AMCHAM SERBIA
A LEADER IN CHANGE

# ELEVENTH LAP TIME

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# I
# THIS YEAR'S SURVEY IN BRIEF

AmCham's business climate and investor confidence survey examines how **AmCham** member companies, as well as non-member micro- and small enterprises (**MSEs**), perceive the business environment in Serbia and their performance in 2023 and plans for the coming year, their dedication to the green agenda and sustainability, as well as their view of the most significant reforms for improving the business environment. The survey has been performed annually since 2013, with a hiatus only in 2015.

## SUMMARY

**AmCham members were 'moderately satisfied' with the Serbian business environment, awarding it an average score of 2.9** (on a scale from 1, worst, to 5, best), with a gradual upward trend in moderate satisfaction and a decline in the proportion of dissatisfied companies, which now stands at record low for this survey. Non-member MSEs shared the views of their larger peers, scoring the business environment with a 3.

As in previous years, **the Serbian business climate was perceived as better than those of regional non-EU countries but worse than in EU member states**, suggesting companies value policy predictability and the ability to use dedicated funds available only to EU members for costly reforms (such as those envisaged by the Green Agenda).

**Most AmCham members expected to see both revenues and profits grow in this fiscal year, with the majority keeping investment and employment at 2022 levels.** About one-half of the respondents claimed their revenues and profits were set to remain the same as last year, and by far the largest number also reported unchanged investment and hiring. These findings are much more favourable than for the corresponding period of 2022.

**High inflation, which has adversely affected real household purchasing power, and the continued growth in the costs of raw materials and production inputs, were seen by both AmCham members and MSEs as the largest challenges for doing business.** Another challenge reported by the MSE sample was the high and growing price of energy in general and electricity in particular.

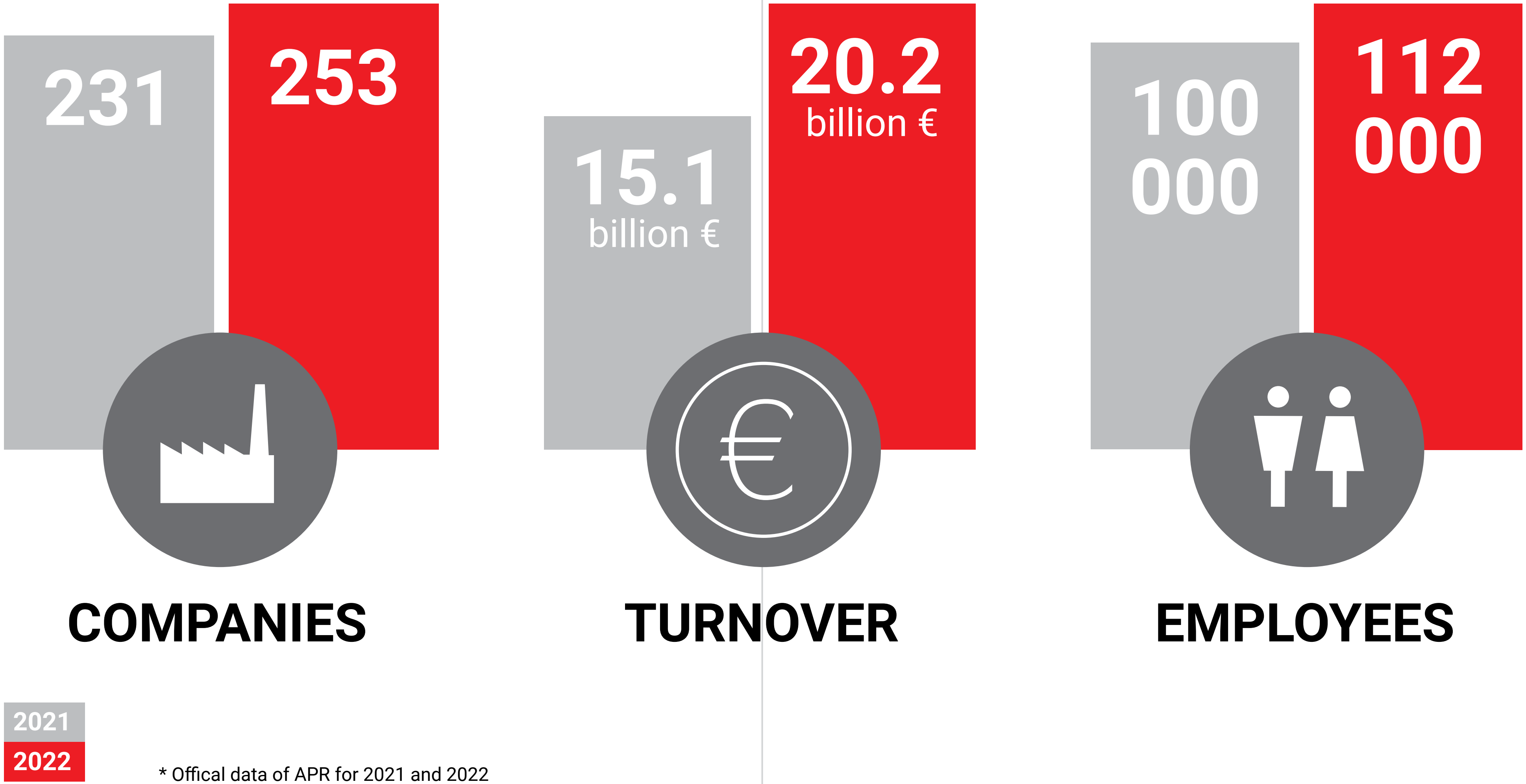
The respondents were markedly more optimistic for the coming year than they had been in previous surveys, which took place at times of major global crises, including the Covid-19 pandemic and the war in Ukraine. **Some two-thirds of all AmCham members expected to grow their businesses and make new investments in 2024, with one-half also expecting to hire new staff.** Although more cautious in their forecasts, four out of ten MSEs also anticipated growth, with three out of ten also looking ahead at new hiring. Nevertheless, although this renewed optimism is a clear sign of a recovery in the economy and rising investor confidence, confidence is yet to see pre-pandemic levels, with these findings closest to figures last seen in 2016.

**The high inflation**, regardless of whether it is caused by global or local factors, is the primary obstacle for most companies of all sizes. **Labour supply** was ranked second, reported as a constraint by close to two-thirds of AmCham members in 2023; it has remained one of the top two challenges for the past six years. **Government efficiency**, which came in third after being cited by no fewer than one-half of all AmCham respondents, has increased significantly in importance relative to last year's survey.

**Both AmCham members and the MSEs surveyed believed that education ought to be the primary area for government investment designed to promote growth.**

For more than five years AmCham members have been calling on the Serbian Government to prioritise reforms aimed at **tackling corruption, strengthening the rule of law, and making the judiciary more efficient** so as to achieve systemic improvements to the business environment and promote growth. Continuing **digital transformation and development of e-government services** was ranked joint second with **consistent implementation of the Green Agenda**. Lastly, for AmCham members, **efforts to tackle the shadow economy** came third. Although they largely agreed with these priorities, the MSEs tended to emphasise greater transparency and predictability of the tax system and a more efficient Tax Administration.

# STRENGTH OF AMCHAM




* Offical data of APR for 2021 and 2022

# II METHODOLOGY AND DEMOGRAPHICS

Fieldwork was conducted by AmCham, with the assistance of Ipsos Strategic Marketing, from July to October 2023. AmCham member companies were surveyed using an online questionnaire. A number of qualitative interviews were also organised, either face to face or online, in which respondents were asked to comment on the quantitative findings.

Since AmCham members are predominantly large and medium-sized companies, as in previous years the survey included a sample of non-member MSEs.[1] The idea behind capturing and comparing the views of large investors and small businesses side by side was to gain a better understanding of the state of Serbia's economy as a whole and the steps needed to accelerate growth.

Top managers of these MSEs were interviewed either face to face or by telephone. The sample was constructed using the universe of all companies registered with the Serbian Business Registers Agency (as of 2022).

The survey instrument was a questionnaire designed to reflect the experiences of past research cycles as well as including questions on the Green Agenda and other current topics.

## SAMPLE DEMOGRAPHICS

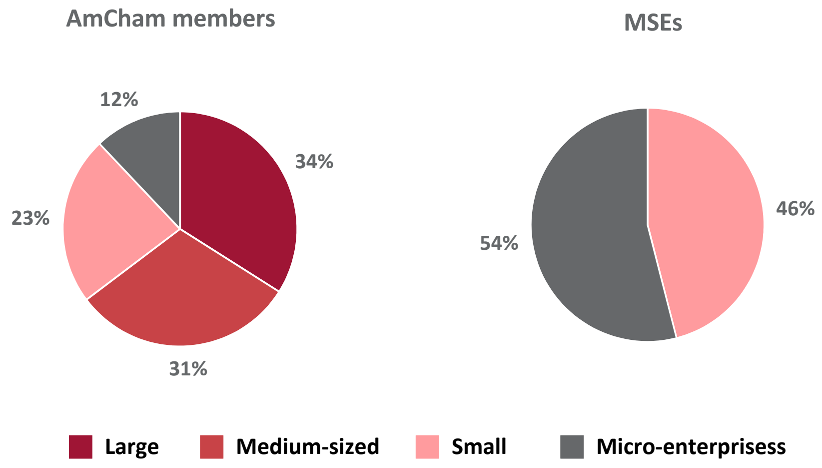
The **AmCham sample** was made up of 160 AmCham members, of which 34 percent were large, 31 percent medium-sized, and 23 percent small firms; a final 12 percent were micro-enterprises. Companies with more than 500 staff accounted for one-quarter, or 25 percent, of the sample, with firms of between 100 and 500 employees making up a slightly smaller proportion at 21 percent, and the remaining half (54 percent) comprising companies employing 100 or fewer people. More than four-fifths, or 84 percent, of AmCham member respondents were top managers, and the remaining 16 percent were middle managers. The vast majority of the AmCham members surveyed, 83 percent, did not employ a single worker at the Serbian statutory minimum wage. Slightly more than one in ten AmCham member firms benefited from government subsidies, where they outnumbered MSEs relying on this support by a very slim margin (13 percent for AmCham members vs 9 percent for MSEs). This marked the continuation of a downward trend in the use of state aid attributable to the withdrawal of assistance made available during the Covid-19 pandemic. The surveyed firms came from a wide variety of industries: from professional services (including law, accounting and auditing, architecture and construction, tax advisory, and management consultancy) to information and communication technology (ICT), healthcare and pharmaceuticals, manufacturing (heavy and light industry), trade and logistics, to financial services.

