# STRATEGY FOR ENCOURAGING FOREIGN INVESTMENT INTO THE ECONOMY OF THE REPUBLIC OF SERBIA

## EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

The attraction and retention of foreign direct investment is a key objective in many countries as it is well recognised that FDI has the important potential to create incremental and sustainable jobs, increase exports, transfer technology and business knowledge, enhance competitiveness, boost overall productivity and ultimately reduce poverty through overall economic growth and development.

The creation of a favourable climate for investment, both foreign and domestic, is a major challenge for all countries as increased globalisation and competitive business pressures provides the framework and need for continuous improvement in both the overall enabling environment for business and company performance. Governments have a key role at the macro level in providing stability and in improving the overall environment for business whilst competitive market pressures are demanding continuous improvement in efficiencies and increased flexibility and effectiveness by company management.

Whilst significant progress has been made in Serbia since 2000 in creating stability at the macroeconomic level coupled with legislative improvements in many areas, it is recognized and acknowledged that this process of reform must be accelerated and that a significant increase in new foreign investment must be attracted to improve export capability and competitiveness and to create increased employment opportunities.

The results of the delayed start to the general economic reform and modernisation programmes are evidenced by:

- The relatively low levels of foreign investment attracted to Serbia in comparison with neighbouring countries.
- The bulk of the new foreign investment has occurred in the purchase of companies and assets with a domestic market focus under the privatisation programme.
- A small number of companies have made new business investments to address international markets.
- Limited development work has been undertaken and there is limited internal understanding of the needs of modern competitive industry and the potential benefits from FDI.
- The low level of exports and the continued dependence on international support and private remittances from abroad to support Government programmes confirm this overall low level of investment.
- Limited institutional capacity and undeveloped mechanisms in place to support investors in the implementation of their plans.

This poor economic outcome of this lack of new investment in the productive sectors of the economy is clearly demonstrated in the relative decline in both overall GDP and GDP per capita in Serbia over the past 15 years. This contrasts with general improvements in most neighbouring economies and significant improvements in some countries which have modernised their legislation and regulations, provided local supports to facilitate investors and implemented proactive investor support and promotion strategies. Countries in the region that have modernised and provided administrative stability have successfully attracted a significant level of new export oriented foreign investment.

The priority objective of the strategy for the development of foreign direct investment (FDI) is to address these weaknesses and to create a favourable climate and framework for the attraction, retention and expansion of internationally competitive and export oriented foreign investment to complement the development of SME sector and ongoing new investments under the privatization programme. A main thrust of the strategy is to accelerate improvements in the business environment in Serbia for the benefit of all investors.
The FDI strategy is presented in the context:

a) That Serbia has moved forward significantly in the development of its relationship with the European Union and the international community and is moving forward on a process of reform to upgrade its legislative and administrative structures to European standards.
b) Serbia has the potential to regain its prominent position as a key regional gateway and base for the development of international trade and is seeking to generate significant level of new employment opportunities through increased private sector driven production, trade and investment.
c) Government is committed to further acceleration of this legislative reform programme coupled with further initiatives and supporting actions to strengthen institutional capacity, address competitiveness issues and develop improved internal awareness and external marketing to facilitate and support investors in the profitable implementation of their investment plans.

The strategy is focussed on achieving significant progress under 4 broad high-level headings which are elaborated and detailed in Chapter 7 with clear objectives, measures and actions by a range of Government Ministries, agencies and municipalities with envisaged significant private sector and cooperating partner support and participation.

1. Legal and regulatory reform.
2. Strengthening of institutional capacity and development of partnership processes to facilitate business development at national and municipal level.
3. Actions and initiatives for improvement of competitiveness.
4. Development of internal awareness campaigns and focused international marketing strategy.

General approach to implementation of the strategy and the interdependence of the above 4 main pillars is illustrated below.
The major recognized barriers to FDI in Serbia are:

- **Legislative issues:**
  - Land ownership and access to land issues
  - Need for significant improvements and modernisation of court system
  - Need for a wide range of legislative reforms
  - Need for reform of construction laws and building regulations
  - Non competitive and uncertain fee and levy structures
  - Inflexible labour laws and regulations

- **Limited institutional capacity for implementation of reforms and for strategic planning and marketing:**
  - Need for prioritising investor related issues amongst a wide range of administrative and regulatory bodies
  - Need for prioritising capacity building on investment promotion, strategic planning and policy development
  - Priority need to improve administration of construction permits through development of one stop shop principles
  - Need to maximise participation of private sector and educational authorities in overall reform processes

- **Slow pace of reforms, infrastructural deficiencies and limited access to competitiveness enhancing measures:**
  - Slow pace of reform, initiation of modern regulatory environment and privatisation of major utilities
  - Need to address development of industrial and technology parks
  - Need to improve access and reduce cost of access to accreditation, quality, certification and other international standards

- **Need for both internal awareness and sensitivity programmes on investor needs and development of focussed national investment promotion programme.**

Action plans to address these issues are documented in greater detail in the report and will be developed and implemented on the principles of high level Government commitment, improved cooperation between all levels of government, active participation of private sector and donors with the key objective of accelerating reforms and progress in a relatively short period.

The overall goals for FDI in Serbia include:

- Increase the number and value of new investments in the productive sectors of the economy.
- Facilitate and support investors to accelerate the implementation of their planned investments in the country.
- Encourage and facilitate existing investors to deepen their involvement in the country and to maximize the level of internationally competitive local value added within the economy.

This FDI strategy is presented in the context and on the understanding and acceptance that:

- The current industrial base within Serbia is operating at a fraction of the levels of 1989 and has significant gaps in terms of overall competitiveness.
- The restructuring and privatization stage of the major state and socially owned enterprises will not generate the required levels of new employment or exports and in the short term will result in job losses.
- The SME sector based on historical and current trends will fail to generate either increased employment or tangible exports at the levels required.

It has been shown internationally that new foreign investment has played a major role in the revitalization of many economies and addressed key national needs of employment creation and export development. Countries adopting a restrictive view on FDI, with the exception of a few natural resource rich areas, have not grown and prospered. Governments worldwide
have recognised these benefits and are adopting pro-investor policies and seeking to improve their investment environment in recognition of demonstrated benefits from FDI.

- A strong export led contribution to economic growth.
- Intensive growth in employment opportunities.
- Positive impact on influencing regulatory change, human resource and management development.
- Key driver of business friendly infrastructure.
- Key source of new technology, skills, management and business know-how, global orientation and a breeding ground for entrepreneurship.
- Ultimately, substantial incremental tax revenues to facilitate new infrastructure developments and social expenditures.

A strategic and focused approach is essential and will be reflected in action plans with an emphasis on:

- Recognition of reality of competition.
- Focus on countries, sectors and companies where Serbia can build competitive advantage.
- Establishment of the building blocks to target investors and to facilitate investors.
- Need to be innovative and visionary.
- Need to build image to reflect improved reality on the ground.

Actions under the 4 main headings of the strategy will support existing investors both foreign and domestic, new Greenfield FDI investment and public/private partnership (concessions) through effecting improvements in the overall environment for business and building on identified key strengths.

These key strengths include:

- Key regional position and preferential access to key markets to East and West.
- People strengths and capabilities – good quality educational system, good language skills including excellent English-speaking capabilities in key age groups.
- Industrial/research tradition and background in engineering/production skills.
- Supply base of agricultural products and source of other raw materials.
- Lower cost salaries for skilled and qualified workers and management.

Whilst investment in all sectors of the economy is required and welcomed, the following sectors have been identified as potential key contributors with some comparative competitive advantage in Serbia:

- Agribusiness: food and drink – focused on niche production of organics, high quality specialty foods, etc.
- Auto-Components: focused on sub-supplier companies to new car plants and lorry/heavy plant manufacturers.
- Banking and Financial Services
- Engineering: specialist turnkey, design, services, etc.
- Furniture: primarily wood furniture based on craft skills and timber supply.
- ICT: products and services focused on opportunities in software, back office services, call centres, initiatives based on strengths of university/research centres.
- Pharmaceuticals/health care/clinical research and Chemical Industry.
- Public/private partnerships: energy / telecoms / infrastructure / metals, mining and exploration / transportation nodes and regional distribution centres.
- Textiles: focused on short run, CMT and branded clothing and specialist markets.
- Tourism.
The above sectors are highlighted for the following reasons:

- Potential for creation of significant numbers of new, sustainable, jobs.
- FDI projects in a number of these sectors can provide a regional spread in the country.
- Projects in these sectors can generate significant new exports.
- Potential to provide substantial linkage opportunities for domestic companies and to attract foreign sub-suppliers and service providers.
- The sectors are growing globally.
- Greenfield FDI into these sectors is occurring in SEE.
- Sectors have potential to develop industry clusters and foster niche competitive advantage.

In addition, further liberalization of key utility sectors and the development of a programme of public/private partnership are envisaged as both investment opportunities and key building blocks of a revived investment environment.

These actions focussing on effecting improvements in the business development environment and providing the building blocks for FDI attraction, facilitation and support resulting in increased levels of foreign direct investment and exports over the short, medium and longer terms:

- Measures to attract higher levels of FDI in the medium term in sectors where knowledge, skills and overall efficiencies are the factors that determine competitive advantage, building on initiatives in the educational, infrastructure and overall competitiveness areas – impact in period 2008-2010.
- Measures by which FDI can contribute to significantly increased levels of value added and improved regional development in the country – impact in period 2011-2014.

**VISION – a 10 Year Perspective:**

“A prosperous Serbia with low unemployment, a standard of living on the same level as recent EU entrant countries, exports boom and a trebling of GDP per capita bringing it in line with Central European standards”.
1 INTRODUCTION

The purpose of this strategy is to address a number of key challenges facing Serbia and the need to attract new investment in the productive sectors to address national priorities of value added export development and provision of additional sustainable employment opportunities.

FDI is only one element, although internationally an increasingly important component, towards addressing a country’s overall economic development goals and is designed to complement important national strategies on the development of the SME sector, public sector reforms, modernization of education and infrastructural development. The benefits arising from the attraction and retention of increased levels of foreign direct investment in the country provides governments with the economic flexibility and strength to effect modernization and improvements in all other areas.

Serbia has not been able to attract larger and continual inflow of foreign private investment due to a poor business environment. Nothing can contribute more to the improvement of business environment than the enhancing of economic freedom and improving the rule of law. State involvement in the economy should be minimized; a very moderate state activism may give results after some improvements in the rules of the market game are undertaken.

Measures proposed include improvement of investment climate through acceleration of reform programmes and strengthening of institutional capacities at national, municipal and agency levels, development of improved linkages with the private sector at national and municipal levels to address competitiveness issues, development of an internal awareness campaign aimed at municipalities and utility providers and a focussed external investment promotion strategy.

1.1 Need for New FDI

There are a number of key high level challenges facing the economic development of the country:

- High and rising unemployment and further pressures on employment levels arising from necessary restructuring of major utilities.
- Significant trade deficit with imports exceeding exports by a factor of 3\(^1\).
- Significant structural and competitiveness issues facing the industrial base of Serbia with output between 1989 and 2000 showing a decline of 50%, whilst the traditionally productive exporting sectors of metal processing, machinery and equipment, finished textiles, footwear and leather goods are operating at less than 25% of 1989 levels\(^2\).
- No evidence of significant changes in industrial output in the 4 year period to 2004.
- Late start to the reform and modernization process and progress cannot be expected without significant new investments in competitive modern industrial, agricultural and service sectors.
- Limited understanding of the key potential benefits of new foreign investment at many levels within society.
- Acknowledged severe gaps in institutional capacity to implement and manage reform and modernization process arising from the delayed start.

Developing countries, emerging economies and countries in transition increasingly see FDI as a source of economic development and modernisation, income growth and employment. Countries have sought to maximise the benefits of foreign ownership presence in the

\(^1\) See Tables 1 and 1A for comparative exporting activities in the country and the region
\(^2\) See Table 2
domestic economy and to increase the level of new foreign owned investment in their country through a series of policy and promotional initiatives.

The spin-off benefits from increased levels of FDI include:
- Triggering of technology transfer and spill over into the domestic economy.
- Assisting the development of human capital and management capability.
- Contribution to international trade integration.
- Help in creation of a more competitive environment.
- Enhancement of enterprise development.

The challenge underpinning the overall strategy is to optimise operating conditions for private sector driven internationally competitive business development within the country, to maximise both the inflow of new FDI into the country and the level of value added activities undertaken by both foreign and Serbian owned small business in the country.

A key parallel objective for Serbia is to accelerate programmes of support to improve capability of local suppliers (SMEs) in terms of capacity, quality and accreditation to maximize local supplier potential and this strategy is totally compatible with this objective.

FDI assists in:
- Integration into the global economy by engendering foreign trade flows.
- Development of international networks of related enterprises.
- Establishment of vertical linkages between local suppliers and MNEs.
- New investment by international companies often triggers further business opportunity and investment both by existing foreign suppliers and new domestic companies.
- International companies as part of their quality assurance programmes often introduce support programmes for domestic companies to improve quality of goods and services through technical assistance, training and information and accreditation programmes.

FDI is recognized for its contribution to human resource development:
- A direct positive impact stems from both the increased level of training generally provided by new companies and the demonstration effect of demand for increased specific skills.
- Frequently as the new FDI company becomes established and embedded in the country there is increased localisation of senior management positions with consequent broadening of management experience.
- FDI influences development in general education as the availability of a skilled educated work force is of the utmost importance in creating a favourable environment for FDI.

Furthermore, FDI facilitates the smooth implementation of international trade and national policies, raises productivity and competitive levels and improves standards and overall efficiencies. Serbia is moving towards full membership of international and regional bodies and is well positioned to benefit quickly from new FDI because of its rich industrial traditions and general high quality of education.

1.2 High Level Objectives

High level objectives of the strategy are focused on attraction of a significant level of foreign investment in the productive sectors to:
- Develop exporting – internationally competitive – industrial, service and agro-industry capacity and capability.
• Address current problem that the bulk of current capacity is obsolete for modern production and markets because of lack of investment for many years.
• Create sustainable employment opportunities.
• Stimulate reform programme, address trade deficit and achieve convergence in development with EU states.
• Maximise the level of internationally competitive value-added within the economy.

1.3 International Principles

The building blocks underpinning the attraction of new foreign investment include:
• Acceleration of economic reform programmes, modernization of legislation and improvements in the administration of legislation and regulations.
• Increased awareness at public and official levels of the competitive needs of investors and a broader understanding of the benefits that arise from the presence of modern internationally competitive industrial undertakings.
• Development of focused and evolving plan to address barriers.
• Development of initiatives to improve the competitive environment for investors.
• Development of a strong sense of partnership and unity of vision between government at all levels and the private sector.
• Development of a focused marketing programme to identify, interest and attract foreign investors.

These principles are articulated in many publications by World Bank institutions, OECD, Investment Compact for Southeast Europe and other international agencies.

1.4 Key Barriers to FDI

Major recognized barriers to FDI in Serbia are:
• Legislative issues e.g. complicity concerning land-ownership and non-market prices for the land usage, non-specialised court systems.
• Infrastructural deficiencies in comparison with neighbouring countries.
• Slow pace of reforms, arising from delayed start, in comparison with competitors and general poor quality of implementation.
• Limited institutional capacity for strategic planning and marketing and adoption of medium and longer term view.
• No focussed national investment promotion programme against a background of a perceived negative investment climate.

1.5 Primary Measures to Achieve Goals

For the successful implementation of the strategy it is recognized by government that:
• The present policy mix and institutional capability is not adequate to provide the framework for the required levels of employment growth and increased levels of export development.
• There is a need to accelerate and fast track the reform process, to develop as a matter of urgency improved institutional capacity in a number of key ministries and institutions and to promote and publicize the successful outcome of the EU feasibility study.
• There is need to address a wide range of issues impacting on the cost and competitiveness of doing business in Serbia.
• There is a need to strengthen and enhance the principles of partnership between government ministries, municipalities and the private sector in the implementation of measures to achieve the desired outcomes.
• There is need to develop a focus on key companies and sectors where Serbia has or may have the capability to develop potential international competitive advantage.
• There is a need to develop a focus and prioritization in selected international markets to maximize usage of financial and personnel resources and create a positive impact.
• There is a need to focus resources and achieve measurable results in a number of key areas to address investor concerns in terms of the perceived risks of investing in Serbia.

Serbia faces strong competitive pressures to the achievement of its goals as most key competitor countries have made more significant advances in terms of overall economic reforms over the past 15 years and many already have an established base of foreign investors.

Most neighbouring countries have strong established Investment Promotion Agencies with both marketing and sectoral expertise. Many countries have developed industrial sites and parks available for new investors to locate their plants. Mechanisms have been developed in most countries for the provision of land and services by both private and municipal authorities and all countries are offering incentives. This impact is measured and reflected in both overall increased levels of FDI, lower levels of unemployment, higher levels of export activity and various other measures of economic development.

The challenge for Serbia is to position itself as a credible and profitable location for FDI based on:
• An approved pre-accession EU country with the benefits of tariff and duty-free access and regional trade agreements in place.
• Credible and accelerating programme of modernisation of its infrastructure, administration and legal system in place.
• Key gateway position to Western European, Eastern European and Middle East markets.
• Strengths of its industrial tradition, an educated workforce with acknowledged better foreign language skills than most competitor countries.

The strategy is focussed on achieving significant progress under 4 broad high-level headings which are elaborated and detailed in Chapter 7 with clear objectives, measures and actions by a range of Government Ministries, agencies and municipalities with envisaged significant private sector and cooperating partner support and participation.

1. Legal and regulatory reform.
2. Strengthening of institutional capacity and development of partnership processes to facilitate business development at national and municipal level.
3. Actions and initiatives for improvement of competitiveness.
4. Development of internal awareness campaigns and focused international marketing strategy.

In this situation, whilst the strategy is focussing on effecting improvements in the investment climate over the short, medium and longer terms, the need for prioritization and urgent actions on a wide range of issues is self evident. This is reflected in the Action plan on the modernisation of the legal and regulatory environment, the proposals for improved liaison between the municipalities, utilities and national government, an emphasis on improving access to land and infrastructure for industry and modern export oriented business services and development of partnership and improved liaison between private sector and government in driving the modernisation process at institutional and infrastructural levels.
2 KEY INTERNAL ECONOMIC AND BUSINESS DEVELOPMENT ISSUES

2.1 Key Strengths

There are positive and encouraging signs that Serbia is in a strong position to capitalise on its development potential over the next five to ten years, that it can achieve strong economic growth on a sustainable basis and improve the living standards of its citizens, while substantially advancing its transformation into a competitive and well functioning market economy.

Serbia is perceived as a friendly and improving environment for foreign investors, with an investment law that compares favourably with similar laws in other countries. Under the Foreign Investment Law of 2002, foreign persons may, on their own or with a local partner, establish an enterprise or a subsidiary; buy shares or stakes in an existing enterprise; acquire other property rights in an enterprise; or be granted a concession for the exploitation of natural resources, production plant or capacity as well as infrastructure or communication facilities. There is an ongoing programme of legislative and regulatory reform with the objective of achieving harmonization of all laws and regulations with the standards of the European Union.

The overall macroeconomic and business development environment has improved steadily over the past 5 years with the government enacting significant levels of new legislation, stabilizing the annual budget, reaching formal agreements with international community on debt and budgetary support issues and making significant progress with its privatization programme.

Key strengths as recognized in many investor and comparative analysis surveys are highlighted in the following table:

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<td>• People strengths and capabilities: competitive workforce (skilled, relatively inexpensive, English speaking and with a traditional external exposure).</td>
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<td>• Central location in Southeast Europe and good market access via EU accession process, regional free trade agreements and a free trade agreement with Russia.</td>
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<td>• Lower cost salaries particularly for qualified and trainable workers</td>
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<td>• Industrial/research tradition and background in engineering/production skills.</td>
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<td>• Supply base of agricultural raw materials and other natural resources.</td>
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<td>• Improved and improving investment climate.</td>
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There is increasing evidence of international and local agreement on the level of progress achieved with the pace and direction of the overall economic reform programmes as shown by:

- Successful outcome to EU accession feasibility exercise and commencement of EU accession discussions.
- Renewal of World Bank /IMF credit supports to 2007.
• Increased dialogue and support between government and private sector from existing foreign investors and business groups as set out in annual White Book published by the Foreign Investors Council (FIC).

The positive attitude and proactive involvement of business and private sector organizations is an important component of the overall business environment. The Serbian Chamber of Commerce is the largest business association and partners with government with a goal of improving the country’s competitiveness, raising productivity and exports. Other important business associations include the Union of Employers, Federation of Serbian Entrepreneurs and the Foreign Investors Council.

The FIC has played a key role on behalf of its members in ongoing dialogue with government on identifying and prioritising key initiatives to improve the overall environment for business development in the country. It publishes an annual White Book on the investment climate and sees itself as a partner with government and the civil service in highlighting initiatives for attention and formally documenting progress on an annual basis.

The FIC is the main body representing foreign investors and the main body involved in discussions with Government. FIC members also participate in a number of national bodies including the American Chamber of Commerce in Serbia and Montenegro, other countries’ business associations such as the Israeli Business Forum, Greek-Serbian initiatives for partnership, Italy in Belgrade business manifesto and the Association of German investors. These national associations are also active policy advocates and government partners in improving Serbia’s investment climate.

This participatory and open government approach underpins increasingly positive relations between the government and investors.

2.2 Weaknesses

The major weaknesses within the economy can be traced to the decade of internal conflict and the resultant international isolation in the 1990’s. At the start of the 1990’s Serbia was more advanced industrially and technologically than many of its neighbouring countries and many of its companies operated competitively in the international marketplace.

The outcome of this period of international isolation has resulted in a lack of modernization across many sectors of industry and a resultant lack of international competitiveness, the emigration of many skilled and qualified workers and an overall 10-year delay in the initiation of its privatization programme and its programme of reform on the legal and regulatory environment.

Actually, the main problem is the competitiveness of Serbia (the rules of the game), and this should be the concern of the government. The competitiveness of firms should be left to firms themselves.

Notwithstanding the significant improvements effected over the past 5 years, the economic performance of Serbia is poor on a number of key indicators:

• Significant trade deficit with consequent reliance on borrowings and external private remittances
• Employment levels and numbers of people gainfully employed in productive internationally competitive industry and services are low by international standards, although still better than in many neighbouring countries.
• Lack of overall competitiveness through lack of investment, delayed start to the privatization process and failure to facilitate the development of modern industrial and agribusiness competitive clusters.
• Poor external image, perceptions of political instability and lack of a focused marketing and investment promotional programme.

This is reflected in structural and institutional weaknesses and the slow pace of public sector reform resulting in:
• Weaknesses in the overall legal and regulatory environment.
• Weaknesses in administrative structures and inconsistent application of regulations.
• Poor, although improving ratings by a number of private sector international monitoring companies.

The following tables critically show that Serbia ranks very poorly in comparison with neighbouring countries.

**Growth Competitiveness Index (GCI) Rankings and 2003 Comparisons**

- Selected Countries -

<table>
<thead>
<tr>
<th>Country</th>
<th>GCI 2004 rank</th>
<th>GCI 2003 rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>Hungary</td>
<td>39</td>
<td>33</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>59</td>
<td>64</td>
</tr>
<tr>
<td>Poland</td>
<td>60</td>
<td>45</td>
</tr>
<tr>
<td>Croatia</td>
<td>61</td>
<td>53</td>
</tr>
<tr>
<td>Romania</td>
<td>63</td>
<td>75</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>81</td>
<td>-</td>
</tr>
<tr>
<td>Macedonia</td>
<td>84</td>
<td>81</td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>89</td>
<td>77</td>
</tr>
</tbody>
</table>

This growth competitive index shows a worsening of the situation between 2003 and 2004 is derived from 3 pillar indices including:

**Public Institutions Index**

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>31</td>
</tr>
<tr>
<td>Hungary</td>
<td>37</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>49</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>51</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>56</td>
</tr>
<tr>
<td>Romania</td>
<td>74</td>
</tr>
<tr>
<td>Croatia</td>
<td>76</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>78</td>
</tr>
<tr>
<td>Poland</td>
<td>80</td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>85</td>
</tr>
<tr>
<td>Macedonia</td>
<td>92</td>
</tr>
</tbody>
</table>

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3 Source: The World Economic Forum – Global Competitiveness Report 2004 on a scale of 1 to 104
4 Source: The World Economic Forum – Global Competitiveness Report 2004 on a scale of 1 to 104
These tables underpin the fact that Serbia has started late in its reform process and from a very weak base in comparison with most competitor countries for new investment. These 3 pillars of the Growth Competitiveness Index are given particular attention in the design and implementation of a strategy to make the country more competitive and attractive for new FDI activity.

