



AMCHAM SERBIA

A LEADER IN CHANGE

THE SIXTH LAP TIME

UNLOCKING
THE REFORMS?



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SIXTH LAP TIME – 2018. INTRODUCTION

Dear AmCham members,

This is the sixth consecutive survey of businesses we have done with the aim of together identifying key reform processes that will improve the business environment and so promote investment and job creation. The findings of this research ought to serve as a signpost of sorts for our partners in the Government of Serbia to design and implement reforms, as we have partnered with micro-enterprises, small businesses, and startups to recognize key areas that require regulatory changes, removal of obstacles hindering day-to-day operations, and the creation of a level playing field for all firms.

The voice of Serbia's private sector

These findings are the combined voice of over two hundred private companies that have to date invested more than 14 billion euros in Serbia. We directly employ over 95,000 people and indirectly provide employment for 130,000 citizens of this country. We bring together U.S., international and the best Serbian firms that utilize the best global and European practices and innovative ideas, and so help promote continuing economic development and growth.

The strength of our research lies in our annually comparable findings dating back to the first investor confidence and satisfaction survey, completed in 2013. The data we have collected, and the conclusions we can draw by comparing these with the results of AmCham's previous studies, allow us to follow key economic trends and highlight successful reforms – but also to draw attention to issues that have remained unresolved for years, with little or no progress made.

Making sure even the smallest firms can get their priorities across

We all know that micro-enterprises, small businesses, and startups are important for every modern economy. With this in mind, and acknowledging the relative scarcity of these firms in our AmCham community, we have continued last year's practice of involving this sector in our research. We have worked with Eneca, Startit, ICT Hub and Impact Hub to assess their attitudes towards the business environment and their priorities. The conclusion here is that their perceptions by and large match our views, although these companies are more critical of the current situation but also more optimistic about future growth and new jobs.

A faster pace is needed – no time to rest on our laurels!

Successful reforms put into effect in recent years – reduction of the budget deficit, amendments to the Labor law, changes to construction permitting and inspections frameworks – have been well-received ever since they were first introduced. We as a community fully acknowledge these reforming steps taken by the Government, because they make it easier for us to work on a daily basis. AmCham and its small business and startup partners share a number of priorities, including the need to enhance the efficiency of the judiciary and promote rule of law; ensure taxes and parafiscal levies are predictable and the Tax Administration applies

laws consistently; and improve the transparency of lawmaking, consultations with businesses, and regulatory impact assessments before and after legislation is enacted. While our members continue to insist on the importance of reforms designed to combat the shadow economy and promote e-Government, e-business, and e-commerce, small businesses and startups have been drawing attention to the urgent need to cut red tape for imports and exports and continue reducing the burden on new hiring.

Our promise to our members and fellow citizens

As the country's largest independent business association, we have both the obligation and the credibility to draw the attention of the Government to the principal obstacles hindering quicker business and economic growth. The Government has to date been receptive to our priorities, as witnessed by shared success in many reform endeavors that were part of the agendas of our nine thematic Committees. The same as last year, the highest scores were awarded to reforms put in place by the previous administration: slashing the budget deficit, reducing construction permitting administration, reforms to Labor law, and overhaul of e-Government. We feel bound to also point up areas where little or no progress has been forthcoming, such as reforms to state-owned enterprises (SOEs), healthcare and the judiciary. A great deal of work yet remains to be done here, and our community stands ready to provide systemic support to the Government in addressing these long-standing issues.

The winds are steady, the waves calm – let's steer a course clear ahead!

I must commend the Government of Serbia for making a key step in stabilizing macroeconomic indicators. Prudent fiscal policy has curbed the budget deficit and brought public debt down; we share low inflation rates with much more advanced countries; unemployment is continuing to decline; and economic growth is in evidence in spite of fiscal consolidation efforts.

Nevertheless, a huge and important task still lies ahead: we need to construct professional and efficient institutions that will guarantee fundamental rights to businesses and the public. The AmCham community will remain a constructive partner to the Government and its institutions, but will also continue to be a constructive critic, one that will not give up on its member companies' priorities. I want to personally thank our members for their engagement and time they have devoted to our survey. Information we receive from our members are what drives AmCham to continue striving to improve the business environment as it seeks to change Serbia for the better.



President of the AmCham
Board of Governors



THIS YEAR'S SURVEY IN BRIEF

The AmCham business environment and investor confidence survey reveals how AmCham's membership perceive the business climate in Serbia. The survey was performed using a quantitative anonymous online questionnaire (administered to 97 AmCham members) and 32 qualitative face-to-face interviews. This, the fifth consecutive such survey, took place from July to October 2018, and followed on from previous research carried out in 2013, 2014, 2016 and 2017.

As most AmCham members are medium-sized and large corporations, we repeated last year's practice of including a control group consisting of micro-enterprises, small business, and startups from four associations, Eneca, Startit, ICT Hub, and Impact Hub. In doing so, we compared and contrasted the attitudes of large investors with those of small firms so as to more clearly understand the state of the Serbian economy and identify the steps that should be taken to promote its development.

INVESTOR SATISFACTION AND CONFIDENCE

- **Overall, the respondents were “moderately satisfied” with the business environment and reported expecting minor improvements:** A total of 79 percent of AmCham members awarded the business climate a solid score of three (out of five), a good result given how critical the respondents used to be (68 percent were “moderately satisfied” last year and 46 percent were so the year before, whereas lower scores were much more common). Businesses expected improvements both next year and in the coming three years. Small businesses and startups were somewhat less sympathetic (with percentages similar to those reported by AmCham members last year).
- **Growth forecasts for 2019 were better than in previous years:** This is the second 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 73 percent of all firms expected to grow, while 58

percent reported planning new hiring in 2019. As AmCham companies have been seeing growth in excess of their expectations over the past two years (by 10 percent on average in both of these categories), this is certainly very good news for the economy as a whole.

- **Challenges for the year ahead :** While this was the fourth time in a row that AmCham members have cited unpredictable regulatory changes and inconsistent implementation as the key challenge they faced (as indicated by as many as 51 percent of those polled), small businesses and startups were the most concerned about unpredictable and high taxes and parafiscal charges and difficult access to finance. Finding qualified staff was a hurdle increasingly shared by both large and small firms.

BUSINESS ENVIRONMENT AND REFORMS DESIGNED TO PROMOTE INVESTMENT

- **Serbia vs. its neighbors:** As an investment destination, Serbia was generally ranked better than Montenegro, 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 climates 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: slashing the budget deficit, reducing construction permitting administration, reforming the Labor law and overhauling e-Government.

The same areas have again received the poorest scores: this was particularly true of reforms to SOEs, healthcare, and the judiciary – with these last two not receiving a passing grade from any of the respondents that made up our sample.

