



Guide

FOREIGN INVESTORS COUNCIL

in Serbia

2011/12

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FOREIGN INVESTORS COUNCIL

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We expect the EU to give a positive opinion

Mirko CVETKOVIĆ

Prime Minister of the Republic of Serbia



It's been just over three years since the Serbian Government was formed at a time of complex internal and international economic relations. Only a few months after, the world was gripped by a pronounced crisis that did not spare Serbia either. Still, because we kept a watchful eye on the situation, and thanks to the measures that we had devised and implemented, we have managed to fare much better than other countries during the global economic crisis. The International Monetary

For a considerable amount of time, the Serbian Government and foreign investors in Serbia have been developing their collaboration in the spirit of partnership while frequently consulting each other and calling attention to each other's current problems

Fund, with which we had signed a stand-by arrangement, has given us significant support throughout this turbulent period. We were one of the very few countries whose credit rating was upgraded during the slowdown and I think that this is the best validation of this government leading a credible economic policy. I am confident that, in the next period, we are going to maintain macroeconomic stability

We have enough reasons to believe that we are going to be granted EU candidate status by the end of this year. This would validate our efforts yet again, as well as provide a great affirmation of Serbia's investment potential

and conclude a precautionary arrangement with the IMF which will send a good signal to foreign investors that Serbia is a stable country.

Serbia has made great headway in the European integration process, which is one of the utmost priorities of the Serbian Government. We believe that our efforts will be recognized by our EU partners and that we will be given candidate status by the end of the current year.

This act is especially important to our overall internal development, improving the living standard of our citizens and increasing employment. We should also not forget that harmonizing our standards with European ones will considerably improve Serbia's rating in terms of foreign investments and attracting foreign investors.

Many renowned global companies, which have been successfully operating in Serbia for years, are the best proof that Serbia is a good investment location. This government has always been considerate to the most important needs of both domestic and foreign investors and I am very glad to see that our relations are developing in the spirit of partnership. We are going to keep up with frequently consulting each other and calling attention to each other's current problems as long as this government is in office. ■



Challenges Ahead

There is no doubt that Serbia can attract a decent amount of investment, but we are still talking about relatively small amounts compared to what other countries have been able to attract. What really counts is whether Serbia is making the right steps in order get on track to attract \$3 billion or more on an annual basis and use that money to develop the country's economy

By Max WILLIAMS

Mr. Johnsen, at one of the meetings with the government in May, you said that Serbia was a good investment spot and added that the implementation of enacted laws was still a problem. Does that mean that Serbia would be an excellent location for investments only if the measures, devised by the Serbian Government, i.e. the enacted laws, were applied?

- There are very high standards for a country to meet in order to be known as an excellent investment location. If you want to move towards excellence, then

Difficult process

The way to get investors is to show that things have started to move forward again and are getting better. But that is a difficult process.

you not only have to adopt the right set of laws, but you also need to have excellent implementation, follow-up and adherence to that process.

► How do you think that is going?

- I think that we are all aware that there is still some way to go. There is a lot of good work being done on trying to adopt the right laws, and that is, of course, a direct result of the movement towards the EU. Nevertheless, there is still a lot of work to be done both in implementing and adhering to laws, rules and regulations in Serbia. In addition comes major difficulties with due process in courts.

► For years, the FIC has been dealing with excessive bureaucracy and keeps insisting on the promised 'regulation guillotine', which still has not

been fully implemented.

- Business associations will always be sceptical about progress in these areas. The 'guillotine', as it is called, has now become a symbol of that. The 'guillotine' project is a measure of how much has been done to make it easier for investors to do business in this country.

► Why is it so difficult to see this measure thoroughly implemented in Serbia?

- If you do not see something so obviously needed, like the 'guillotine' project, being properly implemented, then you have to conclude that there is not enough willingness to make things happen. As a result, dealing with public bureaucracy, becomes a big burden for many companies, and all the conditions to make it easier for them to do business here are still not in place.

► This year, the FIC is focusing on advancing the business environment. Can you tell us

The problem for Serbia is that the EU has so many issues on its agenda now that there will not be very much maneuvering space

Not Easy

There are very high standards for a country to meet in order to be known as an excellent investment location.

Non-transparent

Subsidies should not be the rule, they are by definition not transparent and it is very difficult to make them so.

Investment

There is no doubt that Serbia can attract a decent amount of investment, but we are still talking about relatively small amounts.

what new priorities you have included into this year's programme?

- Our priorities are about making tangible change to business in terms of simplifying and clarifying the relations to the authorities and the business framework. We have put extra efforts into issues concerning tax, building permits and licensing and the more general 'guillotine' project, but we are generally not actively searching for new priorities every year.

► What do you mean by that?

- Focusing on the immediate scenery around us is not necessarily our priority. It is very easy to focus on one, two or three specific issues, rather than making sure that the whole system works. For instance, many investors and many people feel that they do get support from individual ministries and ministers to sort out their specific issues, but that is a symbol of weakness in the overall system.

► How do people feel about this?

- They are pleased with things that work but the problem is that there is no capacity to deal with all these things on a case-by-case basis. Therefore, if we focus on the specific issues, we will promote some people into heroes because they solved "that" one specific problem. Unless we get a solution that guarantees that the system itself is in place and available also for others, this is going to be complicated.

► Serbia will join the EU eventually and many political parties

have been building up a strong following on that fact alone.

- You would probably find that the political parties to which you are referring to would disagree that they were set up only because they want to join the EU, but that is a question you must ask them.



Generally speaking, subsidies are the not the way to attract investors and they should be an exception to the rule

► Yourself, and European officials, have been saying for years that joining the EU should not be viewed only as an act, but as a long and painstaking process that requires many thorough structural reforms in society with the end goal of reaching European standards and applying European procedures. How is Serbia doing in the accession process?

- You are also saying that Serbia will join the EU eventually, and I guess it will. The problem for Serbia is that the EU has so many issues on their agenda now that there will not be very much maneuvering space for countries

that are not proving they are going in the right direction. The EU has made mistakes with enlargement before and they do not want to repeat those mistakes. This will probably place higher values on targets for Serbia to pass, than countries that have joined the EU earlier. The positive thing about this is that this pressure, which I am sure is considered very heavy by the government, also contributes a lot to move Serbia in the direction of a more prosperous market based economy.

► Attracting foreign investments is an issue similar to the above mentioned. This issue is usually tied in with the question of how we market ourselves, rather than making serious changes in our infrastructure, legislation, business safety and return on invested money. What are the biggest hurdles for more FDIs being made in Serbia?

- You have to overcome the obstacle of people seeing the country as "strange" in comparison to where they come from. If people feel that Serbia is a place that they do not know particularly well, and is unfamiliar to them, it therefore presents a higher risk level than other countries, and they will not invest in Serbia. It is a very straightforward competition where you can never complain about the rules of the game. The rules, by definition, are given from the outside and that is the same for all countries. It is about making those important steps that I have discussed previously: to show these investors, and not just the biggest ones, but ►►

► all of them, that they can do business here without wasting energy waiting for licences, the interpretation and implementation of laws, both locally and on the national level. This bad news can - and does - travel by word of mouth, and if this is not fixed, then people will simply not invest enough in Serbia. Remember that smaller companies simply don't have the financial capacity to wait for lengthy and uncertain processes when dealing with the authorities or the court system.

► **What is your view of the Government's subsidies for investors?**

- I think that subsidies can sometimes make sense. Sometimes you have to offer subsidies in order to win business because countries are competing over, say, a plant, or whatever you have, and then you may have to offer subsidies.

► **Do you think that such subsidies are allocated in a proper way, with a sufficient level of transparency and in line with the saying, 'one rule applies to all'?**

- Subsidies should not be the rule, they are by definition not transparent and it is very difficult to make them so. That means that there is a risk element in allocations that are not proper and right. They are also very costly. Generally speaking, subsidies are the not the way to attract investors and they should be an exception to the rule. Investors should be attracted on merit, not by subsidies.

► **We are well into 2011, and it is becoming very clear that we might not be able to attract the projected \$3 billion in investment. What result do you expect to see?**

- It is impossible for me to say what the number will be at the

end of the year. One way or another the focus should not be put on a specific number. There is no doubt that Serbia can attract a decent amount of investment, but we are still talking about relatively small amounts compared to what other countries have been able to attract. Therefore, wheth-



What really counts is whether Serbia is making the right steps in order to attract \$3 billion or more

er or not the projected figure is reached this year or the next is not the important question. What really counts is whether Serbia is making the right steps in order to attract \$3 billion or more on an annual basis over time and use that money to develop the country's economy.

► **What are the biggest barriers to accomplishing this, relatively modest goal?**

- It is the perception of Serbia as an investment destination. The improving of Serbia's image can be done by trying to explain how business works here, but it is also about the experience people have on the ground, and I think you need to be honest about the fact that it is very hard for small and medium sized businesses to operate in an efficient way without taking the bribery route. Economic growth will be severely

limited as long as small and medium sized businesses have to deal with an opaque environment.

► **Why is it so hard?**

- People are withholding licences and permits, often because they seek financial benefit. If that persists, and people know about it, they will be reluctant to invest because they feel that they will be at the mercy of forces they cannot control, or even bring to justice.

► **You are the Chairman of the most prominent foreign investors' organization in Serbia, which members have over 70,000 employees. What is the future of domestic investors going to be like bearing in mind the ever-so-frequent altercations, disagreements and problems the investors have with the state, banks and illiquidity?**

- Domestic investors who are operating in Serbia only are facing higher risk than the multinational companies with operations in different countries. Because of different business cycles, i.e. if one country does not go well for a year or two you have an option to hedge your risk somewhere else. That is simple portfolio theory. If you are operating in Serbia alone and face, say, liquidity problems or other hurdles that put your business at risk, you are very vulnerable. That is why you have to build up the economy stone by stone and make sure there is transparency, so you do not get abrupt changes. Serbia came out of the economic crisis fairly easily, as it was never hit too hard in the first place relatively to the hardest hit countries. It has been difficult but it could have been a lot worse. The way to get investors is to show that things have started to move forward again and are getting better. That is a difficult process, but we do see some ma-

for domestic investors investing and reinvesting in the Serbian economy. Likewise, many of the domestic operations of international companies keep reinvesting in people, plants and equipment and that's a good sign.

► **To what extent do foreign investors share the destiny of domestic ones in terms of the way the state authorities treat them? Do they have equal treatment?**

- Mostly, yes. These companies are operating in a Serbian context, with a Serbian workforce and as Serbian legal entities. I would say with brutal honesty that some foreign investors, maybe due to their size, have the opportunity to make themselves heard in a different way, but there are also many domestic investors who have the same abilities, either individually or through their organisations. That being said, again, largely we are all in the same boat. We face the same issues.

► **A lot has been said about the new regulation pertaining to converting the right to use land to the right to own it, but this has been mainly in the context of domestic investors. What do foreign investors think of this regulation?**

- Well, we know that the title

Subsidies

► **Do you think that subsidies should be allocated depending on how many new jobs an investor has created or should those investors that are working hand-in-hand with the Government-devised strategic development goals be given priority?**

- I am sure that there are many economists that would like to debate this back and forth, but the energy should be used in simplifying the business environment in general to attract investors without creating a subsidy game. However, I do not want to formulate a strong opinion on whether it should be this or that.

to land is fundamental to any economy. If there is no certainty about who owns the land, then it is hard to develop industries such as agriculture, production, service business etc. It is a fundamental part of a functional, market economy. You have to assume



If there is no certainty about who owns the land, then it is hard to develop industries such as agriculture, production, service business etc.

that these things can be put in place in a good and transparent way because it can limit economic development a lot.

► **Most of your members come from countries where information technology, e-government and digital agenda are an integral part of everyday life. Serbia is at the very beginning when it comes to these things and it seems that the state is not that interested in helping. How much do foreign investors miss this kind of support to their operations?**

- There are two aspects to that. Number one, yes it is a great advantage to use e-government and e-commerce solutions. They are cheaper, more efficient and more transparent. They are hugely advantageous and extremely useful

tools. The second aspect is that there is a bit of a hurdle to that here in Serbia. People here are not sure how it works in practice. ICT companies need to better explain the great advantages and benefits of these solutions. We cannot expect people to embrace it just like that, and they need to be convinced that it will make their lives easier and more efficient.

► **To what extent do political issues pertaining to Kosovo and Bosnia & Herzegovina, and Serbia's relations with other regional countries constitute hindrance to foreign investors in Serbia?**

- It seems that Serbia has good dialogue with several of the regional countries, and we are happy about that. This region still seems to be troubled by unresolved issues underneath the surface, but it is very important that, officially, Serbia and the politicians in the neighboring countries start focusing on the broader agenda rather than being preoccupied with historical rights and wrongs.

► **How much can foreign investors help in improving the Serbian business climate, business manners and reducing corruption bearing in mind the expertise and money they bring to this country?**

- People tend to look at foreign investors purely in terms of amounts in dollars or euros. Very often foreign investors are bringing competencies and business practices that are crucial to developing the business environment in many countries. There is always something to learn from those coming from a different background. Therefore, to be open to these practices and to try to foster that kind of business approach is hugely advantageous for any country. ■

Populism Overpowers the Reforms



By Miša BRKIĆ

A low gross domestic product, modest export and a high unemployment rate are sufficient proof that business conditions in Serbia are still discouraging

In the past few years the authorities tried to do many things in order to appeal to entrepreneurs with vision, aptitude, courage and the capital to bring their business to Serbia. The Government hasn't had much success in that despite offering a lot of cash to businessmen willing to create new jobs. Of course, it is no small task to appeal to business people to come to Serbia since the global economic slowdown has scared investors away even in traditionally powerful economies. U.S. economy experts say that despite companies being loaded with money, they are very apprehensive when it comes to investing in countries where state authorities interfere too much in the economy.

If there is any truth to the slogan "Only foreign direct investors can save Serbia," then the government has not done nearly enough to attract them as they are virtually non-existent. Although you hear the government talking about the country receiving one or two billion euro's in foreign investment annually, it is still insufficient compared to what Serbia could absorb from the global capital market. The country still actually needs about ten billion euro's.

The only culprit for investors and entrepreneurs being few and far between is a bad business climate. Succumbing to the pressure of 'transition's losers', the reforms have ceased and the system is left unfinished. That is why Serbia still enforces some laws that date back to 'Tito's Yugoslavia', since the guillotine of obsolete and unnecessary regulation was stopped when it became a threat to the interests of ever growing bureaucracy. That is why investors

and entrepreneurs are 'suffocating' in a sea of regulation, while losing valuable time and paying substantial sums of money for needless procedures.

Just about every survey conducted amongst businesspeople has shown just how disgruntled they are with the inefficiency of the judiciary

and entrepreneurs are 'suffocating' in a sea of regulation, while losing valuable time and paying substantial sums of money for needless procedures.

The Law on Spatial Planning and Construction, which the Government called its 'pioneering endeavour', is unstimulating, whilst simultaneously putting off entrepreneurs and leaving only the state to build housing and dictate the prices.

Fear crept into the business community the moment the state imposed segregation of owners as the key format in alloca-

tion of its subsidies. Serbia has also failed to particularly improve its image in the international business community when it comes to tackling corruption. The Government fell short in thoroughly reforming the tax system. Therefore the state budget beneficiaries are usually deprived of the money they are entitled to, and are forced to devise parafiscal taxes and fees that make things even more difficult for businesses.

In an effort to please the working class electorate, the Serbian Government was not prepared to carry out the labour legislation reform and has allowed employers and employees to negotiate the salary structure and additional cuts on labour costs, all with the view of increasing the employment rate and reducing the number of undocumented workers.

If the Serbian market is ruled by monopolies, then the state should be held accountable for not creating the proper conditions for a fair market game where all participants would be equal and adequately regulated.

Just about every survey conducted amongst businesspeople has shown just how disgruntled they are with the inefficiency of the judiciary in dealing with disputes, breach of contracts and private assets. Recently, the businesspeople who are members of the Employers' Union, have accused inspectors across the spectrum (from tax to utility) of showing utter disregard for private property. This is a very serious accusation and the authorities are yet to respond to it.

For most investors and entrepreneurs, it is almost inconceivable that, ten years after the democratic changes in Serbia, the ownership over land is still not properly regulated. The restitution is being used as a manipulation tool and an election campaign slogan, while the parties weigh in as to which electorate segment would benefit from it the most, and which would not. Populism, as the main feature of our politicians, has imposed a system where everything is devised to please the voters. Very little, and, in certain cases, almost nothing has been done to please businesses and investors who can actually re-industrialize Serbia and hire the myriads of jobless people.

A low gross domestic product, modest export and a high unemployment rate are sufficient proof that business conditions in Serbia are still discouraging for anybody with the know-how, money, technology and entrepreneurial vision. ■

Need for Improvement

Although the underlining theme of this year's activities of the Foreign Investors Council is improvement of the business environment, the Vice President of the Foreign Investors Council, Goran Pitić, still considers the 'regulation guillotine' as one of the most important issues



By Vesna POPOVIĆ

By carrying out this comprehensive and necessary endeavour, the state would not only improve its relations with the existing investors, but would also attract new ones. In addition, even though the measures that make the 'regulation guillotine' have only been partially implemented, they have already shown material and other saving potential for both the state and foreign investors.

► In your capacity as the Vice President of the Foreign Investors Council and bearing in mind the experience you gained during your time as a minister, what Serbian Government measure would you single out as being crucial in improving the business cli-

Permit

We take 170 something place out of 183 countries when it comes to the time needed to obtain a permit.

mate in the country in the last 12 months?

- I would single out one or two quality measures which are also indicative of the fact that their effect could have been much bigger if only more effort had been invested. Above all, that is the 'regulation guillotine.' On one hand, there is justified criticism that not much has been done in this respect and that the process is still not finished, but, at the same time, it is worth mentioning that the implementation of a certain number of recommenda-

tions made by private sector and the Foreign Investors Council have already resulted in substantial savings worth tens of millions of Euros. This proves that changes are possible, but there is still a strong resistance to fully complete this process. Secondly, I think that during the economic slowdown, the government succeeded in helping certain economic and population segments with its subsidies, despite the criticism that the state has been interfering in the economy too much. The crisis imposed cer-

Firstly, we need to create conditions for businesses to be able to have stable operations, the environment needs to be predictable, we need to have macroeconomic stability, respect private assets, concluded contracts, have expeditious judicial proceedings, predictable tax procedures, and less corruption – these are all elements that foreign investors consider important

Substantial savings

Implementation of a certain number of recommendations made by the private sector and the FIC has already resulted in substantial savings worth tens of millions of Euros.

Subsidies

Subsidies are measures which, obviously, cannot last for long period and it wouldn't be good if they were long-term.

Banks

Banks in Serbia operate in line with Serbian laws and, practice has shown, that the financial sector has been a good buffer for the problems that came with the crisis.

tain requirements on the state to get involved in problem solving, so in that respect certain standard norms had to be overcome.

► How realistic is it to expect the government to substantially improve its activities regarding the 'regulation guillotine' and implementation of the other measures that would lead to an improved business environment in Serbia bearing in mind the upcoming elections?

- If the work on the regulation guillotine continues, businesses will save a lot of money. On the other hand, that would signify the government making a huge step forward towards supporting reforms and also signal that the government is listening intently to the demands of companies operating in Serbia. I personally think that it is not realistic to expect the government to do all of that prior to the elections, but I do hope that the new government will finally treat the regulation 'guillotine' as its priority.

► In your opinion, are subsidies one of the tools to attract new investors?

- Subsidies are measures which, obviously, cannot last for a long periods and it wouldn't be good if they were long-term. The government undertook to fulfil certain obligations in terms of fiscal responsibility, as well as in regard to budget deficit. If we add to that the fact that very little has been done on the restructuring of public spending, pension and welfare allocations, as well as financing education, health, police,

army and other budget beneficiaries, the question remains how much room there is to provide subsidies as well.

Subsidies should not be included in the set of measures that the state uses to attract investors. They ought to be an option that is considered at the very end. First, we need to create a good quality business environment, secure



Subsidies should not be included in the set of measures that the state uses to attract investors. They ought to be an option that is considered at the very end

macroeconomic stability, speed up reforms and tackle corruption. If we work on those problems, we won't need the subsidies.

► Some say that subsidies could be construed as a form of preference, and questions might arise as to why somebody has been given a subsidy and others have not.

- This is a perennial topic. There is always a question of a redistribution role that the state plays in selectively allocating subsidies. This is an issue of applied criteria and equal distribution. It is a very difficult to struggle for foreign investors to come here. Evidently, we haven't created a better business environment compared to other regional countries. In an atmosphere where European and global companies are seriously restructuring their business strategies,

and when certain companies are still looking for new production locations and new development opportunities, I think that it makes sense to offer the possibility of giving short-term tax incentives and thus stimulate certain investors to come to our market.

► Are you implying that subsidies are actually a substitute for failing to advance the business environment?

- In no case should subsidies be considered a replacement for something that is the foundation of attracting foreign investors - the quality of the business environment. Firstly, we need to create conditions for businesses to be able to have stable operations, the environment needs to be predictable, we need to have macroeconomic stability, respect private assets, concluded contracts, have expeditious judicial proceedings, predictable tax procedures, and less corruption - these are all elements that foreign investors consider important.