It is recognized that this will require an emphasized prioritization on legislative reform to improve the business environment, a wide range of supports to address competitiveness issues and a significant strengthening of the institutional capacity to address internal regulatory and external marketing issues.

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5 Source: The World Economic Forum – Global Competitiveness Report 2004 on a scale of 1 to 104
6 Source: The World Economic Forum – Global Competitiveness Report 2004 on a scale of 1 to 104
3 FOREIGN DIRECT INVESTMENT IN SERBIA AND COMPARATIVE ANALYSES

3.1 Greenfield and Privatization

Not all foreign investments are of the equal importance. Foreign investments may stem from some non-market fund (WB, EBRD, EIB, etc.) and they may stem from the private sources. Non-market funds are similar in the investment efficiency to the state investment. Private foreign investments are very efficient. Non-market funds invest according to political priorities (donations, credits for concrete projects), private investors according their chances to get profit. For these reasons, it is important that statistics reflects these two types of foreign investments.

Private foreign investment should be further distinguished into Greenfield, Brownfield, Classical sale off⁷, Joint Ventures, Reinvestment, Portfolio investment and Realisation of investment obligations from the privatization process.

The principal types of FDI, excluding mergers, acquisitions and privatization are classified as follows:

- Greenfield – where a company establishes a facility on a new site or building.
- Brownfield – where a company establishes a facility in a building or site that was previously used for production or other activities and has some infrastructure already provided; assets from bankruptcy procedures could be bought for new investment.
- Joint Venture – where a foreign company takes a significant stake in a company.

Public private partnership (PPP) is a modification of the above joint venture definition where a public authority (national/municipal/utility) enters into a partnership arrangement with a private sector company to plan, implement and manage, under formal terms, a defined activity or facility.

To date the bulk of the new foreign investment into Serbia, like other countries in the region, has come under the privatization programme. The delayed start on the privatization programme is highlighted by the following figure on inflows, whilst the bulk of privatisation activity was undertaken in other countries during the global boom foreign investment period of the second half of the 1990’s.

FDI IN SERBIA IN MILLION US$, 2000-2004 - Annual Inflow ⁸

---

⁷ When private owners (or states) are selling companies, or their stake in companies. In the case of state doing a sell off, the process is called privatization.
⁸ Source: National Bank of Serbia
Whilst privatisation receipts in 2005 are expected to reach the $1.5bn figure, mainly from bank sales, even this low overall level by regional comparison is not sustainable in the medium term from privatization. The attraction of significant levels of new Greenfield foreign investment coupled with Public Private Partnership activity focussed on infrastructure improvement and introduction of competitive forces is the only feasible approach to addressing the infrastructural gaps and severe investment deficit.

The overall level of privatization activity since 2002 as established from the records of the Privatization Agency is set out in an appendix. This appendix details the recorded annual flow of investments under the various methods and is summarized in the following table.\(^9\)

<table>
<thead>
<tr>
<th>Method</th>
<th>Offered</th>
<th>Sold</th>
<th>Success (%)</th>
<th>Sales Proceeds</th>
<th>Investment Program</th>
<th>Social Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenders</td>
<td>81</td>
<td>43</td>
<td>53%</td>
<td>846,259</td>
<td>717,498</td>
<td>272,442</td>
</tr>
<tr>
<td>Auctions</td>
<td>1,415</td>
<td>1,132</td>
<td>80%</td>
<td>455,890</td>
<td>128,894</td>
<td></td>
</tr>
<tr>
<td>Tenders + Auctions</td>
<td>1,496</td>
<td>1,175</td>
<td>79%</td>
<td>1,302,149</td>
<td>846,392</td>
<td>272,442</td>
</tr>
<tr>
<td>Capital Market</td>
<td>566</td>
<td>319</td>
<td>56%</td>
<td>228,774</td>
<td>5,902</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,062</td>
<td>1,494</td>
<td>72%</td>
<td>1,530,923</td>
<td>852,294</td>
<td>272,442</td>
</tr>
</tbody>
</table>

The overall inflows of FDI as recorded by National Bank of Serbia include both privatization and green field FDI investments. These current FDI statistics are based on capital transfer record-keeping maintained by the National Bank of Serbia. These records provide a review of total foreign investment inflows from one year to another as well as a comparison of foreign investment inflows in Serbia with inflows in other countries. However, these data do not allow analytical foreign investment monitoring (by country of origin, by sectors, by region, etc.), so it is essential to improve foreign investment record-keeping and find the best available method for collecting foreign investment data.

It should be noted that some firms, plants and banks operating in Serbia were owned by foreign companies even before the sell-off (like Delta bank, Mobtel). When these entities are sold, money goes to the accounts of foreign owners and this can not be counted as the Serbian FDI.

To date, the privatization process in Serbia was the main source of FDI in the country. This trend is expected to continue in the years to come.

\(^9\) See Table 3 for more details (Source: Privatization Agency of the Republic of Serbia)
Nearly all Tender capital inflows originate from foreign investors, whereas Auction capital inflows are predominantly domestic. In terms of origin of the capital, privatization inflows that come through the capital market are balanced. Foreign buyers are usually transnational companies (TNCs) - Philip Morris, Interbrew, Lukoil, Holcim, US Steel, Alpha Bank, Lafarge, Carlsberg, Titan, Henkel, BAT, Galaxy Tire&Wheel, etc.

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>Number of Privatized Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processing Industry</td>
<td>488</td>
</tr>
<tr>
<td>Trade</td>
<td>188</td>
</tr>
<tr>
<td>Construction</td>
<td>176</td>
</tr>
<tr>
<td>Agriculture and Forestry</td>
<td>87</td>
</tr>
<tr>
<td>Real-Estate Activities</td>
<td>79</td>
</tr>
<tr>
<td>Transportation and Connectivity</td>
<td>70</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>65</td>
</tr>
<tr>
<td>Other Utility, Personal and other Services</td>
<td>28</td>
</tr>
<tr>
<td>Mining</td>
<td>14</td>
</tr>
<tr>
<td>Education</td>
<td>12</td>
</tr>
<tr>
<td>Fishery</td>
<td>5</td>
</tr>
<tr>
<td>Financial Intermediary Services</td>
<td>1</td>
</tr>
<tr>
<td>Health and Social Work</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,214</strong></td>
</tr>
</tbody>
</table>

Looking at the above numbers, investors are mostly interested in the processing industry, and then in trade and construction companies. Up to June 15, 2005 the total number of legally cancelled privatization contracts was 40 (3.3%). However, the Agency has initiated cancellations of additional 152 contracts due to lack of fulfilment of contractual obligations by investor companies. If these contracts end up as legally cancelled the result would be cancellation of 15.8% of all awarded contracts which is not an unimportant figure.

The question is why significant numbers of investors are not in a position to fulfil contractual investment and social programmes or additionally invest and expand their business activities. Since huge amounts of money had already been spent on purchasing companies through the privatization programme, in order to ensure return and growth of invested capital one would say that investors have naturally had an interest to additionally invest in the company they have bought (mostly in material and new equipment) and implement social programmes to lower the number of employees. All these would have provided the adequate return and fertilization of the total capital they have invested.

Unsuccessful privatizations (or lack of post-privatization investment) could be justified by facts that buyers’ plans were too ambitious and/or that initially a wrong judgment was made in regard to the purchased company’s assessed condition and its market capabilities. One of the reasons, after all, is that new owners are not provided with “after-care” services and support (this generally pertains to all investors) neither by the Privatization Agency nor by the other relevant institution, such as SIEPA. Reasons for the lack of “after-care” services are:

- Lack of a direct and clear competency of a relevant institution.
- Lack of a required authority of a relevant institution, especially towards local self-governments.
- Lack and/or inadequate human and financial resources.

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10 Source: Privatization Agency of the Republic of Serbia
Looking at the course of the privatization programme, numbers of offered and sold companies as well as value of privatization inflows (proceeds) are peaking in 2003. The 2004 decrease is a consequence of political instability during the end-2003/beginning 2004. Also, during 2003 some of the most attractive enterprises were sold which resulted in high proceeds (tobacco industry, several good companies from food processing and brewing industries and an oil industry retailer).

With intention to speed up the privatization process in 2005, the Government of Serbia has proposed and the Parliament has adopted changes and amendments of relevant laws (Privatization, Privatization Agency and Share Fund). Privatization Agency competencies have been expanded and it can now take up the role of a Bankruptcy Manager if a company’s Bankruptcy Council assigns such duties to it - in accordance with the law regulating the bankruptcy procedure.

The important change in the Law on Privatization pertains to the fact that debts of companies in the privatization process would be written-off by the state (debts are those that they have towards Funds and other public enterprises) and in such way make them more attractive to potential investors. The debt would, later on, be remunerated from proceeds of a privatized company. These measures should provide faster privatization pace of larger and companies heavily in debt which employ most of the excess workforce. These are the enterprises belonging to the so-called “Group 67” and their successful privatization would mean a success of the overall privatization process in Serbia. It has to be decided what to do with social ownership enterprises that have already been offered for sale twice – re-evaluate and offer them for sale again or privatize them through a bankruptcy procedure. At the moment, majority of companies that are offered on tenders are usually not very attractive, but this trend should be “refreshed” by sale offerings of non-core businesses of public enterprises.

Changes and amendments to the Law on Securities and other Financial Instruments have been adopted for the purpose of better regulation on the securities market. It is necessary to enact the Law on Investment Funds as soon as possible so that operations of investment funds that already heavily participate in the privatization process could be properly regulated and made more public in order to avoid suspicions in proper operating of their businesses (deadline for the Law on Investment Funds: October 2005).

During 2005 privatization inflows are mainly tied to privatization of banks. Banking sector is very attractive to foreign investors regardless of the increased competition, at least in terms of having additional players on the Serbian market. Main reason for attractiveness of the Serbian banking market: interest rates are high, that is – the perceived risk of doing business is high whereas the real risk is significantly lower (Serbia is the country that has the highest rate of returned loans from operations with citizens). Privatization of the remaining banks to renowned foreign banks shall lead to increased competitiveness on the market and thus to lowering interest rates. Consolidation of the banking sector (through mergers and acquisitions between the market players) should be expected.

The law stipulates completion of the privatization process by 2007 with an exception of public and state-owned enterprises. The deadline must be met as the existence of both socially and privately owned enterprises leads to de-valuation of social capital, i.e. illegal overflow of the capital towards the private sector. The same applies to public enterprises.

Those enterprises are to see organizational and status preparations for the privatization process. It is necessary for these companies to consolidate and lower their operational costs. This is why it’s essential that the Government, i.e. responsible ministries, develop The Public Enterprises Restructuring Strategy by end-2005 (the energy sector has advanced on this topic). Reduction of workforce for 10% in these enterprises has been announced as well as in the public administration. Social programmes would be funded form the so-called
“Transition fund”. Additional resources for this fund shall be provided through the restructuring process of public enterprises, i.e. by selling parts of an enterprise that are a non-core business.

Current FDI statistics is based on capital transfer record-keeping maintained by the National Bank of Serbia. It provides a review of total foreign investment inflows from one year to another as well as a comparison of foreign investment inflows in Serbia with inflows in other countries. However, these data do not allow analytical foreign investment monitoring (by country of origin, by sectors, by region, etc.), so it is essential to improve foreign investment statistics and find the best available methodology for collecting foreign investment data.

Knowing that the National Bank of Serbia’s data mostly pertain to privatization inflows (Brownfield), but also to Greenfield FDI inflows, it is possible to approximately determine the value of an average monthly Greenfield FDI inflow (including portfolio investments as well). For this specific need it is assumed that contractual investment and social programmes were fulfilled within the given period.

### CALCULATION OF GREENFIELD FDI INFLOWS INTO SERBIA (IN MIL. €)

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI Inflows</th>
<th>Sales Price</th>
<th>Investment Programme</th>
<th>Social Programme</th>
<th>Total Inflows from Foreign Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>503</td>
<td>969</td>
<td>640</td>
<td>245</td>
<td>1,854</td>
</tr>
<tr>
<td>2003</td>
<td>1,201</td>
<td>250</td>
<td>600</td>
<td>250</td>
<td>3,875</td>
</tr>
<tr>
<td>2004</td>
<td>776</td>
<td>1,200</td>
<td>640</td>
<td>245</td>
<td>2.867</td>
</tr>
<tr>
<td>2005. (Jan-May)</td>
<td>387</td>
<td>200</td>
<td>640</td>
<td>245</td>
<td>1,013</td>
</tr>
</tbody>
</table>

Greenfield FDI within the given timeframe (difference) 1.013

Average monthly Greenfield FDI from Jan 2002 - May 2005 24,707

Average annual Greenfield FDI within the given timeframe 296,488

It can be concluded that from 2002 onwards Serbia has attracted less than €300mil annually of Greenfield investments. This low level of foreign Greenfield investment must clearly be increased as there is little domestic capacity for investment and privatization receipts will decline once the next tranche of major companies are restructured and sold.

The country is thus clearly reliant for modernization and development, employment creation and export generation on significantly increasing the level of new foreign direct Greenfield investments and on creating an environment whereby existing companies are encouraged and facilitated to reinvest in higher value added activity.

Otherwise than for the mentioned statistical approximation, it is not well to assume that investments flow from the previous privatization obligations, as they are envisaged in contracts.

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**Note:**
11 In order to improve foreign investment statistics a Working Group consisting of the representatives of the Ministry of International Economic Relations, the National Bank of Serbia, the Agency for Business Registries and the Statistical Office of the Republic of Serbia was formed on July 13th, 2005.
12 Source: National Bank of Serbia and Privatization Agency of the Republic of Serbia
Private investors that bought state-owned firms in previous years in many cases do not respect their contractual obligations related to the social and investment programs (as broadly reported in the media). This does not come at surprise. If investors feel further investment reasonable, they will conduct it, if they do not, one can not force them by law to do that. If nevertheless the state establishes such an obligation, investors will defect, and leave the state with the options: either to react, and reverse previous privatization, what sends a bad message to other potential and actual investors, or to turn a blind eye and ignore it. The former would discourage already low level of investment, the later would undermine the state credibility. Social programs and investment obligations should be removed from the privatization law, leaving the transaction cost as the only criterion. So, what is needed here is to establish the factual rather than promised state of affairs concerning FDIs.

Very important is to find out the amount of the green-field investment, because that is the best indication about the quality of a business environment. Privatization revenues are a very misleading indicator, since private investors may come for reasons other than attractive business conditions. In the classical case, they buy market with firms, and then get extra rents because the market is monopolized or even closed. The best examples of that in Serbia are the sales of the tobacco industries (DIV and DIN), but there are others as well. Other reasons may be poor competition, costly real estate owned by firms undergoing privatization (even some in other sense worthless firms possess attractive buildings at good locations), etc. There are some guesses based on the analogy with other countries in the world that have lower level of economic freedom, that the green-field investment in Serbia after 2000 never exceeded $150mil on the annual basis.\(^\text{13}\)

When one day the privatization wave comes to an end, the green-field and portfolio investments are going to be the only FDIs. The level of the FDIs will depend exclusively on the quality of business environment.

Although investments of the private Serbian firms outside Serbia are still relatively small they are very useful and desirable. In the first move this represents an outflow of capital, but thereafter there is a gain from the investments.

3.2 Comparative Analyses

3.2.1 Comparative Analyses – Global

Global trends
The 1990’s were a period of significant growth in global FDI movement caused by increased globalization, boom in South East Asia in the mid 1990’s and increased movement under privatization programmes into the countries of Eastern Europe. The bulk of new foreign investment flows into the more developed economies of the world and is driven by major competitive challenges facing companies: pace of technological development, global restructuring and improved logistics and information flows.

Global FDI flows declined sharply over the 3 years to 2003 in the context of a world economic slowdown, and fell by more than 40% in 2001 in comparison with 2000. This followed steady growth in global movements of FDI since 1991 and very significant increases in 1999 and 2000.\(^\text{14}\) These figures reflect major factors:
- The slowing of economic activity in the early years of this decade in major industrial economies.

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\(^{13}\) Miroslav Prokopijević, President of Free Market Center Belgrade
\(^{14}\) See Table 4
• A sharp decrease in their stock market activity in the post dot com boom era.
• The tiny success levels achieved to date in Serbia in comparison with other countries in Central and Eastern Europe.

The World Investment Report for 2004 showed that these adverse global trends were reversing and that pickup was occurring particularly into Asia, Central and Eastern Europe. It also showed the increasing importance of China as a major location for new foreign investment continues and that it has assumed dominant position as a preferred location for a wide range of industrial sectors with significant implications for Serbia and other countries.

Trends in Central and Eastern Europe
The EU accession countries and the rest of central and Eastern Europe account for over one third of all foreign investment projects into Europe and this trend is expected to continue. The growing trend of FDI moving further east will continue in next two to three years and the EU accession countries and the rest of Central and Eastern Europe are estimated to account for up to 40% of all investment projects into Europe. A significant proportion of new investment to Europe in the back office, data centre, logistics and Greenfield manufacturing areas is predicted to occur in Central and Eastern Europe.

Serbia with its acknowledged strengths in language capabilities, key regional location, educational and technical capabilities and policy and operational improvements is positioning itself proactively to address opportunities in these areas.

Concentration of Investment
FDI in CEE continues to be highly concentrated by country – Poland, Czech Republic, Hungary and Slovakia – that have attracted significant levels of new foreign investment in addition to virtual completion of their privatisation programmes by 2000.

The exponential growth in value of FDI inward stock in Czech Republic (which has grown from US$ 7,350m in 1995 to US$47,527m in 2003) and in Hungary (from US$ 11,304m in 1995 to US$47,809m in 2003) contrast with the very low figure achieved in Serbia of $2915m at the end of 2003.

Impact of FDI Investment
This growth in the scale of new investment (FDI inflows as a percentage of GDP) is significantly linked with changes in a number of the key economic indicators including levels of overall GDP and GDP per capita. These tables, based on United Nations and WIIW publications are included in detail in the appendices and their segments are highlighted below.

<table>
<thead>
<tr>
<th>FDI INFLOW AS % OF GDP, GDP/CAPITA US$ – SELECTED COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Croatia</strong></td>
</tr>
<tr>
<td>FDI inflow % GDP</td>
</tr>
<tr>
<td>GDP/capita</td>
</tr>
<tr>
<td><strong>Czech Republic</strong></td>
</tr>
<tr>
<td>FDI inflow % GDP</td>
</tr>
<tr>
<td>GDP/capita</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
</tr>
<tr>
<td>FDI inflow % GDP</td>
</tr>
<tr>
<td>GDP/capita</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
</tr>
</tbody>
</table>

15 See Table 5
16 See Table 6
17 See Table 7
18 See Table 8
19 See Tables 9, 10, 11 and 12
In contrast, Ireland (acknowledged as an international success story in terms of the attraction of FDI based on focused strategies) has seen GDP per capita growth from $13,458 in 1990 to $24,808 in 2002 and $38,864 in 2003.\textsuperscript{20}

### Importance of Access to EU

Romania and Bulgaria as EU accession countries have seen the value and volume of FDI grow significantly in the past 5 years, highlighting the earlier pace of privatization achieved, the value placed by investors on the necessary legislative reforms achieved and the increased market opportunities inherent in EU membership (see the following table\textsuperscript{21}).

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>419</td>
<td>1037</td>
<td>1157</td>
<td>1144</td>
<td>1562</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>90</td>
<td>1002</td>
<td>813</td>
<td>905</td>
<td>1419</td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>-</td>
<td>50</td>
<td>165</td>
<td>475</td>
<td>1360</td>
</tr>
</tbody>
</table>

In Romania, privatization has attracted some manufacturing Greenfield investments focused primarily on a low wages competitive advantage. Retail, wholesale and services focusing on the large domestic market have also been major components of FDI in Romania.

Bulgaria, with more limited manufacturing success has boomed in construction activity focusing on the development of a mass tourism market. These two countries continue to increase the flow of FDI whilst in contrast the level of FDI into Serbia declined between 2003 and 2004 to less than $1bn.

### Main Sources of Investment

Companies based in Germany, Netherlands and France were main investors in the new EU states and Candidate Countries (CCs) during the period over the past 15 years. These figures include international companies, American and Japanese mainly, which were expanding a European presence by moving eastwards.

### Competitive Issues

There is also evidence of investment movement from these countries to other lower cost environments. Hungary has lost a number of 1990’s investments to lower cost economies in the past few years due to increased wage and inflationary pressures and is now seeking to establish itself as a location for higher value added activities. The intensive competitive pressures for new car plants is further evidence of this trend after the earlier successes of Czech Republic.

The competition for new FDI is global and rapid developments in technology and advances in logistics, coupled with a global need for reduced costs in most sectors of industry, is heightening this competition and raising the in-country standards and expectations of investors. Serbia is faced with a considerable catching-up situation on other countries in its immediate region. Whilst this gap is recognised in overall government statements and

\textsuperscript{20} See Table 12

\textsuperscript{21} Source: WIIW US$mil – Annual FDI Inflows
strategies, there is a need to adopt a more proactive and accelerated focused approach and commitment of additional resources on initiatives to improve the enabling environment.

### 3.2.2 Regional Focus (with Estonia as Comparison)

The significant low positioning of Serbia in terms of the attraction of FDI is confirmed by the following table:\(^{22}\):

<table>
<thead>
<tr>
<th>Country</th>
<th>SERBIA</th>
<th>BULGARIA</th>
<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(million)</td>
<td>7.49</td>
<td>7.8</td>
<td>4.44</td>
<td>21.73</td>
<td>5.4</td>
<td>1.35</td>
</tr>
<tr>
<td>FDI inflow 2004 US$bn</td>
<td>0.89</td>
<td>1.609</td>
<td>1.1</td>
<td>5.1</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td>Total FDI Stocks (US$ billion) end-2004</td>
<td>3.8</td>
<td>6.6</td>
<td>12.4</td>
<td>18.2</td>
<td>12.2</td>
<td>9.4</td>
</tr>
<tr>
<td>FDI Stock per Capita (US$) end-2004</td>
<td>507</td>
<td>846</td>
<td>2792</td>
<td>837</td>
<td>2592</td>
<td>6962</td>
</tr>
</tbody>
</table>

Further detailed analysis, underpinning the importance of FDI in overall economic development is highlighted by the following table on GDP per capita, real GDP growth rate, inflation and unemployment levels and the importance of exports in overall GDP (see below:\(^{23}\)).

<table>
<thead>
<tr>
<th>Country</th>
<th>SERBIA</th>
<th>BULGARIA</th>
<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per Capita (US$) 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2880</td>
<td>3120</td>
<td>7660</td>
<td>3190</td>
<td>6156</td>
<td>7930</td>
</tr>
<tr>
<td>Real GDP Growth Rate (2003/2004)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.8%</td>
<td>5.5%</td>
<td>3.7%</td>
<td>8%</td>
<td>4.9%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Inflation Rate 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>13.7%</td>
<td>6.1%</td>
<td>2.1%</td>
<td>11.9%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Unemployment Rate, 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td>12%</td>
<td>18.2%</td>
<td>6.3%</td>
<td>16%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Total Export (% OF GDP), 2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>13.8</td>
<td>37.3</td>
<td>21.9</td>
<td>37.3</td>
<td>65.5</td>
<td>49.9</td>
</tr>
</tbody>
</table>

Serbia has the lowest GDP per capita, highest inflation, highest unemployment level and lowest proportion of exports as % of GDP, and the differences are also extremely high between Serbia and the better performing countries.

The gravity of the situation is accentuated by the fact that 15 years ago Serbia was ahead of most of these neighbouring countries on general economic development indicators.

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\(^{22}\) Source: Various. See Table 13

\(^{23}\) Source: Various. See Table 13
These figures underpin the necessity for a dramatic improvement on a number of fronts.

