

Serbia is not the European Bangladesh

What is your interpretation of the term “business-friendly municipality”?

David Lythgoe: A business-friendly municipality is one that combines high service levels at realistic, transparent tariffs with low taxes and administrative burdens. These things depend on efficient current management to make the most of current resources, and efficient capital investment in infrastructure and human resources to make the most of scarce capital. This efficiency requires an understanding of the market economy and the role of government in ensuring a 'level playing field' - and otherwise not interfering. It requires innovative thinking, good planning, and simple, transparent and corruption-free administration. A municipality that can provide this is friendly not only to business but to all of its citizens.

Miroslav Krišan: It is a municipality with developed cooperation with businesses, efficient administration, adequate infrastructure and utility services, good human resources, planning and strategic documents. In late 2012, the municipality of Kovačica was certified as business friendly environment and for us, it is a validation of all our efforts for establishing efficient local administration focused on businesses and citizens and approaching the European values and standards. By improving the functioning of all services in municipal administration, modernizing the work process and establishing better direct communication with potential investors, our municipality has made a great step forward in attracting potential investors.

Slobodan Georgiev: Through several projects, BIRN has actively worked with Serbian local governments, aiming to increase the administrative capacities of these cities and municipalities. The assumption is that the local administration is the basis for creating conditions for business friendly environment. Therefore, primarily those local governments that made long-term investments in human resources and formed teams able

to respond to various challenges have managed to create a system where a potential employer feels comfortable. Additionally, the local government should work more on redefining its identity, improving its image and attempting to present in a simple manner who they are and what they do best. In order to achieve this, there is a need to improve various aspects of life in a city or municipality: from infrastructure to recreational areas, hospitality development etc. Shortly, a local government needs to convince an employer that it is a good place to live in, and then it will be easier to start a business as well.



David Lythgoe, Business Development Manager, Halifax Consulting

The state needs to have better understanding of the market economy

What are the main obstacles for local economic development in Serbia?

David Lythgoe: Unfortunately most are not at the local level. There are many, but the main ones are unpredictability, high taxes, complicated, time-wasting administration, an old-fashioned labor law and high interest rates. Companies like predictability that allows them to plan. Lacking, unclear and partisan policies (that are likely to change after the next election) do not help, nor do corrupt practices. Wage deductions (income tax and contributions) are high, at over 40% of gross pay, even for low-paid workers. Few countries burden low incomes so heavily. The labor law desperately needs reform on many points. Companies like clear, simple administrative procedures. A good example for other institutions is APR (the Business Registers Agency) which has rational and modern procedures.

Miroslav Krišan: In my opinion, the greatest

obstacles involve insufficient funding for small local governments (small budget); complicated and long procedures for obtaining various consents and permits from institutions that are not under municipal jurisdiction (Electric power distribution, police department for emergency situations, Vojvodina waters etc.); the national subsidy policy that favors only large companies that create more than 100 new jobs, which creates a disadvantage for small and medium enterprises, as well as small communities that mostly involve such small facilities; excessive tax burden for newly-founded companies.

Slobodan Georgiev: The lack of what we listed in the previous answer, as well as excessive reliance to the state. The local governments should ask only for general guidelines from the state, and perform all other activities with their own resources and through inter-municipal partnerships. The obstacle originating in the Government of Serbia, relates to the lack of willingness to provide more significant jurisdictions to local governments. Belgrade should show greater trust towards local authorities and encourage them in their efforts to attract people with new business ideas. In this sense, the state should do a lot more on the development of traffic infrastructure: roads, Internet, energy potentials and environment protection.

Which steps should be taken by municipalities, and which by the state, in order to encourage business development and new investments?



Miroslav Krišan, Mayor, Kovačica

More attention and funds for the local level

David Lythgoe: Municipalities should fight corruption, make cross-party consensus strategies and find innovative ways to improve services and commercialize utilities while lowering taxes. The state should fight corruption; provide clear policies; simplify administrative procedures; reduce wage deductions with a simple, progressive scale (with lower deductions, the grey economy would shrink by itself); make the courts quick and clean; create a framework for professionalizing local utilities and try harder to understand the market economy. Serbia needs to change the reputation of being “European Bangladesh” to the image of economy with higher value-added. Its tradition of good education can be re-established and develop excellent human resources if and when the education reform is understood as priority.

Both the state and the municipalities should refrain from subsidies except in very special cases. Subsidies usually encourage unsustainable business. Think of this: the government taxes companies, and spends part of their money on supporting some of them (and another part on itself). This means that many companies are paying a few of their selected competitors. But governments everywhere are notoriously bad at choosing businesses to support, this is the market's job. What's worse, domestic businesses are often made to pay to help their foreign competitors establish themselves in Serbia. Any available funds should be used instead to make VAT payable on receipt, and reduce taxes and deficits to provide macro-economic stability that can reduce interest rates.

Miroslav Krišan: The municipalities need to listen to the needs of businesses and do everything in their power in order to improve the local business conditions. Our municipality took the first step by fulfilling the 12 comprehensive criteria for a business friendly environment. We expect the state to pay more attention to the development of smaller communities, support

to small and medium enterprises, attract foreign investors, support to domestic businesses, job creation, simplification of procedures for investors, improve communication between local governments and national institutions. They should also improve the work of agencies with the task of promoting investments to Serbia.

Slobodan Georgiev: I've partially responded to this question already. The state should create infrastructural framework for all regions and assist when the local governments are not able to do it themselves. The local governments should be bolder in determining their vision of development and implementing the projects that should enable the achievement of this vision. Cities and municipalities in Serbia need to work jointly on larger investment projects. They should unite their regions on their own and act together towards investors.

What can private, public and civil sector do together for the benefit of the entire community?

David Lythgoe: Private firms can contribute by challenging shady practices, lobbying for better



Slobodan Georgiev, Project Coordinator (BIRN) Serbia

First we need to prove that we are a good place for living

labor laws, cleaning up their own act, etc. The public sector must focus on fighting corruption. The civil sector can be a crucial catalyst to clean practice, by working on specific issues from a non-profit perspective. Public awareness is essential. Remember how accident rates fell when the new traffic safety law was passed? Not because of heavier punishments, but because of raised awareness - when the campaign stopped, accident rates rose again. In the same way, greater awareness of the nature

and benefits of a real market economy is the essential need.

Miroslav Krišan: The municipalities should include the private and civil sector in the process of defining priorities and strategies of socio-economic development, and into important decision-making for the entire community. Such cooperation should also be seen in joint activities and projects of infrastructural equipping, citizens' education, youth support as they are an important factor in community development, investment promotion. In the municipality of Kovačica, the Local economic development department has the key role in connecting local government with businesses and civil sector.

Slobodan Georgiev: They can unite their interests and work together in many areas. The entrepreneurs should be the agents of ideas, the civil sector should adapt them to the needs of the community and the public administration should work on eliminating the obstacles for the realization. Organizing the Local budget forums, BIRN has identified large interest among local entrepreneurs for the work of public administration, but the fact is that their communication is not always good. The civil sector should be the initiator of a more constructive debate between the public and private sector regarding specific activities: better public finance management on one side and promotion of corporate social responsibility in the private sector. Additionally, the status of domestic

and foreign investors should be equalized, because the local governments often do not have understanding for domestic entrepreneurs in the same manner they listen to foreign businesses. And basically, all of them should be treated as domestic, since they work in the same environment. Good cooperation among these three sectors could be useful for explaining and presenting many things so that they are more close to citizens, in a period of societal reforms that require significant sacrifices from all participants in the process.