- **Reforms to promote business growth - focusing on institutions and consistent implementation:** Year after year, institutional reforms have increasingly taken center stage for AmCham members. Promoting the rule of law and capacity of public administration to implement regulations, enhancing efficiency of the judiciary, and mainstreaming active public-private dialog into lawmaking 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. *Improving predictability of taxes and parafiscal levies and reforming the Tax Administration;*
3. *Improving transparency of lawmaking (through consultations with businesses), and in particular monitoring the implementation of business laws and measuring their impact;*
4. *Continuing efforts to tackle the shadow economy;*
5. *Promoting e-Government and e-business;*
6. *Aligning the education system to the needs of the economy and reducing administration related to Labor law;*
7. *Reducing non-tariff barriers to imports and exports, especially between Central European Free Trade Agreement (CEFTA) countries;*
8. *Improving effectiveness of the health service;*
9. *Modernizing and implementing environmental policies;*
10. *Ensuring property rights are safeguarded more effectively.*

STRENGTH OF AMCHAM COMMUNITY

DATA FOR 2017

200

U.S., INTERNATIONAL AND LOCAL MEMBER COMPANIES

95.000

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

10,8

BILLION EUROS IN TOTAL ANNUAL REVENUES*

14

BILLION EUROS IN TOTAL INVESTMENTS

METHODOLOGY AND DEMOGRAPHICS

This investor confidence and satisfaction survey was the fifth of its kind among AmCham member companies, and gauged respondents' perceptions of the state of the Serbian economy and views of the reforms most needed by the economy. The first survey of this type took place in late 2013, and was followed by three more rounds, in 2014, 2016, and 2017. The methodology has remained unchanged from previous research: the quantitative part was based on an anonymous online questionnaire administered from July to October 2018, whereas the qualitative portion involved face-to-face interviews with top managers of selected firms. This year, both the quantitative and the qualitative part of the research included a control group composed of a number of micro-enterprises, small businesses, and startups that were not AmCham members.

STRUCTURE OF THE SAMPLE

The sample for the **quantitative survey** was comprised of 97 AmCham members, of which 43 percent were large, 33 percent medium-sized, 21 percent small, and 3 percent were micro-enterprises. Companies with more than 500 staff made up 28 percent of the sample, with firms of between 100 and 500 employees accounting for another 27 percent. Finally, 44 percent of the respondents were firms employing fewer than 100 people.

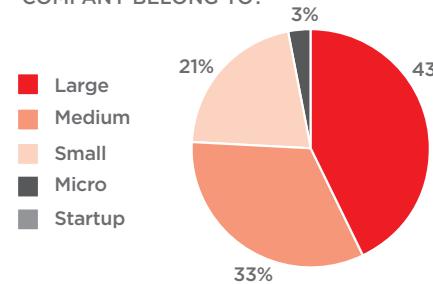
The AmCham members we surveyed employed only 6,000 workers at the Serbian statutory minimum wage, which constituted 10 percent of their combined workforce. Additionally, 96 percent of those polled did not use investment or employment incentives offered by the Government of Serbia.

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

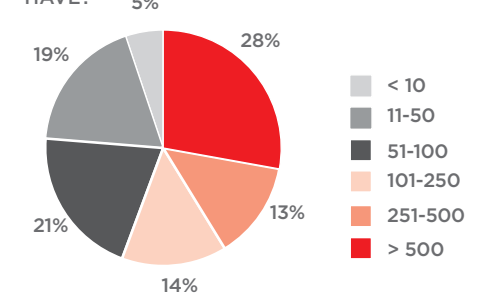
manufacturing, industry, and consulting; 86 percent of them were their firms' senior executives.

The **qualitative survey** involved face-to-face interviews with 32 selected AmCham member companies, which consisted of commenting on the findings of the quantitative survey and elaborating on key challenges for doing business. The qualitative sample covered the same sectors as the quantitative one, and nearly all respondents were company CEOs.

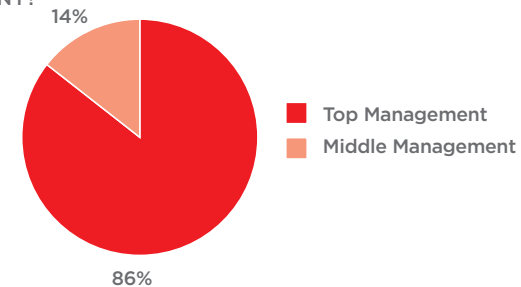
WHICH GROUP OF LEGAL ENTITIES DOES YOUR COMPANY BELONG TO?



HOW MANY EMPLOYEES DOES YOUR COMPANY HAVE?



WHAT IS YOUR POSITION IN THE COMPANY?



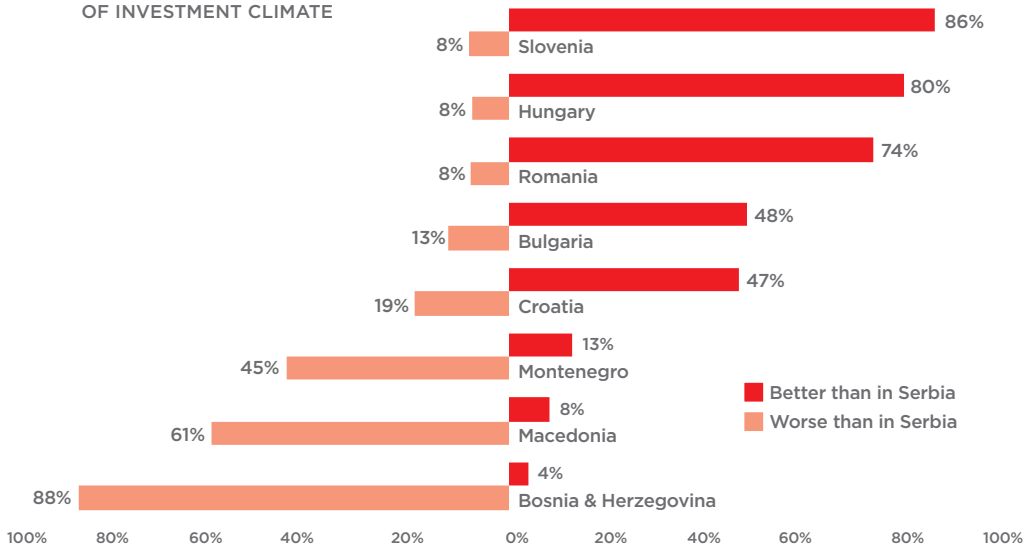
The **control group** was made up of 41 micro-enterprises, small business, and startups that completed the same online questionnaire as the firms in the quantitative sample. One-half of the control group were startups, with the remainder evenly split between micro-enterprises and small firms. Nearly all individual respondents employed fewer than 50 people. These businesses primarily operated in the manufacturing, industry, agriculture, and ICT sectors.

Interviews with control group members involved commenting the findings of the quantitative survey of AmCham members 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

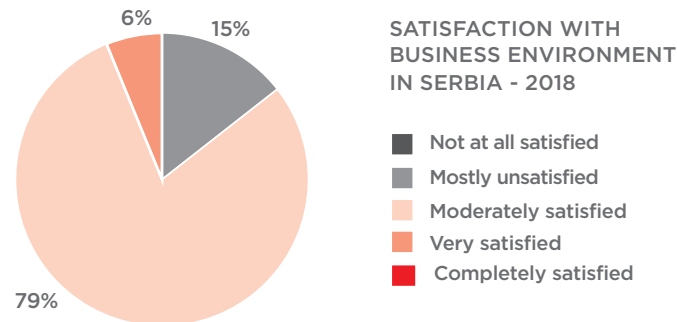
AmCham members seem to be under the impression that Slovenia, Hungary and Romania are far better investment destinations than Serbia, yet hold completely opposite views of Bosnia-Herzegovina, Macedonia, and Montenegro. Although EU member states, Bulgaria and Croatia received only slightly better scores than Serbia, with nearly one-third of those polled seeing their performance as comparable to Serbia's. These attitudes have remained nearly unchanged for the past two years.

