



AMCHAM SERBIA

A LEADER IN CHANGE

**SEVENTH
LAP TIME
CONFERENCE
THE TIME IS
NOW!**



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THIS YEAR'S SURVEY IN BRIEF

AmCham's survey of the business climate and investor confidence presents attitudes of AmCham members towards the business environment in Serbia. The research was carried out using a quantitative, anonymous, online questionnaire (the sample numbered 109 member businesses), as well as through more than 40 qualitative face-to-face interviews. The survey has been performed annually since 2013, with a hiatus in 2015; this year's iteration, the sixth of its kind, took place from July to October 2019.

As most AmCham members are medium-sized and large companies, in keeping with previous years' practice, the sample included a number of non-member firms, primarily medium-sized, small, and micro-enterprises and start-ups (MSMSs), clustered into several associations: the Micro, Small and Medium-Sized Enterprises Department of the Serbian Chamber of Commerce and Industry, Eneca, Startit, ICT Hub, and Impact Hub. We examined and compared the opinions of both large investors and small firms so as to gain a more thorough understanding of the overall state of Serbia's economy and better identify the interventions needed to accelerate growth.

INVESTOR SATISFACTION AND CONFIDENCE

- **Overall, the respondents were “moderately satisfied” with the business environment, with a slight decline in optimism:** Moderate satisfaction with the business environment was reported by 66 percent of AmCham members, a decline relative to one year previously, with poorer scores now more common. Respondents also voiced more caution when it came to expectations for the future: slightly more than one-half of those polled expect no improvements to the business climate in the coming year. Feelings of optimism are more prevalent in a medium-term perspective, with 67 percent expecting minor improvements over the coming three years. As in past years' surveys, MSMSs were more critical of the business environment than AmCham members, but at the same time had greater expectations for its improvement.

- **In keeping with recent trends, optimistic growth forecasts have persisted:** This is the third consecutive year that AmCham members have been noticeably more optimistic about their growth prospects than previously, in terms of both business performance and hiring. As many as 78 percent of all firms expect to grow, while 61 percent plan to take on new staff in 2020. Whereas actual growth for the past year significantly exceeded expectations, at more than 10 percent, moderation has now set in: 5 percent of all firms reported having performed better than expected, with 2 percent claiming to have hired more new employees than originally envisaged. The MSMS sample are traditionally more optimistic in their growth forecasts than AmCham members, but are also much less likely to achieve their targets.
- **Challenges for the year ahead:** The greatest challenge to growth, as reported unanimously by both AmCham members and non-member MSMSs surveyed, is the lack of available labor force. Whereas AmCham members were apprehensive of unfair competition, judicial efficiency, and predictability in the enactment and implementation of legislation, non-member firms voiced their concerns over how to enhance liquidity, either by accessing new sources of finance or collecting their accounts receivable.

BUSINESS ENVIRONMENT AND REFORMS DESIGNED TO PROMOTE INVESTMENT

- **Serbia vs. its neighbors:** As an investment destination, Serbia was generally ranked better than Montenegro, North Macedonia, and Bosnia-Herzegovina, but fared more poorly than its EU neighbors. The same as last year, Bulgaria and Croatia scored somewhat higher, but their business environments were seen as very similar to that of Serbia.
- **Best and worst-ranked business reforms in recent years:** The same as last year, the highest scores were awarded to reforms put in place by the previous administration: reduction of the budget deficit and streamlined construction permitting. The current government was praised for launching e-government services. Again, the poorest scores were awarded to the lack of reforms to state-owned enterprises (SOEs), healthcare, and the judiciary.

- **Reforms to promote business growth – focusing on institutions and consistent implementation:** Year after year, institutional reforms have increasingly taken center stage for AmCham members. Rule of law, judicial efficiency, and anti-corruption efforts are fast becoming indispensable preconditions for any effective sectoral reforms.

Cross-referencing priority reforms and key challenges faced by both large and small businesses produces this list of priorities:

1. *Enhancing the rule of law and efficiency of the judiciary;*
2. *Tackling corruption;;*
3. *Improving predictability of taxes and quasi-fiscal levies and reforming the Tax Administration;*
4. *Improving transparency of lawmaking (through consultations with businesses), and in particular monitoring the implementation of business laws and measuring their impact;*
5. *Labor force availability;*
6. *Continuing efforts to address the shadow economy;*
7. *Promoting e-government and e-business;*
8. *Continuing cuts to labor-related administration;*
9. *Ensuring property rights are safeguarded more effectively;*
10. *Reducing non-tariff barriers to imports and exports, especially between Central European Free Trade Agreement (CEFTA) countries;*
11. *Improving effectiveness of the health service;*
12. *Modernizing and implementing environmental policies;*
13. *Ensuring firms can access additional finance and promoting payment discipline.*

STRENGTH OF AMCHAM COMMUNITY

DATA FOR YEAR 2018

203

U.S., INTERNATIONAL AND LOCAL MEMBER COMPANIES

95.000

DIRECTLY EMPLOYED CITIZENS OF SERBIA* AND **130.000** MORE INDIRECTLY EMPLOYED

12,3

BILLION EUROS IN TOTAL ANNUAL REVENUES*

14

BILLION EUROS IN TOTAL INVESTMENTS

METHODOLOGY AND DEMOGRAPHICS

This investor confidence and satisfaction survey was the sixth of its kind among AmCham member companies, and gauged respondents' perceptions of the state of the Serbian economy and views of which business reforms were needed the most. The first survey of this type took place in late 2013, and was followed by four more rounds, in 2014, 2016, 2017, and 2018.

The methodology has remained unchanged from previous studies: the quantitative part was based on an anonymous online questionnaire administered from July to October 2019, whereas the qualitative portion involved face-to-face interviews with top managers of selected firms. Both the quantitative and the qualitative parts of this year's survey again included a control group composed of a number of micro-enterprises, small businesses, and start-ups (MSMSs) that were not AmCham members. This survey particularly looked at several high-growth firms ("gazelle companies").

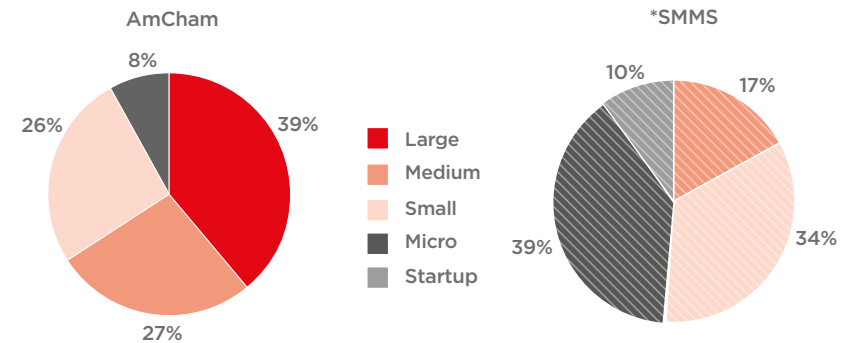
STRUCTURE OF THE SAMPLE

Quantitative survey – AmCham's quantitative survey was comprised of 109 AmCham members, of which 39 percent were large, 27 percent medium-sized, and 26 percent small firms; a final 8 percent were micro-enterprises. Companies with more than 500 staff accounted for 28 percent of the sample, with firms of between 100 and 500 employees making up another 20 percent. Finally, one-half of the respondents were companies employing fewer than 100 people.

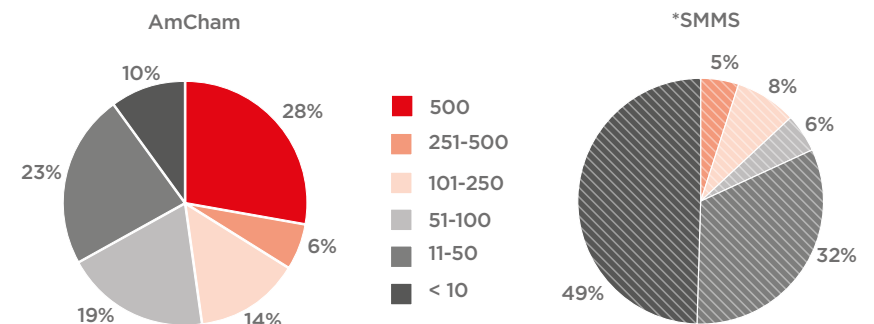
As many as 84 percent of the AmCham members surveyed did not employ a single worker at the Serbian statutory minimum wage. An additional 94 percent did not use investment or employment incentives offered by the Government of Serbia.