This major barrier underlined by this survey relates to the land issue and the fact that Serbia lags well behind its neighbours in terms of the adoption of the basic restitution laws and that land title legislation is considerably less modern than other countries. This is reflected in the fact that in Serbia the issue of new investment in industrial parks (a key facilitator for general FDI) and other property developments (a major driver for FDI in Bulgaria as an example) is well behind other countries.

In addition, proper town and industrial planning is very undeveloped in Serbia and the issue of construction permits is a source of considerable uncertainty and anxiety for all investors. This confirms that the basic building blocks for FDI are not in place at present and this strategy seeks to prioritise a number of measures to address this situation.

Conclusion
The creation of a favourable environment for investments, both foreign and domestic, is a major challenge for all countries. Competition for attracting FDI is increasing world-wide particularly for countries lacking a major domestic market or significant natural physical resources to entice investors to invest in their country.

3.2.3 Key Comparative Regional Strengths of Serbia

Language skills
Serbia is top ranked (42%) in comparison with other countries concerning the percentage of population speaking the English language. This compares with the following rankings – Estonia with 30%, Romania 16% and Bulgaria and Croatia 14% English.

Comparatively Low Salaries
Croatia has the most expensive labour cost in Euros per month (918), followed by Slovakia (886) and Estonia (614). Serbia (332) has a little bit lower labour cost then Romania (336) but higher then Bulgaria (196).

The above figures are based on the average monthly cost that an investor has to pay per employee, which includes average gross salary plus social contribution paid by employer. It is proposed to examine this social contributions scheme as the present system effectively involves very high charges for better skilled and higher paid employees.

Central Regional Location
Whilst the key central location of Serbia positions the country well for trade both to the East and West, the road rail and river infrastructure needs development to maximise this potential to develop as a central location for trade and industry. The telecommunications network similarly needs upgrading to address the potential in the ICT product and services sector.

Comparative Tax Incentives and Tax Credits

Tax rates
From the analysis, many countries are using low rates of taxation and taxation allowances as a form of incentive. Many types of incentives are available, ranging from low rates of corporate tax, to special incentives for job creation in disadvantaged areas or incentives for investing in R&D to overall tax holiday period for qualifying levels of investment.

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24 Table 13
25 Table 13
26 Table 13
27 See Table 13 for complete analysis
Serbia has the lowest corporate profit tax rate, set at 10%, while the second lowest is 15% for Bulgaria. Croatia and Estonia have the highest rates with respectively 20% and 24%.

Serbia and Estonia have the lowest VAT standard rate, 18%, one point less than Romania and Slovakia. Croatia has the highest rate with 22%, just behind Bulgaria (20%).

1) Tax Holidays
Tax holidays are among the most widely used general incentives, especially in developing countries. They are generally regarded as an imprecise and unfocussed form of incentive and no substitute for a transparent and efficient enabling environment.

Tax holidays are not well regarded within the European Union as they are viewed as constituting a distortion of trade rather than an incentive. However, they continue in use in various formats in various countries and the sample survey under examination revealed differing criteria for qualification for tax holidays and different tax rates.

Serbia and Croatia offer 10-year tax holidays to companies which invest respectively more than EUR 7.3 million and EUR 8.2 million and employ at least 100 and 75 persons. Serbia additionally provides tax exemption for concessions and non-profit organizations.

Bulgaria and Romania focus their tax holiday incentives on disadvantaged areas with high unemployment. Thus, in Bulgaria corporate tax in regions with above-average unemployment is zero for manufacturing companies, and in Romania, the tax exemption remains for the duration of the existence of the disadvantaged zone. In Serbia, profits of companies that arise from investment in underdeveloped areas are tax-free for two years; however, Serbia does not have similar incentives for areas formally designated as devastated regions. This anomaly will be reviewed and adjusted.

New EU member countries such as Estonia and Slovakia have implemented European judicature and modernised their tax regimes to European standards. In Estonia, for example, there is no corporate income tax for reinvested profits, while in Slovakia, payouts of dividends are tax free.

2) Tax Credits and Grants
This is a more focused form of tax incentive whereby company expenditures in particular areas, indicative of agreed national or regional priorities, merits additional taxation credits. This can take the form of increased tax allowances which have the net effect of decreasing the tax liability of the employing company. Direct grants are another form of support for companies, used in a general way in a number of countries either for capital or current expenditures, but also provided in a more focused form, as for R&D expenditures.

2.1 New jobs
Tax credits for employing additional workers are available in most countries in the survey. For example, in Serbia government allows tax reduction equal to 100% gross salaries plus related contribution paid by the employer. It is recognized for period of 2 years, but only if number of employees is not reduced during that period. In Bulgaria there are special programmes for employment of young people. Slovakia and Croatia provide grants which are covering costs of job creation for a period of one year (Slovakia up to 4000$ per year add Croatia up to 2725$ per year). Incentive measures in Romania provide for tax credits on gross salaries for one year.

2.2 Re-training programmes
Serbia, unlike all other countries in the survey, does not have any specific incentive or tax credit to encourage investors to invest in staff retraining.

2.3 Investing in R&D
Serbia does not have any specific tax incentives for R&D. Estonia provides grants for industrial and product development research costs that can go up to 50% of total cost of projects. For establishment and operation of technological parks Croatia provides different incentives (tax reduction for fixed assets and land given for its use). In Bulgaria, financial assistance is available under an EU Phare programme which includes R&D grants for high-technology business incubator.

2.4 Other tax incentives

a) Accelerated depreciation or increased initial depreciation rates, which are found in Serbia, Bulgaria and Romania, is one of the more common forms of incentives. In this direction, Bulgaria is offering increased depreciation rates for IT equipment for two years and 3 and 1/3 years for manufacturing equipment, while Serbia has offered accelerated depreciation on a wide array of fixed assets.

b) Other tax-related incentives that the countries are offering to foreign investors vary substantially from country to country. Slovakia seems to be offering the most favourable tax regime with no dividend, inheritance, or real estate transfer tax.

c) Bulgaria is offering 2 year VAT exemption for imports of equipment. Serbia, although VAT is chargeable, is offering free import of in-kind investment (import of equipment is free of customs duties).

In Romania, under the new investment law, all investments that exceed the equivalent of USD 1 million enjoy a 20% reduction in their overall corporation profits tax liability.

Summary and Conclusions on Incentive Review

Taxation reform and modernization is a key element of the overall incentive package offered for new investments. In general an overall low rate of taxation, efficiently and transparently managed, is the acknowledged best approach in terms of lack of distortion on the domestic economy and a sufficient incentive for credible investor.

In this context focused supports, including accelerated depreciation provisions, prompt and efficient refund of VAT incurred, or VAT deferral on export activity, taxation provisions to encourage companies to increase the level of value added and increase skill and contribution levels of employees, represent key components of an enabling environment in Serbia to address the national goals of increased employment and exports.

It is recommended that the taxation policy of Serbia remains competitive with its neighbours in terms of its general low rate of corporate tax and limited tax holiday provisions, and that the matter be kept under review.

Studies should be undertaken to identify whether some modifications could be incorporated to include additional tax credits for accredited staff training schemes, R&D expenditures, accredited marketing expenditures and other tools utilised elsewhere to encourage companies to increase productivity and export competitiveness. In particular clarification on inclusion of “devastated areas” within the eligibility definition covering the tax holiday situation for companies in undeveloped areas should be investigated and addressed to seek to accelerate regional development needs.
4  FOCUS OF FDI STRATEGY

The priority objective of the FDI strategy is to create a favourable climate, environment and framework for the attraction, retention and expansion of internationally competitive and export oriented investment to secure increased levels of sustainable employment, reduction in trade imbalance, economic and social growth.

Strategic goals for FDI in Serbia include:

- Increase the number and value of new investments in the productive industrial and internationally traded services sectors of the economy.
- Facilitate and support investors to accelerate the implementation of their planned investments in the country.
- Encourage and facilitate existing investors to deepen their involvement in the country and to maximize the level of local internationally competitive value added within the economy.

4.1 Internal Focus
Within the country the emphasis throughout the strategy is to effect improvements in the investment environment through:

a) Enhancement and measurement of progressive improvements in the legislative and regulatory environment to achieve European standards.

b) Strengthening of the institutional capacity at national and municipal Government levels to provide an efficient, transparent and consistent level of service and support for investors.

c) Development of an awareness campaign focussed on municipalities and utilities to highlight the national priority need to attract new investment and of the important benefits in terms of new job creation and export development that arises from new investment.

d) Prioritization on development of a number of infrastructural and competitiveness initiatives to provide a modernized platform to support and facilitate new investment.

The main internal strategic issues in the development of an improved environment for FDI in Serbia include:

a) A renewed and accelerated commitment to the process of reform of legal and administrative barriers facing new investors with a focus on priority areas developed in conjunction with private sector.

b) A significant strengthening in institutional capacity at national and municipal level.

c) Facilitation of an increased level of cooperation on technical matters between the government and the private sector.

d) An improved customer service focus developed in relationship between the government and the private sector including the appointment of investor advocates in key municipalities and utilities.

The key issues that are being addressed internally under this strategy include:

- Improved access to land, industrial and technology parks.
- Deregulation of telecoms and improvements in the telecommunications infrastructure.
- Focused improvements in the educational sector and establishment of linkages between universities, research institutions, private sector and municipalities.
- Focused work with infrastructural and service providers to improve transparency, quality and cost of services to business.
- Provision of increased access to the country’s broadband and fibre network for technology initiatives and thus provision of a competitive platform for FDI entry into the country.

The priority over the initial years is the development of a system of partnership through active committee participation with a unified focus to achieve measurable levels of improvement in the investment environment and increased levels of new direct foreign investment in competitive productive sectors of the economy.

There are a number of ongoing initiatives and it is intended to broaden and strengthen these initiatives.

A) Committee on the Removal of Administrative Barriers to FDI (The “Action Plan” Committee)\(^{28}\)

This committee, representative of a wide range of government ministries and agencies, was established formally in mid-2004 to provide a forum for review and acceleration of reforms on legislative and regulatory matters. To date specialist subcommittees have been formed to address the land and permits issues.

\(^{28}\) The Action Plan for the Removal of Administrative Barriers to FDI for the period 2005-2006 is provided in Chapter 4, Appendices – Appendix 1
The results and outcomes of this ongoing work have been advised to the international community and private sector organizations. Many of the topics are formally reviewed by the FIC in their annual White Book and the OECD Investment Monitoring Instruments and it is intended to develop this principle of open dialogue.

It is intended to broaden the scope of this initiative in terms of:
- Issues to address and composition of membership.
- Replicate the principles of this committee by the formation of similar committees in a number of the major municipalities addressing local areas of competence and responsibility.
- Provision of regular review forums to ensure complementary approach between national and municipal authorities.
- Increased private sector participation and involvement in these committees to ensure that sectoral investment issues are highlighted and addressed.
- Provision for regular formal reviews spearheaded by MIER
- Provision for annual high-level forum between government and private sector to review progress and establish priorities.

B) The competitiveness review tables (see Chapter 2.2) show the very poor rating of Serbia on a wide range of indicators and underline the need for rapid and sustained improvements in the short and medium terms.

Broad internal measures proposed include:
- Maintaining and developing macroeconomic stability through fiscal rectitude and compliance with IMF guidelines.
- Effecting improvements and refocus of reform in key national government and municipal institutions.
- Accelerating the pace of reform on Telecoms sector and other utility and service providers.
- Developing and implementing a programme on concessions and other public utilities.

C) Broad measures for strengthening the institutional capacity at national and municipal levels to facilitate and support investors include:
- Initiation of process of establishing improved linkages between public and private sector bodies at national and municipal level.
- Initiation of a process of appointing key champions and advocates of "investor promotion and facilitation" in all key ministries and municipal bodies.
- Broadening the scope of this detailed liaison and cooperation on investment matters to include coordination with educational authorities, utility providers and representative private sector industry groups.
- Establishment of a network of subcommittees and thus broadening of the remit of the Action Plan Committee on regulatory and administrative matters.
- Establishment of a key coordinating focus group within MIER to assess and manage progress on a broad number of headings.

Among the measures necessary to improve the situation and to improve the positive impact of FDI for the Serbian economy are: much tighter co-ordination; design international best-practice structures for the relevant corporate entities; establish sound mechanisms for effective interaction between these institutions, and increased and refocused funding for these institutions.

The issues for consideration and evaluation by this key coordinating group include:
- Policy formulation/recommendations for government and donor community.
- Monitoring and evaluation of performance in relation to effecting improvements.
- Monitoring of national and local competitiveness issues.
Measuring impact of various investment promotion initiatives and investor facilitation measures.
- Supporting measures to facilitate linkage between FDI, enterprise development and SME development.
- Assisting in identifying and mitigating barriers to export development.
- Monitoring progress in the identification and provision of suitable industrial sites, technology parks and industrial parks provision in key municipalities.
- Management of balanced regional development across Serbia.

The overall guiding principles of the strategy are prioritization on actions to modernise the legislative and regulatory environments, improve institutional capacities, address infrastructural and competitiveness issues and initiate internal and external marketing initiatives and are set out in detail in Chapter 7 – Issues, Measures and Actions.

4.2 External Focus

On adoption of this overall strategy the government will seek support for the development of an overall investment promotion strategy with the key message that Serbia is taking steps to improve its investment environment, highlight the reality of opportunities within this improved environment and address negative investment perceptions in key markets.

This promotion programme may be presented in the context of improvements noted in the external “risk” rating of Serbia by a number of respected international rating agencies as noted by both Standard and Poors and Fitch in 2005.

This investment promotion strategy will focus on the following main building blocks of improving the understanding and perceptions of foreign investors as they consider the optimum location for their investment plans:
- Image Building.
- Investment Generation (Promotion).
- Investment Facilitation.

Image Building, Investment Generation and Investment Facilitation

The development of a marketing and promotional strategy to address the issues of image building, investor generation and investor facilitation highlighted above is normally vested in a separate agency, one stage removed from a direct government ministry programme to address the nationally adopted high level goals and objectives.

A) Image Building Campaign

Development of a marketing strategy and implementation of a promotional programme to address the negative image of the country among investors in focused sectors and key markets.

The overall goal is to significantly narrow the gap between how potential investors perceive Serbia and how the government and its agencies would like it to be viewed in the future.

Various methodologies have been adopted in different countries to address this situation including:
- Series of advertisements in key economic journals such as The Economist.
- Development of key messages to highlight positive and competitive points about the economy and government’s commitment to reform.
- Development of a theme to link advertisements.
- Clear identification of target audience is an absolute requirement.
- Promotion of inward visits by key journalists, as has been undertaken by the Tourism Board.
- Promotion and publication of good news stories.
B) Investment Generation and Promotion

- Focus on a number of sectors, seek to identify key companies in those sectors and key individuals in those companies.
- Develop the marketing message e.g. key skills at lower cost, university/business support mechanisms in place, modern business parks.
- Develop usage of Internet as a valuable tool in identifying growth sectors, growing companies and background on companies prior to top management presentations.
- Develop a customer service focused approach.
- Attendance at conferences and trade fairs is a very general approach to marketplace and these are usually not attended by key investment decision makers.

C) Investor Facilitation

It is proposed to strengthen the after-care services for investors through both the reform of legislative and administrative practices, to develop increased levels of partnerships at national and municipal levels, to nominate investor champions and advocates at ministry, municipal and utility levels and to establish a one stop shop initially focusing on construction permits.

4.3 Regional Development

The achievement of balanced regional development is a key objective of Governments internationally and initiatives are often undertaken and incentives offered on a regional or district specific basis to seek to attract new investment. These initiatives often take the form of the provision of additional or subsidised infrastructure in the form of land and physical facilities, health and educational facilities or more specific industry incentives in terms of additional grant supports for fixed asset establishment and operational costs such as training and staff recruitment costs.

Regional disproportions in Serbia have deepened during the process of transition. Long-term and complex regional development issues are manifested by highly differentiated region development levels, unsatisfactory country’s development stage, structural imbalance, imperfect institutional solutions and unfavourable demographics data. Serbia is currently experiencing a specific regional development institutional vacuum – Regional Development Law, Regional Development Strategy and Regional Development Policy do not exist as well as regional institutions and agencies.

Pilot initiatives are planned for the short term in a number of municipalities outside Belgrade in terms of developing local partnerships and initiatives to improve the investment climate. The development of specific regional policies for FDI attraction and incentives will be undertaken in line with the development of regional institutional capacities with the specific short term objective of extending the definition scope of “underdeveloped regions” to include “devastated areas”.

4.4 Availability of Serviced Land and Buildings

4.4.1 Construction Land

Strategic goals:
- Establish a construction land market with minimal administration.
- Simple, clear, efficient procedures for acquisition of construction land rights.
- Minimizing opportunities for local level corruption.
- Lowering of real-estate (immovable property) building costs (both residential and industrial).
- Increasing lending (financial borrowing) activities based on mortgages.

Current situation

The current situation of impossibility of gaining ownership rights on construction land under market conditions is a key barrier to improvement of the investment climate in Serbia. Legal safety has deteriorated, trade relies on ad hoc solutions and there are no clear criteria for price determination. Outdated and complex regulations are the main reason for this:
- The Constitution stipulates that the construction land is government ownership.
- Unlike other transition countries, Serbia still doesn’t have the Law on Restitution.
- The Law on Planning and Construction, which puts local self-governments in charge of spatial planning, puts construction land at their disposal and places them in charge of issuing construction licenses (building permits), has many deficiencies and gaps.
- In order to be able to implement the Law on Planning and Construction, municipalities enacted their own sub-legal acts which further complicate the situation. Local regulation is vague with imprecise procedures and criteria for determining prices for municipal/city fees for construction (building), leasehold and site conversion licenses (permits).
- Absence of the Law on Property of Local Self-Governments.

All of the above provides enough space for the abuse of power/rights/laws/regulations etc. on the local level and the absence of a database(s) with information about availability of land and incomplete land books and other land-related records additionally contributes to the existence of irregularities and even corruption in a process of obtaining property rights.

In this area Serbia lags well behind other neighbouring economies and this land ownership uncertainty issue is a serious barrier to achieving the desired level of development.

Legal Actions

The required legal framework for regulating the situation in this area shall be created by adopting new and amending current regulations. In regard to the above mentioned barriers, it is necessary to quickly enact relevant legal acts and regulate the following issues:

I. The Constitution
The new Serbian Constitution should stipulate for equality of all ownership types (private, collective and government) over construction land as well as the right of owners to trade with this land category. (Deadline: November 2006)

II. Law on Restitution
The Law should provide for restitution of all assets taken away after WW II. Assets impossible to give back in a “natural form” shall be compensated in a different, legally defined way. Restitution shall bring back the citizens’ faith in protection of private property and rule of law and partially correct this past injustice done to former owners and their descendants. Also, it shall lead to clearing out the complicated land and other real-estate ownership situation, to better offers on the market and lowering of construction and lease prices with further positive effects on the overall activity and population standards. The risk that foreign investors are experiencing from the current “on hold” restitution situation shall be removed and in this way privatisation of construction land shall be enacted (Deadline: June 2006)

III. Law on Planning and Construction
The new Law (or a special Law on Construction Land) should simplify and speed up the whole procedure in regard to availability of construction land, especially in regard to leasing
construction land and issuing construction licenses (building permits). Terms of new (or amended) law need to be precise and obligatory for local self governments, which shall exclude possibilities of arbitrary dealings. Also, regulations should be precise when it comes to criteria for determining fees for leasing, land conversion and similar. Furthermore, if an investor has submitted complete required documentation for obtaining a construction (building) or lease/land conversion license (permit), the approval procedure should last no longer than 15 days. *(Deadline: 9-12 months)*

**IV Law on Property of Local Self-Governments**

This law should enable property ownership to municipalities or their territories' immovable property handling. It is necessary that local self governments be independent in terms of finance and property and also much more responsible for their actions for true decentralization in the state. Government property management which municipalities currently *de facto* employ would get a more “in-house” manner. *(Deadline: December 2006)*

**V Law (or some other act) on Registering Immovable Property and Immovable Property Rights**

The law should stipulate the disappearance of practice of double-booking the land (in land books and in cadastre registries). This whole procedure should be performed by a highly organized, highly trained and highly equipped cadastre services establishment. *(Deadline: 2010)*

**Other necessary measures**

Other measures should be focused on creating accurate and complete land records, especially of plots designated for economic activities and are available for construction of production and service facilities. Above all, it is necessary to complete the Cadastre Project in Serbia agreed between Serbia and Montenegro and the International Association. The project will be funded by the WB, EAR, SIDA and GTZ and shall commence in autumn 2005 to be completed in 5 years. The country coverage should be 98% by 2010 (without Kosovo). *(Deadline: April 2010)*

The development of a statistical database with information on availability of land suitable for development in the short term is a key objective of the planned partnership approach with municipalities. This data base should be developed and available both locally and centrally. *(Deadline: November 2006)*

**4.4.2 Industrial and Technology Parks**

The provision of industrial and technology parks have been widely utilised by national and local governments for a number of decades as a key tool in both the attraction of new investment and also a key local infrastructural and physical planning tool.

Initially industrial parks were designed specifically for the provision of infrastructure for manufacturing concerns, and provided a range of common services including factory shells for purchase or rental to incoming investors. Industrial parks, with their planned and installed infrastructure provide a fast track for new investors in terms of both the identification of suitable sites and buildings and also facilitate investors to accelerate the implementation of their investment projects.

The concept of planned accommodation of a range of industrial producers in one location has developed to the stage where industrial parks are used by companies in a mixture of production and service activities, are used as a “clustering” tool to facilitate development of centres of excellence and production processes heavily reliant on modern technologies.
Technology parks are a variation on this theme with an emphasis on the provision of modern, predominately office and laboratory type accommodation, for companies heavily reliant on modern communications networks, working on commercialisation of scientific and technological research and internationally focussed ICT product and service developers. These technology parks are often developed with a focus on development of partnerships between business, universities and research institutions and are accompanied by the provision of incubator services for emerging businesses and the availability of local business support services.

The designation of areas suitable for industrial and technology parks is predominately a function of local Government and municipalities and the provision of the initial infrastructural facilities is often undertaken as a prioritisation measure of local infrastructural provision under regional development or national funding. The successful examples of such developments internationally arise in areas where careful site selection and infrastructure provision is undertaken with a full knowledge and appreciation of the needs of business rather than the designation of readily available secondary sites which are only marginally suitable or attractive for new investors.

The management and development of successful industrial parks have been undertaken predominately by specialist agencies or branches of the national or regional development agencies. The initial development funding is often provided from national or regional development funds with the local Governments often contributing land and infrastructural supports. Increasingly in more developed economies specialist private sector developers, often supported with national tax incentives, have emerged as key providers and managers of industrial and technology parks.

However as in all private sector led developments, the focus of private sector developers concentrates on regions with perceived greatest business opportunity. A more realistic model for Serbia in the medium term is to concentrate on the development of industrial parks on a pilot basis as a partnership between municipal and national Government with the greatest possible level of private sector participation and culture in the overall management of the programme to address the strategic goals of improving access to developed land, buildings and business incubator units in a number of key locations.

**Industrial Parks Facilitate:**

- Quick commencement of business operations for those who decide to invest in Serbia.
- Increased employment and FDI inflows.
- Improved infrastructure and existing technology.
- Can contribute in the longer term to more balanced regional development within a country.

**Current Situation**

Investment incentives studies show that tax incentives and cash grants are not the most important investment motivators. Availability of land and infrastructure, good utilities and cable systems and ownership rights are on the top of the list of location priorities. Serbia faces many infrastructure development challenges as well as issues related to land and real-estate ownership. Until these issues are resolved industrial parks might serve the purpose of an "oasis" for investors in offering fast and easy commencement of business operations, clear in terms of ownership.

Industrial parks have not yet been established in Serbia, while in the immediate neighbouring countries and rest of the world such activities are on the rise. This lowers the chances for increased FDI inflows in Serbia, especially export oriented productive sector
investments. This is why it’s necessary to provide for conditions that would enable establishment of industrial parks as soon as possible.

Partnerships between Interested Parties

Development of industrial parks in Serbia requires synchronization of activities and partnerships between the government, local self-governments, industrial park management authority (an “operator” - a company that manages the park) and industrial park “clients” (companies that operate in the park).