HOW SERBIA COMPARES TO OTHER COUNTRIES IN THE REGION JUDGING BY THE QUALITY OF INVESTMENT CLIMATE

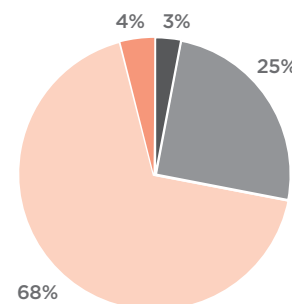


SATISFACTION WITH THE BUSINESS ENVIRONMENT AND EXPECTATIONS OF FUTURE DEVELOPMENTS

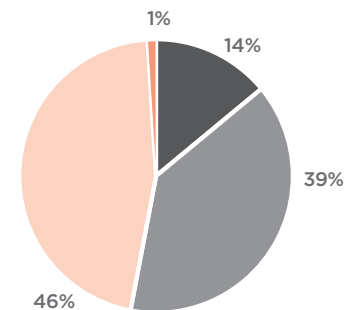
AmCham members have been happier with the business climate for the second year running: this aspect of the survey received a solid score of three (out of five). As many as 79 percent of those polled saw the business environment as “moderately satisfactory”, as against the 68 percent who reported this view last year and 46 percent who felt so two years previously. Moreover, there has been a substantial decline in the number of respondents holding negative perceptions of the business environment (15 percent this year as opposed to 28 percent in 2017 or as much as 53 percent in 2016), coupled with a slight increase in positive views (6 percent this year as against 4 percent in 2017 and 1 percent in 2016).



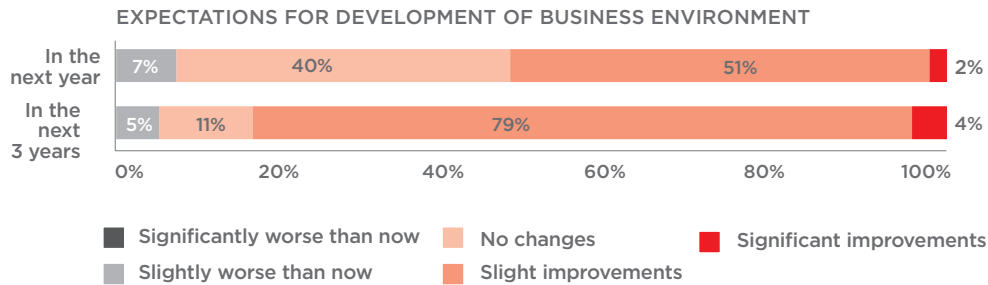
SATISFACTION WITH BUSINESS ENVIRONMENT IN SERBIA - 2017



SATISFACTION WITH BUSINESS ENVIRONMENT IN SERBIA - 2016



In keeping with last year’s results, companies making up the control group were more critical of the business environment than AmCham members. Two-thirds of the control group awarded the business climate a score of between 2 and 3 (out of five). Expectations of the coming year are modest, with slight improvement thought likely only within the coming three years.

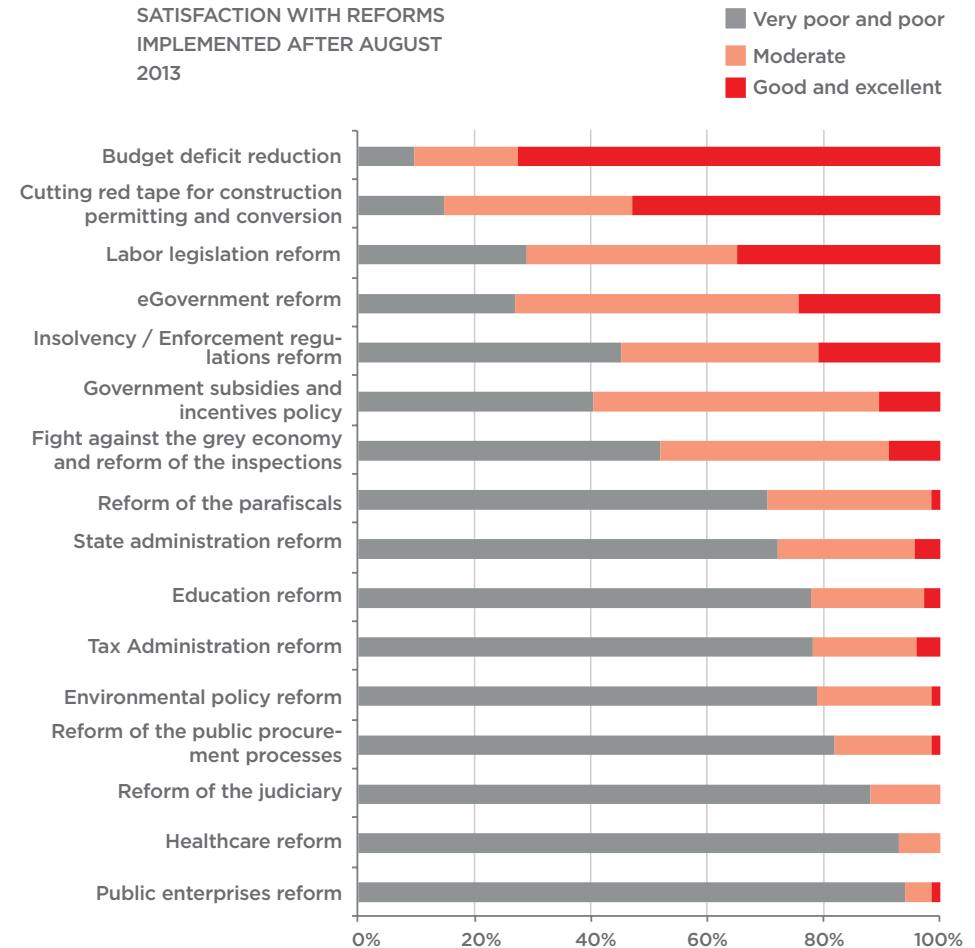


VIEWS OF PAST REFORMS

Although reported satisfaction with the business climate has been growing over the past three surveys, the members claimed there was still much room for improvement, especially in terms of the pace of reforms and in view of the fact that the best-rated initiatives could still mainly be ascribed to the previous administration.

AmCham members saw the reduction of the budget deficit, greater efficiency of construction permitting, overhaul of e-Government, and amendments to Labor law as **the most successful reforms** over the past five years. The consolidation of the budget was the best-rated initiative in last year’s survey; construction permitting, and e-Government reforms have consistently received high scores since 2016; and Labor law amendments have been praised ever since they were first introduced in 2014.

Reforms have failed to materialize or were poorly rated with regard to SOEs, healthcare, and the judiciary - with the last not receiving a passing grade from any of the respondents that made up our sample.



INTERVIEW HIGHLIGHTS:

“Reform of state owned enterprises has been in progress for by far the longest of any similar efforts in recent Serbian history, but still remains unfinished. We have tried the gentle approach and it has failed. When are we going to change that?”

