sees private sector growth as the key factor for the overall growth of the economy and for new employment, and that the influence of small and medium-sized companies should not be underestimated. "This is why it is important that these "ordinary" companies should be encouraged, at a minimum cost to the State budget. This can be done, for instance, by facilitating access to loans, reducing red tape, or speeding up and simplifying the construction permit process, said the Commissioner.

Businesses need the right skills, so it is very appropriate to associate them closer with vo-



Aleksandar Vučić, Ove Fredheim, Johannes Hahn

national training schools, said Hahn, adding law abiding businesses complain about unfair competition from the informal sector. The EU commissioner said he knows that the government has already achieved certain results in fighting the grey economy and should be encouraged to pursue its efforts.

In this context, he underlined the importance of the rule of law and a stable and independent judicial system, which is not only a fundamental principle for democracy, but is also a necessary precondition for attracting foreign investors – by providing the necessary credibility and predictability that institutional investors are seeking.

"Some of the required reforms are socially and technically difficult" admitted Hahn. "This is why all stakeholders need to be involved at

an early stage. I cannot stress enough the importance of social dialogue in this process."

Addressing the members of the Foreign Investors Council, Hahn said that investors have a significant role to play. As a key stakeholder, the business community is a natural interlocutor with the Serbian government. You know the situation on the ground and can provide valuable inputs to improve economic governance.

"I am confident that the measures currently being put in place will improve the predictability of the business environment, the rule of law and the transparency of public policy," said Hahn, adding that he is looking forward to seeing FIC members investing in Serbia and contributing to its recovery and accession path.

"The reason I am in Belgrade is to talk to the Serbian Prime Minister and the govern-

It is very important for me to hear your suggestions, your support and your initiatives about the future European perspective of Serbia, said Hahn, addressing members of the Foreign Investors Council

ment about what could be done to open the initial chapters in Serbia's EU accession negotiations by the end of the year. That is why it is very important for me that I heard your suggestions, your support and your initiatives about the future European perspective of Serbia, said the EU Commissioner, responding to FIC president Ove Fredheim's statement at the opening of the plenary session during which he stated that this association supports the prompt opening of negotiations on accession chapters, because it believes Serbia is ready for this move now.

Hahn thanked the Foreign Investors Council on its role in building a better business environment in Serbia, adding that figures regarding the FIC's contribution to Serbia's GDP and employment speak for themselves. ■



PHOTO: ZORAN PETROVIĆ

DUŠAN VUJOVIĆ

Serbian Finance Minister

Investor Recommendations Appreciated and Valued

The Ministry is preparing a series of legislative initiatives in order to improve the business climate and make business operations more transparent – starting from the reform of the Tax Administration to the draft Law on Charges, which will provide investors with accurate information about their obligations. Both changes are in line with the FIC’s recommendations

Between the last two Reality Check Conferences, Serbia has made significant progress in the implementation of fiscal stability, said Finance Minister Dušan Vujović, presenting the government’s results of the past year and announcing measures within its jurisdiction, which aim to improve the overall macroeconomic environment and make business operations more transparent and convenient for both investors already operating in Serbia and those considering the country.

“At the previous meeting with the representatives of the Foreign Investors Council we talked about the deficit of more than ninety billion dinars, while today it is more than four times lower. According to that measure, we were the second to last country in Europe last year, but we are now among the four countries at the top of the list, at least for the time being. We will probably not be able to sustain this until the end of this year, but there is no doubt that this result is an important first step in the reforms we committed ourselves to

conducting, and for which we obtained the support of both the EU and the IMF,” said Vujović.

Indicators of economic growth have changed significantly in the last six months. At the end of last year, when the arrangement with the IMF was in the preparation process, the estimated decline of GDP was about minus 1% to – 0.5% of

One of the best and somewhat surprising results of the recent implementation of fiscal consolidation is that total wages in the economy are approximately the same, while private and aggregate demand are at the same level as they were before fiscal consolidation

GDP, while today, following the first revision of the arrangement, the IMF is talking about zero per cent and the Serbian government believes the result might be better in the case that the Smederevo steelworks, the chemical block and other companies come on board, and provided 15 to 25 companies are privatised successfully.

One of the best and somewhat surprising results of the recent implementation of fiscal consolidation is that, after four months, total wages in the economy are approximately the same, with the reduction in salaries in the public sector having been fully compensated by the increase in wages in the private sector. "We expected fiscal consolidation would be recessionary, but in the first four months it has been shown that this is not the case. What is more important is that taxes on wages are at 100%, 101%, contributions on wages are at 99.7%. We managed to completely avoid the recessionary impact of the wage and pensionary reduction, which was a necessary step in fiscal

referring to the very detailed list of recommendations provided by Johannes Hahn, Commissioner for European Neighbourhood Policy & Enlargement Negotiations, at the fifth Reality Check Conference, with regard to EU expectations from the Serbian government.

"In order to secure growth, we obviously need to continue with the things we spoke about with FIC members last year," said Vujović, before providing detailed answers to the specific and precise agenda presented by the FIC through the conclusions of the working groups of the Council and the speech of FIC president Ove Fredheim at the plenary session of the Reality Check Conference.

The Ministry is already working on the fulfilment of one of the recommendations of the Council - drafting the Law on Charges, said Vujović. A working group has been set up within the Ministry and is working on concept of that Law, which should lead to a transparent system that will put some 384 charges identified by NALED into a consistent active matrix



PHOTO: OLIVER BUNIĆ

consolidation, on the economy, on consumer demand and on aggregate demand, said Vujović.

He added that there has been improved collection of VAT and excise duties since the start of the year - a result that he is very satisfied with.

The whole industry is still down 2%, but processing industries are growing by about 3.5 to 4%. The overall negative result is mainly the result of declining mining and electricity power production, which were hit by last year's floods. They fell about 20% last July. However, the ministry anticipates that by the end of this quarter this would be fully compensated and those industries will be back on a normal growth path. "Jobs and growth based on private sector development, as commissioner Hahn correctly stated, I think is the way out," said Vujović, re-

Complete Tax Administration overhaul should be finished in June and preceded by the development of the action plan for the implementation of that reform, with the aim of building a compliance-based, client oriented tax system

that any investor can access via any website of the Government and local governments, thereby confirming exactly which charges will be due, what would be the formula for their change and what would be needed at what time of their project cycle.

Vujović said that the Ministry is working on a Law on financing local governments "which will introduce a system of balanced budgets of local governments and will produce incentives

on a local level to use resources efficiently and to contribute to the overall fiscal balance".

The finance minister said that in a month's time the relevant authorities will complete a plan for the overhaul of the Tax Administration and an Action Plan for implementing the reform, in order to introduce a compliance-based client oriented tax system. He thanked the FIC for its very specific comments and suggestions regarding that issue.

Responding to another FIC recommendation - that the Finance Ministry and the Tax Administration should better coordinate the-

I see the role of the FIC precisely in the context of helping us to prepare the groundwork for the third generation of investments in Serbia, based on its comparative advantages and long term growth potential

ir actions - Vujović said that he hopes that next time he will be able to present to foreign investors a better coordination between those two subjects. "I hope that we will be able to close all the gaps and significantly improve not only collaboration between the Ministry of Finance and the Tax Administration, but also between the tax administration and all the clients". In line with those topics, Vujović thanked FIC members for their good work and good suggestions, "for being pragmatic and realistic in terms of what can be done and what is important for investors".

The finance minister spoke in detail about the profound reforms the government is facing. The first of them is privatisation of companies in the domain of the Ministry of Economy, the second is connected to deep reform of public enterprises and these are enterprises in power, gas, railways and other infrastructure enterprises "that will create

an environment for investments. In addition, we are making improvements in the business environment that will be recorded in this year's World Bank "Doing Business" report, but I hope we will continue to do this in the years to come," said Vujović.

