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IMPROVING SERBIA'S BUSINESS ENVIRONMENT FOR MORE FOREIGN AND DOMESTIC INVESTMENT[1]

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Abstract

Serbia's strong economic growth from the pre-crisis period, interrupted when the global financial crisis was transmitted to the country, is expected to be slower in the coming years than in the pre-crisis period, as the growth model based on high domestic consumption and foreign savings' financing is no longer possible. Creation of a favourable business environment is one of the key preconditions for attracting foreign and domestic investment, necessary for structural changes, economic recovery, and sustainable growth of Serbian economy.

According to the several key international databases and surveys, Serbian business environment has a number of weaknesses. Its quality is lagging in a number of indicators not only behind the EU-10 region, but also behind the Western Balkans. The most prominent weaknesses of Serbian business environment, which inhibit the foreign and domestic in Serbia are: slow progress in structural and institutional reforms, poor implementation of laws, inefficient government bureaucracy, high level of corruption, and high administrative barriers in the area of construction permits, paying taxes and closing a business.

The papaer concludes that the best way for Serbia to improve the quality of its business environment, is to speed up the reform process and to strengthen the structural and institutional reforms. Further progress with the EU accession process is also of great importance for the improvement of the business environment, improving the attractiveness of the country for domestic and foreign investment.

Key words: *Serbia, Western Balkans, EU-10, business environment, investment, FDI, weaknesses*

INTRODUCTION – MACROECONOMIC SETTING AND FDI

Serbia's strong economic growth from the pre-crisis period, interrupted when the global financial crisis was transmitted to the country, is expected to be slower in the coming years than in the pre-crisis period, as the growth model based on high domestic consumption and foreign savings' financing is no longer possible. Creation of a favourable business environment is one of the key preconditions for attracting foreign and domestic investment, necessary for structural changes, economic recovery, and sustainable growth of Serbian economy.

Serbia is the largest country in the Western Balkan region[4]. Its population represents around 43% of the regional population, while its GDP amounts for 47% of the region's GDP. All the other countries

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[4] Western Balkan region or Western Balkans refers to Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia

have fewer inhabitants and can be regarded as small countries (table 1). Serbia's per capita in purchasing power parity (PPP) terms in 2012 was 9026 EUR, just slightly above the regional average, but extensively lagging behind the EU-10[5] average.

Table 1. Basic indicators, Western Balkan countries, 2012

	Population million	GDP (EUR bn)	GDP in EUR at PPP, per capita EU 27=100	GDP in EUR at PPP, p.c.
Albania	2.816	9.4	30	7584
Bosnia and Herzegovina	3.836	13.1	28	7274
Macedonia	2.06	7.5	35	9557
Montenegro	0.621	3.3	42	10863
Serbia	7.24	29.9	35	9026
Western Balkans	16.573	63.3	34	8861
EU-10[1]	98.9	972	63	15900

Source: EU Progress Reports 2013

Serbia and Western Balkans as a region witnessed strong economic growth in the pre-crisis period, but the growth was based on high domestic consumption linked to fast credit growth, and was accompanied by a widening current account deficit and increasing private sector debt. This growth was interrupted when the global financial crisis was transmitted to the region through trade and financial channels, resulting in reduced external demand for the region's exports, a credit crunch, a decline in remittances, and a decline in foreign direct investment. In spite of some signals of recovery in 2010 and in the first half of 2011, the economic activity weakened in the second half of 2011 and in 2012, pointing to the fact that the short-term economic prospects not only for Serbia, but for the Western Balkan region as well have remained weak and vulnerabilities have increased as a result of the Eurozone crisis (Table 2). Expected growth in Serbia in the coming years will be slower than in the pre-crisis period, as the growth model based on high domestic consumption and foreign savings' financing is no longer possible.