When asked about their forecasts for the coming year, AmCham members mainly referred to recently announced or commenced reforms, such as enhancing predictability of tax legislation, changes to the Tax Administration, review of parafiscal charges, completion of inspections reforms and improvements to e-Government. The respondents reported they expected these efforts to bear fruit in 2019. In the long run, the businesses expected to see major improvements in the state's institutional capacity to perform its functions properly (such as in the judiciary, health service, environmental protection, education, and the like) and undertake more time-consuming reforms.

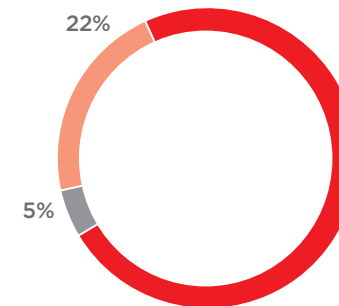
Interestingly, the small businesses making up the control group were more critical than AmCham members when it came to evaluating individual reforms as well. Only fiscal stabilization received high scores; less red tape for construction permitting was seen as moderately beneficial; and all other reforms received poor or very poor marks. The control group was by far the least sympathetic about reforms to parafiscal levies and public procurement.

GROWTH FORECASTS

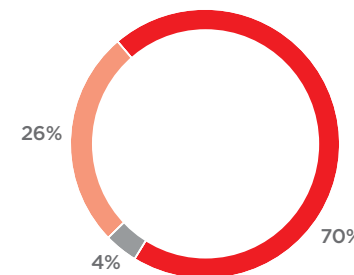
Last year saw a marked improvement in firms' growth forecasts. At that time, nearly 70 percent of all businesses predicted they would grow in 2018, an increase of more than 10 percentage points on figures reported in preceding years. These forecasts have now again been made for 2019, with **73 percent of surveyed businesses expecting their businesses to expand**.

Growth recorded by AmCham members has been exceeding their expectations for the second year running by more than 10 percent on average. More than 83 percent of all AmCham members expanded in 2018: given the structure of the sample, these businesses' economic strength and size of their workforce, as well as their contribution to public revenues, this constitutes a robust foundation on which to build faster economic growth in Serbia

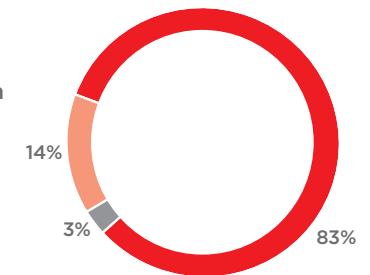
EXPECTATIONS FOR COMPANY GROWTH IN 2019



EXPECTATIONS FOR COMPANY GROWTH IN 2018



ACCOMPLISHED COMPANY RESULTS IN 2018

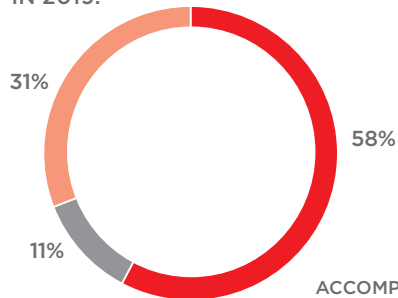


■ Expansion
■ No change
■ Contraction

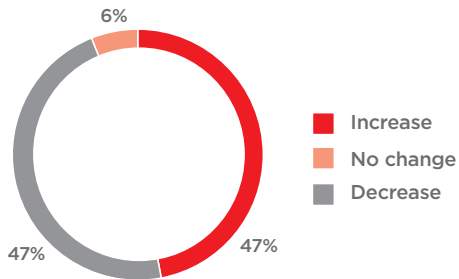
Continuing recent trends, this year's survey again confirmed the slower pace of employment growth relative to business expansion, but more optimism was in evidence than in past years. **As many as 58 percent of AmCham respondents planned to take on new staff next year, with the greatest percentage of firms now reporting their intention to hire more workers than in any previous AmCham survey** (following on from 47 percent in 2017, 50 percent in 2016, and 47 percent in 2014).

As with business expansion, findings reveal that **employment grew more than had been planned** in 2018 (with results exceeding expectations by nearly 10 percent).

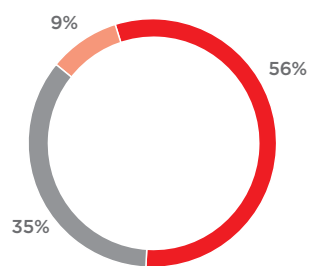
EXPECTATIONS WITH REGARD TO THE NUMBER OF EMPLOYEES IN 2019.



EXPECTATIONS WITH REGARD TO THE NUMBER OF EMPLOYEES IN 2018



ACCOMPLISHED RESULTS WITH REGARD TO THE NUMBER OF EMPLOYEES IN 2018



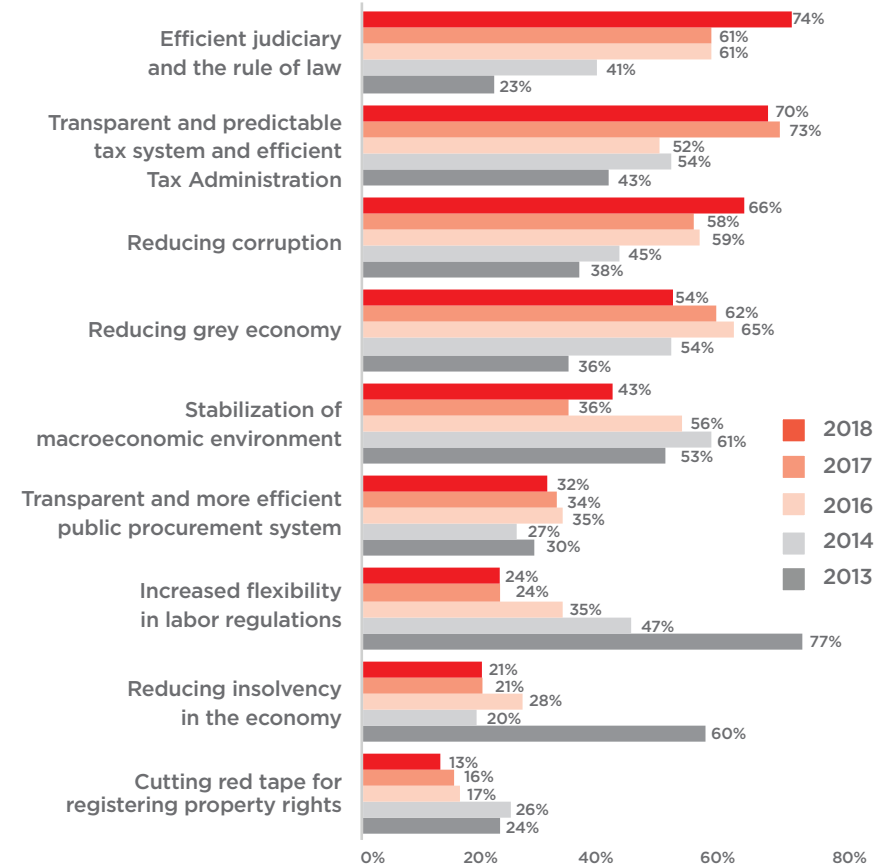
■ Increase
■ No change
■ Decrease

Small businesses and startups again reported last year's optimism for growth and employment, but their performance has remained much lower than expected and stands at about the level recorded by AmCham members.

