

DIGITALIZATION AND E-COMMERCE

CURRENT SITUATION

The whole world has suddenly begun to adapt to the new situation and turn to e-business due to the completely changed way of life and business that we knew. Many positive changes have also taken place in Serbia. A large number of citizens have started using the services of the eGovernment portal, numerous new services have been developed, and administrative paperwork, which used to require queues, has never been faster and more accessible.

After digitalization has been proclaimed as one of the key priorities of the Government, most regulatory initiatives recognize the importance of digital business and electronic procedures.

Digitalization is increasingly perceived as an opportunity, not a threat, and it is important to work on its further improvement, not only in the public but also in the private sector.

The most important fact is that the consciousness of the citizens has started to change, and the Government has started to follow these significant changes rapidly. We are witnessing a sharp increase in the number of transactions performed electronically as well as the wider application of contactless payment using digital “wallets”, which are available in a large number of financial institutions.

When it comes to digitalization as a constant process, there is still significant room for improvement, which are just some of the key areas for further action of regulators, especially in the speed of changing the regulatory framework.

The existing legal framework provides space for businesses to develop digital sales channels, as well as to protect the rights of consumers in the online environment. Although this type of trade is constantly growing, e-commerce still has great potential for development. According to the data of the Statistical Office of the Republic of Serbia, in 2019, 43% of citizens have never bought goods and services online. For comparison, in 2010 this percentage was as high as 87%, which shows that this branch of business is recording constant growth. If we look at the use of the Internet, in 2010, over 54% of citizens never used the Internet, while in

2019 this percentage dropped to only 19.4%, which is also an improvement compared to 2018 by as much as 28%.

It is interesting to note that the Internet is used by all age groups, from 16 to 74 years of age, with an emphasis on increasing Internet use among the oldest population (from 64 to 74 years of age) from 1.3% in 2007 to as much as 30.1% in 2019.

According to the NBS, in 2019, almost three million users made payments over the Internet, i.e. almost 2 million users made payments via mobile phone, which again represents a nominal growth of 13% compared to 2018.

On the other hand, electronic procedures are not sufficiently represented in practice and administrative bodies do not show a willingness to use them in procedures where the electronic form is not mandatory, often insisting on the use of paper documents. The amendment to the Company Law revoked the use of the seal for business entities, by which the Law declared provisions of 10 laws and 107 bylaws in which the seal is mentioned null and void. After the adoption of this amendment, no institution, bank or organization has the right to demand a seal from companies or entrepreneurs.

The IT and Electronic Administration Office of the Government of the Republic of Serbia is the central body whose competence is the coordination of activities in the field of electronic administration, management of public IT infrastructure, and information security. A coordination council for eGovernment has been formed within the framework of the representatives of the Ministries and under the auspices of the Prime Minister of the Republic of Serbia. This year, the focus is on work on the eGovernment development program for the next three years.

Announced last year and opened in March 2019, the Data Center in Kragujevac is an institution in which, in addition to the most modern protection system, data from the city, city administrations, public companies, and institutions will be stored, and also connected to national databases. The aim of this project is to centralize all relevant data in order to more easily implement activities in the field of digitalization of eGovernment. It is planned to create a meta-register and catalog of all services.

A secondary benefit of this data center could be the renting of infrastructure and content to corporations, which would

be an excellent form of monetization and a source of funding for further improvement of the center.

The key challenges remain, creating a register of citizens and a register of addresses.

In addition to the above, we are witnessing significant progress in the part of the legal framework that enables further digitalization of financial services, through a series of decisions prescribed by the regulator, the National Bank of Serbia, in the previous period. Thus, in addition to the possibility of video identification of natural persons, with the extension of the relevant Decision, the identification of legal entities has recently been enabled. Furthermore, through the national system IPS (Instant Payment System) using the QR code, it is possible to pay monthly bills, make purchases in retail outlets and online stores in an extremely simple way.

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It is necessary to finalize bylaws that more precisely regulate the use of electronic signatures. In these areas, cooperation between the business sector and the Government can provide excellent expertise. This cooperation directly contributes to the optimization of e-business and affects the acceleration and implementation of key points needed for smooth business. One such is the recently launched bill digitalization initiative.

