

Guide To

# FOREIGN INVESTORS COUNCIL

2018/19



## PARTNER FOR GROWTH

*Contribution Of Foreign Investors  
To Serbia's Economic Development*

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**Goran Pekez**, Corporate Affairs And Communications Director For The Adriatic Region At Japan Tobacco International • **Jelena Galić**, Aik Bank CEO • **Dejan Vukotić**, Director of the Serbian Export Credit and Insurance Agency, AOFI • **Marinko Ukropina**, Managing Director of SGS Belgrade, SGS Adriatic, SGS Slovenia & SGS Bosnia-Herzegovina • **Sanja Pešić**, CEO, Alma Quattro • **Jelena Knežević**, Certified Auditor, Managing Director, Leitner Leitner • **Mladen Petković**, General Manager at Krušik A.D. Valjevo • **Iosif Vangelatos**, General Manager, Inos Balkan • **Ivana Maraš**, solicitor, Aleksić & Associates • **Ljubiša Kukurić**, Head of the Representative Office for Serbia and Montenegro, Sandoz Pharmaceuticals d.d.

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countries, with plans for further expansion of exports.

Nestlé is devoted to steward resources for future generations – for example, by investing 1.2 million euros in factory in Surčin, we have saved 50.000 cubic meters of water. This is quantity enough to fill 20 Olympic swimming pools.

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The quality of life immensely depends on proper and balanced nutrition, but also on other aspects of life, such as decent employment opportunities and professional development. The beauty of Nestlé is that there is always opportunity for everyone – inclusivity in Nestlé Adriatic led to women making up 62% of the senior leadership in the company, and female managers 61%, which puts us on the first place within Nestlé Zone Europe when it comes to gender balance.

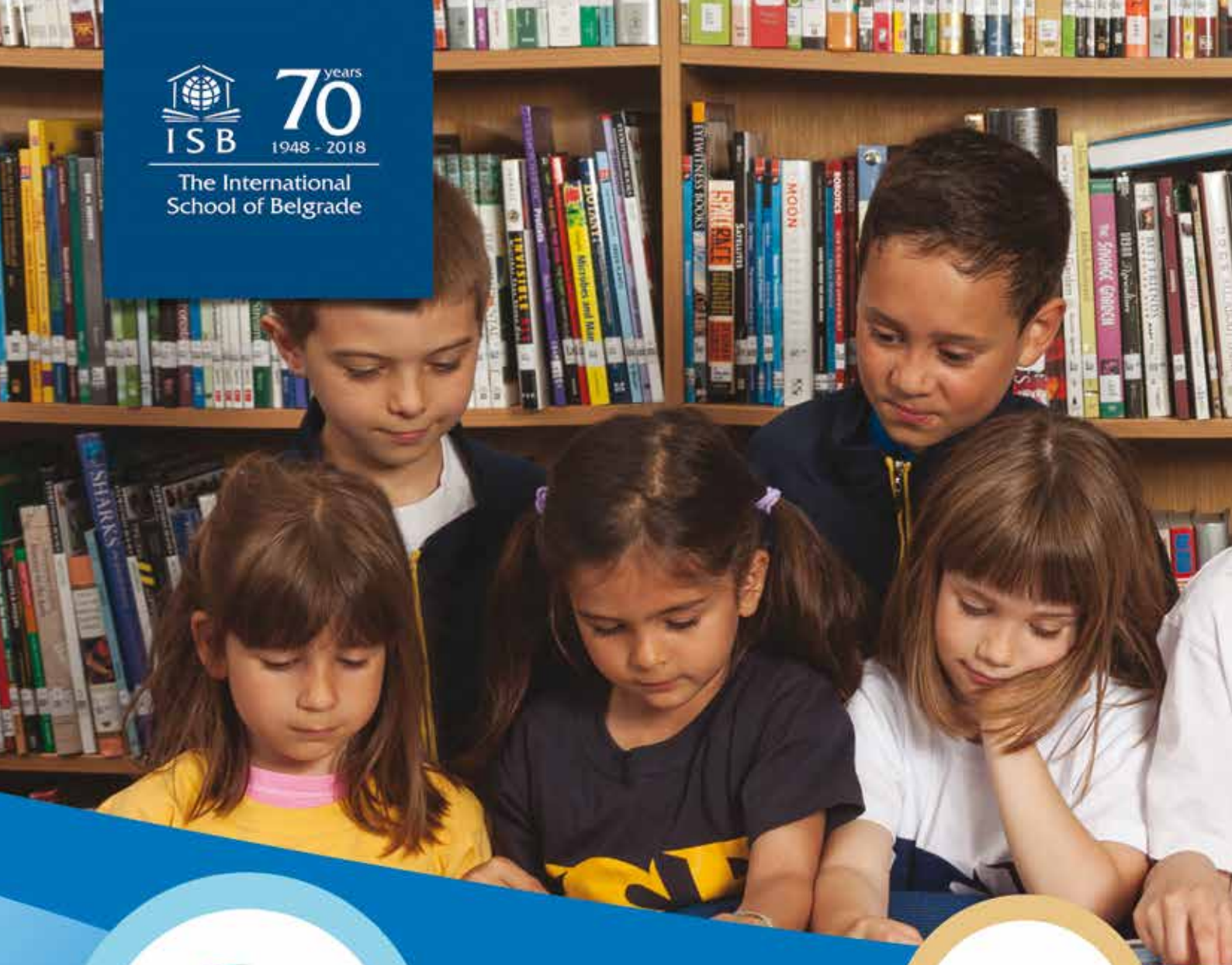
In line with our mission to recruit and develop the next generation of Nestlé leaders and help young people with the transition from education to work, in Adriatic region we have hired more than 120 people under the age of 30, while more than 150 young people have passed through our internship programs in last five years.

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A photograph of four students in a library. Three girls and one boy are gathered around a table, looking at an open book. The girl on the left has long blonde hair and is wearing a white t-shirt with 'ISB' in blue letters. The girl in the center has dark hair with a red headband and is wearing a yellow t-shirt with 'ISB' in blue letters. The girl on the right has red hair in pigtails and is wearing a black t-shirt. The boy in the background has long blonde hair and is wearing a white t-shirt. They are all looking down at the book. The background is filled with bookshelves containing many books.

**70**  
Years  
Young

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**EDITOR**  
Tanja Jakobi

**DESIGN**  
Jasmina Laković

**PHOTOGRAPHY**  
Zoran Petrović

**COPY EDITING**  
Mark R. Pullen

**TRANSLATIONS**  
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**PUBLICATION MANAGER**  
Neda Lukić, n.lukic@aim.rs

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Ana Tozzi, Executive Director of the Foreign Investors Council  
Milica Đorđević, Communications Officer of the Foreign Investors Council  
Bogdan Terzić, Office Assistant of the Foreign Investors Council

**PROJECT MANAGERS:**  
Bijana Đević, b.devic@aim.rs  
Nataša Trifunović, n.trifunovic@aim.rs  
Vesna Vukajlović, v.vukajlovic@aim.rs

**BUSINESS SECRETARY**  
Svetlana Petrović, s.petrovic@aim.rs

**FINANCE:**  
Ajilon Solutions, m.damjanovic@aim.rs

**EXECUTIVE DIRECTOR**  
Maja Vidaković, m.vidakovic@aim.rs

**GENERAL MANAGER**  
Ivan Novčić, i.novcic@cma.rs

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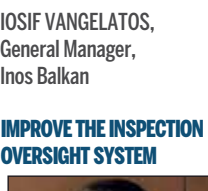


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# Good Opportunity To Accelerate Reforms



*Since the 2000s, when the transition process began, Serbia probably hasn't had a better chance than this one – to conclude structural reforms and open the way to strengthening the new economy that has grown out of the ruins of the old system.*

Continuing low interest rates on the world market, and especially in Europe, favours the settling of external debts and inflation, and creates space for the Serbian government – freed of concerns for fiscal and macro-economic stability – to devote itself to a job that has remained uncompleted for almost two decades.

Circumstances are undoubtedly favourable for several reasons: the government has expert resources of international financial institutions at its disposal, primarily of the International Monetary Fund and the World Bank, which continuously monitor and support Serbia's transformation into an efficient market economy, creditors who encourage, under favourable conditions, the development of infrastructure and the transport connectivity of Serbia with the region and European corridors, and bilateral donors that secure support for the building of an institutional framework that's harmonised with European standards.

In addition to this, the Government also has available the resources of companies that have both knowhow and good practises, but also a desire to assist in the change process.

A large number of foreign companies have come to Serbia over the past two decades, which advocate independently – through the implementation of their own corporate standards in operations and the transferring of those standards to local partners (including the state) and within various associations – for legal solutions and practises that contribute to the unifying of the business climate in Serbia with that in the countries of origin of investor companies.

In parallel with reindustrialisation and the strengthening of Serbia's export potential, Serbian companies have grown, often without state support, by finding successful market niches, most commonly by concentrating almost exclusively on exports. Such

companies exist today not only in the ICT sector, which is now in the focus of the state's attention, but also in traditional sectors which – to a greater or lesser extent – imply elements of a knowledge-based economy. Such companies – despite primarily being islands rather than archipelagos of new business models – also contribute to changing the structure of Serbia's economy and transferring useful knowhow to the domestic market.

For most foreign firms and successful domestic companies, Serbia is above all a base for export. There are two reasons for this: one is the fact that Serbia is a small import-dependent economy that is inevitably directed towards foreign markets, and thus towards the strengthening of the service and industrial sectors that relate to exchangeable goods; the other reason is that purchasing power is small, which limits the ability of companies to expand their capacities to produce goods and services intended for the domestic market.

However the future reflects on the Serbian market, all companies – regardless of the origin of their capital – would undoubtedly benefit from changes – be that from changes that are comprehensive, such as the strengthening of transparency, reducing the scale of corruption and strengthening the efficiency of administration, to more tangible and everyday changes like the consistent and uniform application of regulations, the development of e-services and better communication with the state when it comes to proposing legal solutions relating to the economy.

From various surveys, analyses of foreign investment inflows and the share of domestic investments and the public appearances of company representatives, it can be seen that a shift undoubtedly exists in terms of resolving these challenges that have lasted for decades, though the pace of these changes is not entirely satisfactory. ■

**Government dedication and an accelerated rate of change would enable the removal of obstacles to economic growth, development of the domestic market and growth in Serbia's attractiveness for investments from domestic and foreign sources**



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# Foreign Investors – An Important Link In Our Development Chain

**ANA BRNABIĆ**

Prime Minister of the Republic of Serbia



*I expect the inflow of foreign direct investments (FDI) to continue to grow this year and for it to total about 10% more than last year, which is a big and important result. We want FDI to help in accelerating balanced regional development, which has proven to be an excellent solution through several examples in the interior of Serbia*

**T**he Government of Serbia continuously implements a series of measures that impact on improving the business environment and preparing new legal solutions and innovations that should make the work of the public administration more efficient and transparent, and should ease operations for enterprises. “Thus, for instance, we will introduce an innovation thanks to which all

inspectorates in the country will be able to be networked in order to conduct controls and plan their work better and more efficiently,” says Serbian Prime Minister Ana Brnabić.

According to the PM, by the end of the year the national assembly should be discussing a draft labour law on work via temporary employment agencies, which the business community is eagerly awaiting, and the draft of a new law



## SUPPORT

We are striving to provide foreign investors with all the necessary infrastructure and other forms of assistance to launch operations in our country, and to do so in all of its regions

## DIALOGUE

I have the opportunity to further advance dialogue with the business community and will advocate for an open dialogue and promote that with my own behaviour

## PROGRESS

We're sure that conditions for doing business and complying with regulations will be improved significantly in the next year, which will further impact positively on curbing the scope of the grey economy

on strikes, which should replace the existing outdated statute. "In addition to the expected increase in employment, working conditions will also improve for agency workers, along with their safety and health at work, and standard of living," says Brnabić. "Simultaneously, we expect the new draft law on strikes to be harmonised with international standards."

Moreover, the government will continue implementing measures for the control of the grey economy, which – judging by the work to date – yields good results.

The inflow of foreign investment into Serbia is still the biggest in the Western Balkan region, and the government expects this year's result to exceed last year's by 10%.

### ► To what extent has the fight against the grey economy been fundamentally systematised?

– Combating business in the grey zone was fundamentally systematised in 2014, when the Serbian government – in cooperation with NALED and businesses gathered together in the Fair Competition Alliance – formed an Expert Group to direct activities aimed at combating the grey economy. Moreover, also established was the Inter-ministerial Coordination Body of the Government of Serbia for combating the grey economy, as it is essential to harmonise the activities of institutions that have the authority to uncover and sanction unregulated work.

The Expert Group and Coordination Body jointly prepared the National Programme for Combating the Grey Economy, which the Government of Serbia adopted at the end of 2015 and which has more than 100 measures and activities that are necessary for us to reduce the volume of business conducted in the grey zone over the next few years to the level it was at in the countries of Central and Eastern

Europe at the time that they joined the European Union.

I'm very satisfied that the last NALED study on the volume of activities in the grey economy showed that this systemic battle has yielded results. The scope of the grey economy among registered companies has fallen in the last five years

from 21.2% to 15.4% of GDP. What remains as a challenge is combating unregistered firms, i.e. the so-called 'black economy', and the emphasis will be placed on them.

An important innovation is the pilot phase of the e-inspector system that will be launched by the end of the year and which aims to network all inspections in the country by the middle of next year, enabling exchanges of information and the better planning and implementation of controls.

We are also working on encouraging legal operations and as of October we will launch tax exemption measures for business start-ups that

will last for a year. By year's end we also expect the adoption of the law on public procurement, while we've also established a dialogue on the reform of the flat-rate taxation system, so we're sure that conditions for doing business and complying with regulations will be improved significantly in the next year, which will further impact positively on curbing the grey economy.

## **The new draft Law on Work Via Temporary Employment Agencies and the Law on Strikes should contribute to creating better conditions in the field of labour and better understanding of the world of work and the world of capital**

### ► How could the announced package of amendments to labour legislation impact on improved results when it comes to higher employment and productivity?

– The current employment rate, measured using the existing methodology, reached a record percentage and totals 48.6%, while the unemployment rate stands at 11.9%. This is a result of the creation of a large number of new jobs throughout Serbia and valuable foreign investments realised ►



in the previous period. In the first half of this year alone we've had 1.29 billion euros of direct foreign investment, and last year, which was a record year, we had inflows of as much as 2.6 billion euros. It was for that reason that the Financial Times declared us the per capita leader in attracting foreign investment.

We expect the Draft Law on Work Via Temporary Employment Agencies and the Draft Law on Strikes to find themselves in the procedure of the National Assembly by year's end, and they will contribute to the creation of better working conditions. The law that will regulate work via agencies, so-called labour leasing, will provide security to citizens, so that a worker leased to an employer cannot have fewer rights than someone employed directly by that employer. The conditions for the operation of these agencies will finally be regulated and harmonised with the international standards of the International Labour Organisation and the EU. In addition to the expected increase in employment, conditions will be improved for the work of temporary agency workers, their safety and health at work, and their standard of living.

The draft law on strikes will be harmonised with international standards. It regulates bans and restrictions on the right to strike, as well as determining the minimum work process in activities of general interest. These laws will contribute to better and more successful operations of entrepreneurs, because the enhancing of social dialogue will enable the more effective resolving of discrepancies between the world of work and the world of capital.

► **What are your expectations for this year and next when it comes to FDI inflow? What would you like to see change in the structure of FDI flows?**

– Serbia will this year remain the country that attracts the most foreign direct investment in the Western Balkan region. I expect the inflow of FDI to continue to increase this year and

for it to be about 10% higher than last year, which is a big and important result. In the first half of this year alone, FDI inflow was 8.6% higher than in the same period last year, and that is certainly an encouraging statistic.

In the first quarter of 2018, around 40% of FDI was directed towards export-orientated activities and I would like this trend to continue and increase. I'd also like to see FDI growth in the process of manufacturing products with a higher level of processing, especially in the food industry. As the Government of Serbia, in cooperation with local self-governments, we are striving to provide foreign investors with all the necessary infrastructure and other forms of assistance to launch operations in our country, and to do so in all of its regions. We want FDI to help and accelerate balanced regional development, which proved

to be an excellent solution with the examples of Prokuplje and Leoni or Smederevo and the Steelworks.

► **What quality of dialogue do you have with the business community? How useful to the government are suggestions for changing the business environment that come from the business community and do you sometimes have to draw a line?**

– Dialogue between the economy and state institutions are improved from year to year. This Government, and myself as Prime Minister, are always ready to talk, open to dialogue



Photo by Marko Durica Reuters

**I'm very satisfied that the systemic battle against the grey economy has yielded results... What remains as a challenge is combating unregistered firms and the emphasis will be placed on them specifically**

and constructive criticism regarding any topic. I consider that the best way to resolve certain misunderstandings or make further improvements in specific fields in society.

Data from NALED and USAID show that as many as 80 per cent of business associations were involved in public-private dialogue and co-operated with institutions. Testifying

to how satisfied the two sides are with the quality of the dialogue is the fact that three quarters of institutions give this communication a positive rating, while 37% of business associations think the dialogue is good. I come from the economy and know what is important to business. Now I have the opportunity to further advance that dialogue and I will advocate for an open dialogue and promote that with my own behaviour. In order to enhance dialogue it is necessary to increase the capacity for communication with the economy within institutions, which is certainly in our plan. We want to encourage the involvement of as many citizens and businesspeople as possible in proposing and implementing reforms, as that is their right and the greater involvement of all stakeholders contributes to the quality of solutions that will ultimately relate to them. ■





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# Window Of Opportunity For Strong Growth

**YANA MIKHAILOVA**

President of the Foreign Investors Council and  
CEO of Nestlé South East Market  
(Adriatic region, Romania and Bulgaria)

*We live at an exciting juncture in which Serbia has taken a decisive opportunity to instigate the acceleration of economic growth – through stronger law enforcement, tax reforms, further modernisation of the labour law and continuous energised work on digitalisation – and, following successful fiscal consolidation, ensure a sustainable development path*



In the last 16 years, Serbia has achieved considerable progress, becoming a different state that's achieved macroeconomic stability, improved its competitiveness and positioned itself as an attractive geographical

location for investment, says Yana Mikhailova, president of the Foreign Investors Council (FIC) and CEO of Nestlé South East Market (Adriatic region, Romania and Bulgaria).

"However, investors' expectations are evolving following the strategic decision of Serbia to become an EU member. They are connected to the acceleration of reforms needed to instigate stronger economic growth, the further development of an investor-friendly business

climate and strengthening of the rule of law.

That also implies proceeding with structural reforms, including the privatisation and corporatisation of large state-owned enterprises. By completing these processes,

**By completing the privatisation, Serbia could release considerable resources to accelerate growth**

Serbia might release the considerable resources needed to support growth," says the FIC President, emphasising the importance of further harmonisation with EU legislation and practises, as well as work on stronger law enforcement, tax reforms, further modernisation of the

labour law and continuous energised work on digitalisation and eGovernment. "Our association, with its rich expertise, is ready to contribute to these goals," adds our interlocutor.



## GROWTH

We expect the government to accelerate the reforms that will create conditions to instigate stronger economic growth

► **Considering that recent developments have placed the Western Balkans higher on the EU agenda, which long-term goals would you outline as being the most important for Serbia to target?**

– The accession process has already had, and will continue to have, an important positive impact on the Serbian economy, changing the context by making it transparent and attractive for investments. While the Serbian economy is now in solid shape, it still needs to modernise considerably. Along with the aforementioned systemic reforms, it is important to continue with the reform of the public administration, targeting improved efficiencies, thus creating a business climate supported by the rule of law.

How to simplify the administrative burden? The answer is technology. Digitisation and the creation of a fully functional e-government system are obvious choices. Such changes will allow businesses to shift the resources they currently dedicate to fulfilling today's administrative requirements, often inefficient, to other areas that are more predisposed to sustainable development.

Another very important reform is that of education, as we note that there is a shortage of certain competencies that are in demand. The development of the dual education system that has already been introduced in Serbia will become an important factor to growing business activities in the country.

► **How could the FIC help in the process?**

– The FIC is a private sector focal point in the EU integration process, as an independent organisation that unites companies from different industries with a solid footprint in the EU. Our members have significant expertise to provide assistance when requested. The FIC already had four visits to Brussels, where we met with representatives of various

## MODERNISATION

The modernisation of the education system will address the shortfall in workforce competencies and boost innovation



**The new methodology of the White Book is closely linked to the capacity of reforms to change the business environment and clearly highlights where processes are progressing faster**

EU institutions to promote the importance of Serbia and offer our assistance in the process of Serbia's economic integration with the EU.

## DIGITALISATION

Digitalisation and the creation of a unified eGovernment system is a good tool for cutting bureaucracy and improving the quality of public services

► **Do you think the concept of attracting foreign investors as the basic way of re-industrialising the country and strengthening its export position has been exhausted? In that sense, do you expect a change in state subsidies and the policy of predominantly directing subsidies towards domestic investors?**

– Growth in exports of Serbian products is a very positive indicator of Serbia's increasing competitiveness. Subsidies themselves are not a bad thing; however, they are not usually the reason to invest. Investors come because of the opportunity to build a sustainable, profitable and growing business that will endure.

► **How has the FIC's cooperation with the government evolved over time?**

– The dialogue with the government has been evolving steadily over the years. It is not always at the same level of cooperation with each ministry, but dialogue is definitely present. We have always been transparent and consistent in what we advocate for, and that is to support the sustainable development of the Serbian economy.

In the past, it sometimes happened that legislation was changed without announcement and proper debate, but the quality of dialogue has changed recently, and we had very good examples of productive dialogue with the Ministry of Finance regarding two very important pieces of legislation – related to VAT and property tax. We respect that we've been given an opportunity to contribute to finding the best solution, and now it's up to the government to decide how to proceed.

► **The FIC established a joint task force with the Government of Serbia to improve implementation** ►

**of the recommendations contained in the annual FIC White Book and achieve progress of 50 per cent on an annual basis – up from the previous average of 35-45 per cent. How satisfied are you with the initial results?**

– The Joint FIC – GoV Task Force was established on 31<sup>st</sup> January 2017. It is a tool to enable focused discussion on digitisation/digitalisation, tax, labour legislation and a few other areas where we would like to see faster progress. We are still in the process of analysing the data and therefore cannot announce the results now.

**► While the rule of law remains the weakest aspect of the accession process at present, some examples of good practises have been noted. Would you emphasise the progress that has been achieved and the tasks remaining?**

– The level of dialogue is improving with the ministries with which the FIC previously had some difficulties in achieving that. This is a very important step, because it provides a degree of legal certainty and allows business to be prepared for changes.

Business needs much more consistency in the application of laws, especially in the tax area. We therefore expect the tax administration to have the capacity and capability to execute the rules in a consistent and clear way. We are satisfied that the FIC's feedback has been taken into consideration by the tax administration.

**► How has the new methodology of the White Book changed the way you measure the progress achieved? What are the most persistent obstacles that slow down reform processes in Serbia and keep the country locked in the past?**

– This big change in methodology added transparency in the progress accomplished in different sectors and allows the comparing of results. The new approach is closely linked to the capacity of reforms to change the business environment, and it clearly highlights where the process is progressing faster. We assign different scores to major changes, some changes, or no changes, and it will be interesting to see how this will change our perception of reform progress. Not all progress will be recorded. For example, our Food and Agriculture Committee has a very intensive exchange with the Ministry, but we have yet to see whether this will translate into progress in this area in which the success rate was very modest in previous years.

**► When it comes to the industrial sector, which new driving forces do you recognise as possibly leading to Serbia being ranked among the countries with above average growth?**

– Technology is always a means to accelerate growth, but what is important is the simplification of the rules, as well as the clarity and transparency of processes – to invite more people to participate in the economy. Digitalisation and the simplification of procedures, the rule of law, and ease of doing business will impact very positively on entrepreneurship in the country. The first signs of these

activities are here, as an increasing number of small companies are operating in different sectors, such as agriculture, ICT and other areas. Serbia is evolving substantially in terms of good infrastructure, which adds to the overall competitiveness of the country.

The country is living through a very interesting juncture of acceleration and changes - the most important thing is not to miss the opportunity and to increase the pace of reforms. Intentions without actions will not bring sustainable desired results.

**► How has the FIC changed internally to better address the new areas of intervention emerging with the evolution of Serbia's business environment?**

– The FIC is not changing its strategy or mission, but its working method, as we have increased our expert capacities tremendously over time and added a number of activities, in accordance with our members' expectations. We were always very active in "expert-to-expert" communication, but today we have very elaborate communication with many

international organisations and stakeholders with which we work together in pursuing the same goals.

**► After 15 years of operations, what do you see as the new tasks facing the FIC?**

– The major task is to use the opportunity to contribute to the acceleration of reform processes. Second is to increase our capacities – at present we have 11 expert committees, but we want to invite more companies to participate in our activities – whether they are members or not, because we want to bring more people on board who would be willing to contribute to shaping the business environment in a desired way. ■



**We welcome the opportunity to have a good dialogue with the government on issues which are of the outmost importance to businesses, such as tax legislation**



# 120 GODINA

## FABRIKE CEMENTA POPOVAC



Fabrika cementa u Popovcu osnovana je daleke 1898. godine. Milioni tona cementa koje smo proizveli u proteklih 120 godina iskorišćeni su širom naše zemlje u bezbroj objekata bez kojih bi bilo teško zamisliti moderan život. Kuće, putevi, mostovi, fabrike, tuneli, stambene i poslovne zgrade, hidroelektrane i brojne druge građevine ostaju i opstaju zahvaljujući kvalitetu naših proizvoda. Fabrika cementa Popovac danas je deo CRH Grupe, jednog od najvećih proizvođača građevinskih materijala u svetu.