REFORMS TO PROMOTE NEW INVESTMENT AND GROWTH

Factors seen by AmCham members as crucial for continued growth remained similar to those reported last year, although the judiciary and rule of law have made a huge leap to the top of the list of business enabling reforms (as cited by 74 percent of those polled). Other key priorities were a consistent increase in the predictability of the taxation system and greater efficiency of the Tax Administration, sought by 70 percent of members; additional anti-corruption initiatives, expected by 66 percent of those polled; and continued efforts to tackle the shadow economy, advocated by 54 percent of respondents.

REFORMS FOR THE IMPROVEMENT OF GENERAL BUSINESS CLIMATE - TREND



Institutional factors, which suddenly came to the fore two years ago, continued seeing sustained growth in this year's survey. Since 2016, focus has shifted onto the judiciary, rule of law, and anti-corruption initiatives from issues that dominated the 2013 and 2014 surveys (labor law, bankruptcy and enforcement regulations, Law on Planning and Construction, macro-economic consolidation). Members explained this change of orientation partly by citing the success of reforms pursued to date, and partly by claiming that any reforming laws would remain limited in scope unless supported by effective implementing institutions and, ultimately, sound judicial safeguards.

INTERVIEW HIGHLIGHTS:

“As far back as the 1990s the Constitution prescribed that whatever was not expressly banned by law was allowed. By contrast, today we have FOREX Law that provides an exhaustive list of what is allowed and prohibits everything else. This is the regulatory equivalent of ancient history and ought to be modernized.”

The capacity of public administration to apply regulations professionally and efficiently – from the Tax Administration and Land Registry to the Medicines Agency and Pharmaceuticals Inspectorate to municipal property offices – has consistently been seen as an issue over the past three surveys. Businesses see the solution to this problem in streamlining administrative procedures (many of which are legacy processes that could be replaced by less cumbersome but equally effective routines), building capacity of government institutions (by enhancing know-how, promoting modern skills, and hiring more staff for particular positions), and greater automation and digitalization of government that could allow civil servants to be reassigned to where they are needed the most.

INTERVIEW HIGHLIGHTS:

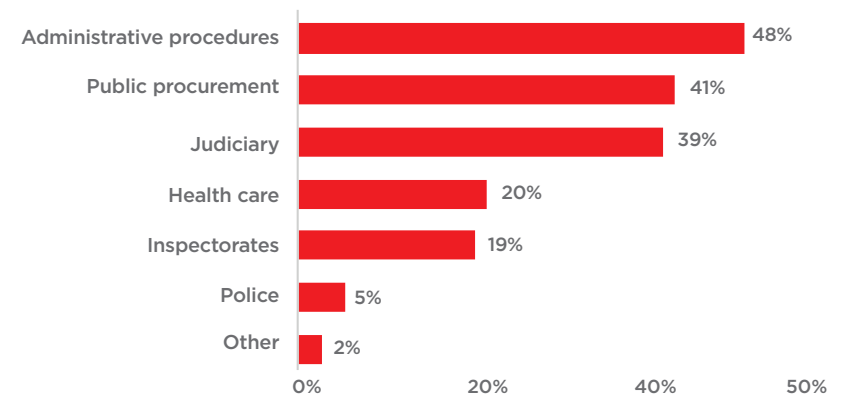
“Current laws completely prohibit selling medications online, but online classifieds are full of ads for brand-name drugs. There are only five inspectors who have to cover all of Serbia, and they are also responsible for supervising drug manufacturers, pharmacies, and so on. The situation is absurd: that which the law expressly forbids is, in effect, completely unenforced (except if someone lodges a complaint), whereas that which the law allows, provided conditions are met, is enforced with attention to detail.”

Calls for **less corruption** and institutional strengthening have been on the increase year after year. Whereas in 2013 slightly over one-third of all members (38 percent) felt that stamping out corruption was a key priority for improving the business environment, in 2018 this view was shared by two-thirds of those polled (66 percent). According to both AmCham members and small businesses surveyed, corruption was at its most widespread in administration (in procedures whereby firms had to take out permits, approvals, and the like), followed by public procurement and the judiciary.

INTERVIEW HIGHLIGHTS:

“Irregularities and perceived extent of corruption in public procurement are not the consequence of legal provisions, but, rather, of their application and oversight of that process. This is why we cannot be sure that a well-written law will solve problems in practice: we have to improve the capacities of contracting authorities to use the law and greatly strengthen oversight arrangements so that anyone breaching the law faces a high likelihood of being punished.”

PERCEPTION OF THE AREAS MOST AFFECTED BY CORRUPTION



INTERVIEW HIGHLIGHTS:

“Contrary to the Law on Legalization of Constructions, the Secretariate for Legalization refuses to certify that a particular building is subject to a retrospective application, so preventing its sale. Here, someone who followed the law to the letter and filed a complete set of documents to get retrospective planning permission, and has now been waiting for an official decision for more than two years, is now additionally penalized by not being allowed to sell their property.”

Last year’s favorite reform – **improving predictability of the tax system and efficiency of the Tax Administration** – has retained support, mostly as past promises are yet to result in concrete improvements.

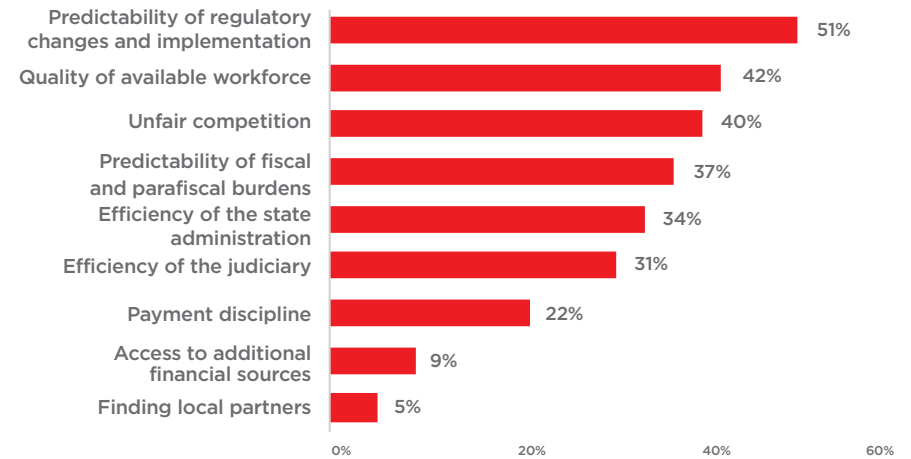
The same as last year, **small businesses and startups reported basing their investment decisions on a list of priorities that do not differ from issues considered by AmCham members.** The four key factors for large companies have been replicated, with some variation in sequence, among small firms. Greater transparency of the tax system and reforms to the Tax Administration have remained the top priority, closely followed by less corruption, a more efficient judiciary, and efforts to curb the shadow economy.

CHALLENGES FOR THE COMING YEAR

AmCham members and the control group showed the greatest differences when it came to prioritizing the main challenges for the coming year.

For the fourth year running, member companies reported **unpredictable regulatory changes and inconsistent implementation** as the greatest challenge (as cited by 51 percent of those polled), followed by **inability to find qualified staff** (42 percent), **unfair competition** (40 percent), and **unpredictability of taxes and parafiscal levies** (37 percent).