► In terms of new investments, how important is it for Serbia to be given the date of the beginning of negotiations with the EU?

- Once we are officially informed of the date, Serbia is given an indication of a contractual arrangement and a green light to use the corridors leading to Europe. This is a good signal for investors too, who know that our path has been set and that they can use the pre-accession funds which might support their arrival into our market. ►►

► **This year, the Foreign Investors Council's priority is on improving the business environment and predictability of the business climate.**

- All along, our main topic has been predictability and stability of business conditions. That's why we have been insisting on completing the 'regulation guillotine' and eliminating deficiencies in the legal framework. Certain new laws are in collision with the 'old' ones, and there is a lack of relevant bylaws. When, for instance, the Law on Spatial Planning and Construction was enacted with the purpose of bringing order into the system, there were about twenty bylaws that had to be drafted too, which, at the time, prevented an entire industry from recovering. We take 170 something place out of 183 countries when it comes to the time needed to obtain a permit. There is also a lot of room for improvement in the labour market, product market, competition policy etc. Let's not forget that we still need to adopt the Law on Restitution that is currently being prepared. One of the important things in functioning and creating a good quality business environment is the right to own property, respect private assets and concluded agreements. Serious countries have this and they protect private assets. By doing the same, we are going to send out a message to potential investors that our country is serious and that we are resolutely considering these things.

► **What is your view of the human resources that will be engaged in fulfilling the aforementioned requirements?**

- Reforming public administration does entail a huge problem. You have given me a great cue to talk about something that, in my personal opinion, ought to be Serbia's big step into the future. I am

saying this as the Vice President of the Foreign Investors Council, as well as an individual. In order to create something good and brand new, we need the new government, after the elections, to develop a programme for a new time. The transformation of our society primarily depends on the quality of education and the way our culture develops. Add in to that innovation, and if you put these four factors – education,



In order to create something good and brand new, we need after the elections the new government to devise a programme for a new time

culture, science and innovation – together, what you get is a potentially new vision of Serbia.

We keep underlining that we have a "cheap workforce". That is not true at all. Our workforce is relatively cheap, but its qualifications are becoming increasingly important. We need to develop their qualifications through an educational system that will anticipate society's needs in the decades to come. We need to educate people that will be useful to the society.

► **The economic downturn is still pretty strong. People now fear the "spill over" of the crisis effect. How safe are foreign banks in Serbia?**

- Banks in Serbia operate in line with Serbian laws and, practice has shown, that the financial sector has been a good buffer for the problems that came with the cri-

sis. The banks have managed to sustain the blow of the crisis and proved themselves as a stable partner to both businesses and citizens. We are aware of the fact that the Greek crisis had an impact upon certain banking issues here, and now there are problems with some other European countries. However, I am confident that only in the case of a substantial system problem with the changes on the global scene, there would be the threat of the crisis spilling over into our market too.

► **Which factor influenced the sustainability of the banking system the most?**

- I think that it is substantial capital that is holding up the banks. Secondly, two thirds of banks have accomplished positive business results, and I do know for a fact that some banks, including my bank Societe Generale, have developed a good business model and the services they render are at a high level. Then we have the regulation that prevented our citizens from taking too many loans. And, the Credit Bureau was established much earlier than in some neighbouring countries, enabling banks to have precise information as to how deeply indebted somebody is. This is the key reason why the banking sector is certainly one of the healthier economy segments.

► **What is the Foreign Investors Council members' reaction to frequent initiatives for the establishment of development banks?**

- We don't have any special opinion about that, since we are talking about state-owned development banks. Nonetheless, our general position is that we welcome anything that is based on good corporative and banking practices, and ethical standards in respecting market rules. ■



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Getting in Line

I firmly believe that not a single pending project implemented by a foreign investor in Serbia will stop, bearing in mind that most investors have already allocated adequate funds

Minister Nebojša Ćirić belongs to a generation of young economists who fully understand contemporary economic trends and the needs of foreign investors. He graduated from the prestigious London School of Economics and fully understands the problems that foreign investors in Serbia are facing

► **There is no doubt that the economic downturn is having an increasingly negative impact on the euro-zone, and that it will not bypass our region. Do you expect these negative tendencies to spill over into Serbia and, if so, to what extent?**

- It is clear that certain countries in the surrounding areas, like Greece and Italy, are fighting off the second tidal wave of the economic downturn. There is a realistic danger of the global economic crisis spilling over into Serbia in the sense that the

Goal

The government's goal is to keep public debt under 45% of the national GDP.

banks, whose headquarters' are in the aforementioned countries, could reduce the placements to their clients in Serbia. If that happens, it is very important for the banking sector to remain stable, and for the banks to guarantee a certain level of placements in Serbia. I have had several meetings with bankers, including those from Greece and Italy, and I have to say that the level of their placements in Serbia is steady. There are no indications, as yet, that the foreign banks in Serbia will either reduce the scale of their operations or withdraw all together.

Of course, on the other hand, we need to be prepared in case problems arise and we must be capable to adequately react to help both our citizens and companies.

► **Has the government prepared a scenario in case the economic situation worsens?**

- Of course the government is mindful of that. To illustrate my point let me say that in the last

I think that following our authorities implementing a restrictive monetary policy and adhering to the projected fiscal limitations, we are not going to have to face the problems that, let's say, Greece, Italy and Portugal have been facing

two years, the state authorities have provided subsidies for corporate loans in order for the economy to grow, which is what the IMF confirmed in its report on Serbia. Illiquidity remains a big problem in our economy. We, as in the government, did discuss applying certain measures in order to raise liquidity in the coming period, regardless of the negative effects that the crisis might have in neighbouring countries.

► **Lately, we have been witnessing fluctuations in the Dinar exchange rate, while the National Bank claims that everything is under control. Should we be worried?**

- One of the perpetual topics in our meetings with businessmen is the stability of the foreign currency exchange rate. Of course, there should be a certain level of stability, i.e. we should not allow the exchange rate to fluctuate too much. It is clear to all of us that it is the market that dictates the foreign currency exchange rate and the economy simply cannot take such instability and exchange rate inconsistency.

► **Do you think the planned revenue from new FDIs will materialize this year, and how realistic is it to expect that to happen by the end of 2011?**

- It is very difficult to project the planned investment level in the

context of the new events that have emerged on the global financial markets, and new turbulences on these markets caused by the public debt crisis in certain countries. In that regard, investors will closely monitor how the situation in Serbia will unfold. I think that following our authorities implementing a restrictive monetary policy and adhering to the projected fiscal limitations, we are not going to have to face the problems that, let's say, Greece, Italy and Portugal have. In that context, the current macroeconomic situation in Serbia is certainly not going to be the factor that will deter foreign investors from investing in our country. This is supported by the fact that, from January to April this year, FDIs amounted to around \$637 million. On the other hand, the public debt crisis in the countries where these in-



It is important to highlight that, so far, we have enacted a substantial number of laws and bylaws which are important to the WTO

investors come from could lead to higher borrowing costs, which, in turn, affects the psychology of investors in the sense that they might postpone projects 'for better times'. Also, I firmly believe that not a single pend-

ing project, implemented by a foreign investor in Serbia (like FIAT, Benetton, Yura, Leoni etc.), will stop, bearing in mind that most investors have already allocated adequate funds.

► **Speaking about the incentives and subsidies for investors, is the strategy sustainable in the long run and can the government handle such volumes of subsidies?**

- Given the fiscal limitations, and bearing in mind that the government's goal is to keep public debt under 45% of the national GDP, long-term subsidies and cash incentives for new investments are certainly not going to be able to hold in the present shape and form. However, I would like to underline that, essentially, these measures and subsidies are considered anti-crisis measures and it is ►►



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Indications

There are no indications, as yet, that the foreign banks in Serbia will either reduce the scale of their operations or withdraw all together.

Financial markets

It is very difficult to project the planned investment level in the context of the new events that have emerged on the global financial markets

WTO

We have enacted a substantial number of laws and bylaws which are important to the WTO, and also that we have regulated entire segments.

► not the government's aim to provide them for longer periods of time. In that case, they would become counter-productive. If we are talking about cash incentives for new investments, I believe that they could stay longer, bearing in mind that neighbouring countries also have such incentives. In addition, their abolishment could partially jeopardize Serbia's competitiveness compared to other countries in terms of attracting investments, especially foreign ones.

► **Some experts are expecting to see Serbia become a WTO member next year, since the foreign trade stipulations are already harmonized with the WTO requirements. Could you tell us how far along we are in adapting other segments of regulation?**

- As you probably know, reforming the country's regulation to suit the general rules and principles of the WTO certainly expedites negotiations with the WTO.

This is especially important when it comes to our current negotiating position, since the conclusion of the negotiations depends on how fast we are going to adopt the harmonized regulation.

It is important to highlight that, so far, we have enacted a substantial number of laws and bylaws which are important to the WTO, and also that we have regulated entire segments. For example, in the segment of protection of intellectual property rights, we have adopted a whole set of WTO-relevant laws in the

last few years. We hope that as soon as we enact the Law on Trade Secrets, Law on Patents and Law on Changes and Amendments to the Law on Copyright, the aforementioned segment



In the current global financial situation, the biggest challenge in attracting FDIs will be the ability of the state to settle its obligations, both internally and toward foreign creditors

will be entirely regulated in line with WTO principles. Also, if we are talking about technical trade barriers (standardization, accreditation, metrology, technical compliance), we have adopted new laws that also regulate this area to WTO standards.

In terms of laws that remain to be moderated, there is the Law on Genetically Modified Organisms which needs to be adapted to WTO rules, as well as harmonizing our excise policy on alcoholic beverages with the relevant WTO regulation.

► **This year, the Foreign Investors Council felt the need to gear its activities towards improving the business climate in Serbia. How do you, as the Econ-**

omy Minister, generally see this problem and what weaknesses would you point to?

- In the current global financial situation, the biggest challenge in attracting FDI's will be the ability

of the state to settle its obligations, both internally and toward foreign creditors. I believe that most investors are mindful of the macro-image and stability of the country they are investing in, in addition to the situation on the micro-level and the benefits that we currently provide (like low profit tax, investment incentives etc.). In that regard, it is important to adhere to fiscal rules and maybe even conclude a new arrangement with the IMF that would validate our country's 'financial health'.

► **You have been quoted as saying that Telekom Serbia would not be sold during this government's term. Do you still claim that and where will the government find money to cover the budget deficit, if the sluggish investment influx continues?**

- Bearing in mind the current global financial tendencies and recent disturbances on the global capital market, I still think that Telekom should not be privatized as yet. Alternative sources of funding could be found with foreign creditors. We are considering a new arrangement with the IMF and the issuing of Serbian euro-bonds on international financial markets for the first time ever. ■



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Environmental Protection is Harmonized



Over 30 percent of the EU acquis concerns environmental protection. We have adopted all the regulations envisaged by the National Integration Programme and we did that within the set deadlines, said Minister Oliver Dulic for FIC's 2011 Guide

The deadline for local self-governments adopting spatial plans expired in March. So far 50 percent of the municipalities have nearly finished drafting these plans. The state spatial planning and construction inspection is in charge of supervising the adoption of these documents. The deadline for drafting general regulation plans expires on 11th September.

► **Mr. Dulić, the bylaw on converting the right to use construction land to the right to own it, that entails paying a certain fee, has caused quite a stir, although the effects of the law and bylaw were rather limited. What are your expectations as to the immediate effects of this bylaw?**

- At its first upcoming session, the Serbian Government is going to adopt the new bylaw on converting the right to use urban building land to the right to own it for a certain fee. The immediate effect of this bylaw will be in reducing the length and number of required procedures so that building permits will be issued much faster. The Serbian Inland Revenue Service will not

Mining

The long-term goal is to increase the share that the country's mining industry has in the national GDP from the current 2% to over 5% by 2030.

participate in the whole process. The second benefit will be seen due to the fact that 50% of the revenue will be transferred to a special restitution fund, and the other 50% will go to local self-governments. So, after the land conversion procedures are completed, the local authorities will get the funds, as will the special budget fund that will be specifically used for compensating former proprietors. A substantial number of citizens have already been allowed to dispose of private property on the building land without having to pay any fees. All they had to do was to submit a request to the relevant body, with no need for them to include any proof.

► **You have recently set certain goals in terms of the effectiveness of local administration, which many deemed as being too ambitious. This primarily pertains to efficiency in passing regulation, issuing permits and improving the quality of serv-**

We have made it possible for investors to start building at their own risk and not to wait for the building permit to come into effect. This is yet another benefit that will speed up the process

ices rendered to citizens. What are the sensible deadlines for the realization of these plans?

- We do expect the said measures to be effective immediately. The deadlines are stipulated in the Law on Spatial Planning and Construction, and the procedures are now much easier to follow. The novelty is that municipal bodies can demand only once for relevant documents to be supplemented, and this will also expedite the whole procedure. Furthermore, we have made it possible for investors to start building at their own risk and not to wait for the building permit to come into effect. This is yet another benefit that will speed up the process. After a location permit is issued, the procedure for obtaining a building permit now entails less paperwork. Investors have to submit fewer documents as proof and the authorities that are issuing the permits are limited in terms of making arbitrary decisions and exercising discretionary rights since, now, they need to adhere to very detailed norms. Also, the number of buildings that do not require a building and location permit has been increased, and there is a more detailed definition of what constitutes regular and investment maintenance. The Ministry will supervise the implementation of the Law.

► How much do local self-governments support the ministry, bearing in mind that political affiliations have more influence than the immediate benefits that local administration could have from a particular project?

- If we are talking about local self-governments, it is important to mention that the law will 'come to life' when all the municipalities adopt two required planning documents – a spatial plan and a general regulation plan. The deadline for local self-governments adopting spatial plans expired in March and, so far, 50% of municipalities have nearly finished drafting these plans. The state spatial planning and construction inspection is in charge of supervising the adoption of these documents. The deadline for drafting general regulation plans expires on the 11th September.



The value of construction work in Serbia, expressed in current prices, has gone up by 1.6% compared to Q1 of 2010

ber. The 2009 law stipulates that nobody can build anything without obtaining a location permit first, which is issued on the basis of a certain plan. Hence, we value local governments' cooperation, support and efficiency immensely.

► You have also announced the making of other amendments and supplements to the Law on Spatial Planning and Construction, within the framework of comprehensive regulation re-

form. In your opinion, what sections of the law need to be radically changed?

- With the latest amendments and supplements to the Law on Spatial Planning and Construction, we are finished with making planned changes. We are going to enact some bylaws that will regulate the matter in more detail.

► You have also said that the state would reduce its involvement in helping the construction sector to recover in order to make more room for private investors. Do you expect foreign investors to become more interested in investing in this sector?

- The interest shown by foreign investors has gone up lately, but we expect it to grow even further. The State Statistical Office has recently published data that shows the ►



► Serbian construction industry is slowly overcoming the crisis. The value of construction work in Serbia, expressed in current prices, has gone up by 1.6% compared to Q1 of 2010. In Q1 of 2011, the value of contracted construction works has gone up by 59.4% in relation to the same period last year. The number of issued building permits increased in May 2011 by 13.1% compared to the same period last year, as the latest data shows. The incentives stipulated in the Law expedited procedures, gave an opportunity to become the owner of building land and legal security have all contributed to the growing interest of investors'.

► **The chief economist of the EBRD, Erik Berglöf, recently said that Serbia is still "unchartered territory when it comes to investments." What is your comment on this rather pessimistic statement?**

- Such statements should be viewed as a signal to us to become even more engaged in helping Serbia to become more attractive for investments. Since the very beginning, this has been the priority of all the sectors that I am heading and every single reform that we carried out was aimed at facilitating investors, amongst other things, and nudging



The Strategy on Management of Mineral Raw Material Complex stipulates managing mineral raw materials as un-renewable resources, and we need this strategy in order to find new management formats for this sector

them towards choosing Serbia as a country with exceptional potential and investment opportunities.

► **You have recently announced the launch of a new strategy on managing mineral raw-materials and the Law on Mining which are supposed to round off the modernization and investments in mining, as well as increase the share that mining has in Serbia's development. Could you tell us, in short, what is the gist of the new strategy and when do you expect the new law to be enacted?**

- Bearing in mind our geological potential, as well as the need for the Serbian mining sector to advance, the ministry has set a long-term goal to increase the share that the country's mining industry

has in the national GDP from the current 2% to over 5% by 2030. Such development of Serbian mining, based on the country's raw materials, will also enable other industrial branches to grow. In the following five to seven years, over 3 billion euro's worth of investments will be made in the geological survey and mining sector. These investments will lead to a 100% increase in the total gross revenue of the Serbian mining sector, i.e. from the current 1.2 billion euro's to 2.5 billion euro's annually. Accomplishment of this goal hinges on a set of strategic documents including the Strategy on Management of Mineral Raw Material Complex in the Republic of Serbia. The strategy is currently being drafted and should be adopted by the year end. We expect the Law on Mining to be enacted this autumn.

The Strategy on Management of Mineral Raw Material Complex covers the period until 2030 and will contain the projection of the future needs for mineral raw materials whilst taking into account the economic, environmental and social aspects as well as being supported by the contemporary legislative and institutional framework, which is adapted to the EU recommendations and good practice cases. The strategy stipulates managing mineral raw materials as un-renewable resources, and we need this strategy in order to find new management formats for this sector. By writing this strategy, the state, companies and experts want to provide a clearly defined and realistically applicable platform for the sector, as well as the sustainable management of the mineral raw materials sector based on the solutions acceptable to all interested parties. There is a plan to amend 9 bylaws which will regulate, in detail, the technical and technological segments in the field of mining and geology. ■

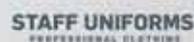
Benefits

► **To what extent is the ministry, which you head, involved in the harmonization of our legislation with the relevant European laws and how is this harmonization unfolding?**

- The ministry is fully dedicated to the European integration process, especially when it comes to environmental protection. As you probably know, over 1/3 of EU acquis concerns environmental protection. We have adopted all the regulations envisaged by the National Integration Programme and we did that within the set deadlines. We are talking about hundreds and hundreds of documents. The second segment of our activities pertains to the implementation of existing regulation and we can confidently say that, in 2011, we have already accomplished significant progress in their implementation, especially in the area of waste management. As a result of this, the recycling industry is developing very fast and we have set up a regional landfill system, which combined will improve the overall situation in the environmental protection of Serbia. Apart from that, we are very proud of the fact that citizens, in a survey conducted by the EU Integration Office, stated that the biggest progress that Serbia has made is in environmental protection.



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Keeping Promises



Serbia should pay a lot of attention to current foreign investors and try to keep its promises and establish a level playing field

From the standpoint of the biggest UK investor in Serbia, we are generally satisfied with the overall cooperation of the Serbian Government in the course of our 15 year presence in this market. We strongly believe that government officials are, generally speaking, aware of the benefits which foreign investments bring to the progress of the local economy, says Douglas Lafferty, FIC Board Member and General Manager of British American Tobacco.

► **How would you rate cooperation with the Serbian government?**

- It's worth pointing out that the government showed a great ability in the creation of the necessary conditions for the process itself - setting up a legal framework, a stable financial sector and ensuring the functioning of market mechanisms. Still, there are a lot of areas that should be improved in order

The key
Predictability of the regulatory environment is the key element for every investor.

to create a more favourable climate for investors. This includes areas such as the elimination of red tape practices by civil servants in public administration, speeding up the EU integration process and harmonization with EU directives. Nevertheless, we always underline, and certainly appreciate, the general readiness of the highest government officials to meet and discuss issues with investors, as well as their perception of us as constructive partners in that process.

► **What measures can Serbia take in order to get more FDIs?**

- Satisfied foreign investors are the best ambassadors for attracting new investors. The ones who are satisfied with business operations in Serbia will, definitely, spread around the positive messages. Hence, Serbia should pay a lot of attention to current foreign investors, try to keep its promises and establish a level playing field. Also, a key element to both present and potential investors is a transparent

and predictable regulatory framework. It is quite reasonable to assume that stability ensures a suitable environment for the business sector to develop a more sustainable business planning process.

► **What do you think are the main current taxation issues?**

- The lack of consistency in the application of existing legislation, inconsistent interpretation of the same tax rules by different tax offices and, in certain instances, a lack of predictability of the tax burden are the main obstacles. Closely linked to the issue of inconsistency in application is also the lack of clarity in the existing tax legislation. I would like to briefly stress that new public duties and local taxes, which are in the process of being imposed on businesses by virtue of non-fiscal laws or by-laws, in our view do not contribute to the desired transparency of the Serbian taxation system. FIC is firmly of the position that any new tax burdens should be introduced strictly through tax (fiscal) legislation and not "hidden" within non-fiscal rules. One of the examples in this area is the "ear marked" tax on tobacco products. This tax introduced via Law on Tobacco intended for the financing of the Health Budget fund deteriorates the transparency of tobacco products taxation and is not aligned with positive EU practice or IMF principles.

The Serbian Government projection for 2011 is that cigarettes will contribute 90 billion dinars or 12 percent of the state budget. In the EU that level is 1.5 percent on average

Appreciation

We always underline, and certainly appreciate, the general readiness of the highest government officials to meet and discuss issues with investors.

