



## THE SECOND LAP TIME: **ENGAGE FOR CHANGE**

Findings of AmCham's survey

# HOW TO CREATE NEW JOBS

part of the ENGAGE FOR CHANGE Project

## Methodology

The population surveyed was the entire membership of the American Chamber of Commerce in Serbia (AmCham), comprised of 180 U.S. companies and other foreign and local firms which, according to estimates made at the beginning of 2013, have cumulatively invested over 14 billion Euros in the Serbian economy. The building blocks for the quantitative part of this survey are answers to an anonymous questionnaire supplied by 51% of the surveyed group between October and December 2013. Following the collection of the quantitative data, qualitative research was conducted using 'one to one' interviews in which respondents were asked to comment on the findings of the quantitative research.

## Demographics

72% of the sample are large and medium-size companies, of which 40% employ more than 100 and 22% more than 500 people. 71% of the companies employ more than 90% of their manpower for an unlimited term, and in a further 20% of companies the share of persons in unlimited-term employment exceeds 75%.

The companies in the sample are active in over 19 sectors, including finance, health care, the pharmaceuticals industry, IT, energy, transport and logistics, agriculture, the food industry, construction, telecommunications, manufacturing, consumer goods, trade, tourism, quality control, the media, the military surveillance industry, games of chance, foundations, and professional and consultancy services.

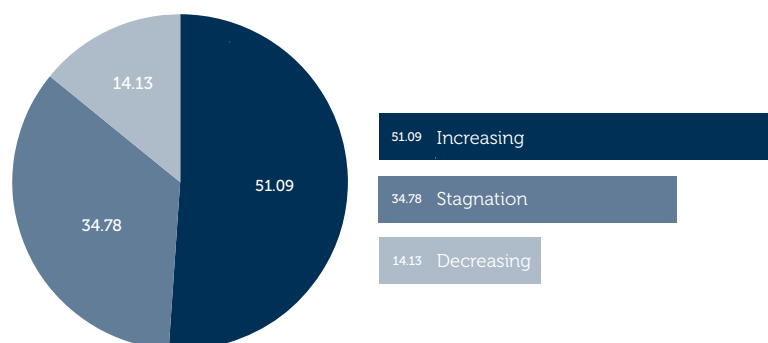
96% of respondents are members of the top level management structure or executive management at their companies.



## The most important findings

The main purpose of this study was to identify the prerequisites for the creation of new jobs in the respondents' core businesses, as well as the existing obstacles they encounter when doing business in the Serbian market. The priority reforms suggested by the findings of the survey will be valuable for setting AmCham's priorities for 2014.

