

ILLICIT TRADE PREVENTION AND INSPECTION OVERSIGHT

1.71

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
The FIC supports the decisive and thorough implementation of the provisions of the Action Plan, which are at the same time the most important areas and activities expected in the upcoming period:				
Comprehensive improvement of the inspection oversight system, which includes: Harmonizing the number of inspectors in accordance with the needs identified; Establishment of coordination of the work of inspectorates and other state bodies responsible for filing misdemeanour charges in the field of the grey economy with misdemeanour courts; Implementation of an integrated information system in the field of inspection oversight; Conducting professional training of inspectors in the field of inspection oversight in relation to sectoral regulations; Providing the missing equipment and funds for the operations of inspectorates; Improving the coordination of the work of the Customs Administration and inspection bodies through the exchange of data and harmonization of procedures for monitoring the grey economy flows; Standardization of the risk assessment process in the planning and implementation of inspection oversight in accordance with the guidelines; Conducting professional training of inspectors for the use of IT systems in planning inspection oversight and the continuation of the adoption and implementation of action plans (flowcharts) for areas and products significantly affected by illicit trade	2018		√	
Enhancing the efficiency in processing illicit trade-related cases before judicial authorities and adjudicating statutory fines for offenders, thus serving the purpose of preventative action, as a deterrent for other entities on the market. This also entails the harmonization of practices of prosecutors' offices in dealing with criminal offenses with elements of the grey economy, as well as improving the coordination of activities of inspectorates and prosecutors' offices in combating crimes in the field of the grey economy	2015			√
Amendments to the Law on Inspection Oversight and full alignment of other laws with the Law on Inspection Oversight	2018		√	
Control of persons performing unregistered activity by all competent bodies involved in the work of the Coordination Body for combating the grey economy	2018		√	
Improvement of the fiscal system, which entails the reduction of the number of parafiscal charges, enabling legitimate businesses to make savings relative to the existing system, and exchange of information on single sales with a summary of data for risk analysis in inspection oversight	2018		√	
Implementation of integrated control of border crossings by all the involved departments, to prevent the illegal transit of goods across the border into Serbian territory and its further distribution through grey trade flows	2017		√	
Alignment of database management systems between applicants and courts and prosecutors, so as to adequately monitor the application processing efficiency	2015			√

CURRENT SITUATION

Countering illicit trade and further modernizing the inspections remain important topics in the Republic of Serbia. Governmental authorities were predominantly implementing measures prescribed in the National Programme for Countering the Shadow Economy and its associated Action Plan for 2017/2018. Their efforts towards diminishing illicit trade and improving the inspection oversight system were noticeable in 2018, and the work of inspection authorities is becoming more effective with the ongoing application of the Law on Inspection Oversight. Results of these activities, combined with improved macroeconomic indicators, led to an increased budget revenue collection and resulted in higher-than-planned fiscal revenues and a state budget surplus at the end of 2018. The Coordination Commission for Inspection Oversight spearheaded continuous reforms of the inspection system in 2018 and continues to do so in 2019 as well.

Although a significant amount of work has been completed, there are still a number of open issues to be addressed in the upcoming period. The focus on illicit trade prevention must not diminish in either the short or the long term, in order to maintain and expand the achieved results as well as ensure a more even playing field for all businesses.

POSITIVE DEVELOPMENTS

Carrying out the Action Plan 2017/2018 for the implementation of the National Programme for Countering the Shadow Economy was an ongoing effort, with the focus on further improving the inspection oversight system. Moreover, an Action Plan for the 2019/2021 period was adopted during 2019, ensuring the continuity of the National Programme implementation in the future.

The Coordination Commission for Inspection Oversight, together with its internal support unit, was active in adopting guidelines for inspection controls and related analyses with the aim of increasing the efficiency of controls and penalties imposed.

Special attention was given by the Coordination Commission, its subordinate Working Group for the Prevention of Illegal Trade, and individual inspection authorities to the adoption and implementation of flowcharts for the control of specific goods and sectors. Apart from prescribing a stricter control over key excise and other products of interest to the grey market, a new control of illegal trade over the internet

was also introduced. It should be noted that the flowcharts were prepared and adopted in close coordination with the business community. The implementation of the flowcharts solidified mandatory controls of inspections authorities and had a significant financial impact on the state's revenues, especially through the prevention of unnecessary imports of base oils and their illegal blending into diesel fuel.