Table 2. Real GDP growth and projections, 2001-2013, (% of GDP)

	2001-2003	2004-2006	2007	2008	2009	2010	2011	2012	2013 proj
Albania	6.0	5.6	6.0	7.7	3.6	3.3	3.0	1.6	1.5
BiH	4.3	5.6	6.8	6.0	-2.8	0.7	1.3	-0.5	0.1
Macedonia	-0.3	4.1	5.9	4.8	-1.0	1.9	3.1	-0.3	1.5
Montenegro	1.8	5.7	10.7	7.5	-5.7	2.5	2.4	-0.5	1.0
Serbia	4.0	7.0	6.9	5.5	-3.5	1.0	1.6	-1.7	2.2
Western Balkans	3.2	5.6	7.3	6.4	-1.1	2.2	2.7	0.2	1.0
EU-10	3.4	5.8	6.3	4.2	-3.6	2.2	3.4	1.5	1.2

Source: IMF and EBRD database

Similar to the GDP trend, gross fixed investment rates have also declined during the period of the global crisis, their recovery has been slow, and their post crisis level is well below the precrisis level

[5] The EU-10 refers to the new EU member states excluding Malta, Cyprus and Croatia (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia)

(Table 3). During the period 2008-2012, investment rates in Serbia were below the Western Balkan average rates.

Table 3. Gross fixed investment as % of GDP, 2008–2012

	2008	2009	2010	2011	2012
Albania	40.9	37.9	31.2	31.2	n.a.
BiH	25.2	20.4	18.1	19.2	22
Macedonia	21.0	19.9	19.1	20.6	29.0
Montenegro	38.2	26.8	21.1	18.4	17.9
Serbia	23.8	18.8	17.8	18.5	17.9
Western Balkans	29.8	24.8	21.5	21.6	21.7

Source: EU Progress Reports 2013

Table 4. Savings–investment gap in Western Balkan countries, 2008-2011 (% of GDP)

	2008	2009	2010	2011
Albania				
Gross domestic investment	40.9	37.9	31.2	31.2
Gross national savings	17.0	14.0	14.0	12.0
Foreign savings	23.9	23.9	17.2	19.2
Bosnia and Herzegovina				
Gross domestic investment	25.2	20.4	18.1	19.2
Gross national savings	10.0	16.0	15.0	13.0
Foreign savings	15.2	4.4	3.1	6.2
Macedonia				
Gross domestic investment	21.0	19.9	19.1	20.6
Gross national savings	15.0	21.0	25.0	25.0
Foreign savings	6.0	-1.1	-5.9	-4.4
Montenegro				
Gross domestic investment	38.2	26.8	21.1	18.4
Gross national savings	-24.0	2.0	-6.0	-8.0
Foreign savings	62.2	24.8	27.1	26.4
Serbia				
Gross dom. Investment	23.8	18.8	17.8	18.5
Gross national savings	8.0	16.0	16.0	18.0
Foreign savings	15.8	2.8	1.8	0.5
Western Balkans				
Gross dom. Investment	29.8	24.8	21.5	21.6
Gross national savings	5.2	13.8	12.8	12.0
Foreign savings	24.6	11.0	8.7	9.6

Source: World Bank database and EU Progress Reports 2013

Not only Serbia, but also all the countries of the region have benefited from relatively easy access to external financing in the period before the global crisis, which enabled them to fill the savings investment gap. However, the decline in investment rates was partly the result of the decrease of the inflow of foreign capital to the region as a result of the global crisis. The increase in the savings rates in Serbia from 8% in 2008 to 18% in 2011, helped to prevent further decrease of investment rates in Serbia. Similar trend was characteristic for the other countries of the region, but their investment savings gap was much larger, and had to be filled by larger amount of foreign savings (Table 4).

FDI inflows to Serbia as well as into the region have also been strongly affected by the crisis. In the period 2008-2010 Serbia experienced a decrease in FDI inflows, mostly due to the impact of the global economic crisis. However, after some recovery in 2011, the negative trend continued in 2012, with FDI amounting only 352 mil. EUR or 0.8% of GDP. Similar trend, but less sharp was characteristic for Western Balkan region (Table 5).

Table 5. Inward FDI flows, 2006-2012, (in USD million)

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Albania	324.4	658.5	974.3	995.9	1 050.7	1 036.2	957.0
BiH	554.7	1 818.3	1 024.5	149.3	324.0	379.9	632.9
Macedonia	432.6	692.5	585.8	201.4	211.9	468.2	134.6
Montenegro	622.0	934.4	960.4	1 527.3	760.4	558.1	609.5
Serbia	4 255.7	3 438.9	2 955.3	1 958.8	1 328.6	2 709.3	352.2
Western Balkans	6 189.4	7 542.7	6 500.3	4 832.7	3 675.6	5 151.6	2 686.4
EU-10	62 778.6	72 851.4	63 151.3	27 344.6	31 550.6	37 648.8	37 822.5

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

BUSINESS ENVIRONMENT IN SERBIA - WEAKNESSES AND NEED FOR IMPROVEMENT

In order to generate more balanced and sustainable growth and to return to the growth rates of the pre-crisis period, Serbia will need to change its growth model and find new sources of growth. Future sustainable growth should be more production-based and export-led, with a focus on structural and institutional reforms. However, to attract more domestic and foreign investment, due to their deterioration during and after the economic crisis, additional efforts should be necessary on the improvement of the business and investment environment in Serbia.