### Expected change in employment in companies' core activity in the next two years

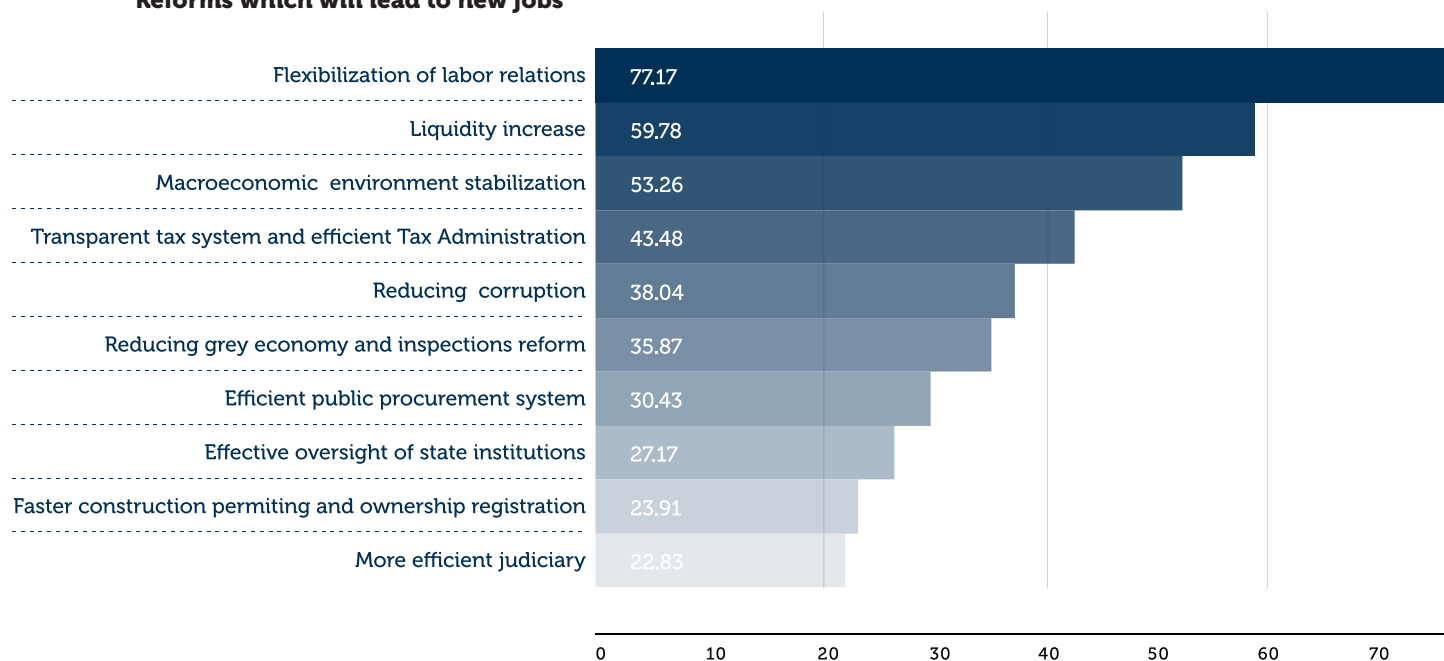


The most optimistic data from the survey is that as many as 50% of respondents expect further investment and the creation of new jobs in the next two years. Stagnation in the number of employees is expected by a third of respondents, and only 15% expect a reduction.

### Priority measures necessary for the creation of new jobs:

- Reform of labor legislation
- Implementation of measures to improve liquidity in the economy and ensure the stabilization of the macroeconomic environment
- Provision of a predictable and effective taxation system
- Reduction of the 'grey' economy and corruption
- Provision of an ample pool of skilled labor, able to cope with the needs of the modern market

### Reforms which will lead to new jobs





In the qualitative part of the research, the top management of the largest companies was asked to comment on these optimistic findings. Respondents explained that the removal of obstacles and putting in place the identified prerequisites would create an environment conducive to the implementation of strategies for positioning and portfolio expansion on the local market, which are now on hold but will surely contribute to the creation of new jobs.