The firms surveyed came from a wide variety of industries: agriculture, consulting and accounting, distribution and logistics,

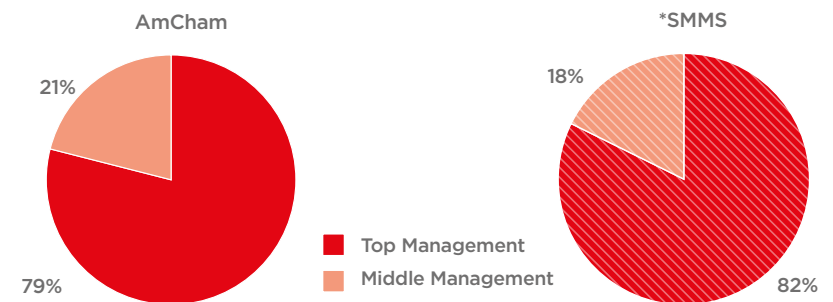
WHICH LEGAL ENTITY GROUP DOES YOUR COMPANY AFFECT?



HOW MANY EMPLOYEES DO YOUR COMPANY HAVE?



WHAT IS YOUR POSITION IN THE COMPANY?



* Startups, micro, small and medium enterprises

education, financial services, fast-moving consumer goods (FMCG), services, healthcare and pharmaceuticals, information and communication technology (ICT), manufacturing, marketing and public relations, real estate, and travel. Most individual respondents worked in ICT, consulting, manufacturing, and finance; 79 percent were their firms' senior executives.

Qualitative survey – This involved face-to-face interviews with 40 selected AmCham member companies, which consisted of commenting on the findings of the quantitative survey and elaborating on the key challenges for doing business.

The qualitative sample covered the same sectors as the quantitative one, and nearly all respondents were company CEOs.

Non-member sample – The non-AmCham sample was composed of 100 medium-sized, small, and micro-enterprises and start-ups that completed the same online survey as the members. Of these, 39 percent were micro enterprises, 34 percent were small, and 17 percent medium-sized, whereas 10 percent were start-ups. As many as 81 percent of these firms employed fewer than 50 people, and most were active in the manufacturing, ICT, FMCG, and services sectors.

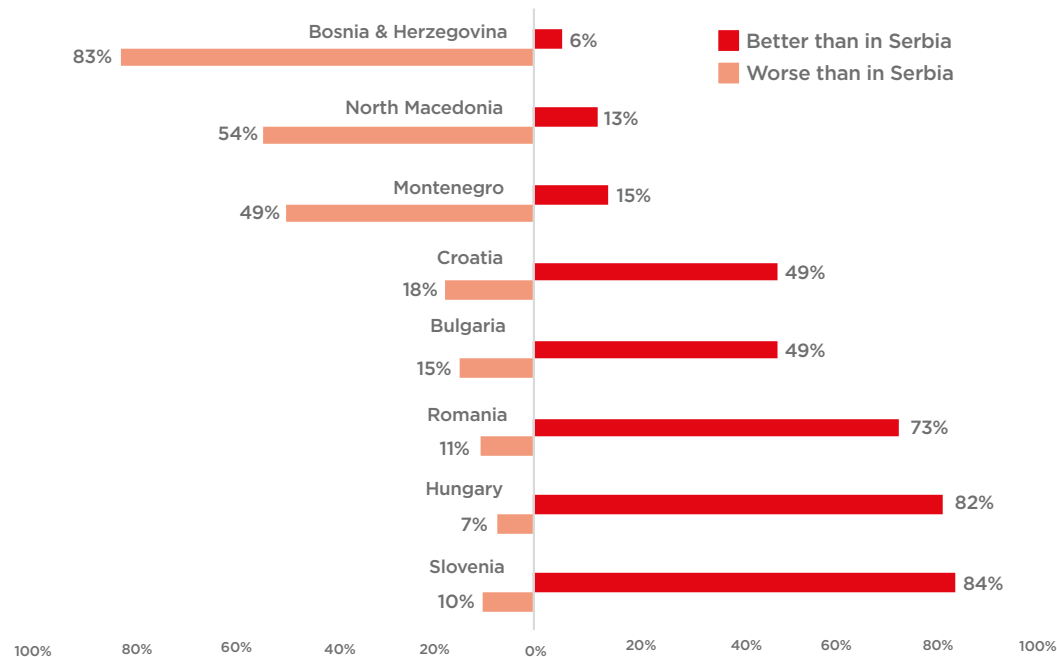
Interviews with these respondents involved commenting on the findings of the quantitative survey and allowed us to understand these firms' attitudes towards the business environment and learn which reforms they prioritized for its improvement.



SERBIA VS ITS NEIGHBORS

AmCham members are under the impression that Slovenia, Hungary and Romania are far better investment destinations than Serbia, yet hold opposite views of Bosnia-Herzegovina, North Macedonia, and Montenegro. Bulgaria and Croatia received slightly better scores than Serbia, but nearly one-third of those polled saw these countries' performance as comparable to Serbia's. These attitudes have remained nearly unchanged for the past three years.

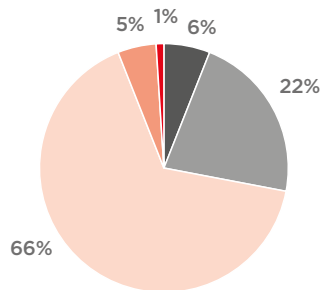
AMCHAM: COMPARISON OF SERBIA WITH ASPECT NEIGHBORS BUSINESS CLIMATE QUALITY



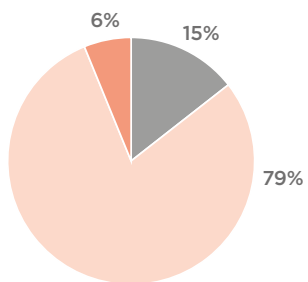
SATISFACTION WITH THE BUSINESS ENVIRONMENT AND EXPECTATIONS OF FUTURE DEVELOPMENTS

After the major improvement recorded in last year's survey, this year the findings reveal a **slight decline in satisfaction with the business environment among AmCham members** to levels last seen in 2017. A total of 66 percent of those polled saw the business environment as "moderately satisfactory", as against the 79 percent who reported this view last year. Moreover, there has been an increase in the proportion of respondents holding negative perceptions of the business environment (28 percent this year as opposed to 15 percent one year previously), of which 6 percent saw the business climate as "completely unsatisfactory" (in contrast to last year, when no respondent reported this view). By contrast, positive opinions remained as common as in 2018 (also at 6 percent).

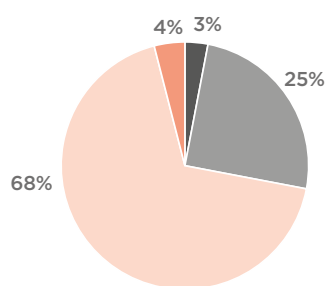
* AMCHAM: ASSESSMENT OF BUSINESS ENVIRONMENT IN SERBIA IN 2019



AMCHAM: SERBIA BUSINESS ENVIRONMENT ASSESSMENT - 2018.



AMCHAM: SERBIA BUSINESS ENVIRONMENT ASSESSMENT - 2017.



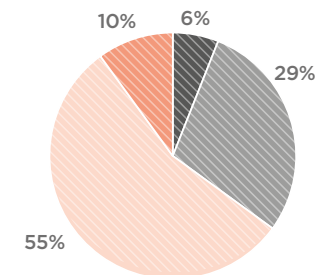
- Not at all satisfied
- Mostly unsatisfied
- Moderately satisfied
- Very satisfied
- Completely satisfied

* Responses of AmCham Members in the box Research Seventh Time Passage - 2019

In keeping with previous years' results, the **MSMS sample was more critical of the business environment**: 55 percent saw it as "moderately satisfactory", 35 percent as "unsatisfactory", and 10 percent as "completely satisfactory".

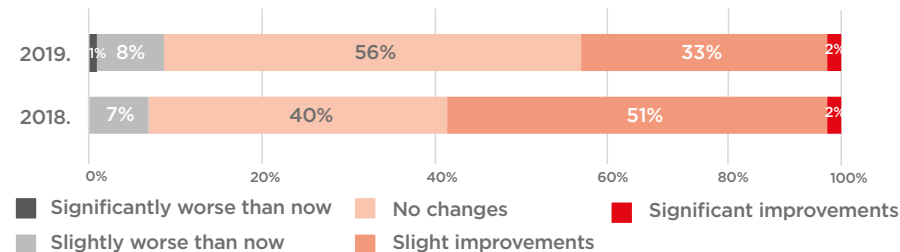
* SMMS: BUSINESS ASSESSMENT ENVIRONMENTS IN SERBIA - 2019

- Not at all satisfied
- Mostly unsatisfied
- Moderately satisfied
- Very satisfied
- Completely satisfied

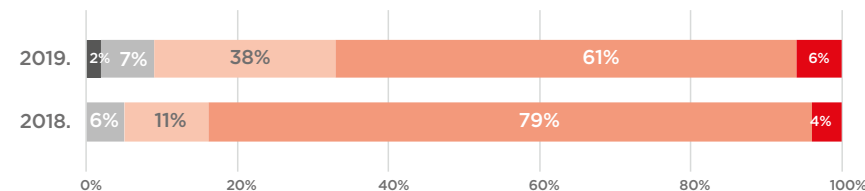


Slightly over one-half of those polled do not expect the business environment to improve in the coming year (as opposed to 40 percent who voiced this opinion last year), whereas 35 percent believe some improvement will take place, a significant decline relative to 2018, when the figure was as much as 53 percent. AmCham members were somewhat more optimistic for the medium term, with 67 percent expecting the environment to improve within the next three years (compared to the 83 percent recorded in 2018). Firms that made up the MSMS sample had higher expectations than AmCham members: nearly one-half expected to see improvements as early as the next year, with 63 percent sharing the same view for the upcoming three-year period.