He said that the government is trying to figure out how to improve the process of planning, investment and utilisation of public resources.

"Presently we have systems that are not properly connected, we have projects that have been under implementation for years and are not producing results; we have roads that are

missing 700 metres to complete a section of 50 kilometres. We will be focusing on improving investment planning, implementation of the use of both EU resources and other IF resources, as well as our own resources. That will be the best way to create an environment conducive to investment growth of the third generation," said Vujović, explaining that the first generation were easy wins in selling the domestic market in



Gabor Bekefi, Dušan Vujović, Goran Pitić

PHOTO: ZORAN PETROVIĆ

tobacco, cement and so forth, the second generation were investment projects that benefited from a good situation on the world market, while the third generation are investment projects that, in the long run, will reshape Serbia as a hub for projects with the potential for regional and European growth. "The third generation is the one that will capitalise on Serbia's comparative advantages," said Vujović. "I see the FIC's role precisely in that context, in helping us in preparing the groundwork for the third generation of investments." ■



ŽELJKO SERTIĆ

Serbian Economy Minister

Numerous Circumstances Complicate the Privatisation Process

By 1st July the Serbian government will find a solution for 338 of the total of 526 companies from the portfolio of the Privatisation Agency, regardless of the number of obstacles hindering and complicating the process. The Ministry of Economy is in various stages of preparing a series of laws that should enable the creation of a level playing field for all participants

One of the ways to create equal conditions in the market that the Foreign Investors Council has advocated in principle for years is the process of privatisation, as well as the creation of such laws that govern the overall business environment and the operations of enterprises, and which will have the end goal of ensuring the public and private sectors do business under the same market conditions. A key role in this job is played by the Ministry of Economy, whose domain not only includes the privatisation process, but also the creation of such a law that will create the foundations of a strong market economy and create the preconditions for economic growth and

the attracting of foreign investment. Economy Minister Željko Sertić informed the participants of the plenary session of the fifth Reality Check conference – attended by members of the Foreign Investors Council, CEOs of leading companies, representatives of the diplomatic corps and many other distinguished guests, including European Commissioner for Neighbourhood Policy and Enlargement Negotiations, Johannes Hahn – about the key activities of his ministry in the last six months and the ministry's future plans. Minister Sertić said that his ministry staff is working on several parallel tracks, despite major problems the ministry is facing primarily in the process of implementing ownership

At this point the portfolio of the Privatisation Agency includes a total of 526 companies and a solution will be found for 338 of them by 1st July

transformation in the remaining companies within the portfolio of the Privatisation Agency.

“No Serbian government of the past few decades has done as much for the economic environment in the country and brought so much specific ordinances and laws aimed at facilitating the actual transition from a socialist planned economy to a market model of the economy,” said Minister Sertić at the plenary session, noting meanwhile that the Ministry, for procedural reasons, is not in a position to accelerate the privatisation process significantly.

According to the opinion of the FIC, this process is slowed down at present and investors who submitted letters of interest in September still have not received information on how this process is progressing. They are kept in suspense, which leads to confusion regarding the intent of the government. Of the total of 502 companies with calls to investors, only 12 have been placed in the tender procedure, while the procedure for a declaration of bankruptcy has been initiated at 76 companies. The slowdown in privatisation was also the topic of talks between the Serbian government and the IMF during

We are pushing the privatisation process as fastest and as well as possible, but in this privatisation process there are a number of circumstances that do not depend directly

the first audit of the implementation of the three-year arrangement that the Serbian government signed with this financial institution, which was also underway precisely during the staging of the Reality Check conference.

“We are pushing the privatisation process as fastest and as well as possible, but in this privatisation process there are a number of circumstances that do not depend directly on us, because the system we live in is such that you, for example, need six months to transform agricultural land into construction land, while around the same period of time is required to carry out the merging of plots. You need months to solve problems with creditors, while years are often necessary for the restitution process,” explained

Minister Sertić at the conference. “From what I’m saying it is clear that the privatisation process is sometimes almost unmanageable.”

One reason for these problems also lies in the fact that all successful companies – around 3,000 – are already privatised, at a much faster pace, while for the remaining 500 or so companies the process does not involve classical privatisation, but rather a number of other actions, especially as a large number of such companies are just shells and that many of them, under such circumstances, cannot have market valorisation. That is why Sertić said that privatisation is generally not a matter of a decision, but rather a process.

At this point the portfolio of the Privatisation Agency includes a total of 526 companies and a solution will be found for 338 of them by 1st July. Under the decision, said Sertić, we imply putting an end to the procedure for those companies that have already announced bankruptcy, which were handed over to the courts, while ownership transformation has already been concluded for a smaller number of companies. The fate of a few companies from Kosovo will

be resolved in the spirit of the Brussels Agreement, while some companies now in the agency’s portfolio will be transferred to Srbijavode, given that their existence is important for flood protection. Part of the veterinary stations that also lie in the portfolio will be transferred at the request of the Agency to the jurisdiction and ownership of local governments.

Moreover, 1st July is an important date for the privatisation process, because that marks the expiry of the legal deadline for resolving the fate of 72 media companies. According to Sertić, if the privatisation process has not been completed by that date, the shares of these media companies will be granted to workers, and if the workers decline them, then the companies will,

as he pointed out, be deleted from the registry.

The remaining 188 companies will, unfortunately, have to pass through “some kind of serious change,” said the economy minister. Some will succeed in finding a new buyer through bankruptcy, part of the assets of some companies will have to go to the creditors, while some companies, as is now the case, will be purchased from the bankruptcy proceedings.

Sertić stressed in particular that for some of these companies the Government would try to find a solution in consultation with the IMF and the World Bank, which would ensure that their collapse does not produce consequences that could have negative ramifications on the overall economic environment in Serbia.

One of the ministry’s most important legal

sensual Financial Restructuring, which should enable problems in companies to be resolved in a timely manner, before bankruptcy becomes the only possible solution.

“We are writing the law on regional development, the law on crafts, on cooperatives and the Law on Companies, which are also very important to us because of public companies,” said Minister Sertić.

Although in some processes, such as the privatisation process, the government is facing barriers, it can be said in general that the state’s efforts to move closer to the market model of business and European business standards in Serbia, at least when it comes to the legislative framework, are successful.

According to the minister, Serbia has har-



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Zeljko Sertić, Dimitrije Krnjeginjić, Aleksandar Vučić

One of the ministry’s most important legal projects is the Law on Investment, on which FIC representatives have submitted suggestions and proposals to the minister

projects is the Law on Investment, on which a public debate was closed recently and for which FIC representatives submitted suggestions and proposals to the minister. In accordance with the regular procedure, the draft of this law will then be subjected to comments in the relevant ministries in the Government of Serbia, after which – at the end of June – it will enter into the parliamentary procedure.

This ministry prepared some laws that are currently under parliamentary procedure, noted Minister Sertić. These primarily relate to the Law on Amendments to the Law on Standardisation, while the opinions of relevant ministries are being gathered regarding the Law on restrictions on the right to engage in economic activities, and the procedure is underway for Law on Amendments to the Law on Con-

monised 95 per cent of industry standards with European rules, which represents another important step in the process of Serbia’s integration into the European mainstream, and on the road to joining the European Union, stressed Sertić.