By contrast, the control group were the most concerned about **unpredictable and high taxes and parafiscal charges, difficulties in accessing finance, and finding qualified staff.**

KEY CHALLENGES FOR COMPANIES IN 2019

Interestingly, both sets of companies **shared the view that it was difficult to find appropriately qualified staff.** The issue of elusive workers has been gaining in importance on the list of challenges reported by AmCham companies: it rose from sixth place in 2014 to second in 2018.

INTERVIEW HIGHLIGHTS:

“It is becoming increasingly difficult to get good staff. For some years we have been having trouble hiring middle managers, from financial controllers to e-commerce managers to regional sales managers. We have also started having problems finding factory workers of late, especially after opening several large plants in Vojvodina, even in lower-skilled positions.”

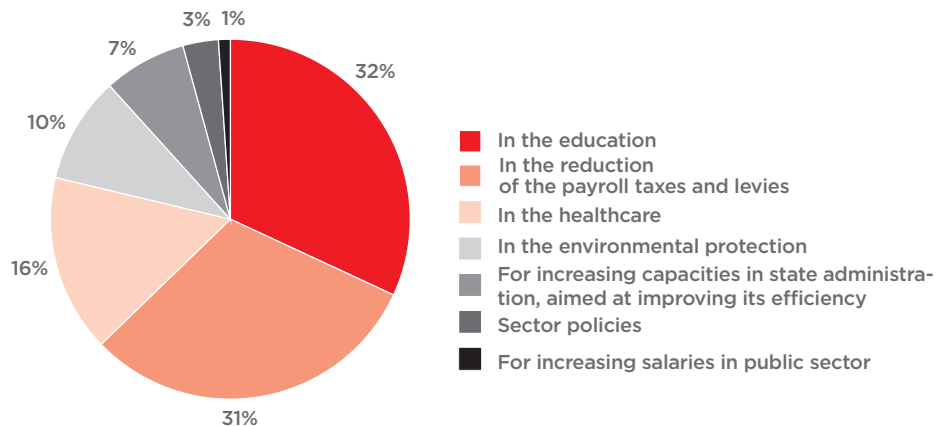
ROLE OF THE STATE IN PROMOTING GROWTH

According to qualitative interviews, the modest growth of domestic private investment seen to date has been caused by the same shortcomings cited as key hurdles for the business climate in general. These focus on issues with the rule of law, lack of capacity and independence of government institutions, and widespread corruption.

Apart from the state being responsible for improving the overall legal and institutional framework, AmCham members report its function is primarily to construct infrastructure, enhance education and ensure it meets the needs of the economy better, and improve healthcare and culture.

Continuing this line of thinking, 32 percent of those polled felt any surplus in the budget ought to be invested into education; 31 percent believed revenues could be used to reduce labor taxes; and 16 percent felt the excess funds should be invested into the health service.

EXPECTATIONS FOR BUDGET FUNDS INVESTMENT AIMED AT BOOSTING ECONOMIC GROWTH



PRECONDITIONS FOR GROWTH OF SMALL AND LARGE FIRMS: SUMMARY OF PRIORITIES

This year's key preconditions for growth, as reported by both AmCham members and small businesses, were a more efficient judiciary and greater rule of law; predictable taxes and parafiscal levies, and consistent application of regulations by the Tax Administration. While AmCham members have remained wedded to the priorities of tackling the shadow economy and promoting e-Government, e-commerce, and e-business, small firms focused more on cutting red tape in imports and exports and continuing to reduce the burden on new hiring.

INTERVIEW HIGHLIGHTS:

"The most problematic set of administrative procedures for export-oriented firms are non-tariff barriers for exports to CEFTA countries, which are erected in response to identical obstacles set up by Serbian authorities to hurt foreign exporters. Imports and exports of food and beverages are hit especially hard by sanitary, phytosanitary, and veterinary inspection procedures."

Enhancing rule of law and efficiency of the judiciary. Here the priorities were expediting trials and allowing judges to become more specialized and knowledgeable in particular areas. Respondents particularly highlighted the importance of improving administrative courts, the final instance in administrative proceedings.

Improving the predictability of taxation and parafiscal levies, and consistent application of regulations by the Tax Administration. Key issues reported by AmCham members were timely public consultations about tax laws, greater uniformity of action by the Tax Administration, and reductions of current parafiscal charges and limitations on new ones.

In addition to greater transparency in the drafting of tax laws and their implementation by the Tax Administration, the respondents also emphasized the need to enhance the way administrative courts dealt with legal and financial matters. The control group was especially vocal in calling for greater efficiency of the Tax Administration when issuing presumptive tax assessments.

Enhanced transparency of lawmaking, consultations with businesses, and monitoring implementation of business laws and measuring their impact.

The Government's consultations with businesses when seeking to amend legislation have remained an exception rather than the rule. At the same time, complaints have been increasing about inappropriate application: rules are followed inconsistently or not adhered to at all due to lack of either capacity or knowledge on the part of the institutions. The absence of an effective safeguard in case of such behavior by public administration was noted as a concern (this could take the form of an administrative performance assessment, or a meaningful administrative dispute mechanism could be used instead).

Tackling the shadow economy. Here this year's key issues in addressing the informal economy are creating a level playing field for all, delivering effective inspection oversight, ensuring better collaboration with the judiciary, and suppressing illicit trade online.

Development of e-Government and e-business. This is the third year in a row that digitalization has been among the key priorities for business growth, both as part of public administration reform and as a means for increasing revenues by opening up new sales channels. In addition to saving time and money, the replacement of paper-based routines with electronic ones will limit scope for corruption, widely held to be at its most widespread in administrative procedures.

Cutting red tape in imports and exports. Lower tariff and non-tariff barriers and accelerated cross-border movements of goods and services, especially between CEFTA countries, were seen as a major opportunity for Serbia to improve its exports performance. Especially encouraging is the heightened interest among micro-, small, and medium-sized enterprises (MSMEs) in facilitating cross-border trade and reducing undue bureaucracy.

Aligning education with the needs of the economy, and reducing administration related to Labor law.

Regulation of employee leasing, removal of barriers to hiring foreign nationals, appropriate education, and, for small businesses, reducing labor costs, were seen as the backbone of potential reforms in this area.

Greater availability of healthcare. As in past years, respondents felt reforms to the health service ought to focus on synergy between the public and private sectors, medium-term planning and better expenditure controls, and quicker access to innovative treatments.

Modernization of environmental policies. Serbia's regulations should be harmonized with EU law while the current waste management framework should be strengthened and improved

More effective property safeguards, especially for registering property and enforcing contracts. Challenges in this area included ensuring consistent application of laws and improving the efficiency of authorities tasked with property registration, retrospective permitting, and conversions.

EFFICIENCY OF THE JUDICIARY

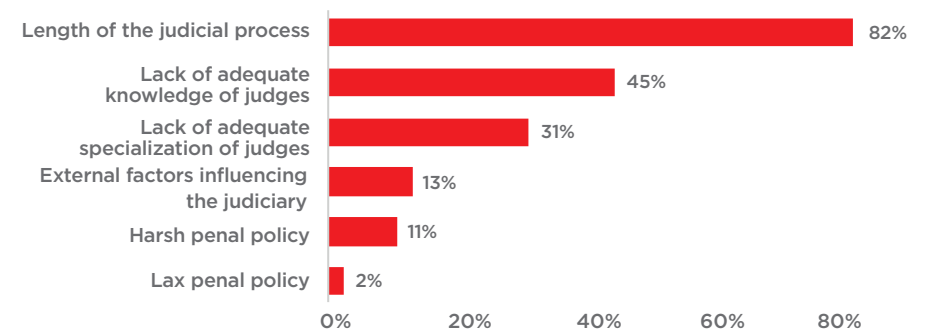
This survey found greater efficiency of the judiciary and more extensive rule of law were regarded as crucial reforms for improving the business environment: this aspect saw the greatest increase in importance relative to one year previously. Businesses reported being concerned with the slowness of the long-announced reform of the judiciary, with 88 percent of those polled claiming steps made in recent years in this direction were not enough.