# We're Quickly Connecting With Europe



**ZORANA MIHAJLOVIĆ PH.D.**

Serbian Deputy Prime Minister and Minister of Construction, Transport and Infrastructure

*With a new investment cycle that has an estimated value of five billion euros, the sectors of construction and infrastructure will continue to provide a strong contribution to GDP growth and to support Serbia's ambitions to continue expanding its exports and to become the focal point of connectivity between Europe and growing eastern markets*

One of the key factors in connecting the Western Balkans and the wider region to the European Union is the construction of transport infrastructure. Major investments in this sector simultaneously contribute strongly to both current and future economic growth.

In this interview with Serbian Deputy Prime Minister and Minister of Construction, Transport and Infrastructure Zoran Mihajlović, we discussed these and other projects of the Ministry in the context of reforms and Serbia's new programme with the International Monetary Fund.

► What was Serbia brought with the summits in Sofia and London,

and the new '16+1' summit with China?

– Serbia returned from previous summits with valuable contracts and that was also the case with the Sofia summit, which we returned from with the most valuable contract signed at the summit. This relates to a commercial contract worth €943 million for the

construction of the third section of the Belgrade-Budapest hi-speed railway with the 'China Railway International' consortium of Chinese companies and the China Communications Construction Company (CCCC), which is already conducting works on this railway's Belgrade-Stara Pazova section.

It could be said that, for Serbia, this summit was completely devoted to railways, because we also signed a

**By reforming the cadastre and adopting amendments to the Law on Planning and Construction, we will create better conditions to invest in Serbia and enable Serbia's further progress on the Doing Business Index**



## INVESTMENT

The roads that we are constructing today will not have the correct value if we do not invest in their maintenance, and that's what we want to improve through reform of the transport sector

## SUCCESS

Our reform of railway companies received the highest ratings from the World Bank and the IMF, while many estimates suggest that it can be an example for other countries

## AMBITION

Following e-permits and the e-cadastre, we want to bring to life the reform of e-space, i.e. to also introduce a unified procedure in the area of issuing spatial plans

memorandum with company China Road and Bridge Corporation (CRBC) on the reconstruction of the Belgrade-Niš railway. The modernisation of tracks on the Corridor 10 railway, parts of which include the Belgrade-Budapest and Belgrade-Niš railroads, will enable an increase in freight transport on the railways, or rather Serbia will indeed become a transit country when it comes to rail transport.

► **Do you see further room in your sector to increase public investments that are considered a key factor in accelerating economic growth?**

– We are currently at the stage of finalising the unfinished projects that we inherited, many of which were also delayed – in the sense that loans were taken but works began much later due to design projects not being completed. In 2014 we inherited the incomplete Corridor 10, which we are completing this year, with a frozen Russian loan for the railways, that we have negotiated fully in the meantime and which we have used to modernize more than 200 kilometres of railroads.

In parallel with the completion of these projects, we are preparing a new major investment cycle worth more than five billion euros, within the scope of which we will build the Niš-Merdare-Pristina highway, the section of Corridor 11 from Čačak to Požega, then the Moravian corridor, or the Pojate- Preljina highway, the Frušk Gora Corridor, i.e. a hi-speed road from Novi Sad to Ruma and its continuation to Šabac and Loznica. Activities on the project of the circular Belgrade-Sarajevo-Belgrade highway are also being intensified.

► **The new arrangement with the IMF will again place the focus on further the restructuring of public enterprises, including those in the transport sector. What further measures is your Ministry preparing in these areas?**

– Our reform of railway companies received the highest ratings from the World Bank and the IMF, while many estimates suggest that it can be an example for other countries. Four special railway companies have been established, which today operate more

efficiently than the former unified company, while the number of employees has also been reduced, mostly through natural outflows.

We have also launched reform of the road sector, with the aim – among other things – of increasing the efficiency and quality of road maintenance, and of increasing the efficiency of Public Enterprise “Roads of Serbia”.

It is important for the efficient maintenance of the road network that we have “Roads of Serbia” as a company that's efficient and sufficiently strong and stable financially, in order for it to receive the least possible funding from the state and for roads to be maintained to a high quality.

When it comes to “Corridors of Serbia”, it will continue operating even after completing its main job of constructing Corridor 10. This company is much better organised today than it was a few years ago, and the experience it has makes it important for the new investment cycle that lies ahead.

► **Considering that Serbia's road network is being renewed rapidly, do you consider it necessary to further improve the quality of the management of state roads?**

– The roads that we are constructing today will not have the correct value if we do not invest in their maintenance, and that's what we want to improve through reform of the transport sector. Road maintenance according to the new model, which is based on

public calls, has now commenced on 3,000 kilometres of state roads that are managed by “Roads of Serbia”. And this is just the initial step, because the goal is to maintain the entire road network in this way.

► **How successful is Serbia in collecting revenues from toll roads?**

– Given the increase in vehicle numbers on our highways, it is logical that toll road revenues are also increasing. Toll road revenues increased by several percentage points in previous years, while in 2017 they increased by more than 20 per cent, amounting to 20.6 billion dinars. Simultaneously, according to PE “Roads of Serbia”, payment effectiveness in Serbia is among the highest in Europe, totalling 99.9%.



**In parallel with the construction of new roads and railroads, Serbia is also working with all its neighbours and on the removal of non-physical barriers**

The number of vehicles included in the electronic payment system for toll roads is also increasing. The share of electronic payments in total toll revenues increases every year and reached a total of around 47 per cent in the first six months of 2018.

► **You stated recently that this is the right time for investors to invest in Serbia through public-private partnership projects. In which areas would this form of investment prove most desirable?**

– For many years, the first association of many people with the PPP concept was the failed concession for the Horgoš-Požega highway, but this image changed with the concluding of the concession contract for Belgrade Nikola Tesla Airport, which will secure investments of around €730 million in the development of our largest airport.

The many decades of problems hindering the Vinča landfill site will also be resolved through a public-private partnership, the contract for which has also been signed.

In the transport field we have several potential projects that include the possibility of investing via PPPs. In the area of road infrastructure, those are primarily the final section of the Corridor 11 highway, from Požega to Boljar, the construction of which has an estimated value of between 1.5 and 1.8 billion euros, as well as the Fruška Gora Corridor, or the Novi Sad-Ruma hi-speed road link. When it comes to railroad transport, one of the projects where the possibility exists for implementation through a public-private partnership is construction of the rail link from Nikola Tesla Airport to New Belgrade.

► **To what extent does the development of transport infrastructure support the ambitions of Serbia and the region's other countries to continue the expansion of exports?**

– Serbia has recognised that it is not enough that we are building new roads and railways if we do not solve the problem of long waiting times at border crossings, and we have accordingly launched initiatives with

all neighbours aimed at simplifying certain procedures at the borders or establishing joint border crossings with Bosnia-Herzegovina, Macedonia, Bulgaria and Montenegro, where border and customs procedures would be carried out at “one counter”.

► **How do you see a solution to the challenges faced by companies in the process of converting construction land, whether that's due to restitution or inconsistencies in calculating the conversion fee?**

– During the drafting of the Law on the Conversion of Usage Rights into Ownership Rights over Construction Land, special consideration was given to ensure that its provisions did not lead to a reduction in

the rights of previous owners in the restitution process, particularly by not allowing a reduction in the market value of construction land, provided a request for that construction land is submitted in accordance with regulations on the return of confiscated property.

The Ministry conducts oversight of the application and implementation of the Law on Conversion and removes all observed shortcomings in a timely manner.

► **Following a major breakthrough in the issuance of building permits, do you envisage additional measures that could support the expansion of construction works in the private sector?**

– With the implementation of the Law on Registration Procedures in the Real Estate Cadastre and Utilities, adopted by the National Assembly in May, Serbia has completed the package of reformist

laws in the construction field, which also included the passing of the Law on the Legalisation of Properties, the Law on the Conversion of Usage Rights into Ownership Rights over Construction Land for a fee and the Law on Planning and Construction. Thanks to the reform of building permit issues and the introduction of e-permits, Serbia is now ranked 10<sup>th</sup> in the world in this area according to the World Bank's Doing Business Index.

In order for us to enable the continuation of reforms, primarily towards the more efficient implementation of unified procedures and simpler procedures for investors in the part relating to spatial plans, we have prepared amendments to the Law on Planning and Construction. Through these amendments, it will be proposed – among other things – that the general regulation plan be applied directly, that all planning documents be publicly available in the Central Register of Planning Documents, followed by a shorter procedure for amending planning documents, extending the validity of location conditions and the possibility of phased construction.

► **Considering that traffic is among the biggest polluters, do you intend to**

**introduce incentives to modernise fleet vehicles, including the introduction of incentives for the procurement of electric vehicles?**

– We've already done some things in this direction, although this doesn't relate to incentives, rather the introducing of charging stations for electric cars along Corridor 10, together with free wireless internet. If we are completing Corridor 10 and have the most modern highways, then it's important for those roads to be adequately and qualitatively equipped. Here we've also taken care of the drivers of electric cars, for whom we've established five devices for fast charging along Corridor 10, in Bubanj Potok, Preševo, Šid, Subotica and Dimitrovgrad. ■



**The modernisation of tracks on the Corridor 10 rail route will really enable Serbia to be a transit country when it comes to rail transport**



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# Economic Relief Stimulates Economic Growth

**SINIŠA MALI**

Serbian Minister of Finance

*The goals of the Ministry of Finance are to further maintain fiscal stability and eliminate systemic obstacles to economic growth. In the process of creating measures that will ease the operations of companies, the Ministry is particularly reliant on useful suggestions from the economy and the business community*



**T**he priority of the Ministry of Finance in the period ahead is to preserve fiscal stability, and to do so with the support of initiatives that should encourage growth, such as increasing public investments and reducing the tax burden, says Finance Minister Siniša Mali.

From the perspective of fiscal policy, these are also the pillars of the recently approved arrangement with the International Monetary Fund.

When it comes to maintaining fiscal stability, says Mali, we must talk about salaries and pensions. "Measures of temporary reducing pensions will be abolished, and we can expect an increase in pensions by year's end. As you know, we also expect an increase in public sector wages. There is room for increasing salaries and pensions, but this increase must be at a sustainable level," says our interlocutor.

The medium-term orientation of fiscal policy is to

maintain a low deficit, further reduce public debt and use fiscal space with the aim of supporting economic growth.

Fiscal relaxation measures will work on two tracks, explains

Serbia's finance minister. "By unburdening the economy, primarily through reducing the tax burden on labour, growth and job creation are encouraged. On the other hand, fiscal space has allowed for a greater allocation of funds for public infrastructure. In order to improve the quality and quantity of public infrastructure in the best

**We plan to reduce the deadline for VAT refunds, which will improve the liquidity of the economy and reduce the fiscal burden on earnings, as well as to adopt a special package of tax incentives for innovative activities**

possible way, we are working to further improve the public investment management system," explains Minister Mali.



## CONSISTENCY

The medium-term orientation of fiscal policy is to maintain a low deficit, further reduce public debt and use fiscal space with the aim of supporting economic growth

## PRUDENCE

We are planning to introduce an entire array of measures that will stimulate the economy and ease the work of businesses, irrespective of the results achieved in terms of fiscal consolidation.

## PRIORITY

The transformation and modernisation of the Tax Administration is one of our top priorities and I will personally deal with all aspects of this transformation.

### ► How will you address the problem of an insufficient share of public investment in GDP and insufficiently effective management of large infrastructure projects?

– Considering that we created space for financing new projects in the previous period, with the conducting of fiscal consolidation, today we have the funds required for capital investments. In this sense, the competent institutions are taking the necessary steps to increase the level of public investment, both in road and rail infrastructure, as well as in health and education, local communal infrastructure etc.

Certain steps have already been taken. All capital projects, irrespective of sources of funding, have been included in the budget since 2017, while in mid-2017 we also adopted the Decree on content, the preparation and evaluation method, as well as the monitoring of implementation and reporting on the implementation of capital projects. The Law on the Planning System has also been adopted, which establishes a national framework for planning. In order for us to eliminate structural weaknesses in implementation, in the period ahead we expect to adopt detailed rules on proposing and selecting projects, and to establish the practise of publishing summaries of feasibility studies for major infrastructure projects. We will also establish the Capital Investment Commission. All this will help us to implement large infrastructure projects quickly and efficiently, which is crucial to the development of the country.

### ► What changes to the tax system do you anticipate that could stimulate the economy?

– We are planning a series of measures in the period ahead with which we will improve the rights of taxpayers, as well as specific measures for encouraging economic activity. Using the available fiscal space, we will consider tax policy changes in order to provide support for economic growth through an effective, balanced and efficient tax system.



**I believe that we will, with the adopting new legislation, achieve a major shift in the transparency of charges that burden the economy**

In that sense, I would especially like to point out that we are planning to reduce the deadline for refunding VAT, with which we will improve the liquidity of the economy. The legal deadline for VAT refunds is 45 days, but we consider that there's no reason for businesspeople to wait so long if they have orderly papers. It would mean a lot in terms of liquidity for businesspeople to receive that money as soon as possible.

In the following period we are also planning to reduce the fiscal burden on income, as well as to adopt a special package of tax incentives for innovative activities. We also plan to modernise certain solutions regarding the taxation of companies' profits, especially with regard to calculating tax depreciation.

Moreover, plans also include the regulation of a special taxation regime for the income of citizens who provide hospitality services in domestic work and rural tourism households, as well as the abolition of tax legislation provisions that unnecessarily discourage taxpayers or create unjustified administrative difficulties for them.

As you can see, we are planning an entire array of measures that will stimulate the economy and ease the operations of businesses. Of course, in the tangible adoption of these measures we will ensure that their implementation does not jeopardise the results achieved to date in terms of fiscal consolidation.

### ► Which measures in the tax policy domain do you consider as being the most effective for reducing the share of the grey economy in the fields of labour and employment?

– Reducing the fiscal burden on earnings certainly discourages the grey economy. Likewise, all measures that increase the efficiency of taxpayer control will certainly have a positive impact on the suppression of the grey economy. In this regard, with other measures that improve the capacity of the Tax Administration in relation to the implementation of efficient tax control, I would single out in particular activities on amendments to the Law on Fiscal Cash Registers, ►

which implies the use of modern technical solutions that enable the monitoring of taxpayers' transactions in real time. The planned solutions will enable taxpayers to simplify the administering of their obligations, whilst enabling the Tax Administration to carry out tax audits in an optimal way.

► **In this context, what changes are you planning in the functioning of the Tax Administration?**

– Changes will occur at several different levels. We've formed a working group that will deal specifically with the transformation and modernisation of the Tax Administration, and which will meet once a week. This is one of our top priorities, and I will personally deal with all aspects of this transformation. Tax administration must be sustainable and efficient, and we want to create a system that will be able to function well during the decades ahead of us. Previous years have already seen some tangible results achieved, such that the number of organisational units has been reduced from 178 to 78, all tax returns can be completed in electronic form, and a service provider sector for taxpayers has been established. However, there is still lots of work to be done to further reduce the number of organisational units, upgrade existing software solutions and integrate them. We will continue doing this until we create a good, efficient and sustainable system.

► **What measures do you see as the most efficient when it comes to reducing ambiguity in the interpretation of regulations, especially in the work of the Finance Ministry and the Tax Administration?**

– I don't consider that there are significant differences in the degree of uncertainty in the interpretation or application of tax regulations compared to other regulations. However, this doesn't influence the necessity to take measures aimed at improving transparency in the application of tax regulations.

This can basically be achieved through the identifying of unclear solutions in tax regulations and their precise defining or removal. In this respect, it is particularly important that we interact with taxpayers for whom such regulations cause practical problems, so the initiatives and opinions we receive from them are invaluable to us. Of course, as is to be expected, the business community is most active in this context.



**Communication between the business community and the public authorities, under the auspices of the “Dialogue for Change” and the Working Group for the White Book, is invaluable for improving the normative framework relevant to the economy**

We are also working to further improve cooperation between the Tax Administration, which is authorised to directly control taxpayers, and sectors within the Ministry of Finance that are responsible for giving opinions on the application of tax regulations and the conducting of second instance procedures. This cooperation already functions well, but I consider that there's always room for further improvement, especially in the context of planned activities on the reform of the Tax Administration.

► **How far have you progressed on preparing the final list of parafiscal charges?**

– Work on the drafting of this law is nearing completion, so we expect the final text soon. I believe that this represents a big step forward in terms of the transparency of charges that burden the economy.

► **In the context of changing policies towards the creation of an incentivising environment for doing business, how do you view cooperation with the business community to identify optimal solutions?**

– Cooperation with the business community is very important and we are working intensively to improve it further. We listen to the needs of the economy and the business community every day, in order to ease their operations. In that sense, it is certainly also important that we plan to introduce a package of incentive measures, such as reducing the deadline for VAT refunds, reducing the fiscal burden on earnings, encouraging business start-ups etc.

I would also like to mention that the business community is very active with its proposals and comments at all stages of preparing new regulations, as well as amendments to existing legislation.

► **How much can dialogue models, such as the “Dialogue for Change” and the FIC White Book, contribute to the formulation of solutions that are effective and feasible?**

– Communication between the business community and the public authorities, under the auspices of the “Dialogue for Change” and the Working Group for the White Book, is invaluable for improving the normative framework relevant to the economy. This cooperation has already resulted in positive progress in the past, in terms of improving the tax system in Serbia, but I consider that the most significant results are yet to come. ■



# Building for tomorrow



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Championing circular economy



Protecting water & nature



Supporting people & Communities



# We've Created Prerequisites For Agriculture's Sustainable Development



**BRANISLAV NEDIMOVIĆ**

Serbian Minister of Agriculture, Forestry and Water Management

*Thanks to the progress achieved in creating institutional preconditions for the development of agriculture and the food industry, the Ministry received praise from the EU, while Serbia became ready to welcome the upcoming opening of negotiation chapters*

**T**his year was the first during which European funds were allocated directly to Serbian producers. We spoke with Serbian Agriculture, Forestry and Water Management Minister Branislav Nedimović about the IPARD programme and numerous other measures that should serve to make agriculture and food production the backbone of economic growth and exports.

► After eight years of waiting for IPARD, Serbia today has the first specific contracts. Are you optimistic when it comes to the effective withdrawal of funds?

– We have every reason to believe that the IPARD programme will come to fruition in Serbia and that the utilisation of funds will be good, because in the past two years we've exerted significant efforts and allocated financial resources in order to fulfil a large number of requirements and criteria, and to establish the structure necessary for the implementation of measures under the IPARD II programme.

**The greatest reason for optimism is the excellent response of our farmers and processors to the first public calls**

The greatest reason for optimism is the excellent response of our farmers and processors to the first public calls, which was also confirmed by senior officials of the European Commission.

The success of the entire IPARD project depends as much on the willingness of the operating system to implement a complex and extensive administrative procedure as it does on the preparedness of users and the number of high-quality projects.

IPARD is also a kind of test and preparation for strict EU rules, which paves the way to the Common Agricultural Policy of the EU and the much higher funding that will be available to Serbia when it joins the EU.

► What do you consider as the biggest changes made by the ministry with the goal of building up the agriculture and food processing sectors into future drivers of development?

– The Ministry of Agriculture, Forestry and Water Management



## DEVELOPMENT

We've set the direction for the future development of agriculture and the food industry on the basis of the concept of sustainable development

## SAFETY

We don't have unrecognised risks in the domain of food safety and we manage all risks in a timely manner

## COOPERATION

It is very important for us to establish daily communication with organisations that bring together stakeholders in the economy and contribute to improving public policies

(MAFWM) has set the direction for the future development of agriculture and the food industry on the basis of the concept of sustainable development, and – with the adopting of strategic documents – measures have been identified that have a positive impact on improving the most important sectors of Serbian agriculture, but also on the satisfactory development of rural areas.

The 2018 Agrarian Budget is characterised by significant funding increases compared to the previous period - it is developmental and pro-investment, and it supports those types of agricultural production that have medium- and long-term market prospects.

Legal preconditions have also been created for the direct sale of produce at agricultural holdings, and since last year the Government of Serbia and the Ministry of Agriculture have provided a special financial support measure for young farmers (aged up to 40).

The biggest changes have certainly been achieved in terms of the modernisation of agricultural holdings through the procurement of new equipment and machinery, and the construction and equipping of facilities, which contributed to the possibility of utilising IPARD funds and implementing special national measures.

This led to the creation of new opportunities for improving the competitiveness of production – through reductions in costing, improved product placement and the production of more value-added products.

► **How much have these changes impacted on increasing the number of registered agricultural holdings that are ready to engage in exports?**

– One of the prerequisites for the successful export of final products is modern and efficient production operations that are able to meet the requirements of foreign markets in terms of quantity, quality and placement. It is also essential to fulfil quality and safety standards of food, so special incentive measures have also been created in that area, which contribute greatly to preparing producers to sell products on foreign markets.

The number of farms exporting their products is certainly

increasing, and the use of IPARD funds for these purposes testifies to this, as well as the protection of markings for the designation of origin of specific individual products. Additional work is required in the associating of producers.

► **When do you expect the National Reference Laboratory to fully assume the work included in its scope of activity?**

– The laboratory for food safety, animal feed and milk testing performs tasks that include the testing of hygienic safety and the chemical composition of milk. During this year we started testing the quality of raw milk, and the part of the laboratory dedicated to milk microbiology is in the process of preparing for accreditation.

The rest of the laboratory, which deals with the physical and chemical testing of food, could start operating follow its complete equipping and the hiring of expert staff.

► **To what extent are domestic food safety regulations harmonised with EU standards today, and to what extent they have received clear operationalisation in bylaws or their implementation?**

– Regulations are on the whole harmonised with EU standards and have been implemented fully for several years already, while training courses for inspectors and food business operators are constantly being held, in order for new requirements to be better understood and adequately applied. This is also confirmed by the

existing possibility of exporting almost all types of food of animal and non-animal origin to a large number of markets.

EU inspections for food and the health of animals and plants, through their missions in our country, continuously check the level of implementation of EU legislation, and all participants in the food safety chain are subjected to controls.

► **How effective did the establishment of the Expert Council for Risk Assessment in Food Safety prove to be?**

– The formation of the expert council was our need and obligation, ►►



**New opportunities for improving the competitiveness of production have been created through reductions in costing, improved product placement and the production of more value-added products**

in accordance with Serbia's EU accession agenda. The engaging of this council to date has actually shown that it was a good decision – we have an expert body that is competent, provides independent risk assessments and secures expert opinions that are completely impartial. Now we don't have unrecognised risks in the domain of food safety and we manage all risks in a timely manner.

► **The Ordinance on the Declaration, Labelling and Advertising of Food has been in force since June this year. What new elements did it bring to this area?**

– The Ordinance on the Declaration, Labelling and Advertising of Food is fully harmonised with EU regulations. The new rules primarily relate to: foods sold by means of distance communication (online, via the internet, m-sales), rules for indicating a product's country of origin, additional indicators concerning agri-products and meat products, as well as the obligation to cite nutritional declarations.

► **One of the problems noted for years by food importers, especially those from the EU, is the high number of sample products, the frequency of sampling and the unequal applying of regulations. What is your stance in this regard; where is the right control measure?**

– The sampling of food and products of animal origin is performed at the state border in accordance with the Instruction on the reduced frequency of physical checks of consignments of certain products upon import into the Republic of Serbia, which complies with European regulations on the reduced frequency of border checks.

The Veterinary Directorate is currently implementing an information system that will network all inspection services, which will ease the implementation of risk analysis in controls to a significant extent.

Moreover, the Ordinance on establishing the programme for monitoring the safety of food of animal origin and

imported animal feed is underway, the adoption of which will bring control systems and the applying of risk analysis more in line with existing practises in the EU.

When it comes to controls of food of plant origin, mixed food and animal feed of plant origin, the Directorate for the Protection of Plants adopted a plan for 2018 based on risk analysis, utilising data from 2012 to 2017 and identified irregularities during that period.

On the basis of this analysis, a List of food and animal feed of non-animal origin has been compiled, which will be subject to sampling during official import controls in 2018.

► **Significant progress has been made in Serbia in the previous**

**period in terms of improving legal regulations and the work of inspections. In this context, how do you view the possibility of improving the work of veterinary and phytosanitary inspections?**

– The transferring of the European Acquis into domestic legislation is taking place within the envisaged timeframes and – regardless of the dynamics of the harmonisation of regulations – veterinary inspectors are already applying European regulations in controlling the satisfying of the prescribed conditions for the work of subjects under supervision - the so-called regulations of the European "hygienic package".



**The Veterinary Directorate is currently implementing an information system that will network all inspection services, which will ease the implementation of risk analysis in controls significantly**

This has also been confirmed by numerous checks in previous years, which provided the basis to recognise the equivalence of legislation, administrative and inspection procedures in the Republic of Serbia, which provided the basis for the Republic of Serbia to be granted permission to inspect export facilities by itself and to delegate them on the list of exporters to the EU.