The government role is important. The level of the government involvement in the development of an industrial park depends on the development level of a country or a region the park is being established in. In more developed countries governments directly provide incentives (usually cash grants) for industrial park infrastructure development, while in countries in which budgets are not of such capacity investors are offered to build industrial parks and receive special tax incentives and tax holidays in return.

It is important for Serbia to attract “operators” with international experience. That can be achieved by providing land under favourable conditions and developing primary infrastructure up to the line of an industrial park. Best “operators” for concrete locations should be selected through an international tendering procedure. Central government and local self-government should provide the basic infrastructure, in accordance with their authority. An “operator’s” obligation is to build basic infrastructure in the park. An “operator” could also build facilities that he might lease or sell to the park “clients” later on. In addition, an “operator” could offer special services to the park “clients”. A significant contribution of an “operator” lies in the fact that by marketing his park he is also promoting Serbia as an investment location.

Industrial park “clients” are offered a possibility to swiftly commence with their business operations, are exempt from bothersome administrative procedures for obtaining a variety of licenses and have a clear picture about land ownership their facility is located or leased on.

Naturally, both “operators” and “clients” would not be exempt from other, regular incentives Serbia offers: for large investments, for SMEs, for newly hired work force in underdeveloped regions, etc.

Legal and Other Necessary Measures

It is necessary to enact the Law on Industrial Parks that should:

- Designate industrial parks as areas of a public interest; define criteria by which individual investment can be considered as a strategic one – an investment of a public interest (up to €25mil and employing 100 people); authorize the government to expropriate the required land in both cases by reimbursing the owners in accordance with market prices of the land.

- Define the industrial park concept – what are the conditions that certain zones need to meet in order to obtain the status of an industrial (business)/technology/scientific park.

- Designate that the government is in charge of assigning the industrial park status to a certain area and that it can (through a competitive process) assign government owned land to interested investors – future industrial park “operators”.

- Describe the procedure and conditions for establishing industrial parks (criteria should support underdeveloped regions or municipalities).

- Designate that a unit in SIEPA is in charge of the process while the government makes the final decision (provides an approval) based on SIEPA’s proposal.

- Define that the “operator” can be a foreign or local legal entity or a joint-venture company (partnership between a private company and local self-government).

- Stipulate that local self-governments can receive financial aid from the government during the development of an industrial park and, on the other hand, private companies can also enjoy tax incentives benefits.
- Provide a framework for relative rights and obligations between an “operator” and park “clients”.
  
  **(Deadline: October 2005)**

Finally, it is necessary to execute the programme of industrial park sites identification in close cooperation of central and local governments. Beside the so-called Greenfield locations (empty land) it is necessary to explore available sites with already built but not (efficiently) used infrastructure. These are the so-called Brownfield locations and they designate enterprises (and their assets – land, etc.) that would be privatized through the bankruptcy procedure. Deserted Serbia and Montenegro military bases are also interesting locations to consider as they are equipped with basic infrastructure and facilities that can be adapted to the future park “clients” needs. In particular, border region military bases that are virtually deserted due to the decrease in number of soldiers and implementation of a variety of international agreements should be taken into serious consideration. These are usually located in economically critical regions, so turning military bases into industrial parks and economy centres signifies the importance of the issue. The final result should be a complete and up-to-date database. Also, these activities should be performed in parallel with the aforementioned regulations.
  
  **(Deadline: February 2006)**

**Securing the Required Financial Support**

Development of industrial parks requires significant financial resources for purchasing land, evening out the terrain, introduction of utilities, modern telecommunications and road infrastructure, etc. Development of one industrial park in Slovakia requires an investment of €3.4-4.5 million.

Provided that local and central government will offer “operators” either free land or government participation in assets (capital) of a shareholding company that operates the park, government institutions must resolve the issue of financing the development of a relevant primary infrastructure.

Considering the limiting government and local self-governments budgets, resources form the current budget reserve can serve as financing sources. The practice of using such resources for similar purpose exists. In June 2005 the government has dedicated 100 million dinars from the current Budget reserve for participation of Serbia in financing the Programme for Encouraging Employment and Production in cities of Kragujevac, Bor and Vranje. Existence of functional industrial parks in those cities would contribute to creation of new jobs and productivity boost.

Funding for development of parks’ primary infrastructure can be obtained by redirecting resources from economy subvention funds (considered to be unpopular in terms of boosting the economic activity by the WTO). Redirecting the mentioned resources is in agreement with the fact that as privatization process is forwarding the number of enterprises – users of government subventions – is decreasing.

In rare cases (in Serbia) in which a local self-government has financial capabilities, it can establish a partnership relation with a private entity and based on a joint investment develop an industrial park and run it in accordance with the proportion of ownership.

Having in mind that Serbia is on the path to the EU, development of industrial parks can be funded by using the EU funds – from the Pre-Accession Instruments and Structural Funds. The requirement for obtaining these funds is partnership participation of local self-governments in developing industrial parks (especially in ownership terms).

Strategic investments are the area of a special investors’ interest. Direct negotiations with a potential investor should result in a better offer than those of competitor countries. Upon
successful conclusion of negotiations the public should be informed about all by-the-
government accepted obligations as well as benefits that a new investor shall bring. In such
cases the government could prepare a special legal framework that would diminish the risk
for investors and reimburse the eventual required land expropriation costs from the Budget.
In the event of having a strategic investor, along with incentives that are generally available,
the government may decide to take over the task of developing the infrastructure in the area
in which the strategic investor shall be located. Educational system readjustments are also
possible in those areas where a strategic investor is located – development of a workforce
with specific skills, provision of teaching in a foreign language, etc.

4.4.3 Free Zones

The concept of “free zones “ has developed since the 1950’s as a tool for the creation of an
enabling environment for businesses , primarily companies seeking a cost effective
exporting base. The process involves the identification, designation and fencing of a
“customs free area” within a country wherein exporting businesses are permitted to operate
without normal compliance with the laws of the country in terms of customs, tariffs and duty
obligations.

In addition businesses are normally permitted to designate their operations in foreign
currency and often are not required to comply with normal regulations and obligations in
terms of labour legislation, foreign currency holdings and other administrative and regulatory
compliance. They have operated most successfully in least developed economies where the
normal laws and regulations have not been updated and modernised to meet investor
requirements.

The principles of a “free zone” have developed beyond these initial driving forces of cheap
labour, limited company taxation and reduced bureaucracy and have been developed
beyond a “bonded warehouse” concept into a trading and transhipment location and even

29 General Information on Free Zones – See Appendix 2
marketed as centres for key retail outlets catering for tourists. Dubai is the leading example of this form of usage of the “free zone concept”. The Free Zone concept could be utilised in the context of developing a “Free Port” on the Danube, as part of the development of an “export transportation and logistics hub” in Serbia. However it is recommended that the existing usage of the “Free Zone” concept be examined in greater detail to ensure that real and incremental exporting benefits are achievable.

Normally businesses are permitted to operate in an insulated manner from general imperfections in the national environment. Main free zones attractiveness factors are: favourable customs treatment, certain tax relief and simplified administrative procedures.

Free zones are hosts to a variety of economic activities - aimed at encouraging exporting activities in a sense of increasing foreign trade levels of a host country and positively contributing to domestic economy. However in the modern world of WTO with an emphasis on harmonisation of taxes and duties, general reduction of rules and regulations governing business and overall lack of differentiation in treatment between investors both domestic and foreign the rationale for a focus on the development of Free Zones is diminishing for many countries.

In Serbia with the overall emphasis on achieving convergence with EU rules and procedures through overall modernisation of business rules and regulations with the specific overall goal of achieving improved access to development land and provision of industrial and technology parks it is recommended that the practise and focus on the development of the Free Zone concept be re-examined and whether the needs of some existing users could be better addressed within the more normal concept of a Customs Bonded Warehouse.

Recommendation

That a review of the current legislative status be included as an item in the action plan on legal and administrative barriers with a view to providing increased clarity on eligibility of qualifying activity within the Free zone.

4.5 Concessions - Public Private Partnership

The law on concessions was adopted in May 2003 and governs the development of public/private partnerships.

The following areas are defined as areas and sectors where concessions may be granted in Serbia:

- Exploration and exploitation of mineral resources.
- Construction, maintenance repair and operation of road infrastructure.
- Provision and management of railway infrastructure.
- Provision and management of energy, telecommunications, utilities and waterways facilities.
- Management of airways and waterways facilities.
- Tourism infrastructure and sports and recreational facilities.
- Spa facilities, thermal springs, river and coastline areas.

A public private partnership approach is regarded internationally as a good mechanism to secure private sector finance and management expertise into the provision and development of key services. To date in Serbia some private sector interest have been expressed in a

30 Further Details on Concessions – See Appendix 3
number of potential opportunity areas but the overall area has been relatively underdeveloped and lacking an overall proactive strategic approach.

It is recommended that as an initial step support be sought for the provision of capacity building measures in this area with a focus on developing a better overall understanding of the key components including project selection criteria, project financing options (including normal criteria for access to international funding institutions), legal documentation and provision for project monitoring and review. It is important to note that the overall cost of capital including the level of equity and loan funding inherent in all concession and public private partnership proposal is greatly determined by the levels of perceived political and economic county risks and the international ratings by specialist agencies.

The following commentary by private sector international agencies shows Serbia, despite recent improvements, is still poorly rated in comparison with other developing and developed economies.

A) “Despite Serbia's recent short-lived and weak coalition governments, progress with institutional and legal reforms, and toward macroeconomic stability, has been fairly steady”. "Although the current governing coalition is fragile, we expect it to adhere to its prudent policy program, and to maintain its agreement with the IMF". "By contrast, improvements in the political environment and more stable governments would facilitate the implementation of Serbia's challenging reform agenda, support the inflow of much-needed foreign direct investment, and help to rebuild the economy's competitiveness. Together, these would eventually improve Serbia's creditworthiness, short term rating B, long term rating B plus".  

B) Serbia's “BB” ratings are supported by its improving public finances, comfortable public and external liquidity position, and good prospects for continued structural reforms and GDP growth, anchored by potential EU accession”.

In view of the potentially wide range of other Government Agencies and institutions involved it is recommended that MIER establish an inter ministry committee, on similar lines to the established Action Plan committee on legal and regulatory reforms to prioritise and develop activities and planning for this overall area of concessions. It is envisaged that in the medium term that a detailed plan and manual of specific concession opportunities will be developed for inclusion in overall FDI marketing plan.

31 Source: Standard and Poors, April 2005
32 Source: Fitch Ratings, May 2005, commentary by Mr. Edward Parker
5 SECTORS WITH FDI POTENTIAL

Introduction

The challenge for Serbia is to increase the overall level of investment in the productive and internationally traded sectors of the economy. Serbia missed out on investment in all sectors of the economy over the entire decade of the 1990’s, which was also globally a period of significant growth in international investment.

This pace of restructuring and consolidation of most industrial and agricultural sectors accelerated globally in the 1990’s and continues. It is supported by advances in technology and logistics and driven by competitive pressures. These industry trends towards increased globalization and specialization of production units have accelerated further during this new millennium and have impacted directly on all economies and on traditionally competitive and sustainable companies. Companies in all sectors are facing increasing pressures to reduce costs and improve quality and service delivery, the pace of specialization has accelerated and modern market pressures are forcing consolidation with continued pressures on companies to locate in countries with greatest competitive advantage. This is accentuating

33 For a more detailed general sectoral analysis please refer to Appendix 4
the demands on Governments to continuously modernize the investment environment, improve the investment climate and create favourable conditions to attract new investment.

Serbia is facing considerable challenges in most of its traditional sectors which because of lack of investment and modernization are effectively non competitive in this modern world. Many of its traditional markets have changed and companies delivering new employment and export earning opportunities require higher levels of product quality, service delivery and accreditation to international standards at globally competitive pricing. It is recognised that the private sector investor will determine the most optimum sector or sub sector for investment and the strategy recognises this fundamental principle whilst seeking to effect significant improvements in the operating environment for investors in the country.

The following broad sectors in need of new investment are highlighted with broad recommended approaches under each heading. More detailed sectoral analysis and indicative investment opportunities are set out in more detail in an appendix with corresponding paragraph links

5.1 Public Utilities Including Telecommunications, Electricity, Oil and Gas, Waste Management

Overall there is a considerable need for new investment in all these sectors, which were traditionally a direct responsibility of Government. Modernisation of these sectors is a major building block requirement in the creation of an enabling environment for all sectors of the economy in addition to the investment and private sector management opportunity offered for direct investment.

The Government has passed the law on “concessions” which basically facilitates and permits the entry of private sector participants into these sectors and has developed an overall programme for privatization of a number of traditional public utilities, extractive industries and infrastructural facilities.

The strategy recognizes the need for significant level of improvement of institutional capacity coupled with prioritization of certain programmes from the PPP area, increased levels of prioritization and commitment to develop both an understanding of global best practise, documentation of precise investment opportunities and an action plan to attract new investment into these sectors.

A) Telecommunications

Modernisation of this sector is a key competitive driver impacting on many sectors with a particular impact and influence on the development of the ICT sector. Introduction of competition in both fixed and mobile, improved access to broadband and fibre optic cables, increased investment and the appointment of a regulator have been shown internationally as key requirements for the development of the IT sector.

Surveys have shown that on a number of international benchmark standards the availability and access to telecoms in Serbia is amongst the poorest in the region, ranking worse than Croatia, Bulgaria and Romania and well behind Slovenia, which is ranked at 50% of the standard of Sweden, which is among the top European countries.

The government has moved towards privatisation in the sector; the Managing Board of the Telecommunications Agency (a Regulator) has been appointed. Achieving international competitiveness and attracting new participants on the market is a fast-paced activity. This is a vital first step development, coupled with increased investment and greater access into the broadband network and further development of the e-government initiatives.

B) Electricity Generation/Transmission and Coal Mining
Studies have confirmed the need for additional capacity and the provision of additional coal and gas fired plants. These include 2 new power plants of 1200 MWatts each, natural gas power plant of 160 (220) MWatts, several smaller power plants for district heating and hot water distribution, etc. Existing capacities in this sector are outdated and efficiencies are poor by international standards. There is a need for additional surface level coal mining and processing facilities for coal dust, transmission systems, interconnections, environment protection equipment and development of mini hydro power plants. The strategy recognizes these needs and envisages that the above mentioned will be addressed during the development of the privatization programme of the utilities sector.

C) Oil and Gas

Key project areas include improvement and modernisation of existing refineries, storage facilities and down stream processing industry as the basis for petrochemical and related industries. Other areas include participation in international pipe line and expansion of natural gas distribution network. This sector is recommended for prioritisation under privatisation programme as it offers prospects for further down stream industrial and product development.

D) Waste Management

Internationally the business of waste collection, segmentation and reprocessing is a growing sector and is often undertaken in a form of public/private partnerships at local and municipal levels. The storage of hazardous and other wastes is becoming a sophisticated and lucrative business as companies and countries increasingly face legislative and regulatory pressures for improved compliance. Project areas and the modalities of public/private partnership should be investigated.

E) Air, Rail, Road and River Transport

Efficient logistics is increasing becoming more important as a key factor in investment location decision making and Serbia with its regional position must effect improvements to maximise its opportunity in this area. Exporters are increasingly seeking private sector expertise and initiatives in this area which offers both opportunities and challenges for Serbia. Internationally private sector investment is becoming increasingly involved in these sectors on a private sector, concession, management contract or public/private partnership basis. Examples of project opportunity include development of a cargo terminal on the Danube, linkage with rail and air networks, improvement of highway network and the development of key logistics nodes.

Recommendations:
It is recommended that:
   a) Detailed privatisation and concession proposals are developed for these sectors with a particular urgency attaching to the reform of the Telecoms sector as it provides the bedrock for development of all sectors in the modern competitive market place and is crucial for development of ICT sector.
   b) Mechanisms on development of regulatory environment are activated at the earliest opportunity to enable private sector participation in key sectors
   b) An intensive short term focus on developing capacity and expertise in the entire area of concessions and PPP be undertaken.
   c) That the role of international financing institutions and their expertise in this area be investigated and incorporated in development of sectoral plans.
d) That programmes of investment opportunities by sector be developed covering the period 2005-2010.

e) Accelerate provision and initiation of international standard regulatory processes.

5.2 Agribusiness

The key issues impacting on the development of this sector include the fragmented and small scale of agricultural holdings and the difficult land tenure situation for foreign investors. Serbia has extensive land good quality and land resources which are not being fully utilised in a modern competitive manner, but its owners generally lack access to finance and understanding of competitive factors impacting on traditional crops and the expectations of the modern market place.

Key areas identified with potential and requiring investment attention include modernisation of slaughter facilities, extension of sheep and cattle farming, development of the tanning industry, niche wine production and orchard crops, collection and storage facilities and primary processing. These areas should realistically be addressed in the context of an overall agricultural development strategy as they have additional impact on regional development possibilities within the country.

Recommendations:
The focus of the FDI strategy, having regard to current and anticipated trends on primary production in Europe should relate to:

a) The development of value added niche agribusiness production, focussing on the attraction of "brand names" and companies/products with potential for international distribution and seek investment from companies in these marketplaces.

b) Development of the supporting mechanisms and institutions on production, certification, quality control and accreditation to support modern market focussed production in the growing specialty food and organic sectors.

5.3 Tourism

Development of tourism in Serbia requires unified, well-funded international campaigns that would contribute to the global improvement of image of Serbia. An additional campaign that would increase the awareness about Serbian tourist attractions is also required.

Availability of hotels is not adequate even in larger cities. It is necessary to immediately address this barrier, having in mind the expected expansion of leisure/business visits. A number of hotels are currently being privatized. The government should focus on a swift privatization of hotels that are not subject to restitution. Previously nationalized buildings (in hotel and service industry) should be returned to original owners as soon as possible which, once again indicates the Law on Restitution should be given priority. Development of family hotels (capacity of up to 50 guests) should be encouraged.

Significant developments and increase of number of visitors will only occur when legal reforms and approval procedures facilitate the modernisation of hotels and guesthouses, when cheaper and better access to the country is facilitated and these basics are supported by a focussed marketing campaign. In relation to the cheaper access to the country it is necessary to attract low cost airline service (e.g. Ryan Air, Easy Jet). A first step requirement is liberalisation and national participation in Open Skies Agreements.

Serbia should focus on the following types of tourism:

- Active vacations, i.e. recreation tourism (rural and mountain tourism, Nordic skiing, bird-watching, etc.)
• Cultural and religious tourism (restoration of cultural and historic facilities is required -- donations and concessions could be used to fund it)
• City tours, cultural events, concerts/fairs/conferences and various forms of short term break tourism.
• Nautical tourism (Danube, Sava, etc.)
• Health tourism (spas); it is possible to strengthen the spa tourism by faster privatization of spa capacities
• Congressional tourism and excursions for businessmen
• Industrial heritage: revitalization and refurbishment of abandoned industrial facilities could be attractive to tourists or film-making industry (example of Sarganska Osmica).

Recommendations:
• FDI should be directed towards development of “special interest tourism” and niche offers.
• Facilitation with title and restitution issues should be addressed for investors who have shown interest for participation in the privatization programme for hotels, but also for building new accommodation facilities.
• The development of modern concession proposals for spas should be addressed as high levels of foreign interest could be expected.
• Steps should be taken to attract low cost airlines to improve access.
• Acceleration of the privatization process, including progress on the important restitution and land ownership reform issues are key prior requirements to the attraction of major foreign investors in the sector.

5.4 Chemical Industry and Pharmaceuticals

The pharmaceutical sector is well established in Serbia with one significant export oriented manufacturing plant developing and marketing generic drugs. Opportunities should be investigated to build on this quality and export accredited status to develop other initiatives in this sector and also to seek investment activity by suppliers to deepen the level of value added within the economy.

The pharmaceutical industry worldwide is growing at a faster pace than many other sectors and has the potential to provide high quality jobs and a significant level of export earnings.

The chemical industry has the potential for a significant level of down-stream product development and marketing - it is however dependent on the modernisation of a base line petrochemical refinery and ancillary facilities.

Recommendations:
Highlight the track record and potential of the pharmaceutical industry and undertake studies on the feasibility of the petrochemical industry.

5.5 Engineering and Auto-Components

The car assembly and its dependent auto components industries are growing rapidly in Central and Southern Europe. The industry is characterised by severe cost reduction pressures, demands for increasing levels of improvement on product specification, zero defect tolerance, exacting logistics and delivery scheduling.

In general, the existing industry base in Serbia in this sector requires a rapid privatization of “Zastava Automobili” and presence of an internationally accredited supplier, but also a significant level of new investment. Whilst Serbia may not be internationally competitive across its traditionally wide range of production activities it should be possible to interest new investors on a Greenfield or partnership basis in a number of areas.

Recommendation:
Develop the cluster concept, identify key sub sectors with perceived competitive advantage and market directly to key auto industry supply companies presently based in Europe.

5.6 Wood

There are wood resources and a tradition of furniture manufacture in many regions of Serbia. The key weaknesses have been identified as the lack of development in the area of design and the need for modernisation of production facilities. It should be noted that severe cost pressures exist at the commodity or basic ends of the furniture industry and that Serbia should aim at attracting investment that is driven by design and quality raw material with sustainable afforestation certification to maximise competitive advantage.

Recommendation:
Develop a framework for the sector with an emphasis on achieving sustainable wood product accreditation, seek to identify key medium scale suppliers to the top ends of the European retail and design markets and make specific marketing approaches on either a Greenfield or privatisation basis.

5.7 Metals, Mining and Exploration

There is some evidence of the existence of basic raw materials, mining and other exploration opportunities which are presently underdeveloped. The government and local self government will highlight the availability of concessions and permissions for exploration and subsequent processing and value added on key raw materials.

Recommendation:
Develop and publish a basic inventory of the key geological features of Serbia, indicating areas where metals and minerals have been found. Provide this basic information coupled with the broad principles of the concessions and partnership prospects for the development of the potential resource.

5.8 ICT Sector

Internationally the ICT sector continues to grow with considerable opportunities for outsourcing, product and market development. Serbia with the quality of its human resource base and educational system has the basic raw materials for the development of this sector in place. Growth and development of the sector is however dependent on a number of key initiatives including the liberalisation of the Telecom monopoly, development of partnerships at municipal levels in key university towns for the creation of technological parks and physical facilities, modernisation of the educational syllabus to incorporate IT and other suggestions on technology conversion courses for science and engineering graduates, campus company development, etc.

Indicative project areas include software development, back office services, call centres, initiatives based on strengths of university/research centres.

Recommendation:
- Technology park development – initially in Nis, Novi Sad and Belgrade.
- Formation of industry / academic / municipal / infrastructure groups at local level to guide development of local facilities.
- Formation of industry / academic / government high-level group on technology opportunities, educational requirements, action plans.
- Focus on potential strong FDI interest with privatisation of research institutes.

5.9 Textiles
The global textiles industry is subjected to a considerable level of consolidation in China and other low cost south East Asian economies placing severe pressures on many traditional producers. It is anticipated that private sector interest and potential in this sector in Serbia will be limited to short run CMT and higher value design based production where Serbia may have some competitive advantage due to proximity to market and basic industrial tradition.

5.10 Banking and Internationally Traded Services Sector

The presence of international banks, insurance companies and other financial intermediaries is regarded as a positive indicator for other investors in addition to direct employment opportunities created. The variety of internationally traded services primarily driven by ICT sector and modern telecommunications affords many opportunities for development of niche products.

This strategy with its initial focus on modernisation of legislation and improvements in the communications sector will address the initial and primary requirements for this industry. In the medium term the modalities on the provision of further regulatory and international accreditation standards will be examined.

5.11 Key Conclusions

Marketing and promotional programme must be based on:

- Identification of key competitive factors in industry sectors and focus on development of some potential competitive advantage in Serbia.
- Focus on the attraction of industry players with the capacity to build up and develop market opportunities for clusters of other domestic and foreign investors.
- Marketing must be targeted at key players in the identified sectors.

While all investment opportunities in the productive sectors will be explored, a conscious effort will be made to enhance Serbia’s competitive position and profile in those sectors that have produced the most investment to date in the central European region and where continued investment potential exists. This includes both modern industrial and service type industry where new niche opportunities are emerging (often through development of the sectoral cluster concept) and initiatives will be undertaken to improve local accreditation, quality, productivity, standards and logistics to facilitate this clustering of industry sectors to enhance the competitiveness of the local environment.

