

DIGITALIZATION AND E-COMMERCE

2.60

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
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.	2020	√		
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.	2017	√		
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.	2017	√		
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.	2019	√		
It is necessary to create a database of already identified citizens that will enable a simpler and more cost-effective introduction of digital solutions.	2018			√

CURRENT SITUATION

More than a year after the modern world was shaken to its core, we have the opportunity to review and look back at the initiatives related to adapting the way of life to the ever-present risk of COVID-19 infection that were promoted at the beginning of the pandemic and those that are being promoted now. Life as we knew it has completely changed from safety and social point of view. In Serbia as in the rest of world, changes are happening rapidly, and in some segments perhaps even faster. Continuing the 2020 initiative, in June 2021, the competent ministries reiterated that "digitalization" is one of the key priorities of the Serbian Government, stating that the greatest benefit from digitalization is achieved if "all citizens have the knowledge and access", and that digital literacy for citizens means that the eGovernment is available to them "24 hours a day, seven days a week, 365 days a year".

The key fact is that citizens' awareness has started to change, and the Government has started to act rapidly in accordance with these significant changes. We are witness-

ing a steep increase in number of transactions performed electronically, as well as wider application of contactless payment using digital "wallets", which are available in a large number of financial institutions.

The existing legal framework provides businesses with a framework for development of digital sales channels, and protection of consumers' rights in the online environment. Although this type of trade is constantly growing, e-commerce still has a great development potential. According to the data of the Statistics 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 continued growth. If we look at the Internet use, in 2010, over 54% of citizens never used the Internet, while this percentage in 2019 dropped to only 19.4%, which represents an improvement of 28% compared to 2018.

It is interesting to note that all age groups, from 16 to 74 years of age, are using the Internet, with a prominent increase of

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.

The epidemic has had a major impact on changing consumer behaviour and increasing the volume of online commerce. The National Bank of Serbia's data show that in 2020 the volume of online card payment transactions in dinar increased by more than 100% compared to 2019, while the value of these transactions during the same period was higher by about 80%¹.

On the other hand, electronic procedures are not sufficiently used in practice and administrative bodies are reluctant to use them in procedures where electronic form is not required, often insisting on the use of paper documents. The amendment to the Law on Companies abolished the use of seals for business entities, which repealed the provision 10 of the law and provision 107 of the bylaws that refer to seals. After this amendment was adopted, no institution, bank or organization shall have the right to demand a seal from companies or entrepreneurs.

The Government of the Republic of Serbia and the Office for IT and e-Government, as the central body competent for coordination of activities related to e-Government, management of public IT infrastructure and information security, continue with the implementation of the digital agenda. During the previous period, the Strategy for the Development of Artificial Intelligence in the Republic of Serbia for 2020-2025 was adopted, in accordance with which the Institute for Artificial Intelligence was established. In accordance therewith, the platform "Smart Serbia" was launched, which is to enable improved policy making and introduction of e-Government services designed based on citizens' needs through mass processing of data from various public sources and the use of artificial intelligence. This platform is hosted at the State Data Centre in Kragujevac, which was opened in 2019 with the aim of keeping a digitalized and centralized storage of all public databases from the state and local level, while in the previous year the Government of Serbia established a company to ensure better commercial use of State Data Centre's capacities and offer services to the private sector.

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 that the regulator, the National Bank of Serbia, prescribed in the previous period. Thus, in addition to the possibility of video identification of natural persons, with the relevant Decision having been extended, the identification of legal entities has recently been made possible as well. Furthermore, the national IPS system (Instant Payment System) makes it possible to pay monthly bills, make purchases in retail and online stores using a QR code in an extremely simple way.