The Economy Minister offered special thanks to the members of the Foreign Investors Council for its initiatives, proposals and suggestions to date, as well as the opinions offered on laws, saying that it was very important for the government to support this association, which currently includes more than a hundred companies that together generate nearly a fifth of Serbia’s GDP and employ nearly 100,000 people. “I hope that we will continue to maintain this high level and quality of communication”, said Sertić. ■



Nebojša Čirjaković, Silvia Vernneti Blina, Željko Sertić, Dimitrije Knjeginjić, Aleksandar Vučić, Ove Fredheim, Johannes Hahn, Gabor Bekefi, Dušan Vujović, Goran Pitić, Snežana Bogosavljević Bošković

PLENARY SESSION OF THE 5TH REALITY CHECK CONFERENCE

FIC Encourages Government to Continue Reforms

With European Commissioner Johannes Hahn in attendance, Prime Minister Vučić and members of his cabinet exchanged impressions with the Foreign Investors Council regarding the progress achieved through reforms in the past six months, discussing the government's new plans and the recommendations offered by investors

This year's Plenary Session of the 5th FIC Reality Check Conference, which took place on 7th May, saw European Commissioner for Neighbourhood Policy & Enlargement Negotiations, Johannes Hahn, present the European Commission's view of reforms in Serbia and recommenda-

tions for their continuation.

The session also saw Serbian Prime Minister Aleksandar Vučić and finance and economy ministers Dušan Vujović and Željko Sertić respectively engage in excellent dialogue with the management of the Foreign Investors Council. The conference was attended by

representatives of all FIC member companies, representatives of international institutions, chosen representatives of the diplomatic corps and other esteemed guests.

The Reality Check Conference is usually held six months after the official promotion of the White Book. The Conference closely monitors progress made in the implementation of recommendations included in the FIC White Book and aims to facilitate an exchange of opinions between top government officials and directors of FIC member companies on topics such as the creation of a sustainable macroeconomic and regulatory environment.

Another aim of the Conference is to reach agreement regarding concrete issues of importance to increasing the competitiveness of the Serbian market, with the starting point for this dialogue represented by the conclusions of the

tion and the improvement of the business climate in Serbia also concurred with the opinions expressed by European finance ministers and the European Commission. These opinions were officially stated at a meeting on 12th May and were presented by Commissioner Hahn at the Reality Check Conference.

The Council's main conclusions and proposals were presented at the beginning of the session.

According to the FIC's assessment, over the past six months the Serbian Government has continued to make significant improvements to the business climate by amending two important laws: the Law on Spatial Planning and Construction and the Inspection Oversight Law. The first results showed that the amendments to the Law on Spatial Planning and Construction are being implemented successfully and have resulted in shorter deadlines for is-

The FIC's main expectation from the Government is to continue harmonising the country's laws with the EU Acquis



Dimitrije Knjeginjić, Aleksandar Vučić, Ove Fredheim, Johannes Hahn

working sessions at which members of the FIC committees exchange opinions with the state administration regarding the FIC's latest initiatives and the activities of government bodies in the following period.

The sense of urgency surrounding this year's conference also stems from the fact that it coincided with the arrival in Serbia of an IMF delegation, which came to perform its first audit of the three-year-arrangement with the country. The delegation's opinions and recommendations aligned greatly with those of the Council. Moreover, the opinions of FIC members regarding progress achieved in reforms and further steps required for their continua-

ting building permits.

It was also noted that the new Law on Inspection Oversight had introduced certain improvements by ensuring better coordination between inspection services, while the Labour Law, amended in summer 2014, was also adjudged to have been implemented successfully.

The FIC's main expectation of the government is to continue harmonising the country's laws with the EU Acquis. This refers primarily to the adoption or improvement of the following laws: amendments to the Law on Foreign Exchange Transactions, which should allow cash pooling and increase possibilities for issuing guarantees to non-residents; the Law on Administrative

Fees, which should be adopted with a view to protecting the business community from the introduction of new para-fiscal levies; and the Law on Land Conversion, which should be adopted to allow land ownership. The Law on Personal Data Protection should be harmonised with EU Directive 95/96/46/EC. Another point is that issues surrounding staff leasing should be legally regulated, which is currently not the case.

The Council noted that the implementation of laws still remains the main challenge and it expects tangible progress to be achieved on this matter. Improved implementation of laws in all areas should be an imperative that can be achieved through reforming public administration and increasing administrative capacities in ministries and other government institutions, with special emphasis placed on the Tax Administration and inspection services.

The Council also highlighted particular problems in carrying out privatisation, adding

The Council recommended that the Serbian Government to fully utilise the process of EU accession agreements and consultations with the private sector in order to ensure the sustainability of reforms

that this process should be expedited significantly and organised in a transparent way. For instance, following a collection of letters of interest in September 2014, the privatisation process slowed down and only 12 of 502 companies were put up for sale via tenders, while bankruptcy procedures were launched in 76 companies.

The Council noted that the Law on Inspection Oversight should be followed by the immediate formation of a Coordination Body that would ensure efficient and consistent implementation of the new law. The Council added that the Tax Administration did not always adhere to binding opinions provided by the Ministry of Finance, which it is legally obliged to do.

The Council assessed that the National Bank of Serbia's interpretation of the Law on Foreign Exchange Transactions was

too rigid, given that it bans any transactions/activities not explicitly stipulated in the law.

Additionally, the Council commented on



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Leo Vincent M. D'aes, Ambassador of Belgium, Philip Pinnington, Ambassador of Canada, Heinz Georg Wilhelm, Ambassador of Germany, Christine Charrel ep. Moro, Ambassador of France, Masafumi Kuroku, Ambassador of Japan and Nils Ragnar Kamsvåg, Ambassador of Norway

PHOTO: OLIVER BUNIC

the Law on Employing Foreigners and said that the relevant institutions – the Ministry of Labour, the National Employment Service and labour inspectorate – all interpret the stipulations of the law differently.

The Council recommended that the Serbian Government fully utilise the process of EU accession agreements and consultations with the private sector in order to ensure the sustainability of reforms.

FIC President Ove Freidheim pointed out that some progress has been achieved in six of nine areas in the last six months, citing anti-illicit trade, real estate and construction, human resources, food and agriculture, insurance and telecommunications. The least progress, he noted, had been marked in three areas: the overall legal framework, tax and leasing.

Serbian Prime Minister Aleksandar Vučić presented the government's plans for the next period and said that he believed the government would be able to apply most of the Council's recommendations. He also thanked the Foreign Investors Council for its continuous and fertile dialogue, adding that the aim of the FIC and the government to build a better macroeconomic environment and more favourable business surroundings concurred to a great extent. Further-

more, the PM expressed his expectation that good cooperation would continue at all levels.

European Commissioner Hahn said that, after achieving the first encouraging results, the Serbian Government should continue with reforms and create prerequisites for economic growth and higher employment. He added that both the EU and the European Commission have been encouraging the government to persist in its current direction, while the business community should continue supporting reforms in Serbia in a constructive way, primarily in the form of advice and recommendations for improving the business environment, which is vital for new investments, economic growth and employment.

Ministers Vujović and Sertić presented the plans of their respective ministries relating to the implementing of the FIC's recommendations in terms of creating a transparent and stable macroeconomic environment, expediting privatisation and working on laws that would create a predictable business environment. The ministers also thanked the Council's members for their previous recommendations and initiatives, expressing their shared expectation that this constructive cooperation would continue in the future. ■

Prime Minister Vučić expressed his expectation that fertile cooperation between the Government and the FIC would continue in the following period



Mirko Kovač, Sonja Rudić, Branka Đorđević, Rastko Mališić, Ljiljana Džuver, Dejan Ječmenica, Danijela Vidljiljnović

PHOTO: OLIVER BUNIĆ

SESSION 1: RULE OF LAW

LEGAL FRAMEWORK AND LABOUR REGULATIONS

Gradual Liberalisation

The working group of the Ministry of Finance will carefully consider the proposals of the Council regarding the liberalisation of flows regulated by the Law on Foreign Exchange Operations and the harmonisation of related laws, while procedures for issuing work permits for foreigners will be simplified and shortened

It was noted during the Reality Check Conference's working session dedicated to the rule of law, the legal framework and labour regulations that the last six months have been marked by positive development in terms of the rule of law, which is reflected in the application of the Labour Law and the formation of a working group for amendments to the Law on Companies and the Law on Bankruptcy Procedures.

