# PILLARS OF DEVELOPMENT

### **FNFRGY**

This sector includes the generation and transmission of electricity, the market for renewable energy sources and energy efficiency. In 2021, Serbia supplemented the regulatory framework following the EU's Third Energy Package, and de jure liberalized the electricity market. In this regard, the year 2022 did not bring any regulatory novelties. However, the actual changes were dramatic. Due to the energy crisis in the world and economic sanctions, which interrupted the regular supply channels, Serbia faced significant challenges in ensuring a steady supply of all types of energy. In addition, the price shock due to the reduced supply of energy products and supply uncertainty was extremely strong, significantly increasing inflation and instability of the domestic market. The initial market liberalization hit the hurdle of increased costs for households and the economy, which is why the government introduced price controls.

Despite liberalization, the state-owned companies - Elektromreža Srbije, Elektroprivreda Srbije and EPS Distribucija - remain dominant players in this sector. However, the issue of their ownership transformation was relegated to the background. Instead, the point of their efficiency and ability to meet domestic demand came to the fore, which will be challenging to do without restructuring, changing business policy and improving management.

Coal remains the dominant source of electricity production – more than 60% of the annual output comes from coal-fired power plants. Coal mines are in relatively poor condition and need serious modernization to meet demand. Some of the largest thermal power plants will have to be phased out or overhauled. There is an increased import of coal to maintain production in thermal power plants. The transition to a "green" economy has been postponed for some time. There was a slight increase in the price of electricity, far below the prices at which this energy is imported. We do not know how it will be possible to avoid a new price increase, where sensitive customers must be protected.

In the case of renewable energy sources, a new legal framework and a package of incentive measures for producing electricity from these sources have been adopted, which foresees a competitive procedure for awarding incentives. That indicates prioritizing the sustainable production of electricity from renewable energy sources, which is extremely important in the long term to avoid paying high fees for CO2 emissions that will rise in the European Union in the coming years.

A new regulation was also adopted in the area of energy efficiency. The Directorate for Financing and Encouraging Energy Efficiency was established, the purpose of which is given by the very name of the institution, and new regulations were adopted that regulate the financing of measures to improve energy efficiency and the use of funds for the implementation of energy efficiency measures. As a result, many local governments have begun implementing projects on contracting energy performance in the field of public lighting. In contrast, the issue of public and private sector cooperation in public facilities remains open. Particular emphasis is placed on the energy efficiency of new buildings in public ownership.

The Council of Foreign Investors has given ten recommendations for improving this area's situation. For example, in the case of electricity production, it is proposed to abandon price regulation despite the energy crisis; in the case of energy efficiency, the adoption of a functional contract for public-private partnership, while in the case of renewable energy sources, clarification of the incentive system is requested. As a result, the Council of Foreign Investors highly rated the progress in 2022 with an index of 2.50.

### **TELECOMMUNICATIONS**

Business in 2022 was marked by the global crisis caused by the third year of the COVID-19 pandemic and the European political and economic situation due to the current events in Ukraine. Because of this, there has been an increase in business costs and a worsening of the conditions for carrying out activities globally and in Serbia particularly. Nevertheless, despite these aggravating circumstances, electronic communications operators continued to improve the quality of their networks and the services they provide to their users. That is especially significant due to the rapid development of "online" trade services and remote work.

However, in 2022 there was still a postponement in organizing the radio frequency spectrum auction for the implementation and development of 5G networks in the Republic of Serbia. The Council of Foreign Investors expresses the expectation that the preparations for the maintenance, as well as the auction itself for the allocation of the right to use the radio frequency from the radio frequency bands 700 MHz 900 MHz 2100 MHz 2600 MHz and 3500 MHz

will be carried out transparently and efficiently as soon as possible. That would create optimal conditions for building and investing in 5G infrastructure throughout Serbia Within those frameworks, removing barriers to the efficient construction of base stations is one of the critica assumptions. The obstacles are related to the inconsistent legal basis for implementing each base station's environmental impact assessment procedure and insufficiently precise provisions defining "source of non-ionizing radiation of special interest".

Improving the existing regulatory framework and harmonizing it with the needs of operators and users, along with harmonization with the regulatory practice of the European Union, is of key importance for the further development of the electronic communications market in the Republic of Serbia. That is why last year, the Council of Foreign Investors welcomed the start of work on the new Law on Electronic Communications, which has not yet been adopted. Also, the Council of Foreign Investors supports the joint construction of broadband communication infrastructure in rural areas of the Republic of Serbia.