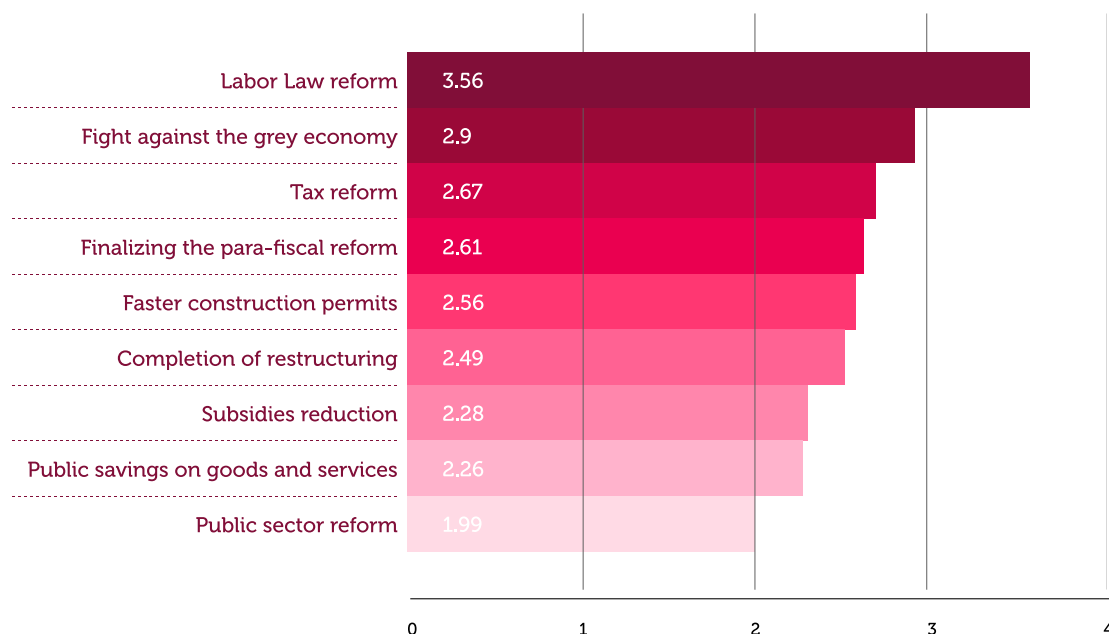
On the other hand, some respondents took a slightly more reserved approach, warning that companies' business is not affected only by the regulatory framework, institutional capacity, and economic policies, but also by the overall state of the global economy and the local economy in which they are doing business. They point out that implementation of the identified reforms, regardless of how effective they are, will not directly produce better business results, and accordingly will not automatically increase employment.

However, both groups agree that the failure to take major steps to progress the identified reforms in the coming period will significantly reduce the prospects for increasing employment in any later period.

Moreover, it is important to note that, in both the quantitative and qualitative part of the research, respondents stated that the liquidity deficit in the economy and any macroeconomic effects of a chain reaction that might ensue is a major cause for concern.

## Labor legislation

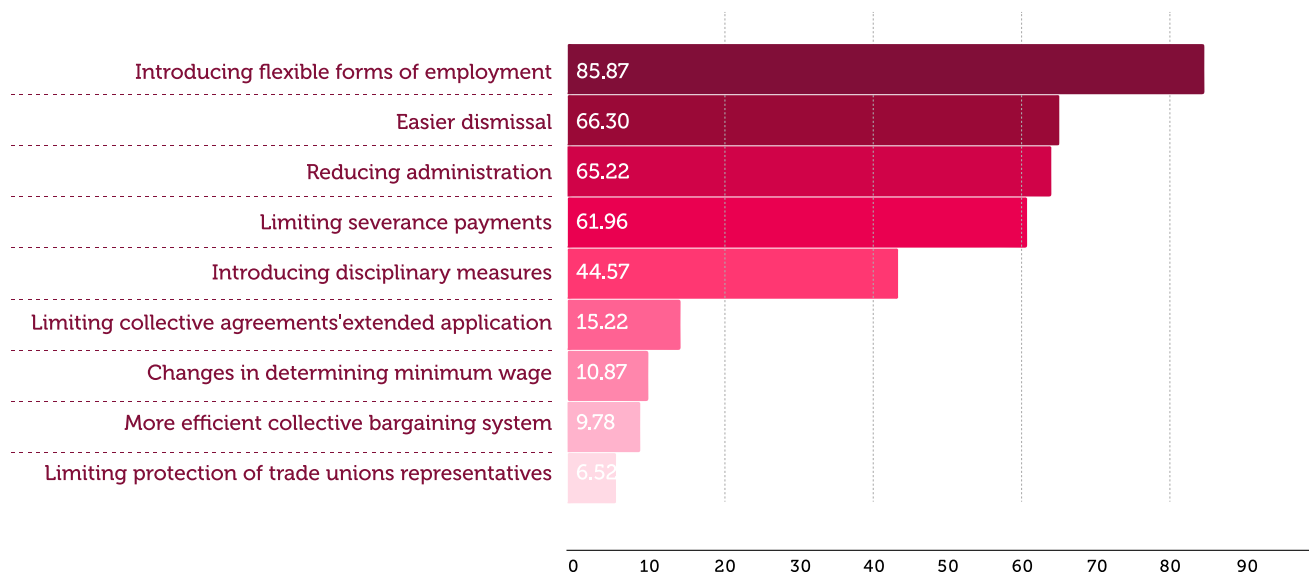
**The announced Government of Serbia measures which will contribute most to increasing employment**