**Qualitative interviews** were conducted with over 30 selected large AmCham member companies who were asked to comment on the findings of the quantitative survey and elaborate on the key challenges for doing business. The qualitative sample covered the same sectors as the quantitative one, and all respondents in this group were company CEOs.

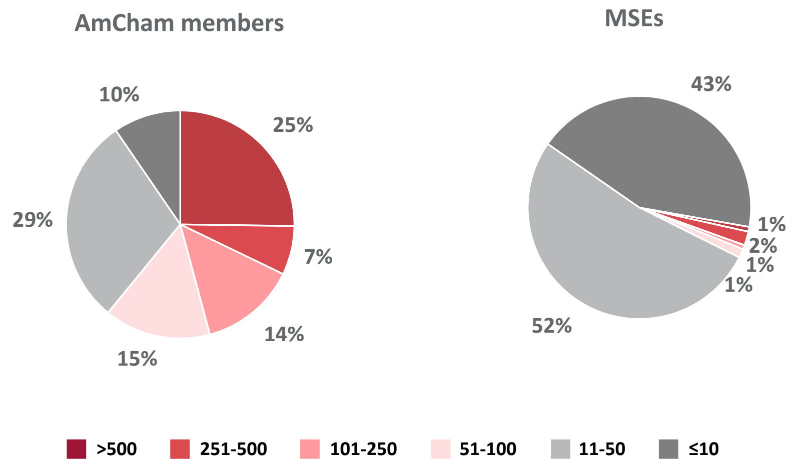
The **MSE sample** comprised 151 firms, of which 54 percent were micro-enterprises and 46 percent were small businesses. No more than 5 percent of the companies employed over 50 staff; 52 percent had between 11 and 50 workers; and a final 43 percent employed fewer than 10 people. Four-fifths of the respondents, or 82 percent, were top managers, similarly to the AmCham member cohort, whilst slightly under one-fifth, 18 percent, were middle managers. As noted above, no more than one in ten of these MSEs benefited from government subsidies. The MSEs operated in a broad range of sectors, with the majority active in retail and wholesale trade, professional services, light industry (such as food processing, tobacco, textiles, and the like), and heavy industry.

1) This was a stratified sample of MSEs employing five or more people and operating in Serbia for five or more years.

## COMPANY SIZE



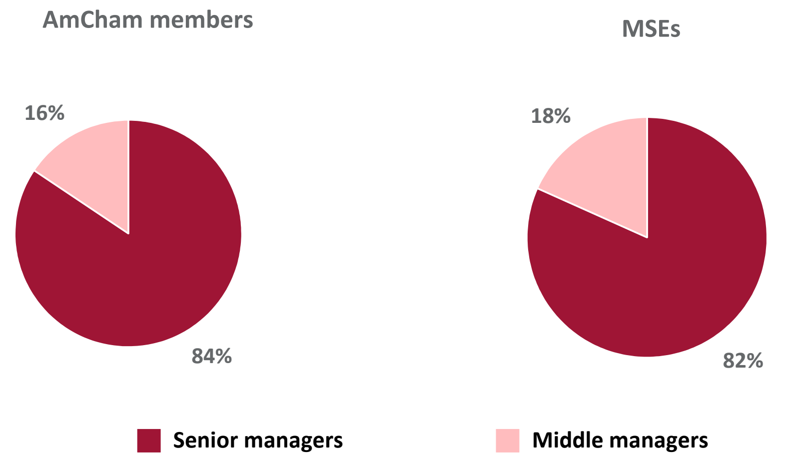

## STAFF NUMBERS



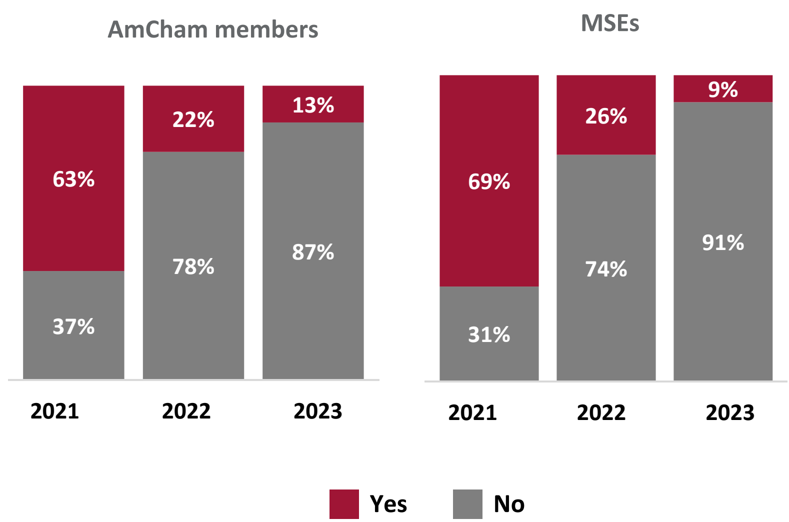





## RESPONDENT POSITION




## USE OF GOVERNMENT SUBSIDIES

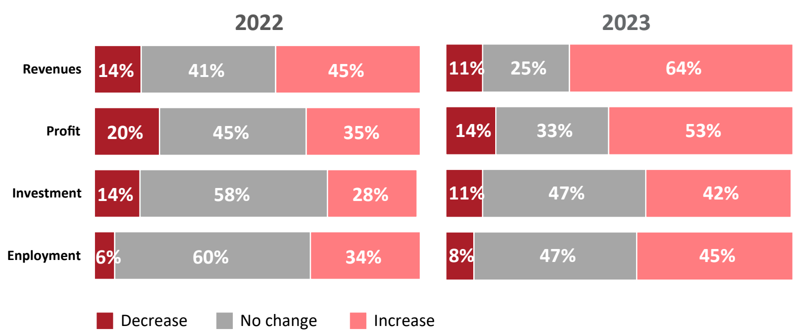


# III
# PERFORMANCE IN 2023

When asked about their performance in 2023, the AmCham members report better than expected results - with 64 and 53 percent, respectively, claiming growth of revenues and profits, as opposed to no more than 43 percent of companies who prognosed business growth in 2023, this time last year. On the other hand, significantly fewer number of MSEs report better results than last year's in terms of revenues and profits (39 and 35 percent, respectively). Conversely, the largest number of MSEs, about one-half (or 50 and 51 percent, respectively), feel both revenues and profits will remain broadly unchanged. AmCham members are somewhat more cautious when it comes to investments and staffing, with some two-fifths reporting growth in 2023 and approximately the same number reporting no change. Once again, the MSEs were even less optimistic, with two-thirds or more of these companies claiming investment and staff numbers would remain the same (at 70 and 65 percent, respectively), and only about one-quarter (23 and 27 percent, respectively) expecting growth.

Performance of both AmCham members and MSEs has improved when compared with the findings of the 2022 survey, driven by incipient macroeconomic stabilisation and greater than expected stability of energy costs during the winter of 2022-23.

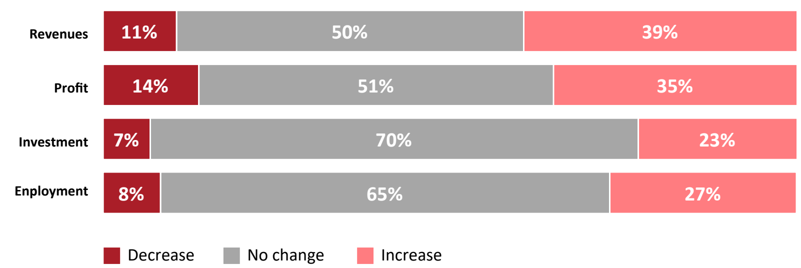
### AMCHAM MEMBERS: BUSINESS PERFORMANCE IN 2022 VS 2023







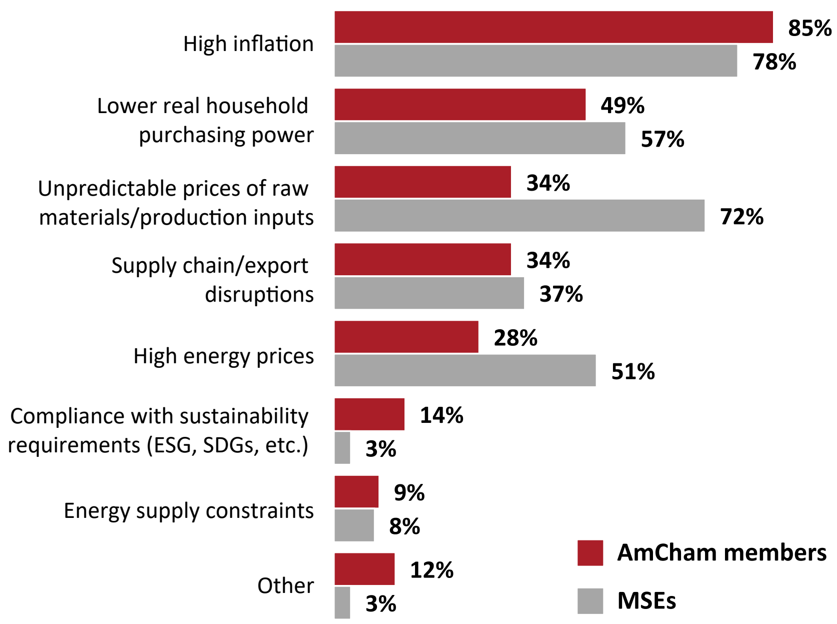

### MSEs: BUSINESS PERFORMANCE IN 2023




Nevertheless, the persistently high inflation, falling real household purchasing power, and unpredictable costs of raw materials and inputs were all cited by both AmCham members and MSEs as the **three largest global challenges to doing business**. Conversely, the MSE sample prioritised fluctuating prices of raw materials and high energy costs, coming as no surprise as these companies were less prepared for or resilient to frequent electricity price hikes and associated increases in production costs.