The session was primarily devoted to exchanging views related to new initiatives and

proposals of the FIC, as well as the stances and activities of the relevant state institutions in the areas of the Law on Foreign Exchange Operations and the Law on Employing Foreigners.

Discussions highlighted the necessity to amend the Law on Foreign Exchange Operations, which will regulate the issues of cash-pooling, netting and continued liberalisation in this sphere. The FIC noted that it is ready to provide active support in the preparation of amendments to these laws. Members of



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the Council also said that a more liberal interpretation of existing laws is needed.

In the field of labour, it was noted that the new Law on Employing Foreigners had brought certain normative improvements, while around 30 per cent of the FIC's recommendations had been adopted. However, discussions also saw the highlighting of difficulties in the administrative procedure for issuing work permits, with the Council expressing the view that this procedure should be simplified to a great extent.

Participating as panelists in the discussions were the director of the sector for foreign exchange operations at the National Bank of Serbia, Sonja Rudić, Head of the Payment System Group at the Ministry of Finance, Branka Đorđević, and Assistant Minister for Employment at the Ministry of Labour, Ljiljana Džuver, while the positions of the FIC were championed by the president of the

FIC Legal Committee, Rastko Mališić, and the president of the FIC Human Resources Committee, Dejan Ječmenica. The gathering was moderated by Mirko Kovač, vice president of the FIC

Human Resources Committee. The closing part of the session saw representatives of FIC member companies express their views, suggestions and the problems they face in their operations in these areas.

Since the 2012 amendments to the Law of Foreign Exchange Operations, no significant progress has been recorded in this area, said Mališić, noting that Serbia – along with Bosnia & Herzegovina – has one of the strictest regimes for doing business in this area. "The restrictiveness of the regime in Serbia prevents a certain number of

investment and legal affairs, even though their realisation would not jeopardise business operations or financial stability in Serbia. We believe this is in line with the Stabilisation and As-

The Council recommends further synchronisation between the provisions of the Law on the Capital Market and the Law on Foreign Currency Operations, as well as Law on Investments, which is being prepared

sociation Agreement (SAA) and the steps taken by Serbia towards joining the European Union require further and more specific regulations on the liberalisation of foreign exchange operations, meaning further liberalisation of both current and capital flows,” said Mališić.

The FIC provided three groups of recommendations related to foreign exchange operations. The first are administrative in nature and relate to easing and simplifying procedures related to reporting and informing on foreign exchange

explicitly allow banks to buy short-term securities in Serbia issued by foreign issuers in dinars. The Council also recommended updating a bylaw on derivative financial instruments in accordance with EU regulations and in the region, which is outdated.

“The Central Bank is dedicated to creating conditions for the free movement of capital and has committed itself to the provisions of the SAA whereby, no later than in September 2017, it will harmonise regulations in this



PHOTO: OLIVER BUNIĆ

Branka Đorđević, Rastko Mališić, Ljiljana Džuver, Dejan Ječmenica, Danijela Vidljinić

operations and better synchronisation of the provisions of the Law on Foreign Exchange Operations, the Law on the Capital Market and the Law on Investments, which is being prepared.

The second group of recommendations relate to easing cross-border transactions, primarily in terms of better and more detailed regulating of netting and cash pooling. The FIC also recommends the liberalising of access to the issuance of a guarantees to the benefit of non-residents.

The third group of recommendations relates to transactions in securities, where the FIC recommends enabling non-residents to buy short-term securities in Serbia and harmonising relevant regulations that would

The Central Bank is dedicated to creating conditions for the free movement of capital and has committed itself to the provisions of the SAA, albeit through selective and phased liberalisation

area in accordance with the principles that apply in the EU, through selective and phased liberalisation in accordance with indicators of macroeconomic activity in Serbia and the region,” said Sonja Rudić, director of the NBS sector for foreign currency operations, adding that it was noted during the bilateral screening of this area in front of the European Commission in December 2014 that there

had been significant harmonisation of national legislation with the EU Acquis.

Rudić pointed out that the NBS and the Ministry of Finance are working constantly to eliminate administrative barriers in the aforementioned laws and that the formulations of articles of the Law on Foreign Currency Opera-

tions will be amended in order to remove current ambiguities. She said that, at the proposal of the Ministry of Finance, a working group had been formed to prepare the draft text of the Law on Amendments and Supplements to this law, with the solution to be in accordance with the commitments undertaken by Serbia on the basis of the SAA.

Rudić also said that the adoption of the recommendations of the Council on cash pooling would be premature at this time and will be left for the end of the liberalisation process. She said that the first to be liberalised would be short-term capital flows in the part of short-term loans, short-term portfolio investments and financial derivatives and, at the very end, deposit transactions.

Branka Đorđević, head of the payment system group at the Ministry of Finance, said that the recommendation of the Council on the equalisation of the rights of residents and non-residents had already been considered and that the working group would further consider that possibility, while the competent institutions will also pay attention to the timely harmonisation of the text of the Law on Foreign Exchange Operations and the capital market in accordance with EU regulations.

When it comes to implementation of the Law on Employment of foreigners, the process of obtaining permits is complex and should be simplified or accelerated, according to the president of the FIC Human Resources Committee, Dejan Ječmenica. According to him, a problem is also presented by the fact that the compe-

tent authorities interpret the law and bylaws in different ways, while some provisions of the law showed themselves to be impractical when it comes to obtaining work permits for the directors and company representatives. The Council’s recommendations are that the procedure be regulated more precisely, that a single list of documents be drawn up for the issuance of work permits, that directors and representatives of capital be exempt from the general regime for obtaining permits and for



PHOTO: OLIVER BUNIĆ

Mirko Kovač

In the future, a single-window approach to the issuing of residence and work permits should be introduced, while the process of extending work permits should be accelerated in the shortest period

simplified procedures to be applied to them. The Council also considers that a single-window system should be introduced for obtaining work and residence permits.

Assistant Minister for Employment at the Ministry of Labour, Ljiljana Džuver, said that in the first four months 1,326 work permits had already been issued and that from this practice it could be seen

where there is room to improve the legislation. She said that company directors cannot be exempted from the general process, but that this procedure must be accelerated, especially when it comes to the renewal of work permits. Džuver said that maintaining a single-window system was being considered. ■



SESSION 2: LAW IMPLEMENTATION

ANTI-ILLICIT TRADE, FOOD AND AGRICULTURE

More Consistency in Implementing Laws

The Law on Inspection Oversight has been drafted in accordance with the best European practices, with the goal of upholding the rule of the law, because only with proper inspection oversight will laws in Serbia cease to be dead letters. This is why this law needs to be applied consistently

Adoption of the Law on Inspection Oversight, a more efficient fight against illicit trade in practice and establishing the Department for Anti-Illicit Trade of Excise Goods in the police, constitute the most important progress made in the last six months – it was said at the second session of the Reality Check Conference on anti-illicit trade, food production and agriculture.

This law stipulates a series of proper measures and should be followed immediately by the establishment of a coordination body and an expert risk analysis council, building on the capacities of existing bodies, the adoption of bylaws and adjustment of sector-based laws, as well as setting up unified rules for inspection activities, which form the basis for good implementation of this law – the session concluded.



Vidosava Džagić, Freek Janmaat, Milica Stefanović

Members of the panel participating in the discussion of this law included State Secretary in the Ministry of Local Self-Government and State Administration, Vida Džagić, Assistant Trade Minister and Chief Trading Standards Inspector, Lidija Stojanović, Head of Agricultural Inspection, Nenad Vujić, Interior Ministry representative Dragan Galjak, First Secretary and Head of the EU Integration and Economic Section in the Delegation of the European Union, Freek Janmaat, President of the Anti-Illicit Trade Committee at the FIC, Goran Pekez, and President of the FIC Food & Agriculture Committee, Milica Stefanović. Corporate lawyer from Heineken Serbia, Bojana Obućina Krčmar, moderated the panel discussion.