AMCHAM: EXPECTATIONS OF BUSINESS CLIMATE DEVELOPMENT IN FOLLOWING YEARS



AMCHAM: EXPECTATIONS FOR BUSINESS CLIMATE DEVELOPMENT IN 3 YEARS

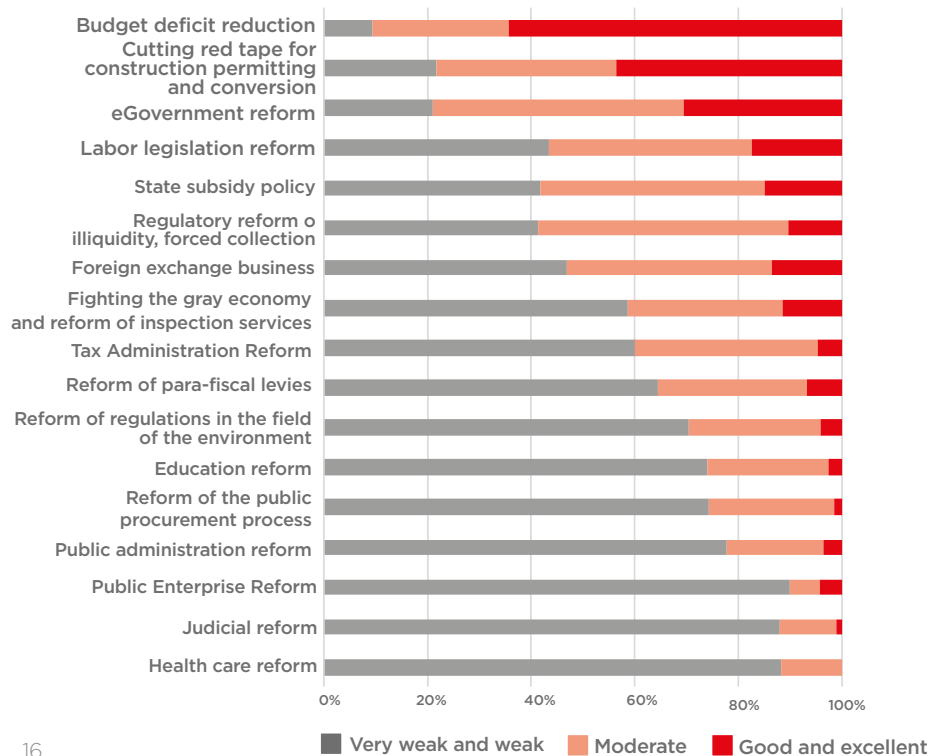


VIEWS OF PAST REFORMS

After nearly three whole consecutive years of increasingly positive sentiment, AmCham’s members are now, for the first time, less optimistic about the business environment than in the preceding year. This feeling has carried over into their assessment of past reforms, which is now **somewhat less favorable than in past surveys.**

Most AmCham members and MSMSs believe efforts to reduce the budget deficit, cut red tape for construction permitting and conversion of land usage rights to title, and reform e-government were fairly successful, although these may not be rated as highly as before. By contrast, **reforms failed to materialize or were poorly perceived** in the areas of healthcare, the judiciary, and SOEs.

SATISFACTION WITH REFORMS IMPLEMENTED AFTER 2013



INTERVIEW HIGHLIGHTS:

“Poor communication between civil servants and their inefficiency and ignorance are the key obstacles to continued reform. So it is not just about political stability and will: it also takes civil servants who are ready to put into effect the changes that are agreed. Sadly, it is this follow-up that is missing, and this has meant reforms have been as difficult as drawing water from a stone.”.

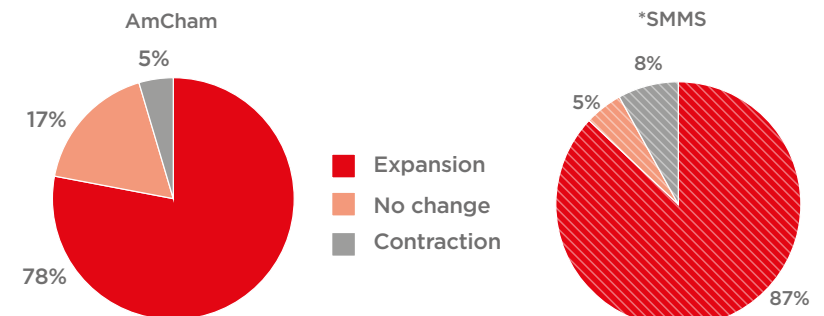
GROWTH FORECASTS

In spite of respondents’ harsher judgment of the business climate, growth forecasts have remained optimistic for the third year running. Whereas in 2017 growth was expected by between 50 and 60 percent of all AmCham members, **as many as 78 percent of these firms now report planning to grow in 2020.**

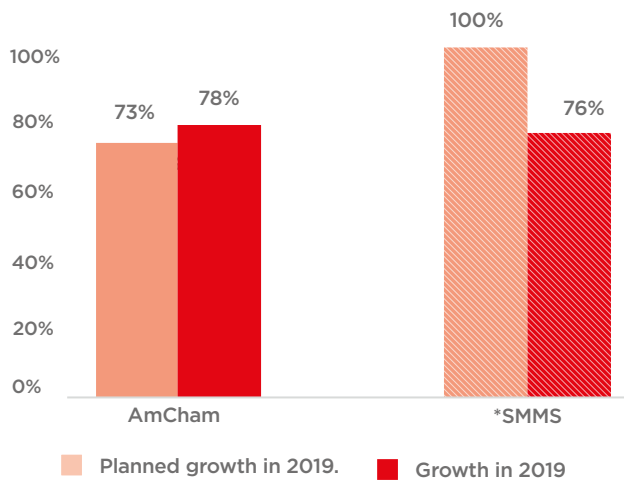
This is also the third consecutive year that actual growth recorded by AmCham members has exceeded their expectations voiced one year previously, with 78 percent of the sample registering expansion. Nevertheless, the differences between forecast and actual growth are lower than last year: 5 percent of all companies performed better than expected, fewer than half as many as last year’s 13 percent.

The MSMS sample has traditionally been more optimistic in its growth forecasts than AmCham members: 87 percent of these firms believe they will expand in 2020. Conversely, their achievement rate was lower, with 76 percent having actually recorded growth in 2019.

COMPANY GROWTH EXPECTATIONS IN 2020

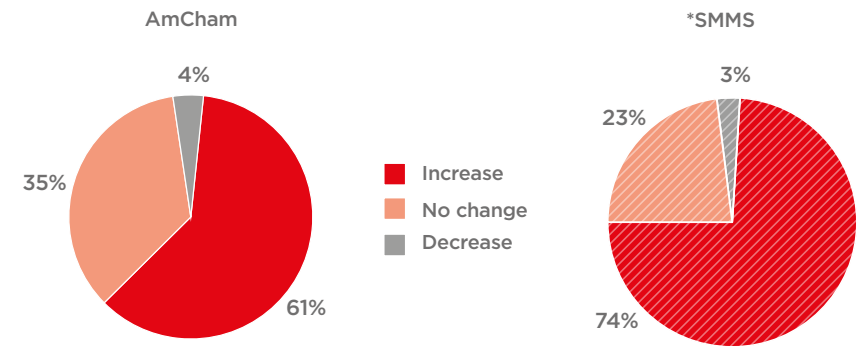


COMPANY GROWTH PLANNED AND ACHIEVED IN 2019



* Startups, micro, small and medium enterprises

EXPECTATIONS ON CHANGE IN NUMBER OF PERSONS IN EMPLOYMENT, 2020



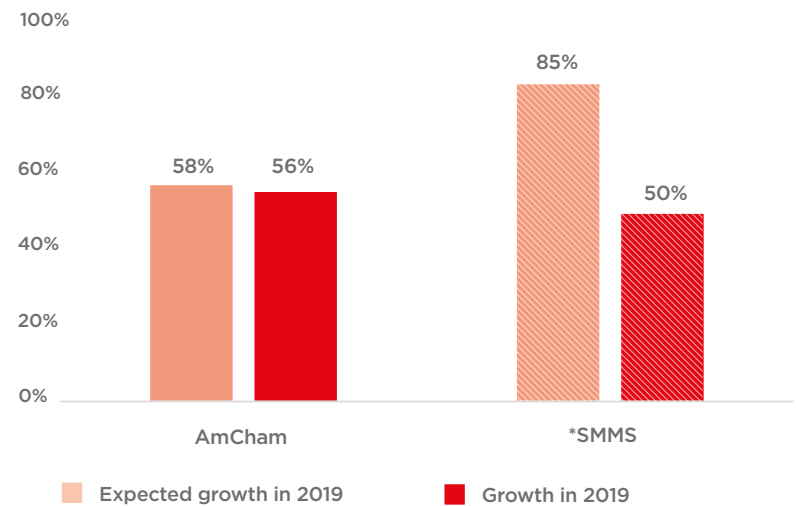
* Startups, micro, small and medium enterprises

As in past years, this year's findings reveal that expected employment growth has been lagging behind anticipated business expansion, but greater optimism is nonetheless in evidence here relative to past years. **No fewer than 61 percent of AmCham members are planning to take on new staff in the coming year**, a record high in these surveys (in 2018, the figure was 58 percent, in 2017, 47 percent, and in 2014, 47 percent).