The Coordination Commission completed a functional analysis of the inspections' capacities in 2019. The analysis is to serve as a basis for identifying the needs for human and material resources of all inspections in the country. The findings of the analysis confirmed the urgent need for increasing the number of inspectors as well as strengthening their technical capacities.

Other activities of importance for inspection oversight in 2018 included the start of the implementation of "e-Inspektor," an integrated information system for inspection oversight, with four pilot inspectorates being networked for testing. In addition to this, a significant number of training sessions for inspectors were also held in 2018 and continued in 2019 as well.

The Customs Administration has started using electronic locators for tracking cargo vehicles in transit, enabling the automatic monitoring of their whereabouts in the country.

The enactment of the Law on Simplified Employment on Seasonal Jobs in Specific Business Activities enabled fast and easy electronic registration of seasonal workers in agriculture, improving the status of seasonal workers and decreasing the level of grey economy due to unregistered workers.

The Law on Fees for the Use of Public Resources has been adopted, increasing the reliability of business environment by prohibiting the introduction of new parafiscal charges for the use of public resources.

REMAINING ISSUES

The Law on Inspection Oversight has not yet been fully implemented because the sectoral laws have not been harmonized with the umbrella law. The Government of the Republic of Serbia has adopted a Conclusion envisaging the harmonization of 78 laws. At the end of 2018, there were 67 laws not yet harmonized. Furthermore, a full implementation of the "e-Inspektor" IT system should be carried out as soon as possible.

There is still an urgent need to strengthen the human and technical capacities of the inspectorates and increase the remuneration of inspectors, as well as to create an adequate performance evaluation system, in accordance with the results of the functional analysis of inspections. Furthermore, an action plan for hiring young inspectors for the 2019/2020 period should be adopted.

A system of regular control and reporting on the implementation of adopted flowcharts should also be created and implemented. The adoption of new flowcharts should also be continued, including a flowchart for the control of LPG in the re-export procedure.

The management of misdemeanor and felony complaints in the area of illicit trade by prosecutors and courts remains a problem in terms of inefficient processing and an overly lenient penal policy. Therefore, deterrents to illicit trade activities remain inadequate. Gains from illicit trade activities still outweigh the potential penalties.

Alleviating fiscal pressure is of high importance for starting new businesses and discouraging the grey economy. An electronic registry and a portal listing applicable fees for the use of public resources should be established, as a pre-condition for controlling the possible introduction of new parafiscal charges.

In order to increase the efficiency of controls and seizure of illegal goods, it is necessary to have in place a more efficient system for storing seized goods, whether in the investigation stage or during court proceedings. Business entities that are obligated to store seized goods should be able to regulate storing conditions with the competent institutions in a short time. Moreover, lack of capacities for the storage of seized goods is often a discouraging factor to the control authorities to increase pressure on illicit trade.

Lastly, with the development of IT and mobile technologies, additional options for increasing the share of non-cash payments in the economy are becoming feasible. Reducing the use of cash in monetary transactions and switching to non-cash payments contributes significantly to curbing illicit trade. Trends in mobile phone use have opened a possibility for customers to pay for goods and services via phone applications supplied by businesses. However, the use of payment applications needs to be supported by appropriate governmental regulations.

An additional measure to increase non-cash payments in the economy is the introduction of online fiscal cash registers. Although the deployment of online fiscal registers is already envisioned by the governmental authorities, it is necessary to prioritize this measure and begin its implementation as soon as possible.

FIC RECOMMENDATIONS

- Continue with the implementation of the National Programme for Countering the Shadow Economy and its associated Action Plan for 2019/2020.
- Create a system of reporting on measures and effects of flowcharts, and continue with the adoption of a new flowchart for the control of LPG as well as other products of interest.
- In order to increase the efficiency of the punishment system in the field of illicit trade, introduce the specialization of judges for misdemeanor offences in business.
- Improve the level of fiscal burden on businesses operating in the Republic of Serbia with further regulation of parafiscal charges by creating a registry of fees payable by businesses.
- Prescribe and implement a prompt and effective procedure of regulating the storage of seized goods between the public and private sector.
- Enable the introduction of innovative non-cash payment systems based on applications used by the private sector.
- Introduce online fiscal cash registers.