Tax legislation

FIC is firmly of the position that any new tax burdens should be introduced strictly through tax (fiscal) legislation and not "hidden" within non-fiscal rules.

► Excise represents a very important part of the total Serbian fiscal system. Where do we stand in that respect in comparison to the EU?

- When it comes to excise, the main current taxation issue is speeding up harmonization with the EU directives in the area of tobacco. The government projection for 2011 is that cigarettes will contribute 90 billion dinars or 12 percent of the state budget. Just as a reference, in the EU that level is 1.5 percent on average. Minimal excise in Serbia today is 26 EUR per 1000 cigarettes, which is far below the minimum EU excise, which is heading towards 90 EUR per 1000 cigarettes. As a result of that Serbia is among the countries with the lowest cigarette prices in Europe. In addition, Serbia does not implement the same methodology as the EU, which was adopted in 2010 with the EU Directive 2010/12/EU. This methodology defines Weighted Average Price (WAP) as a reference point instead of the concept of the Most Popular Price Category which Serbia still uses in its Excise Law.

► What are the consequences?

- As a result of these two deficiencies there are two main problems today. Firstly, big price differences in comparison with neighbouring EU member states led to the outflow of cigarettes from Serbia to the EU. This could have affected Serbia's reputation in the EU. Consequently, the European Commission recently adopted an Action Plan to combat cigarette smuggling along the EU Eastern border. Secondly, as of March of this year, we are witnessing a price war in the domestic market, in which

both the tobacco industry and the State are losing revenue.

► Where do you see an exit out of this situation?

- We believe that the only systematic solution for this situation is the



Big price differences in comparison with neighboring EU member states, led to the outflow of cigarettes from Serbia to the EU. This in turn can affect Serbia's reputation in the EU

new Excise Law to kick in sooner rather than later. We strongly believe that the only way to provide secure government revenues is to decrease the proportional and increase the specific excise element. This would lead to a much lower dependency in the state budget on the tobacco industry's pricings. This is the reason why 13 out of 27 EU member states went the same way in the last two and a half years – dropped proportional and increased specific excise element. The second mechanism is harmonization with the new EU methodology mentioned above, the introduction of WAP. This route would provide stable, secure and continuously growing budget revenues from cigarettes in the coming years. Luckily, the Prime Minister and the Minister of Finance, Mr. Mirko Cvetkovic, is aware of the necessity of a long-term excise strategy. In that respect, he organized an initial meeting with the tobacco industry just before the summer,

which gave us great hope to be optimistic about solving the current situation on the tobacco market.

► Are the frequent changes in tax policy representing obstacles for foreign investors?

- Predictability of the regulatory environment is the key element for every investor. In that regard, any changes in the tax policy in Serbia made without prior consultations with the private sector represent obstacles for all investors present on this market. There are areas of crucial importance for achieving stability, prosperity and development in the country. The taxation system should be first of all transparent, enacted by virtue of tax laws in a standard procedure that requires public discussions (and not by virtue of bylaws or discretionary decisions), and that state finances should be monitored by relevant authorities. When it comes to the tobacco industry, I need to underline that government levies in Serbia today represent almost 80 percent of the price of the cigarette pack. As is already known, the Serbian Government changed the excise calendar in December 2010 without taking into account the tobacco industry's view. This calendar was defined in the Excise Law and it outlined the regulatory framework until the end of 2012. The current inadequate excise policy has led to the above mentioned price war and it is placing government budget projections for this year at significant risk. These kinds of moves bring about a lack of trust amongst foreign investors, especially bearing in mind the importance of the tobacco industry for the state budget and Serbian economy in general. ■

Finding Advanced Approach



Serbia still needs to fine-tune its approach and find it's unique selling proposition that differentiates it from other countries

Gabor Bekefi, FIC Board Member and Patron of the FIC Legal Committee considers the way the implemented legislation is interpreted as one of the key issues pertaining to the business environment in Serbia. More specifically, there are new laws and legislations implemented, but the way in which they are being interpreted still reflects a behaviour that comes from a previous time, concludes Gabor Bekefi.

► **Being the top manager of a large international company in Serbia, which also covers the whole South East European Market, what is your opinion on the level of communication between the Serbian Government and foreign investors?**

- There is a very generic form of communication these days, and I have the impression that countries that are successful at attracting large investments have a more fine-tuned understanding of what their country has to offer,

Improvement

We need an improvement in the transparency and predictability of our business environment.

what they are able to leverage and what they do well.

Serbia still needs to fine-tune its approach and find it's unique selling proposition that differentiates it from other countries. There is big competition for investment. I can give one example. The Czech Republic identified high quality educated people that were able to help in setting up research & development centres in the country. In that way, the Czech Republic made a step forward from selling blue collar labour, to establishing centres using the educated workforce. In that regard, moving higher towards added value generation helps you in finding a lot of new opportunities and differentiates yours from other countries. I also think the Serbian Government has to communicate more with foreign direct investors. There needs to be more use of positive examples in order to prove the point that Serbia is an attractive place for international investors.

► **What would be your suggestion on how to improve the current business environment?**

- There is a very active dialogue taking place between the government

and FIC. Being a member of the FIC Board, I would remind you of the 'White Book' which we publish every year. It holds the list of our recommendations. If the government would only follow these recommendations, it would ultimately improve the business climate for all investors in this country and they would all feel better and safer. I do think that the government should follow through with companies that are already here, because we all need a more structured dialogue about the challenges and difficulties that we are facing on daily basis.

► **Could you explain the problem in more detail?**

- Talking more specifically, we need an improvement in the transparency and predictability of our business environment. After working in Serbia for over a year now, I get the impression that there is a difference in what the government is saying in terms of its desire to attract new investments and how the system is behaving. Sometimes it doesn't look like we are all in the same boat. On one side, the government wants to attract more foreign investment and there is a political desire to attract FDI's. But on the other side, the administration's approach ought to be changed in order to be in-line with this desire. Only synergy in direction can bring long term positive results.

I have found many times that there are new laws and legislations implemented but the way in which they are being interpreted

If the Government would only follow the recommendations from the FIC's 'White Book', it would ultimately improve the business climate for all investors in this country and they would all feel better and safer

Legal issues

We have had legal issues dating back eight years, and they are still not resolved. It clearly shows that the system is not working well.

Political consensus

Without political consensus alignment amongst the political parties there will be no long term solution here.

still reflects a behaviour that comes from a previous time. As a last point, I would say there are many areas where the Government should identify and implement some small practical steps. I don't believe that you need to make comprehensive changes, however streamlining is a must.

► **Judicial Reform is most crucial for Serbia's European integration. Could you appraise the actual situation, how far is Serbia getting in this?**

- We are all involved and we are all impacted by the judicial system here. Everyone experiences the difficulties and slow speed that this system operates under. I have no doubt Serbia is progressing, however, I think the problem is that in some areas the progress is slow especially with regards to judicial proceedings, and I have recently experienced this myself. We have had legal issues dating back eight years, and they are still not resolved. It clearly shows that the system is not working well. If companies want to operate in an effective environment, then you cannot live for eight years with unpredictable outcomes. It is about investor's money. I also see that judges are disadvantaged, so to speak, as they have to deal with new laws and legislations and they don't have the experience from practical life. There should be some learning and training opportunities in the judicial system provided either by the EU or the government that would help to accelerate the implementation of the new legislation that is already partially in place. It is a complex problem and will never go as fast as investors would like but I think that slowly progress is happening.

Everyone experiences the difficulties and slow speed that judicial system operates under

► **In the EU accession process, Serbia has to deal with the problem of restitution. The end goal is still some way off. What can be done to speed up this process?**

- This is a very complex topic. Without political consensus amongst the political parties there will be no



long term and satisfactory solution here. My company doesn't face daily problems with it, but we do see the challenges others have. Having been through this process in Hungary, Slovakia and the Czech Republic I know how important this topic is to every society involved. This issue goes back many, many years and making efforts towards finding an optimal solution to this problem would certainly help the society to progress further.

► **Regarding the law that came into effect from May 11th that bans the sale of alcoholic drinks between the hours of 22.00 and 06.00, what effects, if any, has this had on the alcohol drinks production industry?**

- Many societies are struggling with the problem of excessive alcohol consumption. We have to recognize this as we are part of the alcohol beverage industry. I personally think that the solution is not go-

ing to come through the physical limitation of consumption - history has proved that many times. The solution comes through a complex process and it should focus on education, treating social problems and communication with the wider public. I wish to emphasize that every brewery in this country is running programs to educate young adults on alcohol. We all believe that there is a normal use of alcohol at the right time, in order to feel uplifted and refreshed - there are many occasions when people drink beer. Drinking on the streets between the hours of 22.00 and 06.00 is just one of those times and one related to limited volume. Therefore we have not had any major impact because of this legislation.

► **What about the implementation of this legislation?**

- The way this legislation is being communicated is inappropriate. What I mean is that the industry is selling beer out of fridges, coolers etc. and many times there are huge stickers on them showing legislative information which is covering the products. I am hoping that the stores will better communicate the legislation and not over use the assets of the breweries. This is something that we are dealing with on an operational level since we have a dialogue with the stores. We need a fast and appropriate solution. I think if someone is a heavy alcohol user they will find a way to buy alcohol and this legislation will not stop them. If you look at for example the UK which has a bigger alcohol consumption problem, they have not gone down this route. Serbia's alcohol consumption compared to European countries is really not that big. ■

Good News & Bad News



The shortcomings in Serbia's business environment include: uncertain property rights, pervasive informality, rigid labour market regulations, excessive red tape, weak corporate governance, ineffective courts, costly and burdensome public sector (which recently exacerbated the problem of uncoordinated fees and charges at various government levels), unwarranted dominance of public enterprises, poor infrastructure, and the arbitrary implementation of already-enacted laws

Exclusively for the FIC's Guide, Bogdan Lissovolik, of the IMF, gives his insights on Serbia's financial woes, positives and the challenges it faces in the upcoming years.

► **What would be your advice in terms of potential difficulties that await foreign investors in the near future?**

- I am not a FIC advisor, but I interact with the organization regularly and appreciate the highly useful work it is doing. Foreign investment should be the key driver of economic growth in Serbia, and the FIC's role in facilitating such investment is invaluable.

As to the difficulties foreign investors will likely face, these continue to be much the same as before. And they stand in the way of not only foreign, but domestic

Public debt

The level of public debt in Serbia is not yet too high, but it is getting close to a limit that is considered prudent for a country like Serbia.

investment as well. The shortcomings in Serbia's business environment include: uncertain property rights, pervasive informality, rigid labour market regulations, excessive red tape, weak corporate governance, ineffective courts, costly and burdensome public sector (which recently exacerbated the problem of uncoordinated fees and charges at various government levels), unwarranted dominance of public enterprises, poor infrastructure, and the arbitrary implementation of already-enacted laws. The overall result of these obstacles over the past decade has been weak competitiveness, and an undersized export sector compared to what Serbia needs. It is our common goal to lessen these obstacles as soon as possible, for the sake of dynamic and balanced economic growth.

► **What would be good news for the FIC?**

- The good news is that the above shortcomings are being - if gradually - addressed. The legal framework is moving towards EU standards, and the real economy should eventually benefit. Over the past 2-3 years, Serbia has improved in a number of important laws, for example on competition, bankruptcy, companies, and several others. The so-called regulatory 'guillotine' project - though implemented only partially - has addressed a number of archaic, stifling regulations. Another point of progress is the recent adoption of fiscal rules. If well-implemented, these can help curb the excessive growth of bureaucracy. This would put on useful pressure to improve the efficiency of public services, while creating room for investment in infrastructure. Significant steps are now being made to start addressing the long-standing issue of property restitution. There is also mo-

The legal framework is moving towards EU standards, and the real economy should eventually benefit. Over the past 2-3 years, Serbia has improved in a number of important laws, for example on competition, bankruptcy, companies, and several others

mentum building to step up the reform of public enterprises, including de-politicization of their management. Another such area regards the planned energy law, which can help attract private investors in the sector where Serbia has clear growth potential.

But overall progress remains rather incremental and should not lull anyone into complacency. First, conditions for doing business still remain worse than those of many peers in the region – a much faster pace of progress is needed. Second, having the right laws in place solves only part of the problem: de-facto implementation is at least as important, and this is progressing less well.

► **How would you describe the current economic situation in Serbia in the context of the upcoming elections, the unre-**

solved issue of Kosovo and the necessity to achieve the economic goals set by the IMF?

- The economic situation is still



The economic situation is still difficult and external risks for Serbia have recently intensified. The global economy has been recovering very unevenly, and many economies are facing a period of even softer activity in the second half of this year

difficult and the external risks for Serbia have recently intensified. The global economy has been recovering very unevenly, and many economies are facing a period of even softer activity in the second half of this year. In Southern Europe, several of Serbia's key economic partners - notably Greece and Italy - have been the epicentres of renewed bouts of financial turbulence. Recent trade disruptions because of the Kosovo situation are another new economic setback. Regrettably - while there is substantial potential for increasing trade between all parts of the former Yugoslavia - it is currently underused. Hopefully things will change for the better as the EU accession in the region progresses.

As to the Serbian economy, while there has been an output recovery over the past few quarters, it has been below poten- ►►

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Improvement

Over the past 2-3 years, Serbia has improved in a number of important laws, for example on competition, bankruptcy, companies, and several others.

Recovery

Worryingly, the recovery has not yet generated perceptible employment gains after massive labour shedding since the 2008 crisis.

External reserve

On a positive note, Serbia strengthened its comfortable external reserve position during the program period.

► **tial.** Worryingly, the recovery has not yet generated perceptible employment gains after massive labour shedding since the 2008 crisis. Going forward, we expect Serbia to grow by around 3 percent this year and 4 percent next year, but there are now external downside risks to these projections. Inflation has been high over the past year, though currently it is on a downward path. Serbia's chronic inflation problem is rooted in its inefficient public sector, oriented at consuming and redistributing resources instead of facilitating production. In particular, in 2009-10 the structure of public spending was tilted away from investment. In conclusion, the task of building a competitive, export-oriented economy remains a key outstanding priority.

► **Serbia set a target of about 3 billion euro's in revenue from foreign investors by the end of 2011. How realistic is this figure?**

- This figure looks ambitious though not unrealistic in a favourable scenario. In particular, large FDI inflows are expected from the purchase of the Delta Maxi retailer by the Belgian Delhaize group, as well as from the implementation of the FIAT project. Also, there is a trickle of small and medium-sized FDI projects in the automotive industry - a positive spill-over from the latter project. These high-profile projects offer an opportunity, which should be seized upon by policymakers to put Serbia on the radar as a business-friendly destination. At the

end of the day, the exact amount of FDI achieved in a single year is less important than a consistently good reputation with foreign and domestic investors.



As to whether Serbia is an overly indebted country, one has to distinguish its external and public debt

► **Serbia has recently received some 1.5 billion euro's from the IMF. How will this affect overall indebtedness and is Serbia already an overly indebted country?**

- During the standby arrangement that expired in April 2011, Serbia received about EUR 1.5 billion from the IMF to support the NBS' external reserve position. These inflows increased Serbia's gross external debt, but not government debt. On a positive note, Serbia strengthened its comfortable external reserve position during the program period.

As to whether Serbia is an overly indebted country, one has to distinguish its external and public debt. Serbia's total external debt is on the high side at over 80 percent at end-2010, but trends so far this year indicate that this ratio would decline substantially by end-2011, both reflecting net repayment of

external loans and increase in GDP. Regarding public debt, its level in Serbia is not yet as high, at around 45 percent of GDP, but its rise in 2009-10 was rapid, and it is getting close to a limit that is considered prudent for a country like Serbia. In fact, the budget system law puts this limit at 45 percent of GDP excluding liabilities from restitution. It is therefore crucial to stick to fiscal rules, especially on the deficit, which is the key determinant of public debt trends - these should help ensure downward dynamics in the debt/GDP ratio going forward.

► **What is your rating of the Serbian banking sector and do you see the danger of illiquidity and an increased risk for the placement of money in economic development?**

- Serbia's banking system remains highly capitalized and liquid. These buffers were created before the global crisis, and continue to serve Serbia well in the key goal of maintaining financial stability. The system is also well-supervised. The ongoing challenge for banks is the real economy, in particular weak corporate sector balance sheets. These reflect large prior borrowings in foreign exchange and a lack of foreign-exchange earnings in the so-called 'non-tradables' sectors (i.e., retail trade, construction, and most other services). Addressing this challenge depends on the success of a broader transformation of the economy toward an export-based model. ■



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Real State of Affairs

Serbia may be considered a small market, but the country lies at the centre of a very big agglomeration of consumers

Within a thousand kilometres radius there are 50 million consumers in countries that are mostly members of the EU, or are candidates to the EU, said Georg Grassl, FIC BoD member and CEO of Henkel Serbia.

► **Following the above point, what could Serbia do to attract more foreign investors?**

- First of all I would like to say that the Foreign Investors Council is here to help in establishing a positive business climate in the Serbian market. This will attract new potential investors, and will also make sure that the interests of current investors are protected.

Serbia has the capacity to deliver many benefits to foreign investors, especially for labour intensive production, where the country is considered extremely competitive. There is an opportunity here, as many industries in Europe are at the edge of ca-

Production

Serbia has the capacity to deliver many benefits for labour intensive production.

capacity utilisation, due to the current post-crisis economic rise. Furthermore, a trend of pulling back production from Asia to Europe can be noticed, and Serbia is very close to important European markets. The infrastructure has become much better, after finishing the last high-way link between Belgrade and Horgos, and improving the southern connection as well. These are all good steps toward becoming an important transit country.

► **Then what is missing?**

- Attracting foreign direct investment can be effectively done in three ways:

Firstly, Serbia needs to develop a branding and promotion strategy that is conveyed by highly skilled people who work as 'ambassadors' on a few but highly potential core markets such as Germany, Austria, Scan-

dinavia, Spain, Italy, US, Russia and China etc. Serbia needs to develop a better image concerning quality and reliability, similar to what other countries did in the past: "Quality made in Serbia."

Secondly, they need to encourage companies that have invested significantly in Serbia to share positive experiences and know-how, thus increasing the credibility of Serbia as an investment location. Namely, medium-sized companies seeking production locations with a skilled labour force, developed infrastructure and lower cost of goods. They should be made more aware of the benefits in entering the central market in the Balkans region either for export or as suppliers of already existing large companies.

Thirdly, Serbia needs to speed up the process of enforcing the legal framework, in particular by improving predictability by issuing by-laws in due time. Investors prefer locations where the legal environment is clear and doesn't leave room for interpretation.

► **What are the burning issues relating to the business environment?**

Serbia's economy will get another push once candidacy status to the EU is officially announced. It is still a hurdle for foreign companies that Serbia has not achieved a final decision although this should be reached soon

Capacity

Serbia has the capacity to deliver many benefits to foreign investors, especially for labour intensive production.

Image

Serbia needs to develop a better image concerning quality and reliability, similar to what other countries did in the past: "Quality made in Serbia."

- There are a number of opportunities for development. The business environment in Serbia is slowly but constantly improving.

One macro-economical factor that has been making the market unstable in the previous year or two is the high inflation. There are many challenges to operating in Serbia, and a two-digit rise in the general level of prices has once again become an important one.

Another problem that Serbia is facing is the high, and growing unemployment rate, as the latest data shows that this figure has risen above the 20% mark. Hopefully, with the effects of the economic crises slowly fading, the situation will become better.

Finally, Serbia's economy will get another push once candidacy status to the EU is officially announced. It is still a hurdle for foreign companies that Serbia has not achieved a final decision although this should be reached soon.

► Are there distinctive advantages (or disadvantages) of working with retailers in Serbia?

- Although national retail chains in Serbia have gained in significance, traditional trade is still very important. So far only a very limited number of global retail chains operate in Serbia, so most decisions are taken locally or regionally. With new international retail chains entering the market, the landscape will surely change.

► One of the very important steps in the real estate business is the decision of the Ser-

bian Government to subvert loans in housing construction. In your opinion is that too big of an intervention by the state?

- The effects of the economic crisis had a strong influence on the market for an extended period of time, and in these circum-



Serbia was the last country entering transition, and the development of modern real estate products was delayed by at least 5 years, compared to other CEE and SEE countries

stances such action can be justified. An extraordinary economic situation requires extraordinary measures. However, such measures need to be limited to some extent and they shouldn't be extended for too long.

The government has to be able to provide a clear plan and timeline for all necessary measures, so that the private sector can adjust. In cases where the government is changing the rules and introducing new measures without a clear plan or time frame, the market faces increased uncertainty which deters private investors. Such actions, if implemented throughout a long period of time, can heavily influence the market.

► The Serbian real estate market has proven to be more stable than some other regional

markets, and yet it seems that Serbia has not done enough to attract a satisfying level of foreign direct investment. Why is that?