The importance of amendments to labor legislation was frequently elaborated, and was confirmed again in the assessment of the impact that the measures announced by the government will have on future employment. The findings reveal that only labor legislation reform will have a direct effect on employment, while suppressing the 'grey' economy and tax reform will have less impact.



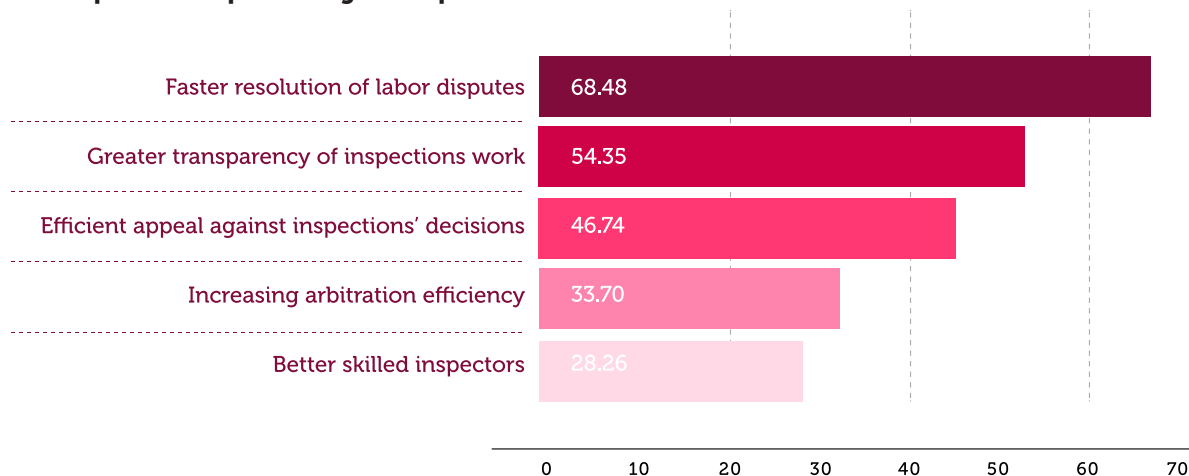
**What amendments to the Labor Law would contribute most to your business?**



Within labor legislation, the measure deemed most important is the introduction of flexible employment arrangements (longer term contracts, staff leasing, working from home, etc.), followed by easier dismissal of employees, less paperwork, and restricting the disbursement of severance pay to the time spent with the employer concerned.