Good market supervision is the key mechanism in fighting the grey economy and securing appropriate conditions for doing business for

those companies that operate in accordance with the relevant laws – session participants concluded. Hence, further implementation of the Law on Inspection Oversight was at the core of the discussion during Session 2, particularly considering that this segment was previously

marked by inefficiency and uneven inspection activities.

“The main requirement of the business community is for this law to increase the predictability of doing business. Our response to that was the introduction of two mechanisms – checklists, which will be made public and will, in turn, ensure that both inspectors and inspected subjects know what is the subject of the oversight, ensuring that the rules apply equally to everyone, which will ultimately re-

sult in predictability,” said State Secretary Džagić.

The second important feature of this law is that it is an organic law and its implementation preceded that of the sector-based laws in

In regard to food industry and agriculture, adopting the Law on Inspection Oversight constitutes the biggest breakthrough since 2009, and since the Law on Food Safety was adopted

areas where such laws did not regulate oversight of unregistered subjects, for instance. So far this has been a huge problem, since the majority of inspection services had their hands tied in dealing with such subjects, which are at the core of the grey economy. In the following five months, inspection activities overseeing unregistered subjects in cases when the in-

transparency and the involvement of the business community and all other important stakeholders in discussions about it. Furthermore, this was a good example of the proper adoption of a law in line with the European practices," said Goran Pekez, also noting that the law brought many beneficial novelties, such as rules of engagement for inspectors dealing with unregistered subjects, coordinating inspection activities and licensing and training inspectors.



PHOTO: OLIVER BUNIĆ

spectorate does not have direct authority in such matters will become unified, as this problem was not covered by individual sector-based laws. Another innovation of this law is preventative oversight and establishing a rule regarding unified activities of all competent authorities in connection with a specific procedure – the so-called Guarantee Act, which will be a mechanism regulated by the Law on Administrative Procedures. The Law also provides for the establishment of a coordinating body that will ensure several different inspectors make joint visits to one subject.

The business community will be included in the next stage of consultations regarding this law's implementation – said Džagić.

"This law was a good example of work

The European Union sees this law as an important step forward and is particularly satisfied with the way in which it has been implemented, through a comprehensive discussion with all stakeholders

"This law should uphold the rule of the law. With good inspection supervision, all laws that will be adopted in Serbia will no longer be a dead letter; but will be implemented in practice. And we are not only referring to tax laws, but also laws on consumer protection, standardisation, sanitary protection and many other complex areas," Pekez underlined.

The European Union sees this law as an important step forward and is particularly satisfied with the way in which the law has been implemented, namely through a comprehensive discussion with all relevant stakeholders – said Janmaat, citing a number of areas for which the EU offered its financial and technical assistance for acquiring proper laboratory equipment and training staff and inspectors. He added that, now that Serbia had adopted close to 90 per cent of EU standards, there is no need for Serbian state border inspectors to regularly check goods originating in the EU and accompanied by proper documentation. FIC Food & Agriculture Committee president Stefanović concurred.

The session participants were also informed about inspectors already conducting their work in line with the new law and that the law would be completely implemented once all bylaws have been adopted. Trade standards inspections need further support of the Ministry of Local Self-Government in terms of assessing risks. It would also be beneficial to change the relevant regulation in the sense that it would be permitted for inspection services not only to employ inspectors, but also experts who would deal in complex analytical processes.

Assistant Trade Minister and Chief Trading Standards Inspector, Lidija Stojanović, said that the sector of trading standards inspection had already implemented the stipulations of the new Law on Inspections to a great extent, particularly in terms of the way in which inspection services work in the field. She also spoke in detail about all aspects of the law pertaining to trading standards inspections and IT systems, training trading standards inspectors and other issues.

Head of the Agricultural Inspectorate, Nenad Vujović, commended the Law, particularly parts relating to risk analysis and the planning of inspection visits. He added that some of the stipulations in the law had been implemented by the inspection services at the Ministry of Agriculture for several years now.

Interior Ministry representative Dragan Galjak presented the Ministry's results in eliminating illicit trade and the grey economy over the course of the last seven months.

With regard to food industry and agriculture, adopting the Law on Inspection Oversight would constitute the biggest breakthrough since 2009, and since the Law on Food Safety was adopted – said FIC Food & Agriculture Committee president Stefanović.

She also said that the food industry had been suffering from problems associated with the inconsistent implementation of the law and cited the registration of plant protection products as



Goran Pekez, Vidosava Džagić, Freek Janmaat

PHOTO: OLIVER BUNIĆ

The Law on Inspection Oversight stipulates a series of proper measures and should be immediately followed by the establishment of a coordination body and an expert risk analysis council, and by building the capacities of existing bodies

one example. Because of inconsistent implementation, plant protection products that haven't been checked at all and those that are probably unsafe have entered the Serbian market. She also mentioned the problems with the Food Labelling Ordinance, which was welcomed by the industry but has been interpreted differently by different people.

Considering the experiences of the food industry and agriculture with the inconsistent implementation of the Law on Food Safety, Stefanović warned that the Law on Inspection Oversight should not suffer the same mistakes.

In this context, she welcomed the so-called Guarantee Act, which is supposed to ensure safety and predictability in the implementation of regulations. ■



SESSION 3: LAW IMPLEMENTATION

TAXES, LEASING AND INSURANCE

Unified Implementation of Required Regulation

More intensive communication between the Ministry of Finance and Tax Administration, as well as reforms of the latter, should result in fewer of the problems that usually stem from uneven implementation of all tax regulation, which is a problem still being faced by companies in Serbia.

Working Session 3 focused on taxes, as well as on the leasing and insurance sector. Improvements made over the past six months were acknowledged, including further development of electronic submitting of tax returns, regulation of tax violations

exclusively in accordance with the Law on Tax Procedure, and the adoption of the new Insurance Law, which contains 40 per cent of the FIC's key recommendations.

According to session participants, the biggest challenges facing taxation policy come from two issues. The first is implementing laws and



Irina Stevanović Gavrović, Biljana Bujčić, Dragana Marković, Aleksandra Miletić

increasing efficiency and uniformity of the work done by the state administration. The second relates to the predictability of the legal framework and ways of avoiding sudden legal amendments.

The discussion participants included: Assistant Finance Minister Irina Stevanović Gavrović, Serbian Tax Administration Director Dragana Marković, Legal Affairs Director at the Insurance Business Oversight Sector at the National Bank of Serbia, Aleksandra Miletić, president of the FIC Tax Committee, Biljana Bujčić, and president of the FIC Leasing & Insurance Committee, Juan Cazarra. The session was also attended by Assistant Director of the Tax Collection Department at the Serbian Tax Administration, Mira Stanojev, advisor at the Serbian Tax Administration, Rade Šević, Assistant Director at the Control Department at the Serbian Tax Administration, Snežana Lojančić. Eurobank Executive Board member Slavica Pavlović, moderated the panel discussion.

In the area of taxation, discussions indi-

cated that inconsistent implementation of the same tax rules by different tax authorities remained the key problem in Serbia. "Uniformed interpretation of regulation is very important both for the overall business environment and the opinion that investors form of Serbia as a place for doing business," said FIC Tax Committee president Biljana Bujčić.