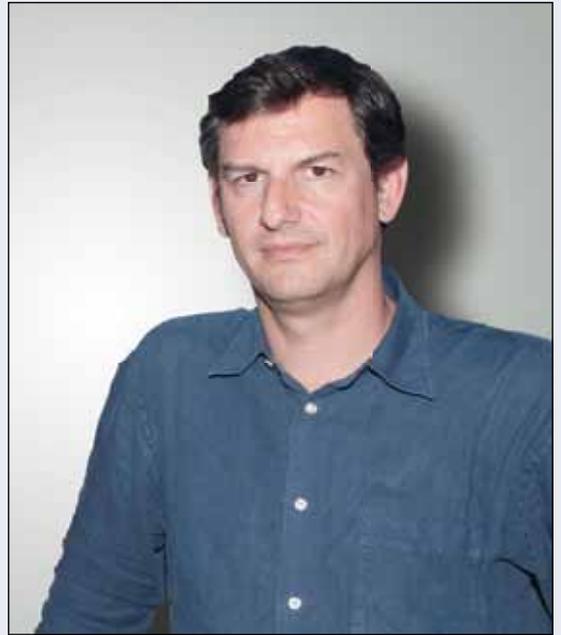
- Serbia was the last country entering transition, and the development of modern real estate products was delayed by at least 5 years, compared to other CEE and SEE countries. For that reason the Serbian real estate market is undersupplied in most categories. Consequently, the recession and fall in demand did not lead to high vacancies and price reductions as in more developed markets.

The only exception is the office market which had been oversupplied even before the crisis, at a very low stock level compared to other SEE capitals. This market provided a strong early indication for some of the other problems that the Serbian economy faces.

The undeveloped market helped Serbia to pass through the crisis without significant damage. However, this undeveloped market is a big issue in the post-recession recovery period where the limited number of investors are focused on the most developed and liquid markets. In addition, Serbia has some other issues, such as conversion, that has blocked development on the most interesting locations in Belgrade. In the post-recession period Serbia can attract foreign real estate investors only for the best projects and locations. They are unwilling to go to secondary cities or secondary Belgrade locations, and as prime locations are blocked, there is an evident lack of good projects offered on the market. ■

Legal Matters Key

Serbia has introduced pillars of market economy, started market liberalization and can offer a relatively stable macroeconomic and political environment, even in times of global crisis



Costin Borc believes that for Serbia to advance financially and in line with EU standards, swift and large scale changes must take place, particularly in the legal framework.

► **What are the biggest problems for foreign companies in day-to-day business in Serbia?**

- Bureaucracy and complicated procedures are the key problem for foreign companies operating in Serbia. The government's so-called 'Regulatory Guillotine Project' that aims to cut red tape and obsolete regulations needs to be accelerated and finalized in order to endorse and implement recommendations coming from the private sector that would bring further savings to the economy. The Foreign Investors Council (FIC) will continue to push for the better implementation of this project in order to help send a positive signal to both investors present in this country and the potential ones, because making life easier for the investors that are here to stay will help draw more investment to the country.

► **How has the FIC helped?**

- The FIC has been very active within this project. We have proposed to the government ways in which to improve the business and investment climate. However, a lot remains to be done on this front to

Improvement

The implementation of laws is one of the areas with a big potential for improvement.

bring the desired results. According to the most recent data, the government has adopted 77, but implemented only 35, out of 119 FIC recommendations, which is less than one third of the proposals we have made. The numbers speak for themselves, showing that there is obviously room for improvement. Apart from this, simplifying procedures related to permits, inspections and certifications is also very much needed in order to improve the business environment in Serbia.

► **In terms of measures, which could be the most effective in making it easier for foreign investors to come to Serbia?**

- It is worth mentioning that Serbia has introduced pillars of market economy, started market liber-

alization and can offer a relatively stable macroeconomic and political environment, even in times of global crisis. Moreover, continuous efforts have been made to harmonize the country's regulatory framework with EU regulations. Also, Serbian authorities are receptive to the needs of investors, especially those just entering the market. However, bureaucratic and administrative obstacles have been one of the major factors in discouraging foreign business initiatives. The one-stop-shop that was introduced some time ago is a positive example of how the authorities are making it easier for foreign investors to come to Serbia, and quickly establish business entities and operations. Yet, despite all the improvements, there is still a lot to be done in order to create a stable and predictable business environment.

► **Where do you think improvements could be made?**

- The implementation of laws is one of the areas with a big potential for improvement. Namely, the basic legal framework has been harmonized with EU regulations to a large extent, but the implementation of these laws differs from the same procedure in the

The Foreign Investors Council (FIC) will continue to push for the better implementation of this project in order to help send a positive signal to both investors present in this country and the potential ones, because making life easier for the investors that are here to stay will help draw more investment to the country

Business environment

Simplifying procedures related to permits, inspections and certifications is very much needed in order to improve the business environment in Serbia.

Better progress

The FIC Real-Estate Committee was active in commenting upon the draft regulation, and we are hoping to see better progress in this field soon.

EU. This issue, however, is rather complex, since it has to include a change in the system and improvements of administrative capacities.

► There are already significant foreign investments in the Serbian construction industry. What can be done for better progress in this area, considering the overall business climate?

- Generally speaking, improvements of the legal framework in the areas of spatial planning and construction, labour and employment are seen as extremely important steps for creating a more favourable business climate. The real-estate and construction industry suffered the biggest consequences of the spill-over from the global financial crisis. This, coupled with a significant lack of liquidity, had a very negative impact on the industry. Talking about regulatory issues, I would emphasize the importance of a regulation pertaining to converting the right to use land to the right to own it. This piece of regulation is very important for both domestic and foreign investors since it blocks any investments to be made on building land. Authorities have announced that this regulation would be put in place soon, but unfortunately, this has not yet been the case. The FIC Real-Estate Committee was active in commenting upon the draft regulation, and we are hoping to see better progress in this field soon. Considering the overall business climate related to this field, it will considerably help the industry if the lengthy and complex procedures pertaining to the obtaining of construction permits could be simplified and sped up.

► Regarding human capital in Serbia, what is the current situation?

- The quality of human capital is very important at all times, especially in times of crisis. Although, the demand in the labour market



Serbia has many young, educated and talented people, who need more practical knowledge required for managerial roles, which means that companies have to invest in education and training of the graduates they hire

has been reduced, the retention of key personnel is still very much the focus of HR professionals all over the world. At the same time, many companies still have difficulties finding and employing suitable candidates to take over important strategic corporate positions. Serbia has introduced the 'Bologna Process', which will surely bring positive changes to the education system and bring it more in line with the European system. Serbia has many young, educated and talented people, who need more

practical knowledge required for managerial roles, which means that companies have to invest in education and training of the graduates they hire.

► Modern technologies need qualified people. In what branches does Serbia need help?

- The expansion of human capital is very important since it has a very broad impact on the country's overall progress. It is important that all stakeholders are committed to the development of human resources. Nowadays, the quality and structure of the work force in the market can make a difference in a company's decision on whether to invest in a certain country. When introducing modern technologies, there is always a challenge in terms of how many qualified people you can find in a particular market. There is a lack of qualified profiles in this market, and this particularly refers to IT, financial, marketing, and auditing experts. For that reason, I believe that the state should put efforts into synchronizing market needs on one side and educational profiles on the other. This approach could be beneficial to the country's overall development on a long-term basis. ■

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Being Good – is Not Enough



Given Serbia's geographical position and its closeness to the EU market, its robust banking sector, its endowment in mineral resources, its fertile land, its manufacturing and engineering tradition and the availability of highly qualified people – opportunities exist in almost all sectors: agriculture, industry and services

Following the Country Partnership Strategy agreed in 2007 the World Bank set aside a total of EUR 850 million for the period of 2008-2011 at the request of the Serbian Government. We asked Mr. Loup Brefort, Head of the World Bank in Serbia, for the reason why the majority of that amount has still not been withdrawn.

Various factors slowed down the implementation of World Bank financed projects in Serbia and the disbursement of funds set aside for these projects. For example, it took Parliament 15 months – from June 2007 to September 2008 – to ratify five projects after they were approved by our Board. Then, the biggest chunk of the World Bank portfolio in Serbia – close to \$400 million – goes to the financing of some of the missing links for the Corridor X motorway. Firstly, it is relatively young project. Secondly, big infrastructure projects such as this need time to prepare design documentation; to resolve the issue of expropriation of land; to prepare tenders and so on.

Nevertheless, it seems to me that centralised decision making further slowed down the implementation and disbursement. It's

Labour market

Half of the working age population in Serbia is outside of the labour market.

There is a general consensus among economic professionals that Serbia needs to change its growth model from a consumption to an export led one

clear that if a high government official has to confirm each decision, even the smallest, that person is overwhelmed. In truth, WB-funded projects may not be at the top of that priority list amongst the multiple issues that they have to deal with on a daily basis. So it takes time to act. Thus, I strongly believe that things would be improved if the system allowed for less senior officials to be more independent in decision-making, or maybe less afraid to act on their own when they already have the authority, although clearly they need to remain accountable. But accountability does not just relate to the need to follow due process and ensure proper use of the funds, but also to the responsibility of the implementing agency towards the beneficiaries. Ultimately, they are the ones that suffer when project implementation takes longer than it should and could if concern about the impact was kept as important as concern about the process.

► You mentioned that Serbia could lose a major part of that donation (some \$600,000) as it is not yet established who has the authority to withdraw the funds and put them to use. What would be your comment on that?

- The money was part of the grant from the Global Environmental Fund (GEF), which was managed by the World Bank as part of the

Danube River Enterprise Pollution Reduction Project. The total project was worth \$19.5 million, of which \$9.02 million came from GEF. After six years, the project had to close and, unfortunately due to delays in implementation, \$600,000 was not used; it had to be refunded by Serbia to GEF.

► At a recent meeting in Mokra Gora you stated "Serbia needs to change its business course, and that it has no more time to lose." What would be the priorities you would expect from the Serbian Government?

- There is a general consensus amongst economic professionals that Serbia needs to change its growth model from a consumption to an export led one. So, adjusting policies to this goal is an obvious priority. Time is of the essence because other countries are also developing an export-led post-crisis growth model and Serbia is competing with them for an increasing share of global trade.

For a sustainable, balanced economy, Serbia needs to fill in what I call "The missing middle." There are a large number of very small firms and a few big ones in Serbia but very few middle size companies, either domestic or foreign. Experience shows that middle-sized companies are very important for economic development, job crea-

Independence

I strongly believe that things would be improved if the system allowed for less senior officials to be more independent.

Transition

Countries in transition inherited administration procedures and processes that were not market-economy friendly.

tion and exports, so there is a need for Serbia to address the shortcomings of the business environment that may explain why it is suffering from this “Missing middle.”

Last, but not least, it is unsettling that half of the working age population in Serbia is outside of the labour market. This clearly calls for reforms of the labour market, introduction of active labour market policies, acquisition of not just knowledge but of skills through education, and significant investment in lifelong learning schemes, all of which will increase the employability of people now and in the future.

► **You are complaining about the same issues as the members of the Foreign Investors Council such as extremely complicated procedures, cumbersome administration, and that competent bodies are not working hard enough on solving the above issues. Is this typical of all countries in a transitional period?**

- We are not complaining, we are simply stating an objective fact that Serbia isn't doing as well as many other countries in “Doing Business” (DB) surveys. The areas covered by DB play an important role in encouraging private sector development and it is not enough to be good. In today's open world, one has to be better than one's competitor for investment and markets. Countries in transition inherited administration procedures and processes that were not market-economy friendly. All of them had to struggle with the need to change, adapt and create new ones. None found this process easy but some reformed their systems rather quickly, others are still somewhere along the process.

► **Serbia considers creating its own development bank in the pre-election period. What is your opinion on that issue, and would it be possible to avoid political influence and intervention since this proved to be one of the major threats for state development banks?**



- We understand why Serbia would want to create such an institution to fill what is perceived as a missing niche in the existing range of financial services already on offer and, indeed, it has proven very useful in some countries that did. However, we cautioned that there were numerous failures, most of them deriving from weaknesses in their governance framework. As Serbia considers creating its own development bank, we express the hope that the appropriate mechanisms will be designed and implemented to make this project a success.

► **What is the major problem of Serbia today? Is it a lack of opportunities, or the lack of being efficient in using available opportunities?**

- Given Serbia's geographical position and its closeness to the EU market, its robust banking sector, its endowment in mineral resources, its fertile land, its manufacturing and engineering tradition and the availability of highly qualified people – opportunities exist in almost all

sectors: agriculture, industry and services. Why aren't these opportunities fully captured to accelerate job creation, improve living standards, and creating a positive balance of trade? There must be some impediments. There have been countless reports, the diagnostic of the constraints and what needs to be done is well known. Unfortunately, the process of reform is hard. Often there is a significant short term cost to be paid before longer term benefits become obvious enough. It is easy to criticise or give advice from the sidelines, but much more difficult and brave to have to decide. Nevertheless, I believe everyone recognizes it has to be done. “When there is a will, there is a way.”

► **What would be good news, and what might be a bad news for Foreign Investors in Serbia in the forthcoming years?**

- The good news is that the prospect of advancing towards ultimately joining the EU seems to be accelerating. Serbia has a good track record of macroeconomic stability and is also investing significantly in its transport infrastructure, thus considerably improving access to markets for goods produced in Serbia. In the short term, however, the forthcoming elections may introduce an element of distraction and risk. ■

It is really unsettling that half of working age population in Serbia is outside of the labour market



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Banking Market is Solid



Piraeus Bank joined the Serbian market six years ago following the acquisition of Atlas Bank. In 2006, Piraeus Bank S.A. became 100% owner and renamed the bank Piraeus Bank Serbia

The bank currently operates through a network of 47 branches and employs 570 people. We are talking to Mr Neoclis Neocleous, Chairman of the Bank

► **It is the general opinion that the Serbian banking sector is doing well in the current global economic crisis. What do you expect in the coming months in terms of global banking trends?**

- 2010 was a very challenging year for the banking sector but we expect that 2011 will probably be slightly better due to the anticipated growth of the Serbian economy.

The Serbian banking market remained solid and well capitalised during the recent crisis. Serbian banks took a hit because of the crisis and this reflected in their business results, but overall they performed satisfactorily, especially given the big difficulties that they had to face.

On a global level, it is difficult to predict the future of the economic crisis. We hope that the

Financial support

As part of the financial support to citizens Piraeus Bank has started to accept applications for retail loan restructuring programs.

leaders of Euro zone countries will find a common approach to overcome this situation.

► **What are your predictions when it comes to the Serbian banking sector by the end of 2011?**

- Overall we are expecting an improvement in business results and better provisioning for potential losses. Small banks have to have a solid strategy for growth; otherwise the outlook for them is bleak.

► **Experience shows that the government at the time of the pre election period usually issues a number of populist measures. Are the current initiatives towards the Serbian banking sector meaning too much interference by the government in the private and banking sector?**

- No, we do not see current initiatives as too much interference. This, of course, does not mean that the quality of communication and cooperation with banks cannot improve.

► **What could be the outcome of discussions in the NBS, when it comes to helping peo-**

ple who have raised loans in Swiss francs, taking into consideration that none of the banks have any influence on the movement of this currency? Who should, if anyone, accept the risk?

- Banks cannot take the risks and costs arising from the increased exchange rate of the Swiss francs. This is a big and serious problem.

What banks can and should do, which Piraeus Bank has already implemented through its policies, is to be ready to assist its clients in overcoming problems.

Also, as part of the financial support to citizens Piraeus Bank has started to accept applications for retail loan restructuring programs, according to the recommendations of the Association of Serbian Banks and the Government of the Republic of Serbia.

► **How do you think the Serbian business environment could be changed?**

- Serbia, through a big number of initiatives and actions, can become a more "friendly" destination for foreign investors. Public administration has to become more efficient and less bureaucratic. ■

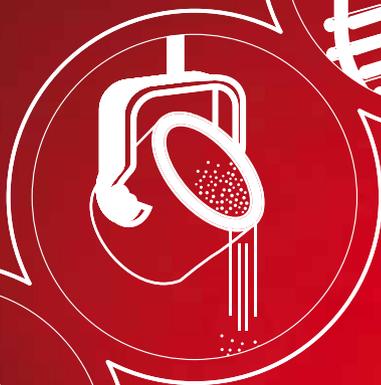
The Serbian banking market remained solid and well capitalised during the recent crisis. Serbian banks took a hit because of the crisis and this reflected in their business results, but overall they performed satisfactorily, especially given the big difficulties that they had to face

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Serious anti-corruption Program



There must be a more serious anti-corruption program by the government to protect the investors and the local companies alike on all levels of the public sector, including the local municipalities

“**T**he Serbian Government is on a good path to become a candidate for the EU in the near future, however there are still certain shortcomings regarding the reliability of the system. Corruption is still a serious issue and an obstacle for both investors who want to enter the market, and the companies who have invested already in Serbia,” suggested Andreas Binder, FIC BoD member and CEO of Mercedes-Benz SCG.

► **What measures and regulations should the Government take in order to fulfil the standards set by EU?**

- In my view there must be a more serious anti-corruption program by the government to protect the investors and the local companies alike on all levels of the public sector, including the local municipalities. Nowadays,

Trust

Trust in economy is built up over time and needs a clear strategic direction set by the political leaders.

this is especially what foreign investor's care about when it comes to investment decisions. The EU is focusing more and more on that as well. Besides corruption I believe that the reliability of the legislation and administration needs to be further improved and bureaucracy must be reduced. The efforts by the government to improve the above mentioned areas is obvious and the will to become a candidate for the EU is visible, however nobody should expect this to happen overnight.

► **What can the Serbian Government do in order to increase trust in the Serbian economy?**

- In a democratic state the only task of a government should be to provide and ensure a good and reliable platform for investors and consumers alike to allow the economy to develop. Direct influence of the government on the private sector should be avoided or at least be reduced to a minimum. Of course this requires that the privatization of public companies is an important step and has to be forced as much as possible. Trust in economy

builds up over time and needs a clear strategic direction set by the political leaders of the country. Only over a period of time and with a consistent pursuit of the set goals by the government is it possible to gain confidence and trust in the economy by the people. As already mentioned it is therefore important that the government has clear and visible programs to stop corruption, to reduce bureaucracy and to motivate investors in the long run to invest in the country.

► **There are experts saying that the automobile industry is at the forefront of industry in Serbia. From your point of view, what more can be done?**

- I do not share this view entirely due to the limited market potential in Serbia. However, there is for sure potential for significant automotive business in the future. Looking at the current investments in the industrial automotive sector, Fiat is the only big, international manufacturer investing in production facilities in Serbia at the moment. And yet, it is not very transparent for the public which strategy lies behind this investment and how much the Serbian economy will benefit in the future from this investment.

It would be important not to rely only on one investor, but also to attract and protect investors who are ready to invest in the trading sector of the automotive

Besides corruption, the reliability of the legislation and administration needs to be further improved and bureaucracy must be reduced

Goals

Only over a period of time and with a consistent pursuit of the set goals by the government is it possible to gain confidence and trust in the economy by the people.

Competition

In a competitive economy state monopolies are never good because they always restrict the law of competition.

business. Currently, the number of unauthorized car dealers and workshops is steadily increasing in Serbia. These companies are not investing a lot of money in the business, and they are not contributing a lot to the local economy. Also they are offering services which are not reliable for the consumers.

► What are the consequences of this?

- This leads to the situation where the manufacturers and their local authorized dealers, who are investing a lot of money in Serbia, are suffering, and, in the long run, will reduce their investments in Serbia. This will eventually deteriorate the quality of the automotive business in Serbia and consumers will lose their trust in the local services. The consequence is that the consumers will purchase the products abroad in future and there will be less and less local automotive business. This trend should be stopped and the government should offer protection for the serious investors in the market. In addition, I would also appreciate to see that the government is following the European trends in both attracting consumers to buy environmental friendly vehicles, and to apply stronger restrictions for the use of vehicles with outdated technology on Serbian's streets. Measures must be introduced in order to reduce CO2 emissions in the future. This is an unavoidable route on the road to the European Union.

► The main problem in the area of telecommunications is, for sure, the failed privati-

zation of Telecom. What have been the implications of the decision by the Serbian government not to sell Telecom?

- The privatization of Telecom is a very important topic for the Serbian state since it is, beside the financial aspect, of major public interest. The fact that this deal



The privatization of Telecom is a very important topic for the Serbian state since it is, beside the financial aspect, of major public interest

was not completed as planned also shows, to a certain extent, that the trust of foreign investors in the Serbian economy obviously is still restricted. In my opinion there is also the risk that other investors might consider this fact as an indication for their investment decision. Besides the above mentioned facts I also believe that an experienced, professional global telecommunication company would be good for competition in the telecom sector in Serbia.

► Serbia is the last country in the region which still has a landline monopoly. Are there any foreign fixed-line operators interested?