A comparison between expected and actual new hiring in 2019 has revealed under-performance (56 vs 58 percent planned). Last year the situation was markedly different, as actual workforce expansion exceeded projected levels by as much as 10 percentage points. The qualitative interviews revealed that the difference was not the result of less need for staff, but was rather due to firms' inability to source appropriately qualified employees.

The same as in previous surveys, firms from the MSMS sample were much more optimistic about new hiring in 2020 (as reported by 74 percent), but their performance in 2019 was significantly below what had been anticipated (71 percent expected, 50 percent actual) and lower than that of AmCham members.

PLANNED EMPLOYMENT GROWTH PLANNED AND IMPLEMENTED IN 2019



REFORMS TO PROMOTE NEW INVESTMENT AND GROWTH

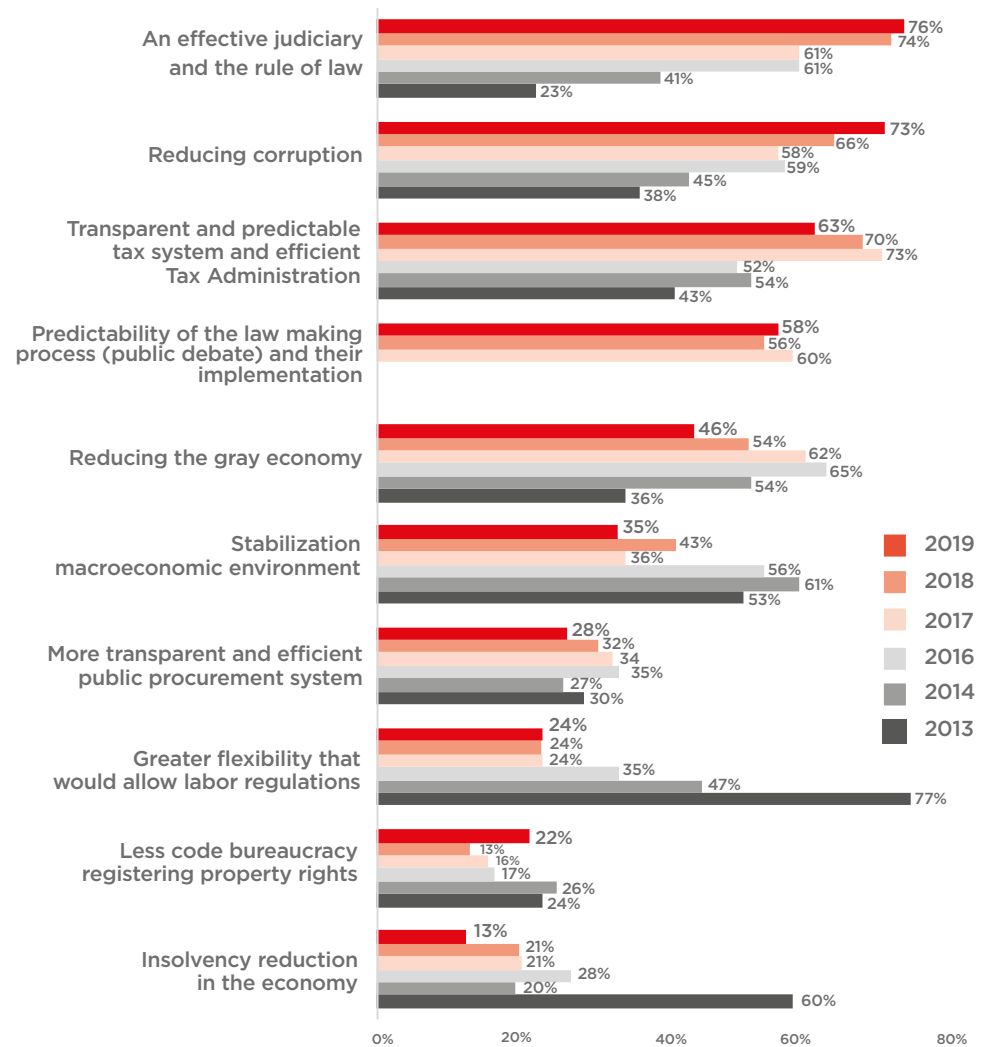
Factors seen by AmCham members as crucial for continued growth remained similar to those reported last year, with judicial efficiency, rule of law, and anti-corruption extending their lead at the top of the list.

Enhancements to the judiciary were the top priority for improving the business environment for a total of 76 percent of those polled, closely followed by efforts to tackle corruption, cited by 73 percent. Another key priority is a consistent increase in the predictability of the taxation system and greater efficiency of the Tax Administration, sought by 63 percent of all respondents; some improvements can be seen in this area, as evidenced by the decline in calls for improvement from 73 percent two years ago.

The Government's policies to address the shadow economy has also met with some success, as evidenced by improved business perceptions: 65 percent of all respondents felt this reform was a priority three years ago, as opposed to 46 percent this year. Nevertheless, since reliable assessments of the shadow economy show that close to one-fifth of all businesses continue to operate informally, any efforts made by the authorities in this regard certainly ought to continue.

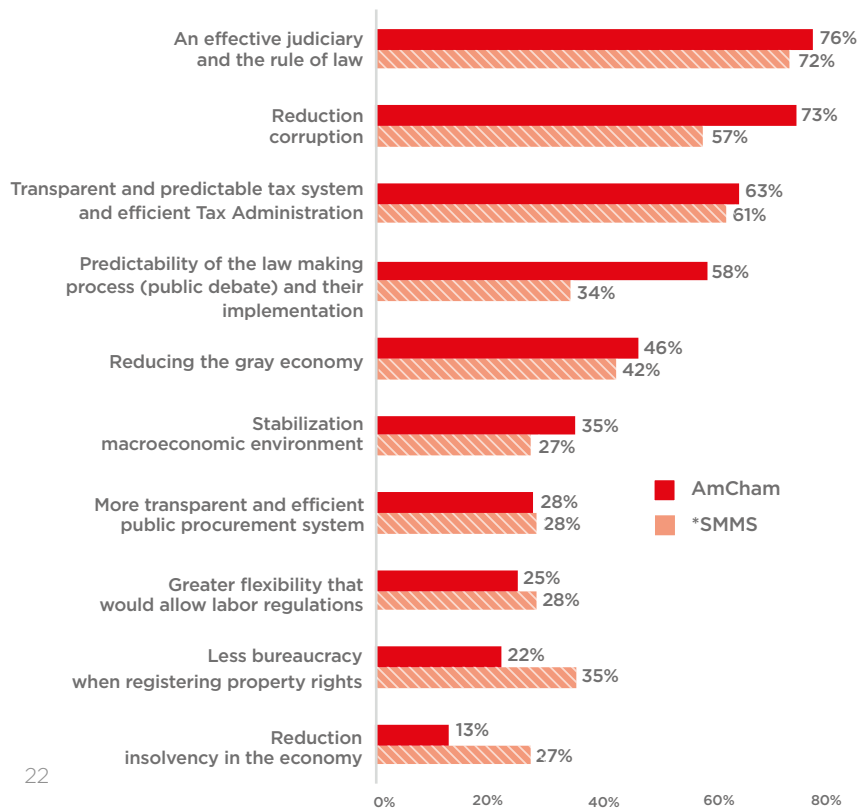


AMCHAM: REFORM FOR NEW INVESTMENT AND GROWTH - A TREND



Institutional factors, which followed a meteoric rise to the top of the list of priorities over the past three years, continued seeing a sustained increase in importance in this year's survey. Since 2017, respondents' focus has shifted noticeably onto the judiciary, rule of law, and anti-corruption initiatives from issues that dominated earlier surveys (labor law, bankruptcy and enforcement regulations, Law on Planning and Construction, Inspections Law, and macroeconomic consolidation). AmCham members explain this change of orientation partly by citing the success of reforms pursued to date (especially to labor legislation, planning and construction, and inspections), and partly by claiming that any reforming laws would remain limited in scope unless supported by effective implementing institutions and, ultimately, sound judicial safeguards.

