

STUDY WITH RECOMMENDATIONS

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CONDITIONS FOR

1

DOING BUSINESS

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AND MEASURES

2

FOR DEVELOPMENT

- IT & telecommunications
- Chemistry and non-metals
- Textile, leather and footwear

Study with recommendations

CONDITIONS FOR DOING
BUSINESS AND MEASURES
FOR DEVELOPMENT
2013

IT & telecommunications
Chemistry and non-metals
Textile, leather and footwear

Belgrade, 2013

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I | Introduction

New initiative from economy (2014-2020)

The period 2008 – 2012 brought many challenges to the economy of the Republic of Serbia. After eight successive years of growth, since 2009 economic activities were slowed down and the GDP recorded decrease. Decrease of income in the economy resulted also in a sharp decline in employment, so, at a certain moment (2012), Serbia was with the Kingdom of Spain the European leader by the number of unemployed citizens, with the unemployment rate of 26,2 percent.

Crisis in the Serbian economy is a consequence of several different causes: slow and insufficiently successful transition of economy; bloated and unreformed state bureaucracy which significantly impedes doing business in a modern and efficient way; insufficiently built-up system for regulating property rights and protection of private property as a basis of all developed liberal economies; unreformed public sector and public and state owned companies; lack of awareness on necessity to develop entrepreneurial spirit and processes of life long learning with all generations of working-age population and badly schemed and unsuccessful concept of the national economy in whole.

The Serbian Association of Employers carried out different researches over the last years about these causes of crises, and this study puts in focus the last of them – concept of the development policy of the national economy. In 2010, in cooperation with the International Labor Organization, a detailed analysis and survey were conducted among the employers and these were used as basis of the proposals for the necessary measures for development of two sectors – agriculture and tourism and catering, which sent to the Government of the Republic of Serbia. This study puts the focus of the three other sectors of the economy whose further recovery and growth could significantly influence the increase of income through export, strengthening of sustainability of the existing jobs and reducing high unemployment rate in Serbia through creation of new jobs. These are the sectors of information technologies and telecommunications, sector of chemistry and non-metals and sector of textile, leather and footwear.

Previous experiences from period 2001 until now showed that one of the key mistakes in concept of devel-

opment of particular sectors of economy, but also of economy in whole, was that all the three previous development strategies were mainly created by the state clerks from the ministries in charge for economy, trade, labor and employment, IT, telecommunications, etc, without the broad survey and consultations with the owners, directors and managers from companies within the particular sectors of economy. The lack of this experience from the everyday entrepreneurial and business practice led to a situation where different strategies mainly remained a dead letter. Therefore, the aim of this research within the said three sectors of economy was to:

1. Conduct survey among company managers about the present situation and proposals for development measures
2. Create a study which would consolidate the findings from the survey and managers' recommendations

This research shows the actual "complete blood count" within sectors of IT and telecommunications, chemistry and non-metals, textile, leather and footwear and it is prepared in order to be sent to the Government of the Republic of Serbia, Ministry of Economy, Ministry of Finance, Ministry of Foreign and Internal Trade and Telecommunications, Ministry of Labor, Employment and Social Policy, National Assembly of the Republic of Serbia, influential economic experts in the country, expert and wide public, printed and electronic media and others, with the primary goal to have the future development of the three said sectors based on the real conditions and recommendations from the experienced managers with the rich practical knowledge, because only experience and knowledge guarantee progress and results.

In front of the Serbian economy is a milestone that signifies the need to make it clear to the political elite of the country and the executive authority that the national economy cannot be led by the individuals and interest groups with no managerial experience in the industry and that every economy sector must be considered in the future separately and analytically, with creation of development measures especially for that sector.

Experience of the developed and rich countries showed that that is the only road that brings results. These results are finally, after many decades of rambling, much needed by Serbia.

*President of the Serbian Association of Employers
Nebojša Atanacković*

The study is focused on three industry sectors: information technologies and telecommunications, chemistry and non-metals and textile, leather and footwear. The secondary research about the present conditions in each of these sectors relies on the data of the Statistical Office of the Republic of Serbia and the Serbian Business Registers Agency about the general trends, number of the registered companies, number of workers, etc. The primary research is a result of the online survey conducted among the owners and the top leaders of the companies from these sectors, as the most familiar with the conditions in which their companies operate and the problems that they face.

More than 70% of the companies from the sector of IT and telecommunications have their headquarters in Belgrade and Novi Sad which indicates that Serbia is not enough developed in the fields of IT and telecommunications. The huge majority of the companies are micro or small enterprises, pressed by the numerous and expensive administrative barriers, especially when exporting, by lack of money, monopoly of the big state and public companies, lack of quality labor force, favorizing of the foreign companies and reduction of market. There are also a lot of complaints about the often changes of the legislation which remains complicated and unclear. While, on one side, there is no clear definition of what the intellectual property is, what the copyright and what the licenses, on the other side some solutions are completely illogical. For example, the software producers are not approved VAT return for purchase of company vehicle (car), as the production companies from the other industry sectors are (truck).

Sector of chemistry and non-metals has a longer history and the companies from this sector are better territo-

rially distributed, considering that there are 64% of them on the territories of Vojvodina and Belgrade, while the rest 38% are on the territory of the Central Serbia. This sector is one of the sectors that were hardest hit by the crisis which is particularly obvious in decline of the number of workers employed in this sector – for 21,8%. The administrative barriers and the expensive implementation of the laws are here also the biggest barriers for the development of companies, apart from the reduced demand and the lack of the investment capital. Unfair competition of the grey economy and the small purchase power of the citizens on the domestic market, as well as the lack of information about the conditions at the foreign markets have significantly reduced the market for sale of products of the companies from this sector.

In the sector of textile, leather and footwear almost 41% of these companies have their headquarters in underdeveloped or medium developed municipalities of Serbia which have lower standard and cheaper labor force compared to the big cities. The big part of the sale is covered by the import from China, Italy and the other countries so it is no wonder that this sector has experienced a huge decline during the economic crisis. Even today it is facing the huge problems with the reduced demand on the domestic market and high on the list of the problems are also the administrative barriers and the expensive implementation of the legislation as well as the lack of the working capital. Also, difficulties in payment of claims, big black market, lack and bad quality of the raw materials, taxes and contributions for wages inappropriately high for this low profitability sector are some more of aggravating circumstances.

III | Key Recommendations

In order to overcome the problems with which these three sectors are facing and to promote their development it is necessary that the state undertake a list of the measures which will create the enabling environment for the companies from these sectors, in accordance with the specificities of each of them separately. It is also necessary for the creators of the economic policy to have in mind the promotion of the export considering the big deficit recorded by the industry of the Republic of Serbia.

The research revealed that some of the problems are common, regardless of the sector from which the companies are. Namely, the entrepreneurs from all the three sectors believe that the following measures would most help to the stabilization and promotion of the companies and enable them the more successful appearance on the foreign markets:

- to reduce the administrative barriers
- to introduce the EU legislation gradually, in accordance with the possibilities of industry
- to reduce the burdens on doing business
- to introduce the tax exemptions for the exporting companies which would increase their competitiveness on the foreign markets.

Considering that each of the sectors has its specificities and the problems, the following measures are some of those which, according to the entrepreneurs, should be additionally undertaken:

Sector of IT and telecommunications:

- to reduce the monopolization and the dominant behaviour on market and to enable the same conditions for all the participants in the market competition
- to simplify the procedure for export of software
- to define the special tax exemptions for the companies from the field of high technologies which open the development centers outside of Belgrade, Novi Sad and Nis
- to increase the quotas for the admission of the students to faculties from the field of the information technologies and to create retraining programmes for graduated students of the faculties of the technical and other sciences

Sector of chemistry and non-metals:

- to enable credits through the special funds or the Development bank
- to reduce the unfair competition and sales in the grey zone
- to help the exporters in finding the strategic partners for distribution of the goods on the foreign markets

Sector of textile, leather and footwear:

- to form a guarantee fund for loan jobs
- to reduce the grey economy
- to help in finding the strategic partners for the joint production or distribution of the goods on the foreign markets
- to fight against the unfair competition
- to strengthen a customs control

Aims

The Republic of Serbia found itself during the period after the year of 2000 in the social and economic transition aimed at turning the country of the closed socialist type into a liberal economy relying on the principles of the free market.

Looking at the national economy in Serbia, the period after the year of 2000 can be divided into two phases. The first one includes the period of the gradual growth and the transition's heating up between 2001 and the end of 2008. The second one begins with the first wave of the world economic crisis, and it is characterized by stagnation and halt in transition processes, in period from the beginning of 2009 until today. The first one is characterized by the constant growth of GDP (Table 2.1.), and the second one by the decline of GDP with occasional indications of the slow recovery (Table 1.1.).

Table 1.1. GDP of the Republic of Serbia 2001-2012.

	2001.	2002.	2003.	2004.	2005.	2006.	2007.	2008.	2009.	2010.	2011.	2012. estimate
GDP u mil. EUR	12818.8	16024.3	17289.5	18993.6	20285.3	23327.4	28473.9	32678.9	28951.9	27967.8	31472.4	29932.3
GDP per citizen in EUR	1708	2137	2311	2545	2726	3147	3857	4446	3955	3836	4336	4158
Rates of real GDP growth (%)	5.3	4.3	2.5	9.3	5.4	3.6	5.4	3.8	-3.5	1.0	1.6	-1.7

Economic analysts, but also businessmen in Serbia, in spite of different approaches and opinions, agree in one thing – that stopping the growth of GDP and stagnation which dominates since the beginning of 2009 have several causes and that the development of economy in the Republic of Serbia will depend during the following years, and even decades, not only on the recovery of economies in EU countries (which are the biggest foreign trade partners of Serbia) and the global economic trends, but primarily from successfulness and speed of the internal reforms and setting the national priorities in recovery of the Serbian economy, and particularly of the certain industry sectors with the development potential.

This is why some sectors of the Serbian economy need a clear vision of the future, targeted and appropriate development strategy and commitment and perseverance in practical implementation of that strategy. This three bases **vision**, **development strategy** and **strategy implementation** are necessary for any industry sector individually, because during the period 2000 – 2012 it was clear that the linear approach to development of all industry sectors simultaneously is wrong and that creators of the economic policy did not understand enough the particularities of the business environment and characteristics of the particular industry sectors and of the activities within these sectors, so the previous strategies, insufficiently relied on instructions and

advice of the experiences businessmen, and “ad hoc” attempts to improve the situation mostly ended without the results, or the good results in some cases were not enough to reverse the state of the Serbian economy in whole.

The reasons for failure of the Serbian economy should be looked for, above all, in the fact that since 2000 until today there was no systematic and analytical approach to the development of the national economy, with the aim to create enabling business environment in which the business can develop in a modern, efficient way, in a predictable market, with the minimum entanglement of the state and its bureaucratic structures. Instead of such modern, contemporary and open approach, that should create conditions in which any entrepreneurial individual in Serbia could get a chance to test his own business ideas in practice, it was built a quasi system which every year eats more entrepreneurs,

small and medium size companies than it creates them, and which generates material uncertainty of investors and grey economy. All this had an outcome in high unemployment and decline of turnover and income in economy.

For all these reasons, the new initiative is needed for starting development in those industry sectors which have healthy developing potentials but which were so far not used or not counted on. This healthy potential lies exactly in those companies and their managers who succeeded to save their companies and preserve or strengthen their position on domestic and foreign markets, thanks to their personal abilities and endurance. They are, as practitioners, the most experienced and best informed about the present situation and possibilities of their industry sectors and there is no one better to ask “which way further on?”

This project established two goals:

1. To ask the successful individuals managing wealthy companies about the current state and priority problems which should be solved within the three industry sectors: IT and telecommunications; chemistry and non-metals; textile, leather and footwear.
2. To collect the proposals and suggestions from the successful businessmen and managers and define the recommendations for development of the three sectors in period 2014 – 2020 which would be sent and presented to the Government of the Republic of Serbia,

National Assembly of the Republic of Serbia, leading parliamentary parties, respectable economic analysts, media and wide public in the country.

Experience of the developed countries say that “successful ones build the future”, and Serbia needs, after many years of staggering, the new energy and guide mark how to respond to many economic, but also social temptations. This could not be done without a serious analytical approach, and this project is relying on a survey among 200 businessmen from each of the three targeted sectors, in total 600 managers and directors of the small, medium size and big companies with headquarters in Serbia. On long term, for period 2014 – 2010, the goals of this project are also:

- creation of conditions for development of sectors of IT and telecommunication, chemistry and non-metals, reduction of costs of doing business and creation of enabling business environment in which creative business ideas and projects can be carried out
- reduction of unemployment and creation of new jobs in sectors of IT and telecommunications, chemistry and non-metals, textile, leather and footwear, as a result of adopted and implemented recommendations of successful managers in companies from these sectors.

Methodology

The goals of this study were to identify the biggest barriers in doing business for companies within sector of information technologies and telecommunications, sector of chemistry and non-metals and sector of textile, leather and footwear, as well as recommendations of their owners, directors, and managers for measures of development policy on the level of each of the three industry sectors. During the research, the ILO’s knowledge, skills and tools for Enabling Environment for Sustainable Enterprises were used.

In order to clearly define the problems and propose those measures about which the biggest number of experienced businessmen from these sectors agrees, it was necessary to carry out the primary research through the direct survey of owners, managers and directors. On the basis of this survey, their opinions about the survey topics were ascertained. 200 managers were surveyed in each of the sectors of information technologies and telecommunications, chemistry and non-metals, textile, leather and footwear.

In the second part of the project, after obtaining the results of the survey, it was foreseen to have, on the level of each of the three industry sectors, two regional validation workshops for surveyed owners, directors, managers of companies, in order to once again analyze the results of the survey, make the corrections and additional notes and formulate the final positions. These conclusions with recommendations, together with the results of the surveys would be presented to the highest representatives of the Government of the Republic of Serbia in charge for creation of the development policy for each of the three industry sectors during the final conferences during the autumn 2013 in Belgrade, but also to the National Assembly, expert and wide public, printed and electronic media, etc.

Questionnaire and survey

Questionnaire design

Having in mind that the time is an important resource for the people at managerial positions in companies from the three industry sections, the Serbian Association of Employers created, relying on the modern software solutions, a special on-line questionnaire for whose filling a maximum of 15 minutes was needed.

The questionnaire was made of closed and half open questions. They included the key obstacles in doing business, a set of different problems which the Serbian economy was facing over the last decade, but also different measures and proposals for improvement of the situation. When choosing questions, the various studies and researches were taken into account, conducted by the other domestic and international business organizations, funds and institutions which were active in the Republic of Serbia or operate now and also the SAE’s list of “industry’s problems”, kept by the SAE’s staff, was used. The interviewees were also given the possibility to put own proposals and suggestions when replying on all questions related to recommendations of employers for developing business in their line of activity or the whole sector.

Considering the fact that there were many questions and possibilities to offer various proposals and measures, SAE first created a frame list of 40 questions for each sector. The list was further reduced to 23 basic questions per sector, which essentially and meaningfully included also those questions which were omitted from the initial 40 ones. Here was particularly taken care not to discourage managers from replying to too long questionnaire and the frame of 15 minutes was respected and considered to be enough for filling it in. 23 questions in 15 minutes was determined as optimum because the previous experiences showed that in case of the bigger number of questions the interviewees who fill in replies independently (without the presence of the interviewer) mostly tend to skip some questions when there more than 20, 25 of them.

Determination of the sample

The sample structure was determined for each sector separately, considering that some industry sectors and activities within them are entirely concentrated in one or two bigger cities or regions, and not equally dispersed throughout the country. When determining the sample, the data of the official institutions of the Republic of Serbia were used – Statistical Office and Business Registers Agency, as well as the data from the electronic database kept by the Serbian Association of Employers.

First were analyzed companies from the sector of IT and telecommunications based on their headquarters’ registration and it turned out that more than 70% of companies from this sector is in Belgrade and Novi Sad as the two leading centers. 414 companies from this sector were taken as a starting sample and out of them, 200 were stratified as a sample targeted to fill in the questionnaire.

The sector of chemistry and non-metals was next analyzed. The companies from this sector have by far longer

history and they are better territorially distributed. Around 36% of them are in Vojvodina, 26% on the territory of the City of Belgrade, and the rest 38% are on the territory of Central Serbia. 346 companies from this sector were taken as a starting sample, and out of it 200 were stratified to fill in the questionnaire.

Finally, the sector of textile, leather and footwear was also analyzed. The analysis showed that almost 41% of companies from this sector have headquarters in low and middle developed municipalities of Serbia, where the labor force is mainly cheap and life standard is lower, compared to the big cities and Belgrade. 391 companies from this sector were taken as a starting sample, and out of it 200 were stratified to fill in the questionnaire.

The particular attention was paid to the regional representation, considering that the problems in doing business are not the same in all the regions, cities and municipalities, as well as the available resources. It is therefore expected to have some differences in recommendations for development of their industry sector and activity. When defining the regional representation of the certain activities, it was taken into account that, if there are a big percentage of companies from a particular sector on the particular territory of some region, city or municipality, the companies from that region be proportionally represented in the total number of the replied questionnaires.

The division of the total sample was also made to the small, medium size and big companies, according to their proportion to the total number of the small, medium size and big companies on the territory of the Republic of Serbia, on the basis of the official data at the end of 2012. This division took into consideration the criteria of the Public Revenue Office of the Republic of Serbia for submission of the final balance sheet. The companies were then pondered according to the participation of their group in the gross domestic product of their sector and they were allocated the percentage adequate to their group's contribution to the sector's GDP, in order to have realistic sample.

When composing the final sample, it was taken into consideration that the owners and managers of sampled companies must include at least 20% of women (it was not possible to include bigger percentage because the women owners or managers in companies from all the three sectors are represented in less than 20% of companies from these three sectors and the bigger percentage of women would not reflect the real situation and it would be contrary to the desired sampling).

Process and technique of interviewing

After determination of the three different interview lists for each industry sector, the companies were from the sectors of IT and telecommunications, the sector of chemistry and non-metals and the sector of textile, leather and footwear were informed about the purpose of the research and the on-line questionnaire that would be sent to them. Information about this were posted on the web site of the Serbian Association of Employers and sent as information to the members of the Serbian Association of Employers within the regular newsletter.

This was followed by sending e-mails to all the electronic addresses from the three interview lists, and the SAE staff which is most experienced in everyday contacts with managers and employees of the companies in Serbia, informed them by phone about the received links for the on-line questionnaire and the importance of responding for the future of their industry sector and activity. Direct contacts were made with the assistants to the owners, directors and general managers, and in small companies directly owners and directors. In big companies the contacts were made with the management and supervisory boards, chiefs of finance and legal departments, etc.

Considering that the interviewing started during the season of annual holidays (August 2013), the sampled companies were contacted several times, and the final part of interviewing took place during the first week of September, when many owners, directors and managers returned from holidays. The participants in the research mainly positively reacted to the on-line questionnaire, apart from few who complained about having problems with on-line responding because some of the pages could not open or Google did not allow the links to be directly open.

During the last phase of interviewing the "control call" also took place. 10% of the sampled companies were contacted for each industry sector in order to check if the relevant persons (owners, directors, and managers) responded, because it was intended exclusively to the highest leaders in companies, those who make strategic decisions. 62 companies were contacted during the control call. The reply about the person who responded to the questionnaire provided 53 companies, and only in one case the questionnaire was not filled by the director of the company, but by his first assistant.

The results

In order to present the results obtained through the research in a more picturesque graphical way, they were given as percentage, except in those cases where for credibility reasons it was necessary to illustrate the results through numeric values. The particular attention was paid to the fact that the companies from the different activities within the same industrial sector do not have the same interest to respond to certain questions, due to the different characteristics of their activities. Some questions were not as important for the important companies as they were for the small ones, and vice versa. For this reason, the number of the companies which responded to a certain question was given along with the percentage, in order to prevent the small number of replies to some important questions to create a false picture on importance of some problem in doing business or proposal for development of a certain industry sector (activity). The companies were given within the questionnaire the option to state their full name, address, name and contact details of a manager, because the interviewer wanted to form in this way also a list of persons who could be invited later on to the regional validation workshops during the second phase of the project, but "identity disclosure" was strictly voluntary and it was not used during the next phase of the data processing.

2 | Present conditions

Sector of information technologies and telecommunications

The sector of telecommunications represents one of the rare economy sectors in the Republic of Serbia which, in spite of the effects of the arrival of the world economic crisis to Serbia in 2009, did not record decline in activities like the rest of the economy. On the contrary, this sector recorded growth during the years of the crisis too, albeit slowed down compared to period before the crisis.

The reasons for the positive result and fast increase of activities compared to the rest of economy lie above all in the low base, i.e. undeveloped market which saw more sig-

nificant liberalization and expansion just over the last several years through increase of competitiveness in mobile telephony and introduction of broadband internet, which enabled development of services within this area (Table 2.1).

On the other hand, the impact of the crisis on the IT sector was reflected above all in the slowdown during 2009, and a decline of 1,7% during 2010. However, during 2011 there has been a noticeable growth of 7,7%, by which this sector quickly "got out" of the crisis and surpassed pre-crisis levels (Table 2.2.).

Slowing down activities in IT sector due to the crisis was also reflected in the decrease of number of registered companies in 2009, as well as in one-time decrease of number of employees during 2010. However, these negative effects were of limited duration and very quickly the industry returned to the pre-crisis level and continued with the development (Table 2.3.).

Wages in sector of IT and telecommunications are expectedly higher than average on the level of Republic. However, the effects of the world economic crisis were also felt in this sector, mostly through slow growth and real decline of wages during certain years. In spite of this, during 2012 and the first half of 2013 all the sectors recorded real growth of wages compared to 2008.

When looking over wages in computer programming the attention should be paid to the fact that this sector is dominated by the micro and small companies where the wage primarily depends on implemented activities and mostly is paid from incomes. Therefore the big volatility of wages in this industry should be no surprise, nor should the annual data for any given year be taken as a showroom measure for the state of this sector (Table 2.4.).

Even though the said activities had significant growth in the previous period, there are still big potentials for further development in this area in Serbia, although the investments in infrastructure and using internet for business, above all, are needed for that. The current data of the Statistical Office RS say that in 2013 even 73,3% of citizens has never used the possibility of trade via internet, that only 38% of households owns broadband connection, as well as that 73,8% of companies owns internet presentation. It is particularly noticeable the difference between the City of Belgrade and the rest of Serbia, which leads to a conclusion that it is necessary to pay a lot of attention to the more even regional development

Table 2.1. General trends in sector of IT and telecommunications 2008 - 2011

	REPUBLIC OF SERBIA			
	2008	2009	2010	2011
Real growth rates, chain growth rates (previous year =100), %				
61 Telecommunications	17,4	11,7	7,3	13,7
62 Computer programming, consulting and related activities	10,7	2,6	-1,7	7,7
63 Information service activities	4,5	-0,2	20,1	2,4

Source: Statistical Office RS

Table 2.2. Number of registered companies in sector of IT and telecommunications 2008 - 2010

Activity	2008*	2009	2010
Telecommunication	439	440	439
Computer programming and consulting	1.398	1.012	1.235
Information service activities		215	122
Total IT and Telecommunications	1837	1667	1796

Source: Statistical Office of RS, Business Registers Agency

Table 2.3. Number of employees in sector of IT and telecommunications 2008 - March 2013

	2008	2009	2010	2011	2012	2013/ March
Number of employees in companies, by sectors and areas KD2010 REPUBLIC OF SERBIA						
61 Telecommunications	12.178	11.189	11.582	13.033	14.955	15.495
62 Computer programming, consulting and related activities	4.191	4.299	4.227	4.552	5.503	6.451
63 Information service activities	1.249	1.246	1.497	1.532	1.525	1.635
Total	17.618	16.734	17.306	19.117	21.983	23.581

Source: Statistical Office RS

Table 2.4. Average gross wages in sector of IT and telecommunications 2008 – July 2013

RSD						
	2008	2009	2010	2011	2012	2013/I-VII
gross wages in RSD						
Average wages, by areas KD2010 REPUBLIC OF SERBIA						
Average gross wage in RS	45.674	44.147	47.450	52.733	57.430	59.478
61 Telecommunications	66.018	74.747	74.628	88.057	99.414	106.322
62 Computer programming, consulting and related activities	56.217	51.987	52.094	52.773	103.492	75.870
63 Information service activities	48.818	45.597	48.575	54.853	59.660	65.682

Source: Statistical Office RS

in order to create preconditions for faster development of these sectors.