Bujčić also pointed out that, despite the fact that the opinions of the Ministry of Finance should be treated as being binding as of 2013, the practice shows that this is still not the case. The practice of adopting certain laws without having a proper public debate continues and implementation of certain laws often starts immediately after their adoption. On behalf of the Tax Committee, Ms Bujčić welcomed the government's decision to con-

tinue working on the Law on Utilisation Fees for Public Goods and added that the FIC was willing to continue with consultations relating to the said law, which is very important for cre-

The uniform interpretation of the regulation is very important for the overall business climate and investors assessing Serbia as a place to do business



PHOTO: OLIVER BUNIĆ

Huan Kazara, Mira Stanojević

come Tax provisions in an effort to ensure more just implementation of flat tax rates and working on the Law on Utilisation Fees for Public Goods, which will be followed by a comprehensive public debate. The Ministry is additionally engaged in the expansion of electronic filing of tax returns.

Newly appointed Director of the Tax Administration, Dragana Marković, talked about the continuing transformation process in the Tax Administration, adding that the Ministry of Finance and the Tax Administration have been cooperating regularly and maintaining excellent communication. Marković also said that a taskforce had been formed to work on improving the work of the Tax Administration. Members of this taskforce include representatives of the IMF and the EU, tax experts and other renowned figures who will work to-

Many renowned experts will be involved in drafting the Law on Utilisation Fees for Public Goods, which will be followed by a comprehensive public debate

ating a stable and predictable business environment.

The FIC members gave concrete proposals for improvement – strengthening coordination between the Ministry of Finance and the Tax Administration, adoption of one bylaw for each tax form, introduction of policies and guidelines of the Tax Administration and all its affiliates, which would be made publicly available, as well as the modernisation of taxpayers' service. The Committee also thinks that the implementation of the law should be followed immediately by a public debate that should include the business community and the Tax Administration.

Assistant Finance Minister Irina Stevanović Gavrović said that the Ministry had no plans to increase tax rates in the near future and that it had been working on the Excise Law (for which an adoption date and the contents are still unknown), the VAT law and harmonising relevant laws in parts which relate to registering a foreign entity as eligible to pay VAT. The Ministry has also devised solutions regarding fiscalisation, working on amendments to In-

wards raising efficiency in basic procedures, improving the quality of the Administration's work, reducing costs associated with paying taxes, establishing a modern infrastructure and creating solutions that will result in higher tax collections. Marković also spoke about the continuing process of strengthening the administration's institutional capacities, the modernisation of IT capacities and achieving the same quality of work across the board.

Participants in the working session also concluded that a thorough discussion between the National Bank of Serbia (NBS) and the private sector in preparing relevant bylaws would be



PHOTO: OLIVER BUNIĆ

crucial to ensuring correct and consistent implementation of the new Insurance Law. President of the FIC Leasing & Insurance Committee, Juan Cazcarra, noted that prior to drafting of each individual bylaw the FIC had sent its recommendations to the NBS and that it expected feedback. The following were identified as the main issues: reducing discrimination between composite and non-composite market participants through wider interpretation of "shared services", as well as switching from tariff to underwriting model. Cazcarra also noted that more effort should be invested in the obligatory vehicle insurance segment, in order to create equal terms for all market participants.

Aleksandra Miletić, Legal Affairs Director at the Insurance Business Oversight Sector at the National Bank of Serbia, said that the new law would be implemented as of 27th June this year, adding that a group of 15 bylaws, 14 of which come under the NBS's jurisdiction, would have come into force by that same date. An adequate

A thorough discussion between the National Bank of Serbia (NBS) and the private sector in preparing relevant bylaws will be crucial for consistent implementation of the new Insurance Law

be excluded from liability for damage to vehicles caused by the drivers of insured vehicles. The Q&A section of the working session saw Miletić explain that the licensing of leasing companies is yet to be regulated by a bylaw, adding that an ordinance made on 27th April states that a person needs to have at least six months work experience in a financial institution, in addition to work experience in an insurance company, in order to qualify for authorised representative training. She added that this had caused a problem in the past and was one of the initiatives put forward by the FIC Leasing & Insurance Committee. ■

public debate about these bylaws will also be organised. Miletić added that, within the framework of the new law, a least damaging solution had been proposed in terms of the treatment received by composite and non-composite insurance companies. She added that the laws inherited from the last ten years were impossible to correct and that shared services would be very loosely interpreted and regulated, either via a bylaw or the instructions for interpretation of the Insurance Law.

With regard to the leasing sector, the FIC said that there should be a possibility for one company to offer both financial and operational leasing, that leasing companies should be allowed to represent insurance companies on the same terms as the banking sector and without any discrimination, and that leasing companies should

be excluded from liability for damage to vehicles caused by the drivers of insured vehicles.

The Q&A section of the working session saw Miletić explain that the licensing of leasing companies is yet to be regulated by a bylaw, adding that an ordinance made on 27th April states that a person needs to have at least six months work experience in a financial institution, in addition to work experience in an insurance company, in order to qualify for authorised representative training. She added that this had caused a problem in the past and was one of the initiatives put forward by the FIC Leasing & Insurance Committee. ■



WORKING SESSION 4: INVESTING FOR GROWTH

REAL ESTATE AND CONSTRUCTION, TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY

Positive Developments

The draft law on the conversion of land with built-in solutions and proposals of the FIC Real Estate and Construction Committee, as well as the announcement that a new allocation of frequencies could soon occur, testify to the active communication that exists between the Council and state institutions and agencies, thereby continuing the trend of the previous six months

Working Session 4 was dedicated to fields of real estate and construction and the sectors of telecommunications and information technologies. The last six-month period was marked by improvements mainly related to the adoption of the new Law on Planning and Construction, which has accelerated the issuance of building permits, as well as the implementation of technological neutrality and the distribution spectrum to 1,800 MGH in the field of telecommunications.

In the area of real estate and construction, discussions covered the solution for the issue

of the conversion of rights of use to rights of ownership over land. Recognising the importance of this issue, the FIC recently submitted a draft solution to the Government, which gained the support of the American Chamber of Commerce and the National Alliance for Local Economic Development, NALED.

Nebojsa Nešovanović, president of the FIC Real Estate and Construction Committee, provided a detailed presentation of the rationale and solutions proposed by this association, which has already been subjected to an exchange of opinions with the competent Minis-



Ivan Petrović, Jasmina Vignjević, Irini Reljin, Aleksandra Damjanović, Nebojša Nešovanović, Mirjana Arsekić Kraković

try of Construction, Transport and Infrastructure. Nešovanović noted in particular that the existence of recognisable and indisputable property rights represented a precondition for new investments and that, in this respect, the equitable, implementable and effective resolving of this issue is one of the imperatives.

State Secretary at the Ministry of Construction, Transport and Infrastructure, Aleksandra Damjanović, said that the state is well

aware of the importance of addressing this issue and is seeking a solution that will be based on economic reasoning in order to complete this process. Damjanović said that the positions of three associations – the FIC, the American Chamber of Commerce and NALED – do not differ from the government when it comes to essential elements. She also said that, following meetings with all three associations, the Ministry had made certain adjustments to its first draft law. The state secretary said that between the law's proponents

and the Ministry there was consensus that a relic of previous times – the right of use – must disappear from legal transactions and that

there is a divergence in the definition of what constitutes conversion in terms of the method of calculating fees. The Secretary of State explained in detail the principles which guide the Ministry and which parts of the proposals from associations it accepted.

“We paid particular attention to respecting public interest, ensuring that the proposed solution is viable in an economic sense, that the state is not harmed, to protecting acquired

The FIC Telecommunications and Information Technology Committee is very satisfied with the application of the principle of technological neutrality in existing frequency bands and the allocation of new frequencies to 1800 MGH

rights and extending them to ensure practical property is gained in a rapid and efficient procedure, while taking into account the rights of former owners,” said Damjanović, who also noted the importance of resolving this issue for the completion of ownership transformation. She also announced that the corrected draft Law on Land Acquisition would be subjected to public debate. Participants agreed that the adoption of an appropriate and feasible law on conversion was of essential importance.