A number of studies support the view that the quality of business environment affects private investment and economic performance. Djankov et al. (2002) argue that inadequate institutions and excessive regulation can have a significant negative impact on investment. Busse and Groizard (2008) claim that countries need a sound business environment in order to be able to benefit from FDI.

What is the role of business environment in attracting FDI? The answer is provided by the so called OLI paradigm of FDI, in the part concerning location specific factors which make a country more or less attractive for foreign investors. Location specific factors could be classified into main economic (structural and market) factors, which represent the basic reason/motive of foreign investor for investing in particular country (market size and growth, availability and price of production factors, possibility of more efficient production etc.), and into factors of business environment with regulatory economic policy framework, and broader investment climate, including support to entrepreneurship. Regulatory-policy framework and business environment represent more or less favourable framework for the realisation of basic motives (see UNCTAD, 1998: 91).

The business environment undoubtedly has a crucial impact on the decision of a foreign investor whether or not to go ahead with the realization in line with his primary motivation determined with structural factors. In short, an inadequate business environment, regulatory and policy framework could turn away a foreign investor, who would otherwise choose to invest as far as market, resource / asset or cost considerations are concerned.

Further on we look at the main characteristics and weaknesses of the Serbian business environment by analysing the most relevant international sources in this domain, i.e. World Economic Forum Global Competitiveness Reports (WEF GCR), World Bank's Doing Business (WBDB), World Bank Worldwide Governance indicators (WBGIs), World Bank and EBRD Business Environment and Enterprise Performance Survey (BEEPS) and Transparency International's Corruption Perception Index.

The World Economic Forum's Global Competitiveness Report is based on a comprehensive annual survey conducted in more than 140 countries, and is used to measure the competitiveness of national economies based on examinations that include a wide spectrum of parameters influencing a country's competitiveness. It is currently compiled for 142 countries. Based on an assessment of various weighted indicators along 12 pillars, which are classified into three sub-indexes: Basic Requirements, Efficiency Enhancers, and Innovation and Sophistication Factors, it measures the fundamentals required for a competitive environment, such as the institutional framework, quality of infrastructure and macroeconomic stability. The indicators are built upon both hard data and the results of an executive opinion survey, which combines the perceptions of executive managers (a median of 89 in each country) on issues related to public institutions, corruption, infrastructure and the environment.[6] The Global Competitiveness Report complements the Doing Business report and provides comprehensive insight into the subject country's strengths and weaknesses. It covers, in great detail, the factors that have the most influence on the country's business environment and international competitiveness. The significance of individual pillars for country's competitiveness depends on its stage of development. According to WEF's methodology, countries are classified into three stages of development: (i) factor-driven stage, (ii) efficiency-driven stage, and (iii) innovation-driven stage. The criterion used in determining the development stage of a given economy is GDP per capita.

Not only Serbia, but all the Western Balkan countries are in the second development stage, with economies that are primarily efficiency-driven. At this stage, competitiveness is increasingly driven by higher education and training, efficient goods markets, well-functioning labour markets, developed financial markets, the ability to harness the benefits of existing technologies, and a large domestic or foreign market.

According to the Global Competitiveness Index rankings, during the last five years, Serbia has worsened its position from 85th in 2008-2009, to 96th in 2012-2013, lagging thirteen positions behind the Western Balkans average ranking, and forty-four positions behind the EU-10 average. It also lagged behind these two regional averages in terms of all sub-indexes (Figure 1).

Serbia's greatest weakness in terms of the first sub-group of competitiveness factors - *basic requirements* in 2012-2013 were institutions and macroeconomic stability (Table 6).