The previous period included the adoption of new regulations that enable improvements in the work of phytosanitary inspections and provides the opportunity to increase the capacity of phytosanitary inspectors, which will contribute to improving operations and accelerating control procedures.

Phytosanitary inspection was also included in the project "Development of a Sustainable Information System for the Ministry of Agriculture, Forestry and Water Management", which resulted in improving the work of the phytosanitary service, with the aim of strengthening the phytosanitary system of the Republic of Serbia.

► **One of the changes in the work of your Ministry is more dynamic cooperation with the business sector, including the Foreign Investors Council. To what extent does this kind of work contribute to the identifying of optimal solutions to open issues**

**in this sector?**

– The MAFWM's agricultural policy measures also stimulate the re-establishing of broken market links in the food chain and the formation of basic market infrastructure for more solid cooperation in primary production and processing. The incentives policy is directed towards branches that contribute to the activating of the food sector and the growth of exports. In this regard, it is very important for the Ministry to establish daily communication with organisations that bring together stakeholders in the economy, such as the Foreign Investors Council, the Chamber of Commerce & Industry of Serbia and others, which should contribute to strengthening capacities for managing public policies in agriculture and rural development. ■

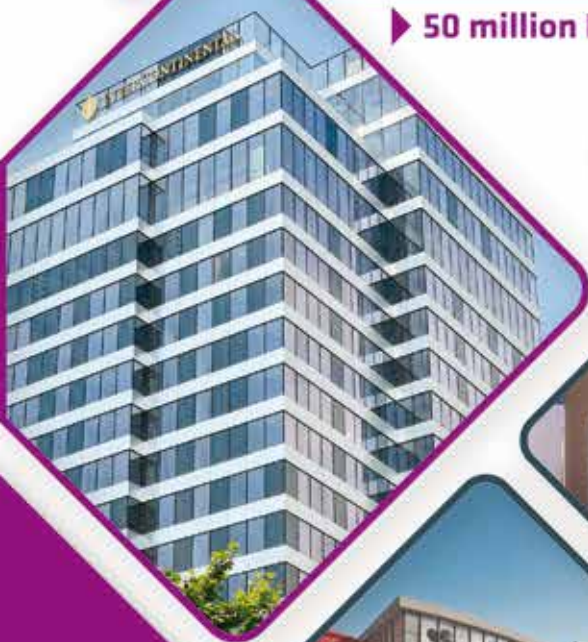


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# Preserving Stability - Supporting Economic Growth

**JORGOVANKA TABAKOVIĆ**

Governor of the National Bank of Serbia

*Over the past six years, the National Bank of Serbia [NBS – Serbia’s central bank], has succeeded in securing and preserving price and financial stability, which has provided a significant contribution to the creation of a more favourable business environment, reduced borrowing costs and the more sustainable acceleration of economic growth. And over the next six years we will continue working to ensure that our results are in the interest of all equally, with the long-term goal of ensuring a better life for citizens*



**N**BS Governor Jorgovanka Tabaković was recently entrusted with a second term at the helm of this institution. For this special edition, we spoke with her about the evolution of priorities in the work of the NBS between her first and second terms heading the country’s central bank, the NBS’s tasks under the auspices of the new arrangement with the International Monetary Fund (IMF) and the further harmonisation of regulations related to the banking domain with European and world standards of doing business.

“If the focus of our work in the first term was primarily on enduringly and painstakingly establishing the stability that had been broken, and then on maintaining that stability, in the second term – alongside preserving stability under conditions of constant challenges, especially from the international environment – our priority will be to move towards all

**More intensive work should be expected during the coming year on the adjusting of our regulations to the Open Banking standards that began being applied in the EU this year**

innovations brought by the need to do business in the modern world and the accelerated modernisation process in all fields,” says Governor Tabaković.

► **In this context, what do you see as the priorities of the central bank within the scope of Serbia’s new arrangement with the IMF?**  
– The results achieved during the previous arrangement made it possible for the new arrangement to be advisory and non-financial. We have achieved macroeconomic stability



## REFORMS

We're aware that lots of work is still ahead of us, primarily on the continuation of structural and institutional reforms, which we will work on together with the Government of Serbia

## MODERNISATION

Our priority will be to move towards all innovations brought by the need to do business in the modern world and the accelerated modernisation process in all fields

## PARTNERSHIP

It is vital that the economy – through its associations and representatives, and in an open partnership with the relevant institutions – approaches observations of applicable regulations in a professional and critical way

that is characterised by low inflation, and a relatively stable dinar exchange rate, as prerequisites for accelerating economic growth on sustainable foundations. We're aware that lots of work

is still ahead of us, primarily on the continuation of structural and institutional reforms, which we will work on together with the Government of Serbia. The NBS will continue implementing activities aimed at strengthening the dinarization process, as well as on further reducing the level of problem loans.

► **Considering the necessity to accelerate economic growth, and on the basis of the credit activity of banks, can one draw conclusions about the ability of the economy to borrow?**

– The monetary policy easing that we commenced in May 2013 has created opportunities for significantly more favourable borrowing, both for citizens and businesses. Since May 2013, the NBS has reduced the reference interest rate by 8.75 percentage points, which has led to significant reductions in interest rates on new dinar loans to businesses by as much as 11.8 p.p. (down to 4.6% in May). This notable decrease in the cost of borrowing in dinars has – along with increased competition between banks and the growth of economic activity – contributed to further growth in lending to businesses. Year-on-year growth in loans to businesses amounted to 6.3%

in May, despite banks having continued to clean their balance sheets of problematic assets. In the NBS survey on credit activity for the first quarter of this year, banks clearly highlighted their expectations of an increase in dinar and foreign currency loans approved for businesses, with the main carriers of that growth identified as small and medium-sized enterprises.

► **Given that there are constant new warnings about the possibility of a global financial crisis, do you consider the banking sector in Serbia today as being more prepared to withstand any tremors?**

– The banking sector is stable, highly liquid and adequately capi-

talised. The good capital base of banks can also be seen through capital adequacy indicator values of 22.7% at the end of the first quarter of 2018, which is several times higher than the prescribed

eight per cent minimum. The liquidity of the banking sector over a longer period of time exceeds the minimum prescribed values by far. Also supporting the stability of the banking sector are regulatory changes and the introduction of Basel III standards, which contribute to increasing the banking sector's resilience against unforeseen events and potential crisis situations. The NBS has conducted three months of macro-prudential stress tests, which show that the banking sector's functioning wouldn't even be compromised under conditions of extreme growth in credit risk and liquidity risk over the period of a year.

► **Do you see room for the further improvement of legal solutions and procedures that would reduce the possibility of new problem loans emerging?**

– As a result of our systemic approach to solving this problem, we've succeeded in reducing the participation of problem loans to the lowest level since monitoring of them began – 7.8% at the end of June. There is certainly room to further improve the legal framework and supervisory practises. We also demonstrated our continuous approach to solving this

complex issue after the implementation of all activities included in the Strategy for Solving Problem Loans, with the taking of regulatory steps to encourage banks to more efficiently solve problem loans and establish a system that will reduce the possibility of them emerging. We have introduced the mandatory write-off of problem loans that are completely devalued, but also the discouraging treatment of potentially unfavourable transactions related to problem loans that are already present in banks' portfolios. The NBS will continue directing banks' activities towards resolving and preventing the creation of problem loans.

► **What are your priorities in the domain of legislation?** ►



**In the NBS survey on credit activity for the first quarter of this year, banks clearly highlighted their expectations of an increase in dinar and foreign currency loans approved for businesses, with the main carriers of that growth identified as SMEs**

– Following the recent adoption of a set of five financial laws that were proposed by the NBS, in the period ahead our legislative initiative will be conditioned by the actual needs of further development of the financial market, along with special care for protecting the interests of the users of financial institutions. One of the most dynamic parts of our market relates to payment services and – following the introduction of an instant payment system in October – more intensive work should be expected

during the coming year on the adjusting of our regulations to the Open Banking standards that are increasingly present in comparative practises, and which have also begun being applied as of this year in the European Union (PSD2). Moreover, in accordance with the Solvency II Implementation Strategy, work is underway on evaluating the effects and implementing quantitative impact studies in order to subsequently be able to approach and develop appropriate legal solutions.

► **In your opinion, to what extent are the financial regulations proposed by the NBS, the Ministry of Finance and the Ministry of the Economy mutually harmonised?**

– The NBS coordinates its activities on the improvement of regulations with the Government and the competent ministries, especially when it comes to regulations in the field of foreign exchange operations and advancing the business environment. Inter-institutional cooperation is at a very good level, and the NBS and the regulations under its jurisdiction – in addition to low inflation and financial stability – strive to support the Government's economic policy, which is also one of our legally defined goals. It is also vital that the economy – through its associations and representatives, and in

an open partnership with the relevant institutions – approaches observations of applicable regulations in a professional and critical way, in order to offer constructive proposals in contributing to their improvement and to avoid the misinterpreting of regulations.

► **Foreign investors have for years advocated for amendments to the Law on Foreign Exchange Operations in order to enable “cash-pooling”, cross-border intercompany billing and the further regulating of the settling of debts and receivables. In your opinion, has the time come for such legal amendments?**

– When considering the development of existing instruments or the introduction of new ones, as well as payment methods for paying abroad, the NBS employs a cautious approach and takes their potential negative effects into consideration. That's precisely why we've worked with the Ministry of Finance to

establish gradual phased dynamics of the liberalisation of capital movements, with which we have ensured the stability of the macroeconomic and financial systems. With the aim of enabling more favourable operational conditions of the Law on Foreign Exchange Operations, a significant degree of liberalisation of capital flows has been achieved, which is in line with obligations accepted with the concluding of the Stabilisation and Association Agreement with the EU. The further liberalisation

of cash-pooling activities will move in parallel with the liberalisation of depositing activities, which will – in accordance with the National Programme for the Adoption of the EU Acquis, adopted by the Government – be implemented no later than the date of our country's accession to the EU.

When it comes to cross-border intercompany billing, it has been liberalised significantly and the procedure for its implementation has been essentially simplified, while limitations only exist when the member of a company is headquartered in one of the “tax haven” countries.

► **Considering that digitisation is among the priorities in the Western Balkans, how do you view the tasks of the NBS in this process?**

– We monitor current developments in this field and are working actively on projects that support the further digitisation of our society, and in this we are partnering the Government, which has also set digitisation among the top priorities. We're currently engaged in the establishment of an instant payment system that will enable payments to be made 24 hours a day, seven days a week, 365 days a year, among other things, and via the QR code. Instant

payments represent the latest payment method worldwide, and this system will become actual in our country at the end of October this year.

► **How will the NBS promote financial literacy among citizens in the period ahead?**

– Work on raising the level of financial literacy is one of those jobs which yields results that are not seen immediately but rather over the long-term, but that doesn't make them less important for us, on the contrary. Financial literacy becomes especially important when we have increasingly complex products on the market, which imply various types of risk. The NBS is dedicated to improving the level of financial literacy of all our citizens and has specially developed programmes for children and the youth, as well as for adults. ■



**The NBS will continue implementing activities aimed at strengthening the dinarization process, as well as on further reducing the level of problem loans**





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# EU Access Remains Merit-Based

**H.E. SEM FABRICI**

Ambassador and Head of the Delegation  
of the European Union to the Republic of Serbia

*The EU's door is fully open to further accession, which remains merit-based. It is therefore very important that Serbia continues the reform process, making that its number one national priority: politically and economically, but also in society*



**B**uilding a competitive and resilient market economy is a comprehensive process that goes beyond purely economic reforms. It was with this in mind that we spoke with H.E. Sem Fabrizi, Ambassador and Head of the Delegation of the European Union to the Republic of Serbia, about the broader context of reforms in Serbia.

► **How much has Serbia advanced in preparations for joining the EU when it comes to economic development?**

– We believe Serbia has advanced rather well, as we set out in our Annual Report for 2017. Serbia is moderately prepared in developing a functioning market economy, and has addressed

some policy weaknesses, in particular with regard to the budget deficit. Inflation has been contained and monetary policy has supported growth. Economic growth in the first semester of 2018 was good.

**A number of actions need to be taken to strengthen an independent and efficient judiciary system, enable freedom of expression, and achieve tangible results in the fight against corruption**

Despite this positive macro-economic outlook, there are still problems, including, for example, the high level of government debt. The budgetary framework and its governance need to be strengthened. Major structural reform remains incomplete when it comes to the public administration, the tax

authority and state-owned enterprises. Informal employment, unemployment and economic inactivity are still high. Stronger rule of law and the enforcement of fair competition will help private sector growth.



## ACHIEVEMENTS

Serbia is taking a number of positive steps to accelerate growth and investment. This is recognised by the EU and some international organisations, like the IMF

## REQUIREMENTS

The accession process is not just a technical exercise; it is also a political one, in which Rule of Law and the normalisation of relations with Pristina stand out

## VALUES

The presence of EU investors and the progressive convergence of Serbia with the EU represent a guarantee - a pull factor - for investors from other parts of the world

The EC reports noted that Serbia is moderately prepared to cope with competitive pressure and market forces within the EU, and has made some progress on increasing competitiveness. However, the level of investment activity is still below the economy's needs.

► **Do you consider the EU accession incentive received by Balkan countries in Sofia still valid, or is it relativised by the EU's need to first address its own organisation, as stated unambiguously by the French President?**

– The Western Balkans Strategy (February) and the Sofia summit (May) expressed unequivocal support for the European perspective of the region, as a political, social and economic geostrategic investment in a stable, strong and united Europe. This strong message remains fully valid.

In parallel, the EU is also continuing its reform process. This was also mentioned in the Western Balkans strategy. The European Commission anticipated a number of proposals being launched before the end of the year.

► **How do you assess the effects of the Berlin Process when it comes to infrastructure connectivity within the region and implementation of the Digital Agenda?**

– The "Western Balkans Six/WB6 initiative" strengthened the EU integration process. Connectivity and the regional

cooperation agenda are also highlighted in the Western Balkans Strategy. The development of transport and energy infrastructure is a precondition for regional connectivity. By bringing economies and people closer, connectivity boosts overall socioeconomic development.

The EU allocated a billion euros in grants for the 2014-2020 period, through the Western Balkan Investment Framework, to finance infrastructure connectivity projects under the WB6 initiative. This amount is on top of the national IPA envelopes of the countries, which include 200 million euros per year for Serbia alone. Those funds also leverage the loans of International Financial Institutions (IFI). We have so far supported 31 projects with grants worth 698.2 million euros, with a total investment value of 2.4 billion Euros. The last project agreed for



**A coherent regional approach to attracting investments will be much more beneficial to all than a 'race to the bottom'. This was the rationale behind the launch of the Investment pillar**

Serbia in 2018 is the first section of the Niš–Merdare–Pristina motorway. This project is worth 212 million euros.

In addition to infrastructure projects, the WB6 process facilitates the implementation of standards and reform measures, including simpler border crossing procedures, railway reforms, intelligent transport systems, road safety schemes, unbundling and third-party access to infrastructure.

The crucial role of digital connectivity has also been recognised. Fast and secure digital connectivity is an essential element for creating a market- and investment-friendly environment. At the Digital Summit in Sofia in June 2018, all the Western Balkans partners pledged their commitment. The visit of EC Commissioner Gabriel to Belgrade at the end of September – first to the Western Balkans – immediately followed through to pursue discussion on lowering roaming charges within the region and in the EU, supporting digital infrastructure and broadband connectivity, cyber security, the digitisation of industries and eGovernment, eProcurement, eHealth and eSkills.

► **How is it that, despite these incentives promoting the integration process, Serbia has yet to open some of the economic chapters that it has long been ready to open?**

– Following the latest Inter-Governmental Conference in June, Serbia has now opened 14 chapters, and provisionally closed two of them. Ne-

gotiations are ongoing to open further chapters, including some pertaining to the economic area.

More broadly, it is also important to remember that the accession process is not just a technical exercise; it is also a political one. The negotiation framework indicates that overall progress in the negotiations depends on the progress made in the area of the Rule of Law (chapters 23 and 24) and the full normalisation of relations with Pristina (Chapter 35).

► **Which reforms are lacking for Serbia to create the necessary preconditions for accelerated economic growth and the inflow of foreign investment?**

– For guidance on further reforms, we can take the last Economic Reform Programme (ERP) jointly agreed by Serbia toget- ►

her with its EU partners last May. The key recommendations focused in particular on: increasing capital spending; finalising the privatisation of the remaining state-owned enterprises, including banks; increasing investments in energy infrastructure and energy efficiency; ensuring that all instruments of support to companies are aligned with state aid rules; and reducing non-labour costs of the lowest paid jobs.

Reforms are also needed in other areas; particular structural reforms in public administration, tax administration and state owned enterprise. These are all necessary to ensure against endangering the excellent results achieved on fiscal stability. More efforts are needed to enforce fair competition (in particular state aid) and reduce the size of the grey economy.

Rule of Law remains a crucial precondition for progress in all areas, including for maintaining an attractive business and investment environment. The EC report indicates a number of actions to be taken to strengthen an independent and efficient judiciary system, enable freedom of expression, and achieve tangible results in the fight against corruption and organised crime.

The EU will continue to play a constructive role and support Serbia in this reform process.

► **To what extent has the presence of European investors in Serbia contributed to the Serbian economy's transition to a modern market economy?**

– EU investors create growth and jobs in Serbia. They contribute with capital, technology transfer, skills and knowhow.

EU companies are by far the biggest investors in Serbia, accounting for more than 72% of overall Foreign Direct Investments here (€11.3 billion of a total €15.6 billion since 2010). This share was confirmed in 2017.

The presence of EU investors and the progressive convergence of Serbia with the EU also represents a guarantee - a pull factor - for investors from other parts of the world. Of course, respect for EU rules remains important, particularly in the areas of state aid, fiscal incentives and labour rights.

A coherent regional approach to attracting investments will be much more beneficial to all than a 'race to the bottom'. This was the rationale behind the launch of the Investment pillar as an important element of the Regional Economic Area, launched in Trieste in July 2017, and the core element of the Regional Investment Reform Agenda adopted in May this year.

► **How important is the feedback received from the investor community when it comes to EC evaluations? In this regard, how do you rate your cooperation with the Foreign Investors Council?**



**Our cooperation with the investor community, and the Foreign Investors Council in particular, is very good and relevant**

– Our cooperation with the investor community, and the Foreign Investors Council in particular, is very good and relevant. For the EU Delegation, businesses are our eyes and ears on the ground. They have first-hand information on how the business environment functions in practise, what the positive aspects and problems are, and how EU-related legislation is applied in practise. This is important information for us.

If I just give you one example, this year we successfully solved a de facto ban on waste exports that impacted negatively on a number of recycling companies, both domestic and from the EU. The ban was a breach of the Stabilisation and Association

Agreement. Businesses alerted us to the problem and we worked with the Serbian authorities to end the measure and bring the situation back to normality. This is just one example. We have established regular contact and consultations, including on our Country Report.

► **Which of the European-funded projects that are underway would you single out as being the most important in terms of fundamentally linking the EU and Serbian economies?**

– With 200 million euros per year in grants, the EU helps deliver an impressive span of work to support Serbia in its accession process, on the economic side, but also on the political and social sides. At present we have over 600 projects in different areas. It is hard to single out any particular one - that would require a dedicated interview.

Among the projects focused on the economy, IPARD (which is expected to leverage 400 million euros) is certainly

an important tool to make Serbian agriculture more modern and export-orientated. Serbia exports around 70 per cent of its agricultural product to the EU. We would like this trend to remain steady, if not increase. Still in the agricultural sector, the EU is funding – through the Horizon 2020 programme – the BioSense Institute in Novi Sad. This is a regional centre of excellence, which includes the first digital farm in Serbia.

The EU is also supporting innovation and start-ups in Serbia. Our Innovation Fund is supporting companies, especially SMEs, which are hitting the market with a strong return on investment.

In our comprehensive programme, our assistance also looks at areas with an economic and social gap when compared to those where added value is concentrated. This year we launched the 25-million-euro EU PRO programme, aimed exclusively at municipalities and cities in central Serbia, that will support the development of local economies and the preparation and execution of infrastructure projects to increase social and economic standards. ■



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GORAN PEKEZ

Corporate Affairs and  
Communications Director, JTI

*By investing in a new production line, we continue to invest in Serbia, which clearly shows our determination to continue with growth, development and employment. We encourage the efforts of the state to curb the grey economy and to raise citizens' awareness of the importance of paying taxes*

# Joint Efforts To Curb The Grey Economy

Japan Tobacco International (JTI) is the largest Japanese investor in Serbia and one of the top five taxpayers in Serbia with \$2 billion paid into the budget from 2006 to 2018. During this period it greatly increased the number of its staff, expanded production and increased exports. We discussed the company's plans and the business climate with Goran Pekez, JTI Corporate Affairs and Communications Director.

► **JTI has recently opened a new production line that is part of a €7 million investment cycle. How do you assess the business environment and the government's efforts to ensure good conditions for foreign investors?**

– For any investor, foreign or local, the most important thing is a stable and predictable business environment. The Government of the Republic of Serbia has made very important steps in this area, including stabilization of the public finances, reduction of the public debt, stability of the budget and, very important, reduction of the grey economy.

By investing in a new production line, we continue to invest in Serbia, which clearly shows our determination to continue with growth, development and employment.

Since the purchase of the Tobacco industry Senta in 2006, JTI has invested more than \$180 million in Serbia, tripled the number of its staff from 84 to 290, launched the production of cigarettes and their export to the markets of Montenegro, Bosnia-Herzegovina, Macedonia and Albania, and begun to export tobacco and cigarettes to the EU.

From 2006 to date, the value of exports has

**JTI is one of the top five taxpayers in Serbia with \$2 billion paid into the budget between 2006 and 2018**

amounted to almost \$230 million, while the share of the company on the Serbian market during the same period has tripled. JTI is one of the top five taxpayers in Serbia with \$2 billion paid into the budget between 2006 and 2018.

As the only foreign buyer of Serbian tobacco, JTI is the largest tobacco producer in Serbia, employing around 1,000 staff in Belgrade and



Senta, including tobacco growers, members of their families, and seasonal workers.

► **You mentioned the grey economy, why is the fight against smuggling and illicit trade important for the economy, but also for the citizens of a country?**

– The main point is that smuggling and illicit trade not only affect the budget revenues that could be used to improve the standard of Serbian citizens, but they also affect Serbian companies that operate legally, employ workers, pay salaries and related taxes and contributions.

Illicit trade in such an economy creates unfair competition. Legal producers are unable to compete because the smuggled goods are initially cheaper: 10% to 20% just in taxes, plus the cost of administrative procedures that a legal company has to go through to market the goods.

That is why it is important to have a comprehensive effort of the state, businesses, various governmental and non-governmental institutions and citizens against smuggling, but it is also important to educate citizens about the importance of paying taxes and of legal business for the whole country, for ourselves and our families.

► **How can the problem of the grey economy be solved? What can the state do, and what is the role of the private sector?**

– Industries on whose business the grey economy has a strong impact have knowledge and experience from other markets where they have encountered the same problem, and are very willing to share their practices in Serbia as well. Some of the ways are education, active participation in various business associations, such as the Japanese Business Alliance, FIC, AmCham, NALED, and above all, in continuous contact with the responsible state authorities.

Only joint efforts, a dialogue between the industry and the state can solve the problem of the grey economy. A good example is the Coordination Body for directing activities to reduce the

grey economy headed by the minister of finance.

Besides this, the adoption of the Law on Inspection Supervision has improved the regulatory framework for the work of inspectorates, and here we see clear results. Every year, there are more and more smuggled excise goods seized - coffee, cigarettes, cut tobacco, petroleum products



**Serbia has taken important steps to combat the grey economy in this sector, but in the illicit tobacco trade it is noticeable that there are no appropriate penalties and convictions for smugglers and illegal traders in Serbia**

and alcoholic beverages. Only last year, the Tax Administration seized tobacco for a value of 280 million dinars and filed 365 criminal charges.

However, in the illicit tobacco trade it is noticeable that there are no appropriate penalties and convictions for smugglers and illegal traders in Serbia. The point is that the grey economy and smuggling flourish where profit is high while the risks and penalties are still insufficient.

► **JTI is the biggest Japanese investor in Serbia, what distinguishes Japanese investors from others? Is it Kaizen?**

– We can say that, although Kaizen is so widely accepted today that companies implement it on a regular basis, regardless of where they come from. The JTI factory in

Senta is the first factory in Serbia that fully applies Kaizen, and since the beginning of its implementation in 2008 productivity has increased by 50%, while rejects have been reduced by as much as 70%. This experience shows that Kaizen is one of the recipes for success on the market and that is why every year JTI gives interested companies direct access and insight into how Kaizen principles work in practice.