**Focus on the judiciary**

**Prerequisites for promoting the implementation of the Labor Law**



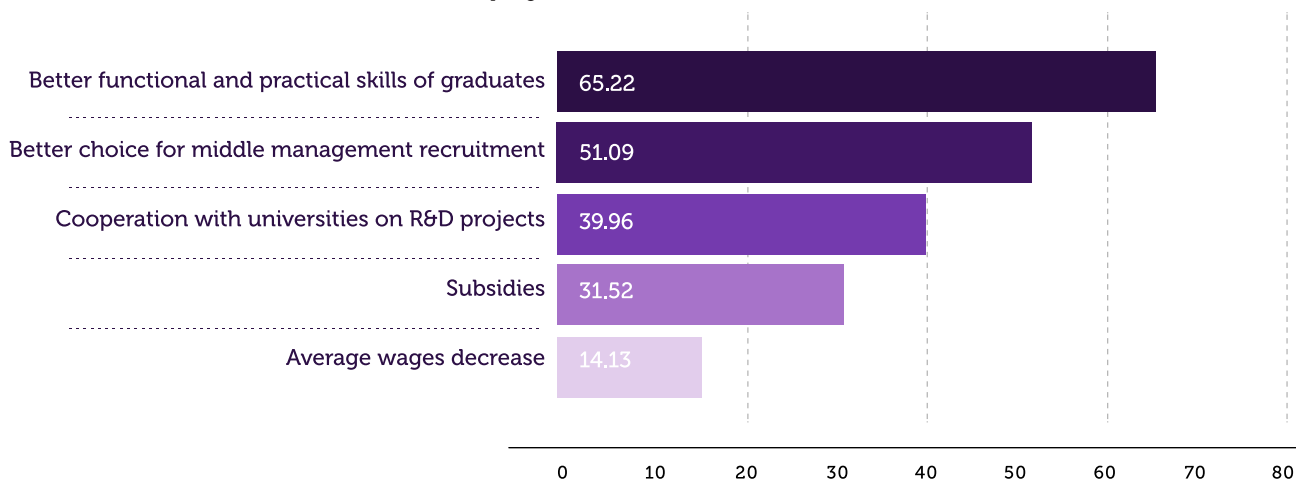
The critical requirement for promoting the implementation of the Labor Law, which 68% of respondents mentioned, is ensuring that labor disputes are settled more quickly. Factors related to more transparent and more effective work by inspectorates were next most commonly mentioned.

It was stressed in the qualitative part of the research that judicial efficiency is of much wider significance than the problems with the Labor Law quantified here. Besides the need to increase efficiency, respondents mentioned 'uneven' court practices which quite often give rise to contradictory rulings, significantly reducing the level of trust in the justice system.