Namely, the law regulates lending to citizens electronically, identification via video link, but not the acquisition of collateral, which must be filled in and signed in paper form. The bill of exchange digitalization initiative directly affects the optimization and digitalization of this process.

The Law on Prevention of Money Laundering and Financing of Terrorism regulates the identification of users upon each establishment of business relations with entities that are liable for this Law. Identification is done in a direct meeting with the client, which disables any digital contracting process. Having in mind this obstacle, in March 2019, the National Bank of Serbia adopted the Decision regulating the identification of remote users, i.e. the Decision on the Conditions and Manner of Determining and Verifying the Identity of a Natural Person Using Electronic Means of Communication. By making this decision, Serbia became one of

the few countries in the region that regulated this area and provided legal preconditions for the purchase of financial services "from the chair".

Although adopted in March 2019, the Video Identification Decision has been implemented by a very small number of financial institutions. The reason for this lies not only in the fact that it is necessary to raise awareness about digital business but also about the complexity and investment requirements related to relevant video technologies, which a number of financial institutions still find difficult to monetize.

COVID-19

The pandemic has shown that the potential and necessity of digitalization is obvious, not only in the financial sector but also in all other sectors where business digitalization will enable easier and more efficient work, especially in circumstances of forced social distancing due to the COVID-19 virus.

Since the beginning of the pandemic, the government has passed laws and regulations in order to maintain the economic stability of the country and enable uninterrupted business in difficult conditions.

In order to carry out epidemiological surveillance related to the COVID-19 virus, the Government adopted a Conclusion on the Establishment of a Unique and Centralized Software Solution, which is established and managed by the Institute of Public Health with the technical support of the Information Technology and Electronic Administration Office and the Republic Health Insurance Fund. The aim of this solution is to collect data on the number of tested, infected, cured, and deceased from the consequences of diseases caused by COVID-19.

It is very important that the Government continues to be efficient in making decisions and regulations concerning the digital business, as well as to work on educating citizens in order to gain greater trust in digital services and information that is exchanged in this way.

POSITIVE DEVELOPMENTS

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On June 4, 2020, the Government of Serbia adopted the Program for the Development of Electronic Government 2020-2022, as well as the Action Plan for its implementation. In July 2020, only a month after the adoption of this Program, the data showed that over a million citizens of Serbia used the services of the Government and that over 70,000 requests were realized during this month alone. The eGovernment portal is optimized for mobile phones and tablets.

The new services that have been introduced represent a true relief for citizens in the situation of forced social distancing, shorter working hours of administrative offices, as well as the popularization of the concept of work from home. Very efficient service of electronic enrollment in primary and secondary schools was introduced, without the need to collect paper documentation and take it to school for enrollment. Furthermore, automatic notification of PCR test results via SMS or email as well as the availability of data to citizens from 20 electronic records were also enabled. Distance learning was established in record time, and a large number of educators quickly adapted to work in Google classrooms.

The adoption of the new Law on Trade and the amendments to the Law on Electronic Commerce are positive signs in the direction of further improvement of electronic commerce as a new business model that introduced the electronic store, electronic platform, and dropshipping.

Amendments to the Law on Foreign Exchange Operations have made some progress in the field of electronic payments. Among other things, it is possible to receive foreign currency payments for humanitarian purposes through services such as PayPal. Significant progress concerns the sale of software over the Internet, which is now included in the list of exemptions from performing payment transactions exclusively in dinars, including transactions between residents with each other. This enabled domestic IT companies to point out the price in foreign currency and sell their services without fear of being in violation if the buyer is a resident of Serbia.

However, although this exception is limited to software and digital services, liberalization has not been completed. Payment for citizens is possible with payment cards or through a domestic electronic money institution (in Serbia, after several years since the adoption of the Law on Payment Services, there is only one institution of this type), but not through the most famous global services such as PayPal or Skrill.

In October 2018, the system for instant payments was introduced, whose operator is the National Bank of Serbia - the IPS NBS system. As a participant in this system, banks have enabled their customers to transfer money in dinars in the branch, whereby the transaction is realized immediately. Users can perform transactions in real-time 24/7/365, up to the amount of 300,000 dinars per transaction. Banks have also enabled the option of instant payments on their digital channels.