- In a competitive economy state monopolies are never good because they always restrict the law of competition. Furthermore, examples from many other countries have shown that the flexibility of the state is never as high as the flexibility of private enterprises which are developing their business models based on a profit centre philosophy. I am very sure that there are foreign fixed-line operators who would be interested in the landline business in Serbia if there is a profitable business to be made. According to my knowledge, Telenor already has the license for fixed-line business in Serbia. But eventually, the key factor for any investor will be the business case. Like in all other business sectors, it is relevant that the investor has a realistic opportunity to have a return on investment and it should be of serious interest to the government to support that. I am sure that we will see a move in that sector in Serbia in the very near future. ■

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Partners Towards Eu Candidacy

Keeping in mind the challenges that the economy of Serbia has had to overcome in the past two decades, the country is certainly not without potential

“S ince 2008, when PepsiCo first entered the Serbian market, I can say that the business climate is experiencing a positive trend. For a country going through the process of adjusting to certain standards, in this case EU rules, it is only natural that there are difficult moments,” said Vassilis Glinos, Patron of the FIC F&A Committee and Managing Director of PepsiCo West Balkans.

► **What is your reaction to the new measures and laws implemented by the Serbian government in the previous six months, envisaged by the government Action Plan for reaching EU candidacy status?**

- The difficulties we have encountered mostly relate to a large and unnecessary bureaucracy, the time needed to receive licenses and such, but that is also something officials are working on and aiming to overcome. The implementation of the ‘guillotine’ project is not going exactly as the investors and creators expected. However I believe we must remain positive and not lose sight of the great efforts invested by the authorities to move closer to the

European Union which has certainly shown results.

Keeping in mind the challenges that the economy of Serbia has had to overcome in the past two decades, the country is certainly not without potential. Serbia definitely deserves the status of EU candidate and membership as soon as possible. Investors, like us, should be present as partners to facilitate in the adoption of the best business practices from developed markets which will enable an even greater contribution to economic growth.

► **Joining the EU and WTO is a process that will last some time and take numerous measures. Is Serbia doing well?**

- I am of the opinion that Serbia is heading in the right direction. Of course, if we were to engage in

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

micro-analysis, the result would be certain. Meaning, every process of integration is not only conditioned by the fulfilment of formal



Great efforts

We must remain positive and not lose sight of the great efforts invested to move closer to the EU.

criteria and standards. We have often seen that economic integration and memberships to certain financial economic institutions are not without a political context. Even in that respect huge efforts are being made, as is the case with the International Tribunal in The Hague.

Even though it means and meant certain unpopular measures, in light of the expected memberships in the EU and the WTO, it will provide the economy and the population with long-term benefits as it brings a predictable business environment. Within that environment, the rules of the game are clear. These rules allow for continued investment in research and development by companies, in the development of new products and as a result in superior quality that is accessible.

► **Is the state of Serbian agriculture proportional to its potential?**

- The agricultural sector in Serbia

Agriculture

Agriculture is a branch of the economy which can generate more wealth than it is doing at present

Membership

Serbia definitely deserves the status of EU candidate and membership as soon as possible.

absolutely has all the potential to be one of the leaders. What is needed are significant investments in both infrastructure and agricultural policies.

Serbia's potential in the agricultural sector is due to its favourable climate, good natural soil characteristics and available water sources. However, this potential has not been fully exploited. Agriculture in Serbia is not considered just a branch of the economy. This is not only due to the specifics of production, but also due to the tradition associated with it, as well as great expectations. Agriculture is a branch of the economy which can generate more wealth than it is doing at present. In that manner it can contribute to the development of the country and potentially be a short-term buffer to facilitate the transition process. The conflict between agriculture's role in economic development and its social component is what



Agriculture can contribute to the development of the country and potentially be a short-term buffer to facilitate the transition process

has characterised the previous period. Changes in agriculture are taking place, and it is important that institutional and legislative police reforms within the sector have been started.

► **The Serbian government has declared the full implementation of Food and Safety Law since June 10th. That also means applying the HACCP system. Is this measure going to make Serbian food and agriculture more attractive to foreign investors?**

- Certainly. This affects the factor of

predictability in the business environment, specifically agricultural production. Not only is the prescribed quality and safety provided, but it also significantly contributes to the potential sale of products in other markets and thus boosting Serbia's economic growth.

► **How can the FIC help Serbia in the faster development towards full market potential in the agriculture sector?**

- Let me remind you that the FIC publishes a 'White Book' annually. The 'White Book' is intended to contribute to better conditions for investment, not only in the agricultural sector, but all other sectors. We are always open to constructive partnerships with officials with the aim of improving business conditions. Members of the Council represent a precious base of experience who can make things more efficient with their best practices. ■

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Lack of Qualified Labour

“Serbia has a problem of high unemployment, while on the other hand there are quite a few qualified profiles that are constantly lacking in the labour market – such as financial, marketing, HR, auditing and IT experts”



The demand for qualified labour is increasing much faster than the individuals available. Many companies bring in foreigners or expats for a specific position in Serbia. In fact, in most cases, investors have problems in the recruitment of some key positions.

► **Can foreign companies in Serbia find all the levels of personnel they need?**

- The key factor of the unemployment in Serbia itself is the poor educational level of the unemployed. A third of those who are now officially registered as unemployed have not completed high school and are virtually devoid qualifications. Not only that, but there is a huge number of those who have no primary school at all.

If we add that we are educating people for jobs that are not needed any more, not even in the weak Serbian economy, it is clear that foreign and domestic businesspeople with modern equipment will have great trouble in building a qualified workforce.

The solution to this problem should begin in the educational system. We think that institutions, especially faculties, are still insufficiently market orientated. Students are burdened by theoretical knowledge, and we are under the impression that not enough attention is being paid into putting the theory into practice.

Labour Law

The existent Labour Law cannot cover all the demands which are imposed by the market business conditions.

► **How do you assess labour regulations in Serbia?**

- Although the representatives of the Serbian Ministry of Labour announced that there will be intensive work in changes to the Labour Law, in the following few months, in order to adjust it to EU standards and business needs, these changes have still not been introduced to us.

We believe that with the changes to the existing law there should be greater flexibility, the possibility of applying the Law in accordance with more complex market demands, and also by introducing and defining new forms of labour.

Although the representatives of the Serbian Ministry of Labour announced that there will be intensive work to the changes of the Labour Law in the following few months in order to adjust it to EU standards and business needs, these changes have still not been introduced to us

The existing Labour Law cannot cover all the demands which are dictated by business market conditions.

The FIC Human Resources Committee performed a very detailed and constructive analysis of the Labour Law in Serbia – the area in which most of our suggestions and objections lie. The Labour Law was adopted in 2005 and has not

been changed since, with the exception of a regulation in an article that was changed several years ago. Therefore, the Law is almost identical. We have already commented on this several times.

► **Serbia has a problem with unscrupulous employers and mobbing. How can your Committee help in improving that situation?**

- We believe that the Law will help a lot, mainly to recognize mobbing, and secondly, to provide order to the system in the field of labour relations. In this way, the procedures that identify mobbing will be regulated, and then those who are victims will be shown how to protect themselves. Experience from other countries has shown that when legislation is introduced, firstly, there is an increase in the number of reported cases. Secondly, and very quickly, there is a decrease in reported incidents, which brought ‘cases heard’ down to the normal level of what should be expected and I am hoping that this practice will function in Serbia. I believe that the enactment of this important regulation came just at the right time so that employers and employees could think about their behaviour. That is the starting point of every good interpersonal relationship. Good relationships are the basis for teamwork, and teamwork is the foundation of every prosperous business. ■



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Mobile Penetration - Above 130%!



Mobile penetration is above 130% which confirms that practically everybody in Serbia has a mobile phone and that many people have two mobile phones already

Vera Nikolic Dimic expects more convergent offers, a broader spectrum of services and possibly saturation of the market in Serbia in the near future.

► **There are big foreign investments in the telecoms sector. In the next year or two, can Serbia expect an increase or reduction in the interest from foreign investors'?**

- Telecommunications has been a very attractive business for investments in the past several decades.

Under the circumstances of the global financial crisis that severely hit the world, investors have become much more careful about the investments they make, and money became scarce for any kind of investments.

Since according to some parameters, the crisis is slowly passing away, we can see some more interest in Serbia's potentials. This is unfortunately still far below the level of 2006, when the largest investments in telecommunications were made.

Acquisitions

We can expect some bigger players to acquire the smaller ones.

Different kinds of preliminary checks, certification, and long procedures before the relevant bodies should be simplified in order to follow the dynamics of the telecom business

Talking principally about telecommunications, it is difficult to estimate where the big investments will be made soon and particularly the Greenfield ones. The mobile market is pretty penetrated and competition exists. The sale of Telekom did not succeed, and any investment in fixed telephony can only bring improvements to the telecommunication market.

What we can expect in the near future, is more convergent offers to come, a broader spectrum of services to be offered by one provider in one package, and some saturation of the market. Therefore, we can expect some bigger players to acquire the smaller ones in order to offer a broader range of services.

► **What is the actual situation in fixed-line and mobile telephony?**

- Mobile penetration is above 130% which confirms that practically everybody in Serbia has a mobile phone and that many people have two mobile phones already. With the possibility to change the mobile operator and keep the old number, subscribers are free to move and enjoy true competition. Therefore, I can say that competition is there.

In fixed telephony, the situation is different. We still have one big player, Telekom Srbija which holds a great majority of the market. Telenor is on its way to start offering a fixed telephony service

while Orion already introduced the services and currently holds only a minor segment of the market. Therefore, we see that there is still the possibility to increase competition, and we expect this to happen in several months time when every company which engages in electronic communications will be able to provide fixed telephony services without any limitations. This is according to the Law on Electronic Communications. Of course, some other preconditions should be provided as an overall framework, for example: a level playing field for upcoming players.

► **What are the Committee proposals for the improvement of the business conditions related to this field?**

- FIC 's Telecom Committee backs the idea that the telecom business should be freed of the regulatory and legal obstacles as much as possible. Different kinds of preliminary checks, certification, and long procedures before the relevant bodies should be simplified in order to follow the dynamics of the telecom business. On the other hand, many of these shortcomings have been improved in the past two years in the continuous dialogue with the state, so things are moving forward. But, we will continue in our efforts since there is much left to be done. ■



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Avoiding Collision of Valid Laws

Having EU integration as a set political and social goal, I believe that Serbia has made a remarkable success in the quick rendering of the laws which tend to be harmonized with EU regulations

Milica SUBOTIC

President of the Legal Committee, Jankovic, Popovic & Mitic



Bylaws

Greater effort must be put into the timely rendering of quality bylaws.

There is a problem regarding non-compliance of special sector laws with general laws

The overall level of harmonization is quite satisfactory. The newly enacted Law on Capital Market is fully in compliance with the relevant EU regulations. Several other important acts are being enacted as well, including the new Company Law. Some newly adopted laws, which are mainly adjusted to meet EU standards, contain certain provisions which are not in line with those standards, such as the new Law on Insolvency.

However, there are several issues which should be addressed in order to improve the coherence and functioning of the legal system, which are the backbone of a good business environment.

The first of these issues concerns a collision of valid laws. There is a problem regarding non-compliance of special sector laws with general laws – for instance in the fields of consumer rights and protection of competition. In certain cases when not all the relevant laws are being changed or even harmonized, new laws cannot be implemented. Legislative activity should address this issue, as it could be argued that the collisions of laws may produce a risk of significant legal uncertainties and of non-uniformities in the application of the laws.

On the other hand, cooperation

between the Ministry of Economy and Ministry of Finance in the process of drafting the abovementioned Law on Capital Market and Company Law could serve as a good example in the successful coordination of legislative activities. In both cases extensive public debates were organized so stakeholders had a real opportunity to provide their comments and to adjust their activities in line with the new legal systems.

Another issue on occasion is the lack of adequate bylaws. The first of the problems is related to bylaws being long overdue – for example, several of the bylaws under the mentioned Law on Consumer Protection (rendered in October 2010) still haven't been enacted. The lack of bylaws, which are essential for the implementation of the new rules provided by the harmonized legislation, produces a significant “vacuum” and legal void, which is not desirable for a prosperous business environment. Furthermore, the bylaws, when enacted, must be of sufficient quality to really provide for the representative application of the law – for example, the Guidelines used by the Commission for Protection of Competition can be deemed as not completely satisfactory for the application of complex anti-

trust legislation, therefore creating a need to look up the practice of the competent EU bodies, like the European Commission. This is unfortunately seldom done.

In several cases there has been the issue of long waits over the founding of state bodies and authorities provided by the new legislation, which may hinder economic development. For example, the Commission for Protection of Bidder's Rights (provided by the Law on Public Procurement) has been formed in full accordance with the Law more than a year and a half after the Law was enacted.

It seems now that fine-tuning of the provided rules and institutes should be focused upon so that they become smoothly applicable. The future legislative activity aimed at this goal, which would include assurance of the full mutual compliance of the laws and an improved effort in rendering of the relevant bylaws, will without doubt noticeably improve the business environment in Serbia. ■



JTI – Five Years of Success in Serbia

Celebrating the fifth anniversary, JTI has put the fifth production line to work, which is a part of this year's investment of two million dollars

We are very satisfied with what we have achieved in the last five years, said Cristian Cring at the beginning of our interview.

► **Since the acquisition of Senta Tobacco Industry in 2006, JTI has invested over 100 million US dollars in Serbia. How would you rate the efficiency of investments?**

- We have modernized facilities and started cigarette production - some of the world's most famous brands such as Winston and Camel are being produced here, as well as LD, Monte Carlo, More and Memphis. Additionally, JTI has started the export of cigarettes to Montenegro, Bosnia and Herzegovina, Macedonia and Croatia, as well as tobacco export to the European Union. In 2010, JTI's export of cigarettes amounted to 8 million dollars, whereas tobacco export to the EU was 11 million dollars. Having all that in mind, I can say that JT International a.d. Senta is a true example of a successful privatization process in Serbia.

► **Foreign investors often point out that a predictable business environment is necessary for attracting more foreign investments. What is the most impor-**

Pillar

We believe that big companies are the pillars of every society.

Any unexpected regulation change, like last year's sudden increase of the specific excise rate, affects our business and consequently a number of our business partners

tant thing for JTI, as the first Japanese investor?

- It is essential to create a stable and predictable business environment. Any unexpected regulation change, like last year's sudden increase of the specific excise rate, affects our business and consequently a number of our business partners. Only predictable, gradual and regionally harmonized excise increases in the whole region will secure stable budgetary revenues and prevent the illicit trade of cigarettes. This can only be secured through the adoption of excise calendars that each region of the country should develop in cooperation with the tobacco industry. The purpose of the excise calendar is to regulate excise increase 3 -5 years in advance. This plan will secure a predictable business environment for foreign and domestic investments, as well as provide a stable fiscal background for economic growth.

► **JTI's Senta factory is one of the rare factories with both tobacco processing and cigarette manufacturing at the same location. How do you assess the government's support to the tobacco production?**

- JTI greets the decision of the Ministry of Agriculture to maintain the level of tobacco subsidies which is essential for further investments in tobacco production. To make tobacco production more sustainable the government

should adopt at least a three-year strategy of tobacco growing.

► **This year JTI invested 2 million USD in the modernization of the factory. Where has that investment been directed?**

- Celebrating the fifth anniversary, JTI has put the fifth production line to work, which is a part of this year's investment of two million dollars. With the soft pack machine, the factory in Senta has extended its capacities in terms of the type of products we offer to adult smokers and began the production of LD and Monte Carlo soft packs.

► **JTI is well known worldwide for its corporate social responsibility projects. What are your major projects in Serbia?**

- We believe that big companies are the pillars of every society, and that is why we initiate or participate in a number of socially responsible projects on the national and local level. In Belgrade, thanks to a JTI donation, the first Day Care for Adults with Special Needs was opened and the Day Care for Elderly is soon to be. Meanwhile, in Senta, where our factory is located, we traditionally help the work of the Soup Kitchen. JTI is especially proud of helping the theatre in Senta to once again become the cultural centre of the North Banat District. Due to our Japanese roots, we are one of the major promoters of Japanese culture in Serbia. ■

The Priority - Food Safety & Quality



The current priorities should be based on achieving a consistent positive international image of Serbian agricultural products

Harald KUBE

Food & Agriculture Committee President (BASF Srbija)

should therefore focus on the following areas:

- Establishing of a national reference laboratory with the aim of ensuring uniform testing standards and proper quality controls.
- Harmonization of

the registration process of Plant Protection Products with EU standards. The vast majority of pesticides currently in the market have been registered without full toxicological and ecotoxicological data packages and therefore present an unknown risk for consumers. The Plant Protection Directorate requires more capacities, training and tools to be able to manage such a harmonization process.

Agricultural faculties require modern teaching techniques, laboratories and field facilities that can compete with international Institutions

- Harmonization of quality standards in milk and juice production with EU standards. Currently the quality of relevant products varies and many are not in line with the quality require-

Talents

Serbia has a potential talent pool with highly educated experts who can help develop new technologies.

ments of the EU market. The investments here are directly related to the establishment of a national reference laboratory with the necessary staff and equipment.

Other areas of investments need to focus on education and research and development. Agricultural faculties require modern teaching techniques, laboratories and field facilities that can compete with international institutions. Serbia has a potential talent pool with highly educated experts who can help develop new technologies, goods and services in agriculture. Scientists and researchers require access to relevant working facilities.

In the case of industrial agricultural products, support and subsidies are needed for crops for the production of oil/bio-fuel and sugar in order to be competitive in the international arena. This requires increasing planted areas and yields for crops like oil-seed-rape, sunflowers and sugar beets. And it requires an investment in the necessary infrastructure to process and transport these goods.

Overall, Serbia has a unique opportunity to become a majorly competitive player in European markets and beyond. ■

The Agricultural sector represents one of the most important industry branches in Serbia, contributing significantly to GDP. At the same time agriculture or in other words, the production of food, feed and fuel fulfils very important functions in Serbian society and economy. Serbia is strategically situated in South Eastern Europe and also produces agricultural goods for exports. Therefore the Serbian authorities, as well as the private sector, carry a big responsibility to ensure food safety and quality. The current priorities should be based on achieving a consistent positive international image of Serbian agricultural products. This can only be done if food safety and quality can be ensured with the proper legislation and control mechanisms in place. The investments planned by the Ministry of Agriculture

THE WORLD
IS FULL OF
IMPOSSIBLE
THINGS.

THE CAR IS NOT
ONE OF THEM.

Things are possible.

nbg LEASING

Monitoring Conversion Process

The Government insists on the originally suggested principles of the conversion bylaw. If adopted on this basis, it would either prolong the conversion process, or a new blockade will be created

Djordje PAVKOVIC BUGARSKI

Real-Estate Committee President (Hauzmajstor)



Blockade

Conversion has blocked more than 30 large sites in Belgrade.

Two years after the Law was adopted there is still no operational bylaw, thus developments on the most important locations in Belgrade are blocked

First of all, we need to see the final version of the new bylaw. We have seen a few drafts and we have given our recommendations based on them. Unfortunately, it appears that our recommendations have not been accepted by the Government.

I am not sure that the public and even some officials recognize the importance of the conversion process. The Law on Planning and Construction has taken away the right to build from the companies that have passed through the privatization process. Two years after the Law was adopted we still don't have an operational bylaw. Developments on the most important locations in Belgrade have been blocked. Belgrade has not seen a new, large scale privately funded project for three years and we will not see one until we complete conversion. Conversion has blocked more than 30 large - scale sites in Belgrade. Projects on these sites can deliver more than 5 million square metres of buildings to the market, generate €6 billion in FDI's and contribute more than €500million to the city's budget. Most likely, Belgrade is not going to see new large-scale development starting before 2013, meaning

that the period 2008 to 2013 can be compared only with the early 1990s. If the new bylaw on conversion does not bring a fundamental change, this period could potentially extend even further.

FIC has recognized the importance of this issue and we have put lot of effort into commenting on the draft bylaw. FIC members were involved in many conversions as partaker, lawyers or consultants and have a wealth of expertise in this process. The bylaw text that we have suggested is, we believe, the best possible solution for the conversion process. Furthermore, some of the experts are convinced that this is the only possible way to convert the most important sites in Belgrade under the current law. However, the government insists on the originally suggested bylaw principle. If they adopt it on this basis it will prolong the conversion process or create a new blockade. The suggested bylaw provides an obligation to the local authorities to determine the market value of the land in its territory. This should be done through "table" values, giving the same value to all land with the same designated use and within the same urbanity zone. The most likely scenario is

that the local authorities, under public pressure, will prescribe very high prices which will prevent the conversion of any larger scale sites. Less likely is that these prices are going to be appropriate for large - scale sites, meaning that small sites can be converted below the actual price. In such cases we would expect great public attention and media pressure, which will force public attorneys to file an appeal.