INTERVIEW HIGHLIGHTS:

“Administrative courts are the last recourse against poor performance by government authorities. If an administrative body makes a mistake in applying the law, these courts are the final instance you can call on. But when those cases take on average 3 to 5 years to complete, when judges are not knowledgeable and specialized, few businesses will dare embark on this process.”

As many as 70 percent of AmCham members believed the efficiency of the judiciary was “low” or “very low”, with only 20 percent seeing it as “moderate”. Case duration was viewed as the greatest obstacle (as reported by 82 percent), as were lack of knowledge and inadequate specialization of judges, especially in more complex business or finance-related disputes. For instance, the respondents complained about the low quality of first-instance rulings in tax and financial matters, also highlighting the lack of case tracking arrangements and options to analyze statistics of rulings overturned on appeal. Lenient penal policy in illicit trade cases was particularly underlined as a problem: this is held to defeat the purpose of any efforts at preventing the occurrence of this practice.

OBSTACLES TO COMPANY BUSINESS PERTAINING TO THE JUDICIAL SYSTEM



No less important was the large extent of corruption perceived to exist in the judiciary (as reported by nearly 40 percent). This shows how important it is for courts to be more transparent.

PREDICTABILITY OF TAXES AND PARAFISCAL CHARGES

This is the fourth consecutive year that AmCham members have focused on the predictability of taxes and parafiscal dues and consistent application of laws by the Tax Administration when making investment decisions and forecasting their future growth. Only slight progress has been made in this regard, as borne out by the fact that **70 percent of those polled reported dissatisfaction with reforms to non-tax duties after 2013, with 78 percent seeing efforts to reform the Tax Administration as unsatisfactory.**

AmCham members have highlighted **sluggish reforms to parafiscal levies**, begun in 2012 and first making headway only in 2018, with the enactment of the Draft Law on Charges for Use of Public Resources and moves being made to create the long-awaited register of parafiscal charges. Nevertheless, the main impression the respondents took away from the public consultation about the Draft Law was that line ministries remained unwilling to commit to

wide-ranging reform, including the removal of all current parafiscal impositions. Moreover, even though the Ministry of Finance had announced the long-overdue law would be fiscally neutral, the new legislation was used to increase existing fees and even introduce new environmental and water-related duties.

INTERVIEW HIGHLIGHTS:

“True reform of parafiscal levies would mean the elimination of all energy-related and environmental charges, both from the Draft Law on Charges for Use of Public Resources and from the individual laws that introduced them.”

Qualitative interviews have shown that **predictability of changes to tax laws** still ranked high in importance as a precondition for better business and new investment. There has been one step in the right direction, however, with respondents praising the Minister of Finance’s assurances that no major tax laws would henceforth be enacted without meaningful and open consultations with businesses; public consultations will be held for changes to all tax legislation planned for the final quarter of 2018. On the other hand, some concerns remain that these consultations will remain nothing more than box-ticking exercises and will not properly consider stakeholders’ suggestions. One example of such ineffective consultations has been the VAT Records Regulation, enacted in June 2018 in the teeth of much opposition from businesses: this bylaw has imposed large administrative requirements and made it much more expensive for diligent taxpayers to pay their taxes.

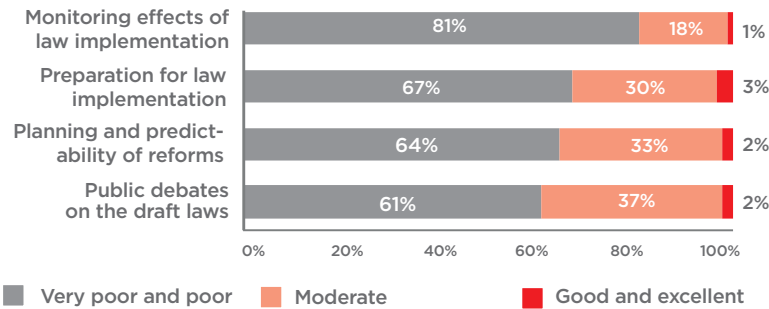
Respondents have reacted favorably to news of faster reforms of the Tax Administration. Even though AmCham members reported seeing progress in cooperating with tax authorities to tackle the shadow economy, enhance efficiency of tax procedures (especially VAT refunds), and ensure greater consistency in interpreting and applying regulations, serious concerns remain year after year.

EFFECTIVENESS OF PUBLIC PRIVATE DIALOGUE FOR AMENDING REGULATIONS

For the fourth year running, AmCham members regarded unpredictability of legal amendments as the greatest challenge to their operations. This attitude is surely based on negative experiences with having laws fast-tracked through Parliament in the absence of sufficiently transparent consultations with businesses and proper regulatory impact assessments.

In spite of the measures taken by the Government within the past year – in particular the enactment of the Planning System Law – the number of laws fast-tracked to adoption has increased significantly, which runs directly counter to recommendations made by the Group of States against Corruption (GRECO) for this procedure to be used in exceptional cases only. Of a total of 141 laws enacted in 2018 (to mid-October), 65 (46 percent) were fast-tracked, with 76 (54 percent) adopted under regular procedure. This reveals a near-doubling of fast-tracked laws relative to the same period one year before, when 12 laws (25 percent) had been fast-tracked, as opposed to 37 (75 percent) enacted in the standard procedure. It ought to come as no surprise to see businesses remain pessimistic about prospects for public-private dialog.

RATING OF PUBLIC-PRIVATE DIALOGUE IN THE PROCESS OF REGULATORY FRAMEWORK CHANGING



More than one-half of those polled viewed nearly all stages of the consultation process as “very poor”: this was the case with planning and predictability of reforms (64 percent); preparations for implementation of laws (67 percent); and formal public consultations about draft laws (61 percent). Nevertheless, AmCham members were particularly concerned with a set of concrete practical challenges with applying laws and monitoring their impacts, including unclear provisions, differing interpretations, and selective or inconsistent implementation, or even failure to implement some regulations. As many as 81 percent of all respondents expressed anxiety about this issue, an increase of 7 percentage points on last year.

INTERVIEW HIGHLIGHTS:

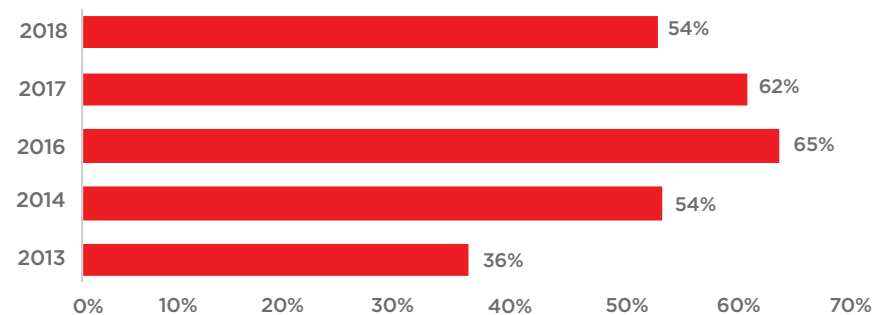
“The Medicines Agency has not been able to initially register medications, or renew registrations, within statutory timeframes. Their delays have been known to reach nine months (267 days for renewal and 288 days for first-time registration). The Agency claims this is due to a lack of administrative capacity and has been repeating this excuse for years. At the same time, their line ministry has been unresponsive to calls to simplify procedures in line with EU requirements, also for years.”

