

TREĆE PROLAZNO VREME UKLJUČI SE ZA PROMENU



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 183 U.S. companies and other foreign and local companies which, according to 2013 estimates have cumulatively invested over 14 billion Euros in the Serbian economy. The building blocks for the quantitative part of this survey are responses to an anonymous questionnaire supplied by 53% 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

55% of the sample represents large and medium size companies, of which 40% employ more than 100 and 23% more than 500 people.

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, gaming industry, foundations, and professional and consultancy services.

82% of respondents are members of the top level management structure or executive management at their companies.

THE MOST IMPORTANT FINDINGS

This is a second year in the row that AmCham conducts this survey with the aim to identify the necessary reforms for the creation of new jobs in the respondents' core businesses, as well as existing obstacles they encounter when doing business in the Serbian market.

KEY TRENDS IN THE BUSINESS ENVIRONMENT SINCE LAST YEAR

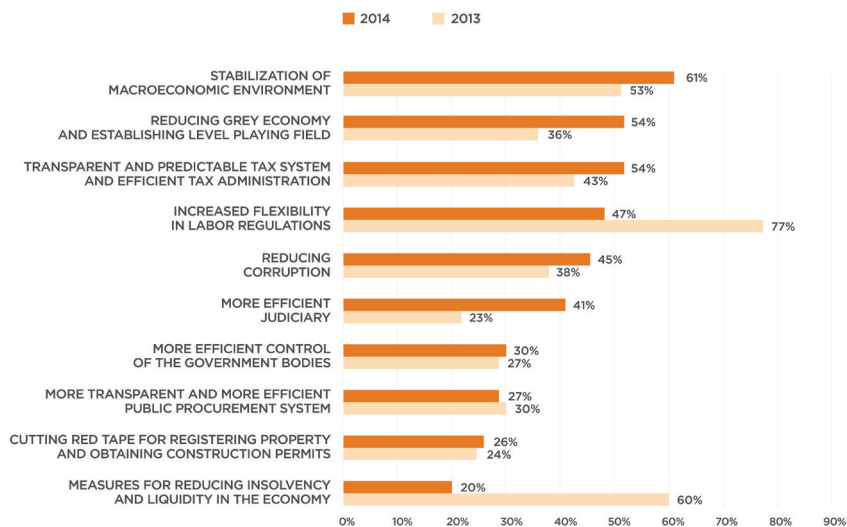
Comparison to the last year's results of the same survey clearly show that **Labour law and Insolvency law changes were the most positive policy changes in 2014**, as these fell on the necessity list top two reforms in 2013 by 30 and 40% respectively. On the other hand, **fear of macroeconomic and macrofiscal destabilization**¹ (especially budget deficit and public debt) **has grown hand in hand with the anxiety over possible resulting increase of fiscal and parafiscal burden** and necessity for more effective **grey economy combating measures**. Also notable is modest increase in necessity for anti-corruption measures, as well as **more significant raise in importance of improving efficiency in judiciary**² (18%).

¹ Quantitative part of the survey was finalized in October before preliminary agreement with the IMF has been announced

² Quantitative and qualitative part of research has been done during the strike of lawyers



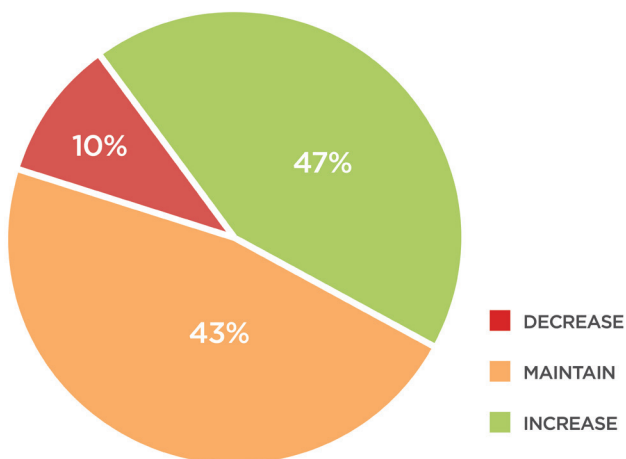
KEY REFORMS AFFECTING BUSINESS ENVIRONMENT COMPARISON 2014/2013



AMCHAM MEMBERS CAUTIOUSLY OPTIMISTIC

Almost half of the membership (47%) expects further investment and the creation of new jobs in the next two years (down from 51% in 2013), while 43% plan stagnation (up from 35% last year), and only 10% expect a reduction of the number of employees (down from 14% last year).