> For energy consumers, businesses in particular, the energy crisis has served as a sobering reminder of the need to seek new electricity supply arrangements. Large corporations are looking for ways to diversify their supply, from building their own green energy generation facilities to signing power purchasing agreements (PPAs) with local green producers, to lock-in stable long-term prices and achieve corporate social responsibility goals.

## GLOBAL CHALLENGES TO DOING BUSINESS



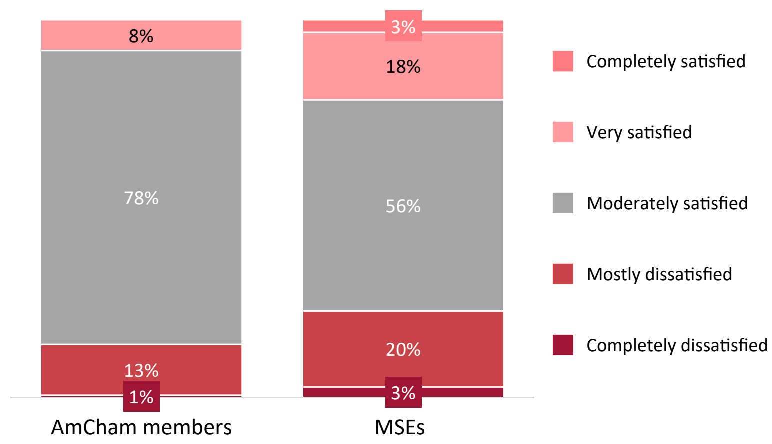





# IV
# BUSINESS ENVIRONMENT

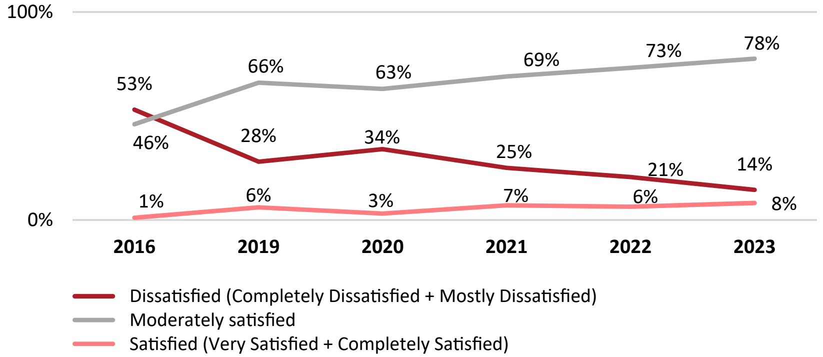
Both AmCham members (at 78 percent) and the MSEs (56 percent) were 'moderately satisfied' with the business environment, with the average score standing at 2.9 in the AmCham sample and 3 In the MSE cohort. By contrast, the MSE group comprised a larger share of both 'very satisfied' and 'completely satisfied' respondents (8 percent for AmCham members vs 21 percent for the MSEs) and those who reported being 'mostly dissatisfied' and 'completely dissatisfied' (14 percent for AmCham members vs 23 percent for the MSEs).

## SCORES OF THE BUSINESS ENVIRONMENT IN SERBIA




Whilst the share of 'very satisfied' and 'moderately satisfied' AmCham members has remained small but stable and fairly unchanged, there has been a continued upward trend for 'moderately satisfied' respondents accompanied by a decline in those who reported dissatisfaction. Notably, in 2023, the share of negative opinions has reached a historic low for the survey, with no more than 14 percent of AmCham members claiming to be either 'completely dissatisfied' or 'mostly dissatisfied', as opposed to over one-half of those polled in 2016.

## AMCHAM MEMBERS: EVOLVING PERCEPTIONS OF THE BUSINESS ENVIRONMENT IN SERBIA

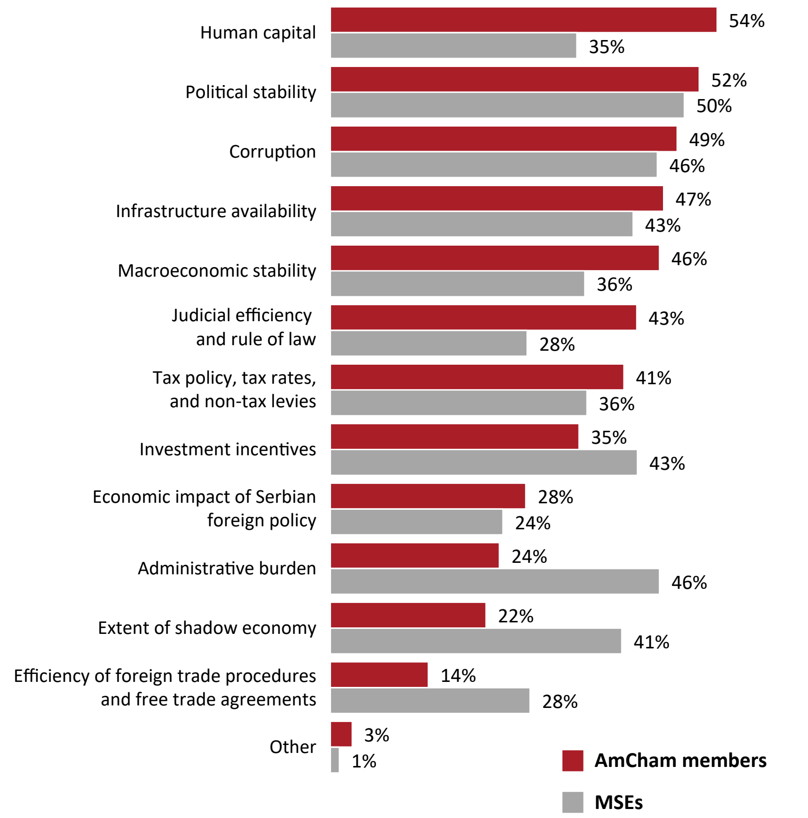



AmCham members' perceptions of the **key factors affecting foreign businesses** have not changed appreciably from the 2022 survey. Human capital (at 54 percent) and political stability (52 percent) have remained the major issues driving investment decisions in Serbia for foreign companies, followed by corruption (49 percent), infrastructure availability (47 percent), and macroeconomic stability (46 percent). Political stability (at 50 percent) was also a top priority for the MSEs, with other considerations including corruption (46 percent) and infrastructure availability (43 percent); unlike AmCham firms, however, the MSEs also tended to prioritise the administrative burden on businesses (46 percent) and investment incentives (43 percent). The largest difference between the two cohorts was apparent in their views of how important the administrative burden (with 24 percent of all AmCham members surveyed seeing it as a major issue, as opposed to 46 percent of all MSEs), human capital (54 percent for AmCham members vs 35 percent of MSEs), and the prevalence of the shadow economy (22 percent for AmCham members vs 41 percent of MSEs) all were for investment decisions.



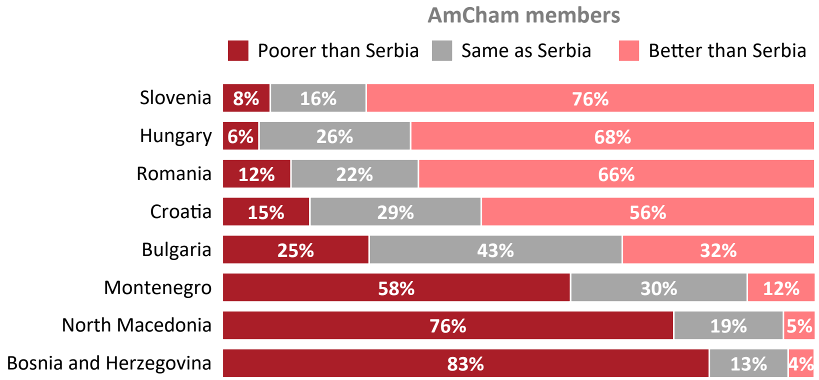


## PERCEPTIONS OF ISSUES RELEVANT FOR FOREIGN INVESTORS




The overall impression of AmCham members is that the **investment climate in Bosnia and Herzegovina, North Macedonia, and Montenegro is poorer than that of Serbia**. Whilst perceptions of Montenegro and Bosnia and Herzegovina have improved somewhat relative to the 2022 survey, North Macedonia has seen the reverse trend, with an increased percentage of respondents viewing it as less attractive for investment than Serbia. **Most AmCham members believed regional EU member states, namely Slovenia, Hungary, Romania, and Croatia, offered conditions better conducive to doing business than Serbia.** Lastly, the respondents were divided as to their views of Bulgaria: whilst most (43 percent) felt the country was little different from Serbia, one-third saw it as a more attractive investment destination, and a final one-quarter believed the situation there was poorer than in Serbia. These opinions of Bulgaria have also remained relatively unchanged when compared to 2022.

## SERBIA AS AN INVESTMENT DESTINATION COMPARED TO THE REGION



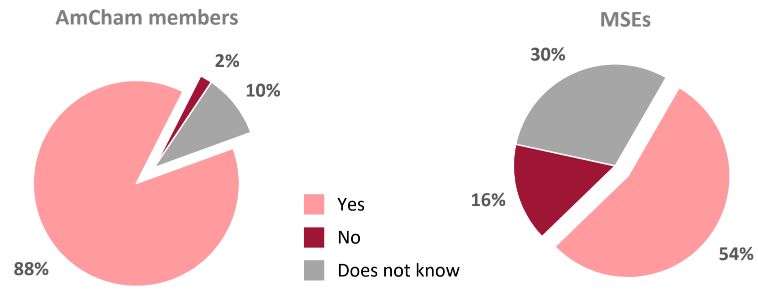

The vast majority (88 percent) of AmCham member companies believed **closer ties between the United States and Serbia** would help make Serbia more attractive as an investment destination, whilst the MSEs were less convinced (albeit respondents sharing this view were still in the majority at 54 percent).

Most AmCham members who felt more links with the US could help promote Serbian investment believed regular meetings between the two governments would be the key step in this regard, together with a double taxation treaty, the first priority for the MSE respondents.

