

## Encouraging Investments in the Region<sup>1</sup>

### Introduction

The Council for Inclusive Governance (CIG) on September 11, 2013 organized another session of the Regional Forum on the topic of investments in the region. There were members of the Forum from seven municipalities from the region. Participation included members of major political parties from the region: Bosnjak Democratic Community, Sandzak Democratic Party, Serbian Progressive Party, Socialist Party of Serbia, Party of Democratic Action. Representatives of the media and the civil society from the region also took part.

The roundtable marked a shift in the work of the Forum away from political issues towards questions of investment in the region and its further economic progress. With that goal in mind, CIG invited representatives of several foreign and domestic companies, foreign embassies interested in the region, as well as several international development programs and agencies that work in the region. The goal of the meeting was to have a dialogue between local political representatives and investors and the donor community to identify strengths and weaknesses of investing in the region and articulate a set of recommendations for the improvement of the climate for investment.

The roundtable is part of a project supported by the British Embassy in Serbia and the Open Society Foundation.

Two representatives of the donor community gave opened the discussions. The first speaker said that there are three basic sources for investments: government, individuals, and private investors. The third source is the most desirable one, since it contributes the most to the development and employment. But for this source to become effective, a business-oriented climate in the region is needed.

Participant mentioned seven factors that influence foreign investors:

- Political stability;
- Responsible local governance;

<sup>1</sup> Municipalities of Ivanjica, Nova Varoš, Novi Pazar, Priboj, Prijepolje, Raška, Sjenica, and Tutin.

- Infrastructure (roads and other); it is necessary to bring the region closer to main corridors;
- Adequate education of the labor force in order to be competitive in the labor market;
- Competitive wages according to international standards, yet attractive at the local level;
- Reformed labor legislation;
- Attracting investments in sectors that are traditional for the region.

The second speaker from the donor community said that to attract new investment two key preconditions are necessary: political stability and geographical proximity of the region to the main corridors. He criticized local political leaders who are “more interested to bicker with each other than work together to find solutions and bring new investment.”

He reported that the average unemployment in Serbia is 25 percent, while in the region it is 50 percent. He underlined that the Turkish investors are willing to come and invest in textile and furniture industry. A good example is Leskovac where a Turkish company has hired 270 people, and exported 2.1 million euros worth of goods just to Italy alone in the last year. He emphasized that with the renewed process of European integration for Serbia, the perspective for investment is much better. In that regard, he highlighted the importance of the presence of Turkish banks in the Western Balkans, through which municipalities can check the credibility of the new potential investors, as well as present their potentials to other investors.

## **The region in the eyes of investors**

Almost all subsequent speakers agreed with the first two, and some repeated the key problems, underlining infrastructure, non-favorable legislative framework, and fragile political stability. They also agreed that there are other issues for which responsibility is in the hands of the municipalities.

One of the representatives from the private sector said that his company has invested a lot in the region, and that despite the will to invest even more, there are obstacles which have to be removed by the local authorities and the state. He said that domestic companies have much more understanding for the inefficiency of the administration than the foreign ones, and that they are much more adaptable. He advised all of the present members of the Forum to become more proactive and engaged to help investors willing to invest if they sincerely want the situation to be changed. Existing laws were often made for a different economic system, and mayors and other local authorities have to be the catalyst for change of the legal and regulative framework, if these provisions are blocking further development of the local economy (of course, if changing them is not endangering the environment and health of citizens). He said that none of major companies want to do something illegal; on the contrary, they would like to see some of the bureaucratic processes to go faster.

One of the representatives of the donor community agreed with the previous speakers and underlined that mayors should respect laws and regulations, but should also be more pragmatic and make use of legal gaps to favor the region. The municipalities in the region do not need

major capital spending, just 3-4 solid investments. However, in order to achieve that, they need to have clear ideas and plans about what they want to accomplish and become more engaged with the state authorities.

Other members of the donor community agreed. They said that instead of the wish lists they regularly receive from the municipalities, they would like to see realistic projects that could be managed by the municipalities themselves. Hence, they should have realistic goals, plans for their achievement, and project teams that would be responsible to run the process from beginning to the end. In other words, they need to ensure that the local communities themselves run the projects. Mayors are responsible for the creation of strong economic teams responsible for offering the initial push.