Also, a lot of space for development of IT industry remains within doing business abroad. Due to numerous barriers in foreign exchange, IT services did not record more significant export. In spite of that, IT sector records growth of export since 2012, as well as surplus during 2011 and 2012. According to the UNCTAD data, export of IT sector in 2012 was 4,61% of total export of services, i.e. 222 million USD. Further liberalization of foreign exchange and related regulation would enable a larger number of domestic IT companies to focus on export, which would make them less dependent on domestic economic movements in Serbia and reduce trade deficit on long term.

Sector of chemistry and non-metals (with pharmacy)

Sector of chemistry and non-metals (with pharmacy) is one of the sectors which were hardest hit by the economic crisis in Serbia. In 2009 the total economic activity of this sector recorded significant decline (Table 2.5.).

Decline of economic activities during 2009 was particularly visible in number of employees in these activities. The number of employees constantly has been constantly declining since 2008. Until March 2013 the number of employees decreased by 21,8%, i.e. more than 13.000 jobs were lost in the sector (Table 2.6; Table 2.7.).

Also, average wages in chemical industry (except pharmaceutical industry) recorded real decline during 2009. After decline during 2009 the growth of the average wages was recorded, but this growth was recorded primarily due to the downsizing of labor force and not to the increase of economic activity (Table 2.8.).

Table 2.5. General trends in sector of chemistry and non-metals 2008 - 2011

REPUBLIC OF SERBIA				
	2008	2009	2010	2011
Real growth rates, chain growth rates (previous year =100), %				
20 Production of chemicals and chemical products	-4,4	-25,6	21,9	-0,2
21 Production of basic pharmaceutical products and preparations	14,5	-16,2	-1,1	7,2
22 Production of rubber and plastic products	0,6	-19,1	0,8	-2,0
23 Production of products made of other non-metallic minerals	-5,2	-19,8	0,2	4,8

Source: Statistical Office RS

Table 2.6. Number of registered companies in sector of chemistry and non-metals 2008 - 2010

Activity	2008*	2009	2010
Production of chemicals and chemical products	761	656	635
Production of basic pharmaceutical products		55	56
Production of rubber and plastic products	1.063	1.064	1.117
Production of products made of non-metallic minerals	750	762	777
Total chemistry and non-metals	2574	2537	2585

Source: Statistical Office of RS, Business Registers Agency

Table 2.7. Number of employees in sector of chemistry and non-metals 2008 - March 2013

	2008	2009	2010	2011	2012	2013/March
Number of employees in companies, by sectors and areas KD2010 REPUBLIC OF SERBIA						
20 Production of chemicals and chemical products	17.352	15.481	13.970	13.757	13.901	13.937
21 Production of basic pharmaceutical products and preparations	6.272	5.669	5.173	5.606	5.230	5.075
22 Production of rubber and plastic products	19.055	17.532	16.321	16.321	16.121	16.331
23 Production of products made of other non-metallic minerals	17.375	15.837	14.380	13.505	12.641	11.595

Source: Statistical Office of RS

Chemical products are one of the areas where the Republic of Serbia record growing deficit. The significant decline of export in 2009, resulted from the negative trends in Euro zone, was not recovered until 2012, while the import, after decline in 2009 resulted from decline of economic activity and reduced demand on domestic market, recovered and surpassed pre-crisis levels.

Having in mind that almost half of the imported chemical products are medical and pharmaceutical products and plastics, it could be said that there is a space for reduction of deficit through substitution of the imported products by the domestic ones, although this primarily depends on the state policy, considering that the pharmaceutical industry is still predominantly within the public sector (Table 2.9).

Sector of textile, leather and footwear

Activities from the textile industry were also heavily hit by the economic crisis in 2009. These activities recorded the negative results also during period before 2009, but during that year the decline was dramatic. During 2011 the clothing and footwear industries recorded small growth, started by moving production of clothing from the neighboring and some other European countries. However, only the results from 2012 and 2013 will show the real effect of the foreign investments on the recovery of this sector (Table 2.10.).

Looking at the number of the registered companies in the sector of textile, leather and footwear, a substan-

Table 2.8. Average gross wages in sector of chemistry and non-metals 2008 - July 2013

RSD						
	2008	2009	2010	2011	2012	2013/I-VII
gross wages in RSD						
Average wages, by areas KD2010 REPUBLIC OF SERBIA						
Average gross wage in RS	45.674	44.147	47.450	52.733	57.430	59.478
20 Production of chemicals and chemical products	51.374	43.148	53.047	61.927	68.799	69.675
21 Production of basic pharmaceutical products and preparations	69.978	76.840	87.782	84.732	90.740	99.535
22 Production of rubber and plastic products	35.665	36.998	42.965	48.610	54.869	56.823
23 Production of products made of other non-metallic minerals	36.456	35.954	42.061	47.796	51.146	53.669

Source: Statistical Office RS

Table 2.9. Foreign exchange in sector of chemistry and non-metals 2008 - 2012

Chemical products (SITC 5), import and export (in thousands USD)					
	2008	2009	2010	2011	2012
Export	1.111.309	658.448	875.225	999.104	993.910
Import	3.165.683	2.034.526	2.086.642	2.968.612	3.383.419
Deficit	-2.054.374	-1.376.078	-1.211.418	-1.969.508	-2.389.509

Source: UNCTAD

Table 2.10. General trends in the sector of textile, leather and footwear 2008 - 2011

	REPUBLIC OF SERBIA			
	2008	2009	2010	2011
Real growth rates, chain growth rates (previous year =100), %				
13 Production of textile	-17,5	-31,9	13,2	-11,8
14 Production of clothing	-6,3	-22,9	-1,0	4,4
15 Production of leather and leather products	-2,7	-18,2	-1,8	1,4

Source: Statistical Office RS

Table 2.11. Number of registered companies in sector of textile, leather and footwear 2008 - 2010

Activity	2008*	2009	2010
Production of textile	638	499	486
Production of clothing	967	1.085	1.054
Production of leather and leather products	324	320	300
Total textile and leather	1929	1904	1840

Source: Statistical Office of RS, Business Registers Agency

tial decrease is here also registered during period 2008 – 2010, where the situation is slightly better with companies whose basic activity is *production of clothing* (Table 2.11.).

The number of employees in textile industry and industry of clothing and footwear also saw the substantial decrease. Certain improvement was recorded in March 2013, although the higher lever of economic activity is needed for more significant growth of jobs in this sector (Table 2.12.).

Average wages in these industry sectors did not experience a nominal decrease as did the wages in activities

of the chemistry and non-metals, mainly due to the high number of employees who work with the minimum wage (Table 2.13.).

Finally, textile, leather and footwear belong to a group of products where the Republic of Serbia constantly records not a small deficit in foreign trade. Deficit recorded a rapid decline in 2009 and 2010 due to reduced import as a result of decrease in domestic demand, but the import during 2011 and 2012 again recorded growth which returns it to the pre-crisis level, while the export grows at the slow rate (Table 2.14.).

Table 2.12. *Number of employees in sector of textile, leather and footwear 2008 - March 2013*

	2008	2009	2010	2011	2012	2013/March
Number of employees in companies, by sectors and areas KD2010 REPUBLIC OF SERBIA						
13 Production of textile	7.412	6.809	6.261	6.250	6.216	5.932
14 Production of clothing	24.142	22.271	20.216	20.514	20.491	21.786
15 Production of leather and leather products	9.864	8.744	8.215	8.911	8.493	8.314

Source: Statistical Office RS

Table 2.13. *Average gross wages in sector of textile, leather and footwear 2008 - July 2013*

	2008	2009	2010	2011	2012	2013/I-VII
gross wages in RSD						
Average wages, by areas KD2010 REPUBLIC OF SERBIA						
Average gross wage in RS	45.674	44.147	47.450	52.733	57.430	59.478
13 Production of textile	14.806	17.659	24.763	29.450	34.318	40.675
14 Production of clothing	16.879	19.115	23.636	27.512	30.092	30.444
15 Production of leather and leather products	20.697	21.564	26.293	29.159	30.506	32.160

Source: Statistical Office RS

Table 2.14. *Foreign exchange in sector of textile, leather and footwear 2008 - 2012*

Textile, clothing and footwear, import and export (in thousands USD)					
	2008	2009	2010	2011	2012
Export	655.852	620.104	504.808	613.315	686.004
Import	1.045.684	704.631	679.343	832.588	1.009.316
Deficit	-389.832	-84.527	-174.535	-219.273	-323.312

Source: UNCTAD

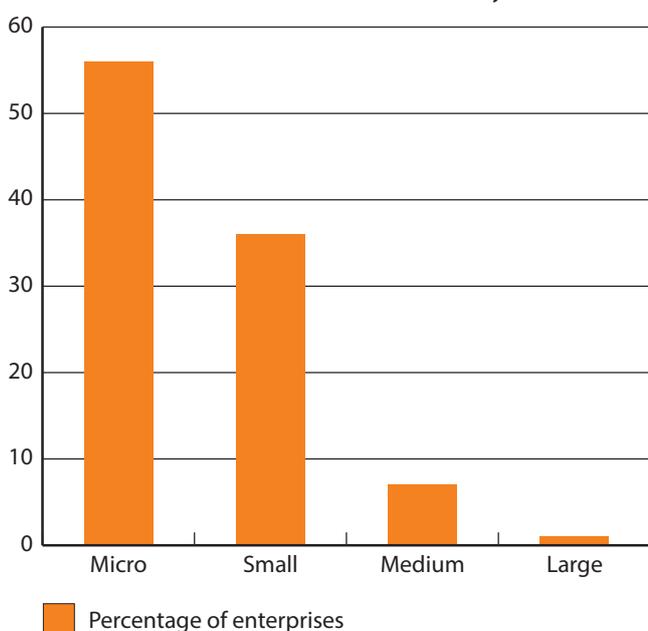
3 | Sector of information technologies and telecommunications

Basic information about the surveyed companies

In the sector of the information technologies and telecommunications 201 replies of the owners, directors and managers were collected from 414 companies from a broader sample.

The interviewees were asked to categorize themselves by size to micro (up to 10 employees), small (11-50 employees), medium (51-250 employees) or big companies (251 and more employees) (Chart 3.1.).

Chart 3.1. *Surveyed companies in the sector of IT and telecommunications by size*



In total, 113 of 201 surveyed companies are micro companies. There are also 72 small companies, 14 medium size and 2 big companies. This reveals that the companies within the sector of IT and telecommunications are exclusively micro and small companies.

Table 3.1. *Headquarters of companies from the sector of IT and telecommunications*

Company's headquarters	Number of surveyed companies
Belgrade	110
Vojvodina	37
East and South Serbia	24
Šumadija and West Serbia	19
Uncategorized	9

The huge majority of the interviewees cited their headquarters – in total 199 out of 201 researched companies (Table 3.1.).

The above data illustrate that Belgrade is the dominant center of the information technologies and telecommunications and that almost 56% of the surveyed companies has their headquarters in the capital of the Republic of Serbia, while the region of Šumadija and the West Serbia are, even though economically more developed than the South and the East Serbia, at the moment less developed when it comes to the industry of the information technologies and telecommunications.

These findings impose the conclusion that Serbia as a whole is not sufficiently developed in the areas of IT and telecommunications, which a consequence of the different reasons. These are, at the first place, monopolization of the market in the area of telecommunications and the slow development of the following telecommunication infrastructure on which the development degree of information technologies in one modern society also depends. The fact that Belgrade is so much more developed as a center of IT and telecommunications than Šumadija and the West Serbia warns and calls for emergency and creation of the special strategy and measures for the even regional development in the sector of IT and telecommunications, which emerges as a proposal to the Government of the Republic of Serbia and the relevant state authorities at the very beginning of presentation of the results of this study.

Barriers in doing business

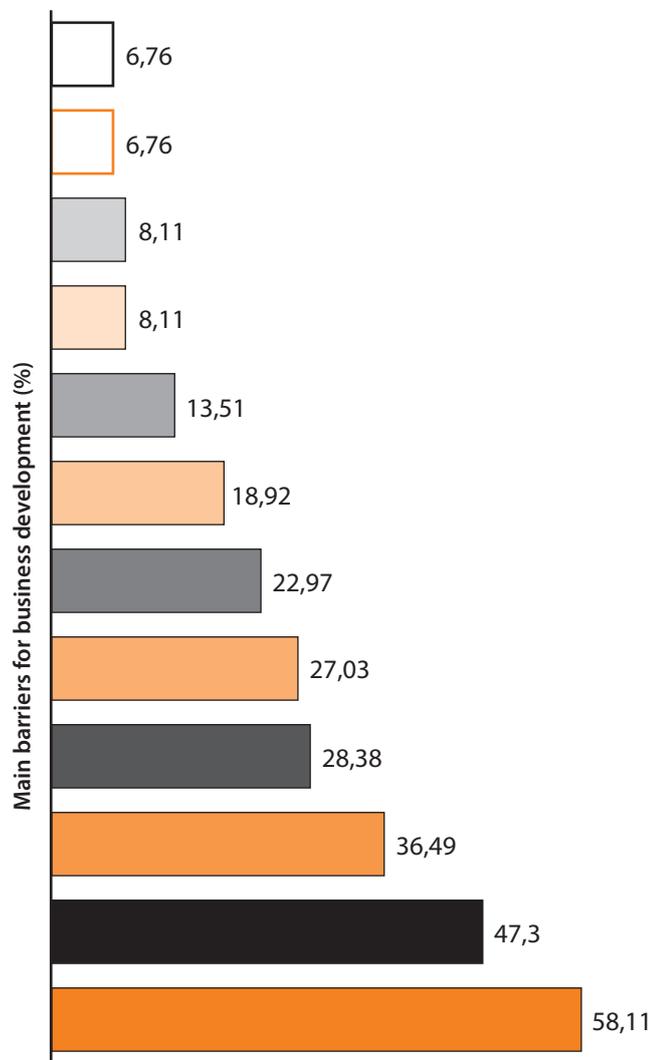
Owners, directors and managers of the companies from the sector of information technologies and telecommunications were asked what represents the biggest (basic) barrier to development of their companies. Several different replies were given, but the option to state an additional barrier outside of the offered list was also available. This question was replied by 164 of 201 surveyed companies. Here is how the collected replies look in percentages (Chart 3.2.).

The companies could reply with several answers when replying this question. 22,97% of companies stated also the other reasons as the basic barriers to their development. These are:

- excessive administration (cases when the same forms are processed several times due to tardiness of the state institutions and funds)

- on-line payment from abroad (which is totally disorganized and causes many costs and paperwork)
- unfair competition (due to grey economy, unreported employment and privileged position of some vendors)
- lack of qualified labor force

Chart 3.2. Basic barriers for companies' development in the sector of IT and telecommunications

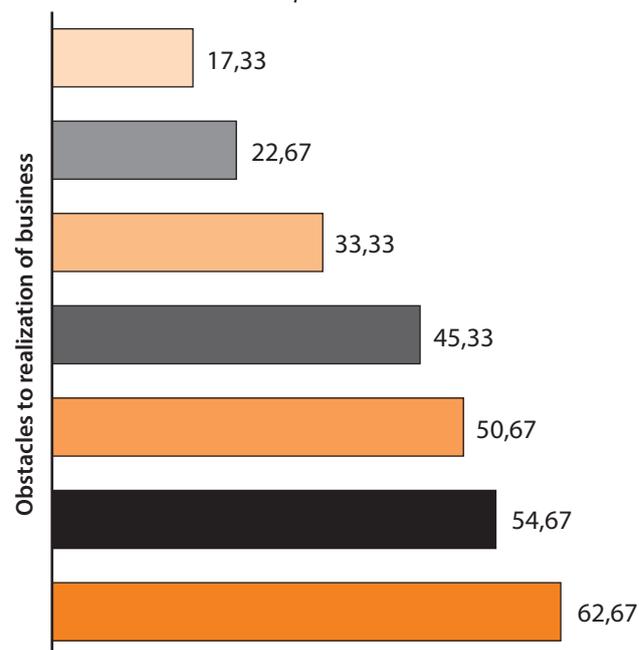


- Lack of funds for more efficient work organisation
- Reduced foreign demand
- Lack of funds for export
- Lack of funds for standardisations of products/services
- Lack of funds for investment in new technology
- Lack of working capital
- Other
- Lack of funds for investment in marketing
- Lack of investment capital
- Lack of funds for investing in HR
- Reduced demand on domestic market
- Administrative barriers and expensive

- law quality law on foreign exchange operations which interferes with doing business with the foreign operations and bureaucratization of the National Bank of Serbia concerning operations related to payments abroad
- rural areas and small number of connections on the large regions
- insufficiently educated and trained population for products and services from the area of the information technologies and telecommunications
- complicated and sketchy procedures for protection of intellectual property (patents, licenses, etc.)
- lack of funds for laboratory equipment for testing chips
- copyright tax on software
- inability to make business plans due to the frequent changes of laws and costs that they bring
- objection that as long as Serbia is outside of the EU some business operations within IT and telecommunications cannot be successfully realized.

Further analysis of the basic barriers for development of business stated by the representatives of the sector of IT and telecommunications actually leads to a conclusion that, for the purpose of development of this industry sector, it is necessary to make a separate analysis and cancel-

Chart 3.3. Most frequent barriers for realization of business operations



- Other
- Volatile currency exchange rates
- Complicated administrative procedures
- Corruption and monopolies
- Lack of solvent consumers
- Issues with legal environment (lack of clear market regulation)
- Increased difficulty in collection of receivables

lation of the certain laws and complicated administrative procedures, if a normal doing business is to be enabled.

The conclusion from the previous paragraph is connected also to the received answers to the following question, and it relates to the main barriers in realization of operations. 167 answers were received from 201 surveyed companies in total (Chart 3.3.).

17,33 percent of owners, directors and managers of companies from the sector of IT and telecommunications stated the other problems in realization of business operations. These are:

- the general lack of funds
- corruption and fixing procurements
- favorizing Microsoft and the other big foreign companies, although there are other quality solutions
- unrealistically strong exchange rate against the Euro
- high burdens on wages
- legislation related to the IT sector
- complicated export procedure
- tax on software copyrights

The received replies force the conclusion that the lack of companies and buyers which are able to make payments, along with the complicated administrative procedures, is the prevailing factor which hinders the realization of the business operations of the companies from the sector of IT and telecommunications. The other factors are also mostly of an external character (exchange rate against the Euro, corruption, dominant behavior on market), i.e. they are not caused by the very acting of the surveyed companies, but they are a consequence of the unstable and insufficiently developed business environment and market.

Needs and current situation

The sector of information technologies and telecommunications was after 2001 one of the rare sectors with the permanent expansion in Serbia. Also, the modern technologies' development in the whole world creates more and more possibilities for increase in number of companies and employees within these areas in the Balkan countries as well. Therefore, it is expectable that the further growth of this sector can also positively influence on the growth of the whole Serbian economy. For that reason, it was important to analyze through this research the present situation in the sector of IT and telecommunications and the needs for development of its companies.

The development of IT and telecommunications significantly depends on the extent of investing and working capital which is at disposal to the companies from this sector. Quality and inexpensive sources of finances are one of the sore spots in the "complete blood count" of the Serbian economy. Consequently, the companies' owners, directors and managers were asked about the best way of acquiring the fresh investing and working capital necessary for the further expansion of companies (Chart 3.4.).

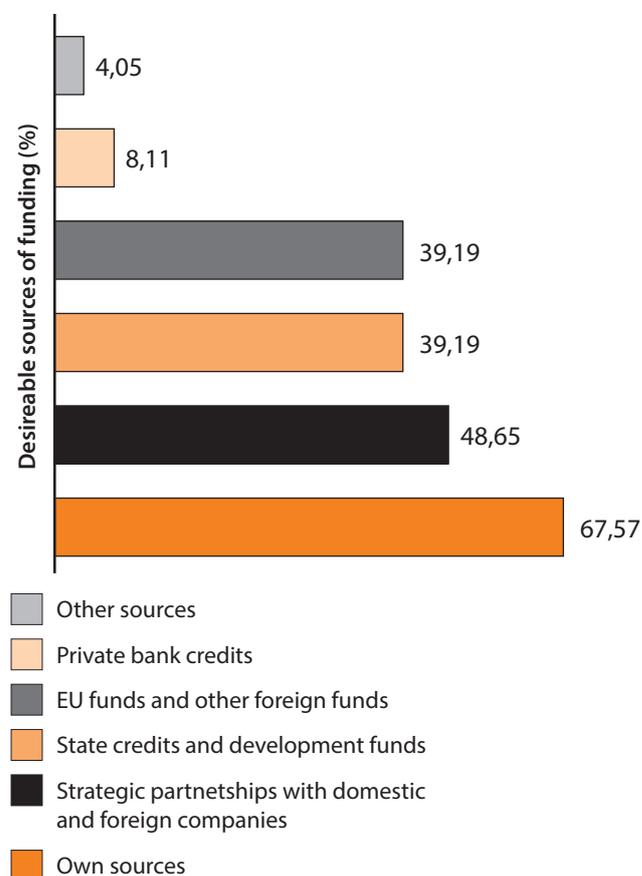
The question about the financing sources was in total replied by 175 out of 201 surveyed companies from the

sector of IT and telecommunications. The majority of the managers in these companies do not see, almost at all, the commercial banks which operate on the Serbian market as their partners in the future. They believe that they should find the sources for growth of their companies from the own sources or strategic partnerships with the other domestic and foreign companies. On the third place are the state credits or some kind of developing funds, as well as financial injections from the development funds of the EU and the countries which help the development projects in Serbia. Six of the surveyed companies stated that it would decide for some of the offered financing sources only if the conditions for doing business in Serbia would be predictable and even remotely stable. Otherwise, any borrowing brings the big risk. It should be added that 4,05% of the surveyed companies who picked "other" sources of financing did not put what exactly they had in mind.

Having in mind that the businesses within the sector of IT and telecommunications start with the relatively small in initial capital (mostly within the range 3 – 16 thousand EUR), the development of this sector exclusively from the own sources will be a slow and uncertain and it is necessary to develop on the state level the serious strategy for easier access to the financing sources for the companies from these perspective sectors.

The additional attention in this research is paid to the needs of the more quality internal organization of business within the companies from the sector of IT and telecommunications. This is how 169 companies ranked the

Chart 3.4. Desirable sources of finance for companies from the sector of IT and telecommunications



needs for more efficient organization of business, out of 201 surveyed companies (Chart 3.5.).

Managers from the surveyed companies believe that the business could be much better organized if there would be fewer administrative procedures and the subsequent costs. They also insist that the education system should be by far more quality and to offer them the workers who know the work in practice in the area of IT and telecommunications. They also stressed that without the constant specialization of managers and workers and creation of the more quality managerial staff there could be no significant development in their working areas. Some of them here also highlighted that the liberalization of all the laws related to the foreign exchange trade and foreign exchange operations is necessary because without these, they cannot develop business.

The research included also the needs of companies in order to increase volume of their sales of goods and services at the domestic and foreign market. 134 companies responded when asked what they need to develop their business on the Serbian market (Chart 3.6.).

Those who stated "other" as a reply stressed that their companies mostly operate on the foreign markets and that there are no buyers for their products on the Serbian market, while many of them stated that they avoid selling products and goods on the domestic market due to uncertainty and difficulties in collection of receivables. Certain

companies offer their services exclusively to the production companies and, due to reduced level or complete lack of production in Serbia, they have no clients in Serbia and believe that they would be able to work for the domestic producers if the production and industrial development of Serbia would be initiated.