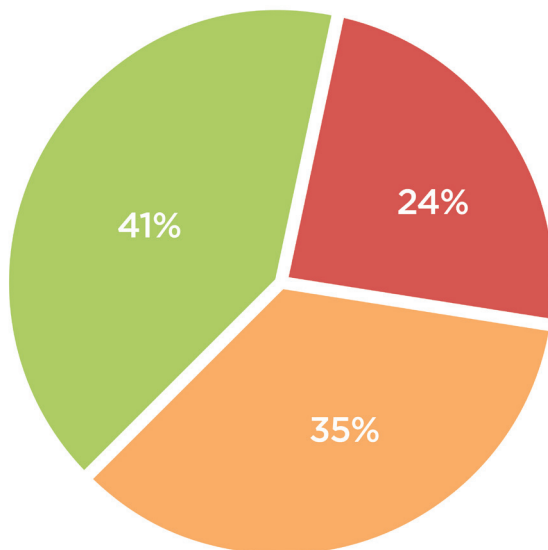
EXPECTED CHANGE IN EMPLOYMENT IN COMPANIES' CORE ACTIVITY IN THE NEXT TWO YEARS



Good news might be found in the fact that 59% of companies that plan to raise investment and employment in the next two years are large and medium sized companies testifying to the existence of a significant reservoir for additional investments and employment already present in the country.



SIZE OF COMPANIES PLANNING TO RAISE EMPLOYMENT
IN THE NEXT TWO YEARS

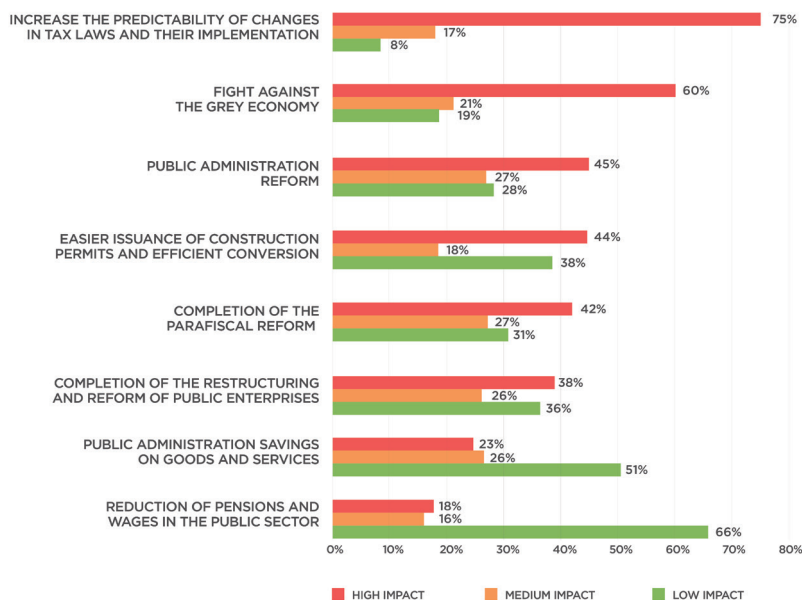


- LARGE LEGAL ENTITY
- MEDIUM LEGAL ENTITY
- SMALL LEGAL ENTITY

Key policy reforms necessary for realizing the potential for investments and jobs:

- Increase predictability of fiscal and para-fiscal burden for businesses
- Effective reduction of grey economy
- Policy making process and capacity to make quality regulations and enforce them properly
- Reducing red tape for construction permitting and increasing predictability regarding conversion of the right to use into ownership right