REFORM FOR NEW INVESTMENT AND GROWTH - A TREND



* Startups, micro, small and medium enterprises

A comparison of findings from the AmCham and MSMS samples reveals substantial agreement around the top three priority reforms, namely increased judicial efficiency and rule of law, a predictable tax system and tax administration, and less corruption. The only difference lies in the fact that MSMSs are likelier to underscore the importance of taxation, whereas AmCham members find anti-corruption efforts more significant.

A GAZELLE COMPANY'S PERSPECTIVE:

"Some local governments are inclined to introduce unjustified levies to fill their own coffers. Businesses came together in one local authority area to prevent the local council from assessing waste disposal fees based on the square footage of the business, instead of based on the cubic footage of waste removed - which was a much more objective criterion."

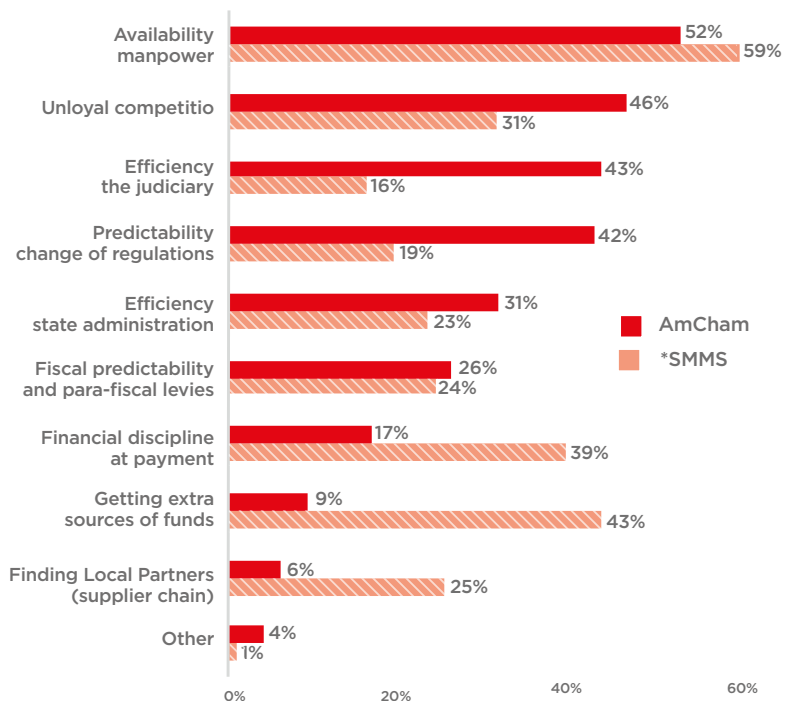
CHALLENGES FOR THE COMING YEAR

AmCham members and the MSMS group differed the most when it came to prioritizing the main challenges for the coming year. Nonetheless, both agreed that workforce availability was the key challenge facing both small businesses (as reported by 59 percent) and large corporations (52 percent). This was the first survey in which AmCham members identified finding appropriately qualified staff as the key challenge for the coming year (at 52 percent). This factor has been gaining in importance among this group of companies, rising from sixth place in 2014 to first in 2019. Workforce availability is followed by institutional shortcomings compromising the level playing field for all, such as unfair competition (43 percent) and judicial efficiency (43 percent), with unpredictable regulatory changes and implementation of regulations (seen as the greatest obstacle over the past four years) now falling into fourth place, at 42 percent.

A GAZELLE COMPANY'S PERSPECTIVE:

"It's becoming increasingly difficult to find qualified and trained workers, especially in smaller communities throughout Serbia. Even if we provide technical training and invest in educating our staff, they will often use that knowledge to quickly find work abroad and leave."

KEY CHALLENGES TO COMPANIES IN 2020



* Startups, micro, small and medium enterprises

By contrast, in addition to finding it difficult to source staff, the MSMS businesses we polled remained concerned about their ability to access liquidity, either in the form of additional finance (43 percent) or by collecting their receivables (39 percent).

INTERVIEW HIGHLIGHTS:

“It’s becoming increasingly difficult to find the right staff, even for well-paid consulting jobs. There’s a chronic shortage of auditors, financial controllers, agricultural engineers, not just healthcare staff, hospitality professionals, and seasonal workers.”

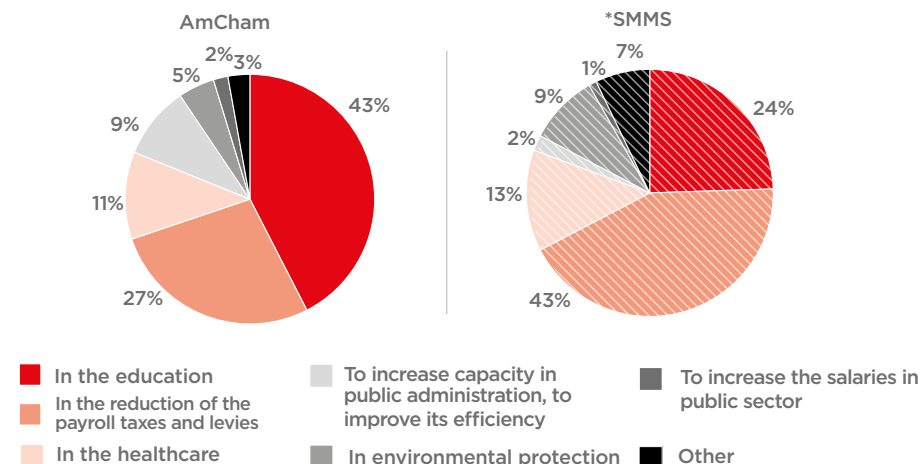
ROLE OF THE STATE IN PROMOTING GROWTH

According to the findings of our qualitative interviews, the sluggish growth in domestic private investment seen to date has been caused by the same shortcomings cited as key hurdles for the business climate in general: these are mainly issues with the rule of law, lack of capacity and independence of government institutions, and level of corruption.

Apart from the state being responsible for improving the overall legal and institutional framework, AmCham members report its function is primarily to enhance education and ensure it better meets the needs of the economy, as well as to improve the quality of healthcare. Continuing this line of thinking, 43 percent of those polled in the AmCham sample felt any surplus in the budget ought to be invested into education; 27 percent believed revenues could be used to reduce labor taxes; and 11 percent felt the excess funds should be invested into the health service.

By contrast, and in accordance with what they identify as key challenges, 43 percent of the MSMSs believed labor taxes should be cut; 24 percent prioritized investment into education; and a final 13 percent felt the health service should receive more funding.

EXPECTATIONS FOR INVESTING BUDGET TO ENCOURAGE ECONOMIC GROWTH



* Startups, micro, small and medium enterprises

JUDICIAL EFFICIENCY

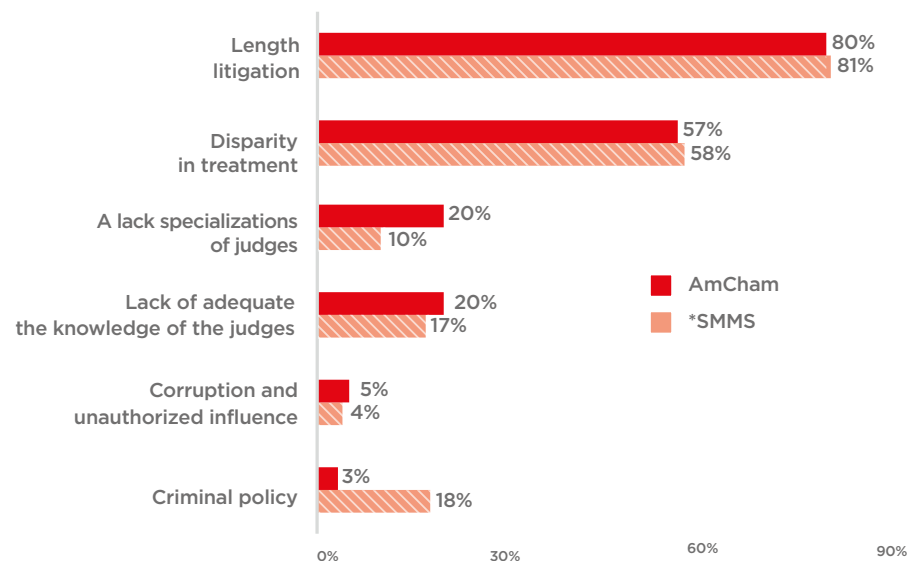
Companies continue to be vocal in calling for enhancement of the judiciary so that firms can efficiently safeguard their interests through the courts. This is viewed as a necessary precondition for establishing a business-friendly environment, and is the priority reform for growth and investment for 76 percent of those polled. The same as last year, respondents' key concerns in this regard involved the time it took to resolve court cases (80 percent) and inconsistent application of regulations (57 percent).