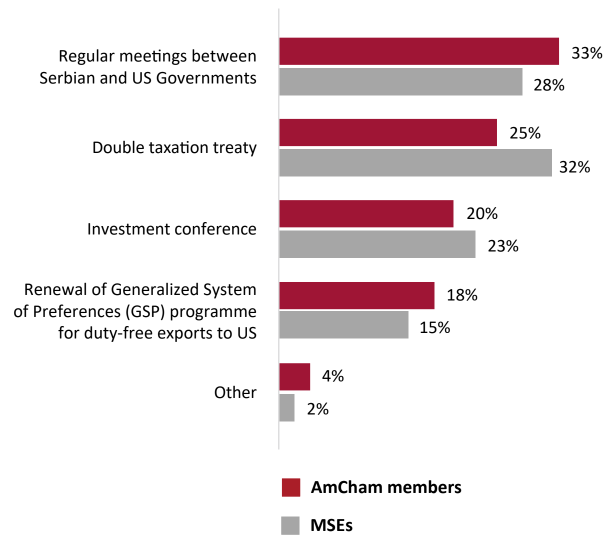




## IMPACT OF CLOSER ECONOMIC TIES WITH THE US ON SERBIA'S ATTRACTIVENESS AS AN INVESTMENT DESTINATION




## PRIORITY MECHANISMS FOR BUILDING CLOSER ECONOMIC TIES WITH THE US

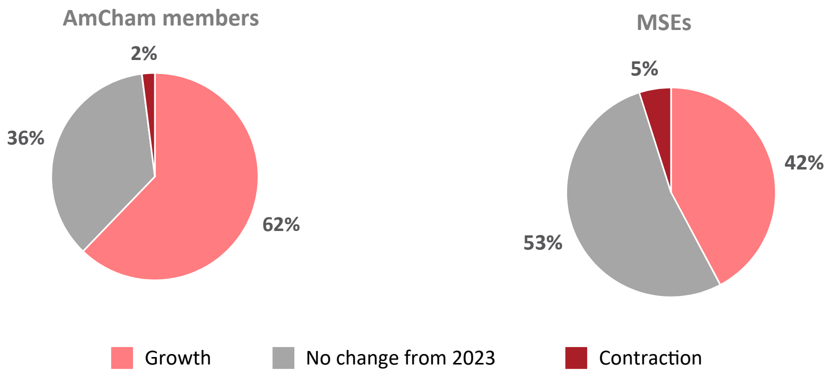


# V
# FORECASTS FOR 2024

**Greater optimism on the part of AmCham members is clearly visible in their expectations for 2024**, after a number of years marked by major global crises including the coronavirus pandemic and the war in Ukraine. Here, some two-thirds of all AmCham members (62 percent) believed their businesses would grow in 2024, with one-half (53 percent) also envisaging more hiring. Conversely, 36 and 43 percent, respectively, felt their business and staff numbers would remain the same. No more than 2 percent of all AmCham member companies expected their businesses would contract, whilst 4 percent believed they would have to let staff go.

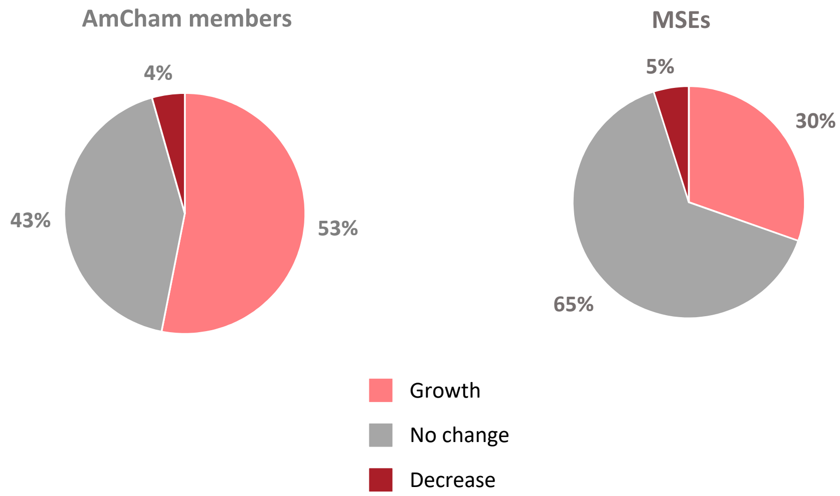
After last year's dramatic fall in optimistic sentiment, the MSEs have again shared more hopeful expectations for the future. A total of 42 percent of these companies expected their businesses to grow in 2024, with 30 percent also planning to take on new employees. The majority of the respondents were cautious, forecasting no change to their operations (at 53 percent) or staffing (65 percent) from 2023 levels. No more than 5 percent of the MSEs expected contraction and layoffs in 2024, a tangible drop relative to the 2022 survey, when one in three MSEs shared these views.

### EXPECTATIONS FOR 2024: BUSINESS



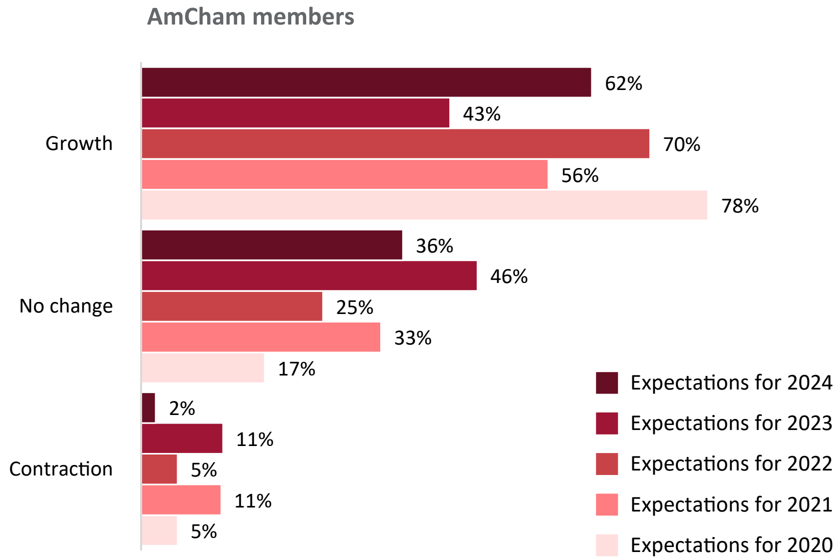



### EXPECTATIONS FOR 2024: WORKFORCE

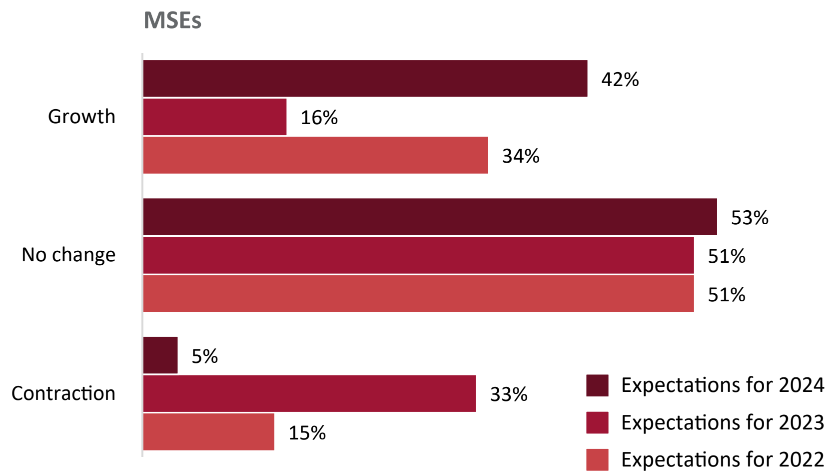



Even though the double-digit increase in expectations of growth relative to 2022 clearly suggests the economy is recovering and investors are regaining confidence, enthusiasm is yet to reach its pre-pandemic high, currently standing at levels last seen in 2016. Conversely, the share of members forecasting a contraction in the coming year was the lowest since the indicator was first measured. The MSE sample shows tangible optimism, with positive sentiment at a three-year high, coupled with a dramatic decrease in the percentage of respondents expecting their businesses to shrink.

## AMCHAM MEMBERS: BUSINESS EXPECTATIONS (TREND)

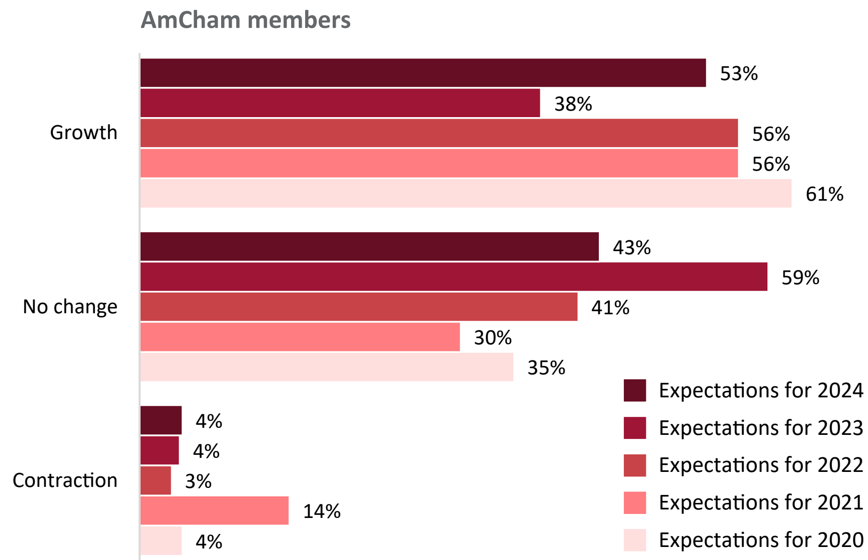



## MSES: BUSINESS EXPECTATIONS (TREND)

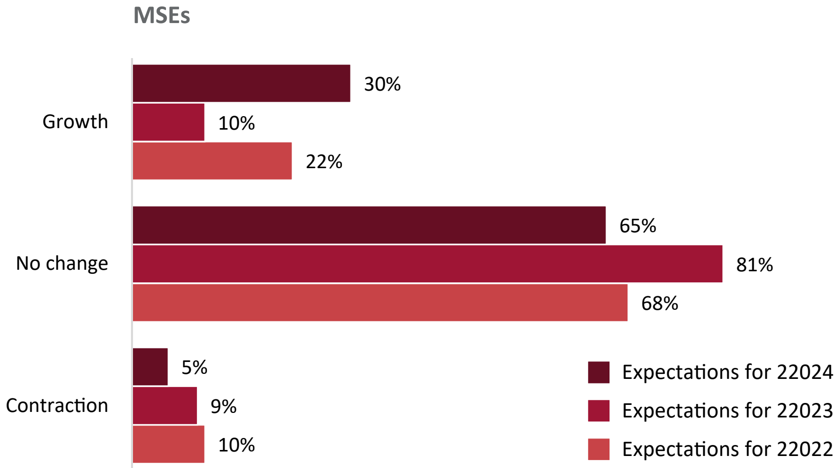



The renewed optimism amongst AmCham members was also evident when it came to staffing patterns forecast for the coming year, where the proportion of respondents expecting to take on new workers has now returned to levels last seen in 2022, before the war in Ukraine. By contrast, the share of those forecasting no change has fallen (from 59 to 43 percent), whereas the number of firms expecting to shed staff has not changed appreciably over the past three surveys. The MSEs have also become more positive with regard to future hiring, with this year's poll registering the largest share of respondents expecting to take on new staff, whereas the proportion of those forecasting a stagnation or decline in their employee numbers.