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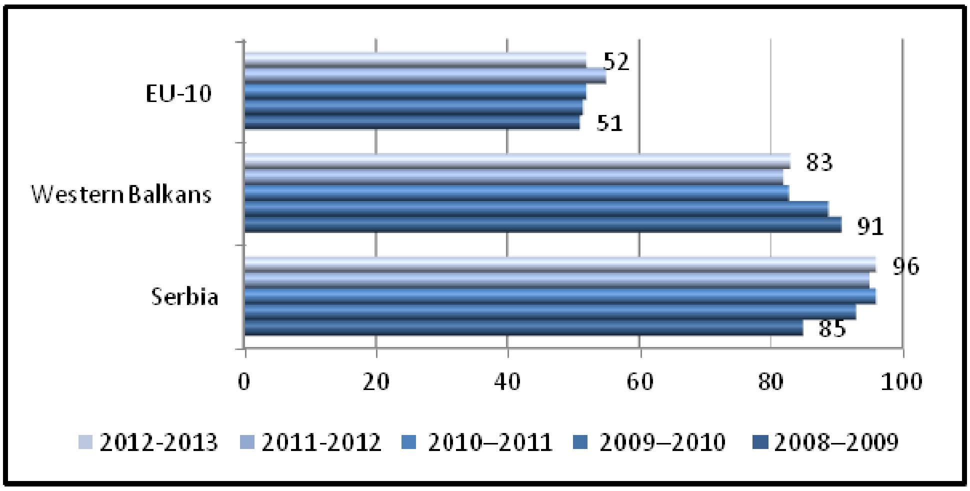
[6] For further information on the methodology of the WEF Global Competitiveness Index, see www3.weforum.org/docs/WEF_GCR_Report_2012-13.pdf.

Figure 1. WEF Global Competitiveness Index, rankings, 2008/2009- 2012/2013



Source: World Economic Forum (WEF): The Global Competitiveness Reports

Note: The 2008–2009 rank is out of 134 countries, 2009-2010 out of 133 countries, 2010-2011 out of 139 countries, 2011-2012 out of 146 countries, and 2012-2013 out of 144 countries. The lower the rank number, the better.

In terms of the second sub-group of competitiveness factors- *Efficiency Enhancers***,** which ***are*** the most relevant for Serbia and for the other Western Balkan countries. Serbia scored below the regional average, and was ranked 88th, only one position lower than the Western Balkans. However, but both of them were lagging behind the EU-10 by 40 places. Within this subgroup, Serbia lags most behind the region in the 6th pillar, goods market efficiency, while its rank in 10th pillar**,** market size, was 31 places better compared to the Western Balkans, as all the countries of the region except Serbia have a very small market size. In higher education and training, Serbia lags behind Western Balkans by 12 places, and behind the EU-10 by 64 places (Table 6 and 7).

For the third sub-group of competitiveness factors, Innovation and Sophistication Factors, Serbia scored relatively poorly (3.0), and its rank in 2012-2013 (124th) lags behind the EU-10 average by 63 places (Table 6 and 7). According to these score and ranking, Serbia can be considered as relatively uncompetitive in terms of innovation and sophistication factors, not only compared with the EU-10, but even compared with the Western Balkans. Within this subgroup, Serbia performs worst in Business sophistication, lagging behind the Western Balkans by 27 places and behind the EU-10 by 64 places.

Table 6. WEF Global Competitiveness sub-indexes and pillars of competitiveness, (rankings), 2012-13

	Serbia	**Western Balkans**	**EU-10**
Basic requirements	**95**	**82**	**47**
1st pillar: Institutions	130	84	75
2nd pillar: Infrastructure	77	82	57
3rd pillar: Macroeconomic stability	115	95	49
4th pillar: Health and primary education	66	69	46
Efficiency enhancers	**88**	**87**	**47**
5th pillar: Higher education and training	85	73	42
6th pillar: Goods market efficiency	136	84	59
7th pillar: Labour market efficiency	100	91	64

	Serbia	Western Balkans	EU-10
8th pillar: Financial market development	100	92	68
9th pillar: Technological readiness	58	66	41
10th pillar: Market size	67	98	61
Innovation and sophistication factors	**124**	103	61
11th pillar: Business sophistication	132	105	68
12th pillar: Innovation	111	97	59

Source: World Economic Forum (WEF): The Global Competitiveness Reports

Note 1: The 2012-2013 rank is out of 144 countries. The lower the rank number, the better.