The speakers recommended that the municipal representatives offer more information to investors through the following steps:

- Acquiring the certificates through the adoption of standards at the National Alliance for the Local Economic Development (NALED), awarded to the business friendly municipalities;
- Forming of the free land database (and solving all cadastral problems), possibilities for production or shipping of raw materials, available labor force or possibilities for the education of new labor force (through the analysis of the existing schools and universities and their curriculums).

A representative of the business community from the region said that during the past year some of the municipalities were more business hostile than business friendly. He said that one of the local taxes was increased for more than four times “and that happened in the municipality that projects its future growth on foreign investment.”

One of the investors underlined the fact that a serious problem is that the major part of the transactions in the region is realized in cash, thus preventing them to get a real picture about the total GDP of the region. Precisely because of that the money does not go through the system what represents an obstacle for new investments. Therefore, it is necessary that companies have more trust in the system, if they want to benefit from it. There are rare cases of those who are willing to invest in such a non-transparent environment.

A Forum member from Novi Pazar said that the investors mostly care about their time, and do not establish contacts with the State Agency for Foreign Investments and Promotion of Export (SIEPA) and the State Agency for Privatization, thus creating great problems for the municipalities in the region. Therefore, he suggested to the Forum to invite representatives of these two agencies at one of the future meetings of the Forum.

Present investors and donors underlined that there was a huge problem with the proper education of a competent labor force. A lot of young people from these municipalities do not choose educational profiles that fit the needs of local labor market. On the contrary, they choose to be educated for profiles with which it would be hard to find a proper job, since those are mostly

inclined towards public companies or managerial positions. One of them underlined that is not normal that the private companies operating in the region have less than 20 percent of its labor force from the region. It is clear that the local educational institutions are not providing proper education for the local labor force. In that regard, he made an appeal to the members of the Forum to be more active in directing young people to choose education in correlation with the needs of the market, as well as to inform them better about the existing options for employment.

Almost all participants agreed that there is a problem of education of a competent labor force, and that help is needed for the redefinition of the curriculums and programs of the public high schools. Furthermore, it is necessary to develop internship programs with companies that operate in the region to help young people to learn new skills.

One of the investors mentioned the example of Turkey, which managed through the reform of education to create an educated labor force for potential investments. And that was the major reason of its economic growth. One of the participants from Turkey said that they have made a right decision when they chose to invest in the labor force, and that that choice is in front of Serbia now. If that choice is made both by the state and by the local communities, than there is a chance for a change. In the present circumstances, none of the investors would come to the region where the investment climate is bad and risks are high.

The participants suggested a number of measures that the state should do in the future:

- Instead of subsidies for every new working position, institutions should offer more suitable land for investors. In that case potential investors would bring more production equipment already in the initial phase, which would allow them to hire more labor force in the beginning, instead of step-by-step hiring;
- All ownership issues over land must be solved before the investments;
- Bureaucratic procedures for financial transactions for non-residents should be reduced after the first transaction since it hampers normal business;
- Other bureaucratic procedures with which companies deal should be further reduced. For example, it is easy to start a business in Serbia, but it is complicated to close it;
- Construction permits are problems that investors have to deal with and the responsibility is with the ministries and public companies.

Participants agreed that it would be necessary to have representatives of certain ministries and public companies at one of the futures sessions.

## Possible measures for economic growth

A representative of an investor mentioned that an idea through which municipalities from the region could establish cooperation is the development of the information technologies (IT) sector. IT is one of the sectors that have been growing the most in the past decades, and the wave of digitalization has reached Serbia. One of the major businesses is manufacturing of smart phones, applications, web sites, etc. This has been the biggest growing sector in Serbia, which

itself is becoming interesting to foreign investors, mostly for the outsourcing, because it is much closer to the developed markets. In Serbia IT experts are highly demanded, and there lies the perspective of the region. With many young people and with the existence of educational institutions like universities, it is possible to make a strategic shift towards this sector. Even without the university, it is possible to do something through the opening of the local branches of other universities in the country, or through projects which could be based on cooperation between the municipalities and specially tailored educational courses. With the creation of certain pool of experts, with the adequate promotional campaign and strategic orientation of the municipalities of the region (through different youth support programs, joint intra-municipal projects, adequate taxation or other benefits) towards this sector, it would be possible to make a change and start the cycle of employment and self-employment. With this approach, the whole region would benefit through the decline of migration and increase of municipal revenues.