## AMCHAM MEMBERS: WORKFORCE EXPECTATIONS (TREND)

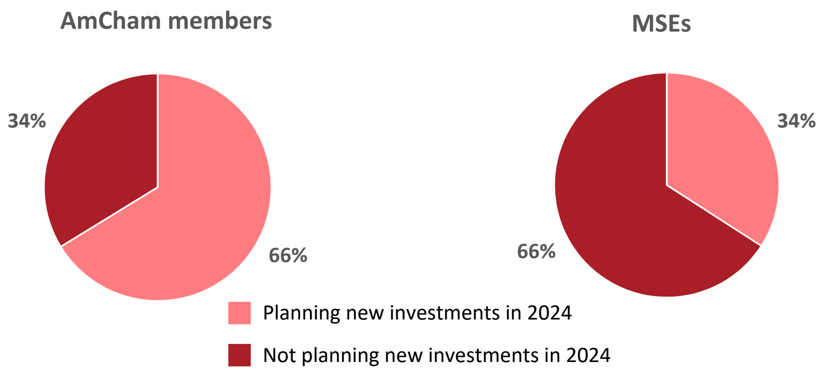


### MSES: WORKFORCE EXPECTATIONS (TREND)




Major differences were seen between the two cohorts in their views towards new investment forecast for 2024. Two-thirds (66 percent) of AmCham member companies were planning to invest, whilst, conversely, only half as many MSEs (34 percent) shared the same view. This finding is consistent with those of previous surveys, although it is worth noting that the increase in optimism was somewhat more pronounced amongst MSEs (with the number of respondents planning new investments rising from 25 to 34 percent).

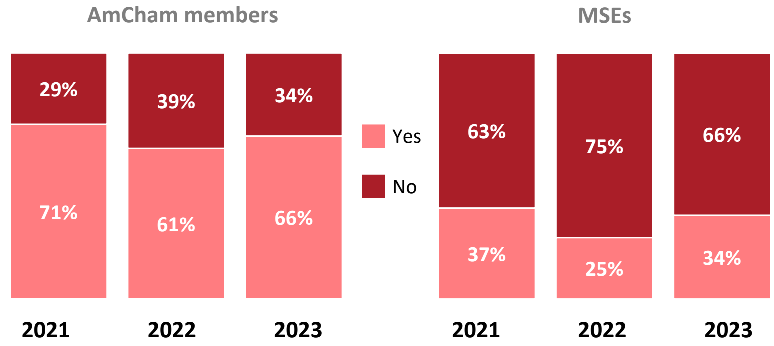
### NEW INVESTMENTS IN 2024







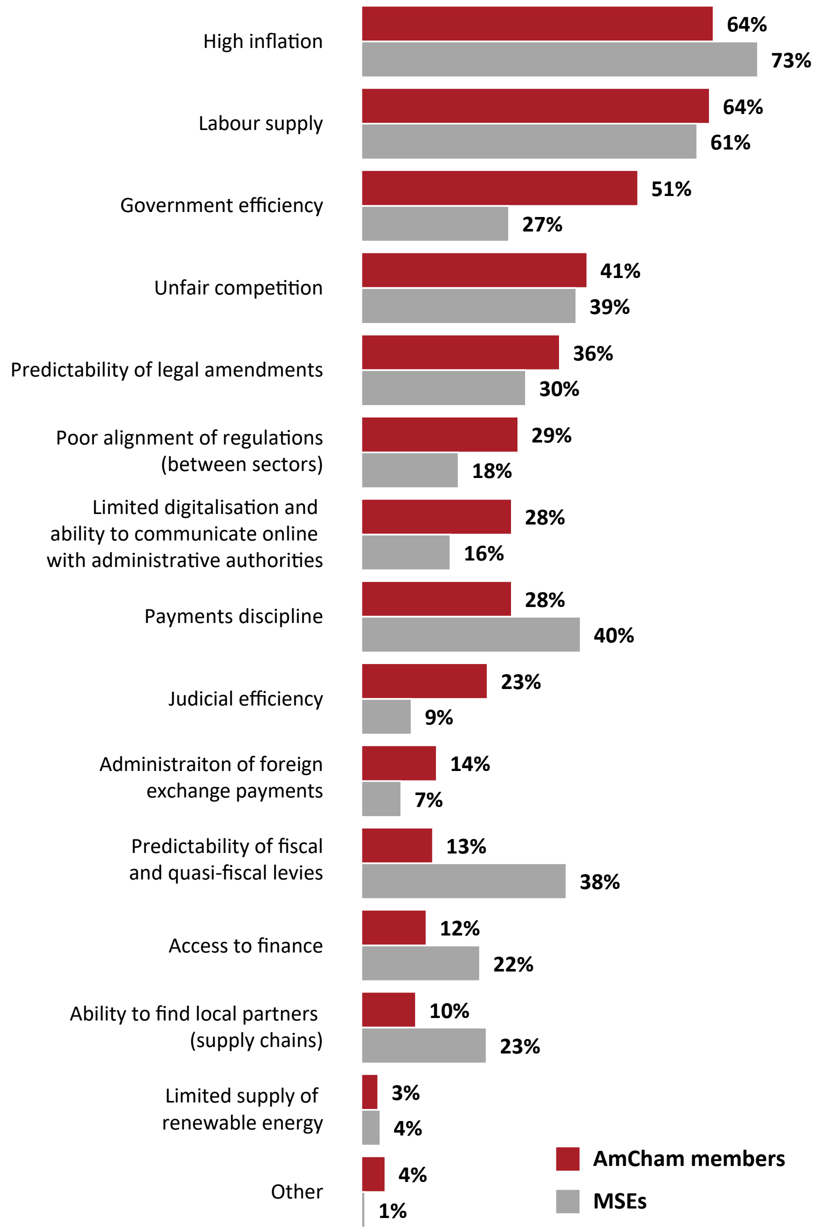

### INVESTMENT EXPECTATIONS (TREND)




High inflation was reported by most respondents, both AmCham members (at 64 percent) and MSEs (73 percent), as **the key local challenge faced by businesses**. Other obstacles included labour supply, seen as a constraint by close to two-thirds (64 percent) of all AmCham members and slightly fewer MSEs (at 61 percent). This factor has consistently been amongst the top two constraints for AmCham members over the six years of this survey, whilst concerns over labour supply have skyrocketed amongst the MSEs, as revealed by the huge increase from last year's 28 percent who reported this as a constraint. This suggests that attracting and retaining talent has been a growing problem that has been affecting companies of various sizes and in a range of industries rather than just being due to a lack of workers with specific knowledge and skills. Government efficiency was the third-ranked challenge identified by as many as one-half of all AmCham members, a significant increase of 20 percentage points relative to 2022, which points to the need to pursue faster-paced reforms to reduce the administrative burden on businesses, many of which were initiated by this and the previous cabinet but are yet to be fully implemented (such as digitalisation of the health service, online management of staff sick leave arrangements, digitalisation of employment contracts, online access to the judiciary, and the like). Other key constraints identified by AmCham members included unfair competition (as cited by 41 percent) and the predictability of legislative amendments (36 percent), both viewed as more important than in 2022. Conversely, the fact that payments discipline was not mentioned in this year's survey demonstrates performance has improved in this regard: in 2022, 40 percent of AmCham members were unhappy with the timeliness of government-to-business payments, whilst in 2023 the figure was much lower at 28 percent, indicating the authorities have been quicker to pay their debts and highlighting the positive impact of the increased transparency brought about by the new e-invoicing system.

The greatest differences in perceptions between AmCham members and MSEs were registered for government efficiency, which large companies tended to prioritise, whilst the lack of payments discipline (at 40 percent) and the predictability of fiscal and quasi-fiscal levies (38 percent) were much more important for the micro- and small enterprises.