Basically, Kaizen is the principle of constant "change for the better" with the optimal use of all available resources, with particular emphasis on employees' initiatives. Financial investments are small, but changes in the way people work and think are great. Staff are motivated to make suggestions to improve their working environment and the work they do. The best proposals are applied and the proposers are rewarded. A suggestion by one employee at the JTI plant in Senta brought the company savings of as much as \$70,000. ■

# Time To Speed Up Reforms


**DIMITRIJE KNJEGINJIĆ**

Vice President of the Foreign Investors Council  
and CEO of Lafarge Serbia

*A lot has been done over recent years, but results are lacking in some of the key areas: in the reform of public enterprises and public administration, and in the modernisation of education, pension and health systems. But let's give the Government time to show whether it's ready to seriously tackle these areas*

**D**id the Serbian government take seriously IMF Managing Director Christine Lagarde's warning that self-satisfaction with fiscal adjustment can be a curse if it is not accompanied by structural reforms? "We have yet to see whether this is so, on the basis of the results of implementing the latest arrangement with the IMF," says Dimitrije Knjeginjić, Vice President of the Foreign Investors Council and CEO of Lafarge Serbia. "As you know yourself, plans are one thing and results are another. A lot has been done during previous years, but not everything, in the field of privatisation, while results are lacking in other key areas: in the reform of public enterprises and public administration, and in the modernisation of the education, pension and health systems. The reform of public enterprises and the modernisation of public administration actually represent

the backbone of the new arrangement that the Government has obliged itself to undertake. In all honesty, the previous arrangements with the IMF also included structural reforms, though they didn't yield the desired results. But let's give the Government time to show whether or not it's ready to seriously tackle these areas."

► **What is lacking in order for Serbia to create a general business environment that favours economic growth?**

– More modern laws are required, and their complete and consistent application. There is lots of work to be done and we consider that several key areas should be emphasised. Specifically, it is necessary to modernise the Tax Administration and resolve illogical aspects of tax regulations, such as the taxation of team building exercises, which are now



## POTENTIAL

Serbia has competitive advantages thanks to its excellent geostrategic position, network of free trade agreements and high-quality workforce. They should be utilised

## RECOMMENDATION

Serbia has to work constantly to make itself more attractive than other markets – not only in the region, but also wider

## EXPECTATIONS

The Tax Administration should be modernised and illogical aspects of tax regulations resolved, with labour legislation fixed and the accelerated digitisation of public administration continued

absurdly considered as profit. Labour legislation needs to be corrected, in order, for example, for people to be paid more when they work than when they don't, which is the case today because the state additionally taxes the benefits provided to employees by successful companies. The accelerated digitisation of public administration should continue. Work on the real estate cadastre needs to be sped up and the problem of wild construction operations must be solved. Work must continue on curbing the grey economy, while the potential of agriculture and the food industry must be unlocked through the modernisation of food safety regulations. And, lastly, it is essential to improve regulations on bankruptcy proceedings and liberalise foreign exchange operations.

### ► Can Serbia attract more investments?

– Serbia can boast of the fact that it has attracted the most

investments in the region, but more growth is needed for it to catch up with the developed world. There is no magic and quick remedy. Serbia must work constantly to make itself more attractive than other markets – not only in the region, but also wider. It is true that subsidies help to entice some major investors, but all experience shows that serious economic growth is based on providing good conditions for doing business for all, and so we return to the issue of the quality of the business climate.

### ► What is the stance of the FIC regarding the Government's efforts to attract FDI, particularly from the UAE, China and Russia?

– We welcome the Government's efforts to entice foreign direct investments, as that contributes to the development of the Serbian economy. At the same time, we would stress ►►

# OUR FORMULA FOR SUSTAINABLE GROWTH AND DEVELOPMENT

## Our goals:

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Financial success + High ecological performance +  
Continuous commitment to our local community



## Our key figures:

**3300** employees; **550** million euros income achieved in 2017. **300** million euros investment in the past 10 years;

# Tigar Tyres

that it is crucial to implement these processes in a transparent manner, in order to promote Serbia as an investment destination that welcomes all high-quality and long-term-orientated investments. The FIC brings together investors from around the entire world, providing support to new foreign investments from any country and any continent that bring know-how and best practises.

► **Do the huge construction works currently being implemented on major roads, railways and other lines of communication create a difference in investors' perception of the region and Serbia?**

– Yes, they make a difference in multiple ways. On the one hand, infrastructure development is important for every investor, particularly those who establish production lines in Serbia. Here we aren't only talking about "traditional" infrastructure, such as road and energy networks, but also the development of infrastructure in the field of telecommunications and information technology. On the other hand, a broader geo-strategic dimension is important to investors, as is the fact that the EU has – under the scope of the Berlin Process – placed an emphasis on the development of regional infrastructure, but also the fact that China has bolstered its efforts to redevelop the Silk Road.



► **What are your expectations when it comes to tax policies?**

– We expect that there will be no more amendments to laws without a public debate and that work will be accelerated on the modernisation of the Tax Administration. Some positive developments are evident, as the Ministry of Finance has started publishing draft laws, which has meant that we've had the opportunity to participate in public debates over recent months regarding, for example, laws on property tax and VAT. We also have an open dialogue with the Tax Administration, because we want to help it transform into a modern and efficient institution that is at the service of the economy and citizens, but which also punishes those who do not pay their taxes, using modern risk analysis methods. Specifically, we consider that great progress could be made with the introduction of "instructions for the enforcement of laws", which implies the unifying of all rules and opinions related to a particular tax regulation. For example, the Law on Value Added Tax has several dozen

rules and many more valid opinions, which makes it very difficult for companies, especially SMEs, to even register the rules that they should adhere to. That's why we consider that good practises from developed countries should be applied and that all rules should be consolidated in one place, with their respect then rigorously demanded.

When it comes to amending regulations, we believe that priority should be given to resolving the issue of tax depreciation of real estate, defining the fair value of real estate assets, amending the treatment of team building activities and amending the ordinance on tax according to deductions on services.

► **How would you assess the effects of applying regulations in the real estate domain?**

– Effects obviously exist, when you see that construction is one of the key drivers of GDP growth. There is a notable increase in the number of building permits issued, thanks to the introduction of a unified procedure and e-portal. However, there simultaneously visible problems of wild construction and a great need to accelerate and improve the work of the real estate cadastre. The ministry has announced and launched work on a solution to these two major problems, and we are ready to provide our contribution.

► **How successful has the government been to date in combatting the grey economy?**

– Success in the fight against the grey economy is undeniable, but so is the need to work even more and to do so more systematically. In the 2012-17 period, the participation of registered businesses in the grey economy fell from 28% to 17%, while employment in the grey zone fell by 10%. Nevertheless, the grey economy continues to have a significant presence, which is why it

**We participate in the Government's Working Group for Combatting Illicit Trade and contribute, in a tangible and practical way, to the introduction of the same rules for all**

is necessary, on the one hand, to harmonise sector-specific laws with the Law on Inspection Oversight and introduce risk analysis as the basis for targeting inspection oversight, while on the other hand it is necessary to implement a number of operational measures – from harmonising the number of inspectors and ensuring their professional training, to better coordinating the work of inspections and other state bodies, including prosecutors and courts. We participate in the Government's Working Group for Combatting Illicit Trade and contribute, in a tangible and practical way, to the introduction of the same rules for all. ■





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# Digitisation Is Obligatory For Successful Banks

*With an awareness that there can be no market survival without the use of modern technology, AIK Bank adapted its digitisation strategy to the local market and the needs of users, primarily retail clients and small enterprises*

**T**he fourth industrial revolution, which brings with it the rapid development of new technologies, inevitably demands new trends in the form of financial sector business. A successful bank must follow the needs of its clients. Nowadays, that implies comprehensive digitisation that provides the availability of banking services 24 hours a day, seven days a week, throughout the entire year - says AIK Bank CEO Jelena Galić.

► **To what extent has the Serbian banking market moved closer to banks around the world when it comes to modern technology, inter-bank communication and cooperation with clients?**

- Without the application of modern technologies, there is no survival in the market game. We, at AIK Bank, are aware of that and have adjusted our digitisation strategy to the local market and the needs of users, primarily in the area of retail banking and banking with the small business sector. Banking experience, combined with modern technologies that lead to cooperation with fintech start-ups, results in modern customer

services. I consider that banks in Serbia are keeping pace with world trends in banking when it comes to modern technology and cooperation with clients. At AIK Bank we are especially mindful of this, given that we are a bank with a regional focus.

► **In the last few years, we've seen the long-announced consolidation of the Serbian banking sector take place. How did this impact on the operations of AIK Bank?**

- The consolidation of the domestic and regional banking markets is to be expected, given the size of individual markets and the number of banks operating on these markets. Consolidation to date has brought positive effects for banks, but also for citizens and businesses as users of banking services. There has been a significant reduction in the percentage of bad loans, which currently stand at 7.8% at the level of the entire sector, with a trend of further reduction; borrowing conditions for the economy and citizens are significantly more favourable compared to the previous period, which led to a decline in the costs of borrow-

**We believe that the implementation of our strategic plans contributes to the improvement of economic relations and cooperation throughout the entire region**



**JELENA GALIĆ**

AIK Bank CEO

ing. By merging with Jubanka (formerly Alpha Bank), AIK Bank increased its market share on the domestic banking market and - by increasing our share in Slovenia's Gorenjska Bank - we want to expand our presence and business in the region. By achieving our strategic plans, we believe that we contribute to improving economic relations and cooperation throughout the entire region.

► **Banking sectors around the world are divided according to the strategic directions of their banking operations and products. How would you determine your bank's core business?**

- As a universal type bank, we have a stable foundation in the retail segment, but we remain traditionally committed to the economy, as our primary niche. In that sense, we are always ready to support every high-quality project, whether that relates to a major investment, a small or medium-sized enterprise, an entrepreneur or a farmer. Lending to the economy is our strategic commitment, and banks and the economy function according to the principle of merged judgements - without a developed banking system, there can be no strong economy, and vice versa. Furthermore, it should be considered that the business model is also influenced by global trends and movements in the immediate region. ■



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to the end of the works and thus has one partner responsible for the entire process.

In order to achieve this, the construction company has to be strong in both, design and execution of works, so it could carry out the whole process without difficulties.

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# We Approach Reforms Seriously

**DRAGANA MARKOVIĆ**

Director of the Tax Administration of Republic of Serbia

*The vision of the Tax Administration is to become an efficient tax administration that has available modern integrated information systems that support business processes and that are simple, understandable and aligned with the best international practises*



**R**eform of the Tax Administration is among the priorities of the arrangement with the IMF and primarily implies changes in its structure and working methods with the aim of raising the capacities of the Tax Administration to more efficiently perform the tasks of determining, controlling and collecting public revenues and uncovering perpetrators of criminal offenses from the area of tax evasion, says Dragana Marković, director of the Tax Administration of Serbia. "Our task is to create an organisational and functional framework that will help in stimulating taxpayers to legally service their tax liabilities, while simultaneously and systematically detecting and punishing taxpayers who knowingly avoid the payment of taxes."

The Tax Administration currently has 5,165 employees, including those who are most familiar with tax law and have amassed many years of practical experience. "A procedure is currently underway, by way of a public application call, for the hiring of 71 executors, but the Tax Administration needs ad-

ditional employees, primarily economists, legal practitioners and IT experts," says our interlocutor.

► **What else should be done in terms of systemic solutions to ensure the improved collection of taxes? Which legal solutions would you highlight as currently presenting an impediment to the work of taxpayers?**

– Much has been done and the effects are evident. The system of electronic tax registrations has simplified the process of taxpayers fulfilling their tax obligations, while we've also improved the quality of services and relations with taxpayers.

Thanks to all of this, since 2015 we've had a constant trend of increasing collections, which is also continuing in 2018, during which we collected 839.4 billion dinars in the first seven months, compared to the 791.1 billion dinars collected during the same period of 2017.

The coefficient of realising total collections of the Tax



## COMMUNICATION

The formation of the Sector for providing services to taxpayers demonstrates the clear intention of the Tax Administration to establish a client-like and fair relationship with taxpayers

## AIM

We want to increase the voluntary servicing of tax obligations among taxpayers and reduce the costs and time required for taxpayers to comply with tax regulations

## CONTRIBUTION

Alongside reform, the Tax Administration had a significant engagement in the Financial Consolidation Programme of the Government of the Republic of Serbia, ensuring the stability of public finances in the area of tax revenue

Administration in the first seven months of 2018 totals 106.1 compared to 2017.

We will concentrate in future on further improving the efficiency of business processes, primarily in terms of determining, controlling and collecting public revenues, and working in cooperation with the line ministry - the Ministry of Finance – and on the improvement of legislation that forms the basis for the work of the tax administration.

► **The Tax Administration is somewhere in the middle of implementing its five-year programme of reform and transformation. Are you satisfied with the results of this process to date?**

– Some very complex aspects of tax administration reform have been finalised, which taxpayers are familiar with and face on a daily basis.

We have enabled electronic submissions of applications for all forms of tax, concluded on 1<sup>st</sup> January 2018. A new organisational structure has been established, while we have formed a new Sector for providing services to taxpayers and a specialised organisational unit for strategic risks.

It should be emphasised that the implementation of reforms to date has been simultaneously conducted with the significant engagement of the Tax Administration in the Programme of Financial Consolidation of the Government of the Republic of Serbia, in which the Tax Administration ensured the stability of public finances in the part related to tax revenues.

► **The Foreign Investors Council has an open dialogue with the Tax Administration, with the objective of identifying key issues in the implementation of laws and further discussing progress in institutional reforms. What are your expectations of this dialogue?**

– We've strived to open the Tax Administration up to the business and professional community, and the dialogue with the Foreign Investors Council is significant for us in multiple ways. That's

primarily because we are endeavouring – through communication with the Foreign Investors Council and the business and professional community – to reach the best solutions in specific segments of operations, which is in the interests of all participants.



**The first step that we will take next will be to implement four types of tax certificates in electronic form via the ePorezi portal for registered companies**

► **Is the reduction in the number of branches the only measure required to ensure uniformity in the application of tax regulations?**

– It's certainly not the only measure and is not sufficient; it is only the first step in the process of centralising the Tax Administration. As I've already stated, reform of the Tax Administration primarily implies raising the capacities of the Tax Administration and creating an adequate organisational and functional framework for the more efficient performing of tasks related to its core competencies.

When it comes to uniformity of conduct, we will primarily try to ensure that through the establishing and developing of better communication, both at the level of the business network of the Tax Administration as a whole, as well as between the Tax Administration and the business community, i.e. taxpayers.

► **To what extent does the business community utilise the possibilities provided with the formation of the Sector for Taxpayer Services and Education?**

– The very formation of the Sector for providing services to taxpayers demonstrates the clear intention of the Tax Administration to establish a client-like and fair relationship with taxpayers.

Unique centres, designated as "Vaš poreznik" [Your Tax Officer], have been opened within branches in 37 locations across Serbia to provide services for taxpayers, providing them with answers to various questions relating to the field of tax legislation.

The work of the Tax Administration Contact Centre has improved, providing taxpayers with answers to their questions via telephone and email.

I would single out in particular the introduction of the practise of visiting newly-registered taxpayers, with the ►►

aim of familiarising them with their rights and obligations.

► **Serbia recently received the best rating of any country in the entire region of Eastern Europe and Central Asia for processes related to tax administration after the filing of tax returns. What steps will you take next to ease procedures for business users?**

– The first step that we will take next will be to implement four types of tax certificates in electronic form via the ePorezi portal for registered companies: confirmations of total settled tax liabilities, settled VAT and health insurance obligations, and confirmations of settled obligations for a specific Payment Approvals Number (specific tax return).

► **The grey economy is particularly strong in the employment sector. What can the Tax Administration do, in cooperation with the relevant ministries and inspection services, to remedy the situation in this domain?**

– The Tax Administration continuously conducts appropriate activities and campaigns aimed at reducing the scope and volume of the grey economy, whether that's done independently or in cooperation with the relevant state institutions and inspection services.

During the first seven months of this year, field control inspectors conducted 8,256 control operations. Of that total, 3,013 control operations confirmed irregularities. This led to the calculating of newly discovered public revenue totalling 15 billion dinars.

In July 2018, control operations of the recording of turnover via fiscal cash registers were performed with 2,993 taxpayers on the territory of the Republic of Serbia, during which the employment status of engaged workers was also checked. Irregularities were confirmed in 1,041 establishments (35.61%), with requests filed for the initiating of misdemeanour charges and temporary operational bans pronounced as measures.

In addition to repressive measures, we're also doing a lot on promotional activities.

► **How satisfied are you with the results achieved in countering tax evasion cases, especially when it comes to goods that are subject to excise duties?**

– The most common examples of tax payment avoidance are evident among taxpayers who deal with trade in goods subject to excise. Thanks to intensive campaigns to combat illicit trade in this part of the market, we are achieving exceptional results.

During the first seven months of 2018, in coordination with other state bodies, we seized seven tonnes of leaf tobacco, 5.7 tonnes of cut tobacco, 15.9 tonnes of oil and petroleum derivatives, 294,696 packets of cigarettes and 1,612,50 litres of alcoholic beverages.

During that same period, illicit trafficking in goods subject to excise saw the filing of 285 criminal charges for prohibited trade

in goods subject to excise, prohibited storage of goods, prohibited trade, prohibited production, unauthorised operations in specific areas of activity and smuggling.

Furthermore, with the aim of clamping down on the grey economy in the turnover of goods and services that engage in unregistered activities, through advertising and sales via the internet, inspectors of the Tax Police also temporarily confiscated other goods without documentation proving origin, worth a total of almost four million dinars.

In the first seven months of this year, the tax police department filed a total of 880 criminal reports with the relevant prosecutor's offices, with charges against 1,116 individuals for 1,024 criminal offenses, resulting in total tax avoidance amounting to 6.5 billion dinars, and with 66 individuals incarcerated for their crimes.



**Through communication with the Foreign Investors Council and the wider business and professional community, we endeavour to reach the best solutions in specific segments of operations, which is in the interests of all participants**

► **What will be your priorities in further reforming the Tax Administration?**

– We analysed the “passage of time” during 2017 and ascertained the parts of programmes where the greatest advancements were made, while individual parts where implementation required additional efforts were analysed separately, which also formed the basis for the creation of the Action Plan for the Transformation Programme for the 2018-2023 period. Precisely then, in

2023, we should have completed implementation of everything planned and arrived at the realisation of a Tax Administration that functions in accordance with the highest international standards and best international practise.

Tax Administration reform implies the simultaneous implementation of three key strategic initiatives. The first is strengthening strategic management and improving the basic functions of the Tax Administration. The second strategic initiative or objective is to redesign the organisational structure and improve ancillary functions. Improving services for taxpayers is the third objective of Tax Administration reform, though it is no less important than the first two – given that all three objectives should lead to an increase in voluntary servicing of tax obligations among taxpayers and reduction in the costs and time required for taxpayers to comply with tax regulations. ■





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# We're Advancing By Seven-Mile Steps

**MIHAILO JOVANOVIĆ**

Director of the Serbian Government Office  
for IT and eGovernance

*The effective adoption of regulations, swift implementation of new electronic services and continued growth of the ICT sector in Serbia, which has exceeded a five per cent share of GDP, has led to Serbia quickly being recognised in the region, but also in global terms, as a country transformed 'overnight' by digitalisation*



According to the opinions of some, Serbia is progressing strongly in the digital transformation process, while on the other hand, due to delays lasting decades, we are lagging behind the e-solutions of developed countries. We discussed the potentials and challenges of digital transformation with Mihailo Jovanović, Director of the Serbian Government Office for IT and eGovernance.

► **Where would you place Serbia between those two extremes?**

– The concept of digitalisation, which was adopted at the suggestion of Prime Minister Ana Brnabić as one of the priorities of the Government, very quickly began producing

successful and visible results. On the one side, with the efficient adoption of laws and bylaws that define and regulate this domain

**We support the efforts of the Government of Serbia, which is actively working on amendments to the Law on Trade and the Law on Electronic Commerce, with which a set of activities will be initiated for the further development of electronic payments**

and, on the other side, with the fast implementation of new electronic services, and, on the third side, with the continuous growth of the ICT sector in Serbia, which has exceeded a five per cent share of GDP, has led to Serbia quickly being recognised in the region, but also in global terms, as a country transformed 'overnight' by digitalisation. The Prime Minister's concept is strongly based on the promotion of knowledge, young and talented experts, and development

based on new technologies, which is why we are progressing on the mentioned scale by "seven-mile" steps.



► **What are the preconditions for the further development of this sector and what kind of role does it play in fostering economic growth?**

– We expect exports from the information technology sector to exceed a value of 1.2 billion euros by the end of the year, compared to the 2017 total of around 900 million euros, which places this sector among the top three export sectors, in addition to the automotive industry and agriculture.

The main precondition for the further development of the IT sector is the reform of education, which the Government is continuously implementing. Quotas for enrolment in technical faculties have been raised by 20 per cent, information technology and computing have been introduced as a compulsory subject in primary schools, several rounds were launched within the IT retraining programme, while 40 specialised IT departments have been introduced to secondary schools.

Moreover, as of this October, all new entrepreneurs registered with the National Employment Service for a minimum of six months will be exempt from paying taxes and contributions for up to 10 employees. This tax break will be valid in the first year of starting a business.

► **In which areas does the government need the greatest support and, in that context, how would you assess exchanges of experience organised through the “Dialogue for Change” project, which focused on digitisation/digitalisation?**

– The recommendations we receive through the Foreign Investors Council's White Book are of great importance to us. The experiences of developed countries and global companies are important to us, as they provide us with the best models that we can also apply in our country. We are focused every day on developing the infrastructure of electronic governance and new electronic services for citizens, the economy and the state. The Government has formed a special body - the Coordination Council for eGovernance, which – alongside state representatives – includes representatives of universities and the non-governmental sector, which merely testifies to an openness and readiness to quickly adopt and implement good solutions.

**Serbia needs to rely more on domestic brains and creativity, and to include colleges, academies and all citizens in the demanding digital transformation process, and not foreign corporations**

► **By the time the next regional Digital Summit is held in Belgrade, we could see the mutual recognition of electronic identification of citizens and the economy come to life in the Western Balkan region. What would that mean tangibly for investors?**

– It is very important that, alongside the Summit of Western European countries, the Digital Summit has also been established, which should coordinate activities at the highest level and agree on the future implementation of digitisation policies. We will advance quickest in this domain if we all cooperate together regionally and exchange experiences. I expect mutual recognition of electronic identification among the citizens and economies of the Western Balkans to be established by the next summit, which will be held in Belgrade. This is an important

issue for us, because acknowledging electronic identifications of citizens and economies in the Western Balkans represents the basis for cross-border use of eGovernment services, while regional cooperation and improving relations with neighbours is also among Serbia's foreign policy priorities.

► **Key laws governing eBusiness were passed recently, but Prime Minister Brnabić complained that many bod-**

**ies find it tough to relinquish their stamps. Based on your experience, how prepared is public administration to accept e-solutions and apply them consistently?**

– I believe that educating public administration employees is crucial when it comes to applying new technologies in their daily operations. When we established the eZup information system, resistance among public administration personnel was pretty high, as it brought major changes to daily work, which the employees nevertheless grew accustomed to quickly. This information system connects the country's largest databases – those of the Ministry of State Administration and Local Self-Government, the Ministry of Internal Affairs, the National Pension and Disability Insurance Fund, the Central Registry of Compulsory Social Security, the National Employment Service, the Ministry of Justice, the Tax Administration of the Republic of Serbia and the National Geodetic Authority. They all enabled access to a total of 25 of their databases via the ►►

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Government Service Bus [Servisne magistrane organa]. The eZUP information system is today used by staff of 350 different public administration institutions. This system allows civil servants to electronically access data pertaining to a citizen who has come to use state administration or local government services. The use of information technology brings us great savings in terms of time and money. With the introduction of eZUP, in the first year citizens saved 500,000 hours waiting at counters, while the state saved about 20 million dinars on printing and issuing paper documents.

► **Despite these laws having been passed, the necessary bylaws are lacking. When can we expect them?**

– With the adoption of the Law governing electronic business in October 2017 and the Law on electronic governance in April 2018, Serbia eliminated all obstacles to the faster development of eGovernance and provided legal regulations in full for the complete digital transformation of state administration and local self-government. This October will see the adoption of a complete set of bylaws that will define the infrastructure of electronic administration (State Data Centre, State Cloud, use of the information and communication networks of electronic administration) and the obligation of state bodies to conduct administrative procedures electronically.

► **Although e-commerce is advancing at lightening speed, investors are of the opinion that there still obstacles in this domain. Which of those can be removed and are within your scope of work?**

– The Office for IT and eGovernance has enabled all users of the national eGovernance portal to pay administrative fees electronically for all services available on the Portal. Payment is available via the national Dina payment card, MasterCard, Maestro or Visa payment cards of all banks operating on the Serbian market, as well as electronic money. Citizens can also pay for eGovernment portal services via integrated electronic banking – this is the first time this type of electronic payment method has been enabled on internet portals in Serbia. There is a constant open call for banks to provide existing models or, jointly with the Office, develop new models of electronic payments. We also strongly support the NBS's initiative to introduce instant payments, which starts as of October, and I believe this will significantly improve conditions for the further development of e-commerce in Serbia.