Several surveyed companies also sent a proposal to the relevant authorities to reduce VAT for IT services from 20 to 8 percent. The reason is the small refundable VAT, so 20% presents the big part of the price of the service, while the companies are facing modest collection of receivables due to the bad situation on the domestic market and this additionally hampers the business operations.

When asked the similar question related to the creation of preconditions for bigger sales of products and services of the IT and telecommunications' companies on the markets outside of Serbia (export of products and services), 145 managers responded as shown on the following chart (Chart 3.7.).

The received results show that the companies from the sector of IT and telecommunications in Serbia lack exclusively quality partners from abroad for sales of products/ services at foreign markets, as well as the funds for investing in marketing without which there can be no serious appearance anywhere outside of the borders of the homeland. The owners, directors and managers of these companies consider that they have certain products or ser-

Chart 3.5. What is necessary for more efficient organization of business in companies from the sector of IT and telecommunications

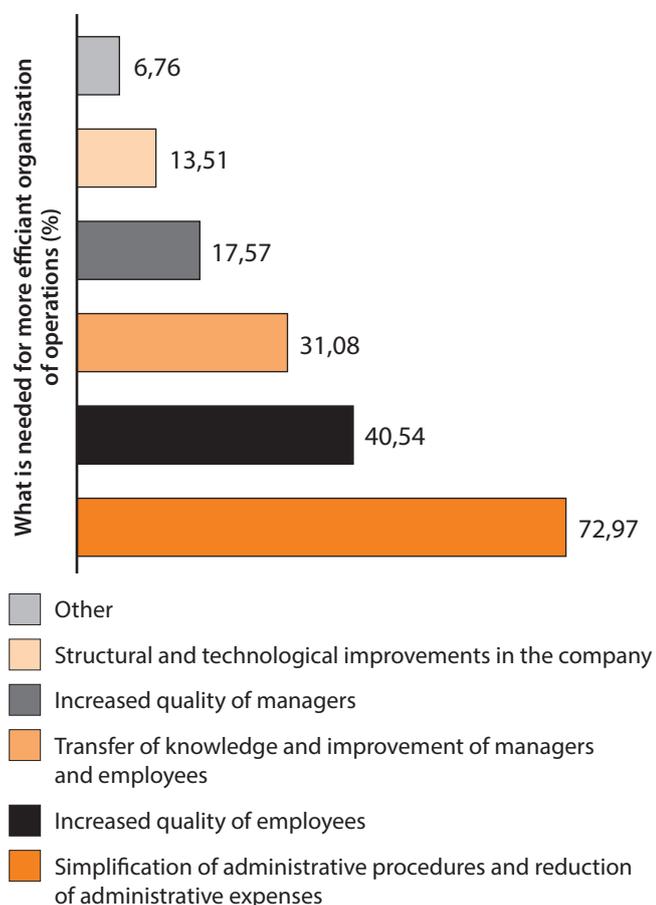
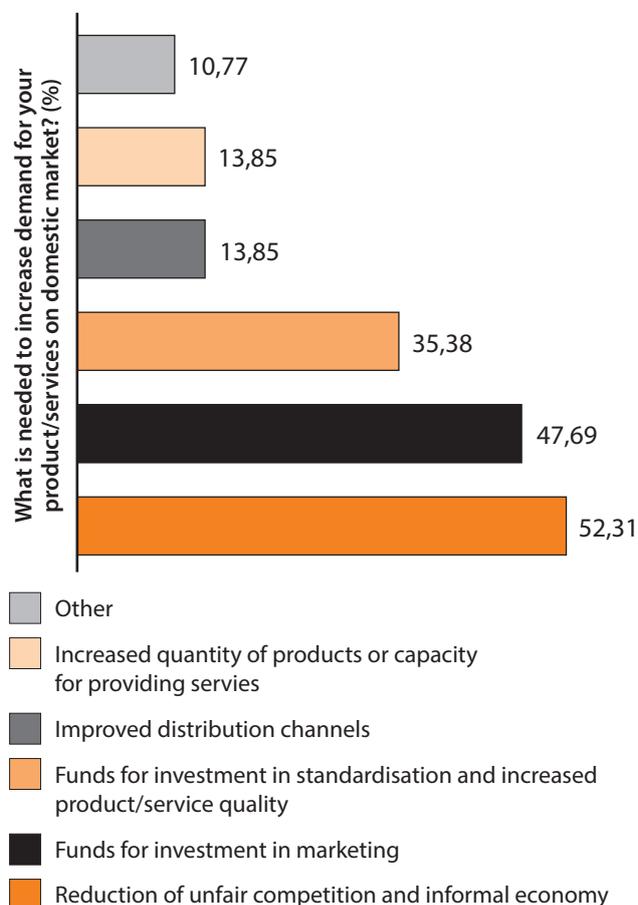


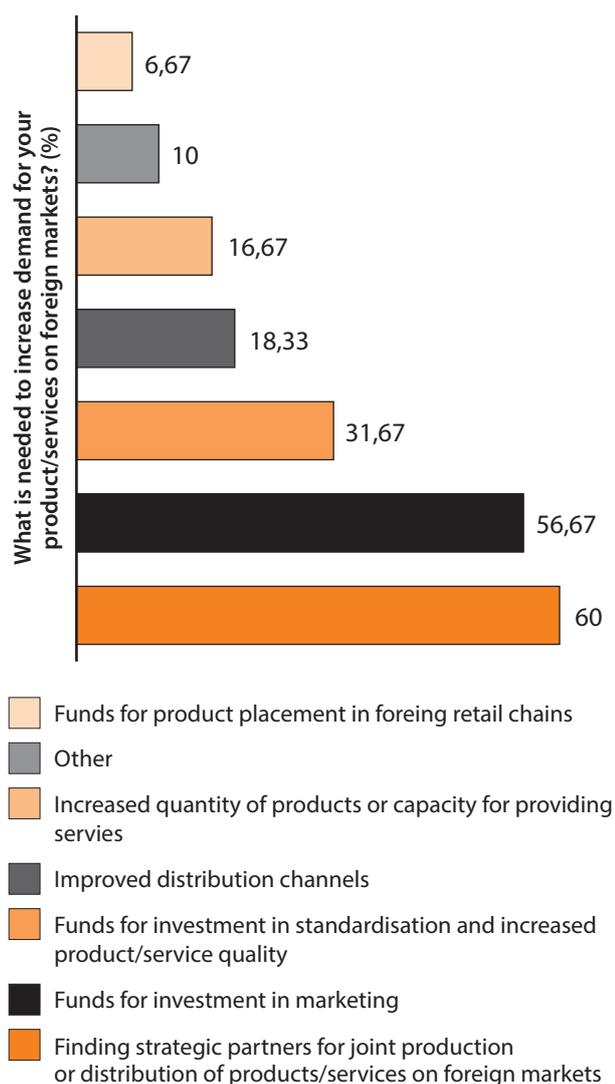
Chart 3.6. What is necessary to increase demand for your products/services at domestic market



VICES which could be sold on the other markets, but they have no enough strength nor finances for that, while the laws related to the electronic commerce in Serbia, foreign trade and foreign exchange sales significantly complicate and hamper the sales of the products from Serbia in the other countries of the world. This briefly describes the general barriers for development of the domestic IT and telecommunications – there are no enough funds nor quality human resources for appearance abroad, and selling from Serbia to foreign markets is difficult because of the administrative barriers.

It is encouraging that certain companies actively work at the moment on increase of quality of their products and services and on creation of those particularly designed for the foreign market. On average, every second company from this sector has a wish to try its luck with its products or services on the foreign markets on in the EU countries. It is necessary that the Ministry of Economy and the Government of the Republic of Serbia recognize and, within the limits of the present possibilities, support this tendency, on the first place through reform of the regulations which slow down business and make it more expensive, and then

Chart 3.7. What is necessary for increase of demand for your products/services at foreign markets

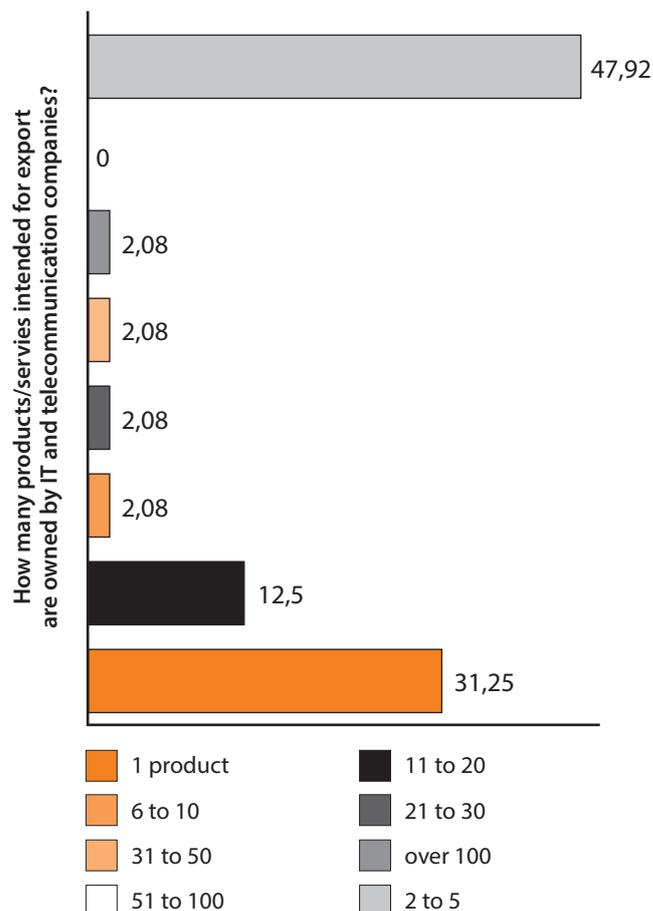


by the active measures for support of appearance in other countries. So far, apart from production, the strengthening of offered services to the domestic companies from the sector of IT and telecommunications was neglected in particular. The chances should be looked for here and relieving the business and stimulative measures should encourage as many young people with their own initiatives as possible to establish their companies; those who are already proven and experienced with created products and services should be offered help in finding the strategic partners for promotion and sales of products abroad.

The research was also aimed at getting an overview of the export potentials of the companies from the sector of IT and telecommunications. In total 111 managers from the surveyed companies gave information about the number of the products for which they believe to satisfy the standards and to be of the quality necessary for export outside of the Republic of Serbia to the markets of the EU, Russia, the North America, etc (Chart 3.8.).

Every second company from the sector of IT and telecommunications has between 2 and 5 products with the export potentials, 31,25% has only one product for export, and 12,5% companies has between 11 and 20 products like these. It is interesting that among the surveyed companies neither has between 51 and 100 products, while only 2 companies have more than 100 products. The basic issue remains to be what is going on with the remaining 90 com-

Chart 3.8. Number of standardized products for export to the foreign markets



panies out of 201 surveyed ones which did not respond to this question. It is very likely that the managers from these companies do not consider their products to be exportable outside of the Serbian borders, so they did not respond.

It is often mentioned in the public that the Serbian economy needs help of the State for more efficient organization of export and particularly on establishing contacts with the partners on the other continents and in the states with which the traditional business connections do not exist and which are not informed about the abilities of the Serbian economy. In the times of the ex socialist Yugoslavia this job was usually done by the big export companies and the frequently heard complaint is that after decomposition of these big systems the producers from Serbia actually remained on their own when trying to make contacts with the potential buyers of their products.

113 out of 201 surveyed companies identified what they need most when contacting the potential foreign partners (Chart 3.9).

In making business contacts abroad the domestic companies from the sector of IT and telecommunications face the significant lack of information about the characteristics of the different markets and this makes paving the way for increase of the sale of the goods or services very difficult. It is typical for the markets with the bigger purchase power which mean regular payment for the delivered products and services. Better preparation and more organized appearance abroad is what are here missing.

As a solution for overcoming the present situation the company managers from this sector stated that the clusters should be formed, but without the personal or political influence. Then, it is necessary to find the easier way to access the information about the potential partners from abroad (checking their solvency, company's performances, previous experiences in investing to countries similar to Serbia, etc.) and to break down the partners' prejudices (domestic

and foreign) regarding investing in software as an income source. Several managers stated that our producers also lack their own, original solutions because without them it is not possible to attract the foreign partners' capital.

The research revealed that in the area of IT and telecommunications the administrative barriers are the biggest breaksman for development of this sector. One of the questions was to list the concrete administrative business barriers and 135 companies responded.

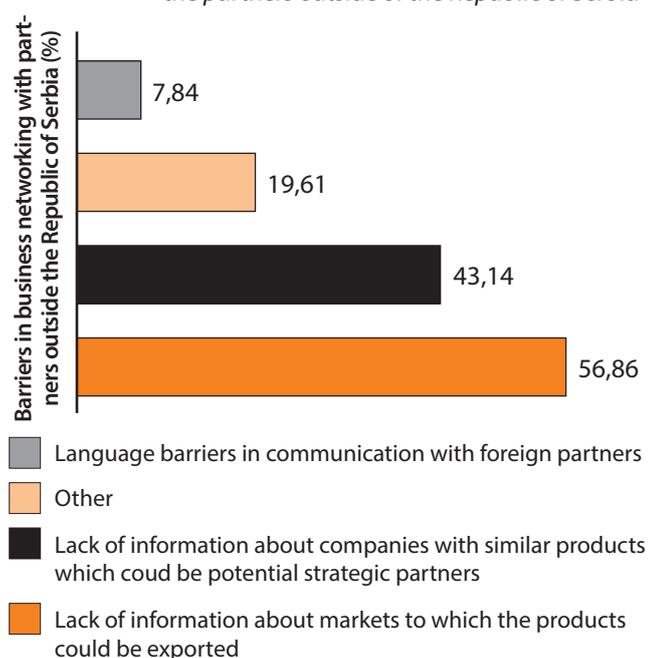
When asking this question, it was taken into account to enable the owners, directors and managers of the companies from the sector of IT and telecommunications to answer as concretely as possible about which kind of administrative procedure (barrier) mostly hampers everyday work of their companies. Considering that the process, popularly called the "guillotine of regulations" has been going on in Serbia ever since the end of 2008 and that revoke of the certain outdated regulations and the following procedures brought relief to business to a certain extent, but also that the many procedures remained in force or even the new ones were introduced as part of the harmonization with the EU's *acquis*, it was important that this research identifies exactly those regulations that most hurt the companies within the certain sectors, in order to focus the attention of the relevant institutions and the public in Serbia during presentation of the results of this research to those regulations and procedures which are labeled "urgent" for revoking (Chart 3.10).

Dominant bureaucratic barriers for development of the sector of information technologies and telecommunications are those in the area of VAT and the other tax regulations, labor legislation, barriers related to the export/import (customs and the other), as well as regulations from the jurisdiction of local governments. They are marked as the important disturbing factor in the development of the companies from this industry sector.

Such findings indicate that the first tasks of the Ministry of Economy and the Ministry of Finance for improvement of the business environment concerning the IT and telecommunications during the coming period should be:

- Reform of the regulations in the field of the VAT and the other tax regulations related to the sector of IT and telecommunications in consultations with the companies from this sector
- Changes of the Labor Law and the other laws from the labor legislation
- Reform of the regulations in the field of the export and import of the goods and services which hamper doing business of companies from the sector of IT and telecommunications
- Thorough analysis of the regulations from the jurisdiction of the local governments which hamper the development of the sector of IT and telecommunications and setting the clear framework on the level of the Republic of Serbia for the conduct of the local governments in determining the administrative procedures, taxes, fees and the other levies which the local governments impose on the companies from this sector

Chart 3.9. Barriers for making business contacts with the partners outside of the Republic of Serbia



- It is also necessary to examine the regulations from the area of the environment protection which influence doing business of the companies from the sector of IT and telecommunications and to reduce the expensive and destimulating ones among them

All the researches of the various domestic and foreign organizations which follow the economic trends in Serbia during period 2009-2012 mark the payment of claims as the biggest problem for the majority of the companies in the country. This survey was conducted 4 months after the Law on the terms of settlement of financial liabilities came into force aiming at bringing order into payment of claims among the companies in the Republic of Serbia. In order to review the real effects of implementation of the Law, the owners, directors and managers of the companies from the sector of IT and telecommunications were asked if the Law brought shortening the period of payment of claims. 129 answers were received (Chart 3.11.).

Top leaders in the companies from the sector of information technologies and telecommunications have not registered more significant improvement in payment of claims after 4 months of implementation of the Law on

the terms of settlement of financial liabilities, but even estimated that the deadlines for payment of claims additionally extended for the private sector. They see it as a consequence of perennial chronic insolvency of the domestic economy and believe that many companies don't have enough of the fresh incomes in order to meet their obligations in shorter terms, while the service providers and producers from the private sector, in order to preserve their companies, continue to do the job (and deliver the goods or services), waiting for claims to be paid with the significant delay. According to them, the real shortage of the terms of payments would be possible only if the state would pay back its debts to the private sector, with the simultaneous revival of the investments in Serbia. The current situation is that companies agree to a minimum profit and a long collection period just to get any kind of work, because if the company has no work it means a sure bankruptcy after only several months. In that way they consciously enter into uncertainty if they will ever collect the payments for the provided services or delivered goods.

It should be taken here into account that the Law on settlement of financial obligations in commercial transactions has been implemented only 4 months at the moment when the survey was conducted and that it is valid only for the commercial contracts concluded after March 31, 2013. This puts on a certain reserve on the obtained results, because the experiences of the neighboring countries showed that the real effects of this Law could be evaluated only after one year of its implementation.

Chart 3.10. Which administrative procedures (barriers) are the biggest ones for doing business

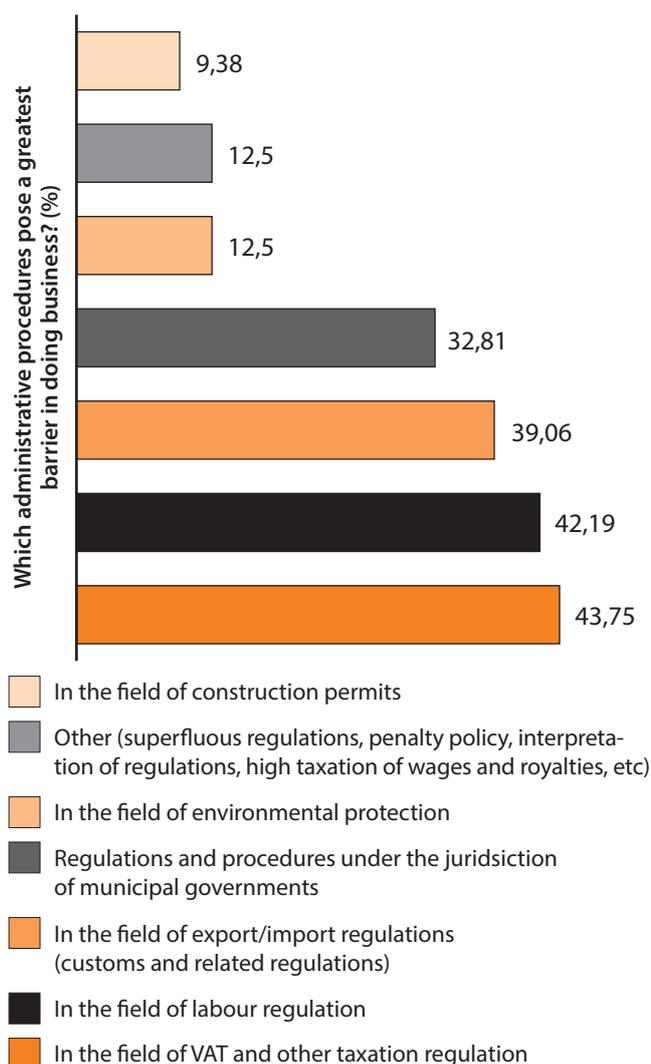
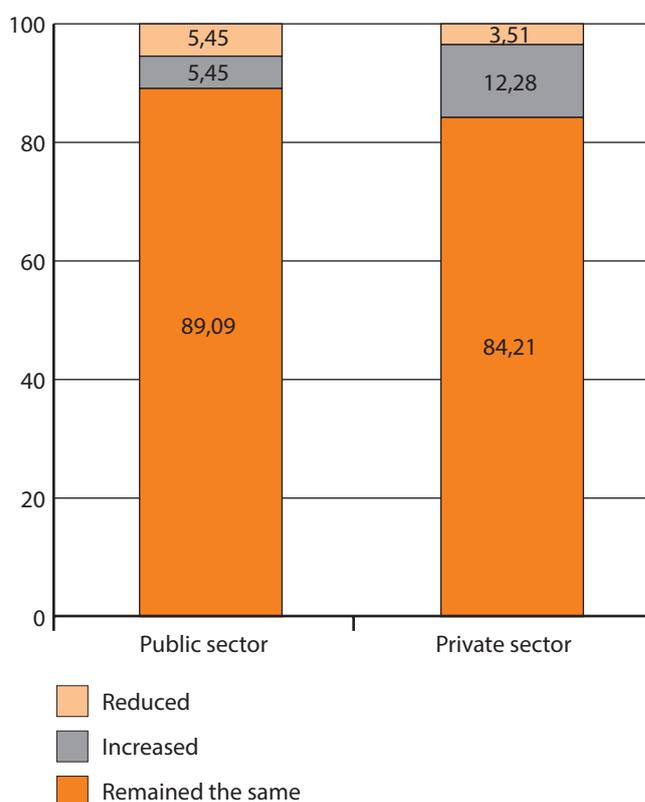


Chart 3.11. Did the periods for payment of claims shortened with implementation of the Law on the terms of settlement of financial liabilities



Recommended measures for development of the sector

Owners, directors and managers of the companies from the sector of IT and telecommunications were asked to give their opinion about the road to be followed by the policy of development of their sector during period 2014-2020 and what should the state do, in general, to make this globally growing sector the backbone of the development of the industry as well in Serbia. To all the surveyed companies it was pointed out that it is very important that they give their proposals, because these will be forwarded to the relevant ministries of economy and foreign and domestic trade and telecommunications, as well as to Ministry of Finance and the cabinet of the Prime Minister of the Republic of Serbia. Also, the surveyed managers were asked to make their proposals realistic and to take into consideration the real resources of the state. The proposals were received from 142 companies from this sector, which represents the biggest number of the companies which actively proposed to the state the measures for development of the sector of IT and telecommunications (Chart 3.12.).

Managers from the sector of IT and telecommunications believe that the state itself, above all, should cease to be the burden to their companies and it should be the first thing to do in order to help development of this sector. Abolition of monopolies and control of the dominant behavior on the market, reduction of burdens on doing business and administrative procedure and adjustment of the expensive regulation from the EU to the real possibilities of the companies from the sector of IT and telecommunications are the measures which were proposed as the priority measures. Right next to them is also policy of creating deductions for producers of software and providers of the high-tech services for export. The support of the state and stimulative credit lines are also needed for the production of software and high-tech services designed for export, as well as the following programmes of retraining of highly educated workers for performing professional work in the field of information technologies and telecommunications. The last remark of the managers from the sector of IT and telecommunications once again pointed to the shortcomings in the education system for which they already pay as taxpayers. It is assessed that they their sector and the relevant state institutions should have closer cooperation in the field of development of the information technologies and telecommunications and that the state cannot close its eyes in front of the real needs of this sector if it wants to reduce unemployment and brain drain on long term. Such cooperation would enable maximum usage of the all potentials of this sector which would create new jobs and retain the young IT experts in the country.