Jasmina Vignjević, president of the FIC Telecommunications and Information Technology Committee, said that, compared to the previous Reality Check Conference and White

Book, significant improvements have been achieved in this sector and the Committee is very satisfied with the application of the principle of technological neutrality in existing frequency bands and the allocation of new frequencies to 1800 MGH, according to which two recommendations that were filtered through the White Book for years had now been implemented.

She said that this committee has excellent cooperation with the Regulatory Agency for Electronic Communications and Postal

In the case of the Law on Emergency Situations, which in a certain way transfers the cost of introducing the 112 emergency hotline number as a burden on the operators, the competent Ministry completely supports the stance of the operators

that the Committee and the competent ministry have very good cooperation and announced that drafts of rules for the allocation of new frequencies are ready and that operators will familiarised with them in a timely manner. The committee also appealed to the Ministry to be led by relevant prices in the region when it comes to the determining of the price range, as opposed to referring to prices established at the European level.

In the telecommunications and information technology sector, members of



Ivan Petrović, Jasmina Vignjević

Services, RATEL, and the Ministry, and that it sees this session as the continuation of ongoing dialogue. During discussion at this session, members received a positive response from the Ministry regarding their outstanding issues related to the allocation of new frequency bands that will soon follow from the range of 800 MGH, while the Ministry also reacted positively to the initiative of some operators for distribution in the range 2.6 gigahertz.

Assistant Minister of Trade, Tourism and Telecommunications, Irini Reljin, confirmed

the Council sought government assistance in eliminating the threat of potential new para-fiscal levies and actions leading to reduced revenues and which relate to decisions of the new Law on Emergency Situations, which in a certain way transfers the cost of introducing the 112 emergency hotline number as a burden on the operators, thereby indirectly introducing another para-fiscal levy, as well as the signing of reduced roaming tariffs between Montenegro, Serbia, Macedonia and Bosnia & Herzegovina.

Reljin said that, in the case of the Law on

Emergency Situations, the Ministry stood fully on the side of the operators, who sought the removal of this solution from the law – a solution which also violates European practice, but for now their views had been rejected in the public debate. In further proceedings the Ministry will be forced to reject this law, otherwise Chapter 10 of the EU accession negotiations could be complicated, given that our government has already been informed that this decision is contrary to European rules. The delegation of the European Union in Serbia

The FIC Telecommunications and Information Technology Committee and RATEL submitted opposing views with regard to the timely informing of operators on the decision to reduce roaming tariffs in the countries of the region

RATEL Assistant Executive Director Mirjana Kraković contended that the operators were informed on time with regard to the content of the agreement on the reduction of roaming prices between Montenegro, Serbia, Macedonia and Bosnia & Herzegovina, and that decision from this agreement was made in the spirit of European policy on the reduction of roaming prices, as well as insisting that implementation of reduced tariffs would be phased over a three-year period, thereby



Aleksandra Damjanović, Nebojša Nešovanović, Mirjana Arsekić Kraković

also sided with the operators, confirming that this solution from the Law on Emergency Situations is incompatible with European practice.

When it comes to the decisions of the countries of the region to reduce roaming tariffs, the FIC Telecommunications and Information Technology Committee and RATEL submitted opposing views with regard to the timely informing of operators on the decision and the manner of its application, as well as the established prices. The FIC Committee believes that this decision was brought without notifying the operator, while

providing ample room for operators to adapt. Kraković said that the regulatory body had been led by the fact that many Serbian citizens do not use their phones while travelling abroad and halt mass data transfer services, thus the motivation for this decision was the betterment of both consumers and society. She also noted that in the meantime operators had not taken independent steps to partially reduce roaming prices.

The moderator of the session was Ivan Petrović, vice president of the FIC Real Estate and Construction Committee. ■



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Conclusions of the Working Sessions

This year's working part of the Reality Check Conference on progress made and recommendations for further improvement of the business environment saw discussions held in four sessions: Session 1 was dedicated to the general legal framework of the labour law and regulations; Session 2 covered illicit trade, food and agriculture; Session 3 was on taxes, leasing and insurance; while Session 4 addressed real estate, telecommunications and information technologies

Working Session 1 was dedicated to the general legal framework and labour regulations. Improvements in the previous period were noted, primarily related to the successful implementation of the Labour Law and the formation of working groups for the amendments to the Law on Enterprises and the Law on Bankruptcy Procedure.

The main themes of the session were the Law on Foreign Exchange Operations and the Law on Employment of Foreigners.

Discussions indicated that amendments to the Law on Foreign Exchange Operations are necessary because the existing interpretation

of the rules on foreign exchange operations are conservative and rigid and should be liberalised;

The following recommendations were given: the Law on Foreign Exchange Operations should be changed in a way that would permit the issuance of guarantees based on non-resident accounts in transactions between two non-residents in all non-credit business, with the adopting of a specific legal framework for "cash-pooling" and changes to the law that will regulate the difference between residents and non-residents;

It was also conveyed that bylaws and the practice of the National Bank of Serbia in terms of subordinated loans should be amended and

The main targets for better implementation are:

Accelerated and transparent privatization; prompt creation of Coordination body to enable efficient and consistent implementation of the new Inspections Law; more consistent application of tax regulations and better coordination between Tax Administration and Ministry of Finance; more liberal interpretation of the Law on Foreign Exchange Operations; and unified interpretation of the Law on Employment of Foreigners by relevant institutions.

The main targets for adoption of laws are:

Liberalization of Law on Foreign Exchange Operations; adoption of Law on Charges to safeguard from new para-fiscal charges; adoption of Law on Land Conversion to enable ownership over land; harmonization of Law on Personal Data Protection with EU regulations; and regulation of Staff Leasing.

In past half-a-year, some progress is marked in 6 out of 9 areas:

Anti-illicit trade, real-estate, human resources, food & agriculture, insurance and telecommunications. Least progress is marked in 3 areas: overall legal framework, tax and leasing.

the provision of subordinated loans should be considered as direct investments, as stipulated in the Law on Foreign Exchange Operations.

Members of the Council also said that a more liberal interpretation of existing law is required.

It was recommended that the interpretation of laws and regulations of Serbia's central bank (NBS) and other authorities should be in accordance with the regular interpretation of other laws and regulations, for example enabling all transactions and procedures that are not permissible/prohibited by law and bylaws (as opposed to the current interpretation that everything not explicitly allowed/permitted is considered forbidden).

FIC members expressed their readiness to provide active support in the preparation of amendments to the law.

In the labour field it was pointed out that the new Law on Employment of Foreigners had brought certain normative improvements, with the adoption of 30% of recommendations of the Council, but also that in the specific application of the law a number of problems had emerged, given that the competent authorities interpreted the law and bylaws in different ways, and due to inaccurate or incomplete legal provisions. Moreover, it was noted, certain provisions of the Act have proved impractical when it comes to obtaining work permits for directors and other company representatives.

FIC members expressed the view that the procedure should be simplified to a great extent and recommended that the procedure for issuing work permits be regulated more precisely, as well as the list of documents that must be enclosed in order to avoid problems in practice and differing approaches of the competent authorities. FIC members called for directors and other company representatives to be exempted from the general regime of obtaining work permits, or that otherwise a simplified procedure for obtaining work permits for these categories of foreigners should be introduced. The recommendation of FIC members called for the introduction of a one-stop shop/single-window for obtaining residence and work



Minas Athanassiadis, Ana Firtel, Nebojša Čirjaković

PHOTO: OLIVER BUNJIC

permits, in order for procedures for obtaining these permits to be shortened considerably.

Working Session 2 was devoted to the fight against illicit trade and the domains of food and agriculture. It was recognised that progress has been achieved in the previous six months through the adoption of the Law on Inspection Control, with a somewhat more efficient fight against illicit trade in practice, as well as the formation of the Department for Combating Illicit Trade of Excise Goods within the Interior Ministry.