The above sectors are highlighted for the following reasons:

- Potential for creation of significant numbers of new, sustainable jobs.
- FDI projects in a number of these sectors can provide a regional spread in the country.
- Projects in these sectors can generate significant new exports.
- Potential to provide substantial linkage opportunities for domestic companies and to attract foreign sub-suppliers and service providers.
- The sectors are growing globally.
- Greenfield FDI into these sectors is occurring in SEE.
- Sectors have potential to develop industry clusters and foster niche competitive advantage.

Preliminary studies have shown that a number of these sectors have an element of comparative competitive advantage in Serbia and allied with the planned improvements in the enabling environment can facilitate increased levels of employment creation and export opportunity.

Key strengths:
• People strengths and capabilities – educational system, English speaking nation, traditional external exposure.
• Industrial/research tradition and background in engineering/production skills.
• Supply base of agricultural raw materials, in particular fruits and vegetables.
• Access to key markets.
• Lower cost salaries, particularly for qualified personnel.

6 INSTITUTIONAL SUPPORT FRAMEWORK

6.1 Organizational and Structure Issues

Policy Development and Overall Coordination of Strategy

The Ministry of International Economic Relations as the designated official body with statutory responsibility for FDI is considered as the appropriate Ministry to take lead responsibility for the overall coordination and direction of FDI strategy. This is a natural extension of its role and experience in the development and coordination of the “Action Plan for the Removal of Administrative Barriers to FDI” and its central liaison role with the FIC.

In this role MIER is required to act as the catalyst of reform in terms of operationalising activities and measures under the 4 main pillars of the strategy:

1. Legal and regulatory reform.
2. Strengthening of institutional capacity and development of partnership processes to facilitate business development.
3. Actions and initiatives for improvement of competitiveness.
4. Development of internal awareness campaigns and focused international marketing strategy.

Organisational and structural issues (key international experience):

• Nomination of a National Department, such as MIER, with key policy and coordinating responsibilities and provision for inter-ministry committees and action groups to drive policy and legislative issues impacting on pace of reform.
• Creation of an implementing agency with key skills and mandate to operationalise the investor marketing and aftercare responsibility.
• Development of linkages and supports with municipal authorities and utilities to create awareness of investor requirements and to positively influence local planning and provision of services for investors.
• Provision for high level review of progress on 6-monthly or annual basis.
• Strong private sector participation at both operational and review levels.

The current institutional arrangements are poorly structured and resourced by international standards in terms of:

• Policy formulation and key central driving force to advancing legislative and administrative reforms, achieve full participation and coordination of efforts by wide range of other ministries and institutions, strategic and policy planning, coordinated prioritization of key national PPP and concession initiatives.
• The development and implementation of a national marketing strategy for the identification, attraction and retention of new foreign investment in Serbia.
• Delivery of services at municipal and utility level to address investor needs.

Implications:
   a) MIER, as the ministry, needs additional resources in terms of accelerating the pace of legal and administrative reform, developing the envisaged partnership committee structures and adopting a more central role as a focal point of policy and advice in relation to the facilitation and support of investors in their dealings with national and local authorities and the overall implementation of this strategy.
   b) SIEPA as the national agency, designated with responsibility for export development and investment promotion, must be adequately staffed and resourced.
   c) The role and function of a high level Investment and Export Development committee at MIER should be supported with the capability to require submission of regular progress reports against agreed measures and targets from other institutions to ensure focus.

Actions required:
• Government needs to position and resource its key Ministry – MIER – adequately in terms of budgets and staffing to address the national priority of attracting significantly increased levels of FDI.
• Government needs to resource SIEPA as its national Agency, agree annual operational plans and budgetary provisions in the context of this overall development strategy.
• The appointment of a Board for SIEPA with private sector representation has been strongly advocated in the past. This proposed initiative should be reviewed and activated in the short term to provide a forum for focussed feedback.
• Government needs to consider the creation of a national high level Investment and Export Promotion Council with representatives of private and public sectors to overview and review progress.
• Government should develop a process with municipalities and utilities for the identification and appointment of “investor champions” in all municipalities and utilities to push reform agenda. These nominated investment liaison officers would act as the primary contact point to support investors and act as key drivers of improving investor service within their organisation.

These initiatives have been adopted by governments in other countries and have resulted in improved focus on investor needs, better provision of support for investors in terms of overall competitiveness, improved targeting of investors in growth sectors, higher satisfaction levels among investors in terms of the ease of implementing their projects and higher level of investor activity.

Service Provision at National, Municipal and Utility Level

The quality and effectiveness of service delivery by public institutions is recognized internationally as a key factor in determining the attractiveness of an investment location. The cost, quality and transparency of delivery of public services is an issue that requires constant upgrading to achieve and maintain competitiveness.

This strategy recognizes this key role and proposes a series of measures involving better positioning of the importance of FDI, fuller sense of partnership and cooperation among the wide range of players involved in the provision and prioritization of services to facilitate and support new investment.
In Serbia, as in other countries, these services are provided by a wide range of government ministries and semi-government organizations at national and local level. It is acknowledged
that the existing organizations, although improving in many areas, are not optimal and not providing the level of service or prioritization required by modern investors.

The objective of the structured measures proposed is to provide a platform for continuous improvement through a process of partnership, peer review and institutional reform over the short, medium and longer term.

The partners and key providers impacting on the attractiveness of an investment location and the provision of services for investors are set out below.

<table>
<thead>
<tr>
<th>Issue / Provider</th>
<th>Impact and influence</th>
</tr>
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<tbody>
<tr>
<td>Utility services and providers</td>
<td>Costs and availability</td>
</tr>
<tr>
<td>Infrastructural improvements</td>
<td>Timing and provision</td>
</tr>
<tr>
<td>Educational/Training strategies</td>
<td>Modern Curriculum / skills level very important. Initial FDI focus on sciences/technology</td>
</tr>
<tr>
<td>Municipal competencies / land / physical planning</td>
<td>Municipalities with guidance and support can influence location decisions.</td>
</tr>
</tbody>
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The early rollout of a number of pilot municipal and local initiatives is considered vital for the success of the strategy given the statutory and planning role of local municipalities and their influence on a wide range of services which impact directly on investors.

Actions:

- MIER and the private sector to develop awareness campaign for local municipalities and universities on the key benefits from FDI and the need to improve the local investment environment.
- MIER to seek the development of a number of local partnership initiatives on the investment environment in key cities focusing on the identification of key sites.
- Pilot phase focus on the development of local partnerships between industry, university and municipal authorities in 4 major cities to provide a framework for provision of infrastructure and facilities for ICT investors.
- Arrange for early appointment of “investor champions” (investment advocates) in all municipalities and utilities.

This initiative is seen as enhancing and supporting regional initiatives to improve the local environment for investment attraction and retention. Partnership is a key, regional and other sectoral strategies must be working towards the agreed objectives of improving facilitation of new investment.

The need for the development of a strong formal coordinating role to develop and facilitate active partnerships between the various key players and institutions at national and regional levels is self evident. In addition, many of the institutions are poorly resourced in terms of both funding and staffing levels.

Summary

International experience shows that the key building blocks for the attraction and retention of investment are:

- Improving the Investment Climate.
- Image Building.
- Investment Generation (Promotion).
- Investment Facilitation.

Improving the Investment Climate
Relevant government ministries normally have the primary role in improving the investment climate in a country as the investment environment incorporates a wide range of legislative and regulatory. It also requires the development at all levels within society of an understanding and appreciation of the important role that FDI plays in the economic and social development of a country. In Serbia, this extends to both national and local self government levels.

In this context and in view of the scale of issues to be addressed and the need to develop a coordinated and accelerated approach, MIER has been appointed as the key ministry for FDI and is thus charged with this overall responsibility to drive the modernization process and the actions proposed under this strategy.

**Image Building, Investment Generation and Investment Facilitation**

The development of a marketing and promotional strategy to address the issues of image building, investor generation and investor facilitation highlighted above is normally vested in a separate agency, one stage removed from a direct government ministry programme to address the nationally adopted high level goals and objectives.

These broad functions of an investment promotion agency (IPA) are summarized as:

A. Development of a marketing strategy and implementation of a promotional programme to address the negative image of the country among investors in focused sectors and key markets.

B. Development of a research capability to identify the industrial and service sectors where Serbia has potential competitive advantage for new investment and identify the companies with interest and capacity to invest in those sectors.

C. Increasing the awareness of investor needs in terms of legislative, administrative and infrastructural measures and providing feedback and recommendations for action.

D. Facilitating and supporting new investors as they seek to establish their investment in the country.

Institutionally many models have been tested in different countries and in economies at different levels of development ranging from a branch of government department, unit within private sector institution or semi autonomous government supported agency. The internationally recommended best solution and results have been achieved with the establishment of an agency separate from the main body of government, staffed by professionals recruited from the public and private sector, with a commercial focus and the challenge to develop and implement a marketing strategy and promotional programme. Normally this agency has the support of a formally constituted Management Board, representatives of both the private and public sectors, to guide and measure its activities and provide a formal reporting mechanism to government.

As currently structured, SIEPA is not well funded, does not have role clarity and lacks the level of government support required to ensure effectiveness. The traits that are common to effective IPAs across the globe are not readily apparent in the cursory review of SIEPA. These traits include:

- Clear objectives which are anchored in government economic policy.
- Effective working relationship with clients.
- Excellent marketing knowledge.
- Excellent people with the relevant skills mix.
- Effective working relationships with government.
- Adequate and secure funding.

This raises a serious issue for the government as an effective IPA is an integral element of successful investment promotion, and institutional strengthening is a key component of this strategy.

### 6.2 One Stop Shop Principles
The objectives underlying the principle of a one stop shop are to provide a single point of contact for the investor to access and process all necessary permissions and regulatory issues relating to the establishment and operation of his business.

Whilst in practical terms, given the wide range of regulations inherent in any system of government ranging from construction permits to normal health and safety regulations for both employees and product certification, this objective of achieving a true "one stop shop" whereby qualified personnel are all situated in one office is not generally achieved. However, there are many practical steps that can be taken to minimize the time, cost and hassle factor involved for investors.

It is accepted that the existing organizational structures in Serbia are not offering an acceptable level of service for investors in this regard and the following steps are proposed under this strategy to address this situation.

A) Short term:
- Establish a pilot initiative whereby all forms and documentation required by an investor in terms of building and construction are available in one office.
- Staff this office adequately with electronic contact with all relevant ministries, municipalities and utilities.
- Establish the position of nominated investor liaison officers in all ministries, municipalities and utilities as a function attached to the office of the relevant chief executive.
- Ensure that all available forms are available for an investor at this contact point.
- Develop a process within the one stop shop whereby progress on individual applications can be reviewed electronically at any time.
- Establish working parameters on performance and standard assessment and approval time schedules.
- Develop a monitoring, review and reporting mechanism reporting to MIER.

B) Medium term:
- Broaden the scope of this office to include an information base on land and plot availability, industrial park and technology park developments (arising from the envisaged earlier partnership initiatives at national and municipal level to advance planning to improve the infrastructure).
- Broaden the scope of expertise of this one stop shop to embrace all other statutory forms and regulations e.g. local sanitary regulations, labour regulations, product certifications, etc.
- Develop the capacity to recommend reduction and refinement of regulatory requirements based on investor feedback and international standards.

The overall guiding principles governing the work of this facilitation unit are to maintain focus on achieving results for the investor – an investor champion role. This after care unit is most often based in an Investment Promotion agency where aftercare and client support is designated as a key important function.

Key investor requirements as guided by their expectation and experience of best practices in other countries are:
1. First and foremost – they want to deal with a single agency which has the competence, capacity, credibility and commitment to fully anticipate and satisfy their needs.
2. Secondly – investor confidence is reinforced when they know that the agency in question is the ‘executive arm’ of government with the responsibility for investment promotion.
3. Thirdly – they do not want the agency to represent yet another layer of government bureaucracy – quite the reverse in fact – they prefer to deal with an apolitical agency that
has the power and authority to cut through the layers of bureaucracy and to consistently act in the foreign investors' best interest (providing their investment will generate net economic gain for Serbia).

4. Fourthly – they need to know that the agency has sufficiently robust networks (public/private and regional) to enable them to draw all the strands of a development package together (otherwise the agency will be seen as a “one-more-stop-shop” – not a “one-stop-shop”).

5. Fifth and finally – they seek to know that the agency provides an effective aftercare service to ensure that their start-up and growth plans remain on track.

It is a clear requirement that the importance of aftercare services and the creation of an established base of satisfied investors willing to expand and deepen their involvement in the country are key measures of success in both policy development and implementation of a marketing strategy and that clear performance measures are included.

6.3 Education/Business Linkages

The important role played by the educational system in the creation of a favourable environment for FDI cannot be understated or underestimated. The reforms of the education sector impact on all modern sectors of the economy and are a key element of improving the competitiveness of firms.

The education system and the availability of skilled people is particularly crucial to the development of the overall ICT sector and for that reason a number of specific initiatives are proposed.

Internationally the business community is becoming increasingly involved and consulted in relation to specific educational reforms and it is proposed to develop a structured format for this cooperation to maximize career opportunities for current and future graduate output from increased investment in new export – competitive and higher value specialist sectors.

In the first instance the following issues are proposed as meriting the highest priority:

1. Adopt and implement Higher Education, Science and Innovation Laws as foundation stones for a Higher Education and Research sector that is responsive to economic needs.

2. Put in place a high level ICT Expert Group, with strong involvement from the ICT corporate sector, to advice on plans for ICT graduate output, content of ICT curricula and priorities for funding of ICT research activity.

3. Develop Technology Transfer/Industry Liaison mechanisms within the Higher Education sector, as part of a National Innovation System, to promote effective business linkage.

4. Document existing and planned initiatives at national and regional level on the improvement of the educational secondary and vocational levels and in particular to highlight the level of business involvement in curriculum reform and provision of business and work experience.

The practical steps that are being taken to activate above issues include:

**High level Expert Group**

- MIER to invite and challenge all major ICT multinationals, presently in Serbia, to participate with university leaders, and to develop and document the steps necessary to increase the level of research and product development activity in Serbia.
- MIER to identify with these key multinationals on project opportunities within their parent companies and the steps necessary to create an enabling environment within Serbia for various back office, customer support and technical services.
- MIER and Ministry of Education and Sports to spearhead the establishment of a key high level skills group including business and university interests to identify and address issues pertaining to partnership at local level and modernisation of curricula.

As an overall comment the ICT Sector can contribute powerfully to economic, export and FDI growth in Serbia if targeted actions are taken around key areas:

- Telecommunications.
- Skills & Research, including steps to attract qualified Serbian emigrants to return home.
- Business Infrastructure (Science & Technology Parks).
- Information Society.

7 ISSUES, MEASURES AND ACTIONS

The key barriers to the development of FDI in Serbia to date have been identified as:

- Legislative and regulatory issues e.g. complicity concerning land-ownership and non-market prices for the land usage, non-specialised court systems.
- Slow pace of reforms and overall poor and inconsistent quality of implementation.
- Limited institutional capacity at both policy development and operational levels to activate issues.
- Infrastructural deficiencies in comparison with neighbouring countries.
- Lack of support structures for modern industry.
- Lack of focussed national investment promotion programme.

Progress measures – prioritisation (World Bank):

“Need to increase investor confidence but continue on the path of reform” (World Bank Investment Climate Review in Serbia, 2004):

- Strengthen contract enforcement.
- Reduce the regulatory burden.
- Strengthen property rights and reduce labour market rigidities.

In addition to this, the following measures should be made:

- Start restitution immediately, favoring return of assets to previous owners in their physical form wherever it is possible. This is to get good settlement and to relax the pressure to public finance.
- After a fast denationalization (and handing over property to the municipalities) allow domestic and foreign private investors to buy real estate.
- Lower start-up costs. Start ups are much more efficient than existing firms (the majority of them is just a socio-economic burden). Especially important are start-ups based on FDIs. Reduce significantly the number of papers needed to establish a firm, to keep business running and to exit some business. Reduce the time needed to obtain business operation permission. Introduce the rule of the “administrative silence”, and set it on 7 or 10 days. Reduce the low level corruption by establishing one stop shops and implement others very precise measures. Reduce high level corruption by imposing anti-corruption legislation, by evacuating politicians from taking part in the process of getting investment permits and by allowing media, business police and judiciary to operate independently from the executive power.
• Make sure that business/construction permit implies connections for utilities (water supply, electricity, gas, phone, etc.).
• Continue privatization, start with privatization of utilities and the socialist giants.
• Establish just one agency (with different departments) for monitoring operation of networks (pipelines for gas and oil, electricity networks, water supply, sewage, fixed phone lines, etc.) This is a cost saving measure.
• Enforce bankruptcy law and liquidation of bankrupted firms. This will prevent the accumulation of debt and free their assets for new, productive use.
• Reduce customs instead of raising them, remove non-tariff barriers. (Reverse to the 2001. solutions, and continue lowering customs.)
• Liberalize internal market by reducing the number of prices controlled by the government. Directly or indirectly this is now around 40% of prices.
• Reduce different types of the banking reserves at the average level of them in the neighboring countries (Bulgaria, Romania, Croatia, Macedonia). This will lower the interest rate, what in turn will make money cheaper and stimulate business.
• Progressively establish administration friendly to business, start introducing an e-government.
• Adopt the appropriate antimonopoly legislation or simply allow competition from abroad.
• Allow establishment and a normal operation of pension, investment, mutual, insurance and other funds.
• Start a mandatory privatization of the pension fund; use privatization revenues to cover transition costs instead of spending them through the budget.
• Remove huge restrictions for currency flows outside the county, by liberalizing current and capital payments. The existing restrictions are useless, since the owners of capital and money are able to bring them outside the country – either physically or by pencil work.
• Allow free circulation of foreign securities. This will provide opportunities for funds to invest, but this will also force the NBS and Treasury to offer more favorable conditions for domestic securities.
• Revoke legislation favoring debtors over creditors, workers (employees) over owners, labor unions over unions of entrepreneurs, domestic people over foreigners, investors in agriculture and industry over other investors, state owned firms and funds over private ones, etc.
• Make commercial courts more efficient. Establish private arbitrage for solving business disputes.
• Allow licenses, certificates, trade marks, quality labels, etc. just there where it is necessary for exports.
• Simplify legislation and regulation wherever it is possible. Do not import the EU legislation automatically, i.e. avoid it where it leads to overregulation and strange solutions. Accept just those solutions that enhance economic freedom and the rule of law.

There are opinions that more liberal reform steps should be undertaken immediately. Thinking into this direction, the following changes should be considered and realised as "a second move" in building Serbia as a favourable investment destination:

• Allow denomination of prices in dinar and euro, and let actors doing transactions select the currency of their choice. This will as collateral both reduce the inflation risk for investors and effectively restrain any possibility that NBS starts printing inflator money.
• Remove collective bargaining from the labor law. Simplify the procedure for firing employees. (Reverse solutions from the 2002. law). Make sure that minimal wage legislation does not raise salaries for more than 5% from the market level.

Source: Free Market Centre Belgrade
Reduce state expenditures at maximum 40% of GDP. Reduce taxes, especially payroll tax. Reduce the number of currently existing taxes. Keep the existing low taxes and the flat tax rates.

Reduce subsidies as much as possible. There is a variety of subsidies: cash payments, transfers, tax allowances and deductions, infrastructural works, lend leasing below market price level, education of workers, tolerance of tax evasion, tolerance of late payments or even non-payment, export subsidies, subsidies for apartment credits, etc. The EU allows subsidies of approximately 1% of GDP.

Reduce state investment as much as possible, because it represents either an inefficient use of capital or a simple waste of taxpayers’ money.

Remove rents and discourage rent seeking wherever it is possible.

Recall the state from taking part in the economic game directly, restrain its regulative activity and limit its role on providing and enforcing the rules of the game.

Provision for review:
The FIC annual White Book publication provides a public forum for a review process of actions taken to address these barriers and a key principle of this strategy is to involve the private sector in both the prioritization of key reform actions and overall dialogue with the government.

The high level measures proposed for attention under this strategy fall under 4 broad headings:

1. Legal and regulatory reform.
2. Strengthening of institutional capacity and development of partnership processes to facilitate business development.
3. Actions and initiatives for improvement of competitiveness.
4. Development of internal awareness campaigns and focused international marketing strategy.

These headings are selected as key areas for attention to improve Serbia’s attractiveness for new investment and the overall competitiveness rating of the country and are designed to move the country ratings into the top destination in SEE and the top 10% of desired locations in Europe within a 5-year period.

There is a broad range of issues to address which have been categorized under these 4 broad headings with recognition that there is considerable cross-cutting and interdependence between initiatives.

The guiding principles underpinning this commitment to acceleration of legal and regulatory reforms is contained in the formal partnership agreements with the European Union. This proposed focus is to accelerate the adoption and implementation of all legislative issues impacting on the economic and investment environment.

I Legal and Regulatory Reforms

Objective
Acceleration of the ongoing reforms and fast tracking of improvements in the legislative and regulatory environment.

Broad range of issues to address:
- Land issues – clarify ownership situation, identify key sites for development in main cities, designate industrial, science and technology park sites and address infrastructural improvements.
- Address restitution issue and clarify ownership situation initially in relation to key sites and buildings.
- Advancement on privatization and deregulation of telecoms sector.
- Adoption of future operation process for Action Plan Committee for the Removal of Administrative Barriers for FDI as set out in Appendix 1.  

With a focus on:
- Participation of municipal authorities in formal process.
- Development of linkup between education/municipal/industry representatives at national and regional levels.
- Development of public private partnerships and concessions in key infrastructural areas.

Activities would include:
- Studies to identify key sites in urban areas for industrial park development and their needs to address competitive standards in comparison with other countries.
- Structured local partnership agreements between municipalities, infrastructure and utility providers to develop and provide the required services.
- Adoption of the law on industrial parks.
- Annual competition between municipalities on progress in identification and servicing of suitable sites.

Outcomes could include:
- Initially identification of clean (title) sites in a number of major towns.
- Increased emphasis on provision of good sites with infrastructure.
- Progress on development of a market in real estate and construction land.
- Progress on deregulation of telecom sector.
- Advancement of legislation and regulations on restitution issue in accordance with best practice regional experience.

II Strengthening of Institutional Capacity and Development of Partnership at National and Municipal Level

Objective
Improvement of investment climate by recognition and facilitation of key roles played by a wide range of public and private sector groups in improving the investment environment.

Broad range of issues to address:
- Strengthen role and functions for MIER/SIEPA and regional investment promotion and business development organizations.
- Increased resources in MIER to support a high level supervisory committee on investment and competitiveness matters.
- Increased resources in SIEPA to address marketing and investor aftercare issues moving towards principle of “one stop shop” and a structure to highlight and address key issues of investor concern.

• Establish high level technical IT committee – public/private/universities to address skills and infrastructure issues.
• Examine appointment of industrial liaison officer/contact person in each ministry, municipality and utility as champion of investment.
• Establish the principle of private sector involvement in all initiatives.

Key need for a range of initiatives at national and municipal level incorporating a large number of key institutions.

This will involve:
• MIER as the ministry with designated responsibility under the Law of Ministries to provide the overall guidance for FDI policy making and driving the FDI initiative and improvements in the investment climate in the country.
• A wide range of other ministries whose policies and initiatives will focus on implementing agreed national priority FDI matters.
• SIEPA as the established investment promotion and facilitation agency and any regional agencies that may be established.
• Municipal authorities who have specific statutory powers and abilities to influence the investment climate in their area.
• Wide range of utility providers, where the cost and efficiency of services are of paramount competitive importance.
• Strengthened and facilitated role for private sector participation in preparation and prioritization of initiatives proposed under various national and regional action plan committees.

Partnership issues:
• Between national government departments in terms of prioritizing initiatives.
• Between government and private sector interest groups including FIC, Chambers, sectoral organizations.
• Between national departments and municipal authorities.
• Between national Government departments and agencies i.e. SIEPA and VIP.
• At municipal level with local universities, colleges and private sector.

Activities will include:
• Development of an action plan to activate the above partnerships.
• Agreement on broadening of scope of existing committee to include all aspects of investment climate and its range of players.
• Agreement on establishment of specialist subcommittees.
• Appointment of key players at ministry/agency/municipal level as “champions” of action plan and FDI.