PRIORITY REFORMS FOR INCREASING EMPLOYMENT IN YOUR COMPANY

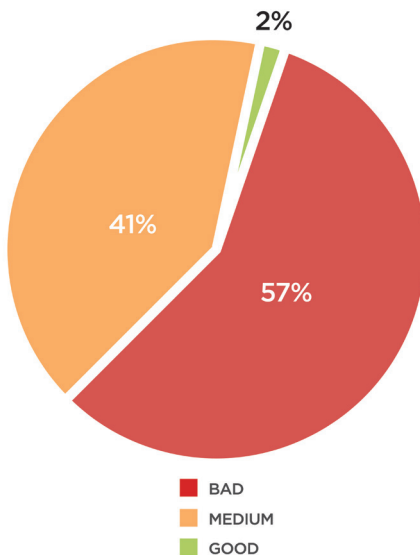


INCREASE PREDICTABILITY OF FISCAL AND PARA-FISCAL BURDEN FOR BUSINESSES

75% of the respondents of the survey consider increase in predictability of tax laws and their consistent implementation as the most important reform to be conducted. Furthermore, when asked to evaluate this predictability in a separate question, only 2% of the respondents deems it high (not a single one company sees it as very high), 41% assesses it as medium, while 57% think it is low or very low.

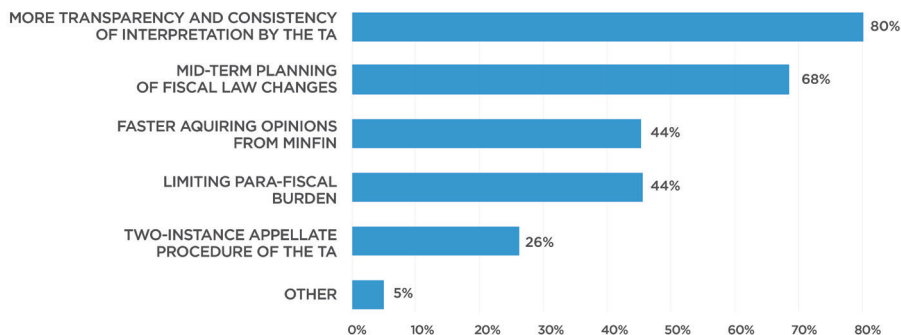


HOW DO YOU ASSESS THE PREDICTABILITY OF TAX POLICY,
TRANSPARENCY OF REGULATIONS AND CONSISTENCY OF ITS
IMPLEMENTATION?



The principle directions for improvement 80% of the respondents see in increasing transparency and predictability of implementation of tax regulations by the Tax Administration, adopting mid term plan for tax policy and regulations and limiting the parafiscal burden.

DIRECTION OF TAX REFORMS



Inconsistent interpretation of the tax regulations by the Tax Administration and lack of internal guidelines that would improve uniform interpretations of certain provisions have been identified as a serious issue for businesses. Respondents maintain that official Opinions by the Ministry of Finance, which have become obligatory for the Tax Administration in 2013, cannot ease the lack of predictability as they are issued with significant delays.

When illustrating lack of predictability of tax regulations, respondents mention sudden revocation of certain tax incentives for investment in capital facilities, lack of open dialogue with the industry and lack of timely announcements of changes in policies, as well as initiated but stalled reforms, such as the one on parafiscal charges (administrative taxes, compensations and local charges)³.

EFFECTIVE GREY ECONOMY REDUCTION

Effective grey economy reduction as one of the priority reforms in the following period, has made a significant relative jump from No.6 last year to No.2 this year. This might not be surprising taking into account that grey market is currently the second largest player, by market share, in the retail and tobacco business cumulatively effecting EUR 370 mil loss for the budget overall. Although respondents acknowledge results of activities conducted in 2014, especially in the area of excise on fuels collection and the work of Customs and Tax Administration, they maintain that sheer volume of the grey market and negative trends in the past 2 years call for more comprehensive measures.

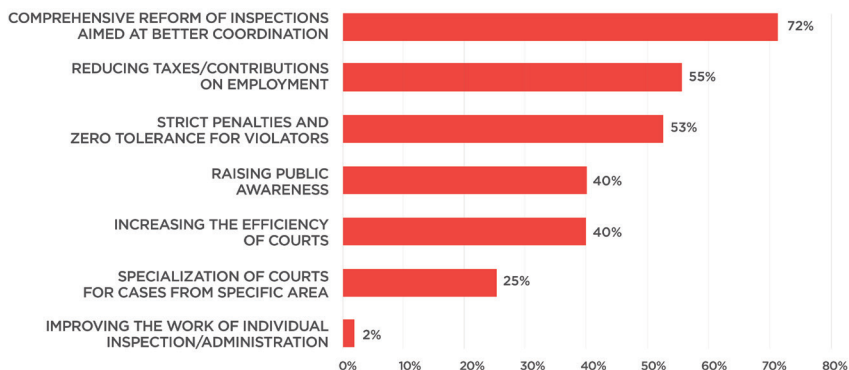
As the key measures for combating grey economy, 72% of respondents quote comprehensive reform of inspections, 53% strict law enforcement with measured and realistic tax burden (55%).