Application of the Law on Inspections was also the basic theme of the session, during which discussions highlighted key measures and activities that are a prerequisite for the successful implementation of the law – the prompt formation of the Coordination Body and the Expert Council for Risk Assessment, strengthening the capacity of existing bodies, the adoption of laws and adjusting sector-based laws, as well as establishing uniform rules for the actions of all inspections.

Working Session 3 dealt with taxes, as well as the sectors of leasing and insurance. Improvements in the previous period were noted in terms of the further development of electronic filing of tax returns, regulating tax violations exclusively in accordance with the Law on Tax Procedures, as well as the adoption of the new Insurance Act, which had included the adoption

of 40% of the FIC's key recommendations.

In the domain of taxation, discussions indicated that the uneven application of the same tax rules by the tax authorities remains a key problem in Serbia.

It was noted that the service to taxpayers within the Tax Administration is not developed sufficiently, does not provide sufficient certainty in terms of whether the way it is stated will be approached the same in the future, whether all organisational units of the Tax Administration will act in the same way and how any possible change of practice on this issue will reflect on the taxpayer.

It was also noted that, in practice, it often happens that in the area of control the Tax Administration does not apply the obligatory stance of the Ministry of Finance, while on the other hand individual opinions do not make clear which specific situations they relate to.

It was concluded at the session that coordination should be strengthened between various organisational units of the Tax Administration and the Tax Administration itself and the Ministry of Finance, and that it is necessary to draw up a detailed comprehensive bylaw (ordinance) on the application of each individual tax law, as is the practice in other countries, instead of more ordinances related to the same laws that address only certain articles of the law.

FIC members also proposed the introduc-



tion of instructions and guidelines of the Tax Administration for all of its branches, which would be publicly available, as well as to modernise the service for taxpayers.

With regard to insurance, it was concluded that a fundamental discussion between the National Bank of Serbia and the private sector in the preparation of secondary legislation would be crucial for correct and consistent implementation of the new Law on Insurance.

Basic themes were noted as reducing discrimination between composite and non-composite players, via broader interpretation of the “common workplace,” which is mentioned in the new law.

It was recommended that there be a transition from the tariff system model for corporate and engineering insurance to “underwriting” models with a different focus on the monitoring of technical reserves.

In the leasing sector, the FIC stressed the necessity of regulating operational leasing and making amendments to the Law on Financial Leasing, as well as the necessity to create the possibility of financial and operational leasing operations being carried out in one company. The defining of conditions for leasing companies through bylaws was sought, in order for them to be equally able to deal with matters of rep-

resentation of insurance companies and banks.

Working Session 4 was dedicated to the fields of real estate and construction and the sectors of telecommunications and information technology. It was recognised that progress has been achieved in the previous six months, primarily related to the adoption of the new Law on Planning and Construction, which has accelerated the issuance of building permits, as well as the implementation of technology neutrality and the distribution spectrum to 1800MGH in the field of telecommunications.

In the fields of real estate and construction, discussions covered a solution for the issues of conversion of land usage rights to ownership rights. It was concluded that the conversion process should be completed as soon as possible and that a new legal solution should be introduced. It was noted that this solution should be politically acceptable and sustainable, in order to avoid future delays, tests and doubts. Additionally, the “new solution” should be adopted in a way that can be applied by the public administration.

Recognising the importance of this issue, the FIC recently submitted a draft solution to the government, which was supported by both the American Chamber of Commerce and the National Alliance for Local Economic Development, NALED. The existence of recognisable



and indisputable rights to property is a precondition for new investments and, as such, participants agreed that the adoption of a high-quality, implementable law on conversion is vital.

In the sector of telecommunications and information technology, FIC members sought government assistance in eliminating the threat of potential new para-fiscal levies and actions that lead to reduced revenues.

It was noted that the Serbian Interior Ministry in the draft Law on Amendments to the Law on emergency situations had proposed the imposing of a special, permanent charge of 10 dinars through the accounts of users for electronic communications services. The collection of such a charge would be used for the implementation of emergency call number 112, thus enabling the continued maintaining of that system.

It was noted during this session that such proposals for the introduction of para-fiscal charges imposed on the telecommunications industry pose a serious threat to the creation of a uniform environment in Serbia and undermine the confidence of foreign investors in the predictability of the business environment. It was concluded that it would be necessary for the state to fund the implementation of emergency call number 112 in a different way and not via charges to end-users, which would be

in line with the practices of EU members and other countries, where emergency number 112 is free of charge for citizens.

In connection with the December 2014 decision of RATEL, brought on the basis of a regional agreement signed by the governments of Serbia, Macedonia, Bosnia-Herzegovina and Montenegro, which envisages a gradual reduction of roaming prices as of 1st July 2015, it was noted that mobile operators were at no point included in the process of deciding on the proposed reduction, that is no debate of this issue was organised and that market conditions and trends had not been taken in account, which was necessary given that the Serbian market has not reached the European level of development.

FIC members recommended that any reduction in roaming tariffs be postponed.

It was recommended that the competent authorities, RATEL and the Ministry of Trade, Tourism and Telecommunications, should carefully monitor and prevent all government initiatives that lead towards erosion of the telecommunications market and the introduction of para-fiscal levies.

A recommendation was also submitted for the implementation of a regional benchmark in the allocation of new frequencies. ■

OVERALL LEGAL FRAMEWORK

In the discussion it was pointed out to necessary changes of the Foreign Exchange Operations Law which would regulate issues of cash-pooling, netting, etc. FIC underlined its readiness to provide active support in preparation of the law changes. FIC members also indicated that more liberal interpretation of existing law is needed.

LABOUR

In the field of labour, it was underlined that the new Law on Employment of Foreigners brought certain normative improvements, by adopting 30% of FIC recommendations. However, in discussion it was also pointed out to the difficulties in the administrative procedure for issuing of work permits, where FIC expressed its view that the procedure should be significantly simplified.

INSPECTIONS

Implementation of the Inspection Law Surveillance was the main topic of the session, and discussion pointed to the key measures and activities which are a precondition for the successful law implementation – prompt establishment of the Coordination Body and the Expert Council for the Risk Analysis, strengthening

the capacity of current bodies, the adoption by-laws and adjusting of sectorial law, as well as establishing uniform rules for undertakings of all inspections.

TAX

In the area of taxation, the discussion indicated that inconsistent implementation of the same tax rules by the different tax authorities remains the key problem on the Serbian market. FIC members gave concrete proposals for improvement - strengthening of coordination between the Ministry of Finance and the Tax Administration, adoption of one by-law for each tax form, introduction of policies and guidelines of the Tax Administration all its affiliates, which would be publicly available, as well as the modernization of the service for the taxpayers.

LEASING AND INSURANCE

In relation to insurance, it was concluded that the thorough discussion between the National Bank of Serbia and the private sector in the preparation of by-laws will be crucial for the proper and consistent implementation of the new Insurance Law. Reducing discrimination between the composite and non-composite players through wider interpretation

of “shared services”, as well as switch from tariff to underwriting model were mentioned as main topics. In the leasing sector, FIC highlighted the necessity to regulate operating leasing.

REAL ESTATE

In the area of real estate, discussion evolved around finding a solution for conversion of right of use to ownership over land. Recognizing the significance of this issue, FIC recently sent to the Government the proposal for its resolution, which was supported by the American Chamber of Commerce and Naled. The existence of recognizable and undisputable right on the property is a precondition for new investments, and the participants agreed that the adoption of quality and implementable Law on Conversion is of the utmost importance.

TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY

In the sector of telecommunications and information technology, FIC members asked for Government assistance in eliminating the risk of potential new para-fiscal levies and actions that lead to revenue decrease. Also, a recommendation was given to apply regional benchmark in the allocation of new frequencies.



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