At the end of 2020, the Law on Digital Assets, which for the first time recognizes digital assets as a legal category, was passed, whereby digital assets are a digital record of value that can be exchanged and invested, and their issuance, secondary trading, provision of services related to digital assets as well as the competence of the National Bank of Serbia and the Securities Commission are regulated. The subject of this law is not digital currency records that represent a legal tender, such as electronic money, but the intention to regulate the area of cryptocurrencies and other hitherto unregulated forms of intangible assets, which will contribute to legal security and further development of this area on a sound basis.

POSITIVE DEVELOPMENTS

One of the biggest logistical challenges in the history of healthcare in Serbia, which included different conditions of storage, transport and use of as many as 4 types of vaccines and their optimal distribution to health centres at ad hoc points throughout Serbia, was successfully overcome with the help of e-Government services that the citizens used to apply for vaccination. In that way, we can say that the e-Government system in Serbia has reached a critical point, where there is sufficient infrastructure, technical and personnel capacities, to develop new services in a short period of time and employ them in solving critical social issues. The vaccination and e-Government success story continued by enabling vaccinated citizens to easily obtain a digital green vaccination certificate, which was made according to the EU standards and which made it possible for Serbian citizens to travel this summer without having to bring a negative PCR test.

When it comes to other services, the most important achievement during the previous period was the completion of register of citizens which compiles thirteen different databases coming from five different institutions. In that way, it will be possible to perform numerous administrative

¹ Payment transactions for online purchase of goods and services (https://nbs.rs/sr_RS/ciljevi-i-funkcije/platni-sistem/statistika/)

procedures at public administration bodies in a more efficient and cheaper way, and the centralization of this data is one of the prerequisites for introduction of new e-Government services, which often involve simultaneous verification of facts from several different databases. The current deficiency of compiled databases is accuracy, and to a greater extent the completeness of data on citizens, and consequently one of the future initiatives of this council will be focused on improving the quality of data in e-Government and providing further suggestions to relevant ministries related to these issues.

End of last year, the National Assembly adopted the Law on Fiscalization, which replaced the previous Law on Fiscal Cash Registers, and whose implementation will begin on 1 January 2022, with a transition period until 1 April 2022 for the economy to adjust. The most important novelty this law brought is a broader scope of fiscalization, then electronic recording of real-time transactions via the Internet connection between each fiscal device and the Tax Administration system, and unique electronic elements of each invoice that allow its verification. In addition, the state has allocated 3 billion dinars for implementation of the new fiscalization system, while the law itself brings technological neutrality in terms of devices used and combination of software and hardware that can be applied, which will save the businesses from high costs of digital, online fiscalization. The new law is expected to have a significant effect on increasing tax revenues, but also ensure more efficient control and risk analysis in order to prevent tax evasion. Also, in the domain of related regulations, the Law on Electronic Invoicing was passed, whose partial application will also begin in 2022, while the full application will begin on 1 January 2023. This law is expected to contribute to business efficiency, save time and costs in processing, storing, sending and receiving invoices, but also to provide greater transparency and legal certainty in working with invoices.

In 2020, Serbia received the first registered electronic identification schemes, with the Office for IT and e-Government being registered as the first registered provider of electronic identification services. Given that high-level electronic identification schemes involve a qualified certificate, and as such are not a more flexible identification mechanism, and that basic level schemes based on username and password have a limited level of reliability and trust by the public sector and the economy, the highest expectations in this area are connected with the registered mid-level electronic identification scheme. In that sense, the mid-

level electronic identification scheme registered by the Office for IT and e-Government that is based on two-factor authentication has the greatest potential of application, not only for communication between citizens and the state, but also for concluding contracts with the private sector. The scheme is based on personal identification of the user, via the ID card, to whom the credentials necessary for the use of Consent ID application on the mobile phone are issued, and through which citizens perform the second level of authentication after logging in with the username and password at the e-Government portal.

On the other hand, in 2021, amendments to the Law on Electronic Business were passed², as well as the Law on Identity Cards, which brings novelties in the field of electronic identification.