Performance measures would include:
• Demonstrated seriousness of commitment by significant incremental increase in resources at both MIER and SIEPA levels.
• Agreement on terms of reference and respective responsibilities for implementation.
• Frequency transparency and quality of reporting on progress.
• Provision for annual review on progress, involving significant private sector representation.
• Composition and level of inclusiveness of various committees.

Desired outcomes could include:
• Improvement in aftercare for existing investors through focused avenues for prioritizing and addressing barriers.
- Improved transparency in terms of addressing investor concerns.
- Initiation of studies and actions to identify key companies and key decision makers.
- Actions on key issues impacting on development of IT sector, including increased access to modern broadband facilities, increased liaison between industry and educationalists and reforms of education curriculum.
- Deepening of involvement with key representatives of international companies already in Serbia leading to increased private sector support in the identification of potentially mobile investments within their own or supplier companies.
- Identification of suitable sites/buildings in municipalities and agreement of steps to prioritise infrastructure planning and develop clarity of ownership and speed up access for qualifying companies.

III Issues and Activities to Address Overall Competitiveness Issues

Objective
To increase the attractiveness of Serbia for investment through the development of initiatives to address competition, productivity and access to market issues.

Broad range of issues to address:
- Development and implementation of a programme on public/private partnership and concessions in key utility and infrastructural areas.
- Accelerate liberalization of key sectors and maximize industrial development role of key research and scientific institutions.
- Support for development of clusters at sectoral level and initiatives to address common challenges.
- Development of policies and initiatives on the provision of Scientific and Technology Parks and Industrial Parks.
- Measures to facilitate full operation of regional and international trade agreements.
- Development and facilitation of supports for quality and accreditation proposals to facilitate international market access.
- Development of supports on productivity and training issues through focused initiatives in cooperation with private sector.
- Elimination of barriers to export development including focus on facilitating modern logistics through development of physical and regulatory environment.

Activities will include:
Infrastructural/Concession Initiatives:
- Develop the modalities for public/private partnership through international best practice – legal documentation, safeguards etc.
- Identify a schedule of public/private potential infrastructural projects.
- Identify key indicators for evaluation of public/private partnership proposals and offers.
- Identification of a number of key potential international partners.
- Development of a data base of reputable international potential partners.
- Identification of key requirements and practices of international lending institutions (e.g. EIB).

Desired outcomes could include
- Number and level of position papers prepared and submitted for formal government approval.
- Number of qualifying PPP projects identified for international marketing
- Optimisation of Serbia’s pivotal regional location.

General initiatives:
• Technical and legal supports for the identification of key sites for pilot initiatives on industrial and technology parks.
• Development and agreement of criteria on broader access to university broadband network, pending overall modernisation of services.
• Improved availability and access to various international quality assurance and certification schemes.
• Improved access to specialised short term consultancies, conferences, papers, and international meetings

Desired outcomes could include:
• Facilitation and support measures for support of modern industry and export activity in place.
• Initiatives underway on technology parks and industrial zones development in key locations.
• Increased access and improvements to “university” standard broadband network
• Maximising benefits of key strengths in industrial tradition, language skills and general high standard of education.
• Developed focused sectoral action plans in place to highlight key issues impacting on international competitiveness using the ICT sectoral development programme as a model.
• Development of niche quality oriented exporting sectors.
• Key needs identified and programmes activated to address the specific certification and quality requirements of a modern marketplace.
• Support mechanisms in place for the activation of key private sector industry and sectoral specialist groups e.g. Exporters association, fruit processors cluster etc.

IV Development of Awareness Campaigns and Focused International Marketing Strategy

Objective
To increase internal awareness of the benefits arising from new investment and to market the country effectively.

Broad range of issues to address:
• Initial awareness campaign aimed at local political and official levels.
• Development of a process for local political figures and officials to gain understanding of their key role in creating a favourable local environment.
• Development of a focused international investment promotion campaign in key markets to raise awareness of the reality of the improved investment environment in Serbia.
• Development of a focused investor targeting and attraction campaign in key sectors.
• Measurement and review on an annual basis of the effectiveness of the marketing and communications.

Activities would include:
• Development of an Investment Promotion Strategy.
• Development and agreement on goals of marketing and communications strategy.
• Development of sectoral marketing messages.
• Development and implementation of awareness and image building campaigns.

Desired outcomes would include:
• Developed and evolving database of target companies.

36 See Appendix 5 – ICT Sector Action Plan
• Increased level of investor site visits to Serbia.
• Increased level of actual investments in productive and internationally traded services sectors.
• Accelerated level of implementation of investment projects through a supportive local environment.
V Summary Measures

a) Legal and Regulatory Reforms

This summary of actions is detailed in the Action Plan for the Removal of Administrative Barriers to FDI for 2005-2006\(^37\) and in Section I of Chapter 7 – Issues, Measures and Actions.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action</th>
<th>Objective</th>
<th>Responsibility</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administrative Barriers to FDI</strong></td>
<td>Adopt revised Action Plan on Administrative Barriers to FDI 2005-2006</td>
<td>To achieve renewed commitment to goals</td>
<td>MIER</td>
<td>Mid-2005</td>
</tr>
<tr>
<td><strong>Land sites</strong></td>
<td>Legislative</td>
<td>Adopting new and amending current legislation</td>
<td>MIER</td>
<td>2006-2008</td>
</tr>
<tr>
<td><strong>Key sites</strong></td>
<td>Technical</td>
<td>Develop a register</td>
<td>MIER / Municipalities</td>
<td>2006</td>
</tr>
<tr>
<td><strong>Industrial parks</strong></td>
<td>Legislative</td>
<td>Adoption of the law</td>
<td>MIER</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Technical</td>
<td>To adopt criteria and identify sites</td>
<td>MIER / Municipalities/Private sector</td>
<td>2005-2007</td>
</tr>
<tr>
<td><strong>Science and Technology Parks</strong></td>
<td>Legislative</td>
<td>Implementation of law</td>
<td>MIER/ Min of Science and Technology /Govt</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Technical</td>
<td>To adopt criteria, identify sites</td>
<td>MIER/ Min of Science and Technology/Universities</td>
<td>2005-2007</td>
</tr>
<tr>
<td><strong>Free Zones</strong></td>
<td>Legislative</td>
<td>Review legislation/operations and eligibility</td>
<td>MIER, Ministry of Finance</td>
<td>2005 - 2007</td>
</tr>
</tbody>
</table>

Deregulation

- **Telecoms**
  - Activate and empower the Telecommunications Agency
  - Increase competition / Improve services
  - Ministry of Capital Investments
  - 2005

PPP/Concessions

- **Utilities / services e.g. roads / oil / gas / electricity / waste management**
  - Develop detailed programmes
  - Provision of Modernized infrastructure
  - MIER / Government Departments
  - 2005-2007

\(^{37}\) See Appendix 1
b) Strengthening of Institutional Capacity and Development of Partnership at National and Municipal Level

These topics are covered in detail in Chapter 6: Institutional Support Framework and in Section II of Chapter 7: Issues, Measures and Actions.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action</th>
<th>Objective</th>
<th>Responsibility</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Government and Agency Levels</td>
<td>Clarify and agree roles and responsibilities</td>
<td>Improved services to investors</td>
<td>Government / MIER / SIEPA</td>
<td>2005</td>
</tr>
<tr>
<td>Strengthen Primary FDI Institutions</td>
<td>Review staffing and budgeting</td>
<td>Progress from existing uncompetitive situation</td>
<td>Government / Ministry of Finance / MIER</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Development of a pilot one-stop-shop – initial study planned on construction permits</td>
<td>Focused aftercare service on permits</td>
<td>MIER / SIEPA</td>
<td>2005-</td>
</tr>
<tr>
<td></td>
<td>Establish high-level review committee</td>
<td>Emphasise government commitment and formal progress review</td>
<td>Government - Cabinet level</td>
<td></td>
</tr>
<tr>
<td>Develop IT Partnerships</td>
<td>Establish High level university / industry / government committee</td>
<td>To prioritise educational infrastructural reforms</td>
<td>MIER / Ministry of Education/ government / universities / Education / IT industry</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Establish 4 pilot IT committees at municipal level with private sector participation</td>
<td>To prioritise development of Technology parks/local initiatives</td>
<td>MIER / Universities /municipalities Nis, Novi Sad and Belgrade, Kragujevac</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Appoint industry champions at utility / university / municipal levels</td>
<td>To fast track and prioritise services to investors</td>
<td>MIER to spearhead government initiative</td>
<td>2005-2006</td>
</tr>
<tr>
<td>PPP/Concessions</td>
<td>Develop staff capability</td>
<td>Enhanced advice and support for government in developing PPP options</td>
<td>MIER to establish inter-ministry committee to establish prioritization</td>
<td>2005-2007</td>
</tr>
</tbody>
</table>
c) **Issues and Activities to Address Overall Competitiveness Issues**

These issues are covered in more detail in Section III of Chapter 7: Issues, Measures and Actions, in Chapter 5 on key sectors and Chapter 4.5 on Concessions.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action</th>
<th>Objective</th>
<th>Responsibility</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Private Partnerships (PPP)</strong></td>
<td>Development and Implementation of a concessions programme</td>
<td>To improve services and infrastructure</td>
<td>MIER/Government ministries</td>
<td>2006-</td>
</tr>
<tr>
<td><strong>Logistics</strong></td>
<td>MIER to review with private sector barriers on movement of goods</td>
<td>To facilitate increased volumes of trade</td>
<td>MIER/Government</td>
<td>2005-2007</td>
</tr>
<tr>
<td><strong>International Trade Agreements</strong></td>
<td>Legislative and technical review</td>
<td>To ensure maximum facilitation of trade.</td>
<td>MIER</td>
<td>2005-</td>
</tr>
<tr>
<td><strong>Research and Scientific Institutes</strong></td>
<td>Prioritise development of PPP models</td>
<td>To enhance marketing of skill and asset base to international sector</td>
<td>MIER to spearhead actions with government Departments and Institutes</td>
<td>2006-</td>
</tr>
<tr>
<td><strong>Provision of Industrial and Technological Parks</strong></td>
<td>Prioritise development of policies and incentives</td>
<td>To provide clear access to land and buildings for investors</td>
<td>MIER to spearhead with SIEPA</td>
<td>2006-</td>
</tr>
<tr>
<td><strong>Quality and Accreditation Benchmarking</strong></td>
<td>Identify and develop programmes to improve access to international expertise</td>
<td>To facilitate companies in development of export markets</td>
<td>MIER / SIEPA to highlight current and potential initiatives</td>
<td>2005-2007</td>
</tr>
<tr>
<td><strong>Productivity and Training Issues</strong></td>
<td>Identify and develop programmes to improved access to international expertise.</td>
<td>To provide supports to modern export oriented industry</td>
<td>MIER / SIEPA to codify existing and planned initiatives</td>
<td>2005-2007</td>
</tr>
<tr>
<td><strong>Cluster development</strong></td>
<td>Mobilise supports for development of sector driven groups and associations</td>
<td>To improve overall capability and levels of local value added.</td>
<td>MIER/SIEPA</td>
<td>2005-</td>
</tr>
</tbody>
</table>

d) **Development of Awareness Campaigns and Focused International Marketing Strategy**

These issues are covered in more detail in Section IV of Chapter 7: Issues, Measures and Actions and in Chapter 6 – Institutional Support Framework.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action</th>
<th>Objective</th>
<th>Responsibility</th>
<th>Timeframe</th>
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<tr>
<td><strong>Internal Awareness Campaign</strong></td>
<td>High level approach to municipalities and utilities</td>
<td>To highlight competitiveness issues within their areas of competence and</td>
<td>MIER with government - support to spearhead, SIEPA</td>
<td>2005-2007</td>
</tr>
</tbody>
</table>
### VI  Possible Outcome

By completing tasks envisaged in this Strategy, and depending on the extent of their implementation, Serbia will get a business environment not worse than in Bulgaria and Croatia, and as good as in the Baltics and Britain. The country will be ranked between 10th (in case of deep reforms) and 75th place (in case of weaker reforms) at the country rankings in economic freedom and investors lists\(^38\).

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\(^38\) Heritage Foundation/Wall Street Journal Index of Economic Freedom, Fraser Institute Economic Freedom of the World Index, etc.
That is a huge move from current 140th place, among 200 countries and territories in the world. The investment equivalent would move around €2-6 billion annually\(^{39}\) in ten forthcoming years, depending on the selected option. Paid adds (in *The Economist* and similar) and public relations activity could be a waste of resources before reform steps suggested in this Strategy are undertaken.

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7. **FUTURE INVESTMENT TO EUROPE BY ACTIVITY 2004-2005**
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9. **SEE FDI INWARD STOCK, US$M**
10. **FDI INFLOW AS A PERCENTAGE OF GDP, IN % - SELECTED CEE AND SEE COUNTRIES (US$M)**
11. **GDP AT CURRENT PRICES IN US$M - SELECTED CEE AND SEE COUNTRIES**
12. **ESTIMATES OF GDP AT CONSTANT 1990 PRICES IN US$M - SELECTED CEE AND SEE COUNTRIES**
13. **ESTIMATES OF PER CAPITA GDP IN US$ - SELECTED CEE AND SEE COUNTRIES**
14. **COMPARATIVE DATA – SELECTED CEE AND SEE COUNTRIES**

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\(^{39}\) The estimated FDI inflow into Serbia was projected according to the current FDI inflows into countries with levels of economic freedom similar to “deeply reformed Serbia environment” and “weaker reformed Serbia environment”, successively.
### TABLE 1


<table>
<thead>
<tr>
<th>Period</th>
<th>Imports Trade Value</th>
<th>Period</th>
<th>Exports Trade Value</th>
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<tr>
<td>2002</td>
<td>$6,320,008,704</td>
<td>2002</td>
<td>$2,274,894,592</td>
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<tr>
<td>2001</td>
<td>$4,836,921,344</td>
<td>2001</td>
<td>$1,903,127,936</td>
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<tr>
<td>2000</td>
<td>$3,710,592,000</td>
<td>2000</td>
<td>$1,710,845,056</td>
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<tr>
<td>1999</td>
<td>$3,295,209,984</td>
<td>1999</td>
<td>$1,497,110,016</td>
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<tr>
<td>1998</td>
<td>$4,848,737,792</td>
<td>1998</td>
<td>$2,856,975,872</td>
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Source: UN Statistics Division – Serbia and Montenegro

### TABLE 1A

COMPARATIVE DATA, 2004

<table>
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<tr>
<th></th>
<th>Total Exports (a) (% of GDP)</th>
<th>Exports to EU (a) (% of Total Exports)</th>
<th>Exports to EU (b) (% of GDP)</th>
</tr>
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<tr>
<td>Central Europe (average)</td>
<td>49.9</td>
<td>67.1</td>
<td>33.2</td>
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<td>ALBANIA</td>
<td>7.1</td>
<td>89.4</td>
<td>6.4</td>
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<tr>
<td>BIH</td>
<td>20.5</td>
<td>52.7</td>
<td>10.8</td>
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<td>BULGARIA</td>
<td>37.3</td>
<td>56.2</td>
<td>21.0</td>
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<td>CROATIA</td>
<td>21.9</td>
<td>51.5</td>
<td>11.3</td>
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<tr>
<td>FYR MACEDONIA</td>
<td>29.1</td>
<td>47.0</td>
<td>13.7</td>
</tr>
<tr>
<td>ROMANIA</td>
<td>30.9</td>
<td>68.2</td>
<td>21.1</td>
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<td>SERBIA AND MONTENEGRO (b)</td>
<td>13.8</td>
<td>42.7</td>
<td>5.9</td>
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<tr>
<td>Balkans Average</td>
<td>23.0</td>
<td>58.2</td>
<td>12.9</td>
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Note: Central Europe comprises the Czech Republic, Hungary, Poland, Slovakia and Slovenia. (a) Exports refer to merchandise exports. The data, and associated ratios, are for 2003. The EU refers to the pre-enlargement EU-15. (b) Data for Serbia and Montenegro exclude Kosovo. Source: The Economist Intelligence Unit
### TABLE 2

**SERBIA - INDUSTRIAL PRODUCTION STRUCTURE 1989-2000**

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<td>Industry total</td>
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<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
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<td>4.91</td>
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<td>49.91</td>
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<td>58.00</td>
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<td>54.93</td>
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<td>44.96</td>
<td>45.38</td>
<td>45.17</td>
<td>35.99</td>
<td>37.21</td>
<td>42.96</td>
<td>40.23</td>
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<td>7.91</td>
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<td>19.03</td>
<td>19.53</td>
<td>19.37</td>
<td>18.63</td>
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<td>19.73</td>
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<td>Coal mining</td>
<td>3.09</td>
<td>2.95</td>
<td>6.70</td>
<td>8.79</td>
<td>8.91</td>
<td>2.99</td>
<td>2.93</td>
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<td>0.32</td>
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<td>3.34</td>
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<td>0.94</td>
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<td>1.12</td>
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<td>1.09</td>
<td>1.98</td>
<td>1.74</td>
<td>1.08</td>
<td>1.02</td>
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<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03</td>
<td>0.02</td>
<td>0.01</td>
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<tr>
<td>&quot;Black&quot; metallurgy</td>
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<td>1.21</td>
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<td>0.20</td>
<td>0.39</td>
<td>2.94</td>
<td>2.98</td>
<td>0.70</td>
<td>2.15</td>
</tr>
<tr>
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<td>1.52</td>
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<td>0.90</td>
<td>0.65</td>
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<tr>
<td>&quot;Coloured&quot; metals production</td>
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<td>1.65</td>
<td>1.70</td>
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<td>2.29</td>
<td>2.71</td>
<td>2.34</td>
<td>1.65</td>
<td>1.38</td>
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<tr>
<td>Processing of &quot;coloured&quot; metals</td>
<td>1.14</td>
<td>0.89</td>
<td>0.26</td>
<td>0.34</td>
<td>0.31</td>
<td>0.73</td>
<td>0.78</td>
<td>0.72</td>
<td>0.94</td>
</tr>
<tr>
<td>Production of non-metal mineral products</td>
<td>0.34</td>
<td>0.21</td>
<td>0.17</td>
<td>0.23</td>
<td>0.21</td>
<td>0.30</td>
<td>0.28</td>
<td>0.24</td>
<td>0.28</td>
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<tr>
<td>Processing of non-metal minerals</td>
<td>1.94</td>
<td>1.72</td>
<td>1.27</td>
<td>1.29</td>
<td>1.29</td>
<td>2.06</td>
<td>2.26</td>
<td>2.25</td>
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</tr>
<tr>
<td>Metal-processing activities</td>
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<td>7.77</td>
<td>3.92</td>
<td>3.21</td>
<td>3.09</td>
<td>4.71</td>
<td>4.72</td>
<td>4.54</td>
<td>5.14</td>
</tr>
<tr>
<td>Engineering</td>
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<td>5.62</td>
<td>2.24</td>
<td>1.59</td>
<td>1.50</td>
<td>1.62</td>
<td>1.50</td>
<td>1.43</td>
<td>1.44</td>
</tr>
<tr>
<td>Manufacture of transport vehicles</td>
<td>8.63</td>
<td>8.12</td>
<td>1.97</td>
<td>1.80</td>
<td>1.70</td>
<td>3.53</td>
<td>3.85</td>
<td>3.18</td>
<td>3.90</td>
</tr>
<tr>
<td>Shipbuilding</td>
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<td>0.69</td>
<td>0.13</td>
<td>0.16</td>
<td>0.03</td>
<td>0.03</td>
<td>0.11</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Manufacture of electrical machinery and apparatus</td>
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<td>6.78</td>
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<td>2.53</td>
<td>3.05</td>
<td>3.97</td>
<td>4.09</td>
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<td>1.28</td>
<td>8.51</td>
<td>8.36</td>
<td>4.26</td>
<td>4.87</td>
</tr>
<tr>
<td>Manufacture of stone, gravel and sand</td>
<td>4.09</td>
<td>4.63</td>
<td>4.03</td>
<td>4.56</td>
<td>5.00</td>
<td>6.03</td>
<td>6.49</td>
<td>6.97</td>
<td>6.45</td>
</tr>
<tr>
<td>Manufacture of stone, gravel and sand</td>
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<td>0.44</td>
<td>0.50</td>
<td>0.55</td>
<td>0.60</td>
<td>0.65</td>
<td>0.62</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
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<td>Manufacture of construction material</td>
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<td>1.58</td>
<td>2.47</td>
<td>2.85</td>
<td>2.97</td>
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<td>0.43</td>
<td>0.52</td>
<td>0.46</td>
<td>0.47</td>
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<td>0.41</td>
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<td>1.89</td>
<td>2.81</td>
<td>2.55</td>
<td>2.50</td>
<td>1.90</td>
<td>1.75</td>
<td>1.84</td>
<td>1.96</td>
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<td>Manufacture of paper and paper products</td>
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<td>1.49</td>
<td>1.61</td>
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<td>Manufacture of finished textile products</td>
<td>6.33</td>
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<td>5.45</td>
<td>5.78</td>
<td>4.57</td>
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<td>Manufacture of leather and fur</td>
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<td>0.27</td>
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<table>
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<td>Manufacture of footwear and leather products</td>
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<td>1.01</td>
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<td>2.04</td>
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<td>Production of food products</td>
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<td>18.32</td>
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<td>1.53</td>
<td>1.48</td>
<td>1.31</td>
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<td>Manufacture of other products</td>
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<td>30.89</td>
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Source: Serbian Chamber of Commerce
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<tr>
<th>Year</th>
<th>Offered Total</th>
<th>Sold Total</th>
<th>Success (%)</th>
<th>Sales Proceeds</th>
<th>Investment Program</th>
<th>Social Program</th>
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<tr>
<td>2002</td>
<td>Tenders</td>
<td>24</td>
<td>12</td>
<td>50%</td>
<td>201,456</td>
<td>305,929</td>
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<tr>
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<td>Auctions</td>
<td>256</td>
<td>194</td>
<td>76%</td>
<td>55,679</td>
<td>13,132</td>
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<tr>
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<td>Tenders + Auctions</td>
<td>280</td>
<td>206</td>
<td>74%</td>
<td>257,135</td>
<td>319,061</td>
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<td>Capital Market</td>
<td>87</td>
<td>48</td>
<td>55%</td>
<td>81,610</td>
<td>5,902</td>
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<tr>
<td></td>
<td>Total</td>
<td>367</td>
<td>254</td>
<td>69%</td>
<td>338,745</td>
<td>324,963</td>
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<tr>
<td>2003</td>
<td>Tenders</td>
<td>40</td>
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<td>48%</td>
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<tr>
<td></td>
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TABLE 4

FDI INFLOWS, BY HOST REGION AND ECONOMY, 1992-2003
(Millions of dollars)

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<td>1 086 750</td>
<td>1 387 953</td>
<td>817 574</td>
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<td>559 576</td>
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<td>112</td>
<td>25</td>
<td>165</td>
<td>475</td>
<td>1 360</td>
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Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)

TABLE 5
FUTURE INVESTMENT LOCATION BY SECTOR
2004-2007

Source: CorpTracker (Oxford Intelligence) November 2004

TABLE 6

FUTURE INVESTMENT TO EUROPE BY ACTIVITY 2004-2005

Source: CorpTracker (Oxford Intelligence) November 2004
### TABLE 7

**PERSPECTIVE 1997-2001**

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<td>Hungary</td>
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<td>$21,000m</td>
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| Serbia & Montenegro    | 1997-2001   | $1,100m  
($740m in 1997) |

Source: Various reports and studies

### TABLE 8

**FDI INWARD STOCK, US$M**

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### TABLE 9

**FDI INFLOW AS A PERCENTAGE OF GDP, IN % - SELECTED COUNTRIES (US$M)**
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Source: OECD, wiw
### TABLE 10

**GDP AT CURRENT PRICES IN US$M**

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*Source: UN Statistics Division*
## TABLE 11
### ESTIMATES OF GDP AT CONSTANT 1990 PRICES IN US$M

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Source: UN Statistics Division
## TABLE 12

ESTIMATES OF PER CAPITA GDP IN US$

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<td>Serbia and Montenegro</td>
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Source: UN Statistics Division
### TABLE 13