FIC will continue attending all public events and debates preceding the bylaw adoption. We recognize this as a very important process, not just for the member companies, but also for the entire economy. Due to the importance of this process we are willing to help even further, spending more time and making an additional effort in preparing the bylaw which can finally introduce freehold right over construction land. ■

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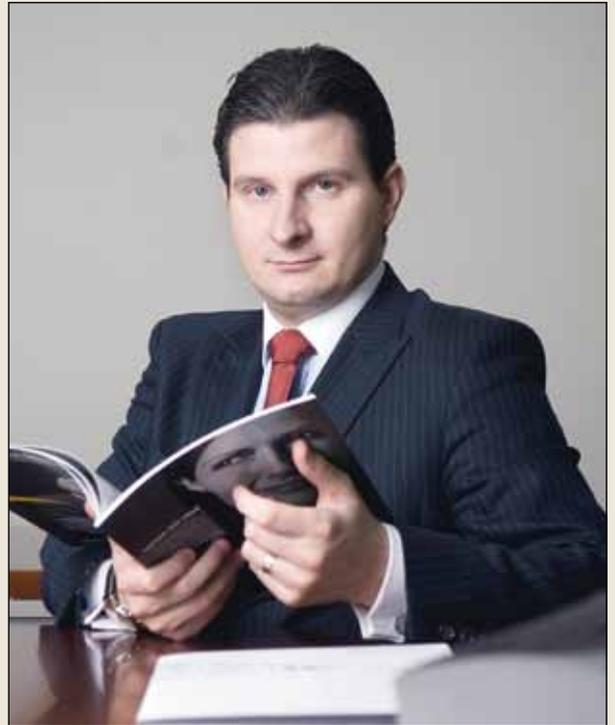


Promising Signals

Inconsistency in the application of existing legislation is the key issue of the current tax legislation

Ivan RAKIĆ

Taxation Committee President (Ernst & Young Beograd d.o.o.)



Positive step

Decrease of fiscal burden on salaries is definitely a positive step.

Even though the importance to upgrade our tax legislation to become more attractive to foreign investors is imperative, another dimension which, in my opinion is equally, if not more important, has to do with its implementation, where inconsistencies and inappropriate interpretations have caused more harm than good to the system. It is highly significant for the Government of Serbia to understand that the value of good legislation lies in its uninterrupted, consistent and non-discriminatory and selective application.

It has been observed by many foreigners already doing business in Serbia that inconsistency in the application of existing legislation is the key issue of the current tax legislation of the Republic of Serbia. In this regard, I would note that my recent contacts with the Ministry of Finance, including discussions with Mr. Djokovic, at this year's 'Reality Check Conference' with the government have provided a promising signal that the above matters are noted by the Ministry and that focus would be on their proper resolution.

Only once the above matters are properly addressed can we then focus on the next stage, which would be changes to tax legislation itself. In this regard, my professional view is that there are three areas which deserve the attention of the Government of Serbia.

One being the area that was discussed publicly in the previous period and at the expense of an increase in general VAT rate could potentially decrease the overall salary fiscal burden. Taking into account that decrease of the unemployment rate and the attraction of foreign direct investments are among top priorities of economy of Republic of Serbia, the decrease of fiscal burden on salaries is definitely a positive step in this regard. Hence, from a purely tax perspective the Government of Serbia in my professional view should explore this option. Of course, it also requires addressing other non-tax aspects of increase in VAT rate such as inflation, consumption effects, etc. I would also add that decrease in fiscal burden on salaries would also have positive effects on the increase of revenues from corporate income tax as it would decrease the overall expenses of a company and increase their taxable profits.

The second area for improvement in the tax system of the Republic of Serbia should be the introduction of a synthetic taxation of individuals. Before any introduction of synthetic personal income tax, it is absolutely necessary that thorough analyses of the effects of the introduction of this tax to budget revenues are undertaken. More importantly an assessment of capacities (both human and technical) would be required

Currently, it is not possible for any foreign company to pay corporate income tax in Serbia unless it has some form of registered legal presence in the country

at the level of the tax authorities for this rather complex system to be properly implemented. Introduction of synthetic taxation is a step that would require years of proper preparation. It represents a medium to long term plan for the tax system of Republic of Serbia.

The last, and by no means least, part of tax reform should be, in my view, the simplification of the tax system, especially in the area of enabling foreign companies to do business in Serbia without a legal presence to pay taxes. In this time of crisis and budget deficits, I see no reasons why Serbia should sacrifice these new revenues sources. Currently, it is not possible for any foreign company to pay corporate income tax in Serbia unless it has some form of registered legal presence in the country (either a branch or a subsidiary).

Implementation of the above steps would definitely contribute to the overall goal of both the Government of Serbia and the taxpayers. That is to say, to have a tax system that is simple and whose rules are applied consistently by the tax authorities. ■



NBS Supporting Framework is Essential



I believe that the Central Bank has created a transparent and well supported framework which is essential for the smooth operation of the banking system

We are going through a period of significant turbulence which will create, hopefully only temporarily, obstacles to the continuation of the recorded or the expected growth of the Serbian economy, warns Marinos Vathis.

► **Mr. Vathis, the topic of this year's FIC annual edition is the improvement of the business climate in Serbia. What are your first thoughts on this subject?**

- Looking at the micro level, we see that Serbia has two important positive factors which are vital in attracting foreign investments; these are none other than the relatively [compared to the region] low labour cost and the high technical quality of the labour force. These two factors coupled with the government's recent reforms should place the platform which will host foreign investors. We consider FDI an important ingredient towards the enhancement of the Serbian economy and of course the stability of the business climate. We must also mention the importance and the positive effects that the European accession path of Serbia will have on establishing the right climate for meaningful growth.

On the macro level, we must not overlook the general financial turmoil which will inevitably have an effect on the local market.

► **The financial sector in Serbia is generally perceived as a powerful economy sector. In your**

Clients

We see the client as the oxygen we breathe and we exist because clients exist.

We continue living through a period of an international financial turbulence which on a daily basis is creating surprises, usually negative ones

opinion, which measures should be undertaken in order to continue this tendency in banking?

- Firstly, we have to identify the reasons which have given the financial sector its strength. Serbian banks are healthy, their balance sheets are strong, they are well capitalized and they possess the necessary liquidity levels. Two factors have influenced this strength, namely, the simplicity of local banking business which has not driven these banks to become involved with anything toxic and the fact that a large number of the local players either have strong European shareholders or the state with, in some cases, the participation in the shareholding of International Financial Organizations.

I believe that the Central Bank has created a transparent and well supported framework which is essential for the smooth operation of the banking system. The Regulator has established an open two-way communication channel through which the two sides can and are constructively exchanging views and opinions aiming at creating a healthy market environment for the ultimate benefit of the Serbian clients.

► **How does Vojvodjanska banka react to different recommendations of the state regarding relations between banks and clients, changing loan policies, interest rates and similar?**

- We see the client as the oxygen we breathe. We exist because clients exist. We also believe that the client

will always have the choice to do business with the bank which best meets his/her requirements. Consequently, we are fully in favour of any reforms or decisions which aim towards enhancing transparency and fairness in the market, always having in mind the benefit of the ultimate recipient of our products, none other than the client him/herself. We will only object to those reforms or decisions which significantly change the "rules of the game" in such a way that at the end of the day it will be the client who will bear the consequences.

► **It is estimated that the crisis period for foreign banks in Serbia has passed. What are your expectations for the last quarter of 2011 and the start of 2012?**

- We continue living through a period of an international financial turbulence which on a daily basis is creating surprises, usually negative ones. Nevertheless, recent experience has proven that the local banks due to their strength and due to the regulatory environment have managed to overcome the effects of this turbulence. I am optimistic that in the years to follow we will gradually improve the market conditions with the focal point being on a reduction in the cost of borrowing. We consider the latter crucial both for the benefit of the individual as well as the corporates in order to give a boost to the local economy. ■

Reliability and Partnership



The thing that attracts investors to Indija, especially serious global corporations, most of all is the reliability of Indija's municipal administration which is one of the best in Southeast Europe and which, together with local utility companies, is offering services that investors are accustomed to in their respective countries and cities in Europe

Indija is a municipality that has both good and bad geographical attributes. One of the municipality's disadvantages is being located between the two biggest Serbian cities which poses a challenge for the local authorities in terms of preventing the workforce from leaving – says President of the Municipality of Indija, Goran Ješić, at the beginning of the interview.

► **Mr. Ješić, aside from Indija and Belgrade being connected via intercity transport links, do they have joint projects that could arouse foreign investors interest?**

- For years we have been trying to bring back graduate students from the Belgrade and Novi Sad Universities to our municipality. The result of our endeavour is that 90% of students did come back and remained living in Indija. The advantage of being in the close proximity to the two big cities is that you have a 'pool' of people who used to live and work in Belgrade or Novi Sad and, at a certain point, decided to move to Indija. Here, the income tax collected by the local authorities is lower and every single newly created job in the real sector, in return, creates at

Patriotism

The biggest patriotic act that someone can do for Serbia, at this moment, is to create new jobs.

least three new jobs in the service sector. Also, once they decide to live here, the volume of residential construction and ancillary services will grow which is basically what we are striving for.

► **The public views you as a mayor that is liked by investors. Several years ago, the Financial Times classified Indija as being one of the top 25 best towns to invest in. What sets Indija apart from other towns?**

- It doesn't matter whether investors like me or not. They have their economic interest which is the main factor in deciding where to invest. This interest depends on the security of their investment, and, what is evident in Indija's case is the reliability of Indija's municipal administration which is one of the best in Southeast Europe, which together with local utility companies, is offering services that investors are accustomed to in their respective countries and cities in Europe. This reliability and partnership

has resulted in some of the biggest Greenfield investments in Serbia being made in Indija.

► **It seems that you and investors share similar problems with the government – tardy administration, bureaucracy, existing laws not being implemented, corruption etc. Which of those things bothers you the most?**

- All of them.

► **You are prone to representing investors' interests over the state's whilst using the rationale 'if investors have it good there, we are going to have it even better.' Is that true?**

- We, in Indija, view ourselves as very patriotic, and we don't mean the 21st century definition of patriotism which is taking up arms, putting a flag in somebody's hands and going to conquer a territory or a nation. Patriotism means creating such living conditions that will make young people stay in Indija and these young people being able to enjoy the privileges that most of the people in Serbia and the region don't have, i.e. to make their own family and have children one day, to enjoy watching their grandchild-

It doesn't matter whether investors like me or not. They have their economic interest which is the main factor in deciding where to invest

dren grow, to be able to take children to a park, a playground or a nursery. This is what we see as patriotism and that is our guideline. The biggest patriotic act that someone can do for Serbia, at this moment, is to create new jobs.

► **What is your view of the current investment trends in**

sage to investors that it really doesn't matter who is the prime minister or the state president as long as that person implements 'the open door' policy and continues with the European integration process. The second important issue is our laws enacted by the Serbian Parliament, and the capacity of the state administration to



Serbia and how much does the political situation affect these trends?

- Political stability is crucial, if not most important, and is the first thing that investors look at when deciding to invest in Serbia. The political climate and stability, at the general level, need to be continuously good. Thankfully, the political situation at the state level is settling and that will send a clear mes-

It is really important for Serbia to continue moving along the European integration path and to become an EU candidate

implement those laws. It is really important for Serbia to continue moving along the European integration path and to become an EU candidate. If that happens, and regardless of the heralding crisis, I expect a drastic increase in the number of

foreign investors here since that would prove that the state has passed a big test and that the Serbian regulation correlates to that of Western countries. ►►

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► **In June, you approved the construction plan for the Information Technology Park that will stretch over 70 hectares of land, and where property tax rate will only be 0.3%. How interested are investors in this project?**

- We have adopted a detailed regulation plan pertaining to the construction of the IT Park which began almost three years ago, but was postponed due to the crisis and the fact that clients of the Embassy Group, which is the investor, i.e. Merrill Lynch, Lehman brothers, IBM, Yahoo, Google etc., encountered financial problems. A year ago, we received the first news that the crisis in the IT sector has subsided and that the implementation of the project would continue. The project entails the construction of a 27,000-sqm-facility that will house IT companies. The project will also send an important message to the IT sector that Serbia has a lot of development potential and is attractive to IT investors.

► **What would you say to foreign investors who want the business climate in Serbia to improve?**

- There is a government agenda pertaining to the adoption of laws and this agenda has been adhered to so far. A set of laws that primarily regulates economic issues is somewhat of a hot topic now. We do expect the Serbian Parliament to comply with the agenda at its autumn session and for certain system laws to be enacted in order for both domestic and foreign companies to feel safer. This entails commercial courts expediting the handling of disputes, for the companies that are not fulfilling their contractual obligations to be liquidated faster and not jeopardizing the overall liquidity and the trust among the companies themselves.

► **Presently, the government is closely monitoring the deteriora-**

tion of the global economic situation. Do you expect that the crisis will spill over into Serbia and what consequences might that have on Indija and other similar locations in terms of investment influx?

- It is paramount for the government to stick to the European agenda and for Serbia to obtain the



The state needs to do everything in its power to attract investors and globally renowned companies that are willing to create new jobs

EU candidate status this autumn. A best case scenario would be if the government was given the date of the beginning of negotiations with the European Union. Those two political acts would annul the consequences of the global economic downturn. I am confident that Serbia will become an EU candidate and I am almost certain that the current Serbian Government and the Serbian President have enough potential to obtain the date of the commencement of the negotiations. This would also signal to our European partners and companies that we are on the right track.

► **What is your opinion about the state subsidizing certain investor categories?**

- The state needs to do everything

in its power to attract investors and globally renowned companies that are willing to create new jobs, as well as to increase Serbia's export potential and to make sure that investor's feel safe at all times when investing. New job subsidies did yield certain results and such measures are acceptable in the coming period since it has already proven its economic worth.

► **Do you think that that process is sustainable in the long run?**

- My only objection is that we need to revert to the 2006 bylaw which stipulates subsidies only for Green- and Brownfield investments, which means that investors first need to become the facility owners, or build their own facilities, and then get subsidies later. Overall, these measures did yield expected results and they ought to continue in the budget years to come.

► **Do you think that attracting investors and allocating subsidies should be organized 'from top to bottom', which also entails certain political interests, or 'from bottom to top' which would prompt municipalities to do more on attracting new investors and would entail the regionalization of Serbia?**

- Everything in the society that is done from 'bottom to top' is more efficient, democratic, faster, and less corrupt. In every decentralization process you have good practice cases that can be translated to the state level or to other local self-governments. However, I do believe that, in the current situation, it is not realistic for budgets and subsidies to become decentralized. It is important to proportionally set aside budget allocations for promoting investments in Vojvodina and for SIEPA and VIP Fund to be able to talk to investors from the same negotiating position. This could be the first step in decentralizing the process of attracting investments. ■



Rolling Onwards

The merger of Veolia Transport and Transdev is a big step for the future business of our group. This merger will most certainly bring new possibilities and developments. For Serbia, this can also mean more opportunities and investments, but that also depends on the general business climate in Serbia

Veolia Transport Serbia is on track with its plans and is expecting further progress in Serbia. The company is doing all this whilst at the same reducing CO2 emissions and continuing to provide safe and sustainable mobility solutions

► **In what way did the economic crisis impact upon your business operations in Serbia?**

- The economic crisis affected the operations of large, medium and small business worldwide, and we were also affected to a certain extent. Fortunately however, we were not just able to stay stable throughout this period and to stay in positive revenue, but we were also able to continue our investments globally and locally. In Serbia, we worked more or less according to our plans.

Generally, we are very pleased with our operations in Serbia, and we believe that in the years to come, we can expect much more from this market

We expected that some tasks and procedures would be fulfilled sooner, but still we succeeded to accomplish all of our goals in time.

► **How do you see the position of the foreign investors in Serbia, and what could be a way to attract foreign investors to Serbia?**

- I would say that there are a lot of things to do, lots of strategic planning, adoption of different legislations and a more clearly structured policy towards foreign investors, or better to say, the introduction of a European business climate that can bring a more positivity for further development and investments. By showing a planned strategy for accessing the investors and market definition, Serbia can become more attractive and gain more funds. We have plans to invest more in Serbia, and we expect that the local authorities will recognize a chance for their citizens to gain some benefits from our pres-

ence here, and help our further development on the market.

► **The Ministry of Economy and Regional Development classified the acquisition of Litas Pozarevac by Veolia Transport as one of the best privatizations in Serbia. Why is it so?**

- First of all, this came out of the fact that we fulfilled our commitments regarding Litas Pozarevac, six months before the deadline. Moreover, we are a very serious company that operates in accordance with social responsibility principles and we are especially inclined towards environmental protection. This is the reason why we had a very good response from the local community and authorities in Pozarevac, the Branicevo region and all over Serbia. Generally, we are very pleased with our operations in Serbia, and we believe that in the years to come, we can expect much more from this market. ■

Global transport

In March 2011 Veolia Transport and Transdev merged on the global level to become the world's biggest public transportation operator, now present in 28 countries around the world, with 60,000 vehicles, 120,000 employees and with a yearly revenue of €8 billion. Veolia Transport has been present in Serbia since 2006, since the acquisition of two companies

- Litas from Pozarevac and LUV from Belgrade. Veolia is one of two foreign investors in the sector of public transport in Serbia.

Veolia Transdev in Serbia has 252 vehicles, 570 employees and a yearly revenue of €12 million. Moreover, Veolia opened travel



agencies in Pozarevac and Belgrade, which specialize in organizing group travel, but also deal with the organization of individual tourists. During 2010, their agency in Pozarevac transported more than 30 thousand students on different programs.

Veolia Transdev is continuously working on setting the standards for managing safe and sustainable mobility solutions, in addition to investments in buses with modern engines to reduce emissions from carbon dioxide. During 2010 in Serbia, the company cut 250 tons of CO2 emissions, while at the global level the figure was 4.3 million metric tons of carbon dioxide.



Dynamic Regulation is Required

All of the prerequisites, in the sense that Serbian operators possess the technological base, have been met. Nokia Siemens Networks Serbia is a partner with all three operators in Serbia, and their 3G stations have already been installed and are ready for the quick and easy implementation of the LTE technology

In Serbia, the telecommunications sector is not lagging much behind the neighbouring and developed countries – says Miodrag Radojević, Managing Director of Nokia Siemens Networks Serbia, at the beginning of his interview for this year's Foreign Investors Council special edition.

► **Mr. Radojević, some estimates have shown that, by 2015, there will be close to 2 billion users of mobile broadband networks. Could you tell us something about the latest developments in Serbia in this respect?**

- There are half a billion mobile broadband network users in the world today, and their number is going to grow five-fold by 2015. In Serbia, the number of mobile network users exceeds the number of residents, but there is plenty of room for the number of active mobile broadband network users to grow in Serbia. There are fewer broadband internet users in Serbia than in EU countries, mostly due to the economic development level of our society, i.e. the accessibility of such services to the wider population. The technological prerequisites have been

Experience

Our idea is to relay our experiences from over 150 countries that we operate in.

It is necessary for the legal and regulative framework in Serbia to become more flexible and stimulating for the deployment of new, cutting-edge technologies

met, bearing in mind that all three existing mobile operators possess the 3G technology.

► **Could you compare Serbia to other regional countries in terms of the utilization of contemporary technological telecommunications solutions?**

- In Serbia, the telecommunications sector is not lagging much behind the neighbouring and developed countries. Despite the current economic situation which prevents a larger number of people from using advanced telecommunications services, it is good to know that their number in Serbia has been growing. In regard to our activities, for Nokia Siemens Networks, Serbia is one of the most important regional markets, and we are always trying to work alongside our clients in the implementation of the latest solutions. When it comes to providing innovative services, Serbian telecommunications operators are amongst the first in the region when it comes to having an operational 3G network or with projects like the testing of the LTE technology. Our company is participating in all of those projects and we are very proud of that.

► **What global changes await us in the following 5 to 10 years when it comes to abandoning the current technological mobile service solutions and start using future technologies?**

- The fact that the first mobile phone call in a commercial mobile network was made just 20 years ago, on 1st July 1991, sounds almost incredible. The first GSM network was built by Telenokia and Siemens – today's Nokia Siemens Networks. Back then nobody could have predicted what an impact GSM would have on the lives of billions of people around the world. Today, it is very difficult to imagine life and communication without having mobile phones, and the new technologies in broadband wireless communications are heralding new and radical improvements. Looking back, we are becoming aware of just how difficult it is to predict changes in the ITC world. This especially applies to telecommunication technologies which are developing rather dynamically and have figuratively 'exploded'. One thing is for sure – technological development will become even faster in the years to come.

► **What departments within the Serbian Government do you usually communicate with when it comes to coordinating activities on new technologies and what reactions do you get when people find out that developed countries around the world have been using your technologies for many years now?**

- Bearing in mind the core activity of our company, it is only natural for us to cooperate with the Serbian line ministries, as well as with other institutions that are authorized to deal with certain segments of our business (like RATEL, the Belgrade University etc.). Apart from establishing direct contact, we are also trying to give our input on the implementation of the latest EU telecommunications directives through FIC, which is a prerequisite for the faster development and application of cutting-edge technologies. I can say that relevant professionals, line ministries and government agencies all possess a thorough knowledge of the new trends in technology that are coming from technologically developed countries. However, it is necessary for the legal and regulative framework in Serbia to become more flexible and stimulating for the deployment of new, cutting-edge technologies.

► **This year, FIC's campaign is geared towards advancing the business climate in Serbia. How do people, who are engaged in the new technologies sector, see the business climate here?**

- Nokia Siemens Networks Serbia is a standing member of FIC and we are actively participating in all of the Council's initiatives. Our idea is to relay our experiences from over 150 countries that we operate in, and, of course, adjust those experiences to suit the imminent surroundings. We also strive to work together with the state authorities on effectively resolving the problems that we en-

counter in our everyday business. New technologies hold a great importance since they are the driving force behind other segments of the economy; therefore, the regulation is something that needs to be paid special attention.