³ USAID BEP and NALD Study on Non tax and Parafiscal burdens in Serbia 2014 identify steady increase in the number of new charges.



Furthermore, they identify two great challenges in the capacity of the state administration to fight grey economy: one is coordination among different inspections authorities with competencies for fighting grey economy and the other is capacity of the judicial system to efficiently process the cases.

MEASURES FOR REDUCING THE GREY ECONOMY

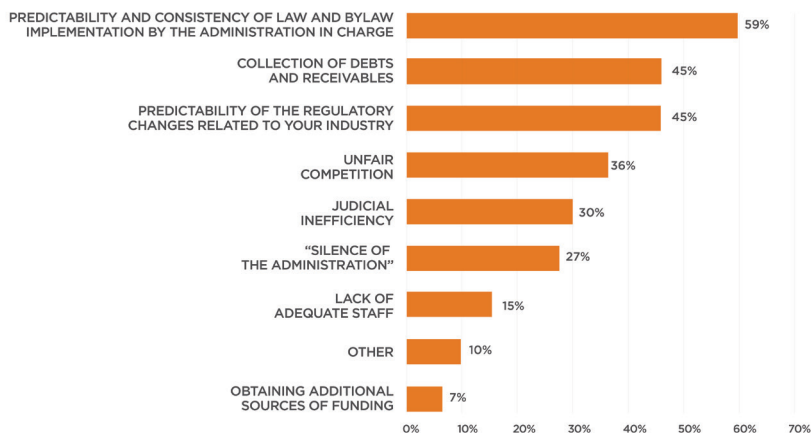


CAPACITY OF THE ADMINISTRATION TO MAKE QUALITY REGULATIONS AND ENFORCE THEM PROPERLY

It is interesting to note that when asked to identify the most significant issues business had in 2014, the most frequently quoted answer of the respondents was lack of predictability and consistency in the law enforcement by implementing authorities.

Part of the survey was dedicated to testing perception of the business about the quality of the rule making process, from sufficient dialogue in the planning of reforms, to the process of drafting, inclusive public discussion, preparation for implementation and finally effect monitoring.

THE MOST SIGNIFICANT ISSUES IN YOUR BUSINESS IN 2014

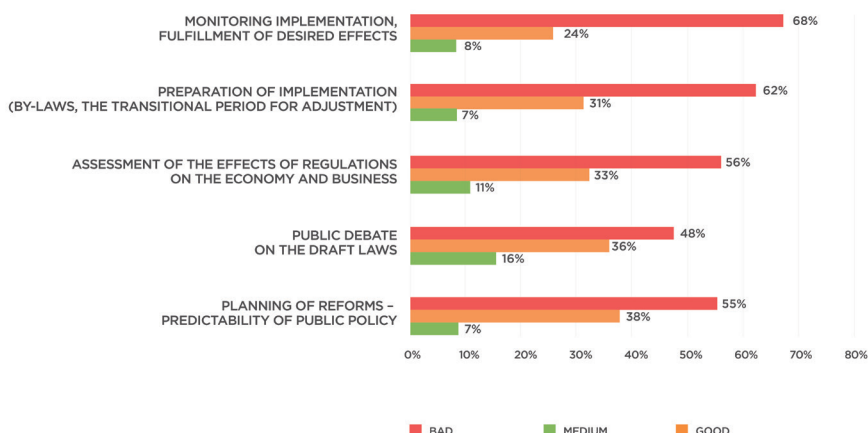


Respondents were asked to grade the quality of each stage of the rule making process especially from the point of effective public- private dialogue. Predominate answer was "bad" ranging from 48% to 68% of the respondents. The worst graded stage of the procedure was monitoring implementation of the regulation with 68% of bad reviews,



followed by preparation for implementation of the law (preparation of by-laws, trainings etc) with 62% of bad review, while the least negative grades were given to the public debate on draft laws stage 48%.