**COMPARATIVE DATA – SELECTED COUNTRIES**

<table>
<thead>
<tr>
<th></th>
<th>SERBIA</th>
<th>BULGARIA</th>
<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
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<tbody>
<tr>
<td><strong>COUNTRY POPULATION, MLN PEOPLE</strong></td>
<td>7.49</td>
<td>7.8</td>
<td>4.44</td>
<td>21.73</td>
<td>5.4</td>
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<tr>
<td><strong>GDP per CAPITA (US$) 2004</strong></td>
<td>2880</td>
<td>3120</td>
<td>7660</td>
<td>3190</td>
<td>6156</td>
<td>7930</td>
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<tr>
<td><strong>REAL GDP GROWTH RATE (2003/2004)</strong></td>
<td>6.8%</td>
<td>5.5%</td>
<td>3.7%</td>
<td>8%</td>
<td>4.9%</td>
<td>6.2%</td>
</tr>
<tr>
<td><strong>INFLATION RATE 2004</strong></td>
<td>13.7%</td>
<td>6.1%</td>
<td>2.1%</td>
<td>11.9%</td>
<td>8%</td>
<td>3%</td>
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<tr>
<td><strong>UNEMPLOYMENT RATE, 2004</strong></td>
<td>25%</td>
<td>12%</td>
<td>18.2%</td>
<td>6.3%</td>
<td>16%</td>
<td>9.7%</td>
</tr>
<tr>
<td><strong>TOTAL EXPORT (% OF GDP), 2003</strong></td>
<td>13.8</td>
<td>37.3</td>
<td>21.9</td>
<td>37.3</td>
<td>65.5</td>
<td>49.9</td>
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<tr>
<td><strong>TOTAL FDI INFLOW (US$ billion) 2004</strong></td>
<td>0.89</td>
<td>1.609</td>
<td>1.1</td>
<td>5.1</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>TOTAL FDI STOCKS (US$ billion) END-2004</strong></td>
<td>3.8</td>
<td>6.6</td>
<td>12.4</td>
<td>18.2</td>
<td>12.2</td>
<td>9.4</td>
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<tr>
<td><strong>FDI STOCK per CAPITA (US$) END-2004</strong></td>
<td>507</td>
<td>846</td>
<td>2792</td>
<td>837</td>
<td>2592</td>
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TABLE 13 - continued

COMPARATIVE DATA – SELECTED COUNTRIES

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<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
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</thead>
<tbody>
<tr>
<td>CORPORATE PROFIT TAX, 2005</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
<td>16%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>PERSONAL INCOME TAX, 2005</td>
<td>14% for salaries, while other personal income is taxed at a rate of 20%</td>
<td>Tax rate is rising progressively according to the value of income. 12% - 29%</td>
<td>- up to HRK 3000 (410€)tax rate is 15% - 3000 (410€) - 6750 HRK (924€)tax rate is 25% - 6751 (924€) - 21000 (2876€)tax rate is 35% - Over 21000 (2876€) tax rate is 45%</td>
<td>16%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>VAT (standard rate/lower rate), 2005</td>
<td>18% / 8%</td>
<td>20%</td>
<td>22%</td>
<td>19% / 9%</td>
<td>19%</td>
<td>18%</td>
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### TABLE 13 - continued

**COMPARATIVE DATA – SELECTED COUNTRIES**

<table>
<thead>
<tr>
<th>TAX INCENTIVES</th>
<th>SERBIA</th>
<th>BULGARIA</th>
<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. TAX HOLIDAYS</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>- taxpayer who invests in fixed assets an amount exceeding 600 million Dinars (app. EUR 7.3 million) and also employs at least 100 employees shall be exempt from the profit tax during period of 10 years</td>
<td>- companies engaged in production enjoy 100% exemption of the corporate tax for 5 year if their production assets are located in the regions with high unemployment and if the company does not have any due tax or obligatory social security liabilities</td>
<td>- companies investing in Croatia are able to avail of up to a 10-year tax holiday when they invest more than HRK 60mil. (EUR 8.2 million) and employ more than 75 persons</td>
<td>- companies locating in severely disadvantaged areas in Romania are exempt from payment of corporate profits tax for “the duration of the existence of the disadvantaged zone”</td>
<td>- payouts of dividends are tax free after entering EU - EU approves a subsidy (max 10% of investing value) for every individual investment</td>
<td>- NO corporate income tax on reinvested profits</td>
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<tr>
<td></td>
<td>- tax exemption for concessions and non-profit organization</td>
<td>- companies that employ disabled persons are exempt from the corporate profit tax</td>
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<tr>
<td></td>
<td>- companies that employ disabled persons are exempt from the corporate profit tax</td>
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### TABLE 13 - continued

**COMPARATIVE DATA – SELECTED COUNTRIES**

<table>
<thead>
<tr>
<th>New jobs</th>
<th>SERBIA</th>
<th>BULGARIA</th>
<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>- the amount of tax reduction is equal to 100% of the gross salaries, increased by the related contribution paid by the employer; the tax credit is recognized for period of 2 years from the day of employment of new workers, provided that the number of employees is not reduced during that period</strong></td>
<td>- The Employment Agency’s Programmes and measures for employment of young people</td>
<td>- incentive measures are provided directly for job creation where up to HRK 15000 (approx. $2.725) per employee may be granted for covering the cost of job creation and retraining on a one-time basis</td>
<td>- one year tax holiday on gross salaries for every new employed employee</td>
<td>- Labour Office grants up to 50% of the wage form the Structural Funds for the one year and also, depending on region, grants may go up to 4000$ per job</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Re-training programmes</td>
<td>None</td>
<td>- Financial assistance through EU Phare programme which includes vocational training programmes</td>
<td>- an investor in Croatia who invests in an employee’s vocational training or re-training may be reimbursed by the Fund for Stimulation of Creation of New Jobs and Retraining for up to 50% of related costs</td>
<td>- Labour Office grants up to 50% of the training cost</td>
<td>- All companies established in Estonia can apply for financial support for the employee training projects. The rate of the grant depends on the size and location of a company, the nature of the training, and can be no more than 80% of the cost of the training project</td>
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### TABLE 13 - continued

**COMPARATIVE DATA – SELECTED COUNTRIES**

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<thead>
<tr>
<th>2. TAX CREDITS FOR:</th>
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<th>BULGARIA</th>
<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>R&amp;D</strong></td>
<td>None</td>
<td>- Reduction of the corporate tax base with the expenditure made for research and development (R&amp;D) in cooperation with research institutes and/or universities - Financial assistance through EU Phare programme which includes research and development grants for high-technology business incubator</td>
<td>- For establishment and operation of technological parks, there are benefits from the different incentives (tax reduction for the fixed assets and land given for its use)</td>
<td>- Exemption of customs duties for the technological machinery, installations, equipment, measuring and control equipment, automation equipment and software products purchased from Romania or abroad according to the list approved by a joint Order of Minister of Development and Prognosis</td>
<td>None</td>
<td>- grants are provided up to 50% of industrial research costs directly related to a project - grants are provided up to 25% of product development costs directly related to a project</td>
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### TABLE 13 - continued

**COMPARATIVE DATA – SELECTED COUNTRIES**

<table>
<thead>
<tr>
<th>3. OTHER TAX INCENTIVES</th>
<th>SERBIA</th>
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<th>ESTONIA</th>
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</thead>
<tbody>
<tr>
<td>- The tax loss stated in the tax return can be carried forward and offset against future profits over a period of up to ten years</td>
<td>- 2-year VAT exemption for</td>
<td>- Includes leasing, granting of construction rights and purchase or usage of real estate or other infrastructure owned by the government or the local government under commercial or favourable conditions including or without a fee.</td>
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<td></td>
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</tr>
<tr>
<td>- A company that has an established business in an area of Serbia that is not underdeveloped and who establishes a new business entity in an underdeveloped region may deduct the profits made on such investment as a proportion of the total profits of the company for a period of two years</td>
<td>- 2-year VAT exemption for imports of equipment, consumables and components related to investment projects valued over € 5 million</td>
<td></td>
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</tr>
<tr>
<td>- A 5-year tax holiday is granted for concession-related investments, from the day the concession investment has been completed - Accelerated depreciation of certain fixed assets - Import of equipment as investment is free from customs duties, VAT is charged</td>
<td>- Depreciation rates – 2 years for computers and related equipment and 3 1/3 years for manufacturing equipment</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- 2-year VAT exemption for imports of equipment, consumables and components related to investment projects valued over € 5 million</td>
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<tr>
<td>- 2-year VAT exemption for imports of equipment, consumables and components related to investment projects valued over € 5 million</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Accelerated depreciation</td>
<td></td>
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<tr>
<td>- New investments whose value exceeds the equivalent of USD 1 million and contributes of creating new jobs, enjoy a 20% deduction of their value</td>
<td></td>
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<tr>
<td>- No double taxation - Dividend tax, Inheritance tax, Gift tax and Real Estate Transfer tax are 0%</td>
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## TABLE 13 - continued

### COMPARATIVE DATA – SELECTED COUNTRIES

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<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROPERTY RELATED INCENTIVES</td>
<td>- Foreign investors are allowed to buy real estate when reciprocity condition is provided, except urban construction land which is state-owned. Foreign investors can lease construction land for a maximum period of 99 years through public auctions, announcements and direct bargain. Investors are obliged to pay a land fee, as well as a fee for the land use.</td>
<td>- Foreign investors receive the same rights as any domestic investor concerning real estate property</td>
<td>- Foreign investors who establish a company in Croatia are considered to be a domestic legal entity and may acquire real estate ownership, as well as mortgage rights on real estate, provided the condition of reciprocity is met. Property ownership is regulated by Property and Other Proprietary Rights Act and has to be approved by the Ministry of Foreign Affairs.</td>
<td>- Foreign individuals or legal entities may own buildings and/or acquire the right to use the land (based on lease agreements, concession agreements, etc). Legal entities without Romanian nationality (i.e. headquartered abroad) may not own land in Romania. Companies headquartered in Romania may own land even though their share capital owned is 100% foreign. From 2007 foreign individuals will be allowed to own land</td>
<td>- Ownership titles to immovable property may be acquired by individuals or legal entities not registered in Slovakia. With some exceptions, they may not acquire land which is included in the agricultural land fund or the forestry land fund and they are located beyond the borders of residential area. Those restrictions do not apply for EU citizens.</td>
<td>- Foreign Investors have right to purchase and own land without restrictions. In case of purchasing bigger areas of forest and agricultural land the company must be registered in Commercial Register and must have been active in areas of forestry or manufacturing of agricultural products for at least past three years</td>
</tr>
</tbody>
</table>
TABLE 13 - continued

COMPARATIVE DATA – SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>ABOUT RESTITUTION</th>
<th>SERBIA</th>
<th>BULGARIA</th>
<th>CROATIA</th>
<th>ROMANIA</th>
<th>SLOVAKIA</th>
<th>ESTONIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law of registration and evidence of nationalized property has been adopted in June 2005. Process of evidence will last until Jun 2006. Meanwhile a Restitution law should be adopted.</td>
<td>Current restitution law (1991) stipulates that both Bulgarian citizens and foreigners are eligible to receive property confiscated during the fascist and communist periods, but foreigners, however, must sell the property.</td>
<td>The Croatian parliament in July 2002 amended the law to extend to foreigners the right to claim nationalized property or receive compensation in accordance with existing bilateral agreements.</td>
<td>In 2001 Romania passed the Restitution Law. Restitution can not be claimed under this Law for the properties that belonged to religious communities or national minority groups.</td>
<td>Restitution law was enforced in 1993. Today there is very small percent of nationalized property. Slovakia had very capacious evidence of taken property.</td>
<td>Restitution in Estonia began in 1992. The restitution of property has been settled &amp; currently there are no pending property claims or disputes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SERBIA</td>
<td>BULGARIA</td>
<td>CROATIA</td>
<td>ROMANIA</td>
<td>SLOVAKIA</td>
<td>ESTONIA</td>
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<td>----------</td>
<td>---------</td>
<td>---------</td>
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<td>---------</td>
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<tr>
<td><strong>AVERAGE GROSS WAGES LEVEL (EUR)</strong></td>
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<td>Economic activities</td>
<td>282</td>
<td>149</td>
<td>785</td>
<td>253</td>
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<td>462</td>
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<td>Manufacturing industry</td>
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<td>Non-economic activities</td>
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</tr>
<tr>
<td>Financial Intermediation Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blue collar workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SOCIAL INSURANCE CONTRIBUTION RATE (EMPLOYER’S)</strong></td>
<td>17.9%</td>
<td>32%</td>
<td>17%</td>
<td>33%</td>
<td>35%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>TOTAL AVERAGE COST PER EMPLOYEE</strong></td>
<td>332</td>
<td>196</td>
<td>918</td>
<td>336</td>
<td>886</td>
<td>614</td>
</tr>
<tr>
<td><strong>PERCENTAGE OF POPULATION SPEAKING ENGLISH LANGUAGE</strong></td>
<td>42%</td>
<td>14%</td>
<td>14%</td>
<td>16%</td>
<td>n/a</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Sources:** Selected countries’ Investment Promotion Agencies, Central Banks and Ministries of Finance, The United States Government official Internet Presentation ([www.state.gov](http://www.state.gov)), National Statistics Agencies, The Economist Intelligence Unit.
**APPENDICES**

List of Appendices:

1. ACTION PLAN FOR THE REMOVAL OF ADMINISTRATIVE BARRIERS TO FDI 2005-2006
2. GENERAL INFORMATION ON FREE ZONES
3. FURTHER DETAILS ON CONCESSIONS
4. GENERAL SECTORAL ANALYSIS
5. ICT SECTOR ACTION PLAN
APPENDIX 1

ACTION PLAN FOR THE REMOVAL OF ADMINISTRATIVE BARRIERS TO FDI
2005-2006

(ATTACHED AS A SEPARATE DOCUMENT)
APPENDIX 2

GENERAL INFORMATION ON FREE ZONES

The free zones concept represents a modern type of economy extraterritoriality and is characterized by a physically fenced in and marked territory within a country; it provides for additional guarantees and a stimulating environment for operating a business. There are more than 5,000 free zones in 120 countries around the world. Although their development levels vary, more than 20% of total international trade is performed through free zones.¹

Main free zones attractiveness factors are: favourable customs treatment, certain tax relief and simplified administrative procedures. Free zones are hosts to a variety of economic activities - aimed at encouraging exporting activities in a sense of increasing foreign trade levels of a host country and positively contributing to domestic economy.

Free zones are typical for developing countries, especially countries in transition. Depending on a breadth of the accepted definition, free customs zones could also include zones in developed countries – USA, UAE, Great Britain, The Netherlands, France, Ireland, etc. – that are slowly moving away from the classical concept with new tendencies characterized by:

- evolution of classic, productivity-oriented zones dominated by specialty services (global trend of service sector expansion due to rapid developments in telecommunications and technology),
- expansion of former enclaves onto wider territories (special economy zones in China or a whole province in Thailand),
- transformation of free zones into scientific parks (areas close to university campuses or large institutes mainly engaged with agri-business or bio-engineering research),
- establishment of special zones dealing only with “offset” procurements (large procurements of developed countries’ governments – weapons, medical equipment, telecommunication systems, energy systems and energy produced in the host-country).

Nevertheless, a huge effect from implementing the concept has been achieved in countries that used it to lessen problems arising from transition. Consequently, it can be concluded that our economy could benefit from the development of the free zone concept in following ways:

- **Increase of exports and foreign currency inflows** (Hungary has exported goods and services valued at $9 billion through free zones in 2001).
- **Creation of new jobs** (40,000 employees work in Mexican free zones; first 28 zones in Hungary employed around 26,000 people).
- **Establishing cooperation between companies located in a zone and “outside” companies** (world-known names located themselves in Hungarian free zones and developed cooperation with a number of domestic companies engaging them as partners, sub-suppliers, for freight services, etc.).

¹ Source: WTO
• **Increase of FDI and transfer of new technologies** (500 companies operate in Turkish free zones through which $400 million had been directly invested in Turkish economy. In 2004 turnover of Turkish free zones was $22 billion with 40,000 new jobs created).

• **Efficient method of the economy in the function of going regional** (Free zones concept might be the best providing tool for efficient implementation of a regional development plan and advancement of certain, economically underdeveloped regions).

• **Leader in the region** (strategic goal for Serbia in the upcoming years in, definitely, to become the economic leader in the Balkans).

Situation in the environment speaks in favour of free zones. All neighbouring countries have involved themselves in developing the concept and, in relation to that, adopted certain legal solutions which have given good or less good results. Generally, free zones in the neighbourhood (except in Hungary) are just being developed now which is a chance for Serbian free zones.

For better success and operating of the zones in is necessary that the host country provides certain conditions, which means: the existence of a unified and encouraging Law on Free Zones, general legal and political certainty, available and less-costly work force, liberal import-export flows, minimal administrative procedures, quality financial services, developed infrastructure and telecommunications.

The first step in supporting the free zone concept should be the development of a quality, liberalized, fully autonomous and affirmative legal solution that would precisely define all terms and institutions important for business operations in a zone and would, in detail, systematize all other areas. In such way, all negative outcomes of non-harmonization and legal gaps would be avoided in legislature. In that sense, it is of a special concern to define the following areas:

1. **Taxes and contributions** – the main significance in existence of free zones is in tax incentives and relief system that in practice does not exist in Serbia, except from a small number of incentives stipulated in the VAT Law.

2. **Labour relations and zone employees’ status** – for each investor a very important issue that has not been regulated so far. It is necessary to define the treatment of foreign companies and persons employed in a zone.

3. **Customs regulations** – necessary to define a procedure for customs processing within zones, especially when it comes to production, as implementation of existing regulations burdened production (financially and administratively) even more than companies outside of zones. Also, interpretation of certain regulations differs from (customs) post to post.

4. **Foreign currency and international trade** – provide implementation of existing regulations stipulated in the Law on Free Zones that have never been implemented and define a way and appropriateness of handling foreign currency, ways of getting and suitability of international loans, way of establishing domestic and foreign banks’ branch offices in zones, foreign currency remuneration methods between a managing company of the zone and zone users.

5. **Construction land and building of amenities** – it is necessary to define a cohesive and encouraging procedure for obtaining construction licenses (building permits), system of exemptions or incentives in a process of paying fees and taxes regarding the issue, as well as fees for renting facilities.
6. **Zone managing company authorities** – the existing law does not provide clear and precise regulation which resulted in virtual lack of authorities of a zone managing company. Authority has to be precisely defined – it would have to be of an autonomous character and to follow the liberal nature of zones, but only with clearly defined rights of a managing company towards the state and clearly defined modalities for control and zone performance monitoring.

By developing a harmonized and autonomous Law on Free Zones, work of authorities in implementing regulations would be immensely easier. Ambiguity and ability to differently interpret the law would be removed as well.

Benefits of a free zone concept (brief):
- Development of regions and harmonization of development of a host-country’s territory.
- Development of certain sectors/economic activities (technology transfer, knowledge, experiences).
- FDI, encouraged by removal of administrative barriers and existence of suitable infrastructure.
- Creation of new jobs.
- International trade growth and inflow of foreign currency.
- Productivity increase.
- Increase of the level of domestic economy competitiveness.
- Increases Investors’ confidence.
APPENDIX 3

FURTHER DETAILS ON CONCESSIONS

The National FDI and the private sector development strategy should rely on concessions promotion – a confirmed modality of cooperation between private and public sectors in a wide variety of areas.

Investment opportunities in Serbia have been significantly increased thanks to the adoption of the Concessions Law (Official Gazette of the Republic of Serbia, 55/2003). Concessions are investments into the domestic economy in accordance with the legislative practice of providing equal conditions for all potential private investors (domestic and foreign) through partnerships with public sector, guided by the “build, operate, transfer” (BOT) principle. This is all about a unique regional law that represents principles of transparency, non-discrimination, proportion, efficiency and certainty in publishing procedural information internationally. The key for encouraging investments through concessions lies in secure property and contractual rights.

The fact that the Law offers a variety of opportunities for investment for up to 30 years, along with the Foreign Investment Law, provides a solid basis for inflow of new investment into the Serbian economy (excluding the armaments sector). In parallel with market reforms, the Serbian economy is undergoing through privatization and restructuring of enterprises where the concept of investing through concessions (along with well known benefits of solving infrastructure problems, unemployment and budget revenues) greatly contributes to demonopolization (usually, governments have monopolies over transportation infrastructure), growth of competitiveness and increasing the quality of goods and services.

Investors have so far expressed an interest for concessions in areas of transportation infrastructure, mining and energy and regulation of solid waste in cities. In that regard, realization of interest of Serbia has been initiated through cooperation. This talks about concessions for highways from Nis to the Bulgarian border and from Horgos to Pozega, concessions for research and exploitation of various ores on several locations, establishment of facilities for managing solid waste, etc. At all times this involves cooperation with the Ministry of Capital Investments, Ministry of Mining and Energy and representatives of local self-governments.

The experience shows that it is necessary to prepare and develop a Concessions Manual. It should point out relations among different laws that need to be applied/respected in preparing the concessional proposal as well as throughout the realization of a proposal/project. The Manual would provide enormous help to both domestic and foreign investors as it would have all required information compiled.

This would be the way to promote concessions, familiarize the public with benefits of such investment type and strengthen local self-governments.

With respect to natural, legal and “de facto” monopolies, the goal is to increase competition in areas where Serbia has competitive advantages through its strategic geographical location. In such way PPP areas emerge: development and usage of

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* EBRD, Concession Assessment Project – Cover Analysis Report, August 2004.
energy capacities, development of tourism infrastructure, exploitation of thermal springs, utilities, development and usage of roads, research and exploitation of ores/minerals. The neighbouring and Central European countries’ experience shows that concessional projects were primarily used to solve infrastructure development issues, where the toll proved to be too high and socially barely viable solution.
1. World Trends and the Situation in Serbia

It is estimated that 50% of GDP today comes from the industry. It is also estimated that by 2025 the globally positioned industry shall participate in the world GDP over 75%. These tendencies show the following:

1. The industrial production has the highest participation in creating GDP. It is especially important for small countries that lack in raw materials and energy and do not have high tourism and transportation potentials. Serbia is one of such countries.
2. National economies cannot be closed any longer and protect their markets and economies in a traditional way.
3. Each country, especially small and medium-developed countries, must find its share of the global industry as the global industry is the technical and technological development driver, has the lowest cost per product unit and it is hard to stand up to it with a competitive offer.

Global economy creates and imposes new standards and in such way eliminates those who are not able to follow swift changes.

It is a general estimate that Serbia is late in reforming its economy in comparison to countries in the region. This particularly pertains to privatization and providing foreign investors with free access to all economy sectors. The region has already established particular economy structure which is reflected in the example of the automobile industry. Major world manufacturers have invested in Slovenia, Czech Republic, Slovakia and Romania. Neighbouring countries - Hungary, Romania and Bulgaria – are already part of the EU or will be so in the next 2 years. This is why the interest to invest in Serbia is low, especially into those sectors that do not have a significant domestic market share. With an exception of telecoms and energy sectors, the most attractive investments into Serbia have already been completed (cement, tobacco, breweries). This fact is a difficult factor that influences the future development of the Serbian economy. Defining priorities in not possible as the "Strategy for the long-term development of the economy of Serbia" does not exist (this strategy should define the most important sectoral policies – industrial, agricultural, etc.). At this moment, the only two strategies that have been developed on an acceptable level are the strategy for energy development and the strategy for the development of transportation.

2. General Assessment of the Economy of Serbia

The fall of the former Yugoslavia, wars, international isolation and economic sanctions have caused a decrease of all economic indicators in the interval of 1990-2000. National economy has not been significantly recovered from 2000 to 2004. General assessment of the Serbian economy is as follows:

1. Low level of technological and market capabilities of industrial enterprises.
2. Inefficient business (low productivity, high cost/product).
3. Unsatisfactory levels of quality of goods and services.
4. High trade deficit that is not sustainable in a long term.

*This Analysis has been submitted by the Serbian Chamber of Commerce*
5. Number of new jobs is lower than the number of jobs lost in the privatization programme, which increases unemployment and decreases employment.

6. High level of public expenditure in a domestic product.

7. Low level of investments from 1990 to 2004. In 2002 Serbia had the lowest percentage of investments in GDP – 12%, whereas Croatia had 27%, Czech Republic 28% and Hungary 25%. Having in mind that GDP in Serbia is low, than 2002 investment absolute values were: Czech Republic – 12 times higher, Hungary – 9 times higher, etc.