We want to point out that the transition to a new mode of e-fiscalization was carried out this year. It implies using an innovative hardware or software solution whereby fiscal invoices are issued with a QR code. Mobile operators made their visible contribution to facilitating the economy's transition to a new model of e-fiscalization by creating an offer of modern hardware and software solutions

Not all changes improved the position of mobile operators this year. For example, after the change in the regulation on the payment of copyright and related rights for computers, tablets and smartphones, mobile operators, as importers of the devices above, became liable to pay another levy that has a parafiscal character.

The Council of Foreign Investors made nine specific recommendations for improving the situation in this area. If all changes are considered, he rated the progress in 2022 well, with an index of 1.57.

# **DIGITALIZATION AND ELECTRONIC BUSINESS**

Digitization and electronic business represent the area that has progressed the most in 2022 from the point of view of adapting the business climate to the proposals of the Council of Foreign Investors. The FIC score was 2.57.

This sector includes electronic commerce, electronic identification, issuance of electronic documents, as well as the electronic business of administrative authorities, including the connection of public databases. Since last year, the whole world has started to adapt to the new situation caused by the emergence of the coronavirus and to turn to electronic business due to a completely changed way of life and business. Many positive changes have also taken place in Serbia. A large number of companies organized work "from home", many citizens began to use the e-Government portal services, numerous new services were developed, and unified data registers were formed.

However, instead of the end of the global pandemic and a return to accelerated economic growth, restoration of supply chains and recovery to international economic cooperation, there was a war on the soil of Europe and economic-political divisions that suppressed all other topics and threw the economy into crisis again. Unlike the previous health crisis, digitization and electronic business are not essential socio-economic tools for mitigating the adverse effects of the new crisis, but they have significantly contributed to maintaining the "new normality". That is why the trend of relying on information and communication technologies in everyday life and business has continued.

It all started with the introduction of the electronic administration service through which citizens applied for vaccinations. Then, that was extended to the issuance of a digital green vaccination certificate, which was made according to EU standards, and based on which Serbian citizens could travel abroad without having to have a negative PCR test. In the background of these changes, the development of infrastructure, technical and personnel capacities continued this year, which can offer new services in a short time and put them to the function of solving the current problems of citizens.

Citizens' awareness began to change, and thus their behaviour. As a result, we are witnessing a sharp increase in the number of transactions carried out electronically and a broader application of contactless payments using "digital wallets", which are available in many financial institutions. That almost doubled the number of transactions. At the same time, the number of dinar payment transactions realized by payment card via the Internet recorded an increase of over fifty per cent.

Citizens can receive a qualified electronic certificate in the cloud free of charge, which they can use in a simple and fast way via a mobile phone without the need to install special software or have a smart card. The solution involves personal identification through an ID card, which will suit the broadest range of citizens. In addition to the above, the eUverenje service was launched, enabling the submission of an electronic request to obtain an electronic certificate of settled liabilities based on property taxes and taxes from the domain of local self-government.

Changes in issuing electronic documents led to the introduction of a qualified signature in the cloud. On the other hand, qualified trusted services from providers from the European Union and registered electronic identification schemes from the EU are recognized. This way, legal representatives of foreign companies in Serbia can use personal certificates issued to them in their home countries based on electronic identification schemes from the EU without restrictions.

The Council of Foreign Investors points out that a great effort was made and significant progress was achieved to enable further digitization of the economy and the public sector in the past period and that the readiness of all state institutions to continue in this spirit in the coming period can be seen. For its part, the Council of Foreign Investors made six recommendations for further improvement of the situation in this area.

### **REAL ESTATE AND CONSTRUCTION**

Real estate and construction achieved slightly lower progress in changing the business climate following the recommendations of the Council of Foreign Investors. As a result, the FIC progress index for 2022 was 1.36.

Due to foreign policy events that inevitably affect all market flows as the procurement of construction materials and raw materials for its production, the supply chain, as well as the employment of labour, the construction industry is facing challenges that may pose a threat to the growth and development of this sector. Therefore, it is necessary, by further improving procedures and legislative activity, to act preventively and give the required impulses so that the growth of this sector is not jeopardized.