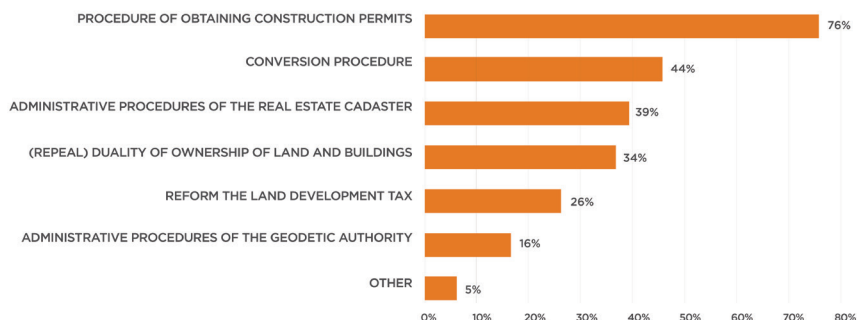
QUALITY OF THE RULE MAKING PROCESS



Besides already mentioned lack of knowledge/training/ capacity of the implementing authority to implement regulation, respondents said that some laws are missing implementing regulations for several years, thus creating significant insecurity as regards to how regulations are to be interpreted.

REAL ESTATE LEGISLATION

PRIORITY AMENDMENTS TO THE REAL ESTATE REGULATIONS



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 76% of respondents. In the qualitative part of the research it was stressed that legislative amendment as such will have no effect unless the new internal administrative procedures are properly prepared and staff of the local administration is trained to follow them.

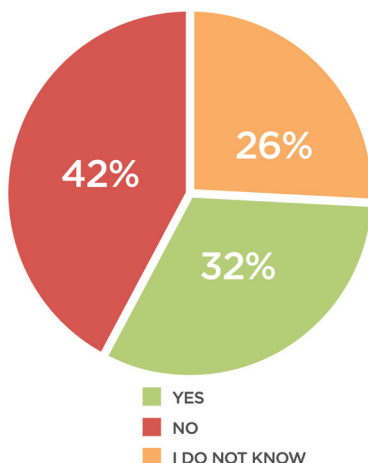
The second most important issue in the area, as in the previous year, is the procedure for conversion of the usage right into ownership right (voted by 44% of the respondents), which seriously hampers predictability of investments.



LABOR LEGISLATION

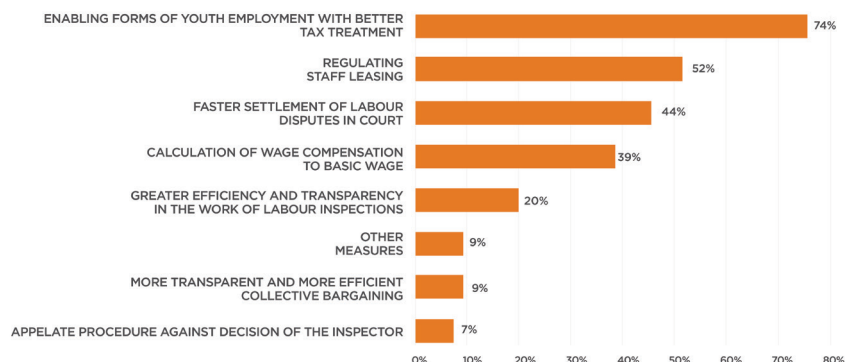
Although it is evident that reform of the Labour regulations as the absolute priority in 2013 survey with 77% of votes behind it, has fallen 30% on the list of priority reforms as a result to adopted Labour Law, 42% of AmCham membership has not acknowledge that improvements for their business materialized.

DID AMENDMENTS TO THE LABOR LAW SIGNIFICANTLY IMPROVE CONDITIONS FOR YOUR BUSINESS?



This may be the result of the timing of the survey (two months after adoption of the Labour law), especially taking into consideration initial dilemmas in interpretation and short compliance periods. Nevertheless, 74% of the those whose business conditions were not improved by the amendments to the Labour law vote for introduction of some form of youth employment with incentives (as respondents report that previously existing forms of contract for internships were cancelled by the Labour law amendments), 52% ask for regulation of staff leasing (which was omitted in the amendments) and further 44% see decrease in lengthiness of the labour disputes as crucial reform for the future.