## MAJOR LOCAL CHALLENGES TO DOING BUSINESS



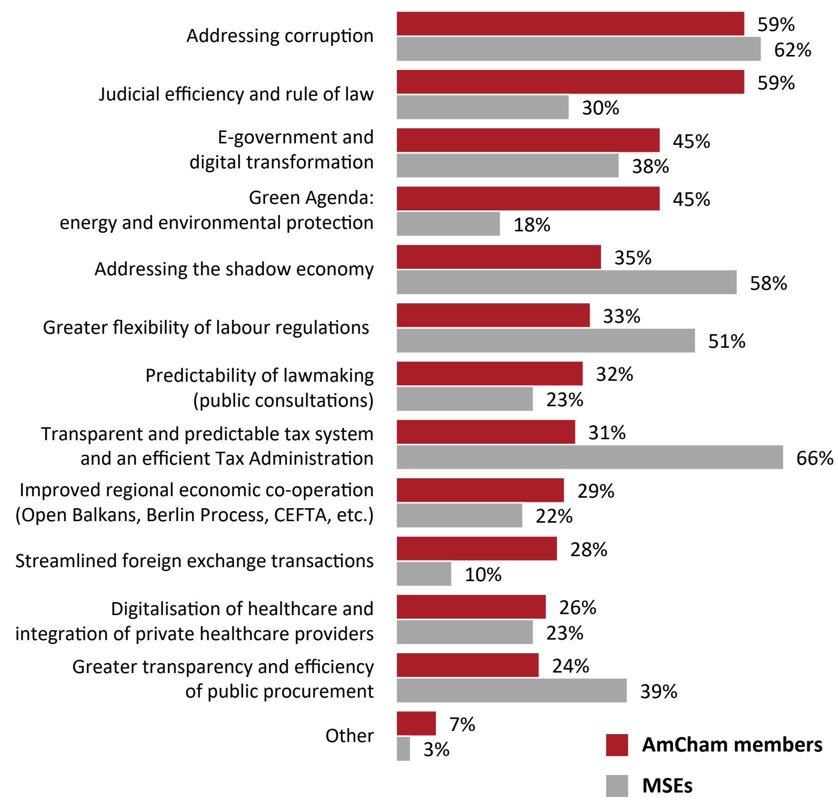





# VI
# REFORMS FOR LONG-TERM GROWTH

According to AmCham members, efforts to address corruption and improve the judiciary and the rule of law were crucial for growth (with each perceived as key by 59 percent of those polled). Ranked joint second, at 45 percent each, were e-government and digital transformation and the Green Agenda, both for energy and environmental protection. Consistent efforts to address the shadow economy were the third priority for AmCham members (at 35 percent).

## REFORMS FOR LONG-TERM GROWTH



The MSEs also prioritised systemic and institutional reforms, but the order here was somewhat different from what the AmCham sample focused on. Whilst there was agreement between AmCham member companies and the MSEs over the importance of addressing corruption and the shadow economy, with both cohorts prioritising these issues, a closer look reveals some differences in perceptions. Here, the MSEs emphasised reforms aimed at improving the transparency and predictability of taxation and the efficiency of the Tax Administration (at 66 percent), whilst for AmCham members these reforms were consistently at the top of the list from 2017 to 2020, a period that saw the launch of the Tax Administration Modernisation Project. Although both large and small companies agreed that the business sector needed to be involved in consultations over tax law amendments in a timely and effective fashion, the MSEs were much more passive in these consultations than their AmCham peers and so tended to receive updates on reforms less quickly and with a lower level of detail. After efforts to address corruption and the shadow economy, which were ranked second and third, respectively, by the MSE sample, came greater flexibility of labour regulations (51 percent) and more efficient public procurement (39 percent). Conversely, the MSEs tended to view as less important reforms designed to enhance judicial efficiency and the rule of law (at 30 percent), implement the Green Agenda (18 percent), and streamline foreign exchange transactions (10 percent).

Efforts to tackle the shadow economy have registered the greatest improvement relative to 2022, with the importance of these reforms declining slightly for AmCham member companies (from 44 percent in 2022 to 35 percent in 2023). This change for the better was undoubtedly affected by actions envisaged in the National Action Plan to Address the Shadow Economy, including fiscalisation, scale-up of cashless payments, and capacity-building for inspections to help them recognise and tackle the shadow economy.

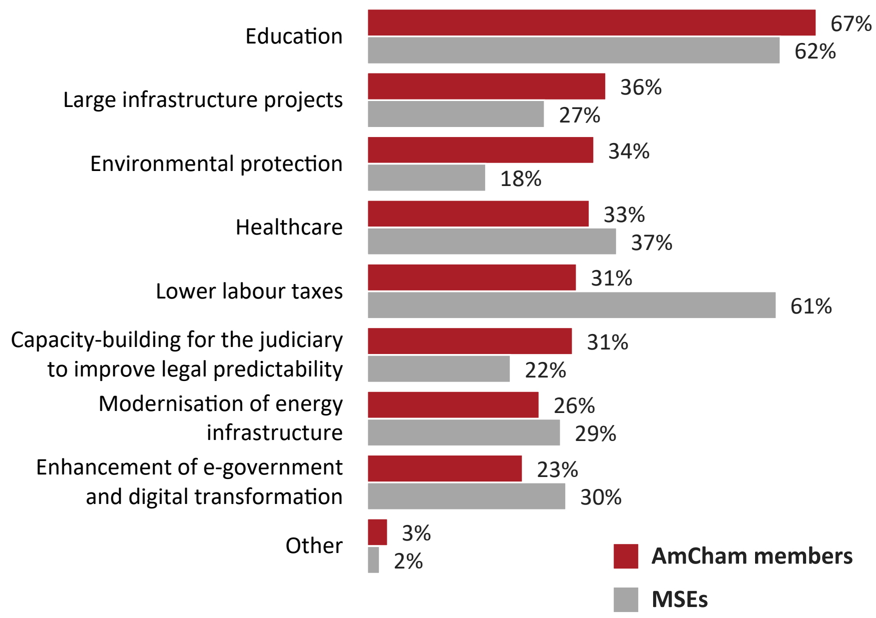


# VII
# PUBLIC INVESTMENT

For several years now, more than two-thirds of AmCham members (67 percent) and a significant proportion of MSEs (62 percent) have viewed education as the top priority for public investment designed to promote growth. The respondents were sharply divided over the remaining concerns, with large-scale infrastructure, environmental protection, and healthcare seen as key.

By contrast, in common with past surveys, most MSEs felt investment to reduce the tax burden on labour ought to be prioritised, with emphasis placed on cutting taxes for the lowest-paid workers.

### PUBLIC INVESTMENT TO PROMOTE GROWTH



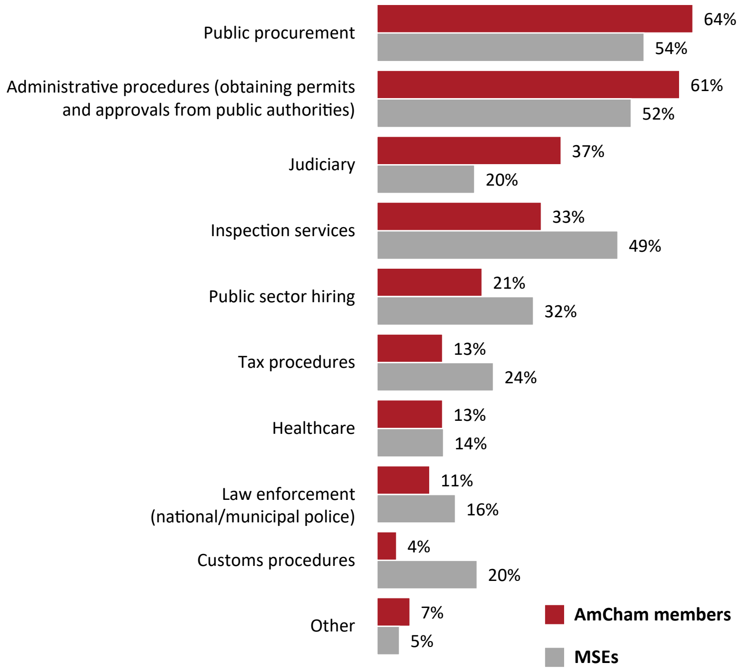
# VIII
# PRIORITIES FOR BUSINESS GROWTH

## TACKLING CORRUPTION

Both AmCham member companies and MSEs believed tackling corruption was the most relevant reform for promoting growth in Serbia. Most AmCham members and MSEs felt corruption was at its most widespread in public procurement (as reported by 64 percent of AmCham members and 54 percent of MSEs) and administrative procedures (claimed by 61 percent of AmCham members and 52 percent of MSEs). Inspections were also fairly prone to corruption, as claimed by 49 percent of all MSEs.

The greatest discrepancy between perceptions of AmCham members and those of MSEs were found over the extent of corruption in the judiciary, the inspection services, and customs clearance procedures. Whilst large companies felt the judiciary was more corrupt, the MSEs believed the other two areas were more prone to corrupt practices.

### PERCEIVED CORRUPTION BY AREA







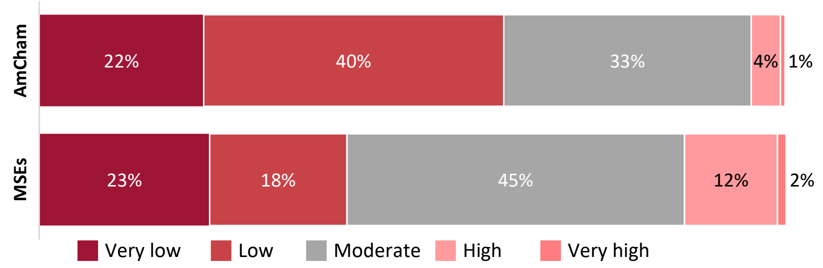

Compared to 2021, there has been a slight increase in the percentage of respondents who believed administrative procedures were prone to corruption, resulting in increasingly vocal calls from businesses to enhance e-government services and digitalise administrative procedures (seen as a reform priority by 45 percent of all AmCham members). The assumption that digitalisation is a powerful tool to combat corruption is also borne out by the opinions of MSEs, 44 percent of which believed that continued digitalisation of inspections ought to be a priority for e-government services.

Tackling corruption is a complex process, which calls for both digitalisation and a robust judiciary, a comprehensive legal framework, and greater citizen involvement. This may be a long-term effort, but it needs to begin right now. There must be a first step, and here it could be leveraging ICT tools to minimise or eliminate corruption risk.