► **How will the introduction of e-inspectors change the way inspector services function?**

– The reform of inspection oversight in the Republic of Serbia implies the securing of better protection of the public interest with a reduction in the administrative costs of inspection oversight and increasing the legal security of those subjected to inspection control. Introducing an eInspector information system will provide: better coordination between inspectorates, automation and better efficiency of oversight, standardization of inspection work, availability of data to all inspections, and consequently reduction of costs for the economy. The Office for IT and eGovernance has

signed a contract on the implementation of the eInspector project, which will enable the computerisation of the work of 41 inspection services in the Republic of Serbia by May 2019. As of this autumn, trial work will begin with the first four pilot inspections (Sanitary Inspection, Market Inspection, Labour Inspectorate and Administrative Inspectorate), which employ around 700 workers.

► **How much do you work with young innovative teams on the development of e-solutions? How can their know-how and innovation be utilised in the further development of eGovernance?**

– Serbia needs to rely more on domestic brains and creativity, and to include colleges, academies and all citizens in the demanding digital transformation process, and not foreign corporations. I'm proud of the agreement we have with five prominent technical faculties in Serbia – the University of Novi Sad's Faculty of Technical Sciences and the University of Belgrade's Faculty of Organisational Sciences, Faculty of Mathematics and Faculty of Electrical Engineering. I personally consider the inclusion of higher education institutions is being of great importance and that, together, we can implement innovative projects, exchange scientific experiences, but also involve young students through

practical work experience programmes in the Office. Moreover, this April we organised the first #CodeGovernment Hackathon, with the help of the Office of the Serbian Prime Minister and the Digital Serbia Initiative, with the aim of devising software and conceptual solutions as part of the Portal, which will ease communication between citizens and public administration, enabling citizens and the economy to access electronic services with a "click". Over 50 young people, in 15 teams, competed continuously for 48 hours in Belgrade and Niš, with the prize money for the three winning teams amounting to a total of \$7,500, intended for the purchase of technical equipment. Naturally, I don't expect us to solve all problems in 48 hours, but cooperation between the economy and the state is of great importance, because only together can we create solutions that will benefit all citizens. ■



**The Office for IT and eGovernance has signed a contract on the implementation of the eInspector project, which will enable the computerisation of the work of 41 inspection services**



# Competition Has Strengthened Us

*The AOFI's goal is to increase the value of exports of domestic companies, increase the number of exporters, improve the quality of export products, advance the structure of Serbian exports and strengthen the position of companies on existing markets, but also entry to new markets. The result of everything should be a reduced foreign trade deficit, a strengthening of the balance of payments and the creation of conditions for the continuous growth and development of the Serbian economy*

**T**he Serbian Export Credit and Insurance Agency (AOFI) is the only export credit agency in the region that didn't register a decrease in insured turnover with the entry of competition but rather, on the contrary, experienced growth.

► **How would you explain this fact?**

– AOFI has, in its 13 years of operations, become a recognisable and reliable partner to Serbian exporters, especially in terms of insurance, which has certainly helped us greatly in maintaining our position even despite the changes that have taken place in this market game.

The entry of competition “forced” us to achieve even better quality in realising our primary goal – increasing exports of the Serbian economy through an even better quality offer of products and services. I must mention that the market of credit insurance in the Republic of Serbia is very small and has great potential for continuous growth! On the

other hand, it can and should be an instrument for creating a competitive position for Serbian products on foreign markets. The arrival of “large” and renowned players will help to develop faster the credit insurance market and to thereby create conditions for the growth and development of the Serbian economy as a whole and, also of the AOFI itself.

► **The 2017 'Year of Entrepreneurship' project has grown to become the 'Decade of Entrepreneurship' project. Businesspeople can take advantage of more than 30 programmes and more than 18 billion dinars from the budget. What is the AOFI's role in this project?**

– Given that the Government of the Republic of Serbia and the

Ministry of Economy see the development of private entrepreneurship and the SME sector as one of the priority goals of our economic policy, the AOFI redefined its programmes and directed them towards the export-orientated

**The AOFI further accelerated its offer of international factoring in 2018 by opening up the possibility for Serbian exporters to secure their purchased receivables and thus further relax their cash flow**



**DEJAN VUKOTIĆ**

Director of the Serbian Export Credit and Insurance Agency, AOFI

part of this sector of the economy. This is also reflected in a change in the structure of the AOFI portfolio, which is now dominated by precisely such companies. The AOFI's support is reflected in financing of the preparation of exports, the guaranteeing and insuring both foreign and domestic receivables, all with the aim of achieving the continuous growth of these companies through the conquering of new foreign markets and stronger positioning on existing ones.

► **The AOFI also directed its operations towards international factoring two years ago. What kind of results are you recording in this area in Serbia?**

– International factoring is a financial instrument, which – apart from allowing parties in work to operate more efficiently and continuously – can also have a positive impact on the macro environment, i.e. the national economy, especially in the post-crisis period, when financial sector stability is more than necessary. This kind of instrument is the easiest way to solve the liquidity problems currently faced by Serbian exporters, because it represents a new “space” in a limited financial market. Due to all of the aforementioned, the AOFI shifted part of its activities to this product, and the results over the last two years are extremely satisfactory. ■

# Our Members' Needs Oblige Us To Improve Constantly

**ANA TOZZI**

Executive Director of the Foreign Investors Council

*We are proud of everything we've done over the last 15 years on the eliminating of obstacles to doing business not only for our members, but for domestic companies. However, there is no resting on our laurels! Since 2002, when the FIC was established, the business climate has improved significantly, but our mission has not been completed*



**T**he mission of the Foreign Investors Council is to actively promote and develop a predictable, competitive and sustainable business climate in Serbia through open dialogue with the state and other relevant stakeholders. Organisation within this process has changed significantly since the Council was founded 16 years ago, though it has remained consistent with the FIC's principles.

"The quality of any person, or any organisation and institution, is related to their ability and willingness to change. The same applies to business associations," says FIC Executive Director Ana Tozzi. "When it comes to the FIC, a simple example of this is

the fact that, every year or two, we make certain changes to our Statute, because we not only want to adapt to the new reality, but also to move a step ahead. However, the greatest change is elevating the engagements of members and constantly increasing the use of the services we offer them."

The number of FIC working committees has grown from three that were active in 2007 to 10 committees, and by the time this publication goes to print there will be 11. "That's a major shift and doesn't end with figures. The portfolio has expanded because there are ever more topics that members want to deal with under the auspices of the Council."



When it comes to the sectors in which members operate, we monitor market changes: there are increasingly more of them from the auto industry and supplier industries that are related to this sector, while the number of members from the IT sector is also growing. "Companies from the green economies have also joined us, which is one of the branches whose time is yet to come," says Tozzi. "What remains unchanged is our members' determination to maintain long-term operations in Serbia and hence their motivation to work actively on systemic change and advancement of the business climate in Serbia."

► **How has the growing number of foreign investors and competitors – and the rise of new business associations – influenced your offer of membership?**

– They have strengthened those characteristics that are of crucial importance for us: independence and the dissemination of knowledge and best practises. We offer companies a safe environment in which they can freely exchange knowledge, experiences and best practises with other foreign investors that operate in Serbia. What is essential for business is that through FIC membership they reduce risks to their business, as they always have fresh information about upcoming regulatory changes and an ability to influence them. But perhaps the most important specificity of the FIC is that the voice of every member is important, because we represent only the common interests of companies around which a consensus exists.

Thanks to everything mentioned above, the FIC is recognised as an organisation with high quality based on the top regulatory expertise possessed by our members. As an association with more than 70 per cent of members coming from the EU, while the remaining members operate on the European market, we have a specific position as a powerful promoter of Serbia's economic integration into Europe.

When it comes to changes, I would also like to mention the expected Law on Lobbying, which is currently under parliamentary procedure. The first draft of this law threatened to significantly regress the quality of public-private dialogue and condition it through the use of lobbying services. It is good that the Ministry of Justice, through a deep public debate, improved the final text of the law significantly and created the space for a continuation of the dialogue between the economy

and the state, either directly or via associations. However, the fact remains that most countries around the world, including in the EU, don't have laws on lobbying, but rather fight against corruption through a developed system of various legal solutions.

► **How effective have the new forms of dialogue with the Government, which you introduced in the last two years, proved to be?**

– The novelties that we introduced have had varying results. The "Dialogue for Change" project has proven to be a very effective mechanism for overcoming specific barriers to doing business, but also a good format for exchanging information and strengthening mutual understanding between foreign investors and the state. Today the "Dialogue for Change" is a high-level

event that's closed to the public, with a limited number of participants. Each event is dedicated to addressing a particular segment of the business climate and brings together groups of directors of member companies and the relevant minister. The last such meeting was organised in May this year with the Minister of Labour, Employment, Veterans and Social Policy and the FIC member companies that are the largest employers. Such a format allows one to speak in a very open way about how to modernise labour regulations in line with contemporary international and European standards and in a way that enables greater

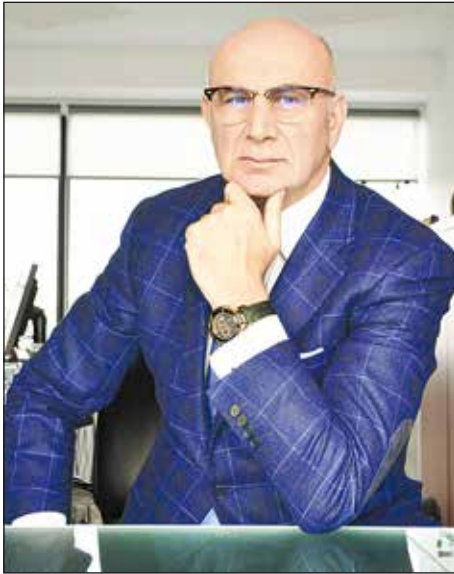
economic growth while simultaneously guaranteeing workers' rights. We will certainly continue this project, with taxes as the next topic planned.

On the other hand, we last year formed a Working Group for implementing recommendations contained within the White Book, which was the creative idea of then Serbian Prime Minister and current President Aleksandar Vučić. The purpose of this body is to enable more regular active dialogue at the highest level between the Government and the FIC, and to encourage accelerated

improvement of the business climate in Serbia. Since it was established in January last year, this Working Group has achieved only limited success and, unfortunately, hasn't realised its full potential. Nevertheless, through this or some other format, we are ready to continue participating in an active dialogue with the Government with the aim of strengthening the competitiveness of the Serbian market. ■



**The transparency of the Law on Lobbying doesn't bother us, because the essence of the FIC's work is in fighting corruption, i.e. advocating for the identifying of systemic solutions that by definition reduce discretionary rights. However, most countries don't resolve issues of corruption through a law on lobbying**



MARINKO UKROPINA

Managing Director at SGS Belgrade,  
SGS Adriatic, SGS Slovenia  
& SGS Bosnia-Herzegovina

**T**he development of legislation related to product quality is of essential importance to establishing a systematic approach to the work of companies on a country's market. By implementing laws in this area and insisting on their application, the welfare of the population is ensured and confidence is increased among end users in the quality of the products they buy and use. The interest of producers themselves is also mentioned, as it is to be expected that the criteria for product quality would be precisely defined and communicated, and that a valid process for checking their fulfillment is established, says Marinko Ukropina, managing director of SGS Belgrade.

► **How do you ensure in continuity that there is no variation in the required quality of a product?**

– Primarily through the establishment of a systematic approach in organisation, which eases organisations' meeting of the requirements of laws, regulations and technical standards, with precisely defined criteria and methods for production processes and the application of validated techniques and

# No Respect For Standards - No Access To Global Chains

*SGS, as a global leader, has increasing demands for the implementation of checks sought by major global companies at the locations of their potential or existing suppliers. It is very important for our companies to understand this trend, and to prepare for these checks on time. We can help them do that*

production technologies, alongside continuous monitoring, improvement and advancement.

► **What services can you offer foreign companies that include domestic companies in their value chains?**

– SGS, as a global leader, has increasing demands for the implementation of checks launched by major global companies at the locations of their potential or existing suppliers, with the basic aim of verifying the status of these organisations in terms of product quality, the state of their business system, security and health protection, environmental protection, information security management etc. The main objective of these checks is linked to the aspiration of large companies to

reduce their business risks from an external context or to recognise potential opportunities to further develop cooperation. Simply put, whoever fails to meet the required criteria will not even sign a business cooperation agreement. These demands are increasing, and it is very important for our

companies to understand this trend and prepare on time for these checks.

► **In which areas of certification does Serbia need to improve its performance in accordance with European integration processes?**

– Primarily in the field of Environmental Protection, the number of certified organisations according to ISO 14001 (one of the publicly available parameters), considering some trends from the countries of the former Yugoslavia, is not small. However, bearing in mind that in the European integration process there will be an insistence on the full application of legal regulations in this area and the prevention of pollution, we consider that

**SGS Belgrade, through its SGS Academy and Centre of competence, can help domestic companies to understand the demands of interested parties and to launch corresponding activities to fulfil those demands and improve operations**

special attention must be paid to this area.

Moreover, our producers of industrial products, if they have a strategic approach to placing their products on the EU market, must ensure that these products are, first and foremost, safe for use, which is certified by CE certification. ■



# FOR ALL THE ESSENTIALS

CONSISTENT COMPREHENSIVE COVERAGE



- VEHICLE INSURANCE
- PROPERTY INSURANCE
- HOUSEHOLD INSURANCE

- TRAVEL INSURANCE
- PERSONAL INSURANCE
- 5+ PACKAGE AND ROAD ASSISTANCE

# Reforms Are Paying Off



STEPHEN NDEGWA

World Bank Country Manager for Serbia

*Serbia has demonstrated an ability to make tough reform decisions and has benefited immensely from those reforms. However, it needs to continuously renew to perform even better. If all the pro-market reforms are designed, implemented and sustained, the result will be faster growth*

**T**o get the lowdown on how Serbia should proceed with reforms and what the country's key priorities should be, we spoke with Stephen Ndegwa, World Bank Country Manager for Serbia.

► You stated at the beginning of this year that speed will be among the key issues insisted on during 2018 by the World Bank, when it comes to taxation policy, the privatisation of public enterprises, attracting foreign investments, accelerating economic growth etc. Is Serbia ready for such a pace of reform?

– The Serbian authorities have been

working on all these reforms for quite some time. So, what we are talking about is completing them, or at least bringing them to their final stages. For instance, the process of finding a resolution for the remaining state enterprises in the

**In the SOEs in which it plans to retain ownership, the government needs to focus on corporate governance, quality of service, accountability, proper monitoring and reporting mechanisms**

real and financial sectors started two decades ago. On the other hand, some other reforms require adjustments and fine tuning to reflect new realities. As you know, all countries – especially emerging economies – have done very well when they have made the business environment as favourable as possible. Serbia has made progress here, but – just as others that are also improving – Serbia needs to



## SUPPORT

The World Bank will provide support to the Government of Serbia to improve the tax administration, the efficiency of tax collection and lowering the compliance burden for taxpayers

## SHIFT

The most fundamental shift in mindsets and actual policies is to give priority to the private sector

## PRIORITY

In order for the next generation to live better, Serbia needs to sustain the reform path, including making good strides on EU accession

continuously renew to perform even better. If all pro-market reforms are designed, implemented and sustained, the result will be faster growth.

► **We can start with the fact that at least five per cent economic growth is needed for Serbia to catch up with the EU within a reasonable timeframe. What are the preconditions for that? Which policies must first be changed?**

– The most fundamental shift in mindsets and actual policies is to give a priority to the private sector. The main difference between state and private enterprises is that state-owned enterprises do not necessarily care about growth (i.e. increased productivity) as their top priority. In fact, they might care more about creating jobs, although not necessarily the best jobs, or they might insist on buying local even though that's not always most productive for the country. They often consume more energy and local resources than their competitors in the private sector, thus are not always efficiency driven. The private sector is predominantly profit driven, so these companies by default focus on increases in productivity and growth. In the modern world, business competition is often global, so they must also be globally competitive. However, in order for this to happen Serbia needs to create an environment where the rule of law prevails; where red-tape is addressed and infrastructure bottlenecks resolved.

► **How realistic is it for us to sell 600 state-owned companies, many of which are just shells, at this juncture?**

– It is important to consider that the remaining SOEs include different types of companies, which require different approaches. In fact,

most of the remaining SOEs are utilities, either large utilities (e.g. EPS, Srbijagas, Railroads etc.), or municipal utilities. In general, the government plans to retain ownership of these SOEs, and therefore the key issues are corporate governance, quality of service, ac-

or the decision to initiate the bankruptcy of Azotara. We hope similar progress can also be made in others, and that this legacy portfolio will finally be resolved. Acceleration would be a big confidence boost – not to mention an opportunity – for local and foreign investors.



**When considering subsidies, we should incentivise investors to integrate into the local economy more and facilitate the linking of domestic companies with regional and international value chains**

We should also mention that the government retains a minority stake in many other companies as well, which in general it should aim to privatise.

► **There is a lot of talk about changing the policy of subsidies for foreign investment. In your opinion, for whom should they be intended and under which conditions?**

– At the time when investment subsidies were introduced, Serbia had comparatively little foreign direct investment and a high unemployment rate, so the primary goal was to attract (any) investors and to create (any) jobs. In that sense, they were successful – recent Bank analysis showed that subsidies contributed to the creation of jobs which would otherwise not have been created. In addition, Serbia is now definitely on the ►►

map as an investment destination and is in fact among the top ranked countries in Europe in terms of FDI jobs created per capita. Serbia is in a different field now. It might be an appropriate time to adjust investment promotion policies. Firstly, the focus should really be on improving the overall business environment, as a good business environment is the “cheapest” and most durable way to attract investors. Despite

improvements, certain barriers to investment (such as regulatory burdens and transparency, court systems and land rights issues) continue to hamper investors and entrepreneurs in Serbia. Secondly, when considering subsidies, we should target not only job creation, but rather also incentivise investors to integrate into the local economy more and facilitate the linking of domestic companies with regional and international value chains. This makes for better quality jobs and more growth opportunities across the economy.

► **Is it possible at present to reduce taxes for the healthy part of the economy, which is being sought by businesspeople?**

– Compared to other countries in Europe, Serbia does not seem to be a high tax jurisdiction. Income tax rates are relatively low and there is limited space for tax reduction without creating a fiscal deficit. At the same time, Serbia can do more to improve its tax administration by reducing compliance costs and increasing predictability for taxpayers. By doing so, it would improve its business environment and facilitate economic growth. Moreover, a better tax administration could help expand the tax base, which would create fiscal space for the medium-term reduction of tax rates.

► **How prepared is Serbia to respond to the climate change challenges that can have a strong impact on GDP reductions?**

– The devastation caused by the floods of May 2014, with estimated damages and losses totalling about €1.7 billion (or over 4% of GDP), was somewhat of a wake-up call for Serbia to realise how vulnerable and unprepared the country was for natural disasters. Since then, the country has undertaken important actions to address climate change and disaster risks in a more comprehensive way. But the country’s economic growth is still sensitive to climate-related disasters.

The agricultural sector also has a particular vulnerability to climate change, with droughts being one of the key detrimental factors there. The impact on agriculture was dire, as agriculture contributed negatively to GDP growth in 10 of the last 18 years. Significant efforts are required in the time ahead to increase the resilience of this sector to the adverse impacts of climate change. Local economic

growth does not only depend on a good business environment, but also significantly on disaster risk-informed and climate-smart planning, which all still require time and capacities to take root at the local level.

► **Which projects will the World Bank invest in during this year and next, and how will it address some of the gaps in the implementation of reforms?**

– The World Bank will provide support to the Government of Serbia to improve tax administration, the efficiency of tax collection and lowering the compliance burden for taxpayers. The World Bank is also supporting the government in improving access to, and the quality and efficiency of, selected administrative e-Government services, and to strengthen commercial agriculture. These three investments are expected to total US\$150 million. Our partnership also continues in broad analytical work aimed at informing government choices and advisory work on key reform areas.

► **If it will only be possible for the next generation in Serbia to be able to live better, what will this generation have to sacrifice; and which sector of the population will carry the greatest burden of reform?**

– Serbia has demonstrated an ability to make tough decisions in reform and has benefited immensely from

those reforms. This is clear whether one looks at fiscal consolidation results, earlier privatisation or public investment; or the level of FDI arriving, or even the ability to borrow internationally at a lower cost. In order for the next generation to live better, Serbia needs to sustain this reform path, including making good strides on EU accession. Citizens having confidence in the reform path, transparent view of trade-offs, and sharing the expanding benefits of reforms are key to Serbia achieving shared prosperity. ■



**In order for its economy to be competitive, Serbia needs to create an environment where the rule of law prevails, where red-tape is addressed and infrastructure bottlenecks resolved**





# ENJOY RESPONSIBLY!



# Remaining Challenges Must Be Addressed With Great Vigour

**SEBASTIAN SOSA**

IMF Resident Representative in Belgrade

*With a stable macroeconomic situation, rising employment and growing output on its side, the Serbian Government has a great opportunity to decisively address the underlying weaknesses that have been constraining the country's output potential*



While the complicated economic situation back in 2015 prevented the Government of Serbia from fully addressing structural reforms, the circumstances today are very different. Improved

macroeconomic stability and better overall results in business activity and employment are creating a favourable environment for policymakers to promptly implement the comprehensive structural and institutional reform agenda and remove obstacles hindering more robust growth of the economy, says Sebastian Sosa, IMF Resident Representative in Belgrade.

**Serbia's efforts should focus on addressing the key constraints that limit the Serbian economy's production capacities – i.e. a low stock of capital per worker, high structural unemployment and low productivity**

► **What are the key priorities of the PCI-supported programme when it comes to sustaining macroeconomic and financial sustainability?**  
– The PCI-supported programme aims to preserve and

consolidate the achieved macroeconomic sustainability and financial stability. On the macroeconomic front, this

means maintaining low and stable inflation, a strong fiscal position that keeps public debt on a clear downward trend, a sound external position and the further reducing of unemployment. Financial sector priorities include continued reductions in the level of non-performing loans, completing the reforms of state-owned financial institutions and addressing identified weaknesses in the AML/CFT framework. However, the program-

me's main goal is to advance an ambitious structural and institutional reform agenda to foster rapid and inclusive growth, job creation and improved living standards.



## AMBITION

The main goal of the PCI-supported programme is to advance an ambitious structural and institutional reform agenda in order to foster rapid and inclusive growth and job creation

### ► What do you see as the main external and internal risks in achieving that goal?

– The main external risks are potential negative spill overs from regional developments, a tightening of international financial conditions for emerging markets, and an escalation of global trade tensions. Domestic risks centre around possible complacency or resistance to delivering on structural reforms or maintaining fiscal discipline, while failure to address AML/CFT weaknesses could undermine investment attractiveness.

### ► How do you assess the period between the two programmes? How did the government use its time to address the main issues in the economy?

– On the macroeconomic and financial sector front, policies have remained sound; in particular, fiscal results continued to be strong in the first half of the year, pointing to another year of surplus in 2018. The government has continued to pursue the resolution of some state-owned enterprises that used to be a burden on the budget. For instance, it launched a privatisation tender for MSK, a tender for a strategic investor in RTB Bor and launched bankruptcy procedures for Azotara. The government has also worked on the implementation of a new public wage system and on measures to improve the business environment, such as the rationalisation of parafiscal charges.

### ► To what extent could the announced rise in pensions and state salaries impact negatively on these achievements (fiscal stability etc.)?

– The fiscal position has strengthened significantly over the past three years. Although there is now space for increases in public sector wages and pensions, such increases should be reasonable and should not be allowed to

## DEFICIENCY

We are still far from having an effective and efficient public sector that bases the allocating of staff and wages on needs and skills



**While we are observing output and employment growth, we are not yet seeing increased productivity, which will be critical to Serbia's growth prospects**

jeopardise hard-won fiscal sustainability. Specifically, the wage and pension bills should not start to increase again as a percentage of GDP. This is consistent with generous increases, given the projected nominal GDP growth rates for the next few years.

### ► Serbia is once again faced by ambitious structural and institutional reforms. Given that these reforms were not achieved during the previous programme, what makes you optimistic that they will be achieved over the next two years?

– Under the previous programme, the implementation of reforms needed to tackle the structural weaknesses of the Serbian economy commenced, albeit at a slow pace. Public administration employment was rationalised, even if we are still far from having an effective and efficient public sector with staffing and wages allocated on the basis of needs and skills. Fiscal costs from SOEs were reduced significantly, while there were other successes, such as in the restructuring of the railways and the privatisations of the Zelezara Smederevo [steelworks] and Galenika [pharmaceuticals]. Numerous surveys highlight important improvements in the ease of doing business, although obstacles – like weaknesses in the judicial system and tax administration – remain. Despite mixed progress in structural reforms, the programme's results exceeded all expectations in

terms of reducing the large macroeconomic imbalances and reinvigorating economic growth. The achievements were impressive, considering the complicated economic situation that Serbia found itself in back in early 2015. The context is now very different, with a stable macroeconomic situation and employment and output both growing. This provides a great opportunity to decisively address the underlying weaknesses that have been constraining Serbia's output potential.



► **Besides structural reforms, what are the other preconditions for rapid and inclusive growth?**

– Maintaining macroeconomic and financial stability, as well as political stability, are critical preconditions, but are not enough in and of themselves. In order to achieve faster and more sustainable growth, Serbia needs to fully implement an ambitious structural and institutional reform agenda. Efforts should focus on addressing the key constraints that limit the Serbian economy's production capacities — i.e. a low stock of capital per worker, high structural unemployment and low productivity. Policy priorities include measures to ease public and private investment, improve the business climate, reduce informality and boost productivity, whilst ensuring transformation from an economy that relies too much on a large and inefficient public sector to a fully-fledged market economy led by a dynamic private sector.