## Creating professional and skilled workforce that responds to the needs of modern market

### Other factors that would facilitate employment

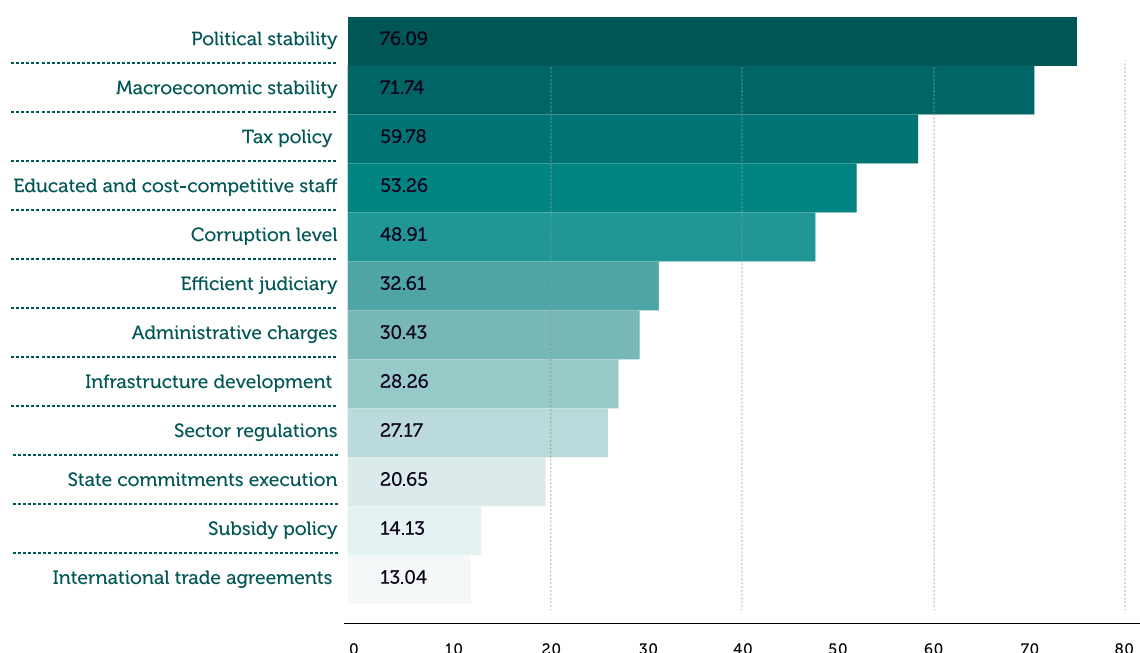


In considering non-regulatory factors which can have an impact on employment, as many as 65% of respondents said that if graduates had better practical knowledge and skills, this would significantly improve their employment prospects, while the possibility of subsidized employment ranked only 4th among factors that would contribute to employment. The importance of reform of university education, focusing on equipping professionals with the knowledge and skills that match the needs of the modern market, was also recognized in the fact that more than 53% of respondents believe that it is suitable education and competitive salaries that, in addition to a stable political and economic situation, will substantially contribute to reducing unemployment among young people.

## Predictability and transparency of the taxation system

When asked what, besides political and macroeconomic stability, is the most important factor in making a decision to invest in a given country, as many as 60% of investors identified taxation policy.

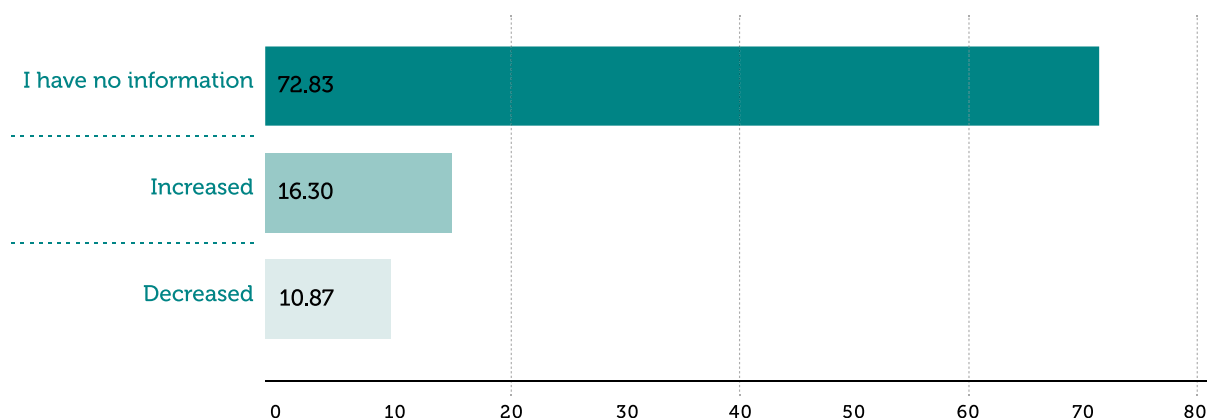
### Factors that most influence the decision to invest in a given country





It is interesting that in the qualitative interviews, respondents expressed relatively positive assessments of the competitiveness of Serbia as an investment destination. However, when asked to comment on taxation policy and the taxation system from the perspective of a company doing business in Serbia, they stressed that in future more effort should be invested in ensuring improved predictability and transparency in the tax system. They believe that predictability is reflected in timely announcement of any changes to taxation policy, inclusivity in public discussions about amendments to tax legislation, and consistent implementation of measures that have been announced.