## REFORMING THE JUDICIARY

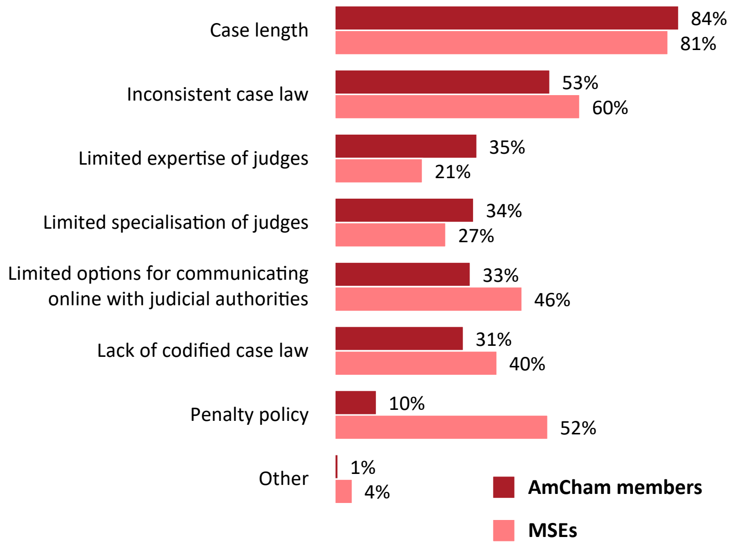
The judiciary has a direct and extensive impact on the predictability of doing business, so it comes as no surprise to see reforms to the justice sector rank amongst the top three priorities for several years. Most AmCham members rated judicial efficiency as ‘low’ or ‘very low’ (62 percent), with one-third (33 percent) viewing it as ‘moderate’. By contrast, 45 percent of the MSEs saw judicial efficiency as ‘moderate’, with a similar percentage seeing it as ‘low’ or ‘very low’ (at 41 percent) and 14 percent viewing it as ‘high’ or ‘very high’.

### PERCEPTIONS OF JUDICIAL EFFICIENCY



The respondents perceived the length of court cases as a key obstacle posed by the judiciary for doing business (as reported by 84 percent of AmCham members and 81 percent of MSEs), followed by inconsistent case law (53 percent of AmCham members and 60 percent of MSEs). In addition, about one-quarter of AmCham members cited judges' lack of expertise and inadequate specialisation as a major constraint. Lax penalties were a major constraint for 52 percent of MSEs. In view of the increasingly vocal complaints over payments discipline and unfair competition, as cited by one in four companies, the failure to resolve these issues appropriately in court has been having a particularly negative impact on micro- and small businesses.

### KEY OBSTACLES TO DOING BUSINESS POSED BY THE JUDICIARY




> Although the enactment of a number of new laws to implement the 2022 constitutional amendments has resulted in some progress in achieving an efficient and independent judiciary, the impact of this legislation will still have to be closely monitored. Lastly, the Civil Procedure Law should be amended further to allow the deployment of the eSud ('e-Court') system, which will permit online access to court cases and electronic service of process, with both developments offering major improvements to efficiency and transparency.





## PROMOTING DIGITAL TRANSFORMATION

Although tangible progress has been made in this area, AmCham member companies believe there is still much room for improving the business environment by proceeding with the digital transformation of public administration.

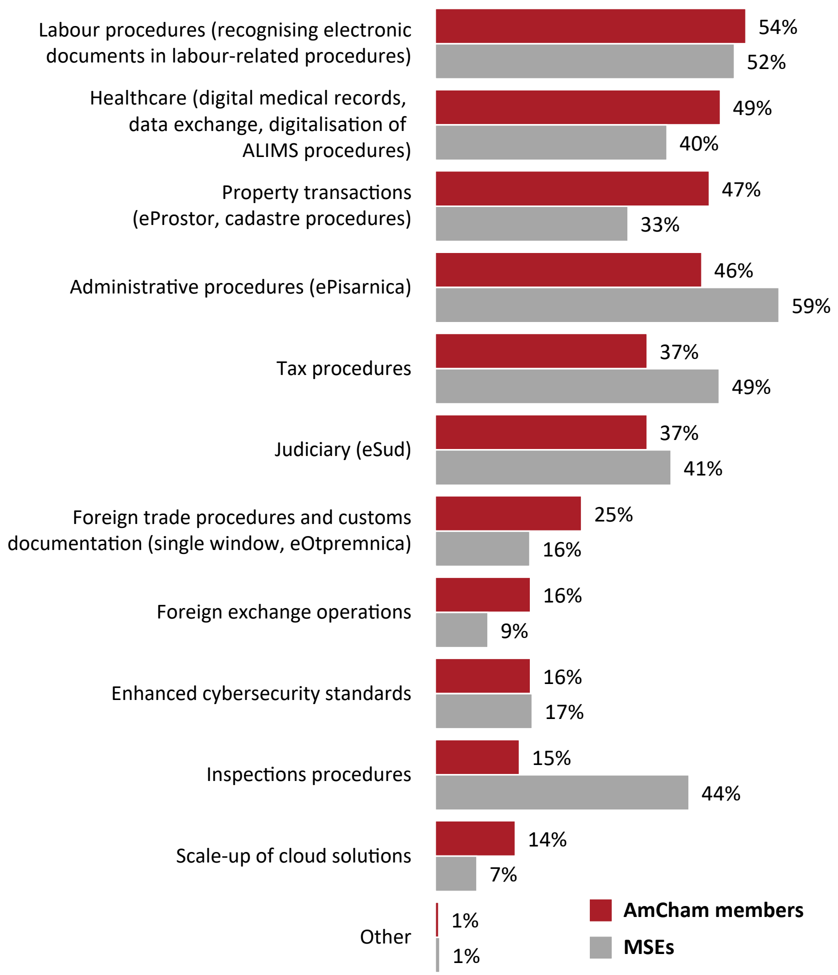
Here, both AmCham firms and the MSE sample largely agreed that employment arrangements were a priority for digitalisation (as reported by 54 percent of all AmCham members and 52 percent of MSEs). This development would make it possible to electronically sign and deliver online a variety of employment-related corporate documents and agreements, including approvals of paid, unpaid, and maternity leave. The AmCham members also cited healthcare (49 percent), property transactions (47 percent), and administrative procedures (46 percent) as good candidates for enhanced digitalisation, whilst the MSEs focused on administrative procedures (59 percent), tax issues (49 percent), and inspections (44 percent).

As many as 62 percent of AmCham members believed the key priority in the health sectors was to streamline and digitalise procedures mandated by the Agency for Medicines and Medical Devices (ALIMS), Serbia's pharmaceuticals regulator.

> Just before it dissolved ahead of the snap election, the Serbian Parliament enacted the Law on Medical Documents and Healthcare Records, which allows the digitalisation of medical records and allows the introduction of a digital health service. This is certainly a step in the right direction, albeit one that could have been taken much earlier, as the Healthcare Digitalisation Strategy, which mapped the required changes, had been in existence since its adoption by the previous government.

Lastly, the respondents also frequently praised *eProstor* ('e-Space'), the digitised register of spatial and urban plans, as well as observing the need to complete the digitalisation of cadastre procedures.

## E-GOVERNMENT PRIORITY REFORMS





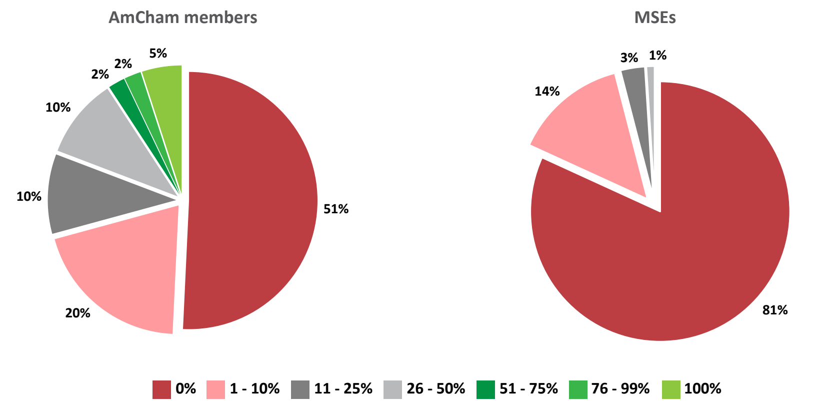



# PURSUING THE GREEN AGENDA

One-half of both AmCham members and MSEs felt the key reform for the Green Agenda was to overhaul levies to introduce the ‘polluter pays’ principle. The respondents felt these fees and charges ought to be designed to induce polluters to reduce emissions and choose more environmentally friendly technologies and processes. These outcomes were possible only if the levies were linked to the pollution produced, so the respondents were interested in seeing reforms to quasi-fiscal levies not contingent on emissions, such as the environmental protection and improvement fee and the protected areas fee. The belief that government levies should be a means of incentivizing investment into less polluting activities was also reinforced by the finding that one in two AmCham members were taking action to reduce their environmental footprint beyond what was mandated by local legislation, in particular with regard to air pollution.

Ranked second were two energy reforms, with AmCham members prioritising enhancements to regulation in support of strategic investment into renewables (as reported by 47 percent of AmCham members and 23 percent of MSEs), whilst the MSEs were more interested in facilitation of investments in self-supplied renewable electricity (41 percent of AmCham members vs 45 percent of MSEs). Notably, many AmCham companies agreed these incentives were needed, an outcome largely attributable to the recent amendment of the Renewable Energy Law that jeopardised self-supply arrangements by arbitrarily imposing inadequate restrictions on the installed capacity of renewable generation facilities without prior consultation with businesses. Finally, the need for incentives in this area is underscored by the fact that as many as one-half of AmCham members reported not using renewable energy, a view also shared by a staggering 81 percent of MSEs.

## CONSUMPTION OF ENERGY FROM RENEWABLE SOURCES



The completion of the regulatory framework designed to attract investment into renewables and the successful outcome of June's long-awaited market premium auctions have proven to be major positive developments. The auctions raised more than EUR 1bn in new investment and facilitated the creation of nine new facilities with an installed capacity greater than 700 MW, doubling the current renewable generation portfolio. Efforts should be made to develop an electricity storage system, crucial for maintaining the stability and reliability of the power grid, whilst relying on the EU's guidelines and recommendations for this area.