IF YOUR ANSWER TO THE PREVIOUS QUESTIONS WAS NEGATIVE, PLEASE
SELECT PRIORITY MEASURES AIMED INCREASING EMPLOYMENT?



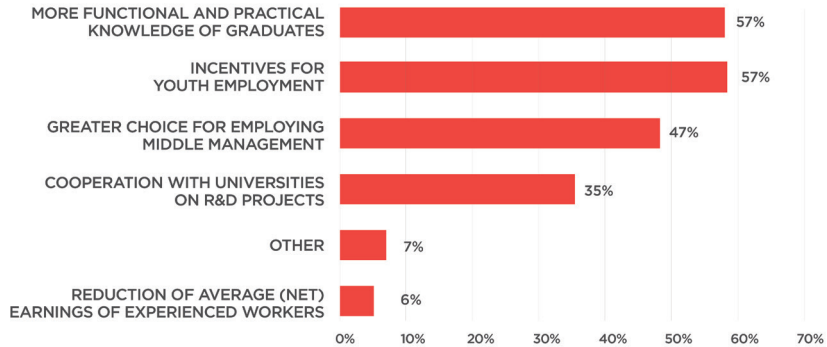
FOCUS ON YOUTH EMPLOYMENT: NEEDS & FACTORS

Although economic downturn has not officially ended and despite poor condition of Serbian economy and further regulatory reform requirements, AmCham member companies highlighted a need for high educated youth workforce. Although, **highest demand** among member companies (66%) is for **mid management level**, almost a **half of survey respondents** (45%) **look for employees on entry positions**, i.e. staff without previous experience. The highest demand is for economists (61%), technical engineers (40%), law graduates (29%) and programmers (20%). The key challenge in the recruitment process represent a **lack of adequate functional and practical knowledge of graduates (57%)**, which once again demonstrates a need for refreshing University curricula, providing practical learning opportunities and achieving better cooperation between academia and private sector. Two thirds of AmCham members (69%) strive to overcome this problem by providing internships (with average 7 interns per company) through which either final year students or young graduates have the opportunity to receive practical skills trainings. On the other hand, 35% of AmCham members find that better cooperation between the private sector and



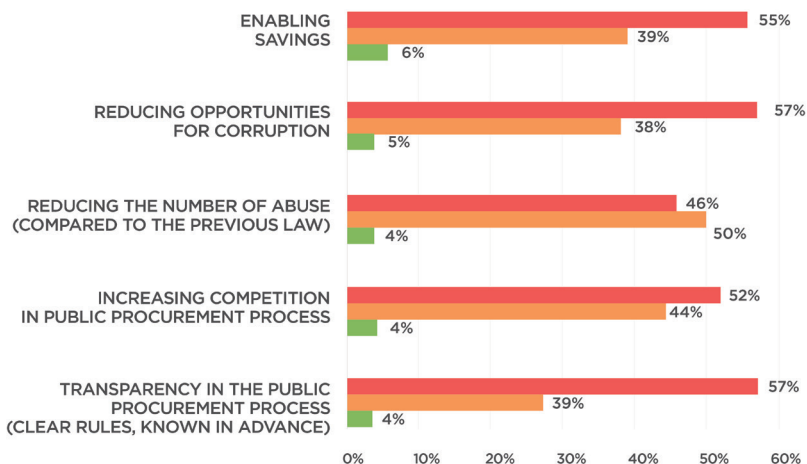
Universities on R&D projects would drastically improve their employability.

WHICH OTHER FACTORS CAN HAVE A POSITIVE EFFECT ON INCREASING EMPLOYMENT IN YOUR COMPANY?



PUBLIC PROCUREMENT PROCESSES

EFFICIENCY OF PUBLIC PROCUREMENT REGULATIONS



According to 45% of respondents suppression of corruption in the coming period is one of the five most important prerequisites for increasing employment. A year and a half after coming into force of the Amendments to the Law on Public Procurement (as of April 2013), members have little praises for its effects albeit admitting its moderate achievements in reducing number of abuses compared with the previous Law (50%). 57% of the members think that regulations in force did neither reduce opportunities for corruption nor provided for sufficient transparency in the public procurement process.