► **The recently distributed draft Law on Advertising says nothing about the Internet, despite it being in use for the past 20 years.**



What is Serbian legislation like in terms of existing and future technologies?

- The improvements being made in the legislation are decidedly visible, particularly over the last few years. On the other hand, a lot needs to be done in order to catch up with developed countries. The industry that we are engaged in is a very dynamic, and, as such, requires dynamic regulation, so we should focus on this issue in the future. The regulation that covers the LTE frequencies, the possibility to implement several different technologies within the assigned frequency bands (UMTS 900MHz), simplifying the procedure of equipment certification, as well as the procedure for obtaining building permits for construction of telecommunications facilities and a whole range of Internet-related legislation are just some of the areas that need to be regulated.

► **In trying to explain the benefits of future technology solutions, how understanding are the people in Serbia towards No-**

There are half a billion mobile broadband network users in the world today, and their number is going to grow five-fold by 2015

nia Siemens Networks?

- If we are talking about professionals, they absolutely agree on the benefits that advanced solutions bring. Our aim is to promote these solutions at the same time as they become available in the rest of the world. In that respect, we are actively participating in all the important industry events in Serbia like TELFOR. We also demonstrated LTE at the same time as it was implemented in only a handful of networks in the world. On the other hand, if we are talking about the wider public, I don't think that we differ much from people in neighbouring countries. New technologies are fast becoming a part of our everyday lives and we continually need to educate people about them.

► **As Nokia Siemens Networks Serbia is cooperating with all three operators in Serbia, when is the Long Term Evolution (LTE) technology going to be implemented in Serbia as the first step towards the use of broadband Internet?**

- Introducing the LTE technology is the next evolutionary step in the further development of mobile broadband telecommunications. As soon as the required regulatory framework is put in place, LTE technology will start to be deployed in Serbia. It is important that we have all of the prerequisites, in the sense that Serbian operators possess the technological base. Nokia Siemens Networks Serbia is a partner to all three operators in Serbia, and the 3G stations from Nokia Siemens Networks have already been installed and are ready for the quick and easy implementation of the LTE technology. This was validated at the beginning of this year when testing was carried out in Telekom Serbia's network, as well as by the fact that over 40 leading world operators have put their trust in Nokia Siemens Networks when it comes to the LTE technology. ■

Solid Business Climate

We cooperate with almost all regions in Serbia and all the major municipalities in a very fair and correct manner

Serbia is on the way to becoming a politically and economically stable country. There are still certain areas that require hard work and efforts, said Sotiris Yannopoulos for this year FIC's guide

► **Nearly 15 years ago Coca-Cola made quite an entrance in the former Yugoslavia. How would you now describe the efficiency of this investment in global terms?**

- When Coca-Cola Hellenic acquired IBP Belgrade in 1997 it was the largest foreign investment in former Yugoslavia. I would have to admit it was a very daring and risky decision that our company made, having in mind that this market is rather unpredictable, demanding and dynamic. Fifteen years later and after investments worth more than € 200 million, I am happy to say that it was the right move and the investment was absolutely efficient not only for Coca-Cola Hellenic, but also for the Serbian economy and people in this community.

► **Bearing in mind that you employ over 1,000 people and sell your products across the entire country, how would you describe the business climate in Serbia – how much space are you given by the legislation and other regulations for further improvement and profit-making?**

- In a word, the business climate in Serbia is 'solid'. I can't say it is completely satisfactory, but we have all witnessed positive changes over the past couple of years. Although the financial crisis has made

It is necessary to approximate local laws to the legislation of the European Union

business activities substantially more difficult, many domestic and foreign companies have demonstrated outstanding determination and willingness in the struggle for survival in the market. I strongly believe that nothing but positive results for the Serbian economy will derive from such a quality and competitive approach to the market and business.

► **Coca-Cola is a multinational company that rests upon rather precise standards, protocols and procedures. How do you harmonize the demands from your HQ with domestic practice?**

- Coca-Cola Hellenic currently operates in 28 countries. In each country where we operate we primarily adhere to local laws and standards, and then to our own standards, which are, according to our own experience, sometimes much more strict than the official legislation.



First of all, it is necessary to approximate local laws to the legislation of the European Union. Moreover, if we are talking about laws related to our industry i.e. the industry of non-alcoholic beverages, I believe that it is necessary to harmonize the control of juices and labelling on declarations with EU legislation as soon as possible, which has already been implemented by Coca-Cola Hellenic.

► **How does your cooperation with local self-governments function? Are there differences in business activities carried out in different municipalities or in different regions?**

- Coca-Cola Hellenic Serbia produces its extensive portfolio of products in three plants located in Belgrade, Surdulica and Subotica. In addition, our Company distributes products from four distribution centres: Novi Sad, Cacak, Paracin and Nis.

We cooperate with almost all regions in Serbia and all the major municipalities located in the mentioned regions in a very fair and correct manner.

Certainly, there are differences amongst various municipalities, but they are predominantly quite small and in most cases they reflect the particularity of a region in terms of the level of economic or infrastructural development. What our company is intensively working on is the improvement of cooperation with them in the domain of social responsibility and through joint projects intended for the improvement in the quality of life of the local community.

► **What are your strategic goals for 2012?**

- In the forthcoming period we are planning to focus primarily on our beloved brands - Coca-Cola and Fanta - as well as on our premium products within the fruit juice category, which we have recently visually improved. A portion of our business plan will be directed at improving the market position of our non-sparkling category, especially with Rosa water and Nestea ice-tea. Additionally we would like to further strengthen the cooperation with our customers and partners and become their number one supplier. We want to position the customer more clearly at the heart of everything that we do. The focus of our business strategy is also on our employees, who are the prime asset of this company, so we aim to offer them challenging and rewarding careers, as well as a safe, fair and inclusive workplace. ■



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Big Greenfield Investors

OMV, one of the largest Greenfield investors in Serbia, according to the Serbian Investment and Export Promotion Agency (SIEPA), has spent around 140 million Euros so far



Karoly Lajko is of the view that although the economic crisis has affected business, there are good expectations for the company's growth and continued investment in Serbia.

► **OMV has been present in Serbia for ten years now, in a business environment that certainly is not ideal. How do you assess the last 10 years and what were the biggest challenges you faced?**

- We are satisfied with what we have achieved during our 10 years in Serbia. We believe the Serbian market has good growth potential and this is one of the reasons why OMV established its daughter company OMV Serbia ten years ago. OMV has continuously demonstrated its commitment to growth in the local market through a series of sizeable investments.

In the last couple of years, the effects of the global economic crisis were felt in the fuel retail sector and presented some challenges to our business. However, OMV Serbia managed to overcome these challenges successfully thanks to its loyal customer base, high quality and wide range of products and services it offers.

► **OMV is one of the largest "greenfield" investors in Serbia with more than EUR 140 million invested so far. How do you rate the effectiveness of this investment compared to other countries where OMV is present?**

- Currently, OMV has 59 filling stations in Serbia. The average invest-

ment for opening a filling station is more than 2 million Euros. OMV, one of the largest Greenfield investors in Serbia according to the Serbian Investment and Export Promotion Agency (SIEPA), has spent around 140 million Euros so far.

OMV Serbia is satisfied with its current success and growth, despite the fact that for the last 2-3 years we did not exactly achieve what we had planned 8 years ago. This is mainly due to the economic crisis that affected everyone. OMV's current market share in Serbia stands at 16%. The goal is to reach 20%.

Through its "Refining and Marketing" business segment, the OMV Group is present in 12 countries other than Serbia, and is aiming to achieve a 20% market share in these countries as well.

► **How do you assess cooperation with local authorities, especially in terms of licensing, legislation and attitudes towards foreign investors in general?**

- Doing business in Serbia is not difficult: we faced no difficulties obtaining construction and refurbishment permits. We waited about 6 months, on average, to obtain construction permits. This waiting time is not unusual: sometimes it takes between 45 days and 2 months to obtain a permit and at other times a little longer.

► **What are your predictions for the future, when it comes to gasoline prices?**

- The price of gasoline and other retail fuel consists of numerous components such as production cost,

Doing business in Serbia is not difficult: we faced no difficulties obtaining construction and refurbishment permits

excise and duties, taxes, transportation and other costs, to name just a few. Fuel prices at OMV filling stations vary according to the fluctuations of the different components.

OMV cannot predict future global crude oil prices. Any kind of fuel price forecast would be pure speculation.

► **What are the strategic objectives for OMV over the next ten years in Serbia?**

- OMV currently has 59 filling stations in Serbia and our ultimate goal is to increase this number and expand our offering to suit the evolving needs of our customers "on the move."

Serbia is an important market for OMV's Growth Strategy. In Serbia, OMV plans to strengthen its presence in the oil derivatives market, and also in the retail segment, such as through our VIVA shops and restaurants. VIVA is a premium brand. By maintaining this brand's quality and services we will fulfil and may even exceed our customer's expectations. This attention to quality will be followed through in the expansion of our filling station network. ■

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COSTA COFFEE

Commodities Should **Remain Steady**



Since the FIC publication last year, BPI has witnessed the turbulence in the international and local markets being realised in a continued difficult business environment locally

By Ronan CONROY

Director of the BPI Serbia

The real estate industry has witnessed a period of stagnation, as opposed to contraction which had been experienced in previous years. It has continued to be exposed to the absence of customary access to liquidity, both for commercial and retail facilities. This has curbed any potential for significant and consistent transactions in the industry and stifled the market. Serbia however is not alone in this impact of reduced credit availability. This is a trait of the international real estate markets in which BPI operates and certainly prevalent in a European context. BPI believes that only with a European and an International solution to the financial restrictions originating from the financial uncertainty at both sovereign, regional and individual commercial levels can this trait of the real estate markets truly be addressed.

BPI however, together with our peers in the foreign investor community and the real estate industry encourages the Serbian Government in their resolve to formally clarify legislation for the conversion of land for both usage and ownership. This

would greatly assist the real estate market by removing the present uncertainty. BPI maintains that the inherent capital value of well assessed real estate remains at a very interesting level for investment.

Agriculture

In 2010 – 11 the agriculture industry witnessed an increase in commodity prices, firstly by way of an increase in output production prices and subsequently an increase in the input production costs. This parallel increase in input and output pricing ensured that the initial improvement in margin was eroded. This margin was further eroded due to the carry-over from the previous year's tight margins. The increased pricing of certain commodities translated into excessive areas of maize being set for 2010-2011 against industrial crops such as sugar beet; juxtaposed against standard production volumes in the state.

From 2011 – 12 onwards we estimate the commodity pricings to remain steady at the increased level. As with all stakeholders in the agriculture industry, BPI hopes that the increased level of value and pricing will be maintained in a sustainable

Investment

BPI maintains that the inherent capital value of well assessed real estate remains at a very interesting level for investment.

Together with our peers in the foreign investor community and the real estate industry BPI encourages the government in their resolve to formally clarify legislation for the conversion of land

manner, particularly with the prospective onset of international seed companies locally which may provide renewed competition. With this we hope balanced cropping capacities being set shall transpire in Serbia.

Again however, one major obstacle to this effective operation of the agri-market in Serbia is the continued absence of liquidity. Cropping capacities will be distorted to achieve financing from production itself. This is primarily a result of credit institutions not being amenable to financing in a sustainable manner. If the state intervenes and adopts a more homogenous and significant approach to its present support of agriculture, this may assist the sustainable production capacity levels for Serbia being achieved. The Serbian Governments disadvantage of course is highlighted when considered in the context of the EU region and the supplemental financial assistance offered there. We stand by to support the present endeavours of the state and encourage a gradual and sustainable approach to try to assist the agriculture industry. We believe this industry can act as a catalyst for local and regional development. ■

No Compromise on Customer Service

Brian Lack & Co were established in the 1960's and today choose to maintain only prime central London offices in the UK in order to concentrate our niche knowledge to share with our exclusive clientele

Most of our clients live international lives and we are very fortunate to deal with these patrons who have achieved a global presence and wealth and are always looking for the next cutting edge, short or long-term investments.

BL&CO turned international in mid 2011, launching in the Hyatt Regency in Belgrade, the premier five star hotel in Serbia's capital city. From the prospective of an originally UK based company, we do not know of another international real estate agent of our kind to launch such an opportunity in Serbia. The objective is to replicate our achievements in London, using our current international relations and cross border investor interests in Serbia. The statistics are impressive as to the investment potential in what could be described by some, as a perhaps an overlooked economy so far.

Real estate all over the world takes many shapes and forms. No matter whether you are buying your first flat, a family home, a rental investment or a development, it represents an investment into a person's or a family's life, emotion, lifestyle and or financial gain. We transact purely in real estate because that is what we know. Before showing any of our investors a property or investment proposal we first take the time to understand their lifestyle, priorities, financial advantages and their final goals for the investment. We do not offer to meet our clients at

Central London
The niche markets we represent in prime central London are so competitive and probably 40-50% of real estate is sold 'off market.'

Brian Lack & Co opened Knightsbridge in the summer of 2009 and have grown from strength to strength

the airport in a chauffeur driven Mercedes S65 AMG to show off, but to enable them to utilise the precious time they have in London to gain as much information from us about every aspect of the investment they are looking for.

An increasingly growing part of our real estate business is our Acquisitions Service. Clients, in particularly our international ones, are increasingly realising the value and various cost savings achievable by retaining our services, that of a trusted local professional to look after their investment terms. The niche markets we represent in prime central London are so competitive and probably 40-50% of real estate is sold 'off market'. There is an environment, more than ever now, that without hiring an acquisition advisor you risk missing out on the perfect investment.

Our achievements in the UK have, in places, been inspired by elements of the Serbian way. Our company initially began trans-



acting with Serbians in St John's Wood, and as relations grew, their investments became more widespread to the areas around Knightsbridge. As a result, our investors made a big contribution towards propelling our existing drive and momentum to open a new office branch in Knightsbridge. We opened Knightsbridge in the summer of 2009 and have grown from strength to strength, widening our market share and areas of expertise across Belgravia, Mayfair and the Royal Borough of Kensington and Chelsea. We are excited to open in Belgrade and are looking to draw on our experiences and successes in St John's Wood and Knightsbridge in order to replicate these achievements in Serbia. We have built a client network and they have been very generous in recommending our services to their peers. Such personal endorsements are key to growing a real estate agent in the niche markets we specialise in, in London. We expect it to be no different in Serbia. Customer Service and attention to detail is everything. No compromise.

Brian Lack & Co are proud to maintain a small, independent agent status with an international outlook as this way we can ensure our attention to detail and high standards of customer service. We attract the right clientele for our business and in that way ensure they have no need to look elsewhere. We will source the right property for our clients, whatever it takes. An international market should never be taken at face value and local expertise should never be underestimated. ■

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Quality Partnerships Our Vision in Serbia

Since 2003 we invested over \$821 million mainly into the development of technology, products and people. We managed to secure strong market leadership, leveraging our diverse product portfolio responding to highly sophisticated adult consumer needs with our quality products

► **Mr. Riley, how would you describe, in short, the current situation in the Serbian tobacco industry?**

- 2011 has probably been one of the most difficult years for the Serbian tobacco industry so far. The AC Nielsen July report shows that the cigarette market decreased by as much as 15.2% in comparison to the same period last year. This resulted from the combination of several factors, including the implementation of the Law on Protection of Citizens from Tobacco Smoke and a higher than ever excise tax increase in December last year.

The steep excise tax increase in December last year combined with a very high cigarette excise tax incidence in Serbia (74% on Weighted Average Price) has now exposed all the weaknesses of the existing tax structure. Specifically, the significant differ-

Local partners

In 2010, we paid over \$85 million for goods and services procured from local partners in Serbia.

ence between the tax increase in absolute terms for cigarettes in the cheap price segment and all other cigarettes widened price gaps which caused major consumer down trading of 4.6 pp. This further led to a number of price re-positionings in the market. In 2011, as never before, some cigarette brands were price re-positioned several times in a period of only couple of weeks. At the moment, the negative implications are impacting mostly on the manufacturers and the trade, causing them financial losses.

We hope that by the end of 2011, the consultations which started with the government in May will result in the adoption of an improved excise tax structure in line with the best international practices and the latest trends

However, unless the structural weaknesses in the existing excise tax structure (minimal excise tax and relatively high Ad valorem rate) are addressed, the current unfavourable market dynamics may impact the state revenues in the future. In our opinion this requires significant consideration, especially as cigarette taxes (excise and VAT) represent 12% of the revenue of the Serbian budget.

We hope that by the end of 2011, the consultations which started with the government in May will result in the adoption of an improved excise tax structure in line with the best international practices and the latest trends. I am confident that this would contribute to re-establishing certainty and predictability for the entire tobacco supply chain, including manufacturers and trade, but also consumers and the state.

► **Your company is recognized as an example of one of the most successful privatizations in Serbia. To what do you credit this success and what are your investments in Serbia so far?**

- In 2003, Duvanska industrija Nis (DIN) became part of the Philip Morris International global network in the third largest privatization ever in Serbia. Since then we invested over \$821 million mainly into the development of technology, products and people.

We managed to secure strong market leadership, leveraging our diverse product portfolio that covers nearly 46% of the market across all price segments and responding to highly sophisticated adult consumer needs with our quality products.

Over the past eight years, we identified a large number of talented people from Serbia and invested lots of resources in the development of young professionals, exposing them to the most advanced business practices and diverse business environments. They are and will continue to build successful international careers within PMI, representing a valuable resource for the company as well as for their country.

In addition, our significant contribution to the total tax collection in Serbia also reflects the success of our privatization case. In 2010 alone, we paid approximately \$450 million in taxes and contributions, which makes us one of the largest tax payers in the country.

► **Philip Morris employs over 1,000 people across Serbia, cooperates with the tobacco growers along with many other various suppliers. How important is it for your company to have domestic companies that can supply you with the goods**

and services that you may need?

- Building quality partnerships with our business partners represents a substantial part of our business practice. By doing so, we enhance the overall economic development across a variety of economic branches - all the way from the agricultural producers of tobacco leaves via vari-



We currently have more than 800 local suppliers of materials and services and almost 20,000 retail partners across Serbia; in addition, we purchase tobacco grown by over 800 domestic tobacco farmers

ous goods and service providers to retailers. We currently have more than 800 local suppliers of materials and services and almost 20,000 retail partners across Serbia; in addition, we purchase tobacco grown by over 800 domestic tobacco farmers.

Translating this into financial terms, in 2010, we paid over \$85 million for goods and services procured from local partners in Serbia. We also invest efforts into sharing best practices and international experience with our business partners with the objective to build a network of

suppliers that can respond to the highest quality standards. Having a well-developed business environment is certainly very important for a company as it creates pre-conditions for its further growth and development.

► **What percentage of the factory's production goes to export and do you plan to expand your export capacities?**

- Our Serbian factory is supplies the local market and is currently manufacturing products for exports to Montenegro, Bosnia and Herzegovina and Macedonia. We are continuously developing our ability to compete within the PMI network of factories and to be able to source products to new export destinations. I am very proud that today our factory in Nis is one of the top production centres in PMI worldwide and in

terms of product quality indicators it is rated amongst the top five in Europe.

► **What are your business plans for the future?**

- Going forward, we at Philip Morris in Serbia, will continue pursuing ambitions plans for our presence in the local market. We remain focused on product innovation and people development, which are the key pillars of our long-term strategy for business growth.

Our Management continuously works on securing the competitiveness of our factory in a very challenging and competitive Serbian market as well as in the global PMI network. We hope that future developments of local tax and regulatory frameworks will be reasonable and supportive to provide much needed stability and predictability. ■



Ambitious Goals

Serbia is on the right track to resolve the problem of packaging waste in a long-term, efficient and systemic way

Regulation which covers the declaration of packaged foodstuffs, adopted in 2004, was not in line with EU Regulations even at that time, the ministry which adopted it, does not exist anymore, which makes its implementation very arbitrary, says Milica Stefanovic.

► **Information provided on labels is the most efficient manner of communicating to consumers. What can the consumers in our country read from food labels?**

- It is of the utmost importance that the labels reflect the true nature of the product—ingredients, content, possible uses and effects on consumer health. It is necessary to have updated legislation covering this significant field. Unfortunately, in Serbia today – that is not the case. Regulation covering this topic is the Rulebook on declaration of packaged foodstuffs, adopted in 2004. Even then, the Rulebook was not in line with EU regulation, and the fact that the Ministry that adopted it, does not exist anymore, makes its implementation very arbitrary. This, with the fact that Serbia's National Reference Laboratory is not functional causes the information on labels to vary greatly to EU markets, complicating business and providing consumers with information which cannot be fully substantiated. Particularly, this applies in various functional and health

claims often made on food labels, a practice strictly forbidden by EU regulation in this area. Hopefully, the Rulebook in question will be changed urgently, as it will help the producers comply our market with the EU and provide consumers with relevant, accurate information they will know can be trusted.