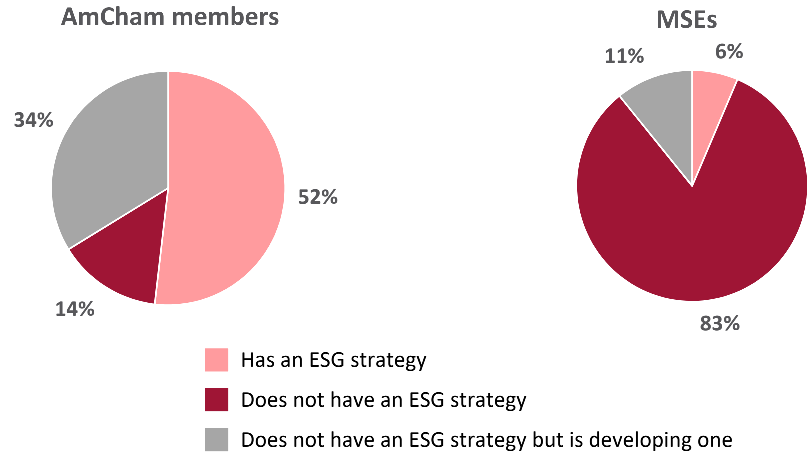
It would help continue the green energy transition and enhance the stability and security of the power grid if in 2024 the Ministry of Mining and Energy were to propose amendments to regulation that would allow companies to continue investing in self-supply arrangements whilst ensuring sufficient accountability towards system operators, especially in 'zero-injection' situations where excess electricity is not fed back into the grid.

Environmental and social governance (ESG) strategies and objectives are becoming increasingly significant for large corporations, as suggested by the finding that more than one-half of all AmCham members reported having ESG strategies and clear ESG objectives in place, with sustainability, corporate social responsibility, and reputational considerations, in that order, seen as the most important goals of ESG. Conversely, no more than 6 precent of MSEs claimed to have adopted ESG strategies, with more than two-thirds not even actively dealing with ESG issues. The AmCham members that reported focusing on ESG issues reported their firms were planning to focus on employee health and safety (52 percent) and strategic approaches to sustainability (51 percent) over the coming 12 months, followed by working conditions and climate change/tackling pollution (46 percent). By contrast, the MSEs cited working conditions, health and safety, and human rights as their ESG priorities.



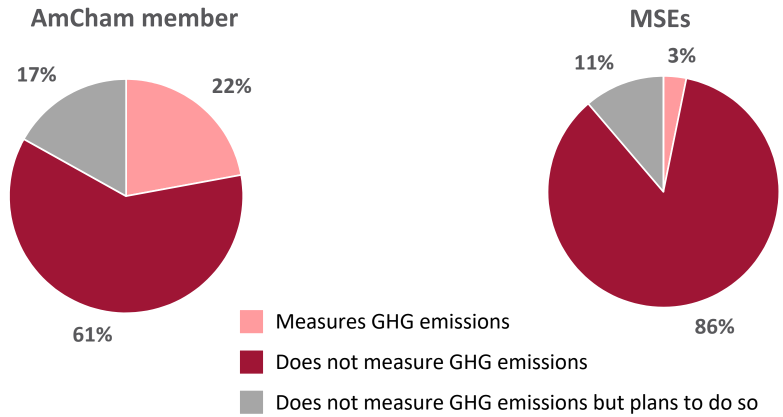


## PRESENCE OF ESG STRATEGIES

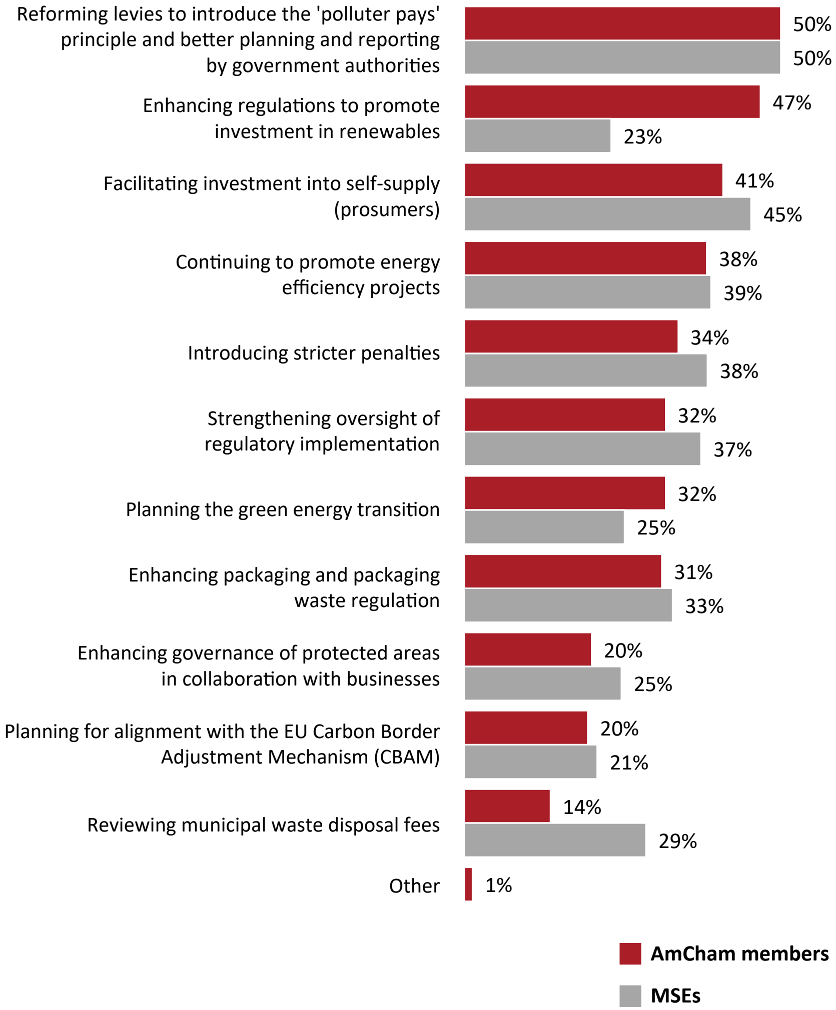



Nevertheless, the fairly low maturity of the E pillar of ESG arrangements is highlighted by the fact that the majority of both AmCham members (61 percent) and MSEs (86 percent) reported not measuring their greenhouse gas (GHG) emissions. The member companies did so more often than their MSE peers (as reported by 22 percent of the AmCham companies and 3 percent of the MSEs), whilst 17 percent of the member firms and 11 percent of the MSEs were planning to introduce these measurements.

## PREVALENCE OF GHG EMISSION MEASUREMENT



## GREEN AGENDA PRIORITY REFORMS




A major issue facing the country is the EU's Carbon Border Adjustment Mechanism (CBAM), which is set to come into effect in 2026 and may pose a risk to the competitiveness and indeed the sustainability of Serbia's exports. The key task facing Serbia will be to set up appropriate arrangements for measuring and charging for embedded carbon emissions, so that the resulting revenues are collected into the central budget is used to help decarbonise facilities, and, ultimately, to ensure compliance with the EU's declared goal of achieving carbon neutrality by 2050.

The S and G pillars of ESG demonstrated significantly better performance. Here, activities in support of local communities were reported by close to three-quarters of all AmCham members polled (72 percent), with another 15 percent planning to do so. Community actions were reported by no more than 15 percent of the MSEs, with an additional one-fifth (19 percent) claiming they had plans to do so in the future.

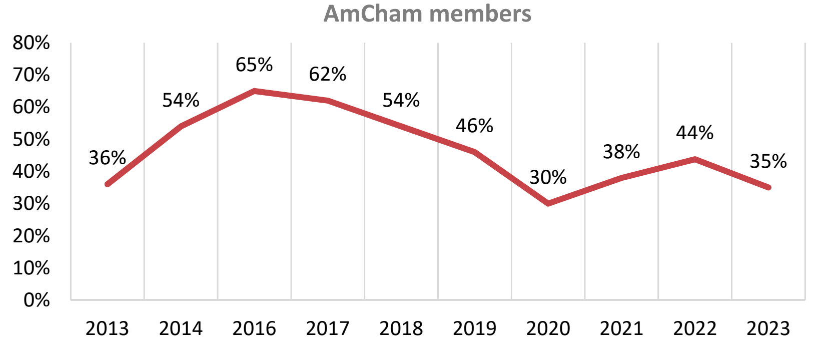
AmCham members employed a greater proportion of women managers than MSEs. Specifically, 47 percent of all AmCham member firms reported women occupied one-half or more of their managerial positions, with a similar figure (44 percent) claiming women accounted for between 11 and 49 percent of all managers. By contrast, one-third (34 percent) of the MSEs had no women managers at all, with one-fifth reporting fewer than 10 percent of women in managerial roles. Another one-fifth claimed women occupied between 11 and 49 percent of their managerial positions, with the figure standing above 50 percent for one-quarter (26 percent) of these firms.

Four out of five AmCham members invested additional efforts to enhance management practices beyond what is mandated by local legislation. These firms focused primarily on ethics rules, audit, internal control, and anti-corruption practices. The MSE sample was less likely to undertake these actions, with only some one-quarter of these firms reporting such initiatives.

# COMBATING THE SHADOW ECONOMY

Although the shadow economy had been declining from 2016 to late 2020, when its extent was measured at a record low of 30 percent, surveys done in the aftermath of the Covid-19 pandemic suggest reforms in this area have again become relevant. The growth of the informal economy is closely linked to the expansion of e-commerce during the pandemic, which has made online shopping increasingly important for consumers.

### AMCHAM TREND: TACKLING THE SHADOW ECONOMY AS A PRIORITY REFORM




Even though the shadow economy occupied a high third place in the priority rankings, its perceptions have improved relative to last year, primarily due to consistent implementation of the National Plan to Address the Informal Economy, including reforms in areas such as fiscalisation and cashless payment services, as well as capacity-building for inspections designed to help these bodies recognise and combat the shadow economy.

Challenges identified by companies as persistent hurdles to comprehensively addressing the informal economy include the limited human and technical capacity of the authorities tasked with tackling complex cases of illicit trade and intellectual property offences, lack of expertise and subject-matter knowledge amongst inspectors (especially in areas requiring specific technical knowledge, such as software piracy), as well as the absence of systematic co-operation between executive and judicial bodies, which often means offenders are not prosecuted appropriately.



Success comes from collaboration between businesses and public authorities, and this is particularly visible with intellectual property protection. As such, these efforts should continue, including by having intellectual property holders offer public authorities training, technical know-how, awareness-raising sessions, and updates on new technologies.

AMCHAM SERBIA

A LEADER IN CHANGE