INTERVIEW HIGHLIGHTS:

“Given the overall costs of court cases, their duration, and the unpredictability of their outcomes, we always think twice about whether it would be more cost-effective to just give up on a claim than to pursue it through the courts. On more than one occasion, our own experience proved that justice delayed was indeed justice denied.”

The lack of knowledge among judges (as cited by 20 percent of those polled) and their insufficient specialization (reported by another 20 percent) remain major constraints to judicial efficiency. By contrast, there is now less dissatisfaction with lenient penal policies, but this issue is still a key concern for micro-, small, and medium-sized enterprises, in particular when it comes to addressing illicit trade and other forms of unfair competition.

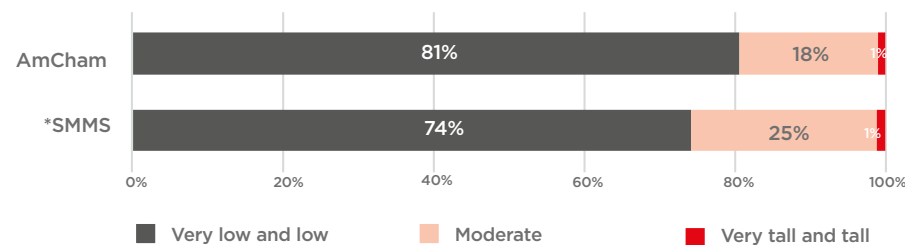
BARRIERS TO OPERATE WITHIN THE JUDICIAL SYSTEM



* Startups, micro, small and medium enterprises

Judicial efficiency was assessed as “very low and low” by 81 percent of those polled, which is a deterioration relative to the previous survey. As few as 18 percent of respondents see it as “moderate” and a final 1 percent perceives it as “high”.

COURT EFFICIENCY ASSESSMENT



Corruption in the judiciary is also seen as being very widespread (as reported by 34 percent of those polled), indicating the need for more transparency by courts and greater efforts to promote public confidence in the legality of the judiciary's actions.

The respondents were also unhappy at being unable to access case law online or search it by keyword; courts have also been slow to adopt modern technologies for communicating with the public, with one notable exception provided by the Administrative Court.

To understand the judiciary's own perception of avenues for improvement, AmCham held a series of roundtables with judicial authorities in which it noted a series of key constraints, including excessive caseloads, lack of judicial and prosecutorial assistants, insufficient specialization and continuing professional education in a number of areas of jurisprudence, as well as shortcomings in the regulations themselves, where enhancements would doubtlessly lead to more consistent implementation.

The complexity of the issues identified means that ongoing reforms to the judiciary and continuing improvements of its efficiency will remain crucial preconditions for enhancing the business environment.

TACKLING CORRUPTION

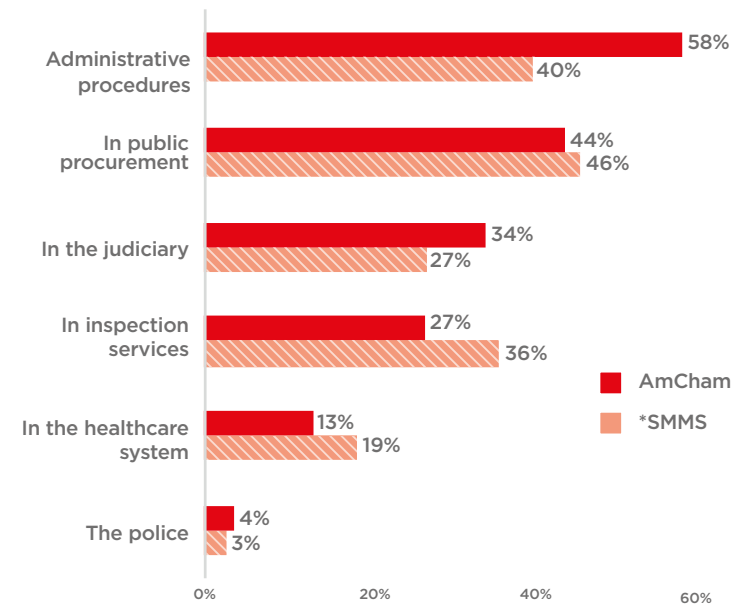
Calls for more to be done to address corruption and empower institutions have become increasingly common in recent years.

Of all the factors that affect the business environment, this category has registered the greatest increase in importance relative to last year. While in 2013 slightly over one-third of all AmCham members (38 percent) believed eliminating corruption was a key priority for improving the business environment, this figure rose to nearly three-quarters (73 percent) in 2019. According to both AmCham's membership and the MSMSs we surveyed, corruption is at its most widespread in administrative procedures (permitting, approvals, and the like) and public procurement.

INTERVIEW HIGHLIGHTS

"Corruption is perceived as more widespread not only because there is now more corruption than in 2013, but also because the initial assessments reflected enthusiasm for the anti-corruption agenda of the new government of the day. The current critical attitudes are to some extent due to those promises going unfulfilled."

PERCEPTION OF CORRUPTION



INTERVIEW HIGHLIGHTS:

"When will we know the Government is seriously addressing corruption? When CEOs of state-owned firms are recruited in public and open competitions and given the appropriate freedom to manage those companies, when pay grades in the public sector are introduced, and when professional criteria have been put in place for each job in public administration."

* Startups, micro, small and medium enterprises

PREDICTABILITY OF TAXES AND QUASI-FISCAL CHARGES

As in previous years, both AmCham member firms and non-members feel greater predictability of taxes and quasi-fiscal levies and more consistency in how the Tax Administration implements regulations would help them make better investment decisions Both groups of respondents place a transparent and predictable tax system and a more efficient Tax Administration among the top three reforms that would improve their business and investment performance.

Even though negative attitudes have decreased relative to previous surveys, 65 percent of those polled remain dissatisfied with the pace of reforms to quasi-fiscal levies (as opposed to 70 percent in 2018), with 60 percent unhappy with Tax Administration reform (in contrast to the 78 percent registered in 2018)

A major breakthrough in reforms of quasi-fiscal charges occurred in late 2018 with the enactment of the Draft Law on Charges for Use of Public Resources and moves to establish the long-awaited register of quasi-fiscal dues. Nevertheless, AmCham members believe there remains room for improvement, as the adopted Law still contains a number of unjustified quasi-fiscal levies (such as energy efficiency charge), and since the authorities are yet to produce an online inventory of non-tax duties that would allow their systematic control by type and amount.

INTERVIEW HIGHLIGHTS:

“The drafting of the Government Order that regulated the environmental protection and improvement charge is an example of successful public-private dialog. Still, this favorable impression is marred by delays in enacting the accompanying regulations, which has meant businesses have had limited time to get ready for implementation and has left many issues unresolved. In addition, the government and local authorities are unprepared to implement the rules in full.”

The controversial practice of amending tax regulations without inclusive consultations with the private sector has continued, in spite of the government’s promise to publicize key changes at the drafting stage. Even though tax rules are now being brought in earlier in the year (in 2019, the changes were enacted in September and October, as opposed to November and December in previous years) and are posted on the Ministry of Finance’s web site with tight deadlines for comments, AmCham members believe inclusive consultations with a variety of stakeholders have again failed to take place.

AmCham members also cited a formal opinion of the Ministry of Finance on requirements for documenting employees’ travel expenses, which attracted a multitude of negative comments. The Ministry has insisted on stricter evidentiary standards for approving any tax exemptions for reimbursement for these expenses, which – contrary to the Government’s declared intentions – increases either the administrative burden on businesses or costs for employees, while only marginally raising public revenue.

INTERVIEW HIGHLIGHTS:

“Tax regulations remain highly unpredictable, as evidenced by the fact that the Ministry of Finance issued an opinion in February of this year in which it made a U-turn on its earlier interpretation of the exact same regulation governing how businesses prove employees’ travel expenses that had been in effect for years.”

AmCham members remain somewhat critical of how the Tax Administration implements tax regulations: the key issue here are the authorities’ delays in refunding VAT, as they directly affect taxpayer liquidity. By contrast, online filing has helped firms submit their tax returns more easily. The respondents still see much room for improvement: online filing could be extended to cover more applications and other submissions, tax liabilities should be visible in real time, and so on.

A GAZELLE COMPANY'S PERSPECTIVE:

“Rules on assessing and paying value added tax in the construction industry remain an issue as the authorities interpret regulations inconsistently, so greater predictability and legal certainty in this area would be welcome.”