► **The system of collecting and recycling is not only important for ecology, but for the economy and energy too. Are there any steps forward in this field?**

- Serbia is on the right track to resolve the problem of packaging waste in a long-term, efficient and systemic way. Law on Packaging and Packaging Waste adopted in 2009 set the goals for recovering

Both the industry and communal services are working hard to set the system in place to meet the ambitious goals for 2014: 30% of packaging waste recovered, out of which a minimum of 25% recycled

and recycling of packaging waste until 2014. We witness that both the industry and communal services across our country are working hard to set the system in place to meet the ambitious goals for 2014: 30 per cent of packaging waste recovered, out of which a minimum of 25 per cent recycled. Of course, 2014 is not the end goal, but a milestone to achieving the EU standard of 55 per cent of packaging waste recovery. We have a reason to be confident this goal will be achieved: more than a dozen cities across Serbia have already started the implementation of systems for primary selection of packaging waste, one million citizens will be by the end of this year able to participate in primary selection of their waste. ■

MARJAN POLJAK, Legal Committee Vice President (Karanovic & Nikolic)



Cohesion Needed

One of the common problems we have identified is the approach and requirements introduced by certain state bodies which can vary in the same matters

According to Marjan Poljak, the main problem all companies are facing is related to the large number of documents a company has to submit.

► **The issue of the daily running of business in Serbia is very important for any foreign investor. What are the main obstacles?**

- The main problem, apparently, still lies in the number of formalities that have to be fulfilled on a daily basis, particularly in the cor-

respondence with the different type of state authorities. When thinking about the main obstacles I can point out some basic problems every company can face, which relate to a large number of documents a company has to submit in different procedures. This refers to originals signed by the company's representatives and sometimes even notarised, which is an administrative and logistical problem for most of the companies, especially in cases where their representatives are on business



Training Brings Success

Training programs that improve practical skills have proven to give the best results

Milena Jaksic Papac considers the lack of practical knowledge of graduates as the biggest problem

► **Are there specific education programs that obtain the best results in the HR field here in Serbia? How much are employees in Serbia interested in their own advanced training?**

- Competition in the market, more demanding requirements and expectations are forcing companies to adjust to permanent changes in the business environment. Em-

ployers recognize the need for investing in the development of employees, as well as the importance in the continual professional improvement of employees for the achievement of competitive advantage. The HR divisions of successful companies pay significant attention to all training programs within

The Labour Law, as an important regulation, inevitably must pass through certain amendments

the company, as this influences the activities and success of the company and its employees. Although our educational system is still in the process of certain reforms, the lack of practical knowledge of our grad-

uates is not yet eliminated. Therefore, the training programs that improve practical skills have proven to give the best results, since the benefits arising from such investments become notable very quickly. Employees in Serbia are very interested in all aspects of education. Besides being a legal obligation of employees to attend training and professional upgrade programs which their employer enables, it is also noted that investments in the education of employees increases their motivation to work.

► **What are the burning issues related to the Labour Law?**

- The Labour Law, as an important regulation, inevitably must pass through certain amendments. The FIC and its HR Committee made a detailed analysis of this Law and submitted elaborated suggestions to the Government. Some of these suggestions are accepted, but still pending. Therefore, crucial problems for foreign investors remain as follows: (I) severance payment in case of redundancy is calculated taking into account the total years of an employee's service, (II) the Law mandates a very complex salary structure, which is not in accordance with the salary systems throughout the world, (III) the calculation of compensation during the absence from work enables the absent employee to receive earnings which are higher than the salary they would normally have earned, (IV) the Law appears to be obsolete when it comes to new types of workforce engagement, e.g. through outsourcing which is not regulated by the Law, but already widely spread in practice. ■

trips and are thus not able to promptly fulfil all the required formalities.

Additionally, one of the common problems we have identified is the approach and requirements introduced by certain state bodies which can vary in the same matters from municipality to municipality and even within one city as is the case with Belgrade. This can sometimes cause practical problems and delays in fulfilling certain obligations.

► **In the meantime, support for Serbia's EU membership declines. Only 53 percent of citizens are in favour of EU accession. Do you expect any problems in the adopting of various regulations set by the EU in the process of Serbia joining?**

- It seems Serbia is willing to harmonise its legislation, and in practice it is adopting a

number of new regulations which are mostly in line with the EU legislation and requirements. The possible change of citizens' perceptions of the EU accession could influence the government's willingness to keep the process of harmonisation as fast as it is doing so currently. One of the key factors that could influence this attitude in the near future is the fact that next year is election time in Serbia

The possible change of citizens' perceptions of the EU accession could influence the government's willingness to keep the process of harmonisation as fast as it is doing so currently

and the government's work is under major scrutiny, and in the following period it will be, without any doubt, under the great influence of public opinion. However, I believe that the process of adoption of the various regulations set by the EU will continue in the future with more or less enthusiasm. However, this will depend on numerous circumstances. ■

Positive Developments



Serbia has introduced pillars of market economy and started market liberalization

According to Jasmina Vignjevic, Serbia has numerous advantages. The second lowest profit tax in Europe and VAT is amongst the most competitive in Central and Eastern Europe

► **What measures can the Government of Serbia take in the telecommunications sector to improve the business climate?**

- The telecom sector is a significant contributor to the Serbian economy with high potential for growth; therefore the Serbian Government should stimulate its further development.

Serbia has a good legal framework introduced by the Law on Electronic Communications in line with EU directives and the 10% tax on mobile phones was abolished as of January 1, 2011 both of which are positive developments. However, there are a few crucial things to be done: Encourage development of new telecommunication infrastructure and enable the use of existing alternative infrastructure by all kinds of electronic services; Improve coordination between relevant governmental institutions in the process of new legislation development and implementation phase (telecom, consumer protection and construction areas); Allocation of digital dividend and adoption of the new frequency al-

location plan based on technological neutrality: release of additional frequency bands for public mobile services at 900 MHz, 1800 MHz and 2600 MHz is a precondition for further sector development.

► **Compared to other countries in the region, what are the advantages and disadvantages of Serbia?**

- There are numerous advantages in Serbia: the second lowest profit tax in Europe and VAT is amongst the most competitive in Central and Eastern Europe. It's geographic position makes Serbia attractive for investors to locate the operations and access different markets. Serbia has introduced pillars of market economy and started market liberalization. Serbia has significant market potential and the Serbian Government shows receptiveness towards potential investors.

However, one of the main disadvantages is that there is still a lot of unnecessary bureaucracy and it is important to further work on simplifying the procedures to make things easier to do business.

Further harmonization of Serbia's regulations in order to introduce EU standards to the domestic market is needed.

Also, very high municipal level taxes and fees which significantly differ from municipality to municipality make the business environment unpredictable for investors. ■

The Serbian Government shows receptiveness towards potential investors

Unstable Foundations

The private sector is producing barely anything and this situation will continue until at least 2013



“Market trends and further development will be decisive for many companies in the following few years. Without significant improvement in the legal framework many companies will collapse.” warns Nebojsa Nesovanovic.

► **Is there currently any room for optimism when it comes to the recovery of the construction business from the economic crises?**

- I would like to be more optimistic, however, I believe that 2012 will be even harder for the construction business than 2010. Currently, the construction business in Serbia can only rely on government funded projects, which are expected to slow down after the elections that should take place in

The construction business can only rely on government funded projects, which are expected to slow down after the elections

the operational by-law that will enable the conversion process.

► **What is the main characteristic of the Serbian real estate sector today?**

- The main characteristic is the early phase of the market, its immaturity. All other characteristics are just adjectives describing immaturity. The legal framework is incomplete. Procedures and administration are inefficient. The market is very shallow or even non-existent in many segments. It is dominated by local developers with a background in some other industry or the opportunistic foreign investors.

Institutional investors are barely present in the market. This was the last market that foreign investors penetrated before the crisis. The Serbian market is much smaller than any other SEE/CEE market, with mod-

est demand and a lack of liquidity. Working in such a market can be very challenging and frustrating, however, competition is fragile and financial results can be more lucrative than in developed markets. Market trends and further development will be decisive for many companies in the following few years. Without significant improvement in the legal framework many companies will collapse. ■

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Multilevel Dialogue Crucial

We see the FIC as one of the partners, if not one of the leaders, in the promotion of cooperation between associations in order to influence change. 'Change' is why the FIC exists for its members

By Max WILLIAMS

One of the achievements of the FIC this year is the improvement of dialogue. What we have managed to do is further expand the dialogue, in terms of the depth and width, i.e. in all areas, bottom to top. Ana Firtel, Executive Director at FIC, is content with the work that the FIC is doing, but does feel that the government needs to implement more of the reforms that FIC members suggest.

► **The past year has been marked by increased business advocacy. How do you see the role FIC holds?**

Dialogue
One of the key characteristics of the FIC's work – dialogue.

The work of the FIC, and that of other associations, is done with the long term in mind. Immediate results can rarely be expected

- The FIC has a rather unique role and was one of the first associations to be established in the Serbian marketplace. I would say that the FIC is unique because of the 3 main characteristics that it possesses.

Firstly it has variety. Variety is the basic element of the FIC and it comes from the fact our members are companies from around the globe, including the U.S., Russia and China but mainly the EU.

Secondly we cover one portion, but a very crucial portion, of 'advocacy business' - as in regulatory advocacy. We do not provide any kind of B2B service which is something that different chambers do on the market, but this is not our line of business.

The third characteristic of the FIC is in its order, meaning that

we have put together very strict procedures in terms of how we conduct decision making and this process is established in a way to take into account the interest of our wider membership,

not merely a group of members or a group of companies which are members of the FIC.

► **There are several new business associations, what is the FIC's take on them?**

- I would agree with you that in the past couple of years a number of different business associations have been established - mainly sectoral associations and national chambers. We at the FIC endorse this development, and we believe that by increasing the number of associations the dialogue between business and the government will in turn mature. This is something we have tried to achieve and actively support. We see the FIC as one of the partners, if not one of the leaders, in the promotion of cooperation between associations in order to influence change. 'Change' is why the FIC exists for its members. We believe that by working alongside different associations we can encourage a positive change. We do have a lot of interaction with other associations and have also coordinated our efforts with a number of sectoral associations. The aim is to drive improvement in specific sectors and the business environment overall.

► **Are you happy with the outcome of the dialogue with the government and do you have an equal level of communication with all levels?**

- We communicate and have established a good level of dialogue with high-level government officials. Although top-level officials drive change, what we have done over the years is to strengthen the dialogue on the mid-expert level which is also crucial. Dialogue on this level is essential for reform processes, which are again driven by top officials but are implemented in practice by mid-level administration, which is there to drive the regulations through. I would absolutely agree with you that multilevel dialogue is crucial for an effective government-business dialogue.

In terms of outcomes, I must say that we always strive for better results. Communication with



The mission of the FIC is to jointly contribute to the improvement of the business environment for both foreign and domestic companies

the government is excellent, but the outputs of this dialogue could be notably improved.

► **The FIC gathers companies from across various industries, including some of the most**

prominent foreign investors present in Serbia. What are the key benefits of being an FIC member?

- The key offer that the FIC puts to its members is the opportunity to influence change by utilizing their experience. As I have said, the fundamental work of the FIC is regulatory reform and what we offer to our members is for them to bring to the table the experiences that they have from this market in implementing the regulations and seeing how they work in practice, but also linking that to the knowledge they have from other markets.

Our role is to be a promoter of business views to the government. We are used by the companies to advocate regulatory change and this is what the FIC is all about. What we provide to our members is an opportunity, along with another 120 companies, ►►

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► is to jointly address their regulatory concerns. It is one thing when one company comes out with a regulatory proposal; it is a totally different thing when there are 120 standing behind it. This is also why we cooperate with other associations. This show of unity is an acknowledgment of the wider interest.

► **Looking at 2011, could you tell us what are the main FIC activities and achievements?**

- The key achievement is the improvement in dialogue and the 'Reality Check' Conference we organized for the second year in a row can serve as a good example. The idea behind this conference is to support the dialogue between the government and our member companies. This year, we greatly expanded the number of government interlocutors that participated in top and expert level discussions organized within the conference.

If we talk about specific advocacy activities, I would like to point out a couple of issues that we tackled earlier in the year. First, we have improved our dialogue with the Ministry of Agriculture and have specifically tackled the issues of food safety and quality standards, although we are awaiting solid results. We have also analysed the area of spatial planning, in terms of commenting on changes to Construction Law and Decree on Conversion. It must be said that in both of these areas we are waiting on concrete results.

To round off the year we have the FIC Assembly to evaluate our work and discuss future policies with our members. In addition, this Assembly will include our internal elections, which are held every two years.

► **Do you think the Government is happy with the FIC's**

role in the continuous push for better dialogue?

- I would say that they are happy about it. The government very openly, and very sincerely, recognizes the role of business advocacy and they highly appreciate the



Basically the FIC is a mechanism for dialogue between our members on one side and the government on the other

input from a business perspective on how the business climate in Serbia could be improved.

There is though plenty of room for improvement in acting upon our recommendations, and on this point we are not fully satisfied, for example we participated heavily in the regulatory 'guillotine project' and prepared around 120 recommendations of which only one third were implemented. That is not what we would characterize as a positive step.

► **The 'White Book' 2011 is vigorously being prepared by the FIC. Could you tell us more about this important publication in terms of how it is being produced and with what aim?**

- The main vehicle by which we

express our opinions and possible solutions to solve some of the major economic issues in Serbia is in the annual publication is the 'White Book'. The 'White Book' is one of the best mechanisms to track reform results. The structure of the book is such that it is meant to initiate change. Its key characteristic is that it brings to the forefront the knowledge and experience of expert practitioners i.e. employees of FIC member companies that feel the tangible effects of the regulation in their daily work. Another key aspect of the 'White Book' is that it is produced through a very active dialogue between FIC members that need to agree on the report and the recommendations 'White Book' will feature.

► **What do you envisage moving into the next few years?**

- The work of the FIC, and that of other associations, is done with the long term in mind. Immediate results can rarely be expected. Looking at the current position of where Serbia is in the transition process, I would say that in the next of couple years we will be dealing with the remaining structural deficiencies of Serbia. In the past period, what the crisis drove in the business sector was the utilization of all the available resources and we need to see that in the government as well. Equally as important, what we have seen is that many regulations have been put in place in line with EU standards, which investors appreciate, but when it comes to their realization we see in practice that they are not properly implemented. The FIC will continue to work to improve law implementation and support the government in its ability and capacity to adequately and evenly enforce regulation. ■

New Media Summit – Digital Agenda

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BUSINESS
DIALOGUE



TOPICS

- Digital agenda – an opened global market (video message)
- Information society and its challenges to emerging economies
- Regional experience and digitalization of television in Serbia
- How to interactivity of the digital age is affecting journalism and editors around the globe
- Serbian internet compared to other countries in CEE and Western Europe
- Digital television in Serbia – the new beginning
- IPTV insights and perspectives
- Trends in Digital income

SPEAKERS

- Ms. Malgorzata Kowalczyk, EU Commission Audiovisual and Media Policy Unit, Policy Officer for International Relations
- Ms. Jasna Matić, State secretary for Digital Agenda, Ministry of Culture, Republic of Serbia [video message]
- Mr. Stephen Herrmann, BBC Online News, Editor in Chief
- Mr. Vasile Baltac, Council of European Professional Informatics Societies (CEPIS), President
- Mr. Philip Pieczynski, Gemius, Vice President
- Mr. Jan Jilek, IAB Croatia, President
- Ms. Mojca Jarc, Directorate for Information Society, Head of department for electronic communications infrastructure
- Mr. Milan Janković, RATEL, Director
- Ms. Tatjana Ćitić, Serbian Broadcasting Corporation (RTS), Editor in Chief RTS Digital
- Mr. Marek Slačik, Telenor, Chief Marketing Officer
- Ms. Jelena Stojanović, Telecom Serbia, General Manager, Commercial Affairs, Marketing & Sales
- Mr. Jovan Protić, Ringier Axel Springer, Chief Digital Officer

WHO SHOULD ATTEND:

- Marketing managers
- Corporate Communications Directors
- PR and marketing professionals
- Print, electronic and online media representatives
- IT professionals
- Telecommunications and internet solutions and services providers
- Software engineering industry representatives

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Equal Treatment and Transparency Above All



We are respectful of the fact that our members are primarily working within their companies and that they have to invest a certain portion of their working hours to engage in FIC activities

I am happy to be a part of the wider team that is responsibly doing its work and which naturally brings to attention each and every detail, said Milica Djordjevic.

► **You are responsible for both internal and external communication. Could you reveal to us what is the main strategy and which rules are you applying in your daily work with regards to internal communication?**

- Let us not forget that the Foreign Investors Council is a serious and renowned association that gathers the most prominent investors who are present and operating on this market. Having said that, and at the same time being responsible for the communication in such a place, leads me to the conclusion that equal treatment and transparency are an absolute must if we want to maintain our current image. We have put a system to work so to say, and do have different kinds of established and consistent tools that we use in both our internal and external communications. It eases up our work but if you wish to follow the same pattern in order to be consistent, sometimes it requires additional work and more energy than to do the job from the starting point. I am happy to be a part of

Tools

We do have different kinds of established and consistent tools we use in our both internal and external communications.

We have put a system in work so to say, and do have different kinds of established and consistent tools we use in our both internal and external communications

the wider team that is responsibly doing its work and which naturally brings to attention each and every detail. In my view, this is one of the common ways to introduce some positive change to the company or organization for which you are working. Whether we are organizing a conference for 600 people or a cocktail evening just for our members, it does not make a difference in our approach. With the same enthusiasm, we have jointly created different patterns of communication that we use on daily basis so that we can respond to our members' various needs in a consistent way. The structure of our electronic correspondence is established in order to convey to our members, in a brief manner, what is the essence of the message and what are the main aims of certain committee meetings, member initiatives, different events and activities. We are respectful of the fact that our members are primarily working within their companies and that they have to invest a certain portion of their working hours to engage in FIC activities. We continuously monitor their feedback and whenever we are able to respond in a better way to their needs we are more than happy to do so. One practical example is that in previous years

we held committee meetings that started at 5 pm. In the meantime, members initiated a shift from 5 pm to 4 pm and sometimes even for 3 pm. We listened to the majority and simply changed the time frame of committee meetings, and responded positively to membership initiative and needs.

► **What is the major editorial concept of the "FIC News" bulletin?**

- We prepare and send the "FIC News" bulletin solely to our members on a monthly basis. The aim of this specific vehicle is to sum up and present, in a concise manner, what were the most important activities that we conducted in a previous month. The idea is to help members to be better informed of the main opportunities that are offered to them, and thus choose the ones they are interested in. We keep saying to both present and potential members that the FIC is a platform to be used for the improvement and ease up of business conditions on this market. We are aware though that these goals are set up on a long term basis and that they depend on numerous circumstances. Making any achievement in that respect is hard to attain and does include a lot of different efforts and initiatives to be made and implemented.

► **What about external communication?**

- Talking about external communication, we use the same principles – consistency and transparency above all. We have established strict internal procedures which are needed to formulate FIC positions on different topics of interest. Those are the position papers that will be used in communication with various stakeholders and media. We keep in mind that everything we advocate for in terms of the improvement of the business environment, has to be through a unified voice of the majority of our member companies or the majority of companies representing a particular industry. Our committees diligently work on the preparation of various standpoints pertaining to different draft regulations during a year and after they are endorsed, those papers represent a framework for external communication with the relevant ministry and stakeholder community.

► **How would you describe communication between Foreign Investors Council and media?**

- In terms of communication with the media and FIC presence, we think that there were significant developments that allowed us to introduce some novelties in our strategy and work. First of all, being aware of our internal capacities, we organized the “pitch” last summer and chose the agency “Pristop” to provide us with PR support on

a long term basis. Since then, we jointly prepare a yearly publicity plan and separate media plans that are used for our most significant public events, such as the White Book promotion, “Reality Check”



Conference, etc. This cooperation certainly reflected positively on the Foreign Investors Council’s overall image and there were some positive outcomes. Namely, the FIC opened up more to media requests and thus our main spokespersons – FIC President and FIC Vice President of the Board of Directors were more present in the media in two ways – either previously arranged and in accordance to the endorsed media strategy, or accepting the ad hoc opportunities that arose as a result of improved communication with the media. The Pristop team helped us to carefully access various media enquiries and accept those that could help us in improving our image in public. It is important to mention that our main strategy considering media requests re-

We keep saying to both present and potential members that the FIC is a platform to be used for improvement and ease up of doing business conditions on this market

mained the same – we do not comment on daily politics, while at the same time we are present when we have something important to say to the wider public.

► **Could you name some achievements the FIC has made in its recent communication with the media?**

- I think that we had some good achievements that deserve to be mentioned. At the last FIC “Reality Check” Conference, that was organized in May 2011, we had 146 media reports in total. This event was one of the main economic topics in the Serbian media during the second part of May according to analysis conducted by Agency “Kli-ping”. All the reports regarding the “Reality Check” Conference were neutral and I believe that it says something important – the media respect this association and try as much as possible to report objectively on our events. Also, on the day of the Conference, we had FIC President and FIC Vice President as guests on two TV stations with national coverage. I personally think that this is a result of great efforts and investments being made in this platform by our members during the year. Also, the FIC Board of Directors is providing great support with their strategic guidance and contribution. Without members’ willingness and readiness to actively engage in FIC, we would not be able to move forward to the next stage in our development. ■



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