The most significant change to the Law on Electronic Document is reflected in introducing the service of issuing means for remote qualified signing, the so-called qualified signature in the cloud. Previously, this service was planned as an additional service offered by providers of qualified electronic signatures, which were previously issued in the traditional way. With these changes, the scope of this service has been expanded so that its provider, initially, remotely issues a qualified electronic certificate without physical presence, which will contribute to a wider application and popularization of qualified electronic signatures. Another key change is automatic recognition of qualified trust services from the European Union providers and recognition of registered electronic identification schemes from the EU. This created the possibility for legal representatives of foreign companies in Serbia to use, without restrictions, their personal certificates issued in their home countries, or for international companies operating in Serbia that implement identification solutions based on electronic identification schemes from the EU on the level of their groups, to also use such solutions in Serbia. This change was recognized by this council as one of the key improvements of digital business in the Republic of Serbia, and with the EU. Given that the recognition of registered electronic identification schemes from the EU has not yet taken root, although it has been recognized in the regulatory framework, part of the council's initiatives will also focus on suggesting possibilities for faster practical implementation of this instrument.

² Law on Electronic Document, Electronic Identification and Trust Services in Electronic Business

Amendments to the Law on Identity Cards stipulate that the ID card will be a mid-level electronic identification scheme, in addition to the fact that each ID card will already have all the software and hardware necessary to activate a qualified certificate. It remains to be seen what will this new mechanism for turning the ID cards into a remote identification instrument be, if the mechanism is not a qualified electronic signature.

We are witnessing major progress in the part of the legal framework that enables further digitalization of financial services, through a series of decisions that the regulator, the National Bank of Serbia, prescribed in the previous period. Thus, in addition to the possibility of video identification of natural persons, with the relevant Decision having been extended, the identification of legal entities has been made possible as well. Furthermore, the national IPS system (Instant Payment System) makes it possible to pay monthly bills, make purchases in retail and online stores using a QR code in an extremely simple way. After the implementation of these innovations, banks in Serbia have pointed out that the law regulates lending to citizens electronically and identification via a video link, but not obtaining collateral, which in practice is usually a bill of exchange that must be filled in and signed personally in paper form. In this regard, the initiative for digitalization of bills of exchange, which aims to optimize and digitalize this process, received a positive response from the National Bank of Serbia, which, in cooperation with the banks, began working on developing the Central register of e-bills of exchange that will enable compiling, filling, transfer, but also forced collection based on e-bills of exchange. In this way, the process of digitalization of financial services that started several years ago will be mostly completed.

It is important to mention that a new electronic service "My data for the bank" has been launched on the e-Government portal in order to simplify the procedure for concluding a loan product agreement between citizens and certain banks that have implemented this service. It allows the citizens to collect all the necessary documents from the bodies that keep the appropriate official records and then forward them to the bank electronically. With amendments to the Law on Foreign Exchange Operations some progress has been made in the field of electronic payments. Among other things, it is possible to receive foreign currency payments for charity 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 making payment transactions exclusively in dinars, and includes transactions between residents. This enabled national IT companies to display prices 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 fully implemented. Citizens have the possibility to make payments with cards or national electronic money institutions, but not through the most famous global payment services providers, such as Paypal or Skrill.

The system for instant payments – the IPS NBS system – was launched in October 2018, and its operator is the National Bank of Serbia. As participants of this system, the banks make it possible for their customers to transfer money in dinars at the branch, whereby the transaction is carried out immediately. Customers can perform transactions in real time 24/7/365, up to the amount of 300 thousand dinars per transaction. Banks also provide the option of instant payments on their digital channels.

The main progress has been made in the field of electronic payments at the e-Government portal, where card payments have been made possible, and now, for example, one can pay for vehicle registration in this way. Citizens can very easily pay for the services of the Ministry of the Interior online (payment cards), via e-banking, mobile applications, and for the first time, when submitting a request, they will not have to provide a proof of payment in paper form. In that way, one of the basic functions of e-Government was implemented, because 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.