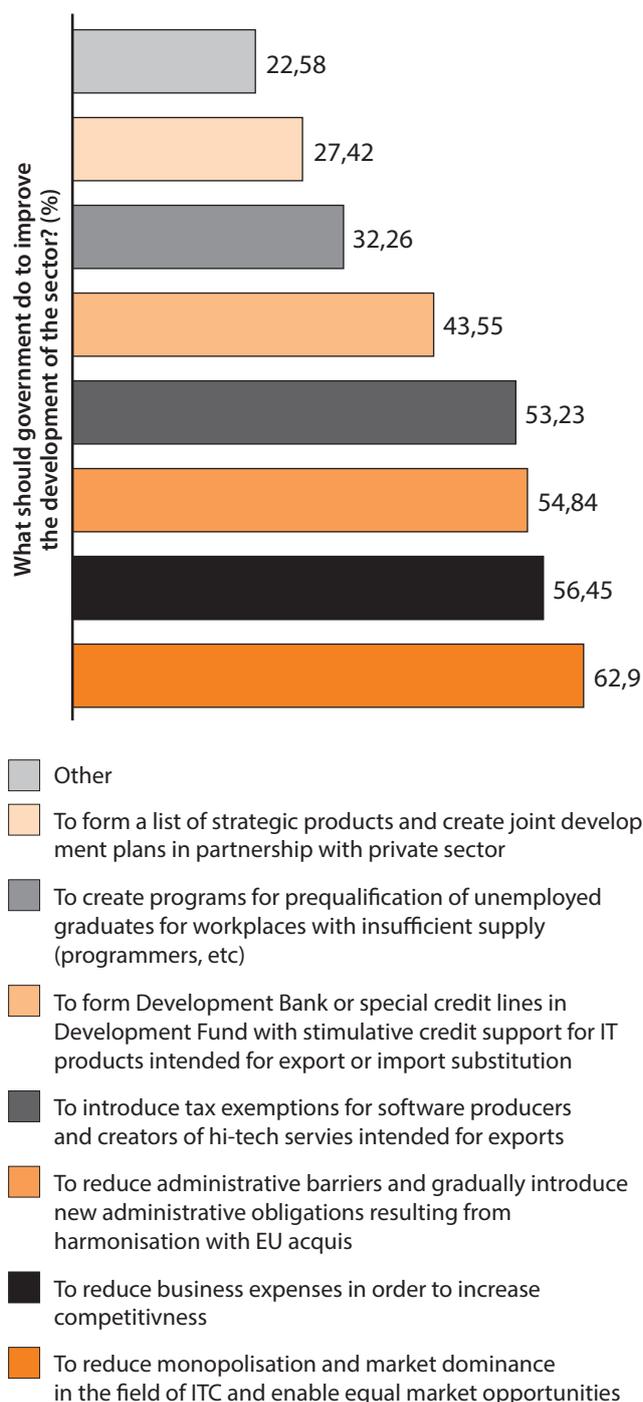
The other measures for development of the sector of IT and telecommunications which the state could implement were also proposed:

- correction of the tax policy for the importers of licensed software, where the withholding tax is paid by all the importer whether they sell the copyright or not

and whether the goods are designed for domestic users or for export

- increase of quotas in universities for education in the field of IT
- reduction of grey economy
- reduction of burdens on wages
- protection of companies from the big protectionist fluctuations
- introduction of electronic communication with the Tax Administration of Serbia, retirement and health fund which would simplify doing business

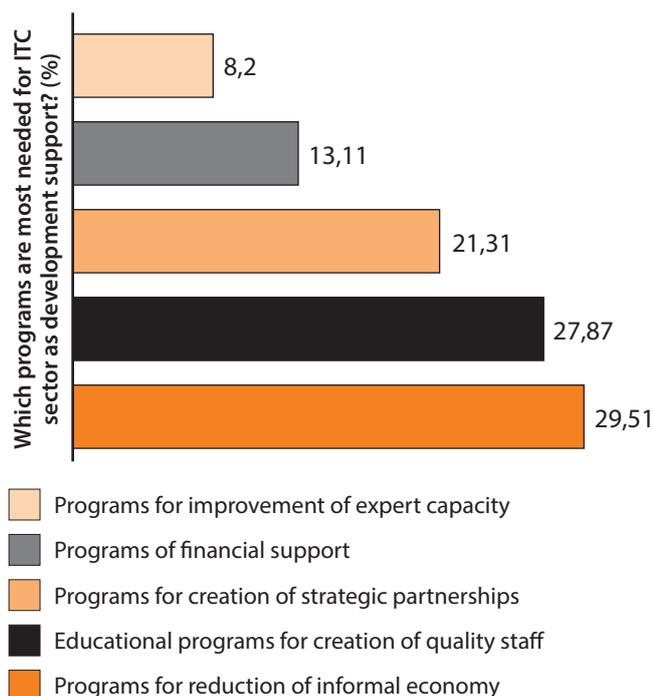
Chart 3.12. What should the state do to encourage development of the sector of IT and telecommunications



- ensuring compliance with copyright
- reduction of taxes and levies for small IT companies during the first three years of doing business
- promotion of domestic IT sector abroad
- clear formulation of all the laws which regulate doing business
- promotion and coordination of the inspections' bodies and increase of their preventive instead of penalty function
- to condition funding universities by their better connecting with the economy
- to equalize the tax treatment of the IT sector and manufacture regarding VAT refund when purchasing cars and fuel, because the professionals from the IT sector do not drive company trucks but cars
- reduction of prices for communal services for IT companies whose founders start the business in their own premises (private apartment or house of the company's founder), because it happens that these prices are twice or three times bigger once the public communal companies find out that a private company was registered on that particular address, which represents the huge burden for the business starters (Chart 3.13.)

The answers to the above question show that the leader of the domestic IT and telecommunication companies are very much aware of the situation in which is the Republic of Serbia and the lack of funds on the state level, so they believe that it is necessary that the executive authorities, above all, create the enabling environment for development of their businesses. For this purpose they put on the first place the suppression of unfair competition which is particularly evident in the sector of IT services and in some

Chart 3.13. Which programmes are most needed by the sector of IT and telecommunications as support for development

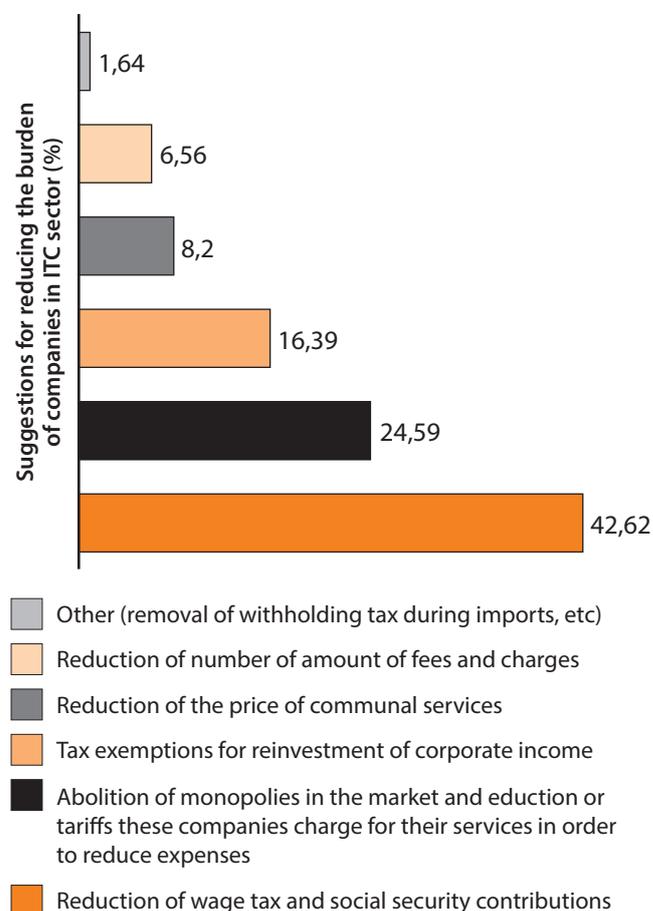


part of Serbia (south, east and west) the grey zone makes even more than 55% of the market. The particular problem is disrespect of copyright in the domain of production and distribution of software.

Representatives of the surveyed companies think that their sector lacks quality labor force and they consider it to be the serious challenge for the future. Some of them estimated that the state would make much better use of the precious funds by, instead of funding education for thousands of young people in institutions which do not have enough quality practical lessons, giving them to the companies from the IT sector for investing into sustainable businesses, and, in return, these companies would commit to training the young people in a practical business environment. This would improve the level of knowledge of the young people and accelerate their professional training. At the end, the state would, of course, perform control if the young people really acquired the necessary knowledge, because they would still have the obligation to pass the exams after the practical training in companies.

The programmes for creating strategic partnerships are ranked third on the priority list of the sector of IT and telecommunications. Top leaders of companies from this industry sector see in them the chance for widening the range of products and services offered by their companies, modernization of the equipment and higher level of education of labor force. The crown of the strategic part-

Chart 3.14. Which burdens on doing business should the state reduce for the sector of IT and telecommunications



nerships represents also the fact that the foreign partners bring with them also the entering to the new markets and the valuable experience of appearance at these markets, which is exactly what the domestic companies lack.

Finally, the programmes of the financial support are listed – above all through the tax exemption and support for the concrete projects – and programmes for increase of professional capacities, because in the sector of IT and telecommunications the permanent professional training is a basic need without which there is no survival on the market.

When it comes to reduction of the existing burdens on doing business for the companies from the sector of IT and telecommunications, 142 managers from these companies gave the following answers (Chart 3.14.):

Amounts of taxes and wage contributions are at the moment the biggest burden for companies from the sector of information technologies and telecommunications and their reduction would significantly unburden doing business and create possibilities for the new investments and creation of jobs. On the second place are the monopolies and the dominant behavior of the certain participants on the market who considerably increase the cost of operations and the products and services of the companies from the sector of information technology. One part of the managers considers that if the profit is invested in the expansion of business, the latest technology and hiring new people, then the state should desist from collection of taxes on such profit, because it will still get it back through increase of incomes from VAT, taxes and contributions for wages, other charges, etc. This would be of particular help for the micro and small companies during the first years of their development and accelerate their turning into bigger small companies or medium size companies, but the state should create mechanisms to control the reinvestment of profit and provide high penalties and criminal liability for those who abuse this possibility.

The companies were asked to state the concrete problems they have related to the monopolies, corruption, public procurement, etc. 38 managers from the surveyed companies dared to answer this question. They pointed to the following phenomena encountered in their operations:

- unequal conditions of participation in public procurement and rigged tenders
- within the public procurements the jobs are approved to the companies which are close to the elite of the political parties (particularly in Belgrade and Vojvodina, but also wider on the territory of the Central Serbia)
- complicated regulations and permits for import of telecommunication equipment
- Telekom Serbia limits the development of the competition, infrastructure is of a low quality so development of the IT solutions and their practical implementation are slow
- problems with the RATEL¹ and corruption
- monopolies of the public communal companies when charging for the communal services
- favoring foreign companies, particularly in public sector, in acquisition of software and hardware, even

though there are many other solutions, cheaper and more efficient

- problems of obtaining location and construction permits from the public companies (Telekom Serbia, Electric Power Industry of Serbia, Company for Roads, etc.), particularly in rural areas with small number of residents where the conditions for obtaining permits are the same as in the big cities, while the fees are disproportionately high when compared to the number of potential users.

Certain companies stated that they cannot expand their business to the rural areas, because the monopolies of the big state and public companies prevent them. Thereby, the most harm is done to the citizens in those parts of Serbia who remain deprived of quality service and facilities offered by companies in the field of IT and telecommunications, with the simultaneous paradox that people in these areas participate with almost 100% in the construction of TT networks, NN networks, water supply and sewage, roads, etc. but yet they cannot choose between the service offered by the private and the state operators.

The surveyed companies were also asked if they had an organized trade union on the company level and how much this trade union helps in promotion of companies' operations. It was found that within the sector of information technologies and telecommunications only 1,64% of companies has a trade union because the sector is mostly made of micro and small companies with less than 20 employees. Therefore, the role of trade unions in development of these companies is a minor one compared to the companies' total number. This question was asked in order to find out how much the trade unions' support can contribute to the as fast as possible practical implementation of the proposals of managers from the sector of IT and telecommunications which will be sent to the relevant state institutions upon finalization of this research.

Finally, the managers from the surveyed companies from the sector of IT and telecommunications were invited to submit additional proposals for development of their sector. They formulated the following proposals:

- to regulate labor legislation to be similar to the EU and the USA, to enable flexible employment and work from home
- to partly redirect the money that goes to support of inefficient education institutions (high schools and faculties) to industry and to offer it to the companies from the sector of IT while they in return provide professional training for the young people in high schools and faculties
- to clearly define by the adequate laws what intellectual property is, what copyright and what licenses consequently harmonize the tax policy, and not to put taxes on everything, as it stands now
- to provide the same conditions for the small and big operators and to make a difference in infrastructure's rent and charges for obtaining licenses in cities and in villages

1 Republic Agency for Electronic Communications

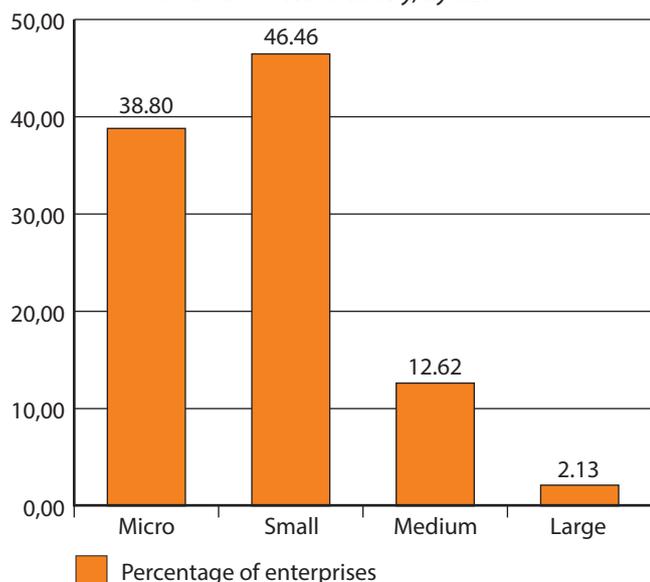
- to consult IT sector before implementing all the regulations related to the administration from the everyday operations, and whose implementation is put as a condition by the state
- to enable automatic return of VAT to the exporters, without delay, because this increases companies' solvency
- to improve conditions for employers when hiring and to continue with the programmes such as "The first chance"
- to reduce burdens on import/export of software and the professional equipment
- to remove the tax charged by the Chamber of Commerce of Serbia for taking out of the country video cameras, cameras and the other optical and measuring devices; it is absurd and shameless to charge it in the 21st century
- departization and demonopolization of the state, with the simultaneous increase of responsibilities for those from the private sector who do not respect the laws and reduction of bureaucratization and the state administration – this will bring relief to operation in the sector of IT and telecommunications
- to accelerate the work of courts related to payment of claims
- to prevent import of the bad quality goods (hardware and software) through harsh controls
- the state should acquire operative tools and systems from different suppliers, and not only from the companies with the dominant position on the market, as it is a condition in public procurement in Germany and Austria
- to increase number of pupils and students in the fields of information technologies and telecommunications, because already now there is no enough quality labor force and with the further expansion of IT, in five or ten years, there will be not at all
- to redirect the state towards the "open source" technology, as in the EU countries, which is cheaper and safer for the state and its tax payers, and it disables the monopolies
- to adopt clear legislation which determines the area of operations, records and calculations of wages, tax policy and to secure stability of the adopted solutions; often changes of legislation force the economy to waste time on monitoring instead to focus on increase of quality and competitiveness of the products and appearance on the foreign markets
- to define the special exemptions for companies in the field of high-tech which open their development centers outside of Belgrade, Nis, Novi Sad; for each employee in that center (outside of these 3 cities), there should be foreseen special stimulations for the purpose of the regional development; there should be special stimulation for domestic companies which most often have a modest founding and working capital and they need subsidies more than the rich investors
- better investment climate, so the foreign investors would be interested in investing to projects from the information technologies
- to invest into education and professional training of the labor force, through free of charge or subsidized courses
- to create market of operations in the field of ICT, where the members would be the companies, individuals and users
- education in the field of standardization
- to review the problem of calculation of corporate income tax, because in accounting the income is high for the software companies
- programmes for stimulation of export of the software products
- direct cooperation and permanent communication of the state with the Association of software producers, and particularly of the Ministry of Finance during bringing new laws and regulations because lack of this communication creates big costs for IT companies and these costs later pass on to companies and individuals and users; it is necessary that the Ministry of Finance, before bringing any regulations related to the operations, consult with the associations of the programmers and accountants and to get from them calculations and suggestions for reduction of costs caused by the change of regulations; this should be introduced as a legal obligation of the Ministry of Finance; any such "ad hoc" change brings damage measured in millions of Euros on the annual level to the IT sector and the whole economy, and it can be reduced or completely avoided by more quality solutions
- to improve communication with the local governments and their administration which inefficient and slow down operations with their administrative procedures
- more quality education of IT companies for export of software
- development of the partnership network of the domestic IT companies with the companies from all over the world for support to export of software and the other IT products
- to provide subsidized credits for concrete projects with the quality business plans
- more quality control of tenders and tender commissions by the independent inspection bodies
- to simplify export procedure for export of software, i.e. to enable funds inflow just on the basis of the invoice, without making an "uniform customs document" and going through the usual export procedure, modeled on procedures in the other developed countries in the world.

Basic information about the surveyed companies

In the sector of chemical and non-metals 411 companies were selected as a wide sample, and 198 responses to the survey were gathered – made by owners, directors and company managers.

The survey respondents were asked to classify themselves according to the size of the enterprise into micro (up to 10 employees), small- (11-50 employees), medium-sized (51-250 employees) and large companies (251 and more employees) (Chart 4.1.).

Chart 4.1. *Surveyed companies in chemical and non-metal industry, by size*



Total of 77 of the 198 surveyed companies are micro-sized. There are also 92 small companies, 25 medium-sized companies and 4 large companies. The received answers are in line with expectations, given the structure of the sector.

Observing the surveyed companies according to the region in which the company headquarters is registered, the structure of the respondents is given in the Table 4.1.

Table 4.1. *Headquarters of companies from chemical and non-metal industry*

Region	Number of respondents
Belgrade	83
Vojvodina	68
East and South Serbia	25
Šumadija and West Serbia	22

Again, the received responses are in line with expectations. Belgrade and Vojvodina are predominant centers with largest number of registered companies in the Republic of Serbia.

Business barriers

The survey respondents were asked what the biggest (most important) barriers to the development of their company are. Multiple choices were offered, with the possibility of giving multiple answers, with an open answer option. Out of 198 respondents, 140 answered this question. The answers received are shown in Chart 4.2.

Most respondents listed administrative barriers and the expenses they cause as primary barrier preventing the development of their company. The respondents especially noted the costs of standardization and costs caused by the implementation of EU acquis in Serbian legislation which the Government began introducing in 2010 and 2011 through new Law on chemicals, Law on biocide products, formation of Agency for chemicals and other legislation in the field of environment protection. Sudden high tariffs set by the Agency for chemicals during 2010 and 2011 have endangered the survival and development of the production of a number of products in this industry.

In the meantime, by fiscal consolidation programme of September 2012, Agency for chemicals has been abolished as a public office bearer and added to the new Ministry of Energy, Development and Environmental Protection of Republic of Serbia, and the Funds which collected income through the fees for environmental protection were rescinded. However, the regulation and fees deriving from them have remained in force, becoming a direct budget income, and thus no reduction in costs of doing business or other positive effects were felt by the business sector.

In addition to the costs imposed through tariffs, administrative barriers have also been listed as posing great difficulty for foreign trade, through restrictive Law on foreign exchange, which greatly complicates foreign exchange and international trade.

In second place, 53.6% of respondents listed reduced demand on internal market as the basic barrier, which indicates that the economic crisis in the Republic of Serbia is still in full swing and that it is necessary to implement structural measures which would stimulate the domestic demand. Lack of funds is also noticeable in other aspects – 43.6% reported the lack of funds for investments, 27.9% reported problems with liquidity, 33.6% of the respon-

dents have problems with the lack of funds for investment in new technologies. Also, 22.9% of the respondents answered that they are facing a lack of funds for investing in their own exports, which is also one of the fields in which the government could react by creation and implementation of programs for support to export companies.

In addition, 12.9% of the respondents listed lack of funds for development of human resources, that is, education of their employees. This issue should be observed in two manners – first, as a financial problem which stems from the economic crisis, but also as a problem of educational system of the Republic of Serbia, which through its inefficiency in creation of qualified new workers causes additional expenses to the business sector.

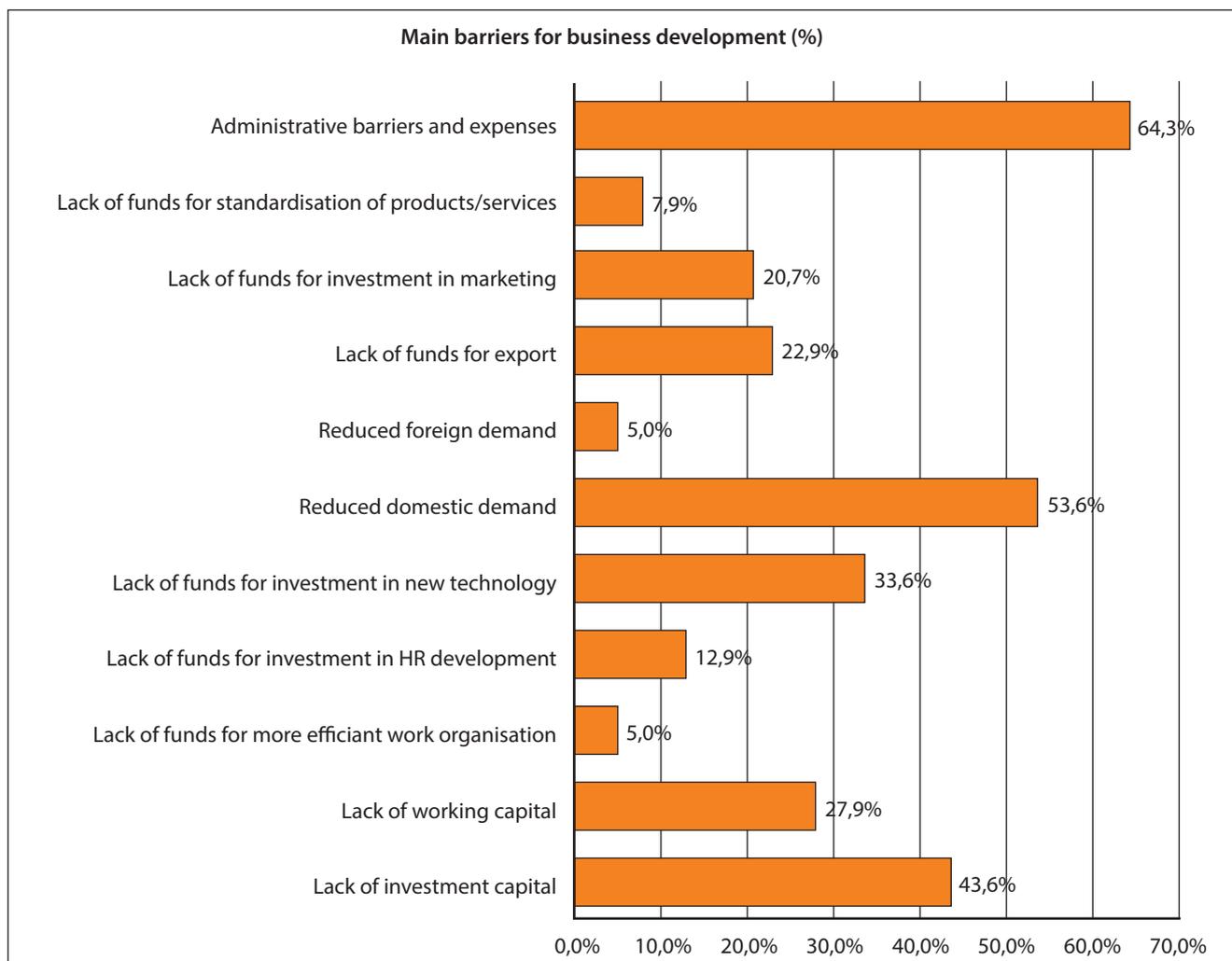
The previous question showed that the lack of funds caused by the economic crisis in Serbia, in addition to the restrictive legislation presents a main barrier to the companies in chemical and non-metal industry. The next question concerns the issues in realization of individual business arrangements that the companies have, and the results are shown in Chart 4.3.