Table 7. WEF Global Competitiveness sub-indexes and pillars of competitiveness, (scores), 2012-13

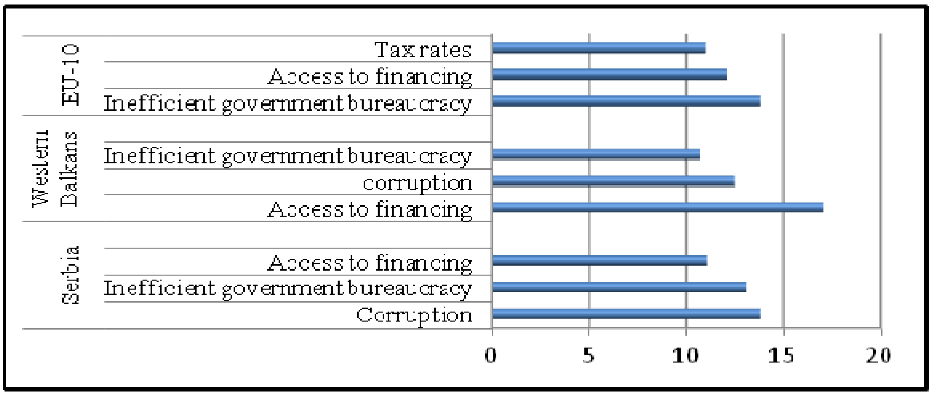
	Serbia	Western Balkans	EU-10
Basic requirements	**4.2**	**4.3**	**4.8**
1st pillar: Institutions	3.2	3.7	3.9
2nd pillar: Infrastructure	3.8	3.7	4.3
3rd pillar: Macroeconomic stability	3.9	4.3	5.1
4th pillar: Health and primary education	5.7	5.7	6.0
Efficiency enhancers	**3.8**	**3.9**	**4.4**
5th pillar: Higher education and training	4.0	4.2	4.8
6th pillar: Goods market efficiency	3.6	4.1	4.4
7th pillar: Labour market efficiency	4.0	4.1	4.4
8th pillar: Financial market development	3.7	3.8	4.1
9th pillar: Technological readiness	4.1	3.9	4.7
10th pillar: Market size	3.6	2.9	4.0
Innovation and sophistication factors	**3.0**	**3.2**	**3.7**
11th pillar: Business sophistication	3.1	3.5	3.9
12th pillar: Innovation	2.8	2.9	3.4

Source: World Economic Forum (WEF): The Global Competitiveness Reports

Note: Scores rank for 1 = the lowest possible to 7 = the highest possible. The higher the score the better.

The WEF Global Competitiveness Report also identifies the most problematic factors for doing business, based on the opinion of businesses. According to the 2013 report, corruption is the most serious problem for businesses in Serbia. It was followed by inefficient government bureaucracy and access to financing, pointing out the necessity of conduction of a public administration reform, which would positively influent the reduction of corruption, especially within the public administration. These three impediments were also the most problematic in Western Balkans as a region. Limited access to finance was an important impediment even before the global crisis, but it has only worsened during and after the crisis hit Serbia and the region, strongly affecting the inflow of the capital to these countries. Similar factors represent the the most serious problems for businesses in the EU-10, with inefficient government bureaucracy as the most problematic factor for businesses, followed by access to financing and tax rates (Figure 2).

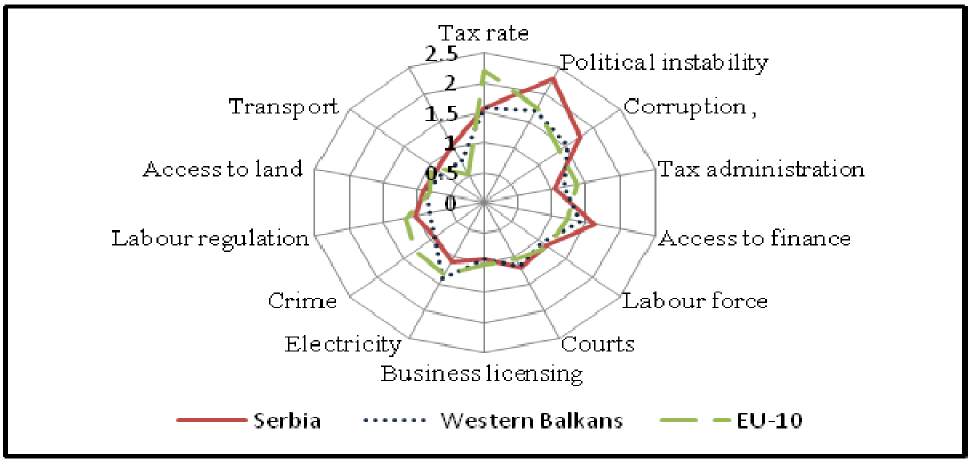
Figure 2. Top three most problematic factors for doing business, WEF GCR, 2013 (% of responses)