#### **Effects of the parafiscals reform on the level of levies paid in 2013**



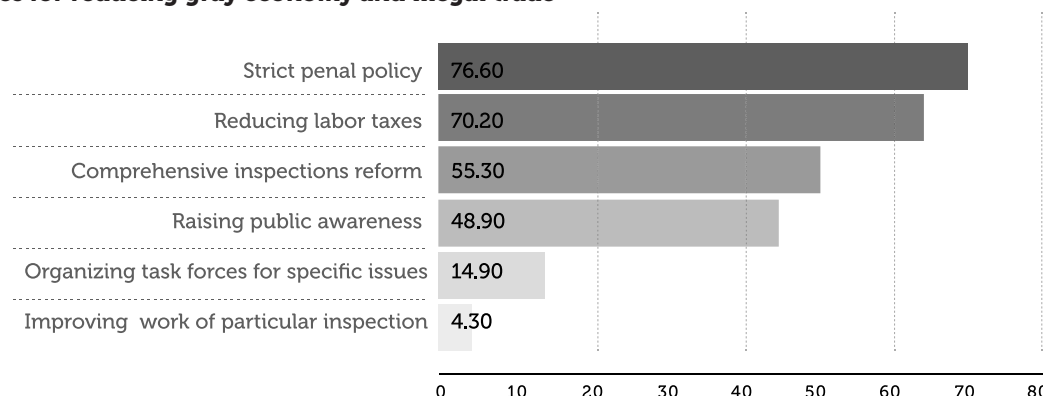
When asked to provide a specific example, respondents mentioned the still incomplete reform of para-fiscal charges, begun by the Government in 2012 with the aim of achieving two goals: to regulate the imposition of charges on businesses and to effectively alleviate the burden on businesses. As for the first goal, respondents said that the Law on Fees for the Use of Public Goods, which was expected to increase the transparency of levies by covering them all with a single law, was not adopted in early 2013 as had been announced. As for the second goal, most respondents in this study (73%) have no information about whether the reforms thus far implemented have had any effect on the charges they pay, and only 11% of respondents deem this effect to be positive. One sixth of respondents even stated that levies had increased, giving the specific example of signage fees, which in some places have increased by an incredible 4000% compared to 2012, as well as other charges imposed at the local level.

## **The 'Grey' economy**

The respondents in this survey highlight that strict law enforcement, with the establishment of incentive structures (level of levies, complexity of procedures, certainty that offenders will be punished, level of punishment, etc.) will make any breach of the law significantly more complicated and expensive, while making compliance with the law much simpler and cheaper. As the key measures for suppression of the grey economy, respondents mentioned a strict penal policy and zero tolerance for offenders, reduction of levies, and comprehensive regulatory reform of inspectorates. The individual inspectorates mentioned as critical for the eradication of the grey economy, which are supposed to significantly raise their level of effectiveness in the coming period, include: the Tax Administration, the Market Inspectorate, and the Communal Inspectorate. Respondents welcomed the announcement of an 'umbrella law' on inspection surveillance, which they believe will solve the problem of overlapping powers and responsibilities and the lack of coordination between different services.