The barrier for realization of individual business arrangements that most managers (66.4%) identified was difficulty in securing payments. The issue of insolvency and long payment periods has been present for years as

the most significant manifestation of economic crisis in the business sector. Also, closely connected with it is the second most commonly reported obstacle – reduced demand due to the lack of solvent buyers (51.4%). It is obvious that low liquidity still presents basic barrier for everyday activity of business sector. Along with liquidity issues, volatility of Serbian Dinar to foreign currencies exchange rates presents a problem for 35.7% of respondents.

Legal framework also represents a barrier for business arrangements. 43.6% of the survey respondents reported that they have difficulties in conducting their business due to the lacking in legislation, that is, in lack of clear rules that apply to all market contenders. This is mostly visible in failure to implement, or rather in selective implementation of certain regulation by the government and inspections, which create unfair competition and stimulate informal economy. Overcomplicated administrative procedures have been marked as an obstacle by 35.7% of the respondents. Also, one third of the surveyed companies reported corruption and market monopolies, which is observable in favoring the import companies compared to domestic producers, especially through the public procurement processes which often contain provisions which domestic production companies are unable to fulfill.

Chart 4.2. Basic barriers for companies' development in chemical and non-metal industry



Needs and current situation

As previously mentioned, the chemicals and non-metal industry has seen a dramatic decline in activity in the past decade. The next set of questions was directed at the needs of companies in this sector of economy, with the objective of determining policies that could enable the development of the businesses, especially small- and medium-sized enterprises.

Since the solvency issue and lack of funds was identified as one of the key issues of the business sector in Serbia as a whole, the next question deals with sources of finance, that is, which sources of finance are most acceptable for domestic companies in the sector. Graphic display of results is given in Chart 4.4.

Weak confidence toward banking sector is noticeable, which was listed as an acceptable source of finance by only 12.9% of the respondents. Weak confidence of the

economy toward financial sector is motivated primarily by high costs of borrowing, most prominently seen in high interest rates, which forces companies to turn to foreign sources of finance. It is obvious that there is a need for the government to react and introduce legislation and create a legal framework for the existence of alternative sources of finance, enabling competition for current financial institutions, but also more stable businesses climate as a pre-condition for reduction of risk and placement of affordable credits to companies by the commercial banks.

Speaking of other sources of finance, for the companies in chemical and non-metal industry by far the most acceptable source of finance are state crediting and development funds (65.7% of respondents). This points out the need for the government to reexamine its policy of support to the domestic companies, either by placement of direct subventions through development funds which would provide the business sector with accessible sources

Chart 4.3. Most frequent barriers for business

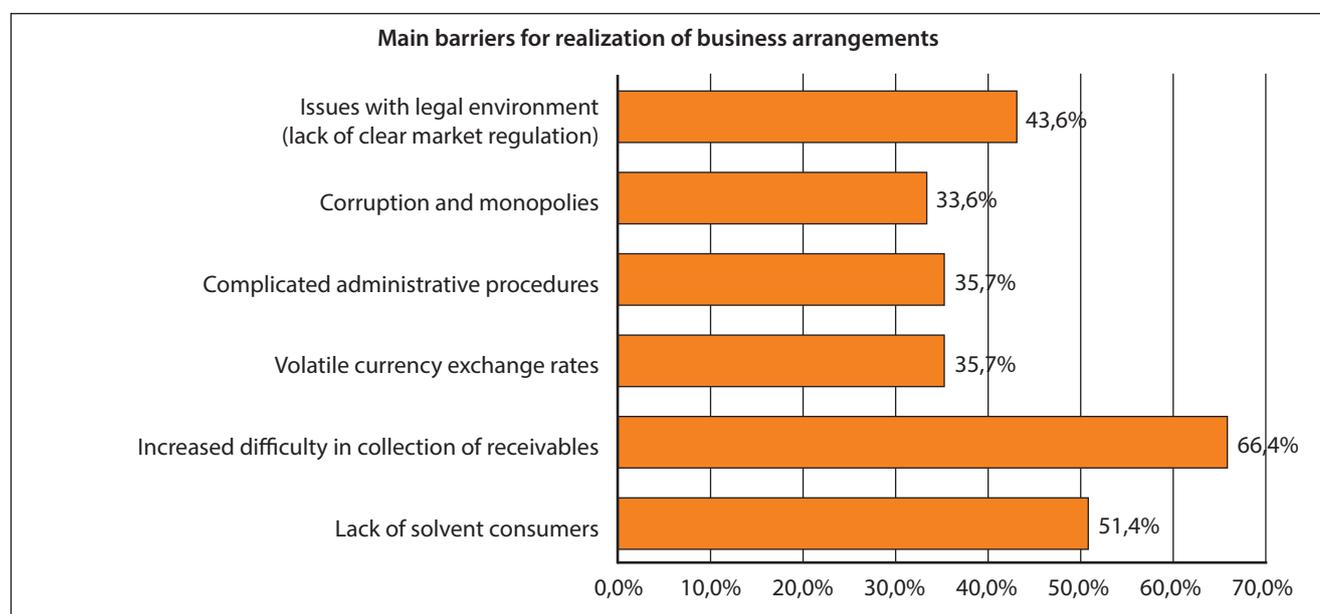
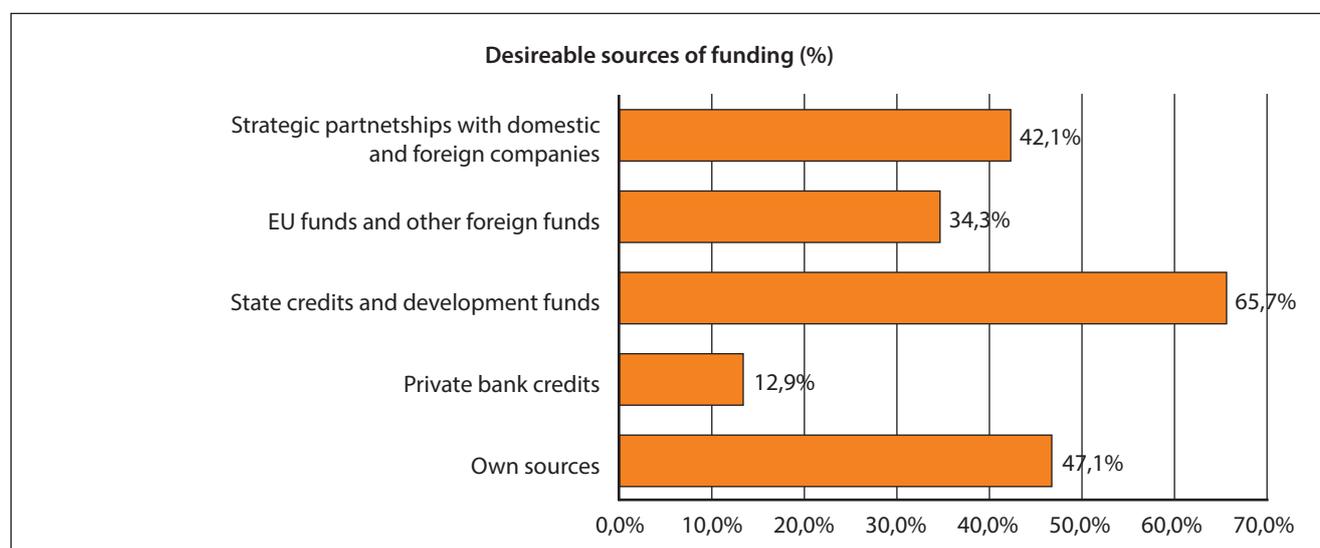


Chart 4.4. Desirable sources of finance for companies from chemicals and non-metal industry



of finance, or through changes in taxation policy which would stimulate investments. Financing from own sources represents most desirable source of financing for 47.1% of the respondents, which is understandable in the situation of low predictability and increased difficulty of servicing credit debt. Also, 42.1% of the respondents listed strategic partnerships with domestic and foreign companies as most desirable way of financing. This is also one of the areas where state assistance could be important for development of domestic companies, through finding strategic partner companies through agencies such as SIEAPA (Serbian Investment and Export Promotion Agency).

Finally, EU and other foreign funds have been marked as most desirable by 34.3% of the survey respondents.

Special attention in this research has been given to the needs for higher quality of internal organization of processes in companies in the chemical and non-metal industry. 138 out of 198 respondents ranked the needs for more efficient organization in the following manner (Chart 4.5.):

A significant majority, 64.5% of the respondents consider that simplification and removal of redundant administrative procedures which cause additional expenses would contribute to better business environment and improve organization in the company. In the second place are the complaints about the educational system, which is noted to be inefficient and fails to produce new employees of sufficient quality. 39.1% of the survey respondents reported the need for the improving skills of company managers, and the same percentage of respondents reported the need for higher quality of employees, since with current educational system they cannot answer the demands of modern production processes.

A number of employers especially noted the necessity for more efficient collection of receivables and system that would enable guarantees for receivables. Also, an issue of high taxes and contributions on wages was reported as something which prevents the employment of a larger number of employees in order to answer the needs of production processes.

Chart 4.5. What is needed for more efficient organization of processes in companies in chemical and non-metal industry?

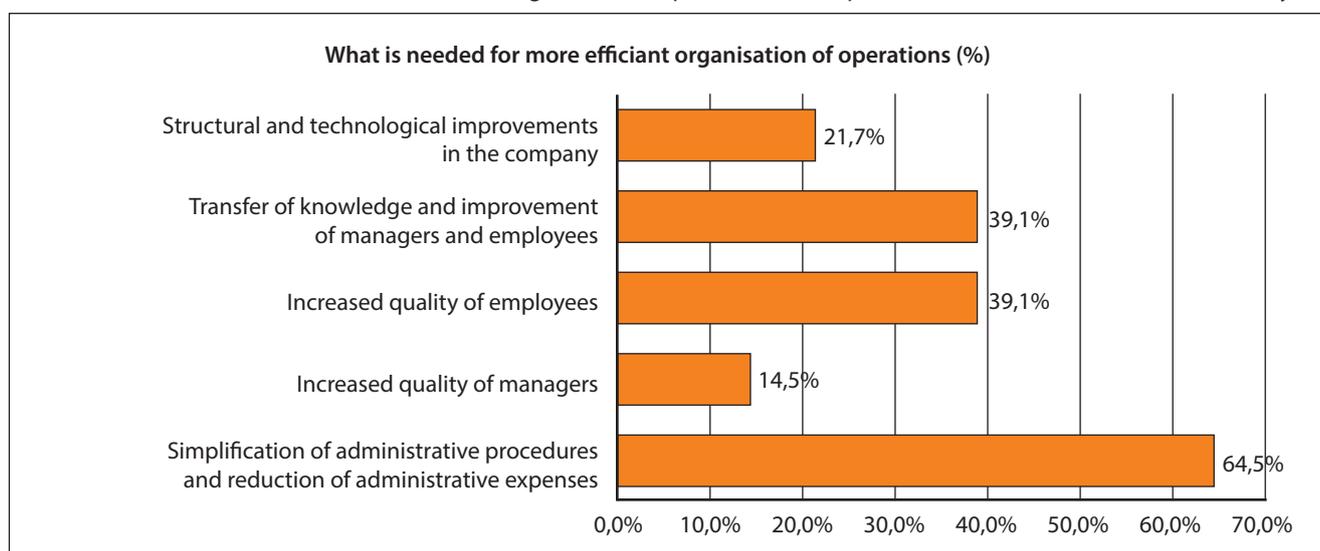
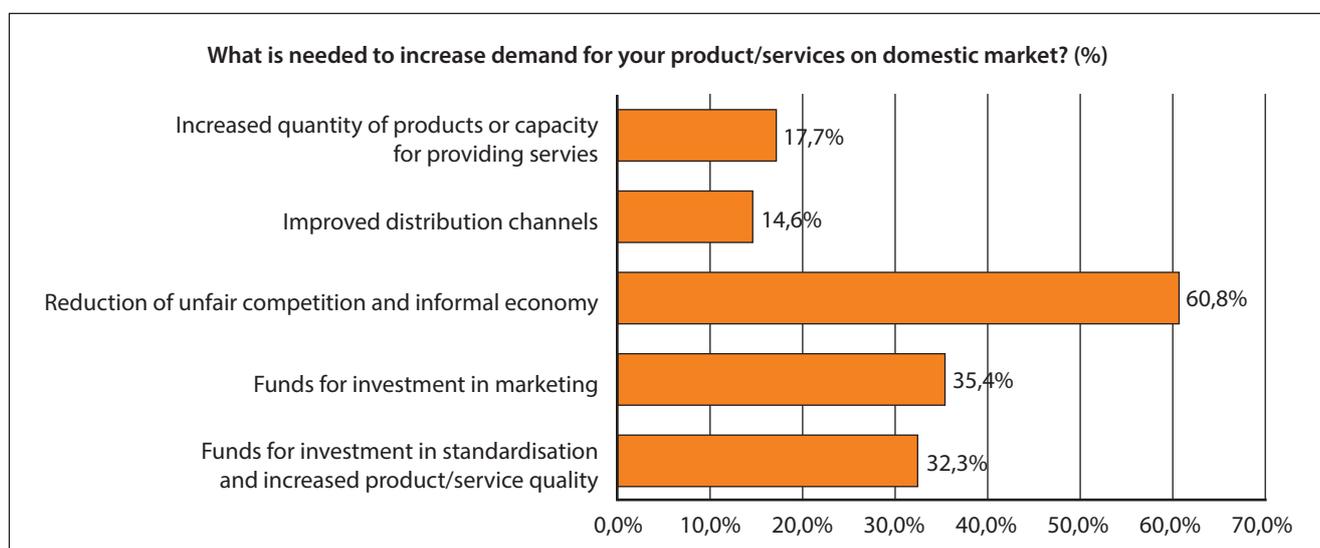


Chart 4.6. What is needed in order to increase demand for your products/services on internal market?



Research also included the needs of the companies for increased placement of products and services on domestic and foreign markets. 130 companies stated their needs for expansion of their business in Serbian market (Chart 4.6.).

The main issue that companies in this sector need to resolve is the reduction of unfair competition and turnover in informal economy, answered by 60.8% of the respondents. The level of informal economy in Serbia has been the focus of business sector, representatives of the employees and of

experts, and these results only underline the necessity for the government to finally start resolving this problem.

Also, the respondents listed the issue with allowing the import of low quality products, especially from Asian countries, which creates problems for domestic producers, which could be protected by customs regulation if there was a political will for it.

Speaking of support to export companies, 115 respondents answered the question in the following manner (Chart 4.7.).

Chart 4.7. What is needed to increase demand for your products/services in foreign markets

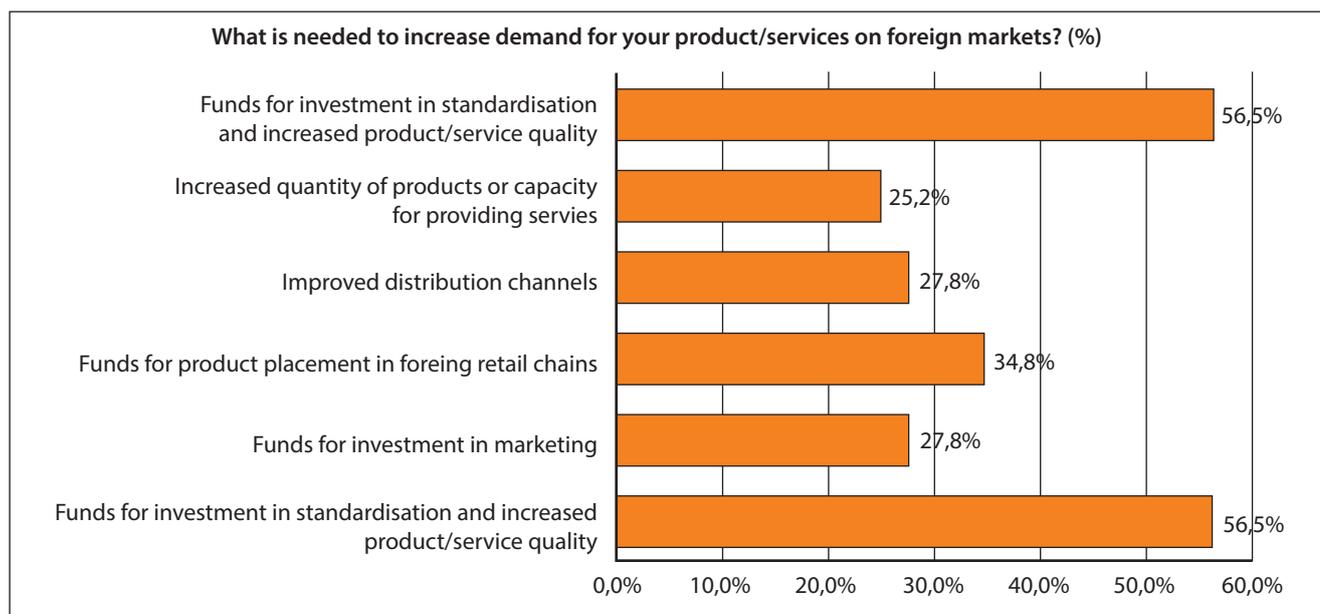
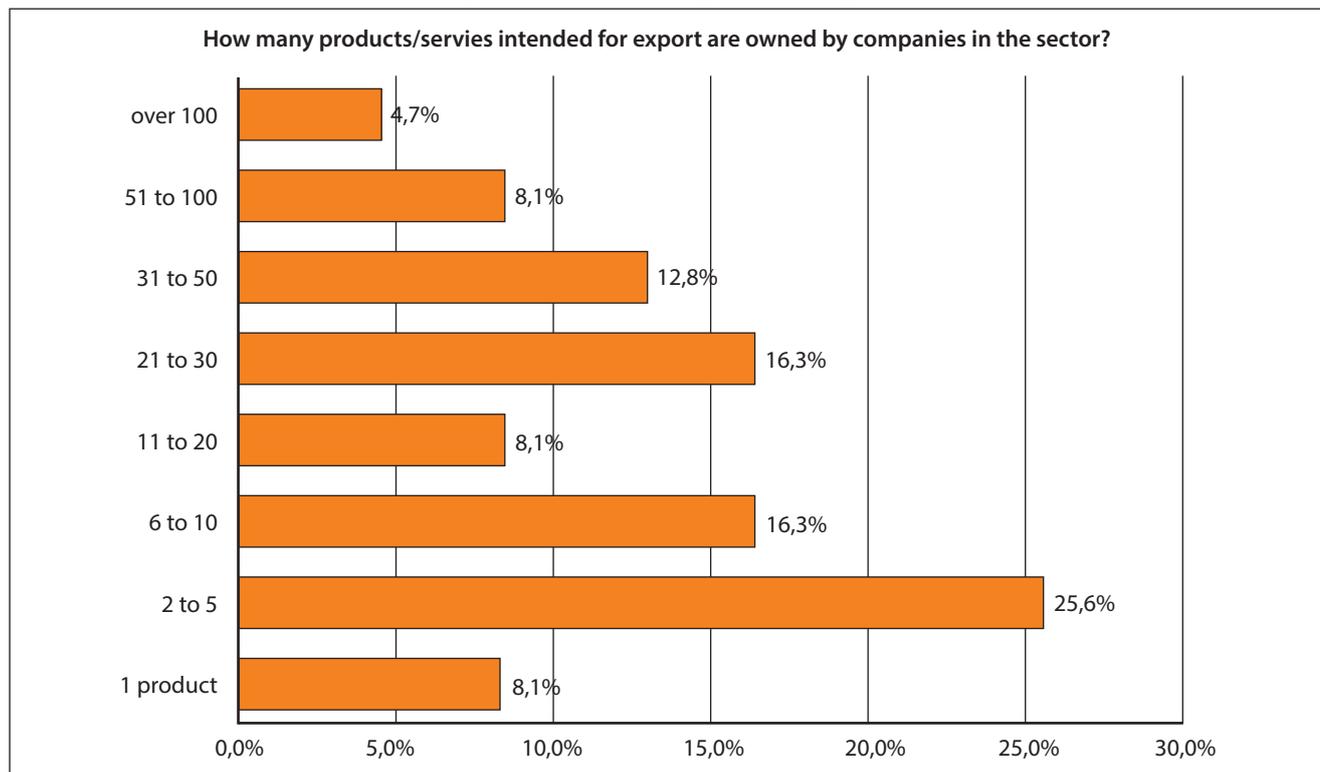


Chart 4.8. The number of standardized products meant for exports on foreign markets



Two key factors presented themselves as barriers for the increase of exports of chemical and non-metal industry: lack of funds for investments and fulfillment of standards expected on foreign markets and lack of quality foreign partners for joint production and product distribution. Intermediation in the process of finding quality foreign business partners and their networking with domestic producers, and expansion of cooperation between Serbian and foreign companies through strategic partnerships is an activity through which Serbian government could eliminate two key barriers for the increase of export from this sector of industry. It is necessary to create specific measures in order to encourage this sort of transfer of knowledge and modern technologies of foreign companies and creation of conducive business environment in order for them to transfer their production into the Republic of Serbia through business arrangements with domestic producers.

One of the objectives of this research was to examine the export potentials of domestic companies. The question on number of products that fulfill the standards for export into foreign markets of developed countries was answered by 86 respondents and the answers are shown in chart 4.8.

Firstly, it is noticeable that less than half of the survey respondents have products which can satisfy the standards of foreign markets, which suggests that this industry needs significant investment in modernization of production and product development. From the companies which possess products of interest for foreign markets, most companies are specialized for a small range of products.

When asked about the needs of export companies, the answers were given by 101 respondents. Graphical display of the results can be seen in chart 4.9.

Main problem of the export companies in the chemical and non-metal industry is insufficient networking and lack of information about potential business partners. Most respondents (64.4%) listed this as a main barrier for expansion on foreign markets. Second most often reported issue is the lack of information about the requirements of foreign markets (50.5% of the respondents). In general, large number of comments was given about the need for more efficient way of promotion of Serbian economy and easier access to the information about other markets, which is an area where domestic associations and organizations could be engaged in, as well as economic sections of diplomatic missions.