Source: The Global Competitiveness Report 2013 : World Economic Forum

Similar obstacles to business operations were identified by the EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS). Even though the survey was conducted in 2009, it only confirms that corruption, limited access to finance and tax rates were important impediments even before the global crisis (Figure 3). The poor functioning of judiciary is also considered as an impediment to investment in Serbia. The essential preconditions for safeguarding the rule of law are to secure a judiciary which is independent and efficient and which has high standards of impartiality, integrity and quality of adjudication.

Figure 3. Regional business environment scores by country and obstacle, 2009



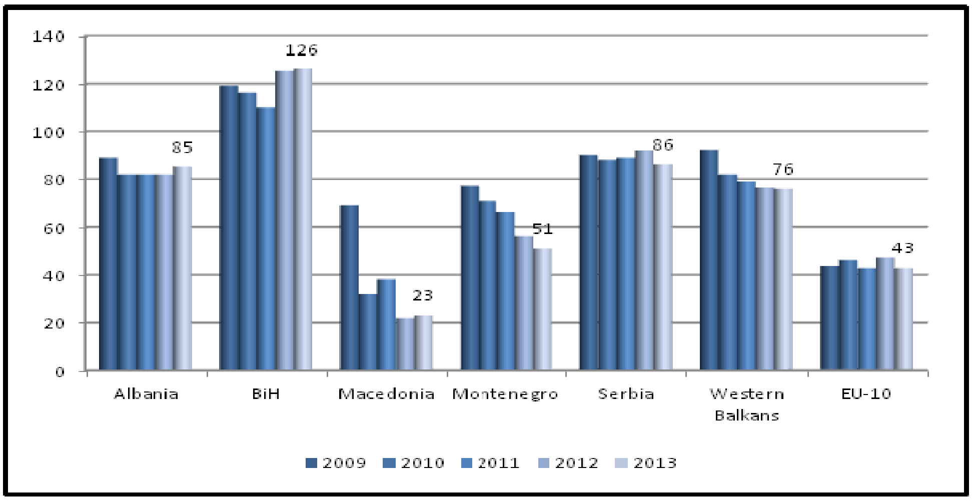
Note 1: The BEEPS presents interviewees (owners or senior executives of a company) with a list of potential obstacles and asks them to rate the severity of each one on a scale of 0 (no obstacle) to 4 (very severe obstacle).

World Bank survey Ease of Doing Business, a comprehensive analysis of regulations and obstacles to starting, operating, and closing a business, compares the ease of doing business among more than 180 countries around the world. It is focused on issues pertaining to the quality of business environment, and refers mainly to administrative procedures, regulations, legal system, etc. It provides a quantitative measure of regulations for ten areas: (i) starting a business, (ii) dealing with construction permits, (iii) employing workers, (iv) registering property, (v) getting credit, (vi) protecting investors, (vii) paying taxes, (viii) trading across borders, (ix) enforcing contracts, and (x) closing a business, as they apply to domestic small and medium-size enterprises (World Bank 2010).

According to the Doing Business 2013 ranking list, Serbia slightly improved its rank from 92nd in 2012 to 86th in 2013 on the list of 185 countries, but is still lagging behind the Western Balkan average.

The gap between Serbia and Western Balkans on one side and the EU-10 on the other side is much larger, as the EU-10 average rank in 2013 was 43 (Figure 4).