► **What is the IMF's stance when it comes to the current policy of subsidies mostly to foreign investors?**

– Subsidies and other incentives for investment should be granted in a transparent and predictable way, to ensure a level-playing field for all potential investors. It is critical to regularly assess their effectiveness in attracting incremental investments—above and beyond the level that would have been reached had no incentives been granted. Policymakers should keep in mind the fact that foreign investors typically base decisions to invest in a country on a whole range of factors, such as political stability, transparent legal and regulatory systems, adequate infrastructure and a skilled workforce, while subsidies and other incentives are usually far from being the most important driver.

► **Many of the jobs created in the meantime were generated either in the grey economy or in sectors with added value, such as the automotive and textile industries. What do you see as policies conducive with the creation of high-quality jobs?**

– Employment has been growing over the last couple of years, albeit from a low initial level. And jobs have also been created in the formal sector. That said, structural unemployment remains high and more high-quality jobs need to be created. To achieve these goals, Serbia

needs to boost investment levels and unlock productivity growth, while improving labour market incentives. Higher private investment requires improvements in the business environment, especially in terms of modernising the tax administration, rationalising fees and parafiscal charges, and ensuring an efficient, independent and predictable judicial system. While we are observing output and employment growth, we are not yet seeing

increased productivity, which will be critical to Serbia's growth prospects. Policies to enhance the quality of public administration and public services, promote innovation and combat the grey economy would create an environment conducive to faster productivity growth and high-quality jobs.

► **As you have warned, if Serbia is to join the EU it may face the kind of brain drain that hit Croatia, and as such it must consider how to create better paid jobs and improved living standards. How does this translate into public policies?**

– Serbia's economy needs to be transformed deeply, to be ready to compete in the single market when it accedes to the EU. And this includes the single labour market. Serbia needs to keep moving towards a dynamic, private-sector driven, skills-based economy, otherwise it will risk falling back to dependence on remittances, as dynamic workers with marketable skills abandon the country to pursue better prospects elsewhere in the EU. To achieve these goals, Serbia needs to promptly implement the comprehensive structural and institutional reform agenda that I described earlier.



**Serbia needs to keep moving towards a dynamic, private-sector driven, skills-based economy, otherwise it will risk falling back to dependence on remittances**

► **What is your standpoint when it comes to tax policy changes as a tool for fostering growth?**

– Tax policy measures can certainly support growth and improve the business environment, by improving incentives for investment and employment, and by reducing informality. Specifically, we see scope to reduce the labour tax wedge, especially at the low end of wage distribution. Changes to corporate income tax legislation could also be useful, including the streamlining of tax incentives and their replacement with targeted accelerated depreciation to incentivise investment. Finally, rationalising the parafiscal tax burden, by eliminating or merging some charges, could also support businesses. ■



# Communication On The Go

*Alma Quattro is a Serbian company and the leading provider of OOH advertising in the country, as well as a part of Switzerland's APG SGA group*

**F**inancial stability and the ability to service our own liabilities are indicators that elicit trust among our clients and our parent company, APG SGA Group, while they also represent a source of pride for employees who had paved the way to this success for 24 years, says Alma Quattro CEO Sanja Pešić for this FIC special edition.

► **As the leading provider of the oldest form of advertising on the domestic market and part of an international group, how do you see the future of Out-of-home (OOH) advertising compared to the latest forms?**

– Like every company that has been successful for many years, we are aware of the necessity to move swiftly in the spirit of the times and to understand that the world around us is changing constantly.

Although we recorded a profit margin increase of 5.9% in 2017, as a result of economies of scale and the optimisation of processes, at the end of the same year we digitised our network by setting up technologically perfect LCD screens in Belgrade's pedestrian zone. We expanded our offer and launched a new era in operations that enables our clients

not only visibility (which is our expertise), but also a high degree of interactivity with consumers through broadcasting images or video lasting 10 seconds, on a high-resolution 84-inch screen. The combination of digital and external advertising is characterised by the syntagma 'on-the-go', while the digital amplification of our network means better quality two-way communication.

From parent company APG SGA Group we received information that digital forms of outdoor advertising are now also precisely targeting "silver surfers", i.e. users aged 50+ who are increasingly intensively using mobile technologies.

**The combination of digital and external advertising is characterised by the syntagma 'on-the-go', while the digital amplification of our network means better quality two-way communication**

► **Company Bisnode this year awarded Alma Quattro the prestigious Gold Creditworthiness Rating Excellence Certification AAA, which only 2.17% of companies in Serbia have been**

**awarded. How do you see this acknowledgement?**

– Our commitment over a 24-year period was crowned at the right time, as a beautiful introduction to the celebration we're planning to mark 25 years of our existence. Financial stability and the ability to service our own obligations are indicators that elicit trust among our clients and



**SANJA PEŠIĆ**

Alma Quattro CEO

our parent company, APG SGA Group, while they also represent a source of pride for the employees who paved the way to this success for 24 years. This gold certificate becomes a testament to the fact that internal unity leads to external success, and that manifests through activities such as cost control, innovation in the portfolio of services, tailor-made packages for clients and participation in constructing the infrastructure of the community in which we operate. All these activities, led by the love of employees, resulted in financial success.

► **What is your recipe for success on this market, where you will next year mark 25 years of operations, and how will you commemorate that?**

– Our strength lies in a strong vision of our role on the market, and that is to enable our clients to "shine" with the continuous strengthening of their position. The winning combination of our business is Swiss knowhow (APG SGA from Zurich), which is a priceless ally in long-term planning and the creation of mind-sets, French innovation (JCDecaux, world No.1 in the OOH industry) and Serbian entrepreneurialism and ability to improvise in difficult conditions. The consequence of that is growth of the market, and of ourselves. Leadership through giving to the community, clients and employees is our business philosophy, and it is in that spirit that we will celebrate 25 years of existence. ■

# We're Bringing Europe To The Balkans



**DUBRAVKA NEGRE**

Head of Regional Representation of the European Investment Bank (EIB) for the Western Balkans

*Support for the development of infrastructure in the fields of transport, energy, health, education and the judiciary, the development of local communities and access to sources of long-term financing for small and medium-sized enterprises are our main goals in the region and in Serbia. We are here to stay even when the region's countries join the European Union*

**A**s a bank of the European Union, the European Investment Bank (EIB) wants to provide its contribution to Euro-integration in Serbia and the region through tangible projects aimed at improving connections between people and goods in the countries of the Western Balkans, and to encourage their regional cooperation and economic development, says Dubravka Negre, head of Regional Representation of the European Investment Bank (EIB) for the Western Balkans.

Transport connectivity has been recognised as one of the main goals of the countries of the region, but also of the European Union, as it contributes to an easier exchange of goods and people. "A unified market in which people and goods circulate freely is one of the fundamental principles of the Union. As such, projects in

transport and energy connectivity contribute to the better integration of the region and its preparation for full membership. The EIB has participated actively in the Berlin Process and the Connectivity Agenda since 2014," says our interlocutor.

► **Which of the projects that you're funding at present would you specifically highlight as those that shift Serbia closer to its set goal of EU membership?**

– The most important projects for Serbia at this moment are

connected to the completion of the road route of Corridor 10, which will connect Serbia and Bulgaria, but also Serbia and Macedonia. The rail connection between Serbia and Bulgaria is also very important, while we are also working on the modernisation, rehabilitation and electrification of the rail line between Niš and Dimitro-

**The Government of Serbia has recognised the improvement of public procurement processes and project management as its priorities and is working on them**



## VALUES

We primarily bring and represent European values and the regulations of the European Union... Our partners can learn a lot about that from us, as a European institution

## CHALLENGE

Serbia suffers from a lack of adequate research funds and training institutions to prepare the workforce for the challenges of tomorrow

## SUPPORT

We, as an institution and financial lever of the European Union, are ready to actively support the strategy of enlarging the EU to encompass the Western Balkans

vgrad, together with our partners at company Serbian Railways Infrastructure and the Government of Serbia. The project of modernising flight control, which will enable modern information systems for Flight Control of Serbia and Montenegro and modern infrastructure that's in line with the requirements of the European Union, is also of great importance, and this contract, worth 45 million euros, was recently signed in Belgrade, in the presence of Serbian President Aleksandar Vučić, EIB President Werner Hoyer and European Council President Donald Tusk.

► **In the context of the further connecting of Serbia and the Western Balkans with the EU and the projects that you finance, how do you see the range of the EU-Western Balkans Summit in Sofia?**

– We consider that the perspective of credible enlargement was confirmed at the recent Summit of the European Union and the Western Balkans in Sofia. We, as an institution and financial lever of the European Union, are here to actively support the enlargement strategy by providing the most affordable financing of priority projects, as well as easing access to EU grants, both for preparation and for the financing of projects.

► **How much has the Berlin Process contributed to enlivening this process and what specifically does it mean for your portfolio to highlight the prioritising of connectivity in the Balkans itself and the wider region?**

– Regional cooperation represents one of the fundamental values of the European Union. The EU as it is today emerged thanks to economic cooperation between countries after World War II. Due to its complex past, the Western Balkans should strive towards stronger economic cooperation, which will also help the countries of that region in the EU integration process.

► **Now that Corridor 10 is nearing completion, what will your next priority be in the area of strengthening transport connectivity?**

– Our priorities are the priorities of our partners, as long as they are economically justified and in accordance with EU



**We are currently discussing a project with the Government of Serbia aimed at improving ICT infrastructure in schools throughout Serbia**

policy objectives. The Government of the Republic of Serbia has expressed a desire to improve the connectivity of the southern part of Serbia via Kosovo\* with Albania. Grants from EU funds worth almost €10 million have been allocated to help in preparations for this important project.

► **How ready and interested is the EIB in supporting large infrastructure projects within the country, such as the construction of a Belgrade metro system or Serbia's obligations that will be linked to the implementation of Chapter 27?**

– Supporting environmental protection projects is our priority, both within the EU and in the countries negotiating to become members. The needs of this sector in Serbia are enormous, whether that's in water supply, water treatment or waste management. We hope that Serbia will soon also be able to open negotiations related to this chapter, which is one of the most demanding at this juncture. We have already started project evaluation aimed at improving the supply and treatment of water in a large number of municipalities throughout Serbia, but we are also participating in the technical preparation of a large water treatment facility project in Novi Sad.

When it comes to a metro, the EIB has previously financed the London and Athens metro rail systems, but also by many others throughout Europe. We are expecting the completion of the feasibility study and are certainly ready to consider this important project for the city of Belgrade if we are requested to do so by our partners from the Government of Serbia and the City of Belgrade.

► **What is it essential for Serbia to do, in a reform sense, in order to be able to better absorb investments in large infrastructure projects?**

– The adequate technical preparation of projects is crucial, but so is the prioritisation of projects, in strategic terms. Implementation is extremely important, and it requires the kind of high-quality human resources that are often lacking in the public sector. Public procurement processes need to be ►►

improved, as do project management processes. I think those are recognised priorities that are being worked on.

► **What does the process of determining the EIB's financing priorities look like and how important in that process is the exchanging of opinions with representatives of the investment community that encourage Serbia's integration into the EU, such as the FIC?**

– Our priorities are determined by our partners in the region's countries, but also by the strategy of the European Union. However, exchanging views with representatives of the investment community, such as the FIC, is very important, primarily due to the further harmonisation of regulations with the principles of the Union.

► **How much of your portfolio is directed towards investing in innovation and, in this context, how do you assess Serbia's potential to direct its economy towards branches with higher added value?**

– It's very important to support entrepreneurs, scientists and researchers, in order for economies to become more competitive, and we are helping in these processes. For example, the EIB, together with other partners and the Government of Serbia, financed the completion of the Zvezdara Science and Technology Park in Belgrade, where dozens of innovative companies and hundreds of engineers today operate. We are helping in the completion of the construction of similar technology parks in both Novi Sad and Niš. That will enable these university cities to help in the promotion of research and in providing better infrastructure for young scientists. It is necessary to strengthen the links between science

and economics, an excellent example of which the BioSense Institute in Novi Sad, which is supported through the Horizon 2020 Programme, alongside EIB financing for infrastructure.

Alongside infrastructure, in Serbia – just like in other European countries – it is very important for companies to gain the funds necessary for financing innovation and digitisation – not just for research and development, but also for adopting advanced technologies and innovative practises in order to raise productivity levels.

► **How high are education and digitisation on your list of investment priorities, as prerequisites for the creation of high-quality jobs?**

– Serbia is endeavouring to modernise its economy and ren-

der it more competitive. Long-term support for innovation is one of the essential prerequisites for a knowledge-based economy. In particular, ICT skills are key to competitiveness and create opportunities for new jobs and employment. The hiring trend in this area has been growing in Serbia over the last ten years. Serbia, as a country of this region, suffers from a lack of adequate research funds and training institutions to

prepare the workforce for the challenges of tomorrow. With this goal in mind, support for the development of educational institutions is very important. We participate in Serbia through a project to support research and development worth 200 million euros, for example in works to expand the Faculty of Electrical Engineering in Niš, at the Faculty of Organisational Sciences in Belgrade, in Petnica Science Centre or the University of Kragujevac Centre of Excellence, but in the past ten years we've also supported the reconstruction, modernisation and construction of dozens of primary and secondary schools throughout Serbia.

The key to a better digital society is better access to broadband networks, higher bandwidth, faster flow rates at home or on mobile platforms. Bridging the digital divide remains a challenge. Although access to mobile networks is improving, access to fixed broadband infrastructure remains far below the average level of EU countries. The EIB can help, for example, in the expansion of fixed broadband infrastructure, which we've already done for many years in the EU.

► **You often point out that the EIB doesn't only bring money, but also European values. Which specific projects would you single out in this context?**

– All projects that are funded by the EIB

must be implemented in accordance with European standards, whether that relates to public procurement, environmental protection, social standards, the transparency of processes, availability of information, economic and technical justification etc. We primarily bring and represent European values and the regulations of the European Union, and partners who cooperate with us can learn a lot about the processes and procedures of the European Union from us, as a European institution. That's why cooperation with our institution is important to the European integration processes, and we also strengthen the capacities of public administration when it comes to the implementation of projects in accordance with European standards, which is also extremely useful for countries that are in the process of negotiating on EU membership, like Serbia. ■



**The FIC has shown itself to be an important partner of stakeholders in the country and the Government of Serbia, because it highlights shortcomings that need to be resolved to ease Serbia's transition towards a modern and developed economy**

# IFRS 16 – Leases

Leitner is one of the leading tax advisory and auditing firms in Central and Eastern Europe, and is becoming increasingly recognised in Serbia due to its professionalism and the high quality of services that it provides to clients.

“We see CEE and SEE as our home market and know all the local tax ins and outs. We put interdisciplinary, cross-border cooperation into practice every day. Our experts are passionate about finding feasible solutions for all your tax, audit, and financial advisory issues.”

Implementation of new leasing standard IFRS 16 Leases (IFRS 16) will have a fundamental impact on lessees accounting records, while most aspects of lessor accounting will remain the same. The new standard comes into effect for annual reporting periods beginning on or after 1st January 2019, with earlier application permitted (as long as IFRS 15 is also applied); and it will replace the current IAS 17 Leases (IAS 17).

The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis

for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases, i.e. a lessee should recognise assets and liabilities arising from a lease.

To meet that objective, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a consequence, difference between accounting treatment of finance and operating lease will be eliminated. Instead of operating lease expense, lessees recognise depreciation of the right-of-use asset and interest on the lease liability. The depreciation would usually be on a straight-line basis. In the statement of cash flows, a lessee

separates the total amount of cash paid into principal (presented within financing activities) and interest (presented within either operating or financing activities) in accordance with IAS 7.

Lease payments of an operating lease under IAS 17 are presented within operating expenses, while, under the right-of-use model, depreciation and interest expense will be recognised separately, having a positive impact on EBITDA. Effects on balance sheets will include a rise in the value of lease assets and financial liabilities, while cash flow will be influenced with a rise in cash from operating and financing activities.

Initial recognition of right-of-use asset and lease liability is based on the present value of lease payments, adjusted for lease incentives and prepayments, as well as initial direct costs and an estimate of restoration, removal and dismantling costs. Present value is to be calculated by applying a lease interest rate or, alternatively,

an incremental borrowing rate. It is important to emphasise that lease liability measurement should include an estimation of the lease term and its reassess-

ment if a significant change in circumstances occurs. Lease components are to be separated from non-lease components, unless an entity treats the whole contract as a lease, which this new standard allows.

Exemptions from the new standard include low value assets and short-term leases, in order to reduce the costs and complexity of IFRS 16 implementation.

Some industries will be impacted significantly by IFRS 16, such as retail, telecommunications, transport and logistics, mining, oil and gas enterprises, but also insurance and banking service providers. The cost of implementation could be significant, particularly if there is no in-house lease information system. ■



**JELENA KNEŽEVIĆ**

Certified Auditor, Managing Director,  
Leitner Leitner

**leitnerleitner**  
tax audit advisory

*Implementation of the new leasing standard IFRS 16 Leases will have a fundamental impact on lessees accounting records, while most aspects of lessor accounting will remain the same*





## MLADEN PETKOVIĆ

General Manager at Krušik A.D. (Jsc) Valjevo

*In the last five years Krušik has been achieving ever better business results and this year will be no exception to that. Best illustrating this success is the fact that in 2017 Krušik achieved the best results in its 79-year history. Revenue of about 100 million dollars was generated, with profits of around a billion dinars. Krušik is predominantly an exporter, with 90% of its production having customers in more than 70 countries around the world, the majority of which are in the U.S., the Middle East and Africa*

# We're Continuing With Good Results

It should be noted that in the past five years this company grew at an average annual growth rate in turnover of 80%. Thus, revenue generated in 2017 was by 8.7-times higher compared to 2013, when a loss of a billion dinars was recorded. Krušik expects even better results this year.

The company simultaneously managed to overcome an inherited minus and create new jobs. From 2014 to mid-2018, Krušik hired 1,700 new workers.

This factory is now a global player in terms of arms exports, capable of matching many international competitors in terms of efficiency and specificity, which is why it started this year with contracted deals worth 240 million dollars.

"I'm satisfied with demand for our products," says Krušik General Manager Mladen Petković, with whom we discussed the plans of the factory for the period ahead. "Krušik works constantly on the modernisation of existing products and invests considerable resources in the development of new products based on new technologies".

One important advancement in the company's operations was the establishing of se-

rial production of materials from the missile programme. This programme contributed to further strengthening Krušik's position on the world market. "I can't complain. Our capacities are fully engaged all the way until 2020," says Petković.

### ► How is the Krušik production programme conceived?

– The military programme is the most important for us, because we are primarily a military fac-

**Alongside the mortar programme that we've been known for to date, we are increasingly present in the new missile programme, which has reinvigorated our assortment and improved our export position**

tory. At the same time, this programme is also more profitable than the civilian one, and we invest more proportionally in its expansion and modernisation. In contrast to that, the civilian programme is part of our tradition and brings us certain profits, but – much more importantly

– it contributes to our diversification and shows that, as a factory, we are ready and able to deal with different production segments. I must say that, in the case of both programmes, we carefully examine the needs of the market, analyse business results and world trends, and make decisions regarding long-term plans on the basis of such complete information. Fortunately, my team includes really exceptionally professional, dedicated and responsible experts, and excellent industry connoisseurs capable of anticipating market trends and pointing us towards future directions of activity.

► **How much does the military industry comply to market demands and how flexible is it?**

– There is no difference between the civilian and military sectors when it comes to respecting and monitoring market demands. At the same time, however, the military industry has its own specificities, because it requires, in relative terms, longer cycles of investment and the introduction of new products. Let me give you one example: In 2014 we began the adaptation and reconstruction of existing capacities and the construction of new production facilities almost from scratch, given that the plant had suffered heavy losses in the NATO bombing of 1999. We invested 9.4 million euros in the construction of a production facility for rocket engine chambers, which form the basis of our missile programme. We simultaneously invested another 10 million euros to complete the first phase of construction of the plant for producing blasting caps for the needs of the Defence Industry of Serbia. This was a very important project, because it substituted for the import of this product. In 2018 we launched a new investment cycle worth 30 million dollars.

► **How much does Krušik invest in the education and further training of its employees?**

– When you have production operations that are as specific as ours, then you're aware of the need to monitor world trends from day to day. In

practical terms, this means that education is part of our everyday life. At the same time, you also need excellent resource management. Thanks to the good results of the past few years, we have created more than 1,700 new jobs, which is a great challenge – primarily because we employ a professional staff that is always lacking. We are most in need of electrical and mechanical engineers, operators of CNC machines and other

task. It is necessary to create successors of old tradesmen who've spent their entire working life at Krušik and have valuable knowhow that they need to convey to the new generations.

► **To what extent has the introduction of dual education helped you in finding new personnel?**

– That was really great news for us. Thanks to



**Krušik is one of the most desirable employers in the region, and secure revenue isn't the only reason for that, rather it is primarily good relations within the collective, the possibility to improve through training, advancement and the fostering of a team spirit in the company**

related profiles. We work constantly on their professionalisation, education and training. This is nothing to marvel about, because the speed of technological change in the military industry is either same or faster than it is in other areas.

We are focused in particular on rejuvenating our staff with younger personnel, especially engineers and tradesmen. That's not an easy

cooperation with the Technical School in Valjevo, which had not taught the educational profiles of milling machine operators or lathe operators, which we need, for the past 20 years. Today we have a Business and Technical Cooperation Agreement that defines practical teaching curricula and scholarships for schoolchildren. For the pupils and their parents, of course, the most attractive option is the possibility for their children to start working at Krušik after finishing school.

► **How well-disposed is today's business environment to the development of the military industry, which is expected to become an even bigger exporter in the coming period?**

– We are very satisfied with the business environment. On the other hand, it is up to us - as the management - to take responsibility for leading the company, for its development and the placement of products on the market. Nobody else will or could do that instead of us. ■

# Lidl As An Investor

*The arrival of the first modern discount retailer in Serbia has long been announced, and it was confirmed last year that consumers will be able to shop at Lidl shops as of 2018*



Lidl has ambitious plans for entering the market – simultaneous openings of between 10 and 20 supermarkets will occur in multiple cities across Serbia, which has been Lidl's method of launching operations in almost all countries. In accordance with business plans, Lidl announces the continuation of its expansion in Serbia, so the retail network can be expected to be extended to include cities that are not covered by the first wave of openings.

## FIRST CONFIRMATION OF INVESTMENT'S IMPORTANCE - Logistics Centre, engaging the construction industry and creating new jobs

We could glean a sense of Lidl's strength and the significance of its investments in Serbia with the opening of the Lidl Logistics Centre in Nova Pazova during the middle of this year. This company has invested €55 million in the construction of a modern Logistics centre that fully supports Lidl's development plans for the supply of all future retail outlets, but also in the administrative building located on the same site. Alongside funds invested in construction, Lidl Serbia has also supported the domestic economy by engaging the local construction industry with the inclusion of over 50 domestic subcontractors. The project includes domestic architectural, surveying and contracting firms, engaging over 2,000 people who execute works in accordance with Lidl's international standards.

## CARE FOR EMPLOYEES

Apart from employing 180 people in the Logistics Centre, Lidl Serbia launched a drive this spring to hire 1,000 sales personnel throughout the country and now has 1,500 employees, including sales staff, corporate personnel, buyers, marketing experts, accountants etc. Care for employees, particularly good working conditions and a cordial atmosphere are among Lidl's advantages as an employer, because – as its representatives say – they do not view investments in Serbia exclusively through the scope of an investment expressed in monetary terms, rather they emphasise that investing in people is crucial to them.

In accordance with its unique business processes and approach to work, Lidl's arrival in Serbia was preceded by deeply-embedded preparations: all employees underwent paid training in the country or abroad, which was the case with both employees of the Logistics Centre and those who will work in Lidl stores.

## GOOD FOR THE COMMUNITY

Alongside significant investments and a unique shopping experience, Lidl contributes to society in all countries where it operates by caring for the community, which is also the plan for Serbia. This company's guiding principle is to improve towards "A Better Tomorrow", which is reflected in its investments in environmental protection, assistance to the local community, care for products, production process and employees, and a fair relationship with partners. Testifying to the claim that Lidl nurtures such a relationship is, among other things, the fact that the aforementioned Logistics Centre in Nova Pazova holds a *Leed Gold (Leadership in Energy and Environmental Design)* Certificate,

which guarantees energy savings, efficient water use, waste reduction and the use of sustainable building materials. For example, compared to standard facilities with the same format, the Logistics Centre generates energy savings amounting

to 32 per cent.

Lidl has long-term plans for Serbia and, according to company management, they are certain that both consumers and all their partners will recognise that the company nurtures responsibility, transparency and fair relationships. The company's goal is to offer customers in Serbia a unique shopping experience and the best price-quality ratio, for which Lidl is known worldwide. ■



## LIDL AS AN INVESTOR:

- Logistics Centre and Administrative building - 55 miliona euros
- Active engagement of the domestic construction industry
- More than 1,500 employees
- Investments in developing people



# Ready For Expansion

*Inos Balkan ended 2017 with record sales and managed, despite market challenges, to maintain the strategic placement of its group of companies in Serbia, and is now already planning further expansion*

NOS BALKAN is one of the leading companies dealing with metal recycling in Serbia, while it has been engaged in processing and trading in black and non-ferrous scrap metals since 1951.