One of the members of the Forum from Novi Pazar supported this initiative, however, he underlined that the municipalities should be more inclined towards cooperation with each other if they want to establish long-term progress. He appealed to them to create some joint institutions which would be responsible for the development of branches like tourism or agriculture. These associations are not novelty in Serbia, and one of the positive examples is Kragujevac, which has created, together with few other municipalities, joint projects and lobbies for their economic interests in front of the international donors. Despite all political issues and friction between the different factions over problems that are mainly symbolic, it is necessary to be more realistic and to join forces if they want to achieve something. In that sense, it is necessary to cooperate on promotion and the image of the region, and to send more positive than negative signals.

One of the members of the Forum presented his idea for the cooperation of the municipalities of Nova Varoš, Priboj, Prijepolje, and Sjenica on joint production of secondary agricultural products. He mentioned that it would be beneficial to support small domestic producers to cooperate and form a common brand for different types of products. These products are usually being produced in households, but through this cooperation the production would be brought to a higher level, through standardization of common recipes, quality control and branding. Municipalities should create a joint system of subsidies for the local minimarkets for selling goods from the region, thus to open the local market for these products. This kind of project would also stimulate creation of additional jobs in the region. Other members agreed that the idea is interesting and it should be developed. To meet this end, they suggested that a smaller session of the Forum should be held on this topic.

## **Conclusions and recommendations**

The participants recommended that the Regional Forum in the future should address the following topics: cooperation of municipalities on the IT sector in the region, common agricultural projects for the four western municipalities of the region, and profiling of education in the public schools of the region. Some also suggested to address the rights of the Bosnjak community in future sessions since next year the elections for the Bosnjak National Minority Council in Serbia will be held. It was suggested that future sessions should also include

representatives of the state institutions, ministries and public companies. Participants formulated several recommendations for the municipal and state authorities.

- Local self-governments should make realistic plans and strategies for the development of economy based on the existing capacities and possibilities, and not on wish lists;
- Mayors and their economic teams should be more proactive and find ways to help investors. They should be responsible for communicating with the state on finding creative solutions in line with existing laws and regulations;
- In order to attract investments, municipalities should adopt certain standards and acquire NALED certificates for business friendly municipalities;
- Municipalities should make brief presentations of their resources for potential investors: databases on free land, existing raw material and labor force (and potential labor force), information about the local taxes and benefits;
- Municipalities should be more engaged on joint projects in order to be more competitive and interesting for the potential investors. They should, as some other municipalities in Serbia do, lobby together for investments and loans for local development. In that sense, every politicization is counterproductive, and cooperation should be based primarily on interests;
- Municipalities should make exact estimations of their educational potential and compare them with the development strategies and already existing economic capacities. There is a clear disbalance of educational programs with the needs of the, thus the reform from “above” is needed for which municipalities should persuade the state administration. On the other hand, where there is an adequate correlation of educational programs with the actual needs, due to the outdated curriculums and lack of internships, students are not very well trained. It is also necessary for municipalities to engage more to establish internship programs with the private companies that operate in the region;
- Municipalities should encourage local businessmen to do business within the system, since transparent business raises the trust of investors. On the other hand, it is necessary that the state lowers social contributions and taxes in order to stimulate business making to legal channels;
- Municipalities should be more engaged with the donor community on formulation of better offers of economic infrastructure, something that would stimulate investors to be more inclined towards the region;
- Instead of the existing subsidies per job, the state should offer land and infrastructural capacities to the investors, since in that way investors would be more interested to start production on a larger scale;
- The state should assist municipalities to solve all of the existing land ownership issues;
- It is also clear that the public companies are making investments harder with their slow, bureaucratic approach, thus the central authorities should stimulate these companies to open fast response offices and their management to cooperate more with the local communities;
- Central authorities should address the numerous bureaucratic obstacles that are making difficult functioning of companies in the region, since there are quite a few regulations which are not justified anymore.

## **Participants**

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