According to the perspective of the respondents it seems that the system of chambers of commerce fell short

Chart 4.9. Barriers in business networking with foreign partners

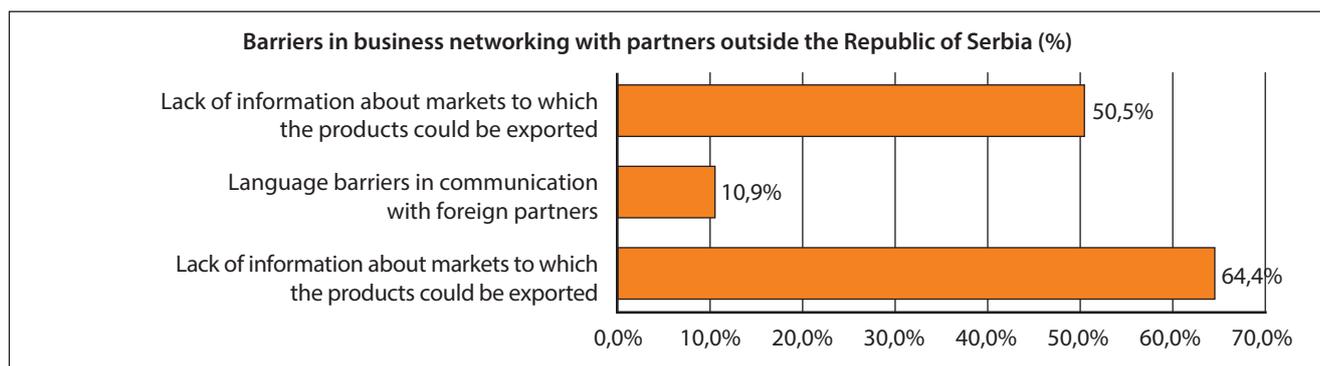
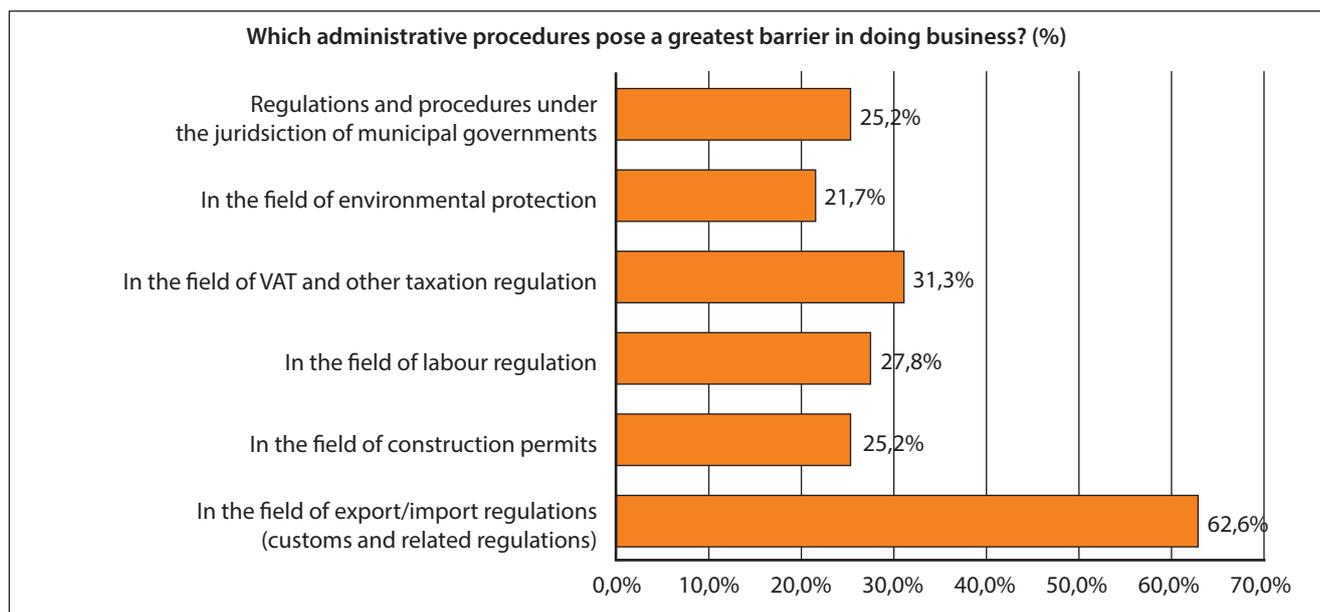


Chart 4.10. Which administrative procedures (barriers) are greatest obstacle for conducting business



of the required goals and that during the past decade they failed to satisfy the needs for successful business networking of the companies operating in chemical and non-metal industry with potential partners and distributors of their products outside of the Republic of Serbia. The entrepreneurs in this sector consider that a new initiative and improved organization of export business is needed than it is now, with full engagement of diplomatic missions in foreign countries.

Managers of surveyed companies were asked to identify main administrative barriers for conduction businesses. Answers were given by 115 out of 198 respondents (Chart 4.10).

Largest number of complaints from the companies in this sector was related to the administrative procedures linked to the import and export of goods and raw materials (62.6% of the survey respondents). Related to this are the complaints on the implementation of EU REACH system for control of chemical substances and biocides and the system for receiving authorization for traffic of these goods, which was until recently the responsibility of Agency for chemicals. Also, additional complaints were given on incompetency and inflexibility of tax administration and inspection, slowness in issuing certificates, undefined

regulations issued by government institutions, as well as poor regulation in the field of sanitary regulations.

Last from this set of questions concerns the monitoring of the effects of newly implemented regulation concerning payment periods in commercial transactions. The respondents were asked if there was any change in the payment periods between public and private sector and among the companies in the private sector. 122 survey respondents answered the question, 93 of which gave answers for public sector and 115 answers for private sector. The data in the chart are given in absolute values (Chart 4.11.).

The answers mainly show that owners and managers of companies from chemical and non-metal industry consider payment periods remained the same. A slight improvement may be seen in transactions between companies operating in the private sector, however, it is necessary to give more time in order to fully evaluate the effects of the legislation.

It is important to note that Law on payment periods in commercial transactions was implemented merely 4 months before the survey and that it's valid only for commercial contracts signed after March 31st, 2013. The results of this survey therefore have to be taken with a certain reserve, since the

Chart 4.11. Have the payment periods reduced with implementation of Law concerning payment periods in commercial transactions

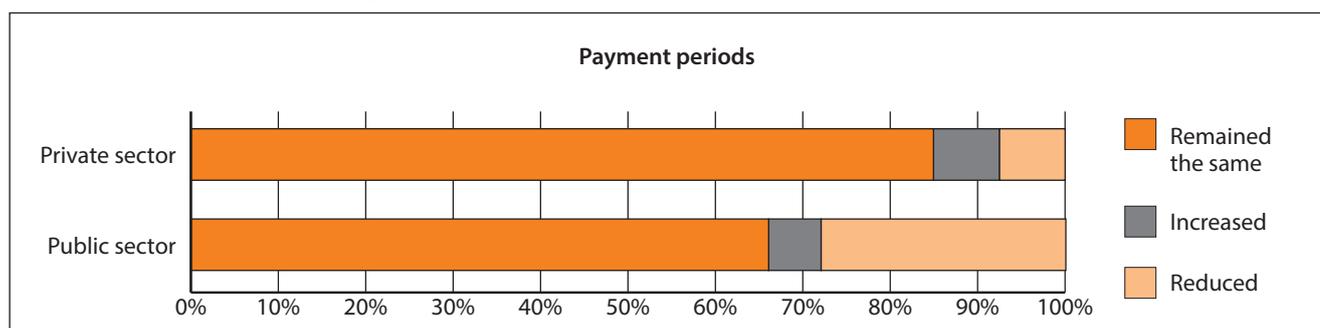
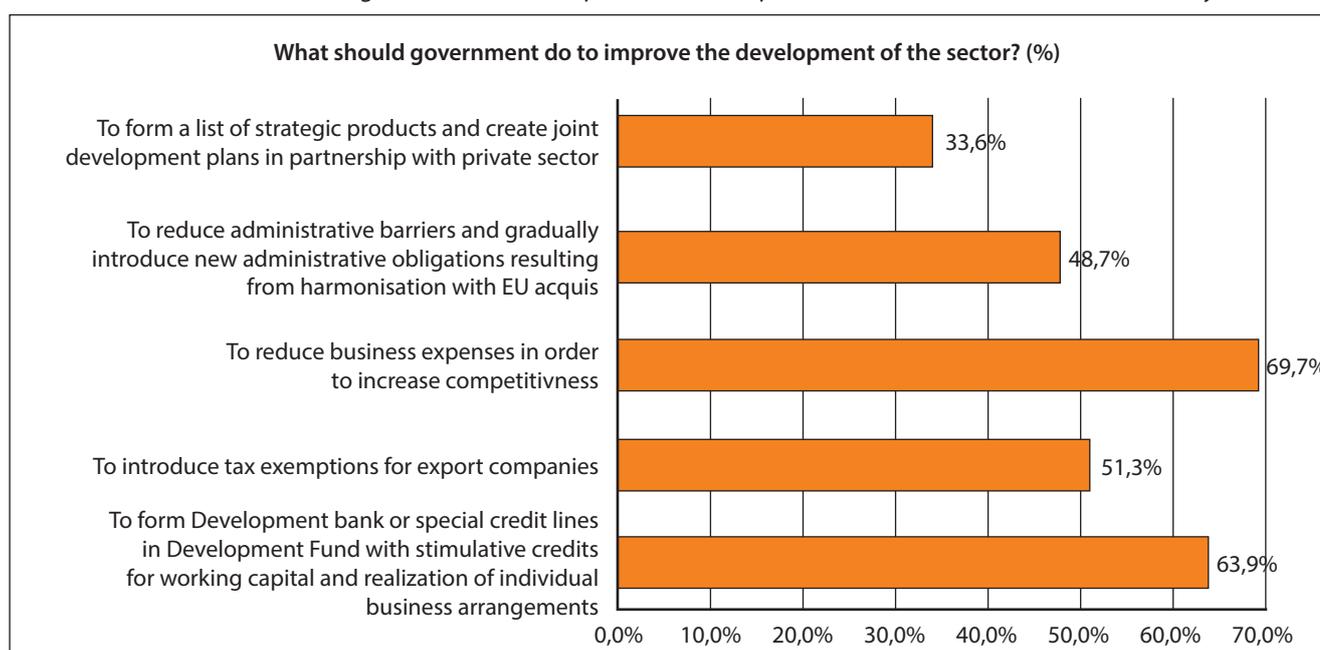


Chart 4.12. What should the government do to improve the development of chemical and non-metal industry



experience of other countries in the region shows that real effects of this law can only be observed after one year of implementation.

Proposal of measures for development of the sector

Finally, the company managers were asked about the measures which would contribute to the development of the sector of chemical and non-metal industry in the period 2014-2020. The first question dealt with the necessary steps the government should take for improvement of production and export of this sector. The answers were given by 119 respondents (Chart 4.12.).

In the first place, according to the opinion of 69.7% of company owners is the reduction of costs of doing business. Most recommendations in this sense were related to the fees of the Agency for chemicals, which were deemed too high for domestic producers.

The specificity of the chemical and non-metal industry is that one of the ways on which the government can reduce the financial burden on businesses is through regulated prices, in this case the price of natural gas, which is used as a raw material in this industry. Also, one of the

directions which the government should consider is raising the capacities of national laboratories and institutes for analysis of chemical and biocide products, which can currently only be performed in international laboratories, causing additional expenses to domestic companies.

In second place among actions which the government should undertake to improve the situation in this sector is securing the credit support to domestic companies, agreed upon by 63.9% of the respondents. Surveyed company owners and managers consider that the government should provide this way of financial support for investments and development projects through special institution, such as Development Bank or new credit lines of Development Fund, which would conduct their duties in a transparent manner, without showing favor to individual companies.

Agency for chemicals and its influence on domestic producers

Next question was dealing with Agency for chemicals, its influence on the product competitiveness through fees imposed during the year 2011, and the way which would make domestic production in this sector competitive, while preserving the control role of the Agency. 73.9% of the survey respondents consider that it should be a spe-

Chart 4.13. Which programs are most needed for chemical and non-metal industry to support development?

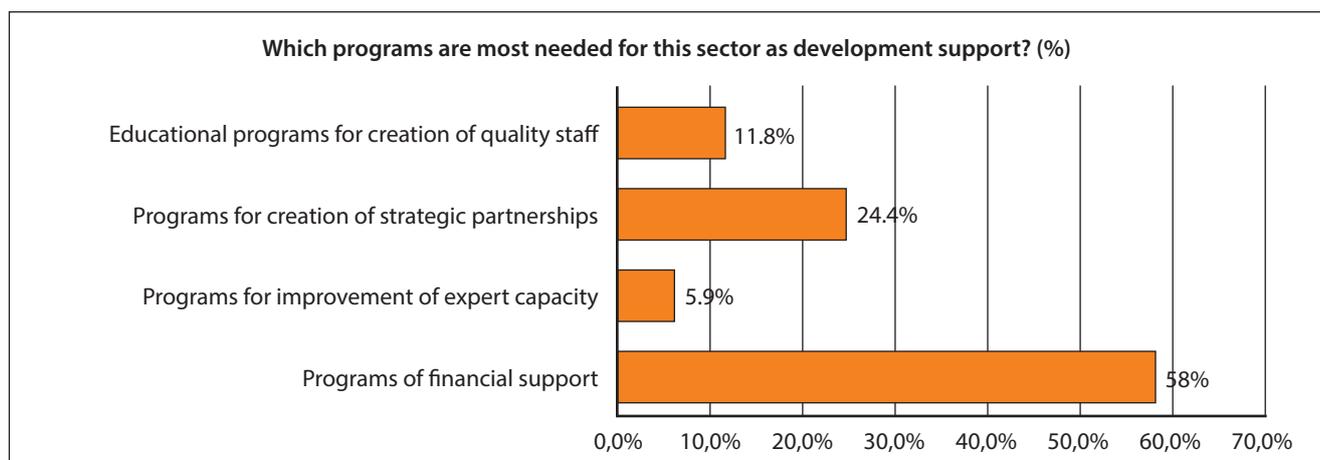
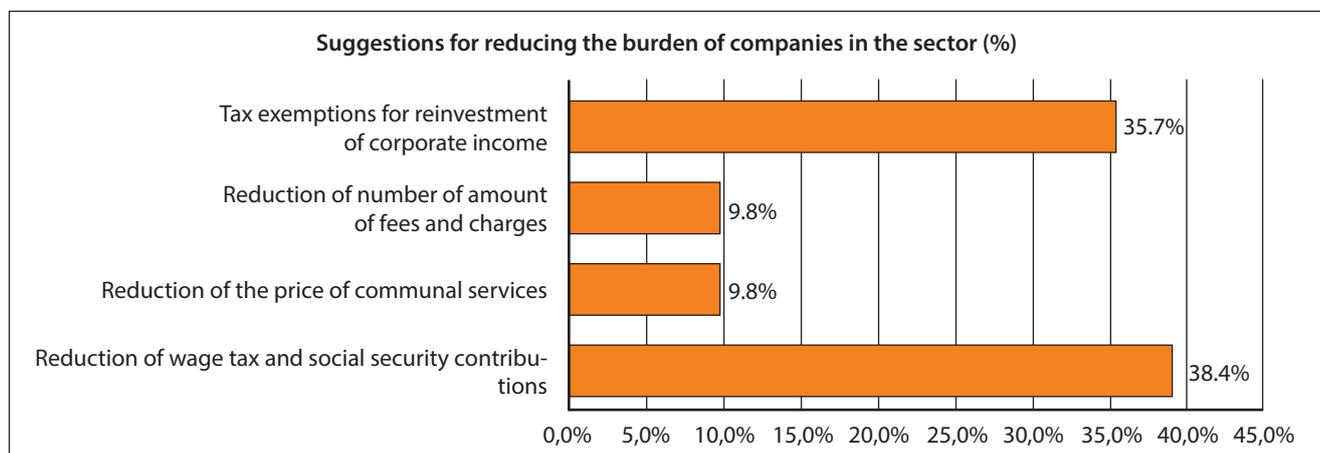


Chart 4.14. What financial burdens for companies in this sector should the government reduce



cial group made of representatives of the business sector, Agency for chemicals and other institutions which would reach an agreement on administrative procedures and fees charged for them through consensus, in order to ensure an efficient implementation of EU and international standards in production and traffic of chemical materials.

This attitude is understandable considering that the fees charged by the Agency for chemicals were unilaterally decided on by that same Agency, without considering the capability of domestic producers to finance new expenses.

Also, 54.6% of the respondents suggested that it is necessary to unify all governmental institutions which are involved in the area of chemical and non-metal production and traffic into one body, enabling easier access to the information about the rights and obligations of the companies in this sector.

Next question was related to concrete projects that should be implemented in order to support the development of the sector. The answers were given by 119 respondents, and are shown in Chart 4.13.

Next question was related to the financial burdening of businesses and which burdens need to be reduced. The answers were given by 112 respondents (Chart 4.14).

Employers in the chemical and non-metal industry have been finally asked to describe the relations with employer representatives and to describe how constructive the Trade Unions are regarding the company development. The answers were given by 119 respondents, and 26.9% have an organized trade union in the company.

Also, companies which stated to have a company-level trade union have been asked about their expectations from social partners concerning the current situation in the national economy and joint work on improving the company. The answers are given in Chart 4.15.

Chart 4.15. Employer expectations toward Trade Unions



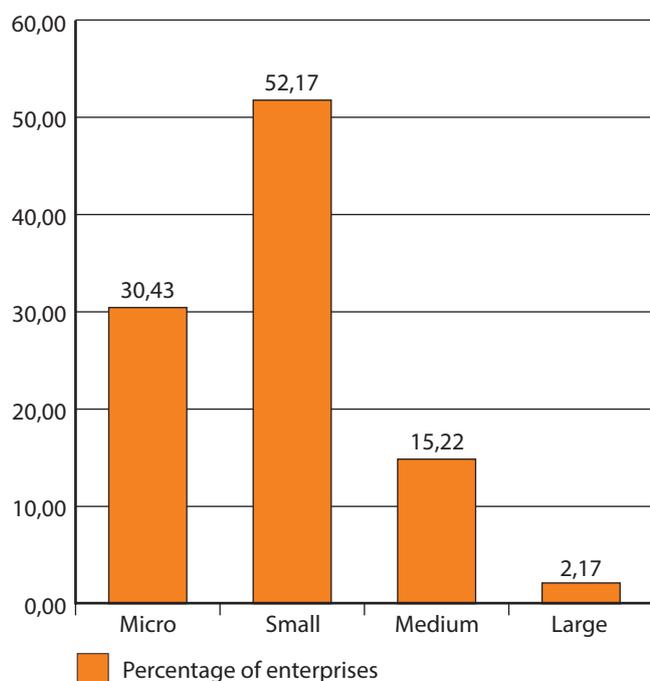
5 | Textile, leather and footwear industry

Basic information about the surveyed companies

In textile, clothing and footwear industry 200 answers were gathered from a wider sample of 391 enterprises.

The survey respondents were asked to identify themselves according to company size as a micro (1-10 employees), small (11-50 employees), medium-sized (51-250 employees) and large companies (over 250 employees) (Chart 5.1.).

Chart 5.1. A Surveyed companies in textile, leather and footwear industry, by size



A total of 61 out of 200 surveyed enterprises are micro-sized. There are also 105 small companies, 30 medium-sized companies and 4 large companies. Once, in the

Table 5.1. Headquarters of companies from textile, leather and footwear industry

Location	Number of surveyed companies
Belgrade	55
Vojvodina	59
East and Southern Serbia	29
Šumadija and Western Serbia	42
Uncategorized	8

former Socialist Federal Republic of Yugoslavia, this industry was dominated by large companies. Today, in Serbia, the sector is mainly driven by small- and medium-sized companies.

Most surveyed enterprises listed the location where they are registered at – a total 193 out of 200 surveyed companies.

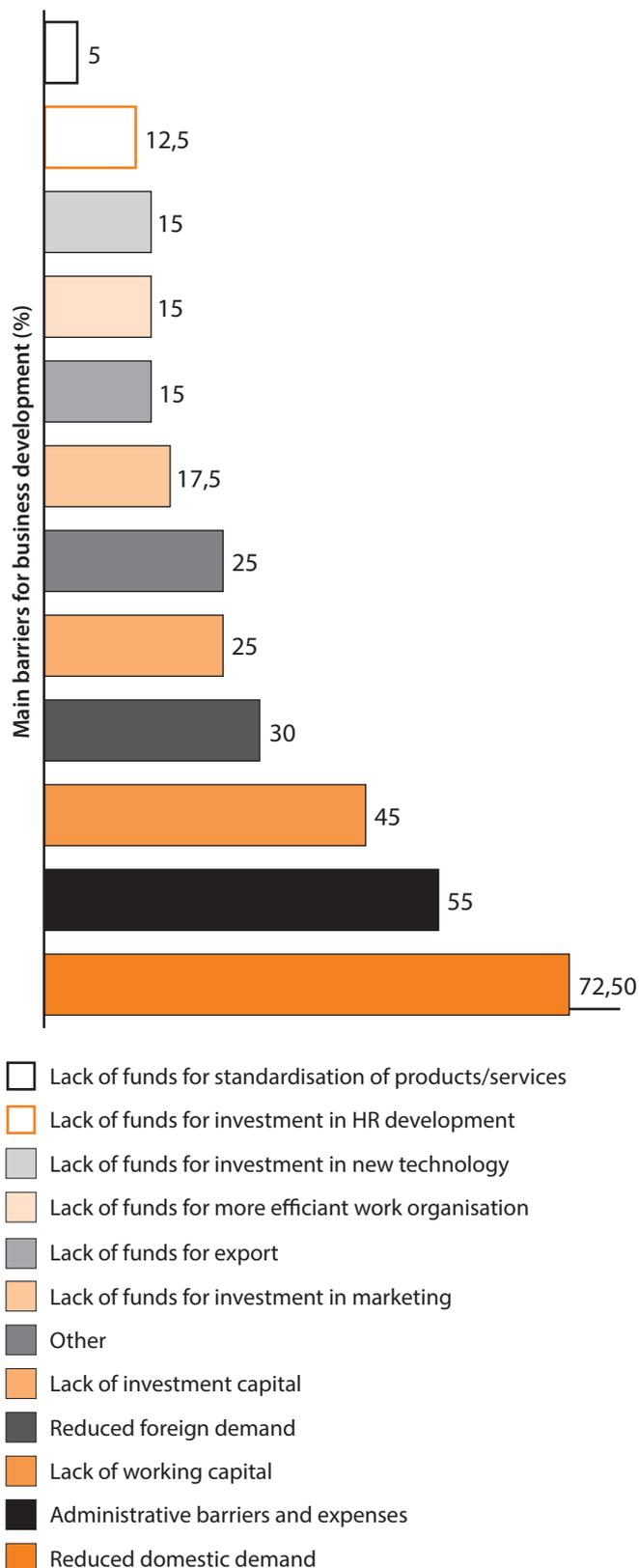
The table 5.1. illustrates the fact that the textile industry in Serbia in the past decade has mostly expanded (or rather sustained compared to the period of former Yugoslavia) in developed areas of the country, contrary to the expectations that its expansion should be a characteristic of the regions which have traditionally fostered crafts and activities related to textile, leather and footwear. The current situation reflects the fact that foreign and domestic investors predominantly focused on the region of Vojvodina and Belgrade, which possess better infrastructure and local market with higher purchasing power, compared to the undeveloped southern and eastern region of the Republic of Serbia. It should also be kept in mind that it was in eastern and southern parts of Serbia where, in the past two decades, a large number of companies went bankrupt, which in the second half of 20th century were giants of textile industry.

A similar process of decline of large textile factories from the communist era took place in medium-sized and large cities of Šumadija and western Serbia, but the transition in this industry has ended with somewhat greater success, thanks to the private initiative in areas such as Novi Pazar, Užice and Arilje areas. Micro- and small-sized enterprises have shown resilience and managed to answer the numerous challenges of the post-2000 period. However, it must be stated that their growth would have been significantly higher if there had been a systematic support of the state behind it.

The disappearance of large textile factories and companies from the period of Former Yugoslavia is also a characteristic of Belgrade and Vojvodina. Still, thanks to the good geographic and strategic position, more developed local market of textile products and focus of investors on these regions, micro, small- and medium-sized enterprises have somewhat replaced the once-large companies, however, it is undisputed fact that a large slice of textile market was taken by imports from China, Italy and other countries with developed textile, leather and footwear industries. Clothing retail chains which belonged to the large domestic companies in the socialist era were replaced by thousands of boutiques, franchise stores, bazaars, etc, with foreign brands. Thus domestic production simultaneous-

ly lost production capacities and retail locations for their clothing and knitwear products, and the number of employees in this industry declined dramatically.

Chart 5.2. Basic barriers for companies' development in textile, leather and footwear industry



Business barriers

Owners, directors and company managers in the textile, leather and footwear industry were asked to identify main barriers in development of their companies. They were offered a multiple predefined answers, as well as the possibility of an open-ended answer for identifying additional barriers. 162 survey responders have answered the question, with the results given in the chart 5.2.