► **How much has the recycling market changed over the previous decades?**

– A wide range of factors have influenced the recycling market significantly at the national and international levels. The liberalisation of the Serbian market in the 1990s, the emergence of China as a global manufacturing giant and the EU's legislative framework on the recycling of special streams are just a few of them.

The Serbian recycling market has attracted well-established international organisations, but was impacted severely by investments and

dis-investments in the country's steel production and metallurgical sector.

► **How high are your annual capacities and with which markets do you cooperate?**

– Inos Balkan ended 2017 with a record level of sales totalling 72,000 metric tonnes. Despite the non-tariff export burdens introduced in May 2017 and revoked in May 2018, we managed to maintain the strategic placement of our group of companies in Serbia and are already planning our expansion. Our Serbian operations are serving industrial end-users of secondary raw materials in Serbia, Greece, Poland, Italy and Bulgaria. Solid finances, robust management and the high-quality of our products will be the key factors in the success of all our future steps. ■



**IOSIF VANGELATOS**

General Manager, Inos Balkan

## Your Waste Management Partner

SINCE 1951

INOS Balkan is one of the leading metal recycling companies in Serbia, processing and trading ferrous and non-ferrous scrap metals, since 1951. It also offers a wide range of integrated waste management services.



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[www.inosbalkan.com](http://www.inosbalkan.com)



# Improve The Inspection Oversight System

**DRAGAN PENEZIĆ**

President of the Anti-Illicit Trade Committee of the Foreign Investors Council  
(British American Tobacco SEE d.o.o.)

*A key problem in combatting the grey economy is the treatment of misconduct and criminal charges in the area of illicit trade by the prosecution and the courts, i.e. ineffective processing and excessively mild punishment policies*

**T**he grey economy impacts negatively on the entire society, the economy and the state budget, thus creating unequal business conditions on the market and aggravating the overall investment environment.

It is impossible to eradicate the grey economy and illicit trade through the use of ad hoc measures, rather the resolving of these problems must be approached systematically. This implies a strategy that includes the coordinated work of state services, as well as cooperation with responsible businesses that have resources, knowledge and experience from other markets.

The fact that the Serbian government proclaimed 2017 and 2018 as years dedicated to fighting the grey economy is a positive factor that emphasises the prioritised character of this domain for Serbia.

On the whole, the consistent implementation of the National Programme for the Suppression of the Grey Economy and the Action Plan for its implementation

have in the previous period represented a serious shift towards the systematic suppression of illicit trade.

Higher volumes of illicit trade have been included in the category of criminal acts, as referred to in the Law on Organisation and Jurisdiction of State Authorities in Combatting Organised Crime, Terrorism and Corruption, which will also enable the appropriate specialisation of the competent authorities and in the area of illicit trade.

A key problem in combatting the grey economy is the treatment of misconduct and criminal charges in the area of illicit trade by the prosecution and the courts, i.e. ineffective processing and excessively mild punishment policies discourage the competent authorities responsible for suppressing illicit trade on the ground, and additionally

stimulates offenders due to the absence of a higher level of risk for dealing with this type of illegal activity.

The Law on Inspection Oversight is still not fully implemented, as there is still no harmonisation of sector-specific laws with an umbrella law, despite the envisaged deadlines have long since expired. This prevents the full utilisation of the potential of the law to suppress the grey economy.

Due to all of the aforementioned, in the period ahead it is essential that there be a comprehensive improvement of the inspection oversight system, as well as a number of operational measures – from

harmonising the number of inspectors with the identified needs and ensuring their professional development, the coordination of the work of inspections and other state bodies with courts, with the provision of lacking equipment and funds for the work of inspections, improvement of the coordination of the work of the Customs Administration, inspection bodies etc. Moreover, it is

also essential to fully implement integrated border crossing controls among all competent authorities, with the goal of preventing illegal imports of goods into the territory of Serbia and their further distribution through grey channels.

In the period ahead, the Anti-Illicit Trade Committee of the Foreign Investors Council will remain fully committed to consistent implementation of the National Programme for Combatting the Grey Economy, by supporting effective cooperation between representatives of the economy and the state authorities responsible for anti-illicit trade activities, as well as by continuously raising awareness about the importance of the role of all stakeholders in the process of eradicating the grey economy at the national and regional levels.

**We will be fully committed in the period ahead to the consistent application of the National Programme for Combatting the Grey Economy**

# JTI Invests **\$7 Million** In Production In Senta

*With the new packaging line, the factory in Senta will have modernised machinery and innovations in the production programme*



István Pásztor, Rasim Ljajić, Ambassador Maruyama and Mr Tango - official launch of production line



The largest Japanese investor in Serbia, Japan Tobacco International (JTI), has launched a new production line at its plant in Senta as part of a \$7 million investment cycle.

The new line was officially launched by Deputy Prime Minister and Minister of Trade, Tourism and Telecommunications Rasim Ljajić, President of the Assembly of AP Vojvodina István Pásztor, Ambassador of Japan to the Republic of Serbia H.E. Junichi Maruyama, and Yasutake Tango, president of the JT Group, who travelled from Japan for the occasion.

Japan Tobacco International (JTI) launched a new production line at its Senta plant in late August, as part of a \$7m investment cycle. The new JTI investment in Senta, together with a new production line for packaging, also includes further modernisation of machinery in the plant and product innovation. The JTI factory in Senta is the most successful of the 27 factories that the company runs all over the

world. The privatisation of Tobacco Industry Senta is one of the most successful examples of privatisation in Serbia, having brought growth in employment and the volume of business and exports.

Recognising the importance of the fight against the illicit tobacco trade, to which the state loses €300m a year, the Government of Serbia is striving to reduce the scope of the grey economy in this sector of industry. ■



Serbian President Aleksandar Vučić received a JTI delegation headed by Yasutake Tango, president of the JT Group. President Vučić thanked the representatives of the largest Japanese investor in Serbia for launching a new production line at the factory in Senta, reflecting the continuous development of business and the modernisation of production in our country.

Yasutake Tango thanked the president for his support and efforts to create a stable business environment, and promised that he would praise Serbia to potential new Japanese investors.





IVANA MARAŠ

Solicitor, Aleksić &amp; Associates

*Aleksić & Associates is one of the fastest-growing law firms in Serbia. Its clients range from financial institutions, commercial banks and insurance companies to major corporate and institutional clients. With over 197 legal and economic professionals, the company provides 24/7 services to its clients operating in SEE*

# We Strive To Instantly Accommodate Our Clients' Needs

**A**leksić & Associates is certainly a well-known law office. We spoke with solicitor Ivana Maraš about the services that Aleksić & Associates provides to its business clients.

built this capacity with the idea of being able to instantly accommodate our clients' needs. We are dedicated to training and educating our experts and have developed a special mentoring programme, as we believe that makes the crucial difference for our clients.

## ► What do you see as the advantages of your law office?

– Aleksić & Associates is one of the fastest-growing law firms in Serbia. Unlike the majority of our competitors, which are primarily based in Belgrade, we are headquartered in Novi Sad, the capital of Serbia's northern province of Vojvodina, the richest and the most active region in Serbia in terms of direct foreign investment. Our clients range from financial institutions, commercial banks and insurance companies, to major corporate and institutional clients.

Although we launched our operations over 25 years ago, as a civil law firm, the rising interest of investors in this region over the last 20 years has compelled us to focus entirely on corporate law and banking, as our main area of practise. We have since built a business comprising over 197 legal and economic professionals that provide 24/7 services to clients operating in Southeast Europe (SEE). We have

**Large interest among Chinese, Japanese, UAE, Turkish and other investors has created various investment trends that we try to accommodate through our services**

## ► When it comes to consulting services, what causes the most confusion among foreign investors?

– Foreign investors have the most dilemmas in areas relating to public-private partnership and concessions, investments in energy and infrastructure facilities, the process of establishing and managing companies, corporate mergers and acquisitions, followed by the privatisation of large state-owned enterprises, tax law and customs, also including the optimisation of tax liabilities and reduction of tax risks etc.

## ► In your opinion, why do international

**businesses choose to invest in our country and which practises do you see growing in the next 12 months?**

– Many international businesses are choosing Serbia, and Vojvodina in particular, as their investment destination because of recent positive signals in terms of political stability and improvement in economic environment. In recent years we've seen major state and foreign investments in the infrastructure and energy sectors in Serbia and SEE. The Government of Serbia has also placed an emphasis on the digital transformation process, as one of its major strategic economic development goals over the next several years, therefore we expect to see more investors coming from the IT sector. Large interest among Chinese, Japanese, UAE, Turkish and other investors has also created various investment trends that we try to accommodate through our services, ranging from manufacturing, pharmaceuticals and financial services, to agriculture and the hospitality business.

The Serbian banking sector is currently undergoing consolidation, which means that we have seen some major merger and acquisition activity in the last year. In that regard, we see more inquiries coming into our banking & finance practise (due diligence investigations, NPL transactions etc.), which was – apart from our dispute resolution practise – among our most active areas of practise over last 12 months.

**► What are the advantages of domestic law firms in representing foreign companies, compared to international law firms that also operate here?**

– Foreign lawyers, or “international law firms”, are able to operate in Serbia in accordance with the conditions prescribed by the domestic Law on Advocacy, after having previously been entered in the registry of attorneys. A foreign solicitor of a foreign citizen, enrolled in register A of the registry of attorneys, is limited to providing verbal and written legal advice and opinions that relate to the application of the laws of his country of origin and international law. A foreign solicitor of a foreign citizen registered in register B of the registry of attorneys is equal to the service of a domestic lawyer, though in the three-year period from the date of registration they can only operate in the Republic of Serbia with a



**Our legal teams are able to effectively implement the process of collecting large corporate debtors' claims in complicated bankruptcies and in reorganisation and restructuring procedures**

domestic lawyer. In addition to these noted administrative constraints, an additional major advantage of domestic law firms in representing foreign companies is reflected in their better familiarisation with the regulations of the Republic of Serbia, particularly the practise of domestic courts and other state bodies, with considerably lower costs of representation.

**► What does Aleksić & Associates offer clients and how have you helped clients specifically?**

– We offer our clients comprehensive legal services in all phases of their business ende-

avours. For the past several years we've been involved in a number of NPL deals, which have required a complex approach to this type of transaction, especially in terms of collection and enforcement procedures, which remains one of the main challenges for investors in the Serbian NPL market. The very procedure of collecting claims, as well as the enforcement procedure, and especially the bankruptcy procedure, are extremely specific and complex in Serbia, and we have built our internal capacities and reputation on that fact that we can serve our clients efficiently in that regard. This is reflected in successful collections of receivables for banks and other corporate clients. Our legal teams are able to effectively implement the process of collecting large corporate debtors' claims in complicated bankruptcies and in reorganisation and restructuring procedures.

**► What do you think is the most important factor for clients; and where do you see the firm in the future?**

– Business savvy advice is mandatory in a contemporary legal practise. You have to truly understand your clients' industry and business direction in order to give them good quality advice. Our approach is preventative and proactive, which certainly gives our clients a sense of stability. This means that we try to anticipate their legal risks and choose the most efficient legal path to our clients achieving their desired business goals.

As a firm in a transition country that's preparing for EU membership, we are conscious of what this change would mean, both in terms of the economic environment and the legal profession. We are therefore building up our internal capacities, both in terms of requests that we expect to see from clients and new standards that European law firms will bring upon entering this market once Serbia becomes a member state. ■



# Harmonising Regulations For Greater Competitiveness

**DRAGANA STIKIĆ**

President of the Food & Agriculture Committee of the Foreign Investors Council (Nestlé Adriatic S d.o.o.)

*Amendments to the Law on Food Safety should remove barriers to foreign trade and ease exports to the European market, thereby increasing the food sector's competitiveness*

The agriculture sector, and primarily the food industry, represent an opportunity for Serbia's development, and it should be expected that legislation governing this area be regulated in order to maximally utilise the potential of agriculture and the food sector. However, we've been waiting for years for the Law on Food Safety to be amended, so we can conclude that progress can only be expected. Alongside harmonisation, it is also important to ensure clear application. The Ministry of Health has published its ordinance in the field of nutritional and health declarations, additives, flavourings and enzymes. Certain inconsistencies were observed quickly after the publication of the ordinance on declarations, so we expect amendments to be made soon. The guide published recently by the Ministry of Agriculture, following the entry into force of the Ordinance on Food Declarations, which is harmonised with the European Union, is one of the ways to harmonise applications in practise. Serbia is expected, within the scope of the opening of Chapter XII, to submit an Action Plan with concrete deadlines for the transposing, implementing and applying of the EU Acquis in the field of food safety and veterinary and phytosanitary policies. According to information available to our Committee, this is planned to happen this coming autumn, and we are very much looking forward to the implementation of this action plan.

The harmonisation of regulations is extremely important to the economy, as it will ensure the greater safety of food, enable the removal of barriers to foreign trade and ease exports to European markets. It will also contribute to increasing the food sector's level

of competitiveness. It is of course necessary to start from the Law on Food Safety, in order to remove all deficiencies demonstrated in previous years, but primarily to harmonise it with the European law. The Law on Plant Protection Products is among the priorities and will provide the conditions for their controlled use.

Bylaws governing the areas of contaminants in food, pharmacologically active substances in food of animal origin, food for infants and young children, new food and nutrition-rich foods are just a few of those that I would single out as priorities.

A very positive example is the formation of the National Coordination Body for Facilitating Trade, within which the Expert Working

Group on Agriculture, Sanitary and Phytosanitary Measures was formed.

It is positive that the state has recognised this problem and included all relevant and interested parties able to contribute to resolving existing issues and simplifying administrative procedures. I represent the FIC Food & Agriculture Committee as a member of this working group. The role of the Council and our Committee is to

**Harmonisation of the Law on Plant Protection Products is among the priority issues, as it will secure the conditions required for their controlled use**

present to the working group the actual issues faced by producers and importers when trading in agricultural and food products. On the other hand, we also have the role of providing specific recommendations and initiatives for applicable solutions that do not excessively overburden the economy, whilst simultaneously ensuring a high level of protection for the population. When it comes to the adopting of technical regulations, FIC members can – with their knowhow and experience – provide significant contributions in specific areas to ensure that their adoption and application does not create unnecessary barriers to trade.





# Continuing Reforms Is A Prerequisite For Creating New Jobs

**MILENA JAKŠIĆ PAPAC**

President of the Human Resources Committee of the Foreign Investors Council  
(Karanović & Nikolić o.a.d.)

*Serbia has huge potential in the field of human resources, but it lacks the legal framework that would support this exceptional chance and contribute to fully utilising the potential of this market*

In managing the FIC's goals aimed at improving the overall business environment in Serbia, the Council's HR Committee actively monitors and analyses the legal framework in the field of labour and employment, presenting its own proposals for its improvement. As a topic of great importance, both to the business community and to citizens in general, this is one of the FIC's key priorities.

The HR Committee has achieved great success in its activities to date, and it considers that the greatest advance in regulations were the 2014 amendments to the Labour Law, which responded to about 65% of recommendations contained in the White Book. There is, however, continuing room for progress, while in the past three years we have reached a standstill in reforms. The Council fully understands the sensitivity of this regulatory area, but considers that Serbia should continue the commenced labour market reforms in order to increase the number of new jobs created and the country's competitiveness on the global market.

The priority on this front should be to modernise regulations, introduce digitisation and ensure that all market participants comply with regulations. So, for example, the Labour Law still contains unpopular solutions that envisage a very complex structure of earnings, which often complicates the ability to project business costs and imposes a number of administrative obligations on employers, without creating real value for employees. It envisages a mechanism for calculating additional earnings that leads to absurd solutions whereby employees receive higher incomes during absences from

work than during periods of regular work, while the burden of such a legal solution lies with companies that have the practise of paying bonuses or rewarding employees in other ways. This demands an urgent amendment to regulations in a way that will support this practise of employers, instead of the existing solution that destimulates. Also essential are amendments to regulations aimed at harmonising with modern digitisation processes, primarily when it comes to records in the field of labour; as well as introducing the possibility of more flexible and less formal communication between employers and employees.

By bringing together companies that are among the best employers

on our market, who comply with regulations, regularly settle all of their obligations, offer excellent working conditions and invest in their employees, members of the Council decisively oppose all forms of the grey economy, which create unequal business conditions and disrupt the rights of employees. As such, they insist on strict supervision over the application of laws and the creation of an efficient system of labour inspections.

The Committee's members are united in their view that Serbia has great potential in the field of human resources, but that it lacks the legal framework that will support this ex-

ceptional chance and contribute to the fully utilising the potential of this market.

A precondition for the creation of new jobs is the creation of a good and predictable business climate and an efficient administrative framework in which companies can expand their operations.

**The Labour Law envisages a very complex structure of earnings, which often complicates the ability to project business costs and imposes a number of administrative obligations on employers, without creating real value for employees**



LJUBIŠA KUKURIĆ

Head of Representative Office for Serbia and Montenegro, Sandoz Pharmaceuticals d.d.

*Our open intent is to become a serious partner to the Health Insurance Fund and thus contribute to its competitiveness and to consequent financial savings. Of course, this scenario requires having someone to talk to in the responsible institutions, yet despite indications of more rapid and responsible operations they are not doing enough*

# Access To Medicines Still Slow For Serbian Citizens

Through the use of the latest technologies, Sandoz has become a world leader in the domain of pharmaceuticals, particularly in penicillin-based products.

► **How does one succeed in one of the most competitive areas on the global market?**

– Primarily through perseverance and quality, but also through courageous decisions, and there were many such decisions made during the just over 130 years of Sandoz history. The results of this are enjoyed not only by Sandoz, but a good portion of the pharmaceutical industry. You see, the company has a rather unique heritage of successful innovative projects on the pharmaceutical scene, rightly earning it the title of a leading generic company in several therapeutic areas. It would be enough to say that the first oral penicillin was synthesized in our laboratories as early as 1951, and that Sandoz is still the only fully integrated manufacturer of penicillin in Europe with over 70% share of the dominant generic antibiotics market. A no less important achievement in the field of biotechnology from the nineteen-eighties is the manufacture of the first interferon alpha – another proof that Sandoz has moved far beyond widespread stereotypes that present the generic industry as replicators of existing products. Furthermore, the launch of the first biosimilar medicine in Europe, the growth hormone in 2006, further confirmed the visionary approach of Sandoz to understanding therapeutic trends and paved the way for what

may be the most important segment of contemporary pharmacotherapy.

► **You have noted that your product range adds value to the healthcare system through various support services and added-value medicines. What would you highlight as the most innovative element?**

– There are many ways that we are building our reputation as a company that takes care of its business environment and endeavours to comply with its main role in a truly socially beneficial way.

**Although our market share in Serbia is increasing, it is still lagging behind European countries, just as the development level of the Serbian market is lagging behind European trends in many aspects**

This primarily involves educational activities that are gaining more and more followers each day. Well-chosen topics that are the focus of both the medical and the pharmaceutical branches, and the opportunity for exchanging experience between seminar participants and renowned lecturers from nearly all areas have been proven to attract the undivided attention of audiences, thus proving that professionals frequently have no one to talk to regarding the numerous issues they face, but also that the health of their patients is still the ultimate *raison d'être* of their professional

existence. We believe that these well-received professional events organised by Sandoz represent the best proof that the frequent rumours about compromised professionals simply are not true, or at least are not true for those pharmacists and doctors our company is in contact with.

With the by now customary participation of Sandoz as a socially responsible company in numerous activities contributing to the improvement of the health of Serbian citizens and its enviable range of products whose quality and tradition best contribute to the reputation of the company, I still believe that the described “innovative way” in which we are building relationships with our partners needs to be emphasized as a special characteristic we are proud of and will not give up easily.

► **Approximately 520 million patients used your products worldwide in 2015. What is the percentage of your presence in the Serbian market and is the latest generation of your medicines available to our people?**

– Our company is a leading global generic company, and this sizable patient population reached by Sandoz products is the best indicator of both the trust people have in the products we are distributing worldwide and the reputation of the company built on efforts to make helping others the primary motive for our social engagement.

The goals of Sandoz in Serbia are no different from our global ones, and our open intent is to become a serious partner to the Health Insurance Fund, thus contributing to the competitiveness and consequent financial savings that rightly place the generic industry among the largest generators of speed and scope of introducing innovative therapies to all markets, including ours. On the other hand, to close this highly efficient circle in the best possible way, every expiry of a patent for an innovative medicine should be readily met with existing generic parallels that make any further use of expensive innovative products obsolete.

Of course, this scenario would require having someone to talk to in the competent institutions. However, despite indications towards more rapid and responsible business operations visible lately, these institutions are still failing, in the majority of issues, to contribute to

the creation of a better business environment and to the improvement of the public health of citizens of Serbia. If national regulatory standards remain unharmonised with European ones, and if the Medicines and Medical Devices Agency fails to comply with the legal deadlines for adopting those decisions for which it is responsible, if the state continues with the practice of establishing the price of medicines three times, if medicines make their way onto the Refunds List of the National Health Insurance Fund slowly and with difficulties, or if you are still terrified of exchange

tinuous supply on the market and slower access to new medicines are among the main factors contributing adversely to the health of the nation and reflected in a significantly higher mortality rate and significantly shorter life expectancy for citizens of Serbia in comparison with European Union countries.

Although our market share in Serbia is increasing, it is still behind the company's market share in most European countries, just as the development level of the Serbian market is lagging behind European trends in many



**Slower access to new medicines is among the main factors adversely affecting the health of the nation and having a significant impact on the mortality rate and a shorter life expectancy for citizens of Serbia compared to European Union countries**

rates that could overturn your business results overnight, it is no surprise that the lack of con-

respects. The well-known phrase that what you do speaks far louder than what you say should be the credo of both the pharmaceutical industry and the ministry, so that their joint efforts can achieve more for the benefit of those who need this help the most. However, I am certain that the truly unique positioning and certainly selfless readiness of Sandoz to contribute to more efficient and accessible treatments, along with the expected optimisation of the activities of state institutions, represent a sufficient pledge for a better and more certain future that the citizens of Serbia have been deserving for a long time. ■





# With The Right Partner To Increased Competitiveness

**ĐORĐE POPOVIĆ**

President of the Infrastructure & Industrialisation Committee of the Foreign Investors Council (Petričić and Partneri a.o.d., in cooperation with CMS Reich-Rohrwig Hainz)

*The public sector often lacks the expertise required to independently prepare and implement projects, which can be compensated for via the further encouraging of the development of public-private partnerships*

Infrastructure investment rightly remains at the top of the agenda of the Government of the Republic of Serbia, given that much still remains to be done in this field to stimulate economic growth.

Some key sectors of industry lag seriously behind as a result of lacking, obsolete and faulty infrastructure. The inadequacy of the transport network seriously limits the interconnectivity of producers and consumers with regional and global markets, while inefficiency in the supply of energy products not only reduces production capacities, but rather also undermines the attractiveness of the country when it comes to capital investments.

The results of the country's existing efforts to improve infrastructure are evident, but some of the most important projects still haven't been completed, as is the case with Corridor 10. Furthermore, it is essential to intensify the construction of electric vehicle charging stations on corridors 10 and 11, as well as on other more important roads

throughout the country, in order to avoid reducing the strategic and economic importance of these roads. Tangible shifts have been made in the air transport sector, where – thanks to the concession granted for Belgrade Nikola Tesla Airport – it can be realistically expected that, besides improved revenue for the country itself, there will also be an improvement in operations and increases in the number of passengers. Likewise, agreement has been reached on the financing of the Belgrade-Budapest railway, the further reconstruction of railtracks has been planned and a new Law on Railways has been adopted, which should lead to the improvement of rail transport services in the period ahead. Several public-private partnership projects have also been

implemented, mainly in the fields of energy and road infrastructure, while several important infrastructure projects are currently being implemented on the basis of concluded bilateral interstate agreements.

It can be expected that these investments will ultimately have a positive impact on reducing operating costs in Serbia, as well as improving Serbia's overall attractiveness as an export destination. However, in order for this to actually be realised it is first necessary to ensure the full functioning of institutions on the basis of expertise,

adherence to agreed deadlines, the harmonising of dynamics and project implementation budgeting, as well as – specifically – the competitiveness of the actual process of selecting state partners in projects.

In this sense, it is vital to enable the further development of public-private partnerships, given that the public sector most commonly lacks the expertise, resources and other capacities required for the independent preparation and

implementation of projects. An additional advantage of this model lies in the competitiveness of the process of selecting project partners, which simultaneously ensures the efficiency of project implementation, and in that respect this model is proving superior compared to arrangements based on interstate agreements.

Finally, in order to create the necessary preconditions for gradual transition to a technology-based economy, it is necessary to introduce tax breaks and transparent legal rules for financing start-up companies, implement full digitisation in the public services sector and further stimulate research and development in the field of electronic communications and operations.