PUBLIC CONSULTATIONS AND PUBLIC-PRIVATE DIALOG

Our respondents identified the unpredictability of regulatory amendments as one of the top five challenges to doing business in the coming year (as reported by 42 percent of those polled), **as well as one of the five priority reforms that would help improve performance and investment** (58 percent). These results largely match the findings of previous years’ surveys and reveal little if any improvement, and can be considered a call to action.

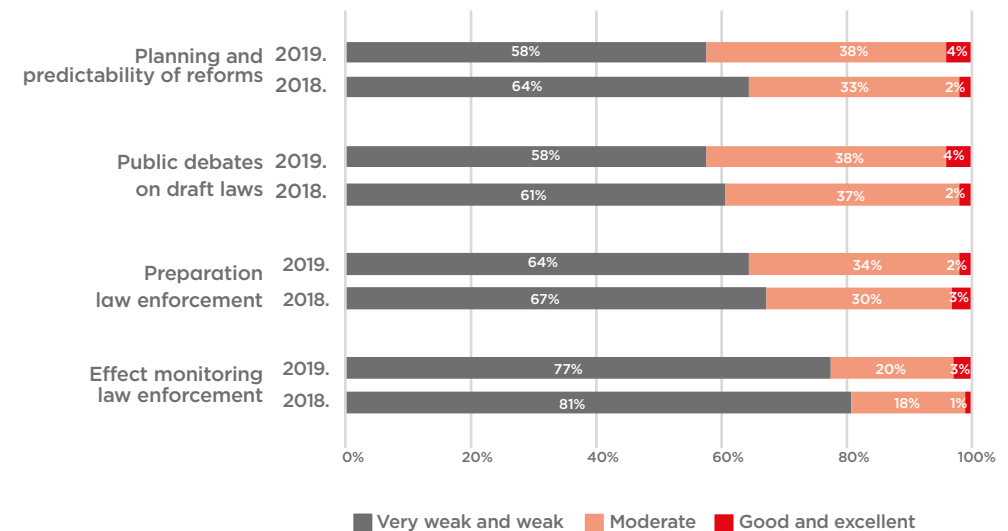
This attitude is based on the Government’s long track record of fast-tracking legislation through Parliament without public consultation, or following insufficiently transparent public scrutiny, and with limited regulatory impact assessment. Moreover, in many cases the final laws have differed greatly from the proposed bills made available to the public, where businesses have found themselves faced with new requirements brought in after public consultations had ended.

After the European Commission released its latest progress report for Serbia (in May 2019), which was highly critical of the Serbian Parliament’s lawmaking process, the number of fast-tracked laws fell by 14 percentage points compared to the previous reporting period. Of the total of 113 laws enacted in 2019 (to mid-October), 36 (32 percent) were fast-tracked, with 77 (68 percent) adopted under regular procedure. The same period in 2018 saw the enactment of 141 laws, of which 65 (46 percent) had been fast-tracked, and 76 (54 percent) following standard procedures.

Even though most AmCham members continue to see the effectiveness of public-private dialog in a poor light, with arrangements to monitor the impact of regulations receiving the worst scores, some improvement in this area has nevertheless been noted.

Here, fewer respondents are now critical of the various stages of the process, such as the planning and predictability of reforms (58 percent in 2019 vs 64 percent in 2018), preparations for implementation of laws (64 percent in 2019 vs 67 percent in 2018), public consultations about draft laws (58 percent in 2019 vs 61 percent in 2018), and implementation of laws and impact monitoring (77 percent in 2019 vs 81 percent in 2018).

AMCHAM: PUBLIC-PRIVATE DIALOGUE ASSESSMENT IN THE PROCESS OF MODIFICATION OF THE REGULATORY FRAMEWORK



By contrast, specific platforms for public-private dialog are rated better, but the highest score still remains a middling 3 (on a scale from 1 to 5). Effectiveness of the Coordination Commission for Inspections Oversight was rated as “moderate” by the greatest proportion of respondents, 60 percent; the figure for the unit tasked with improving Serbia’s position in the World Bank’s Doing Business rankings was 54 percent, and the National Coordination Body for Trade Facilitation received 51 percent of “moderate” votes.

INTERVIEW HIGHLIGHTS:

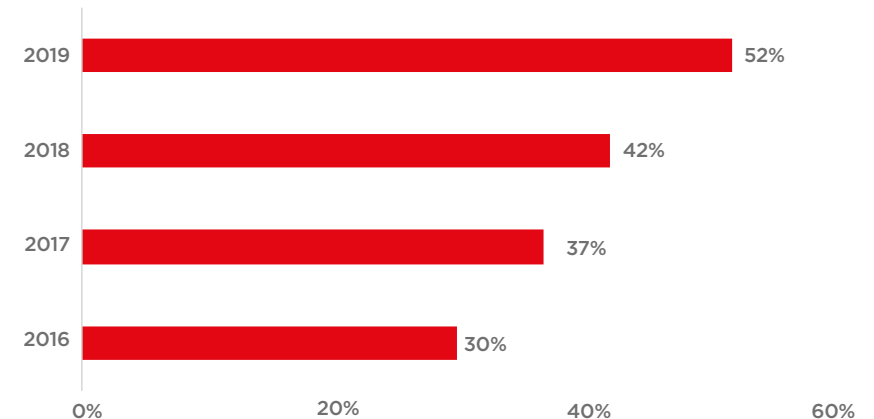
“Take, for instance, the Employment Agencies Bill. After years of drafting, a fairly well-managed public consultation, and dialogue with the private sector, the Government ultimately introduced a provision into the Bill that could, if implemented, defeat the purpose of a large portion of this law.”



LABOR MARKET, EDUCATION, AND HUMAN POTENTIAL

Regardless of the diversity of the respondents’ companies, industries, and subjective attitudes towards the business environment, a majority of 52 percent agree about one thing: **a shortage of qualified staff is the number one challenge for the upcoming period** (this figure represents a ten-percentage-point increase on the 2018 survey). That being said, most AmCham members expect to hire new workers in 2020 (61 percent, as opposed to the 58 percent registered last year), as do the majority of the MSMS sample (74 percent).

AMCHAM: THE IMPORTANCE OF QUALITY OF AVAILABLE LABOR AS A CHALLENGE FOR BUSINESSES OF COMPANIES



It comes as no surprise, therefore, to see respondents highlight education reform (at 40 percent) and the need for lower administrative burdens on employment (42 percent) as two of the five key areas in which AmCham ought to advocate improvements. The most urgently needed efforts in this context should focus on the development of training profiles that match the requirements of today’s economy,

a comprehensive overhaul of regulations, and serious government engagement to stem emigration and streamline procedures for hiring foreign nationals. Not only do the present situation and emerging trends jeopardize economic development and current and future investments, but they also threaten to damage Serbia's reputation as a destination that possesses capable human resources. A total of 48 percent of all AmCham members and 40 percent of the MSMS firms we surveyed believe human capital is among the five key factors that fundamentally affect a country's attractiveness for investment.

Education is yet another issue that has steadily been gaining in importance for AmCham members. This year's survey found that 42 percent (vs the 32 percent recorded in 2018) believe funds earmarked from the central budget to promote growth should be invested into education reform, currently seen as "very poor" by 74 percent of those polled. The MSMS group feel that the funds ought to be used to facilitate major cuts to labor taxes (42 percent); these firms see education as the second-ranked priority and also have poor views of current education reforms (at 72 percent).

INTERVIEW HIGHLIGHTS:

"Young people nowadays are quick to learn, speak foreign languages, keep pace with technology developments, they're flexible – the whole world is at their feet. If we want to keep them in Serbia, we've got to thoroughly reform the education system and come up with training courses and activities able to produce results fast, offer them jobs that are challenging and interesting, and allow them to have normal living standards. There has been some progress here, but, sadly, that's obviously not enough, since the latest figures show that more than 4,000 people leave Serbia every month. Unless the public and the private sectors join forces to tackle this issue, we'll be forced to import workers from Asia and Africa."

e-GOVERNMENT

AmCham members believe the Serbian Government's increased efforts to modernize public administration and bring it into the digital age by strengthening e-government and amending the legal framework are among the key preconditions for improving the business environment. Most respondents (57 percent) feel AmCham should place particular emphasis on this area.

A GAZELLE COMPANY'S PERSPECTIVE:

"Some inspections services away from Belgrade still insist on businesses using stamps. It's important to ensure that laws removing the administrative burden on businesses are implemented consistently and uniformly, and that authorities at all levels are kept aware of all developments."

In its latest progress report for Serbia, issued in May 2019, the European Commission also acknowledged progress in the roll-out of e-government, particularly highlighting the "strong co-ordination" between the Office for Information Technology and the Prime Minister's Delivery Unit. Nevertheless, in spite of the development of e-services and the introduction of digital signatures and other online solutions, the impression is that no major technological improvements in e-government will be possible unless supported by better managed and more decisive policies at the central level.