Along with the listed business barriers, 40 respondents listed additional barriers for development:

- Huge black market which the government does not regulate in a satisfactory manner (numerous channels for mass distribution of textile products, falsified delivery notes on border crossings, two sets of accounting, corruption in the customs office, etc.)
- Corruption in public procurement processes (especially when asked by military and the police)
- Monopolies of certain „big market players“ who win public procurements through close ties with political parties
- Lack of qualified workforce (tailors, sewers, etc.)
- Textile factories which possess quality products for exports mostly have old machines and tailors with no work experience
- Lack and poor quality of materials
- Lack of primary domestic textile production which would simplify export
- Expensive banking services and provisions
- Expensive services of public communal companies which charge their services up to ten times higher to the businesses than citizens.
- Chronic lack of affordable working capital
- High wage tax and contributions for a low-profit sector such as textile industry.
- Lack of certain stimulations for beginners in first five years
- Impossibility to raise quality of products due to the existence of incompetent competition which floods the market with low quality and inexpensive products

The prevailing one among the listed business barriers is the informal economy and illegal distribution channels of textile products. The companies in this sector are openly accusing the government for lack of political will to stop the informal economy, which causes serious damage to the companies and their employees, as well as the state budget which is left without hundreds of millions EUR per year from income and customs tax.

Leaders of textile companies in Serbia were asked to list most common barriers for business arrangements. The answers were given by 156 respondents (Chart 5.3.).

Businessmen from this sector of industry listed additional factors which endanger the business arrangements of their companies:

- Trade in clothing, leather and footwear in informal zone
- Smuggling of textile products through Kosovo
- Possibility of creation and termination of companies without any sort of control and responsibility for frauds

committed to other companies. Impossibility of collecting receivables from companies who intentionally go into bankruptcy, form a new company and continue operating without any consequences. It happens that the same person or someone close opens three or more limited liability companies, enters into debt and opens new company without any debts. It is useless to press the issue at courts, since it is impossible to collect receivables from such companies, and court fees are high, the lawyers even more expensive. In addition, such receivables cannot be written-off and are taxed.

- Complicated procurement of materials and difficulties in finding companies dealing in production or trade of intermediate goods.
- Insufficiently trained workers which are expensive to train

Needs and current situation

Companies in textile, leather and footwear industry have a chronic issue with lack of investment and working capital. Most of these companies do not have sufficiently valuable property to put mortgage on, their incomes per year vary drastically depending on their ability to collect receivables, and the banking sector in Serbia predominantly does not

accept guarantees of foreign partners for loans and credits for realization of CMT² jobs they order from domestic textile manufacturers. Lack of affordable sources of finance increases the difficulty of development of companies in this sector, thus they mostly accept smaller-scale jobs out of fear that larger jobs might endanger their liquidity. The consequences are slow growth and reduced scale of CMT jobs.

This survey reached its objective of collecting the opinions of owners, directors and managers of companies on how to obtain fresh investment and working capital necessary for further development of business (Chart 5.4.).

166 out of 200 surveyed enterprises gave their responses from which it can be seen that almost identical number of managers in textile companies consider that the company growth should be based on own sources as those who consider that it is necessary to obtain government credits and development funds. Slightly more than one quarter of respondents consider that the entry into strategic partnership would significantly increase the amount of work, standardization and modernization of production capacities, and most importantly – opening of new markets through the use of already formed distribution channels of strategic partners in foreign countries. Textile companies in Serbia have been lacking of funds for investments into production for decades, and funds for penetration into new markets and strategic positioning on them are a mere dream for most of these companies. Banks as partners in business expansion are rarely considered acceptable, and the main reason is lack of collateral

Chart 5.3. Main barriers for business arrangements

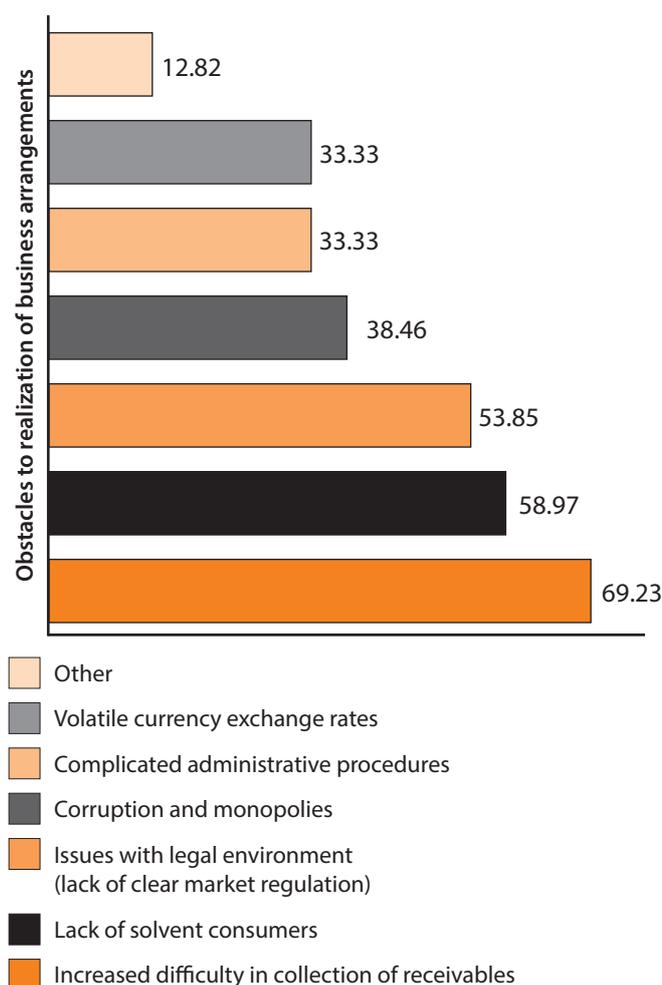
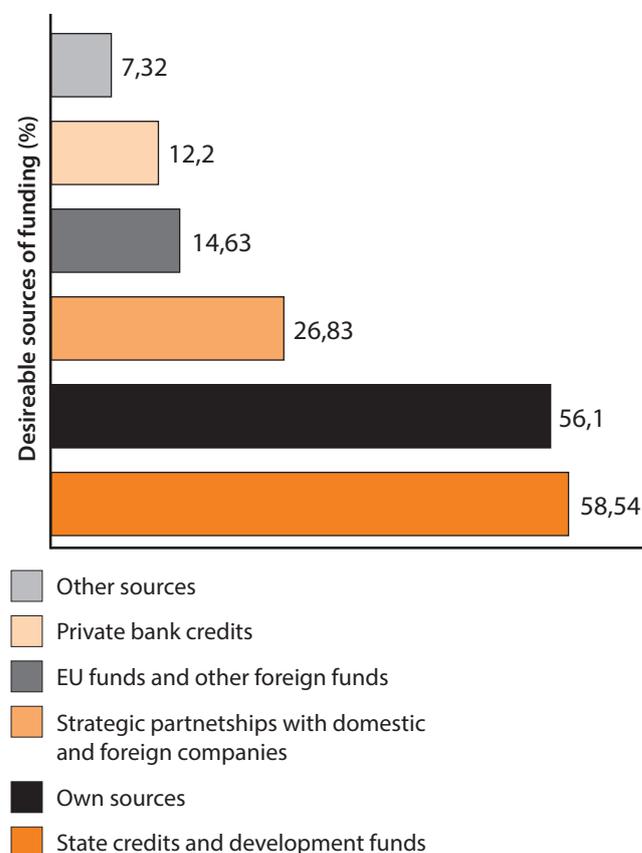


Chart 5.4. Desirable sources of finance of companies



2 CMT – Cut, Make and Trim

als and unfavorable interest rates. Gross profit margins in textile sector has dramatically reduced after the year 2008 down to the 3.5-11% range (the average margin being approx. 7.6%) and in such situation every banking loan with an interest rate higher than 4 or 5 percent becomes unprofitable for producers.

Among the textile companies there were those who considered that a program of subsidized credits for the business sector should be put into place as a possibility for revival of investments, and there were also recommendations for government-issued long-term (at least five years) investment credits with interest rates up to 5%.

General reason to the division among textile companies into group focusing on own funds and the group focusing on government subsidies for development is the fact that in this field of business labour expenses make over 70, and sometimes even up to 85 percent of total costs of final products. Therefore, with very high fiscal burdens on labour and simultaneous lack of affordable working capital loans and credits for modernization of production it is impossible to achieve significant growth, considering the weak demand for products due to large Indo-Chinese competition. It is necessary to have either fiscal unburdening of business sector, or opening of credit lines for support in realization of individual business activities, and the best solution would be to have both.

Surveyed companies were asked about the needs for higher quality of organization of internal processes within

the company. 160 managers listed their most important barriers for better internal organization of their companies (Chart 5.5).

Managers from this sector have ranked the necessity of reduction of complicated administrative procedures and administration expenses in a manner similar to their colleagues from other observed sectors. However, they also ranked highly the need for higher quality employees, as most important factors for more successful organization of the internal processes.

They also listed other encountered barriers:

- Unmotivated employees due to low prices of textile confection and high competition from China, resulting in low wages. Lower wage tax and contributions would help increase the employee wages and increase their motivation.
- Market rules have to be clearer, equal for all participants and monopolies cannot be allowed.
- Lack of funds for improvement of production process.
- Government schools are unadjusted to the needs of small- and medium-sized enterprises, they do not offer any concrete knowledge, or knowledge of business negotiating skills. Faculties of economy in Serbia should transform and adjust to current situation, structure and needs of the economy, and not offer outdated „quasi-knowledge“
- Employees in Serbia are mainly unenthusiastic for work, and do not think that they should show quality in every stage of production and earn their wages.

Chart 5.5. What is needed for more efficient organization of processes in companies in textile, leather and footwear industry?

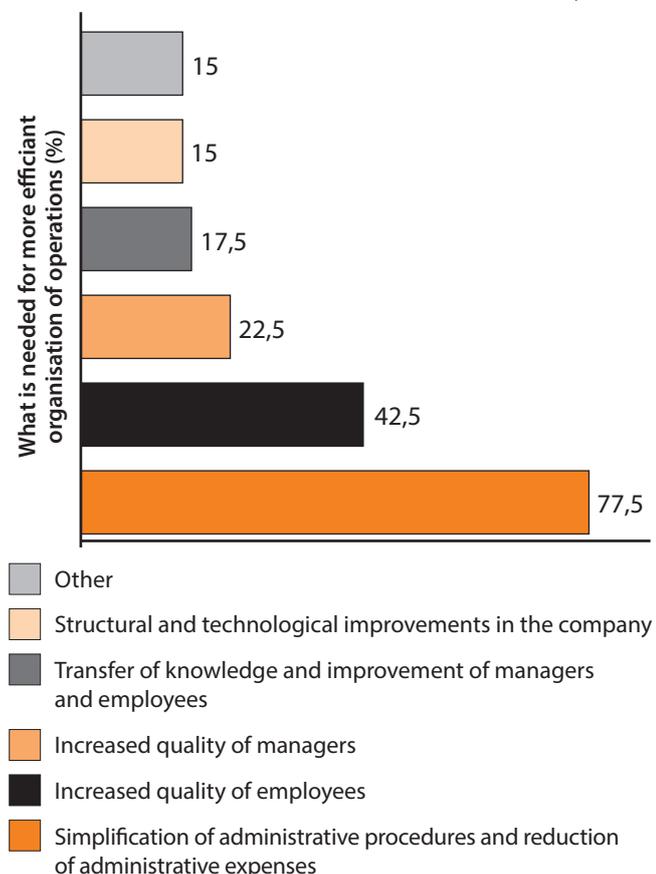
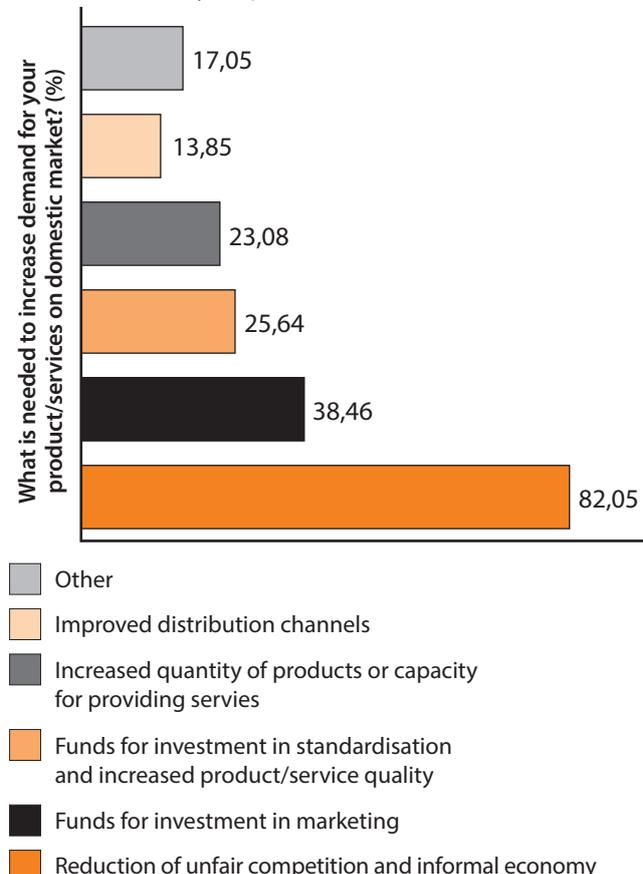


Chart 5.6. What is needed in order to increase demand for your products/services on internal market?



Survey had an objective to determine the needs of companies for increase of product placement on domestic and foreign markets. 156 companies listed their needs in order to increase their product placement on Serbian market (Chart 5.6.).

This information illustrates the fact that it is impossible to expect significant development of companies in this sector without the reduction of informal economy. According to the opinions of owners, directors and company managers of domestic producers, in Serbia on each sold textile product 1.5 such articles are sold in informal sector, and in some regions of the country (Southern and Eastern Serbia, border area toward Kosovo, Romania, Bulgaria, Hungary, Macedonia, etc.) that ratio goes up to 1:3. Textile products from informal channels are always 15 to 35 percent cheaper in retail than products of legal domestic producers, since they circumvent VAT and a number of fees and charges they pay according to the regulations of the Republic of Serbia and the local-self governments. Consumers, faced with the 35% reduction in purchasing power compared to 2008 are forced to save and thus turn to cheaper products, even though they are often lower quality than those made by domestic producers.

For this situation in the market of textile products managers blame relevant government institutions and political elite of the country which has not, in the period of 2000-onward conducted any serious campaign of confiscation of goods found in illegal channels, did not organize a register of imported goods, established control of transfer of goods over border crossings and began treating illegal import of large quantity of goods as an organized criminal activity. In addition to the above, the government also enabled free trade with People's Republic of China and other far eastern countries which contributed to the mass import of cheap, low-quality goods and thus additionally reduced the demand for products of domestic industry.

To remedy the situation in this industry, it is necessary above all else that the government finally stops tolerating such a high level of informal economy and illegal imports of apparel, footwear and leatherwork products and conduct a rigorous control of trade in the informal sector through an organized action of all relevant institutions.

Textile companies have suggested that in order to increase the demand on domestic market it would be beneficial to create programmes of increase of product quality in Serbian factories and therefore increase their chances for finding quality strategic partners and form their own brands for domestic and foreign markets. Attention was drawn to the fact that domestic textile industry has competitive prices, but that it receives lower amount of work through public procurements due to corruption issues. Higher control of public procurements would enable higher demand for domestic products.

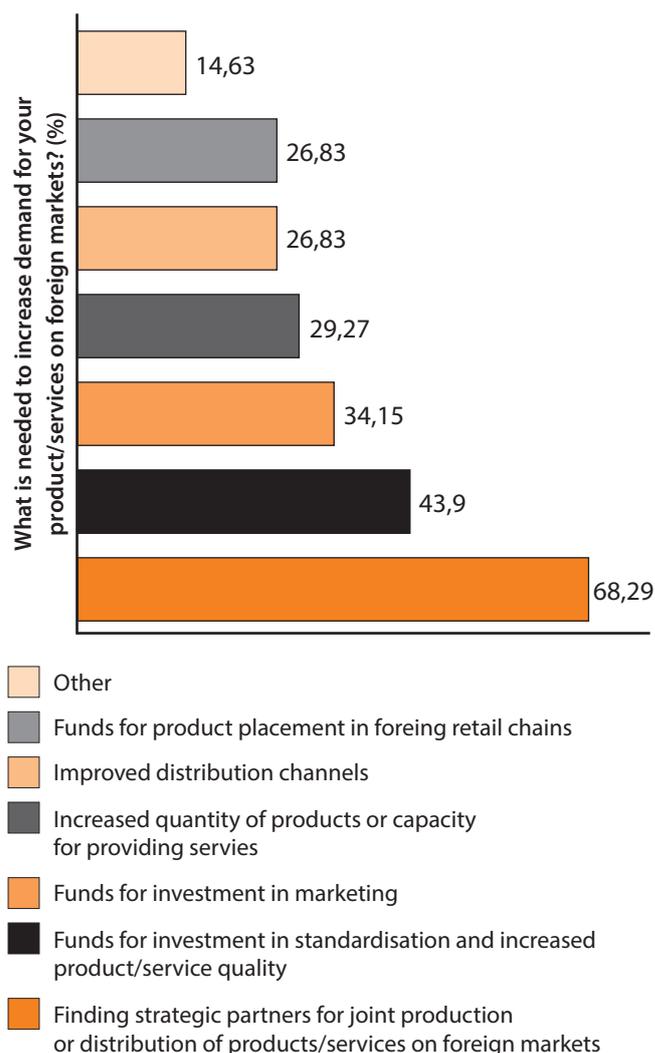
Special attention was given to the need for larger number of quality fairs of textile, leather and footwear in Serbia which would be used to network with potential partners, both domestic and foreign and arrange product placement. Owners and directors of textile companies have expressed their displeasure with prices of exhibition space

and accommodation on Belgrade Fair. They consider that the price of 5000 EUR for a small stand operated by two employees is inadequate in the situation of deep economic crisis and that such investment cannot be returned. Still, as a producer they are forced to attend the fairs, since they, due to lack of funds for marketing, present the only possibility to be noticed by potential partners and distributors. On other fairs in various European countries, fair organizers give preferential treatment and prices for domestic producers and thus assist in concluding business arrangements and place their products, which is not the case in Serbia.

The survey respondents were also asked about placement of their products on foreign markets and what is necessary to improve their performance on them (Chart 5.7.).

Managers of domestic textile companies consider that finding quality strategic partners from foreign, economically developed countries is a way to increase the production and open new markets. Foreign partners are desirable since they bring new technologies and improved organization, as well as their network of contacts for worldwide distribution. Domestic industry, faced with a lack of resources would require years of investments and large efforts to independently appear on markets with high pur-

Chart 5.7. What is needed to increase demand for your products/services in foreign markets

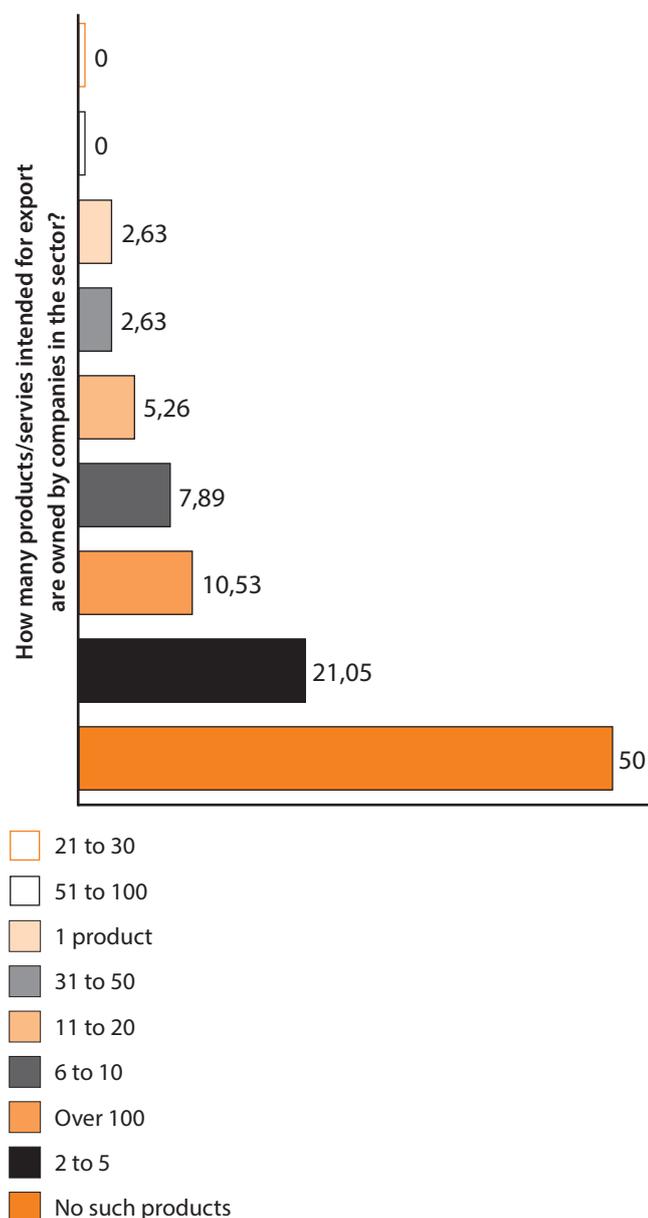


chasing power. Lack of such business partners is also a reason why the Serbian textile industry has failed to use trade liberalization with EU in the past decade. Lack of competitiveness due to high wage burdening and other levies imposed by the government are also a contributing factor, as well as lack of new technologies, skills and knowledge, and lack of efficient product placement.

The findings related to the question about a number of products intended for export illustrate how serious the problems of product standardization and achievement of sufficient product quality are. 149 company managers gave the following answers (Chart 5.8.).

Every second manufacturer in textile, leatherwork and footwear industry has no products of sufficient quality to be placed on foreign markets. This shows that the level of competitiveness of domestic producers is very low and that it is necessary to implement urgent programmes for increase of production quality and attraction of strategic

Chart 5.8. The number of standardized products meant for exports on foreign markets



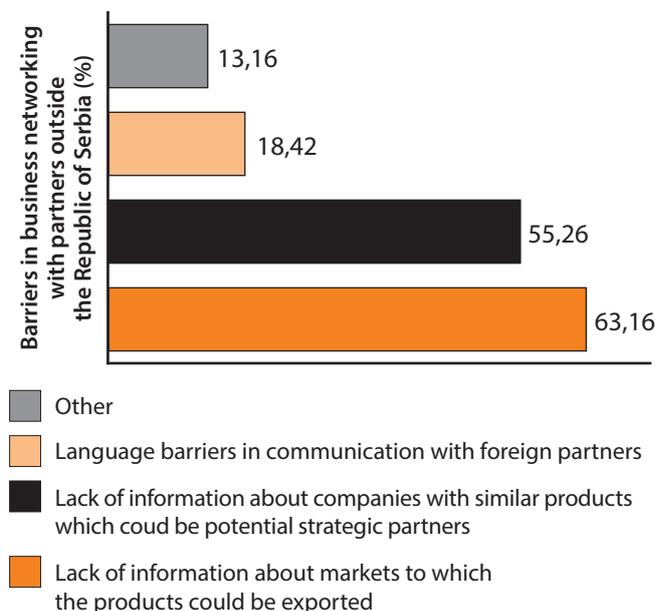
partners who could speed up this process and assist it financially and technologically.

On the other hand, 10.53% of the producers estimate that they possess the quality necessary for export, which presents the opportunity that some of those producers, with the assistance of government, banks or EU funds form a cluster with companies lower in the production chain and attempt a joint placement of their products on domestic and foreign markets, using their „know-how“ to increase quality of production process in partner companies (Chart 5.9.).