REMAINING ISSUES

In addition to the identified space for improvement related to the quality and completeness of data at the eGovernment portal and finalizing the process of introducing eGovernment in the tax administration sectors, one of the key steps in the coming period is enabling the exchange of data on tax and utility obligations, primarily between tax administration and financial institutions, but also companies from other industries. In this way, using advanced, centralized databases, an automatic verification system could be established, e.g., for checking the level of income, reg-

ularity in settling tax obligations, which would, in the end, enable full digitalization of loan products' purchase by citizens, eliminating the need for any paper document (such as the current certificate of employment and the amount of income). The previous text states that great progress has been made in digitalization of financial services. In this regard, video identification as a mechanism for concluding distance contracts in Serbia is recognized exclusively by NBS regulations and as such is available only in financial institutions whose work is regulated by the NBS, while in other areas such as telecommunications there is no framework for this mechanism. Given that there are no similar regulations in telecommunications sector, we should look for the legal framework for application of video identification and, in general, other possibilities for concluding distance contracts in the general regulations on electronic business, given that identification mechanisms based on video identification can represent electronic identification scheme. In that sense, it is necessary to amend the Decree on electronic identification schemes³ in such a way as to enable the identification of users remotely when issuing mid- and high-level electronic identification schemes, and not only in person, as is the case today, especially since

³ Decree on detailed regulation of conditions that must be met by electronic identification schemes for particular levels of reliability

recent amendments to the Law on Electronic Business have allowed issuance of qualified electronic certificates remotely (which is a high-level scheme). The Foreign Investors Council sent a proposal for amendment of the Decree to the Ministry of Telecommunications, which responded positively to that proposal, and we expect that the Regulation will be amended in the coming period.

Finally, having in mind great results achieved in digitalization of e-Government, we would like to emphasize here that there are areas where regulations in the public administration domain have been changed to encourage its digitalization, while the same mechanisms are not available to the private sector. For example, the Law on Electronic Government creates preconditions for tax and other decisions of state bodies to be delivered to citizens electronically without the need for prior special consent, while on the other hand, the Law on Consumer Protection and other regulations impose restrictions to the private sector, which would want to have the same option available.

In conclusion, we note that a great effort and progress has 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 the same manner in the future is noticed.

FIC RECOMMENDATIONS

- Following the example of a large number of EU countries, it is extremely important to make use of centralized databases and enable data exchange between the Tax Administration and companies (primarily financial institutions), in order to provide data, primarily on citizens' income, with their consent, for online lending processes, which would significantly eliminate the need for paper documentation and allow the purchase of loan products to be done completely online.
- It is important to facilitate the use of digital identities / signatures, so they become available to the largest number of citizens, in a simple way and without high costs. One of the ways to achieve this is to popularize the issuance of a national registered high and mid-level scheme, which should be applied in the conclusion of distance contracts, between businesses and citizens.
- In order to improve the use of digital identity, and all other opportunities offered to citizens by digitalization in Serbia, citizens should be informed about all the possibilities, rights and benefits of available channels through educational campaigns.
- It is necessary to enable the application of "digital bill of exchange" instrument, so that it can be registered as such in the unique register of bills of exchange, i.e., signed electronically.

- Amend the Decree on Electronic Identification Schemes⁴, in such a way as to allow identification of customers remotely when issuing a high and mid-level electronic identification scheme, and not only in person as is the case today.
- We propose that all constructive solutions from regulations governing the work of public administration that contribute to further digitalization, such as the Law on Electronic Government, be applied in regulations governing the work of the private sector.
- Accelerate digitalisation of all administrative procedures for businesses listed in the recently launched Register of administrative procedures⁵.

4 Regulation on detailed regulation of conditions that must be met by electronic identification schemes for particular levels of reliability.

5 <https://rap.euprava.gov.rs/privreda/home>