INTERVIEW HIGHLIGHTS:

"Regardless of all the efforts the Government has made to facilitate e-commerce, online pharmacies are still not allowed in Serbia. Even though they can operate throughout the EU, they are explicitly banned by the Serbian Medicines Law, while on the other hand there is a flourishing online trade in drugs of unknown origin and dubious quality."

It should come as no surprise that views of reforms in this area mirror the current situation. Opinions are divided, with only slight improvement relative to the previous year: 21 percent of those polled feel the reforms are “poor” or “very poor”, 48 percent believe the results are “mediocre”, and 30 percent see them as either “good” or “outstanding” .

A GAZELLE COMPANY’S PERSPECTIVE:

“The main issue with e-government reform is how it is structured: instead of initially focusing on small-scale improvements, ambitious goals were set from the very beginning; emphasis was placed on technology, instead of on services and data. What is needed here is a change of approach and much broader inclusion of the private sector and the general public.”

TACKLING THE SHADOW ECONOMY

The Government’s drive against the informal economy has been successful, as businesses’ perceptions of this issue have improved: three years ago, 65 percent of AmCham’s members felt this reform was a priority, as opposed to only 46 percent who now share this view. Nevertheless, the respondents are still only moderately satisfied with what has been done to address the shadow economy and reform inspections (59 percent of those polled describe these reforms as “poor” or “very poor”), while unfair competition remains high on the list of key challenges to doing business. Nevertheless, since reliable assessments of the shadow economy show that close to one-fifth of all businesses continue to operate informally, any efforts made by the Government of Serbia in this regard certainly ought to continue.

A GAZELLE COMPANY’S PERSPECTIVE:

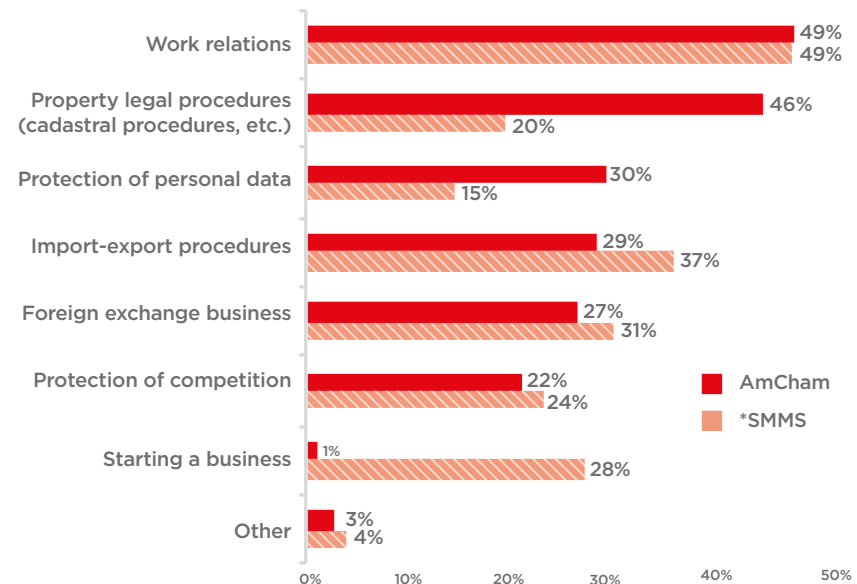
“We’re convinced that addressing unfair competition is crucial for our development and growth. Even though there has been some progress, we feel that inspections of milk and dairy producers must be more efficient.”

Respondents in qualitative interviews indicated the shift of illicit trade from traditional markets to the internet, which is not subject to clear inspection powers. The interviewees particularly emphasized the need to build capacity of supervisory bodies for overseeing online retailers, as well as to continue enhancing the coordination between the various inspection authorities in this area. Finally, AmCham members complained about the lack of appropriate prosecution of misdemeanors and criminal offences related to illicit trading; this is closely linked to the increasing importance of judicial efficiency on the list of priority reforms.

ADMINISTRATIVE PROCEDURES AND CHARGES

Nearly one-half of AmCham members polled believe labor and property-related procedures pose the greatest burden on their operations, followed by data privacy requirements, import and export procedures, foreign exchange operations, and competition safeguards.

ADMINISTRATIVE PROCEDURES THROUGHOUT COMPANY OPERATIONS



* Startups, micro, small and medium enterprises

INTERVIEW HIGHLIGHTS:

“The Labor Law requires firms to reimburse their staff’s travel expenses if they live more than one stop away from their workplace by public transport. Yet, according to the Ministry of Finance, those who don’t use public transportation cost the employer more because the firm must pay additional taxes as it can’t document their travel expenses. This is one of the world’s most polluted cities, so it’s completely absurd to see the authorities disincentivizing walking, cycling, or scootering to work like this.”

Whereas the MSMS group fully agreed that labor procedures were the most burdensome, they did place more emphasis on export and import procedures, foreign exchange operations, and requirements involved in starting a business. These administrative practices were an issue for as many as 28 percent of these firms, as opposed to a mere 1 percent of AmCham members who cited them as problematic.

Both large and small firms believe employment requirements must be aligned with the needs of the modern-day labor market, by reducing labor taxes, introducing flexible forms of employment and working hours, and eliminating the remaining administrative burden by introducing electronic services (such as online employment records).

Respondents highlighted the inefficient and lengthy property title registration procedure, which involves excessive paperwork, inconsistent practices by cadaster services, and incomplete real estate registers, as unduly burdensome. Even though the cadaster’s recently introduced online communications system is a step in the right direction, respondents believe businesses are still required to physically visit land registry offices, as well as that more ought to be done to fully implement one-stop-shop arrangements“.

Companies also see compliance with the new Personal Data Protection Law as a major strain on their resources, as the robust safeguards

prescribed by this piece of legislation are taken directly from the EU’s General Data Protection Directive (GDPR). Though Serbian subsidiaries of major corporations based in the EU have already taken steps to comply with the GDPR, other firms are finding it more difficult to do so. Respondents have reported that the new statutory framework envisages numerous new requirements and responsibilities for firms that process personal data, and that compliance entails substantial investment and changes to business practices. Many of the law’s technical provisions have also remained vague, pointing to a need to continue dialog between the government and businesses on these issues to ensure the regulations are respected and legitimate rights safeguarded.

According to firms from the MSMS group, regulations that govern foreign exchange operations are among the top three constraints to doing business. The inability to use crowdlending platforms based abroad compounds the major difficulties in accessing liquidity, while the need to interact with banks on a daily basis to provide documentary evidence necessary for transactions to be cleared consumes scarce resources. AmCham members believe foreign exchange rules are unpredictable and erratically implemented, especially insofar as they concern the registration of credit operations, guarantees, assignments, and offsets. The greatest issue for both groups are the so-called ‘documentary controls’ (requirements for businesses to submit documentation to either the National Bank of Serbia or commercial banks before a transaction can be approved or funds credited into an account).

INTERVIEW HIGHLIGHTS:

“As far back as the 1990s the Constitution stipulated that ‘anything not expressly prohibited by law was permitted’. By contrast, today’s Foreign Exchange Operations Law exhaustively lists everything that is permitted, while everything else is banned. This is regulation 20th century style; the rules ought to be changed to suit modern times.”

Respondents highlighted the strict export and import procedures for foodstuffs, which are still an obstacle to growth even though businesses and the government are now communicating through the National Coordination Body for Trade Facilitation and there have been improvements in this sector. Consignments are held up at border crossings for longer than necessary, which drives costs up and often prevents imports of perishable goods outright. Here, the most commonly cited problems are the lack of a comprehensive risk assessment and management system, complicated examination procedures, and the absence of a centralized information management system that would connect all relevant authorities.

INTERVIEW HIGHLIGHTS:

“Two years on from a major increase in medicine licensing charges, the Medicines Agency still takes on average over 100 days more than the statutory period to issue these licenses. Why raise fees if you can’t improve your service accordingly, not even only to levels required by law?”

The respondents see a number of administrative fees as being significantly out of proportion to the real value of the corresponding administrative service. These include fees charged by the Competition Commission (such as the merger approval fee, in particular for mergers outside Serbia), the Medicines Agency (vigilance fee and medicines licensing charges, which were doubled in 2017), and notaries and enforcement officers.

INTERVIEW HIGHLIGHTS:

“It ought to be understood that the introduction of new levies on businesses is, ultimately, never beneficial to the government and the public. Each new charge payable by the pharmaceutical industry, such as the vigilance fee, which does not exist anywhere in the region or the EU, is a step closer to these firms withdrawing from the local market, which could reduce the choice of treatments available to patients.”





AMCHAM SERBIA

A LEADER IN CHANGE