Regarding real estate, the issue of land ownership and mixed forms of state and private ownership remains a significant obstacle to construction in Serbia. It is necessary to consider

the possibility of changing the regulations that control the conversion of land use so that the fee as a concept is completely abandoned for specific categories of persons. The electronic business of the real estate cadastre and the cadastre of utilities is faced with numerous challenges, which require a system solution and must be overcome promptly.

The focus of the Council of Foreign Investors continues to be the implementation of the Law on Planning and Construction, the implementation of the unified procedure for obtaining construction documents, the legalization of existing buildings following the new regulations, the conversion of the right of use on construction land into the right of ownership, and the application of rules on cadastre and cadastral procedures.

The whole sector is not homogeneous; in 2022, its parts behaved differently. For example, in the area of mortgage and financial leasing, according to the assessment of the Council of Foreign Investors, there was no progress (FIC progress index 1.00); the same rating applies to the area of restitution (index 1.00); in the real estate and construction sector, modest progress was achieved compared to the pre-crisis period (index 1.18), but it increased in the domain of cadastre functioning and application of the new procedure (index 1.73).

Citizens and the economy could feel how important information security is during a cyber-attack on the digital infrastructure of the Republic Geodetic Institute. That resulted in the impossibility of selling real estate, registering mortgages, and realizing other real estate-related businesses. It was necessary to lock down the entire information system after the cyber-attack to protect data. Hence, citizens, banks, public notaries, and state institutions did not have access to the property register for several weeks.

# **WORKFORCE AND HUMAN CAPITAL**

This year, there was no improvement in the application of labour legislation nor the court's decisions in labour law disputes. The coronavirus pandemic is still ongoing and, what is certain, has permanently changed the functioning of the labour market. Added to that was the energy crisis, inflation and uncertainty caused by the war in Ukraine. The Council of Foreign Investors assesses that there has been no progress in the labour-legal area (so the FIC index is 1.00), while slight progress has been made in the area of human capital (FIC index 1.22). At the same time, it states that the existing regu-

lations no longer correspond to the real needs of employers and employees and that they impose unnecessary administrative, organizational and financial burdens.

Specifically, everyday life in the field of labor relations requires changes to labor regulations that would enable the application of electronic documents and electronic signatures, with the aim of efficient and flexible administration of documents from labor relations; flexible working conditions outside the employer's premises, in order to efficiently organize work and optimize labor costs; flexible requirements for the engagement of pupils and students in practice, with the aim of easy and legally secure engagement of practitioners; more flexible and rational conditions for determining the length of annual leave; specification of the provisions governing changes to the employment contract (annex), in order to ensure legal certainty; rational salary structure, in order to simplify the calculation and protect the employer from the high cost that occurs when calculating the salary compensation; more flexible conditions and procedures for removal from work and termination of employment contracts, in order to relieve the employer's administration.

In this sense, the Council of Foreign Investors proposed several improvements. They refer to the introduction of more flexible forms of work, such as work from home and remote work, regulation of work practices when they are not part of the mandatory educational program, digitization and simplification of the strictly formal way of communication between employer and employee, and simplification of the complex salary structure and the way it is calculated.

In addition, specific changes are needed to the legal pro-

relationship, such as those that control the statute of limitations and the notice period, as well as a clear definition of the procedure for dealing with redundant employees. Finally, it is necessary to simplify further the process of hiring foreigners and the movement of the labour force in general, identifying activities that, due to their specificity, are subject to the limited possibility of employing people with disabilities and improving the hiring of labour and the work of temporary employment agencies.

According to official data, unemployment did not increase last year, but quite the opposite, an increase in formal employment was registered. However, companies that did not apply for state subsidies began with serious restructuring and optimization of the number of employees. The unemployment rate varies on the territory of the Republic of Serbia, which primarily reflects the state of the economy in different parts of the country. At the same time, the demand for highly qualified staff cannot be met, and people with low education go abroad to work. The problem of a grey economy and illegal work still exists.

The Council of Foreign Investors made six critical recommendations for improving the situation in the area of the labour market and labour relations (FIC progress indexwas 1.00); for the work of foreigners, four recommendations (index 1.00), also three recommendations for sending employees to temporary work abroad (index 1.0), for hiring labour three recommendations (index 1.00), for professional rehabilitation and employment of person with disabilities three recommendations (index 1.00 and six recommendations for safety and health at wor (index 1.00).