**Intensifying the construction of electric vehicle charging stations on corridors 10 and 11 is important to maintaining the strategic and economic importance of these roads**



# Continue Harmonisation With European Regulations

**DUŠAN LALIĆ**

President of the Leasing & Insurance Committee of the Foreign Investors Council (Generali Osiguranje Srbija a.d.o.)

*The stance of Serbia's central bank regarding its consideration of reducing the capital required to conduct real estate leasing activities is encouraging and will enable financial leasing to become a driver of the real estate sector's development*

Much has been done when it comes to the harmonising of our regulations with the EU Acquis. The adoption of regulations governing insurance operations in Serbia in late 2014 and the first half of 2015 created the preconditions to make a significant shift in the insurance sector approaching this sector's level of development in the European Union, and that was done to ensure a level of protection of users of insurance services in Serbia that will equate to the protection of users in the European Union. Previous EU regulations applied the so-called Solvency 1 framework, which focused more on the level of capital and amount of technical reserves. The EU has now moved on to the so-called Solvency 2 framework, which the National Bank of Serbia (NBS) has decided to introduce gradually. This framework encompasses four key functions: risk management, internal control systems, internal audits and an actuarial function, as well as personal risk assessment. We are now in the second phase of harmonisation, which implies assessments of the level of readiness of the insurance sector for the new Solvency 2 framework and assessments of the effect

of the harmonisation of insurance companies with new regulations adopted by the NBS. It can be said that we are still a long way from the third and final phase, which is the complete harmonisation of insurance operations in Serbia with rules applied in the European Union.

When it comes to financial leasing, it is common knowledge that the level of required capital for leasing companies to deal with real estate leasing, amounting to €5 million, is extremely high. This represents a major obstacle to financial leasing becoming the main driver of the real estate sector's development. The high level of capital required by other

financial institutions (banks, insurance companies or pension funds) is aligned with the intention of providing security in the management of clients' funds, while – in contrast to these businesses – leasing companies manage their own funds and are not depository institutions; they invest their own capital and the entire risk of operations is carried by the founder of the leasing company. Meetings organised by USAID saw representatives of the ALCS and the NBS conclude that the aforementioned legal amendment aimed at reducing the required capital makes sense and will therefore be supported by the NBS. As such, there are indications that the NBS will finally initiate the procedure for adopting this law and enable easier financial leasing operations.

When it comes to the insurance sector, I consider it as being most important to start working on a separate law governing insurance contracts. Specifically, the provisions of the Law on Obligatory Relations that Regulate Insurance Contracts have certain shortcomings that have been demonstrated in practise during the past 39 years – primarily in relation to liability insurance that is governed by only one article.

Furthermore, altered social circumstances, technological changes and modern supranational regulations (EU) require some amendments be made to the provisions of that law. A large number of EU member states resolved these issues with the adoption of a special law on insurance contracts, thereby enabling the modernisation of the legal framework of the insurance contract. It is for this reason that the FIC is willing to contribute actively to provide an active contribution with commentary on this draft law, which would then be presented to the expert public for consideration.

**The FIC is willing to contribute actively in preparing the special draft law on insurance contracts, which would modernise the legal framework, in accordance with the practise in the EU**



# Achieving Good Regulations In Dialogue With The Economy

**MIHAЈLO ŽIVKOVIĆ**

President of the Legal Committee of the Foreign Investors Council (Societe Generale Banka Srbija)

*The proponents of new laws and regulatory amendments should listen to the ideas, proposals and demands of the market, as that is the only way to achieve a proper overview of the best solutions and ensure good practical application*

**T**he first requirement set by market participants, including the Foreign Investors Council, regarding the legal environment is certainly the stability and the durability of the legal framework. In practical terms, this means that the “rules of the game” on the market, which are shaped in certain legal norms, must be known and predictable for all market participants. Furthermore, regulations must be clear or unambiguous in terms of the contents of the norms that comprise them. This enables all market participants to properly plan their operations. Frequent amendments to laws always have an

adverse impact on the stability of the legal framework. Moreover, the adoption of new regulations and amendments to existing one must be preceded by a public debate. In this regard, it is important that the proponents of new regulations – most commonly ministries – should listen to the ideas, proposals and demands of the market regarding the amending of individual regulations, all with the end goal of improving the legal environment over the long term. A good example of this is the Ministry of

Justice, which recognised the FIC’s long-standing initiative to improve the system for the enforcement of civil law and provided the Council with the opportunity to participate in the Working Group to amend the Law on Enforcement and Security and thus directly relate members’ recommendations and comments related to amendments to this law. The FIC welcomes this practise and calls on all other proponents of new or amended regulations to involve the Council directly in the process of drafting regulations, as that provides for a proper overview of the best solutions that will be practically sustainable in application.

When it comes to advancing the rule of law, we are actually referring to improvements to the legal regulations that impact on that, including every individual amendment to regulations brought by the legislator. In terms of the recommendations included in last year’s White Book, it is also important to note that on issues singled out as priorities by the FIC Legal Committee, such as bankruptcy legislation and foreign exchange operations, we should develop high expectations that we will succeed, in dialogue with Government representatives, to set clear guidelines for amending these laws, and all of that in accordance with the comments and suggestions already provided by the FIC.

**The FIC Legal Committee will continue in future to carefully analyse whether regulations are adequately applied in practice and will clearly indicate when that is not the case**

The priorities of the FIC Legal Committee are confirmed in the two-year programme adopted at the committee’s session. The Legal Committee was given the opportunity to represent the stances of the Council in several working groups, such as working groups for amending the civil procedure code, the Law on Enforcement and Security and the Law on the Protection of Competition. Combined, along with the initiative to amend

the Law on Bankruptcy and the Law on Foreign Exchange Operations, these represent the short-term and medium-term priorities of the Legal Committee. In addition to the aforementioned, and in parallel with these activities, the FIC Legal Committee will continue to monitor, analyse and propose regulatory changes that are relevant to members.

Ultimately, merely adopting a specific regulation is not an end in itself, which is why the Legal Committee will continue in future to carefully analyse whether regulations are adequately applied in practice and will clearly indicate when that is not the case.





# Cadastre In Focus

**IVAN GAZDIĆ**

President of the Real-Estate Committee of the Foreign Investors Council (Bojović Drašković Popović & Partners)

*The FIC Real-Estate committee will continue to deal with the reform of the cadastre and its digitisation*

**T**he new Law on Registration Procedure in Real Estate Cadastre (Official Gazette of the Republic of Serbia, No. 41/18) came into force on 8<sup>th</sup> June 2018.

This law regulates procedures for registering real estate, rights, pre-registrations and records that relate to real estate. The law has the ambitious aim of increasing the efficiency and timeliness of the real estate cadastre, as well as simplifying and accelerating the procedure for registering rights.

The greatest new introduction is that applicants will no longer need to physically visit real estate cadastre services, with requests instead submitted in the form of an electronic document, via an electronic counter. Furthermore, it is also prescribed that registration procedures in the real estate cadastre be initiated and conducted ex officio by notaries, public enforcement officers, courts and other state bodies, on the basis of the documents composed or adopted, though without excluding the possibility of procedures being initiated at the request of the applicant in certain cases.

Cadastre officials will no longer check the legality of public documents formalised by notaries that form the basis of applications for registration, which implies the much greater efficiency of the actual registration procedure, while deadlines for cadastral entries have been reduced to five working days (with the exception of more complex individual procedures where the 15-day deadline has been maintained). Solutions will be issued in electronic form and delivered electronically to applicants, while delivery will be proven via

the electronic confirmation of the receipt of the document (invoice).

Our committee will closely monitor the implementation of this Law and the gradual transition from written to electronic operations within the cadastre.

When it comes to construction, the latest World Bank data ranks Serbia 10<sup>th</sup> when it comes to the issuance of construction permits, which represents an exceptional leap compared to the ranking of

152<sup>nd</sup> that Serbia had just two years ago. Judging by official statistical data, an undeniable increase has been noted in the number of building permits issued since the introduction of the unified procedure. However, investors continue to assess that communication should be improved with the bodies responsible for issuing acts in the unified procedure.

Problems related to the conversion of user rights to ownership rights unfortunately remain the same as in previous years. A large number of conversion procedures have been halted,

with the main reason being the continuing controversial provisions of the law that governs conversion with charges, which envisage that conversion procedures must be halted until the concluding of restitution procedures with regard to the real estate in question, even in cases when it is not legally possible to restore the natural form of a given property.

The FIC Real-Estate Committee will continue to monitor the regulatory activities of state bodies and provide recommendations aimed at improving regulations in the construction and real estate domain.

**An undeniable increase has been noted in the number of building permits issued since the introduction of the unified procedure. However, room exists to improve communication between investors and the bodies responsible for issuing these acts**



# Through Dialogue To More Efficient Tax Solutions

**DRAGAN DRAČA**

President of the Taxation Committee of the Foreign Investors Council (PricewaterhouseCoopers d.o.o)

*The Taxation Committee of the Foreign Investors Council has identified five priority tax problems in the previous period that are important for the entire business community and which, if resolved, could quickly yield visible results*

**T**he issue of transparency in changing tax regulations, the reform of rules governing tax depreciation, the fair value of assets, tax on deductions on services, tax crimes and the treatment of “team building” activities are issues for all participants in the business sector.

A lack of transparency and public debate in the area of changes to tax legislation has been among the significant problems in the field of taxation that have been highlighted for years by the Foreign Investors Council. Certain progress has been achieved in the previous year, with the Ministry of Finance having submitted several draft regulations for public debate and the Council being able to conduct a constructive dialogue with the Ministry of Finance on important issues – VAT, property tax and fees for the use of public goods. On the other hand, there was a lack of discussion on some other important issues, such as amendments to the Law on Tax of Profit. We expect that constructive dialogue to continue in the future, and that the process will be additionally improved through the timely and comprehensive submission of draft regulations for public insight.

There has been no significant progress in relation to other recommendations of the Council in the taxation domain. Positive changes that could be highlighted include the reduction in the volume of services that are subject to tax deductions on the income of non-residents, coming into force as of 1<sup>st</sup> April this year, and changes to the rules on tax depreciation for intangible assets. The scope of these changes is extremely limited, and most of the problems related to tax regulations and their application that are faced by businesses still remain unresolved.

Despite this, we expect the dialogue to intensify in the coming period with the new finance minister and his team, and to yield tangible results.

As one of the strategic priorities of the Government of the Republic of Serbia, 2016 saw the launch of the transformation of the Tax Administration into a modern organisation that is more efficient in collecting taxes and implementing tax discipline, and which provides higher quality services to taxpayers. Efforts to date have focused on organisational changes, reducing the number of

branches and representative offices, and increasing the efficiency of work. The Foreign Investors Council supports efforts to improve the work of the Tax Administration and all positive changes carried out thus far. However, it is still necessary for a lot to be done. We consider the strengthening of the Tax Administration and the Ministry of Finance – in terms of the numbers, qualification structure, professional training and skills of employees, information systems and other resources

– as being of great importance for the successful completion of the transformation, resolving existing problems and improving the tax system and practise.

The Working Group for the Modernisation of Tax Administration was formed a few months ago under the auspices of the Ministry of Finance and the World Bank, which includes a representative of the Foreign Investors Council. We hope that this Working Group will contribute to the fast and successful completion of the transformation process, and we will endeavour to provide a constructive contribution to that.

**Most of the problems related to tax regulations and their application remain unresolved. However, despite this, we expect the dialogue with the new Minister of Finance to yield tangible results in the period ahead**



# Liberalising Access To Fixed Infrastructure Is Key To Economic Growth

**MARKO JOVIĆ**

President of the Telecommunications & IT Committee  
of the Foreign Investors Council (Vip Mobile d.o.o.)

*We expect the state to provide clear guidelines for the joint use of existing fixed telecommunication infrastructure, thereby freeing up this sector's enormous development potential*

Sectors with high added value, such as telecommunications and information technology, demand extremely high investment. These sectors are regulated to a significant extent by the state, which is why it's important that the state takes into account predictability and legal certainty in the process of regulating them. This is a basic precondition for attracting FDI and raising the overall level of investment in Serbia. Accordingly, operators' investments are conditioned directly by the regulatory framework that determines the future direction of the industry's further development.

The electronic communications sector is particularly important due to the fact that it forms the basis for the development of modern technological solutions that represent the foundations of country's digital economy. Other countries' experiences show that the application of modern technologies, and in this regard the provision of fixed high-speed networks, leads to progress in all areas of the economy and contributes to increasing productivity, automating business processes and enabling faster and more efficient communication. This further results in increasing competitiveness, which encompasses the entire process and leads to the transformation of the market as a whole.

The main preconditions for development in terms of access to infrastructure relate to measures of the state that would lead to the advancement of the regulatory framework when it comes to building and accessing fixed infrastructure in Serbia. It is necessary to enable the joint use of existing infrastructure, thus ensuring its maximum utilisation. The infrastructure currently owned by public companies

represents enormous potential. The private sector's expectations are that the state will suggest and adopt a specific model for its use by all interested parties. Although certain efforts have been exerted to launch this process and that certain activities in this regard have been launched, we still don't have clear guidelines on the direction in which the state will regulate this domain.

Electronic services generally contribute to the eradication of unnecessary bureaucracy, but the most important electronic solutions are certainly those relating to the relationship between the state and

its citizens. In this sense, e-governance services, such as e-government, e-health and similar solutions, contribute in particular to eradicating unnecessary bureaucracy and corruption.

Our country is exerting significant efforts to introduce and implement electronic solutions, and today there is virtually no branch of the economy that doesn't already - to some extent - apply or work on the application of electronic solutions. When it comes to electronic communications, RATEL began implementing the e-license sys-

tem in September 2017 and received great support from operators due to bureaucracy being greatly reduced and the actual process being simplified and accelerated. However, it should be considered that the full implementation of electronic solutions and applications that exist on the market in various spheres - from an entertainment character, via product and service purchases, to those applications that relate to state services, such as vehicle registration - also requires an appropriate legislative framework that is capable of coping with all challenges of the digital environment.

**The full implementation of electronic solutions and applications that exist on the market in various spheres also requires an appropriate legislative framework that is capable of coping with all challenges of the digital environment**



**Ana Brnabić**, Prime Minister of the Republic of Serbia



## Foreign Investors – An Important Link In Our Development Chain

I expect the inflow of foreign direct investments (FDI) to continue to grow this year and for it to total about 10% more than last year, which is a big and important result. We want FDI to help in accelerating balanced

regional development, which has proven to be an excellent solution through several examples in the interior of Serbia. The Government of Serbia continuously implements a series of measures that impact on improving the business environment and preparing new legal solutions and innovations that should make the work of the public administration more efficient and transparent, and should ease operations for enterprises. “Thus, for instance, we will introduce an innovation thanks to which all inspectorates in the country will be able to be networked in order to conduct controls and plan their work better and more efficiently”.

**Zorana Mihajlović Ph.D.**, Serbian Deputy Prime Minister and Minister of Construction, Transport and Infrastructure



## Accelerating Our Connection With Europe

With a new investment cycle that has an estimated value of €5 billion, the sectors of construction and infrastructure will continue to provide a strong contribution to GDP growth and to support Serbia's ambitions to continue expanding its exports and to become the focal

point of connectivity between Europe and growing eastern markets. One of the key factors in connecting the Western Balkans and the wider region to the European Union is the construction of transport infrastructure. Major investments in this sector simultaneously contribute strongly to both current and future economic growth.

**Branislav Nedimović**, Serbian Minister of Agriculture, Forestry and Water Management



## We've Created Prerequisites For Agriculture's Sustainable Development

Thanks to the progress achieved in creating institutional preconditions for the development of agriculture and the food industry, the Ministry received praise from the EU, while Serbia became ready to welcome the upcoming opening of

negotiation chapters. This year was the first during which European funds were allocated directly to Serbian producers.

**Yana Mikhailova**, President of the Foreign Investors Council and CEO of Nestlé South East Market (Adriatic region, Romania and Bulgaria)



## Window Of Opportunity For Strong Growth

We live at an exciting juncture in which Serbia has taken a decisive opportunity to instigate the acceleration of economic growth – through stronger law enforcement, tax reforms, further modernisation of the labour law and continuous energised work on digitalisation – and, following successful fiscal consolidation, ensure a su-

stainable development path. “In the last 16 years, Serbia has achieved considerable progress, becoming a different state that's achieved macroeconomic stability, improved its competitiveness and positioned itself as an attractive geographical location for investment. However, investors' expectations are evolving following the strategic decision of Serbia to become an EU member. They are connected to the acceleration of reforms needed to instigate stronger economic growth, the further development of an investor-friendly business climate and strengthening of the rule of law”.

**Siniša Mali**, Minister of Finance



## Economic Relief Stimulates Economic Growth

The goals of the Ministry of Finance are to further maintain fiscal stability and eliminate systemic obstacles to economic growth. In the process of creating measures that will ease the operations of companies, the Ministry is particularly reliant on useful suggestions from the economy and the business community. Our priority in the period ahead is to preserve fiscal stability,

and to do so with the support of initiatives that should encourage growth, such as increasing public investments and reducing the tax burden.

**Jorgovanka Tabaković**, Governor of the National Bank of Serbia



## Preserving Stability - Supporting Economic Growth

“Over the past six years, the National Bank of Serbia [NBS – Serbia's central bank], has succeeded in securing and preserving price and financial stability, which has provided a significant contribution to the creation of a more favourable business environment, reduced borrowing costs and the more sustainable

acceleration of economic growth. And over the next six years we will continue working to ensure that our results are in the interest of all equally, with the long-term goal of ensuring a better life for citizens.” “If the focus of our work in the first term was primarily on enduringly and painstakingly establishing the stability that had been broken, and then on maintaining that stability, in the second term – alongside preserving stability under conditions of constant challenges, especially from the international environment – our priority will be to move towards all innovations brought by the need to do business in the modern world and the accelerated modernisation process in all fields”.

**Nj.E. Sem Fabrici**, Ambassador and Head of the Delegation of the European Union to the Republic of Serbia



### EU Access Remains Merit-Based

The EU's door is fully open to further accession, which remains merit-based. It is therefore very important that Serbia continues the reform process, making that its number one national priority: politically and economically, but also in society.

Building a competitive and resilient market economy is a comprehensive process that goes beyond purely economic reforms.

**Dragana Marković**, Director of the Tax Administration of Republic of Serbia



### We Approach Reforms Seriously

The vision of the Tax Administration is to become an efficient tax administration that has available modern integrated information systems that support business processes and that are simple, understandable and aligned with the best international practises.

Reform of the Tax Administration is among the priorities of the arrangement with the IMF and primarily implies changes in its structure and working methods with the aim of raising the capacities of the Tax Administration to more efficiently perform the tasks of determining, controlling and collecting public revenues and uncovering perpetrators of criminal offenses from the area of tax evasion.

**Ana Tozzi**, Executive Director of the Foreign Investors Council



### Our Members' Needs Oblige Us To Improve Constantly

We are proud of everything we've done over the last 15 years on the eliminating of obstacles to doing business not only for our members, but for domestic companies. However, there is no resting on our laurels! Since 2002, when the FIC was established, the business climate has improved significantly, but our mission has not been completed.

The mission of the Foreign Investors Council is to actively promote and develop a predictable, competitive and sustainable business climate in Serbia through open dialogue with the state and other relevant stakeholders. Organisation within this process has changed significantly since the Council was founded 16 years ago, though it has remained consistent with the FIC's principles.

**Dimitrije Knjeginjić**, Vice President of the Foreign Investors Council and CEO of Lafarge Serbia



### Time To Speed Up Reforms

A lot has been done over recent years, but results are lacking in some of the key areas: in the reform of public enterprises and public administration, and in the modernisation of education, pension and health systems. But let's give the Government time to show whether it's ready to seriously

tackle these areas.

Did the Serbian government take seriously IMF Managing Director Christine Lagarde's warning that self-satisfaction with fiscal adjustment can be a curse if it is not accompanied by structural reforms?

**Mihailo Jovanović**, Director of the Serbian Government Office for IT and eGovernance



### We're Advancing By Seven-Mile Steps

The effective adoption of regulations, swift implementation of new electronic services and continued growth of the ICT sector in Serbia, which has exceeded a five per cent share of GDP, has led to Serbia quickly being recognised in the region, but also in global terms, as a country transformed 'overnight' by digitalisation.

According to the opinions of some, Serbia is progressing strongly in the digital transformation process, while on the other hand, due to delays lasting decades, we are lagging behind the e-solutions of developed countries.

**Stephen Ndegwa**, World Bank Country Manager for Serbia



### Reforms Are Paying Off

Serbia has demonstrated an ability to make tough reform decisions and has benefited immensely from those reforms. However, it needs to continuously renew to perform even better. If all the pro-market reforms are designed, implemented and sustained, the result will be

faster growth...On the other hand, some other reforms require adjustments and fine tuning to reflect new realities.

**Sebastian Sosa**, IMF Resident Representative in Belgrade



### Remaining Challenges Must Be Addressed With Great Vigour

With a stable macroeconomic situation, rising employment and growing output on its side, the Serbian Government has a great opportunity to decisively address the underlying weaknesses that have been constraining the country's output potential. Improved macroeconomic stability and better overall results in business activity and employment are creating a favourable environment for policymakers to promptly implement the comprehensive structural and institutional reform agenda and remove obstacles hindering more robust growth of the economy.

**Dubravka Negre**, Head of Regional Representation of the European Investment Bank (EIB) for the Western Balkans



### We're Bringing Europe To The Balkans

Support for the development of infrastructure in the fields of transport, energy, health, education and the judiciary, the development of local communities and access to sources of long-term financing for small and medium-sized enterprises are our main goals in the region and in Serbia. We are here to stay even when

the region's countries join the EU. As a bank of the European Union, the European Investment Bank (EIB) wants to provide its contribution to Euro-integration in Serbia and the region through tangible projects aimed at improving connections between people and goods in the countries of the Western Balkans and to encourage their regional cooperation and economic development.



**Dragan Penezić**, President of the Anti-Illicit Trade Committee of the Foreign Investors Council (British American Tobacco SEE d.o.o.)

### Improve The Inspection Oversight System

A key problem in combatting the grey economy is the treatment of misconduct and criminal charges in the area of illicit trade by the prosecution and the courts, i.e. ineffective processing and excessively mild punishment policies.



**Dragana Stikić**, President of the Food & Agriculture Committee of the Foreign Investors Council (Nestlé Adriatic S d.o.o.)

### Harmonising Regulations For Greater Competitiveness

Amendments to the Law on Food Safety should remove barriers to foreign trade and ease exports to the European market, thereby increasing the food sector's competitiveness.



**Milena Jakšić Papac**, President of the Human Resources Committee of the Foreign Investors Council (Karanović & Nikolić o.a.d.)

### Continuing Reforms Is A Prerequisite For Creating New Jobs

Serbia has huge potential in the field of human resources, but it lacks the legal framework that would support this exceptional chance and contribute to fully utilising the potential of this market.



**Đorđe Popović**, President of the Infrastructure & Industrialisation Committee of the Foreign Investors Council (Petrikić and Partneri a.o.d., in cooperation with CMS Reich-Rohrwig Hainz)

### With The Right Partner To Increased Competitiveness

The public sector often lacks the expertise required to independently prepare and implement projects, which can be compensated for via the further encouraging of the development of public-private partnerships.



**Dušan Lalić**, President of the Leasing & Insurance Committee of the Foreign Investors Council (Generali Osiguranje Srbija a.d.o.)

### Continue Harmonisation With European Regulations

The stance of Serbia's central bank regarding its consideration of reducing the capital required to conduct real estate leasing activities is encouraging and will enable financial leasing to become a driver of the real estate sector's development.



**Mihajlo Živković**, President of the Legal Committee of the Foreign Investors Council (Societe Generale Banka Srbija)

### Achieving Good Regulations In Dialogue With The Economy

The proponents of new laws and regulatory amendments should listen to the ideas, proposals and demands of the market, as that is the only way to achieve a proper overview of the best solutions and ensure good practical application.





**Ivan Gazdić,**  
President of the  
Real-Estate Committee  
of the Foreign Investors  
Council (Bojović  
Drašković Popović  
& Partners)

### Cadastre In Focus

The new Law on Registration Procedure in Real Estate Cadastre regulates procedures for registering real estate, rights, pre-registrations and records that relate to real estate.

The greatest new introduction is that applicants will no longer need to physically visit real estate cadastre services, with requests instead submitted in the form of an electronic document, via an electronic counter.



**Dragan Drača,**  
President of the  
Taxation Committee  
of the Foreign  
Investors Council  
(Pricewaterhouse  
-Coopers d.o.o)

### Through Dialogue To More Efficient Tax Solutions

The issue of transparency in changing tax regulations, the reform of rules governing tax depreciation, the fair value of assets, tax on deductions on services, tax crimes and the treatment of "team building" activities are issues for all participants in the business sector.



**Marko Jović,** President  
of the Telecommunications  
& IT Committee of the Foreign  
Investors Council (Vip  
Mobile d.o.o.)

### Liberalising Access To Fixed Infrastructure Is Key To Economic Growth

We expect the state to provide clear guidelines for the joint use of existing fixed telecommunication infrastructure, thereby freeing up this sector's enormous development potential. Sectors with high added value, such as telecommunications and information technology, demand extremely high investment.

## DIGITAL edition

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