Figure 4. World Bank Doing Business Rankings: Ease of Doing Business Rank, 2009-2013

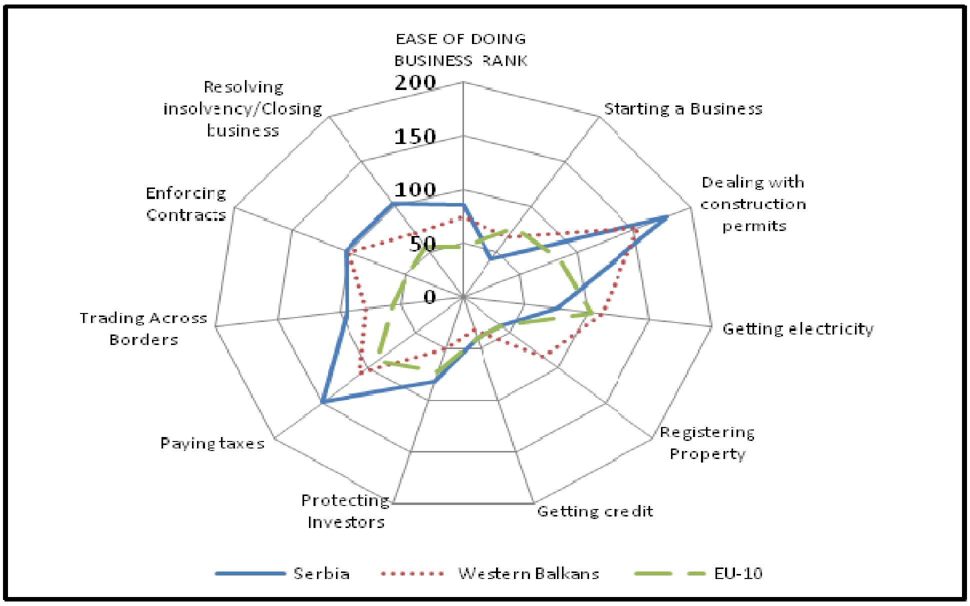


Source: World Bank Doing Business 2013

Note 1: Ease of Doing Business Rank among 185 countries in 2013.

Dealing with construction permits and paying taxes have been the most burdensome administrative procedures for enterprises, not only in Serbia but in the Western Balkan region as well (Figure 5). On the other side, starting a business, getting credit were and registering a property were the least burdensome procedures in Serbia, in which Serbia scored like the EU-10 in a case of getting credit were and registering a property, or even much better in the case of starting a business.

Figure 5. World Bank Doing Business Rankings per dimension: 2013



Source: World Bank Doing Business 2013

Note 1: Ease of Doing Business Rank among 185 countries in 2013.

The World Bank aggregate Governance Indicators combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. The individual data sources underlying the aggregate indicators are drawn from a diverse variety of survey institutes, think tanks, non-governmental organizations, and international organizations. Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as of the likelihood of crime and violence. Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

The scores of the Regulatory quality indicator in Serbia are well above the scores of the other two indicators, the Rule of law and the Control of corruption, as the regulatory reform and the EU harmonization process resulted in the drafting of a significant number of regulations that fulfil market standards. In the last few years, countries of the region achieved notable improvement in the quality of laws. This improvement was directly influenced by the progress not only Serbia, but all the Western Balkan countries achieved in their EU accession process (Table 8).

Table 8. Quality of law, World Bank Governance Indicators, 2012

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Albania	-0.3	-0.1	0.1	0.1	0.2	0.2	0.2	0.2
BiH	-0.5	-0.4	-0.3	-0.2	-0.1	-0.1	0.0	-0.1
Macedonia	-0.2	0.0	0.1	0.2	0.3	0.3	0.3	0.3
Montenegro	-0.1	-0.3	-0.2	-0.1	0.0	-0.1	-0.1	0.0
Serbia	-0.6	-0.4	-0.3	-0.3	-0.1	0.0	0.0	-0.1
Western Balkans	**-0.2**	**-0.2**	**0.0**	**0.0**	**0.1**	**0.1**	**0.2**	**0.1**
EU-10	**0.9**	**0.9**	**0.9**	**1.0**	**1.0**	**1.0**	**0.9**	**0.9**

Source: World Bank Governance Indicators Database

Note 1: The values of indicators range from –2.5 to 2.5, with higher scores corresponding to better outcomes

In addition to the reforms of the legislative framework, building of institutional infrastructure and strengthening the existing institutional infrastructure is of utmost importance for the efficient implementation of laws and the rule of law. Progress in the implementation of laws is significantly lagging behind the achieved progress in legislative quality, as the institutional building process requires serious reform efforts, which is confirmed by the World Bank Governance Indicators which measure the achieved level of the rule of law (Table 9). According to this data, Serbia scored not only below the average level of EU-10, but also below the Western Balkans average as well.