In the textile, leather and footwear industry, like in other branches of Serbian economy, there is a significant lack of information about the situation on foreign markets, their characteristics, requirements in term of standards, customs and customer habits, basic preconditions for entry into the market, etc. Also, companies from this sector have great interest in potential strategic partners and distributors, but find difficulties in initiating business contacts. A characteristic of textile companies is that language barriers pose greater difficulties in communication with possible foreign partners than, for example, managers in IT sector companies, due to far better skills in English and other languages which are dominantly used in global business. These were the answers given by 148 leading people in textile companies.

It can be concluded that the survey results show that unlike listed sector of informational technologies and telecommunications, the textile, leather and footwear industry need more organized presentation and access to foreign partners and linguistic and technical support during business networking. Owners of companies in this sector in Serbia are, generally speaking, people who have proven themselves in business through their own resilience and personal engagement, however, they are closely linked to the mentality and business conditions in Serbia and have difficulties finding foreign business partners on their own.

Chart 5.9. Barriers in business networking with foreign partners



This can be overcome in the future by creation and implementation of different business-to-business networking programs with foreign partners, with minimization of costs of such programmes and focus on business networking of companies that precisely identify their needs from foreign partners in specific countries or regions.

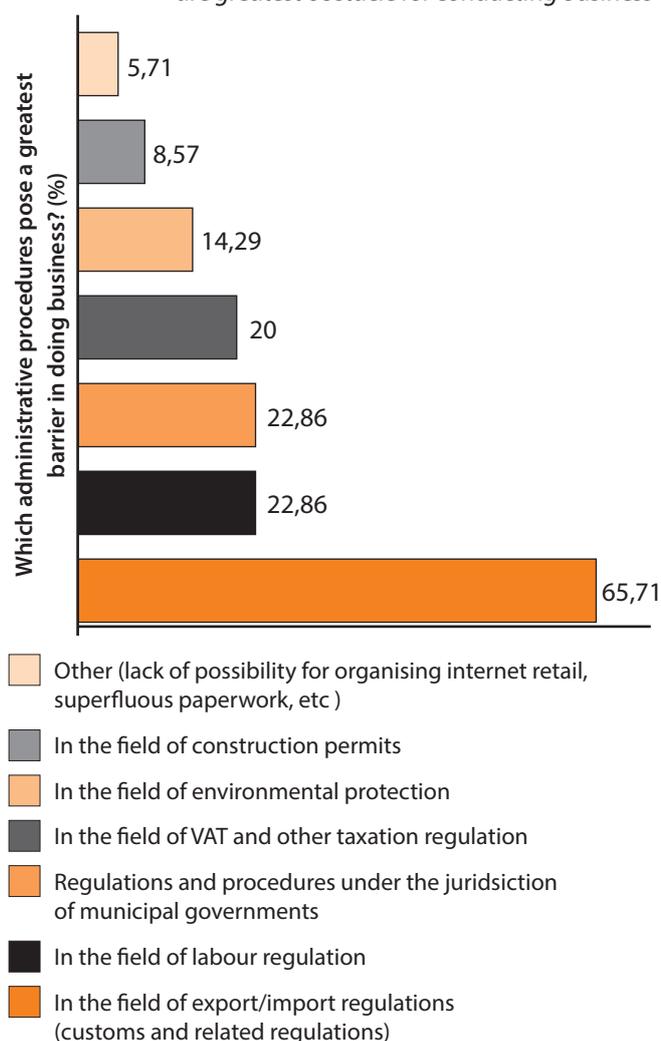
Additional significant barriers in business networking with foreign partners are:

- Difficulties in obtaining certificate of origin for products from raw materials imported from outside of EU.
- Insufficient production volume for entry into EU retail chains
- Foreign partners consider Serbian textile companies unreliable, since many have in the past accepted business arrangements which were not fulfilled, either because of overdue delivery, or insufficient quality of delivered products.

Managers of domestic textile companies were asked to identify administrative procedures which pose greatest difficulty and cause high administrative expenses. 120 survey respondents answered the question (Chart 5.10.).

The chart clearly illustrates that the most significant bureaucratic barriers for business sector in textile, leather and

Chart 5.10. Which administrative procedures (barriers) are greatest obstacle for conducting business

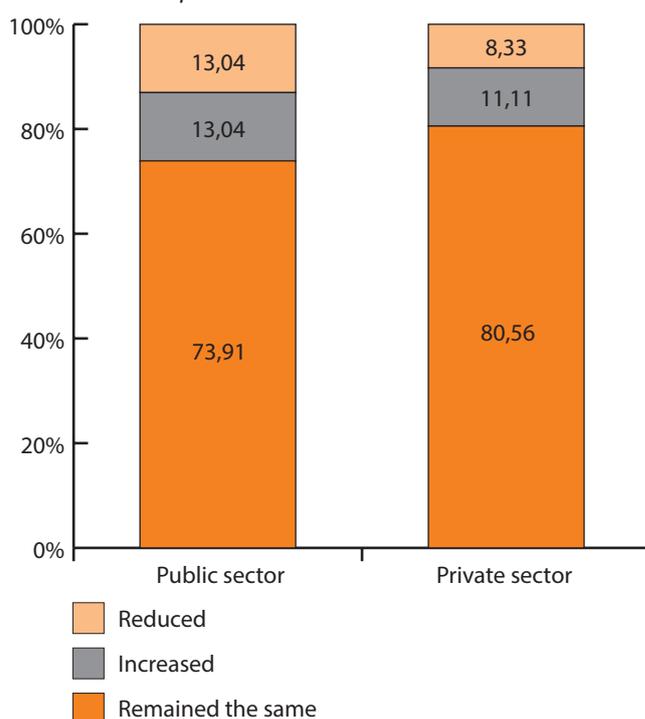


footwear industry are related to the customs procedures, that is import of goods and services and raw materials. These regulations cause a serious headache to all who deal with production or trade of textile, leather and footwear and are linked to the operation of several governmental institutions which were not sufficiently reformed in the past two decades (Tax Administration, Customs Administration, Foreign Exchange Inspectorate, that is, institutions in charge of tracking the currency flows in foreign trade).

These findings show that relevant ministries of finance, economy and labour and social policy should have the following priorities:

- Reform of regulation in the field of export and import of goods and services which cause difficulties in business operations to the companies from textile, leather and footwear industry.
- Amends to the Labour law and other labour-related legislation.
- Analysis of regulation within the jurisdiction of municipal self-governments which prevent development of this sector and establishing a clear framework on the national level for the authority of local self-governments in deciding the administrative procedures, fees and other charges that are issued locally.
- Reform of VAT legislation and other tax regulations in consultancy with textile, leather and footwear company representatives.
- Analysis of regulations dealing with environmental protection in a way they match real ability of the business sector to implement them, with as little administrative obligations as possible, while still preserving the intent of the regulation.

Chart 5.11. Have the payment periods reduced with implementation of Law concerning payment periods in commercial transactions



- Amendments to the Law on Planning and Construction and simplification of procedures related to obtaining construction permits, with the reform of Real Estate Cadastre, in order to implement the amendments in practice.
- Creation of efficient and practical regulation in the field of retail of textile products via internet.

Payment periods in commercial transaction are one of the most painful issues for the sector of textile, leather and footwear. Law on payment periods in commercial transactions was implemented on April 1st, 2013. After four months of application of this regulation, textile companies estimated its effects (Chart 5.11.).

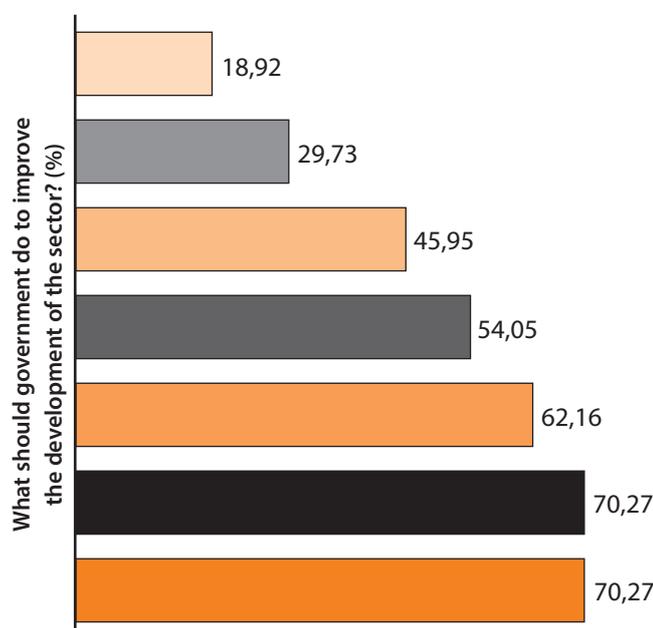
Vast majority of the survey respondents from this sector (73.91%) feels that the payments of public sector toward private sector companies remained mostly the same, while 80.56% claims the same for payments between the

business sector companies. Only 13.04% of the survey respondents claim that the payment periods of the public sector toward private sector reduced, while 8.33% consider that the periods between the private sector companies have reduced. However, 13.04% of the survey respondents claim that the payment periods of public sector to private sector companies were increased, and 11.11% companies feel that the payment periods between private sector companies have also increased.

General conclusion of this survey is that the payment periods of public sector toward private sector companies remained largely the same, while in transactions within the private sector the deadlines have seen a small increase.

It is important to note that Law on payment periods in commercial transactions was implemented merely 4 months before the survey and that it's valid only for commercial contracts signed after March 31st, 2013. The results of this survey therefore have to be taken with a certain reserve, since the experience of other countries in the region shows that real effects of this law can only be observed after one year of implementation.

Chart 5.12. What should the government do to improve the development of this sector?



- Other (reduction of informal economy, better education programs, creation of network for improving product placement in foreign markets)
- To form a list of strategic products and create joint development plans in partnership with private sector
- To form Development Bank or special credit lines in Development Fund with stimulative credit support for IT products intended for export or import substitution
- To reduce administrative barriers and gradually introduce new administrative obligations resulting from harmonisation with EU acquis
- To introduce tax exemptions for export companies
- To create special program of reduction of expenses and support of textile and clothing industry for attraction of loan jobs, with creation of guarantee funds to attract more partners
- To reduce business expenses in order to increase competitiveness

Proposal of measures for development of the sector

Owners, directors and company managers from textile, leather and footwear industry were asked to give proposals for development policy for their sector in the period 2014-2020. They have been informed that their suggestions would be forwarded to the Ministry of economy, trade, labour, employment and social policy, as well as Ministry of finance and the cabinet of the Prime Minister of the Government of Serbia. The total of 140 surveyed companies answered the following questions (Chart 5.12.).

Textile companies first insist on reduction of fiscal burdening on businesses, especially those on wages. Of equal importance to them is formation of fund for guarantees for acceptance of CMT jobs, since in the past period, they had to refuse numerous orders from the companies operating from EU countries of medium- and large-scale production contracts due to being unable to offer sufficient collaterals. The formation of one such fund would overcome the issue with low level of working capital in this industry.

Other measures are also related to the support of export companies, reduction in bureaucracy in import-export transactions and state aid for financing of concrete business arrangements (formation of Development Bank). Six recommendations were directed at creation of preconditions for formation of network for assisting the placement of textile products on foreign markets and creation of national-level database of existing capacities for realization of CMT jobs, which would enable easier access to information to potential foreign partners ordering such jobs and increase their networking with domestic producers (Chart 5.13.).

This question was answered by 130 managers of surveyed enterprises. Textile entrepreneurs consider that the

primary measure of support to their companies should be a decisive action by the government in order to reduce the informal economy, which would increase the trade of products in legal channels and encourage textile industry, as well as trade with textile products. In second place are the programs of financial support, followed by the policies aimed to improve the education system and increase quality of the employees in textile sector, which have become deficient in the past few years. Strategic partnerships and programmes for the increase of expert capacity in company management are also important, however, it pales in significance compared to the issue of informal economy. Generally, the textile companies hold the opinion that their main issue is expensive, inefficient government, especially the bureaucracy which hinders rather than support the companies operating legally and that it must be removed as the largest barrier to the growth of the sector.

Speaking of training of the employees, textile managers, like ITC sector managers are ready to train the students during their middle and higher education for certain remuneration, and turn them into capable tailors, sewers, organizers of textile works etc. They agree that the quality of those trainings should be supervised by the government, under the condition that bureaucracy does not come up with complicated administrative procedures, such as filling of numerous forms, and thus discourage many textile companies from participating in such educational programmes.

A total of 151 company managers from textile, leather and footwear industry listed the fiscal burdens that the government should reduce in order to enable company development and growth of employment in this sector. Surveyed managers sorted certain fiscal burdens according to importance from their point of view and ranked

those business expenses which they estimate to cause greatest burden to normal functioning of their companies.

It was shown that in textile, leather and footwear industry reduction of wage tax and compulsory social security contributions are by far the leading among burdens ranked in this manner (Chart 5.14.).

Employers in this sector identify high wage tax and social security contributions as greatest barrier for further growth of the company. Considering that labour expenses are the main component of the cost of finished products high labour expenses significantly reduce competitiveness of domestic textile companies compared to the nearby countries, which is primarily seen in the reduced number of CMT jobs. Also, profit margins in textile sector are low (due to large Chinese as well as regional competition), which is reflected in low employee wages, resulting in destimulation of employees to increase the quality of their work. With the reduction of tax rate and social security contributions it would be possible for the employers to redirect the funds saved into net earnings of their employees and thus increase the productivity.

Certain managers in this sector were very irritated with the state offering high subsidies to foreign investors out of taxpayer's money, while domestic textile companies have no chance to apply for those funds, not having the support of the banking sector via bank guarantees, and the procedure for placing the mortgage on the property is expensive and slow, discouraging domestic companies from doing so. They consider that the state is generally overly expensive and has bloated and inefficient bureaucracy, which finances itself by imposing excessively high taxes, fees, charges, excises, social security contributions etc. on the business sector. In addition, in the circumstances

Chart 5.13. Which programs are most needed for textile, leather and footwear industry to support development?

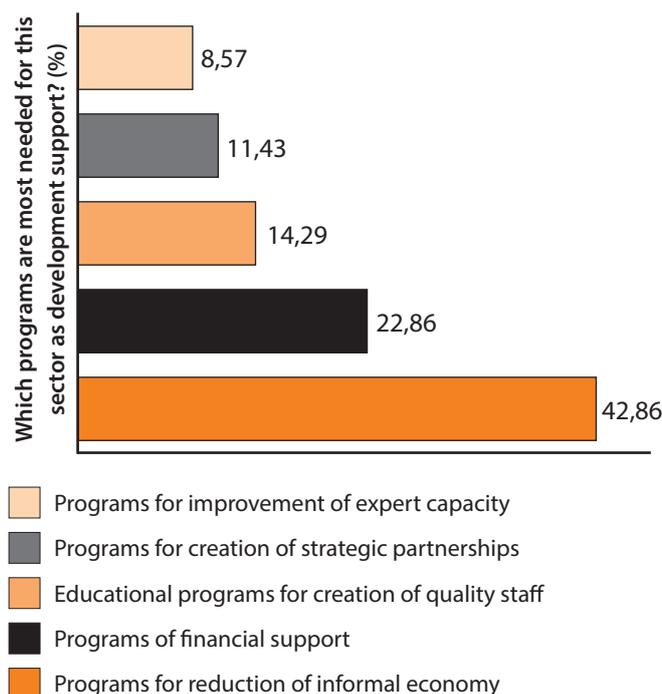
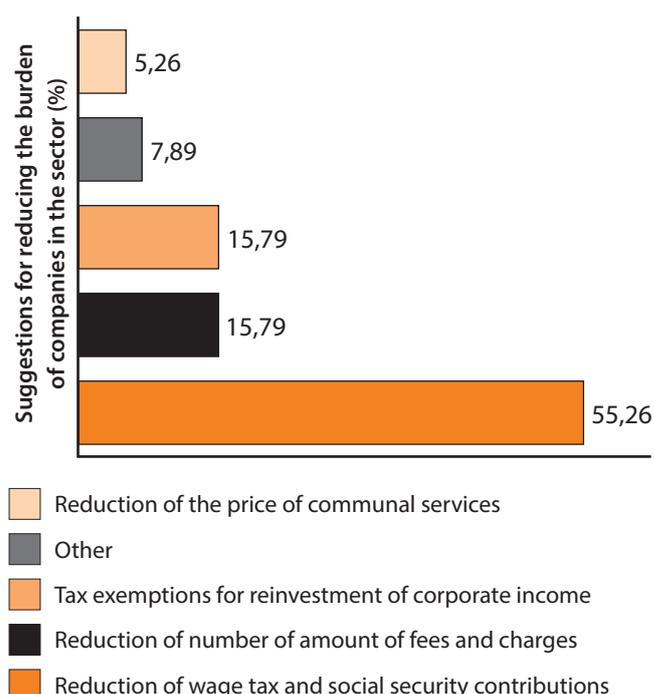


Chart 5.14. What financial burdens for companies in this sector should the government reduce

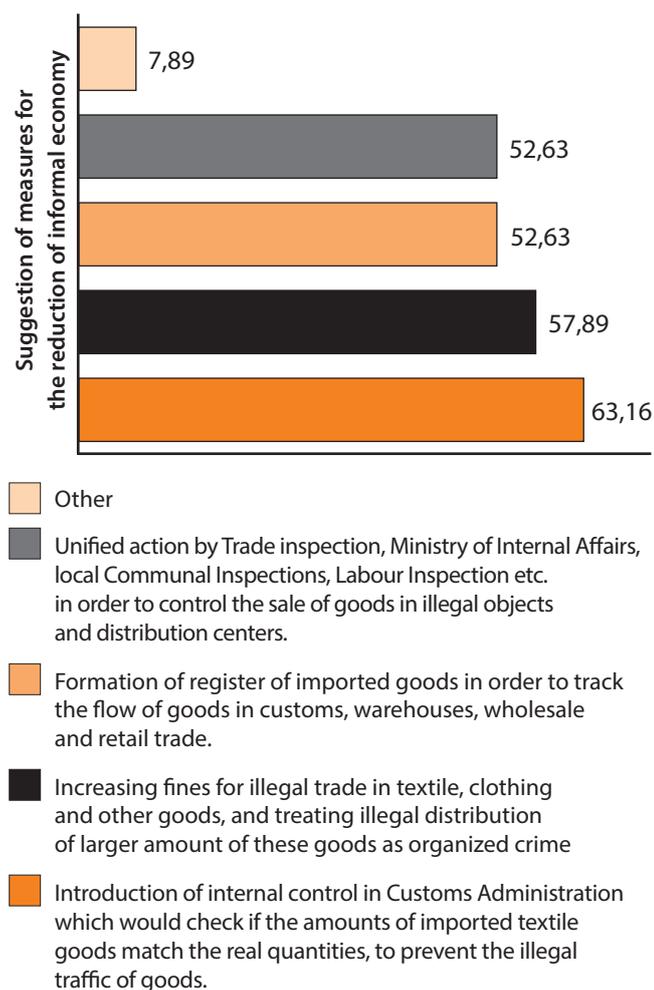


when the business sector is impoverished, the government is „paying“ the arrival of foreign investors with high subsidies from the funds gathered by taxing the domestic companies and residents of Serbia. Therefore, managers of textile companies see the creation of cheaper government and reduction of public administration as only sustainable solution for the reduction of administrative business expenses in this sector.

Informal economy in the Republic of Serbia is most prevalent in the trade of textile, leather and footwear products. Illegal channels for imports, double bills of lading and delivery notes, corruption nodes linked to individuals at the customs acting through official and “unofficial” border crossings, whole systems of illegal retail and labour, tightly connected with lack of regard of governmental institutions for this issue, reflect in widespread trade with textile products in informal zone. In relation to this, the proposals of measures for combating informal economy were given by managers of 149 managers of surveyed companies (Chart 5.15.).

The answers have shown that textile entrepreneurs know well which points should be addressed in order to combat the informal economy sector and that coordinated field action of multiple institutions should bring the

Chart 5.15. Which measures for reduction of informal economy and illegal trade of textile products should be implemented by the government



results very quickly. Earlier researches about these issues have shown that only through unpaid value added tax on illegally sold textile, clothing and footwear products the budget annually loses at least 260 million EUR, and in-depth analysis estimates that loss to be over 470 million EUR. Simultaneously, it means that if the control of border crossings were to be increased and the flow of goods were observed, the production and trade would be legalized, and the income of production and retail companies in this sector would increase for at least 1 billion EUR compared to the current situation, or even 1.88 billion EUR higher according to the in-depth analyses.

However, despite these astonishing calculations of the losses, the national government and local self-governments still allow sale of illegal products on the streets, open markets, unregistered stores, over internet or by post. In this way significant number of income remains outside of tax system, the government has problems with financing its obligations, and legal companies have huge unfair competition.

High levels of informal economy which is being tolerated, combined with high burdens on legal businesses, represents a large disrupting factor for the increase in the number of registered companies, since self-employment and start of private business in a legal manner does not return the initial investments, and many individuals consciously chose to operate in the informal sector for as long as possible. Registering and paying wage tax and social security contributions, VAT, income tax (if any), numerous fees and charges to municipalities, courts and other institutions, accounting services, administrative expenses, and simultaneously having a competitor selling similar products and paying none of these expenses, place a difficult choice for each potential entrepreneur – should he work legally or not. This choice is most drastic in textile industry, where a large workload must be taken in order to receive a modest profit and pass between Scylla and Charybdis - the long wait for payment of delivered goods and obligations towards the state and local self-governments that need to be serviced regularly with interest for late payments.

The surveyed companies were also asked about the presence of trade unions in their companies, but only 8 companies (4% of total sample) answered affirmatively if the trade union is operating in the company. Those are predominantly medium-sized and large companies from this sector which have been successfully privatized and finished the transition process. Representatives of the 8 companies which have an organized trade union were asked if the trade union in their company has a constructive role and if they work with the employer to improve the situation in the company. The employers expect the trade unions in this sector first to have realistic demands in line with company position in the market, not to abuse their rights and to organize workers so that they accomplish their work tasks, guard the company property, take part in drafting plans for company development and support the employers in relation to the government institutions.

Last question directed to the company managers from this sector was an invitation for them to give their own proposals for the development of the sector:

- Reduce wage tax and social security contributions down to 40% of net wage, instead of current 64%
- Regulate foreign trade with China by introducing reciprocity to a minimum ratio of 2:1 in favor of China, that is, if the Chinese for example export 200 millions of USD into Serbia, to oblige them to import 100 millions of USD of Serbian products.
- Set standards for import of goods into Serbia, without regard to the country of origin, and prevent low-quality goods from being imported which reduce the price of domestic producers with products of higher quality.
- Simplifying the complicated customs procedures for CMT jobs, as they cause domestic producers to lose foreign partners due to overly bureaucratic and complex regulations in import and export transactions.
- VAT cash accounting for companies of all sizes.
- Fight against corruption and criminal activities in public sector companies and managers who give preferential treatment to select companies in public procurement process, allowing production companies to directly win the public procurement, without having to go through intermediary companies.
- Revivification of textile schools and their networking with textile sector companies through internship programmes, with the objective of training high-quality employees.
- Decisive action directed against the informal economy at all levels, discovering who is protecting the individuals running the illegal import and distribution channels in Serbia.
- Organizing of domestic producers for joint export into Russia, Azerbaijan, Kazakhstan and other former soviet republics which represent large potential markets.
- End the arbitrariness of local self-governments which impose overly high fees and charges and property tax on textile companies.
- Simplify the procedures for the import of raw materials for small workshops, since domestic production of leather products was devastated.
- Give tax exemptions for corporate income tax for companies who reinvest the income into working capital and increase of production.
- Establish order in payments by public to private sector companies, but also in transactions among private sector companies and reduce payment periods for sale of products to health institutions (currently varying between 120 and 150 days)
- Prevent individuals whose companies entered into bankruptcy from opening new companies for a certain period.
- Cease giving out preferential treatment when paying taxes to certain companies managed by people connected with political parties
- Assist companies in this sector in finding strategic partners abroad.