TACKLING THE SHADOW ECONOMY

The perceived importance of efforts to address the shadow economy for improving the business environment has declined relative to previous years, returning to the same level as in 2014. That being said, most members (54 percent) continued to view this issue as a priority. Respondents were partially satisfied with reforms designed to tackle the informal economy and improve inspections services (48 percent rated these efforts as “moderately” or “completely” successful, with 52 percent viewing them as “poor” or “very poor”).

By contrast, unfair competition has remained a major challenge to doing business. Respondents again reported much room for improvement of initiatives aimed against the informal economy, and their views are borne out by the findings of a recent Faculty of Economics study that estimated the extent of the shadow economy at around 30 percent of GDP. Following its rapid growth in 2013 and 2014, and decline in 2015 and 2016, this figure is now identical to the size of the informal economy last recorded in 2012.

IMPORTANCE OF REDUCTION OF GREY ECONOMY FOR THE IMPROVEMENT OF BUSINESS CLIMATE



In qualitative interviews, AmCham members complained about the **lack of appropriate prosecution of misdemeanors and criminal offences related to illicit trading**, and these concerns are closely linked with the growing importance of the efficiency of the judiciary as a priority for reform. Moreover, respondents were worried about the **shift in illegal trade from traditional markets to the Internet**, which is not subject to clear inspection powers. Although different intellectual property enforcement bodies have been planning closer ties for years, this is yet to occur: in recent times, institutions have actually regressed in a number of areas, such as preventing software piracy.

e-GOVERNMENT AND DIGITAL TRANSFORMATION

The digital revolution will have a huge impact on both businesses and government bodies. It was therefore not surprising to see 51 percent of our respondents report that the digital transformation ought to be among the five priority areas that AmCham will focus on in the future. While our members have praised the Government of Serbia's efforts in this regard, including the creation of the Government Office of Information Technology and E-Government, opinions of actual e-Government services were mixed. A total of 29 percent of those polled saw them as "very poor" or "poor", 36 percent felt they were "average", with a final 35 percent seeing them as "good" or "excellent". AmCham members reported room for improvement in the creation of digital resources that will allow the general public and businesses to access a broad range of services instead of lengthy and complicated paper-based administration. The Ministry of Justice was singled out for particular praise: its Judicial Information Portal has dramatically shortened the time needed to exchange information between government bodies and the judiciary and so accelerated proceedings, and its e-Sud ("e-Court") web site will allow administrative disputes to be initiated online.

INTERVIEW HIGHLIGHTS:

"The e-Government web site must allow cashless payment of fees and charges. Although documents can be accessed online, the inability to pay at the same time is a needless impediment in this process."

Companies reported various adaptations to these changes, from automating internal processes to integrating digital solutions into their products and services. They all, however, agreed on one thing: digital transformation was a major challenge faced by today's society, and fast, optimal solutions that suit the Government, businesses, and the general public can be found only if all stakeholders work together. AmCham members reported that creativity and local know-how should be adapted to suit the local context if they are to play a key role in this process; also needed was a more proactive and systematic engagement between the Government and the Serbian startup community and businesses.

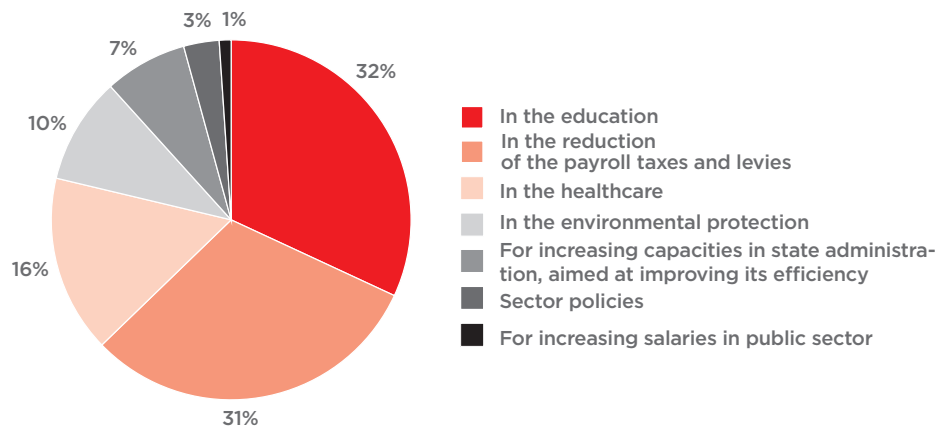
INTERVIEW HIGHLIGHTS:

"Technology is making it increasingly easy to participate in public life. Social networks, e-government, digital identities – these are just some examples of changes adopted by national administrations. Changes expected at the global and the local level include smart and safe cities, longer lifespans and a better quality of life, and less polarization due to power and wealth. That being said, automation will sweep away one-third of current occupations and jobs: as with each previous industrial revolution, people and societies will have to learn and be flexible."

LABOR MARKET, HUMAN POTENTIAL AND EDUCATION

This year’s findings make it clear to see how the needs of the labor market, labor law, and the education system are interrelated, and how important it is to develop new training profiles and align regulations with the requirements of today’s business. As such, the five key areas in which AmCham should advocate reforms now include education (as cited by 51 percent of those polled) and labor law (47 percent). Most AmCham members (58 percent) reported expecting to take on new staff in 2019, but many (42 percent) also felt it would be a serious challenge to find appropriate workers over the next year. It therefore comes as no surprise that most respondents (32 percent) felt growth incentives should be invested into education reform, with this field seen as “very poor” by most of those polled (78 percent).

EXPECTATIONS FOR BUDGET FUNDS INVESTMENT FOR BOOSTING ECONOMIC GROWTH



INTERVIEW HIGHLIGHTS:

“As a foreigner in Serbia I cannot understand why the Government does all it can to attract foreign direct investment and then burdens these same foreign nationals with huge administrative requirements for employment and residency. If you want to make Belgrade a regional center for multinational corporations, and this is realistically achievable, regulations for employing foreign nationals must be much more flexible.”

Respondents underlined the need for multilingual staff who are able to use new technologies and are ready to learn and adapt to constant change. AmCham members believe that this requires a thorough overhaul of the education system to ensure that children are taught foreign languages from an early age, learn about technology and acquire digital skills, and develop critical thinking and entrepreneurial spirit. Young people with the necessary skillset now more commonly seek work abroad, which prevents companies operating in Serbia from finding the staff they need to grow, and discourages those considering the country as a future destination for their business.

INTERVIEW HIGHLIGHTS:

“In ten years, our team will be decimated by digital transformation. Young people must urgently be motivated to start acquiring the knowledge and skills that will make them competitive in the face of future technologies.”