The main progress has been made in the field of electronic payments on the eGovernment portal, where card payments are enabled, so now, for example, vehicle registration can be paid in this way. Payment by payment card as well as integration with electronic services of individual banks for services on the eGovernment portal is significant progress. In that way, one of the basic assumptions of eGovernment was realized, since without electronic payments it is not possible to get some of the most important services, and switching to physical payment channels made the purpose and advantages of electronic services meaningless in the past.

Decisions of the NBS enabled video identification, signing contracts through two-factor authentication, as well as instant payment. This created the conditions for lending, as well as other banking products to be offered electronically. The remaining point of contention is how to enable the acquisition of a bill of exchange (which must be signed) as collateral for the loan and as a mandatory and integral part of the client's credit file. The bill of exchange as security in paper form is issued by the Banknote Production Bureau. The digitalization of the bill of exchange is important not only from the aspect of banking operations but also for the economy as a whole.

In the past period, progress has been made on the issue of the eZup information system, which is used for electronic data exchange by state administration bodies and local self-government bodies.

REMAINING ISSUES

Although some progress was made in 2019, the high expectations from the basic, intermediate, and high-level electronic identification schemes, which were introduced by the Law on Electronic Business, have not yet been realized. Namely, the regulations in this area and technical standards in the EU, on the basis of which the Regulation on Conditions for Electronic Identification Schemes of a Certain Level of Reliability will be adopted, set rigid conditions for a high-level scheme so that it will not be more flexible than a qualified electronic signature. On the other hand, we can expect that the basic level scheme will not require user identification through physical presence and ID cards when assigning the scheme, but user identification will be done electronically. It remains to be seen what solution will be chosen for the medium-reliability scheme.

Also, when it comes to the digital agenda of the Government of the Republic of Serbia, the remaining activity is the formation of a national register of citizens and addresses. The Register of Business Entities exists within the Business Registers Agency and it is expected that such registers will be made for natural persons as well, in order to enable connection with other state institutions.

The remaining challenge is the greater focus of eGovernment on citizens, i.e. "completion of work from the chair", as most of the initiatives and implemented activities are aimed at optimizing the process within state bodies, so that they last shorter and citizens complete their obligations much faster, still at the counters.

One of the key steps in the following period is to enable the exchange of data on tax and utility obligations of clients between the Tax Administration and financial institutions in the first place, but also companies from other industries. In this way, by using advanced, centralized databases, an automatic verification system could be established, e.g. level of income, regularity in settling tax obligations, which would ultimately enable the full digitalization of the purchase of credit products by citizens, thus eliminating the need for a single paper document (such as the current certificate of employment and income).

Also, it is necessary to speed up the process of introducing eGovernment in the sectors of tax administration.

Further improvement of services and available information through eGovernment is a challenge for each year to come. Wider education of citizens and the economy is needed, as well as the promotion of speed, security, and safety in the use of electronic services, which will increase the trust of users and efficiency in work. Digitalization and further development of a unified electronic system of government have the effect of reducing bureaucracy, thus improving the quality of services needed by citizens and, consequently, reducing corruption.

In conclusion, the Committee notes that great efforts and progress have been made in order to enable further digitalization of the economy and the public sector in the past period and that the readiness of all state institutions to continue in that spirit in the future is noted.

FIC RECOMMENDATIONS

- Following the example of a large number of EU countries, it is extremely important to use centralized databases and enable the exchange of data between the Tax Administration and companies (primarily financial institutions) in order to ensure that data on citizens' incomes, with the consent of citizens, can be used in online lending processes, which would significantly eliminate the need for paperwork and enable the purchase of credit products completely online. (3)
- It is important to facilitate the use of digital identities/signatures so that they become available to the widest circle of citizens, in a simple way and without high costs. (2)
- In order to emphasize the reliability and ease of use of digital identity and electronic signature, as well as their dissemination and promotion, citizens should be informed about all the possibilities, rights, and benefits of this channel through educational campaigns. (2)

- It is necessary to legally regulate the institute of “digital bills of exchange” so that as such it can be registered in a single register of bills of exchange, i.e. signed electronically. (2)
- It is necessary to create a database of already identified citizens that will enable a simpler and more cost-effective introduction of digital solutions. (2)