Serbian industry structure was not satisfactory even before 1989. However, it has been dramatically changed – it deteriorated from 1989 to 2000. This is best shown in Table 1. Electricity, coal, oil, natural gas and oil derivatives production share in the total industrial output in 1989 was 11.92% and in 2000 – 24.39%. However, the physical productivity level has remained almost the same.

In 1989 share of the most important industry branches – metal processing, machinery building, transportation means manufacturing, ship building, production of electrical machinery and appliances, textile (apparel) and leather footwear and accessories – in the total industrial output was 42.56%, and in 2000 – 19.74%. Having in mind that levels of industrial output in 2000 was approximately at 50% of the level in 1989, then the most important industry branches output declined more than 4 times. This has affected exports as these were the main exporting industries in Serbia.

Comparative GDP share of certain sectors: - in % -

<table>
<thead>
<tr>
<th></th>
<th>200</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting and forestry</td>
<td>23,8</td>
<td>25,0</td>
<td>19,2</td>
</tr>
<tr>
<td>Processing industry</td>
<td>33,9</td>
<td>32,0</td>
<td>30,3</td>
</tr>
<tr>
<td>Ore and stone</td>
<td>1,8</td>
<td>2,5</td>
<td>2,2</td>
</tr>
<tr>
<td>Electricity, gas and water production</td>
<td>1,8</td>
<td>2,3</td>
<td>5,0</td>
</tr>
<tr>
<td>Construction</td>
<td>6,1</td>
<td>5,4</td>
<td>5,0</td>
</tr>
<tr>
<td>Wholesale/retail and repair</td>
<td>17,6</td>
<td>16,4</td>
<td>18,6</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1,9</td>
<td>2,0</td>
<td>2,1</td>
</tr>
<tr>
<td>Transportation, warehousing and linkages</td>
<td>9,2</td>
<td>10,9</td>
<td>12,4</td>
</tr>
<tr>
<td>Real estate, renting</td>
<td>3,5</td>
<td>3,0</td>
<td>3,4</td>
</tr>
<tr>
<td>Other</td>
<td>0,4</td>
<td>0,5</td>
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</tr>
</tbody>
</table>

Public sector GDP share in 1989 was 90.8% and private sector share – 9.2%. This significantly changes in 2000: public sector share is 59.5% and private sector share is 40.5%. The ratio will continue to change in favour to the private sector – the private sector GDP share in 2002 was 42.6%. In the light of economic reforms, this is a positive trend. We have to bear in mind that 2002 GDP was only 45.3% of 1989 GDP. Excluding Kosovo, GDP is twice as lower in the mentioned time-frame.
Table 1 - SERBIA - INDUSTRIAL PRODUCTION STRUCTURE 1989-2000

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</thead>
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<td>Industry total</td>
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<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
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<td>100.00</td>
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<td>Work tools</td>
<td>11.74</td>
<td>7.40</td>
<td>4.91</td>
<td>4.49</td>
<td>4.10</td>
<td>4.70</td>
<td>4.67</td>
<td>4.33</td>
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<td>Raw material</td>
<td>56.89</td>
<td>53.29</td>
<td>49.90</td>
<td>49.91</td>
<td>50.53</td>
<td>59.14</td>
<td>58.00</td>
<td>52.59</td>
<td>54.93</td>
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<td>Expandable goods</td>
<td>31.22</td>
<td>39.12</td>
<td>44.96</td>
<td>45.38</td>
<td>45.17</td>
<td>35.99</td>
<td>37.21</td>
<td>42.96</td>
<td>40.23</td>
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<td>Electricity</td>
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<td>7.91</td>
<td>18.89</td>
<td>19.03</td>
<td>19.53</td>
<td>19.37</td>
<td>18.63</td>
<td>21.66</td>
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<td>6.70</td>
<td>8.79</td>
<td>8.91</td>
<td>2.99</td>
<td>2.93</td>
<td>2.60</td>
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<td>Extraction of crude petroleum and natural gas</td>
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<td>0.32</td>
<td>3.60</td>
<td>3.39</td>
<td>3.34</td>
<td>0.99</td>
<td>0.94</td>
<td>1.13</td>
<td>1.12</td>
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<td>Oil derivatives production</td>
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<td>0.59</td>
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<td>1.07</td>
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<td>1.98</td>
<td>1.74</td>
<td>1.08</td>
<td>1.02</td>
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<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03</td>
<td>0.02</td>
<td>0.01</td>
<td>0.00</td>
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<td>&quot;Black&quot; metallurgy</td>
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<td>1.21</td>
<td>0.34</td>
<td>0.20</td>
<td>0.39</td>
<td>2.94</td>
<td>2.98</td>
<td>0.70</td>
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<td>1.80</td>
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<td>1.75</td>
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<td>0.99</td>
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<tr>
<td>Processing of &quot;coloured&quot; metals</td>
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<td>0.89</td>
<td>0.26</td>
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<td>0.73</td>
<td>0.78</td>
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<tr>
<td>Production of non-metal mineral products</td>
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<td>0.17</td>
<td>0.23</td>
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<td>0.30</td>
<td>0.28</td>
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<tr>
<td>Processing of non-metal minerals</td>
<td>1.94</td>
<td>1.72</td>
<td>1.27</td>
<td>1.29</td>
<td>1.29</td>
<td>2.06</td>
<td>2.28</td>
<td>2.25</td>
<td>2.48</td>
</tr>
<tr>
<td>Metal-processing activities</td>
<td>7.95</td>
<td>7.77</td>
<td>3.92</td>
<td>3.21</td>
<td>3.09</td>
<td>4.71</td>
<td>4.72</td>
<td>4.54</td>
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<td>Engineering</td>
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<td>5.62</td>
<td>2.24</td>
<td>1.59</td>
<td>1.50</td>
<td>1.62</td>
<td>1.50</td>
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<tr>
<td>Manufacture of transport vehicles</td>
<td>8.63</td>
<td>8.12</td>
<td>1.97</td>
<td>1.80</td>
<td>1.70</td>
<td>3.53</td>
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<td>Manufacture of electrical machinery and apparatus</td>
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<td>4.56</td>
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<td>6.03</td>
<td>6.49</td>
<td>6.97</td>
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<td>Manufacture of stone, gravel and sand</td>
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<td>Manufacture of finished wood products</td>
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<td>2.81</td>
<td>2.55</td>
<td>2.50</td>
<td>1.90</td>
<td>1.75</td>
<td>1.84</td>
<td>1.96</td>
</tr>
<tr>
<td>Manufacture of paper and paper products</td>
<td>1.84</td>
<td>1.49</td>
<td>1.61</td>
<td>1.53</td>
<td>1.62</td>
<td>2.12</td>
<td>2.18</td>
<td>2.33</td>
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<tr>
<td>Manufacture of textile yams and textiles</td>
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<td>4.08</td>
<td>3.35</td>
<td>3.30</td>
<td>2.90</td>
<td>2.32</td>
<td>2.36</td>
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<tr>
<td>Manufacture of finished textile products</td>
<td>6.33</td>
<td>7.54</td>
<td>5.45</td>
<td>5.78</td>
<td>4.57</td>
<td>4.26</td>
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<tr>
<td>Manufacture of leather and fur</td>
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<td>0.60</td>
<td>0.33</td>
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4. Sectoral FDI Potentials and FDI Needs

4.1. Telecommunications

Telecommunication sector is one of the most important infrastructural systems of modern world. It’s necessary for good functioning of economy systems, primarily ICT, transportation, electricity, banking, but also for other systems like health care, education, police, military, tax administration, etc.

Indirect goal that needs to be achieved by FDI is rapid sector development and decreasing development level differences in comparison with neighbouring and the EU countries.

Telecoms development level is measured by number of fixed lines and mobile phones, cable TV, PCs and Internet connections. If development level in Serbia is marked as 1.0, then it’s 1.5 in Romania, 1.7 in Bulgaria, 2.0 in Croatia, 2.8 in Hungary, 2.8 in The Czech Republic, 4.1 in Slovenia, 5.5 in Austria and 8.0 in Sweden which is one of the most developed countries.

This shows high long-term investment needs for investing in telecoms in Serbia. The approximation is that €12-15bil should be invested into the sector in a period of upcoming 10 years.

Resources:
- Significant domestic market
- Highly educated and skilled work force
- Good existing network.

Problems:
Disparity of prices for local and international calls.

Needed investments:
- Modernizing existing telephone stations and building new ones
- Development of a communication and accessibility network
- Introduction of new services.

Domestic investment inputs – 20%, with a growth tendency.

Recommendations:
- As the government presently has a monopoly in telecoms, the pre-condition for FDI inflows into the sector is defined (sector) privatization programme.

4.2. Electricity

This is the sector with least investments in past 20 years. The last power plant to be built is now 20 years old. Average age of power plants is exceeding their durability. Equipment readiness is 75% and reliability coefficient is 80%. Reserve capacities do not exist and increased consumption during winter months is bringing the system to the verge of sustainability.

Electricity consumption in Serbia is not huge in comparison to the EU countries – 3.500kwh annually per inhabitant, but it is large if brought down to the energy intensity (approx. 1.4100kwh/000 $ of GDP, Greece 400, Portugal 300, Denmark 200)

The world electricity consumption is rising. Reviving the economy and increasing the standard of living in Serbia shall lead to increased consumption, so without any new investments into production capacities electricity will become a serious impediment to further economic development.
Indirect sectoral goal is building new production capacities. In the upcoming 10 years, estimates are that €4-5 billion are the required investments.

Resources:
- Coal (lignite)
- Highly educated and skilled work force
- Renewable energy sources

Problems:
- Disparity of prices – kw/h; This is not possible to solve in a short-term
- Ecological problems (ash residues, etc.)

Needed investments:
- Two thermal power plants – 1200MW.
- Natural gas power plants – 220MW,
- A number of smaller power plants that can be used for heating larger cities and distribution of hot water.
- Equipment for surface mining (coal)
- Transmission systems
- Interconnectivity
- Environment protection
- Processing of coal dust and other renewable energy sources
- Building new mini hydro-power plants.

Recommendations:
- It is necessary to allow foreign investors to build new power plants independently from the flow and dynamics of a privatization process relative to the sector. Previously, a decision regarding a half-built power plant “TE-TO Kolubara B”.

4.3. Oil Industry and Gasification

FDI in oil industry, increase in productivity of oil derivatives and development of new production facilities is a pre-condition for development of a petrochemical and base industries. Development of this sector indirectly influences development of chemical, plastics and rubber industries. FDI in this sector would be regarded as highly important for their multitude of effects.

Serbia highly depends on oil and gas imports – 75% of consumption is from imports. Domestic refineries do not produce enough quantities of oil derivatives. Oil and gas imports represent the biggest foreign currency outflows in Serbia. Development of chemical and petrochemical industries can contribute to the increased foreign currency inflows and cover energy importing costs. Natural gas is not used in Serbia only as an energy source, but also as a raw material for producing fertilizers and methanol.

Estimate: possible investment in a period of a following 10 years – €3.5-4mil.

Problems:
The existing disparity of prices is not huge and can be removed relatively quickly (2 years).

Needed investments:
- Improvement and modernisation of existing refineries
- Development of a part of an international oil pipeline through Serbia
- Development of oil derivatives storage facilities (Belgrade, Novi Sad, Smederevo, Nis, Prahovo, Bor)
- Development of a large underground natural gas storage facility
- Gasification of cities
- Production of engine oil
- Expansion of natural gas distribution network.

Possible domestic investment inputs: 30%.

Recommendations:
- Enacting the sectoral privatization programme. Privatization of oil industry is less problematic than the privatization of other large systems and this is why priority should be given to it. It opens up possibilities for investment into chemical industry.
- Gasification and development of an underground natural gas storage facility would lower costs of gas distribution and allow for supplying large consumers on lower prices.

4.4. Agriculture and Agribusiness

Serbia has natural potentials for agriculture development. The quantity of arable land per inhabitant is higher than the European average. Favourable geographic location is convenient for delivery of fresh vegetables, fruits and meat into large consumer centres.

FDI in primary agriculture production is not possible because of the long-term lease of arable land and arable land ownership issues.

FDI is possible in processing industries, but most of it would not be economically viable as the primary production is low. Oscillations in annual production of primary agricultural products are high. Annual production of main cultures (wheat, corn, sunflower, sugar beet, soy) depends on the meteorological conditions and frequent pricing policy changes. That is where low investment activity comes from. Large community owned farms are experiencing serious difficulties and there’s no clear privatization programme. Producers are individually economically weak to be able to invest in agricultural machinery, establishment of new orchards, vineyards and vegetable farms.

Similar situation is found in stock-farming (cattle-growing) – number of cattle is decreasing.

Possible financial sources for investment into primary agricultural production and stock-farming are:
- Funds received from privatization of large enterprises
- EBRD loans
- Loans from other countries (with a friendly attitude towards Serbia)
- Providing long-term lease of arable land to investors for establishing orchards, vineyards, etc.

Serbia’s agricultural strategy aims to increase areas with industrial plants, fruit, vegetables vineyards, etc.

In cattle-farming: increase the number of live-stock.

Based on these resources it is possible to build new processing capacity and modernize the existing ones. The ultimate goal of the strategy should be creation of high-quality products with a geographical origin.
Food processing industry is developed in Serbia and there are many established facilities. Average usage of those capacities is 50%. It is necessary to modernize technology lines, especially in slaughter houses and new cold storage facilities.

FDI in this area is possible through partnerships between domestic and foreign companies. This type of cooperation, virtually not present in Serbia, should be promoted as in long term it can be an important investment channel.

In a period of the upcoming 10 years, value of possible investments is approximately €5bil (€3bil in irrigation and agricultural machinery, €1bil in developing orchards and vegetable farms and €1bil in processing capacities).

Resources:
- Available agricultural land of good quality
- Favourable geographic location for fruit and vegetable crops
- Good quality of live stock
- Human resources
- Developed research, with direct implementation in agriculture and stock farming
- Proximity of large consumers.

Problems:
- Issue of usage of arable land is not resolved (long-term lease and ownership)
- Unclear concept of privatization of existing large agricultural estates (a huge mistake would be made if they were broken down into smaller farms)
- Underdeveloped local infrastructure
- Impossible to access European funds due to problems arising in the EU agricultural sector
- Symbolic FDI in the sector in neighbouring countries.

Needed investments:
- Irrigation.
- Agricultural machinery.
- Developing new sour cherry, apple, pear, peach, raspberry and vegetable growing plantations.
- Developing new vineyards (out of 100.000ha of vineyards 20 years ago, today we have barely 40.000ha).
- Sheep farms in Eastern and South-western Serbia and Sandzak.
- Establishment (building) of several facilities for production of fruit pulp.
- Building a factory for production of wine distillate.
- Modernization of slaughter houses.
- Establishment of cold storage facilities.
- Modernization and establishment of new production facilities for heat processing of fruit and vegetables.

Possible domestic inputs in investments are 50%.

Recommendations:
- Adopting the Agricultural Strategy for Serbia.
• Resolve the issue of usage of arable land (long-term lease for long-term crop growing).

4.5. Tourism

Tourism potentials of Serbia are not great, but the existing potentials should be streamlined towards attracting tourists from foreign countries. Tourism is an important industry as other economy sectors are valorised through it (food and drinks production, transportation and services). Engages significant number of employees.

Resources:
• Spas (Vrnjacka, Niska, Soko Banja, Mataruska, Melenci, etc.).
• Mountains (Kopaonik, Tara, Zlatibor, Zlatar, Divcibare, Goc).
• Rivers (Danube, Tisa, Drina).
• Hunting.
• Transits.
• Human resources.

Problems:
• Underdeveloped infrastructure.
• Low level of quality of services (sanitary problems are huge).
• Unresolved question of environmental protection of tourist centres.
• Underdeveloped accommodation possibilities outside of guest houses/hotels and similar.

Needed investments:
• High-category hotels (Belgrade, Nis, Novi Sad).
• Establishment of health and recreation centres (Vrnjacka Banja, Soko Banja, etc.).
• Building of high-category hotels in tourist centres on mountains.
• Establishment of nautical centres on Danube (Donji Milanovac, Golubac, etc.)

Possible domestic investment input is 70%.

Recommendations:
• Investments in transportation development and environmental protection.
• Make possible purchase of land or a long-term lease of land for establishment of tourist facilities.

4.6. Automobile Industry – Industry of Transportation Devices/Means/Tools

Automobile and transportation industry is the largest single market in Serbia. There are over 1.400.000 registered passenger cars and about 400.000 lorries, buses, specialty trucks, etc. in Serbia. Average age of cars is 12 years, and transportation vehicles are even older. Supposing that in the upcoming 10 years 2/3 of all vehicles are changed for new ones, the fact creates a market of 1.200.000 vehicles, that is 120.000 vehicles annually.

In terms of money, we are talking about €2bil per year, including services and auto components production.
A need for a strategic partner is justified – a partner which could establish a production line in “Zastava Automobili”.

Prospective annual production is 80,000-100,000 vehicles. Such line would be accompanied by production of auto-components (valves, tires, wheels, batteries, brake systems, filters, etc.). Auto components industry would be equipped to produce first-time built-in parts and spare parts for majority of cars produced in Europe. In the following 3-5 years €800mil should be invested in the automobile industry.

Resources:
- Domestic market.
- Existence of production facilities with required infrastructure.
- Highly skilled and educated work force.

Recommendations:
- Direct negotiations with world known companies.
- Reinvestigate the “Zastava Automobili” privatization model.
- Development of clusters.
- Provide incentives that would attract a serious world-known car manufacturing company.

4.7. Chemical Industry

Foreign investors have already made their presence in this industry through the privatization process and their participation in future tenders is expected in the future. Building of new capacities is connected with further development of refineries and petrochemical industry as a baseline industry.

Needed investments:
- Building of one grime plant – important for rubber industry (grime is presently imported). Such a project in Elmir exists, but local inhabitants are opposing the idea because of ecological problems which could be solved with today’s modern technologies.
- Building of one synthetic cord factory (used for production of automobile tires).

4.8. Logistics and Intermodal Transportation

Serbia has a good geographical position. Demand for such services is constantly increasing in the world and the country.

Needed investments:
- Cargo terminal – Belgrade airport.
- Goods transport centre on Danube close to Belgrade (Serbia does not have a modern container terminal).
- Development of the “RTI” network.
4.9. Recycling (of raw materials)

Recycling is not developed in Serbia. Domestic experience does not exist within the area. Feasibility studies are needed as well as development of potential projects in cooperation with the EU.

The Government has a key role in organizing and controlling recycling of raw materials, especially of hazardous waste. Significant direct and indirect foreign investments are possible in this sector, as is the access to European funds.

Domestic investment inputs – 30%.
Value of investments is €200-300mil.

Problems:
- Huge waste quantities (10mil tons per year).
- Huge quantities of waste disposal waters.
- Huge quantities of waste disposal of gas.

Recommendations:
- Enactment of legislation in accordance with the EU legislation.
- Development of cadastre of waste disposal and secondary raw materials.
- Tax relief for new investments.
- Privatization of utilities and provision of concessions in the area of waste management.

4.10. Wood Industry

Development of wood industry should be based on exporting furniture that has been manufactured out of timber originating from renewable woodlands. The demand is increased for this type of furniture.

Domestic raw materials and labour are available.
Competitive design and quality are missing. Establishment of a number of SMEs is possible.

Recommendations:
- Attract foreign partners because of the market potential, design and modern technologies.
- By developing wood processing provide for a certain de-stimulation in exporting raw timber.

4.11. Leather Industry

There is space for building capacities for processing of raw animal skin as raw materials are locally available and demand for leather goods/products is increasing in the world.
Foreign investments are needed for technology and equipment.
By provision of necessary conditions for processing of raw animal skin exports would be de-stimulated.
4.12. Production of Minerals (Non-metals)

Production is recording an increase. They are used in protection of environment as well as in agriculture. Some non-metals are not used in Serbia at all (phosphates, zeolite, etc.), and some are at very low levels (basalt).

Give a concession for exploiting heavy-armature relay spar, fluorspar, phosphates, basalt, bentonite, etc. Processing facilities possible to develop based on the production of non-metals which is very important for expansion of underdeveloped regions.

4.13. Mineral Waters Exploitation

World consumption is increasing. Serbia has significant resources.
Make concessions available for foreign investors.
Along with exploitation of mineral waters, the industry of producing non-alcoholic beverages is being developed.


Serbia exports “coloured” metals as semi-products, and imports finished goods.

It is possible to develop final production facilities – only if there are certain incentives to do so. New capacities would lessen economy issues of some regions – Bor, Nis, Zajecar, Uzice.
APPENDIX 5

ICT Sector Action Plan

Telecommunications services

Policy & Legislative Framework

1. Establish Telecommunications Agency and Regulator activity speedily to drive liberalization in telecommunications services.
2. Act to attract additional telecommunications carriers into the Serbia market and to “unbundle the local loop”, thus ending the monopoly in fixed line services.
3. Complete the legal framework for e-business adoption and align with EU regulatory framework.

Infrastructure

1. Review international models on how to build national telecommunications infrastructure and select suitable development model for Serbia.
2. Complete the digitalization of the telephony network.
3. Implement a plan to provide an open access fibre optic backbone network connecting the main urban centres and flagship S&T Park sites.

Skills and Knowledge

5. Adopt and implement Higher Education, Science and Innovation Laws as foundation stones for a Higher Education and Research sector that is responsive to economic needs.
6. Put in place a high level ICT Expert Group, with strong involvement from the ICT corporate sector, to advice on plans for ICT graduate output, content of ICT curricula and priorities for funding of ICT research activity.
7. Develop Technology Transfer / Industry Liaison mechanisms within the Higher Education sector, as part of a National Innovation System, to promote effective business linkage.

ICT Business Infrastructure

1. Develop investment plans for 4-6 flagship Technology Park sites in the major urban areas which have well developed access infrastructure and Higher Education linkage.
2. Use the Feasibility Study exercise into Technology Parks in Serbia to identify the development model for these sites, which should include Incubator facilities for start ups and FDI, advance business accommodation units, high speed broadband access, technology transfer linkage and business development processes.

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40 Report: The Role of the Information & Communications Technology (ICT) Sector in the Development of a Foreign Direct Investment (FDI) Strategy, Patricia Byrnes – a report produced within the Terms of Reference of the SIDA funded FDI Project within the Ministry of International Economic Relations
3. Develop promotion databases for ICT graduate output, ICT R&D activity and existing base of ICT companies in each of these locations as a basis for promoting and marketing the centres for targeted ICT sub-sectors.

ICT and Business

1. Implement a best practice e-business programme for business and develop measurement indicators for tracking e-business adoption.
2. Develop responses to the lack of venture capital and business development finance mechanisms, particularly for start ups in knowledge-intensive sectors.
3. Facilitate and promote cluster programmes – including professional development – and networking events for ICT based companies in individual regions.

Information Society

1. Prepare, launch and disseminate an Information Society Programme for Serbia with strong political leadership, clear targets, devolved implementation plans and regular measurement of progress targets.
2. Implement Internet access and certified IT skills development programmes in schools and retraining programmes as part of IS Programme.
3. Implement specific eGovernment actions which can deliver visible service improvement quickly at the citizen level as part of IS Programme.

Overall comment: The ICT Sector can contribute powerfully to economic, export and FDI growth in Serbia if targeted actions are taken around above key areas.
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<td>Standard and Poors, April 2005</td>
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<td>Fitch Ratings, May 2005</td>
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<td>UN Statistics Division – Serbia and Montenegro</td>
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<td>The Economist Intelligence Unit</td>
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<td>12.</td>
<td>Serbian Chamber of Commerce</td>
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<td>13.</td>
<td>UNCTAD, FDI/TNC database (<a href="http://www.unctad.org/fdistatistics">www.unctad.org/fdistatistics</a>)</td>
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<td>CorpTracker (Oxford Intelligence) November 2004</td>
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<td>Selected countries’ Investment Promotion Agencies, Central Banks and Ministries of Finance, The United States Government official Internet Presentation (<a href="http://www.state.gov">www.state.gov</a>), National Statistics Agencies</td>
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