### Measures for reducing gray economy and illegal trade

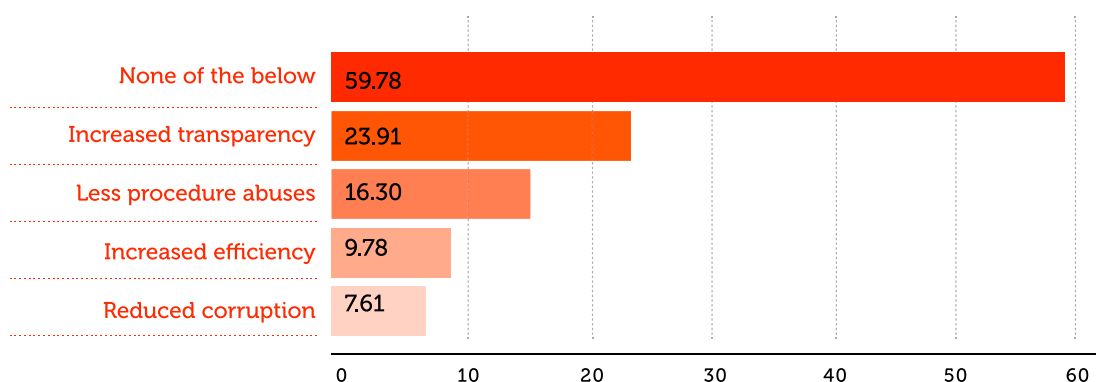


## Anti-corruption and public procurement processes

According to 38% of respondents, suppression of corruption in the coming period is one of the five most important prerequisites for increasing employment. In the qualitative part of the research, respondents said that the effect of the Government's anti-corruption campaign is clearly visible in cases of high-level corruption (footnote TI Annual Report). They point out, however, that in the coming period the focus should be on the systemic eradication of corruption, which implies improved transparency, simpler procedures, increased effectiveness of the administration, and reducing possibilities for abuse – all with the aim of institutionalizing a system with the least possible opportunity for corruption.

With regard to the interaction between the public and private sectors, one of the crucial laws, amended at the beginning of 2012 with precisely this intention, is the Law on Public Procurement. Slightly more than half a year after the new Law came into force, as many as 60% of respondents believe that the Law has not achieved the objectives which were announced and expected. Increased transparency in the public procurement process was deemed to be the best effect of the Law by 23% of respondents. In the qualitative part of the research, respondents stated that some of the reasons for its poor effects in this short period may include inadequate preparation for commencing implementation of the law, since it took a considerable period of time for all participants in the system (particularly public administration) to start to apply the new procedures. In addition, respondents mentioned that at the beginning of implementation, an impression was created that it was precisely the high-profile fight against corruption that made those implementing the law more hesitant to proffer any interpretations, opinions, or recommendations; namely, by refraining from doing anything they were attempting to protect themselves from any accusations of corruption, which produced effects contrary to those intended.

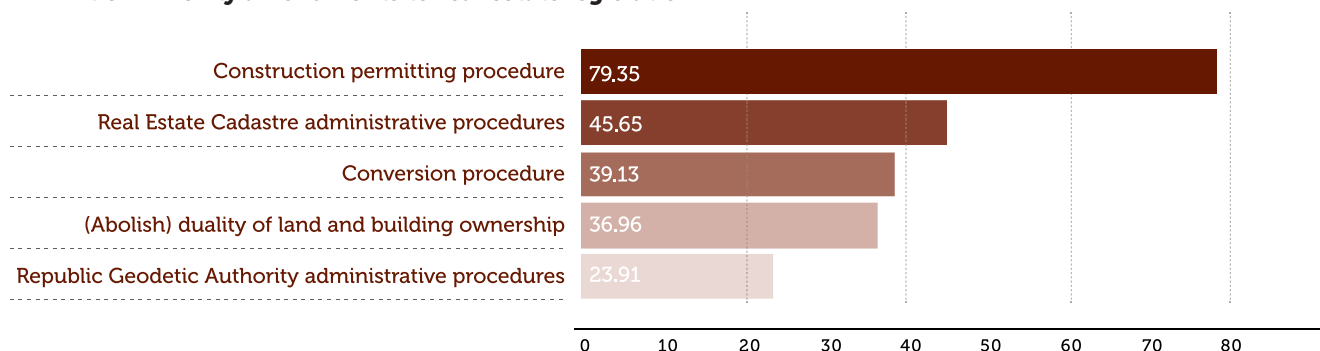
### Effects of the new Law on Public Procurement





## Real estate legislation

### Title – Priority amendments to real estate legislation



As has been reiterated many times before, this survey shows that real estate legislation needs to be amended urgently, particularly the procedure for obtaining construction permits, alteration of which was voted for by 80% of respondents. In the qualitative part of the research it was stressed that a legislative amendment as such will have no effect unless the new internal administrative procedures are properly prepared and staff is trained to follow them. Respondents particularly focus on clearer mechanisms that will compel all participants in this process (including public enterprises) to comply with deadlines.