The rule of law is strongly inter-related to the level of corruption in a country. A sound legal framework and reliable institutions are necessary in order to underpin a coherent policy of prevention and deterrence of corruption. According to the World Bank Governance Indicators, Serbia’s scores were almost identical to the average of Western Balkans, but lagged extensively behind the EU-10 (Table 10).

Table 9. Rule of law, World Bank Governance Indicators, 2012

	2005	2006	2007	2008	2009	2010	2011	2012
Albania	-0.8	-0.7	-0.7	-0.6	-0.5	-0.4	-0.5	-0.6
BiH	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.2
Macedonia	-0.4	-0.6	-0.5	-0.4	-0.3	-0.3	-0.3	-0.2
Montenegro	-0.3	-0.3	-0.2	-0.1	0.1	0.0	0.0	0.0
Serbia	-0.9	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.4
Western Balkans	**-0.5**	**-0.5**	**-0.4**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.2**
EU-10	**0.5**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.7**	**0.6**

Source: World Bank Governance Indicators Database

Note 1: The values of indicators range from –2.5 to 2.5, with higher scores corresponding to better outcomes

Table 10. Control of Corruption, World Bank Governance Indicators, 2012

	2005	2006	2007	2008	2009	2010	2011	2012
Albania	-0.7	-0.8	-0.7	-0.5	-0.5	-0.5	-0.6	-0.7
BiH	-0.2	-0.3	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3
Macedonia	-0.4	-0.4	-0.4	-0.2	-0.1	-0.1	0.0	0.0
Montenegro	-0.4	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1
Serbia	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.3
Western Balkans	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
EU-10	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3

Source: World Bank Governance Indicators Database

Note 1: The values of indicators range from –2.5 to 2.5, with higher scores corresponding to better outcomes

Transparency International's Corruption Perception Index, which measures the perceived levels of public sector corruption in more than 170 countries, shows that in 2012 the index score for Serbia was 39, and its rank was 80th, only slightly better compared to Western Balkans average. However, not only Serbia, but Western Balkans as a region, lagged extensively behind the scores and ranks achieved by EU-10 (Table 11). Similarly to Word Bank Governance indicator scores for the control of corruption, these results indicate that corruption remains one of the major weaknesses of Serbia, pointing that the legal environment must be tackled urgently.

Table 11. Transparency International's Corruption Perception Index, 2012

Country rank	Country	CPI score
113	Albania	33
72	Bosnia and Herzegovina	42
69	Macedonia	43
75	Montenegro	41
80	Serbia	39
82	Western Balkans	40
51	EU-10	52

Source: Transparency International's Corruption Perception Index 2011, 182 countries surveyed

Note 1: The CPI 2011 score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 100 (highly clean) and 0 (highly corrupt).

CONCLUSIONS

Serbia's strong economic growth from the pre-crisis period, interrupted when the global financial crisis was transmitted to the country, is expected to be slower in the coming years than in the pre-crisis period, as the growth model based on high domestic consumption and foreign savings' financing is no longer possible. Creation of a favourable business environment is one of the key preconditions for attracting foreign and domestic investment, which are necessary for structural changes, economic recovery, and sustainable growth of Serbian economy.

According to the several key international databases and surveys, Serbian business environment has a number of weaknesses. Its quality is lagging in a number of indicators not only behind the EU-10 region, but also behind the Western Balkan region. The most prominent weaknesses of Serbian business environment, which inhibit the foreign and domestic in Serbia, are: (i) slow progress in structural and institutional reforms, (ii) poor implementation of laws, (iii) inefficient government bureaucracy, (iv) high level of corruption, (v) high administrative barriers in the area of construction permits, paying taxes and closing a business.

The main message arising from empirical evidence suggest that the best way for Serbia to improve the quality of its business environment, as a precondition for the attraction of foreign and domestic investment is to speed up the reform process and to strengthen the structural and institutional reforms. Further progress with the EU accession process is also of great importance for the continuation of institutional reforms and establishment of functioning market economy in Serbia. The fulfilment of the Copenhagen criteria would improve the business and investment environment, improving the attractiveness of the country for domestic and foreign investment, and improving the country's competitiveness.

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