

ILLICIT TRADE AND INSPECTION CONTROL

1.57

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
Adopting the Program for the Suppression of the Grey Economy for the period 2022-2025 and the accompanying Action Plan for the implementation of this program for the period 2022-2023.	2021		√	
Continuing with capacity building of republic inspections by employing new inspectors, and by improving working conditions for inspectors.	2021		√	
With the aim of increasing the efficiency of the illicit trade penal system, introducing specialization of judges for misdemeanor offences in the field of suppression of the grey economy.	2019		√	
Improving the system of fiscal burden for companies operating in the Republic of Serbia by creating a register of applicable fees, in order to further control para-fiscal levies.	2018			√
Establishing a system of reporting on the measures and effects of Action Plans (flowcharts), while communicating the results of controls to stakeholders from the economy.	2021			√
Establishing and implementing a fast and efficient procedure for regulating the storage of seized goods between the public and private sectors.	2021			√
Maintaining the continuity of the process of improving import and export procedures.	2021		√	

CURRENT SITUATION

After the relaxation of restrictive measures that were in force during 2020 due to the COVID-19 pandemic, 2021 was marked by growth in economic activity and all macroeconomic indicators improvements. As a result of the growth of private consumption, foreign trade exchange, the effects of the government stimulus measures on consumption and deferred consumption from the previous year, a significant increase in tax revenues was recorded in 2021. Stable fiscal parameters provided a favorable environment for continuation of the institutional improvements of business conditions. Regular activities for improving the illicit trade control system continued during 2021.

The beginning of 2022 was marked by the outbreak of a new global crisis arising from the conflict in Ukraine. The increased uncertainty stemmed from the geopolitical crisis resulted in a general deterioration of business conditions at the global level, as the prices of energy, primary agricultural products and metals approached historically high levels. Since the outbreak of the new crisis, the focus of state authorities has been redirected to preserving economic activity and preventing global negative spillovers on the business environment in Serbia.

POSITIVE DEVELOPMENTS

The Coordination Body for the Suppression of the Grey Economy coordinated activities of all state administration bodies related to the preparation of the new Program for Suppression of the Grey Economy for the period 2022 – 2025. Together with business representatives, citizens and the non-governmental sector, priority measures and activities to suppress the grey economy until 2025 were defined. The Program for Suppression of the Grey Economy 2022 – 2025 has passed the public discussion procedure, opinions of the members of the Government of the Republic of Serbia had been collected and it is expected to be adopted with the Action Plan 2022-2023, by the new Government of the Republic of Serbia.

Aiming to improve inspection controls, the Coordination Commission for Inspection Supervision of the Ministry of Public Administration and Local Self-Government continued with its regular activities. By providing the recommendations and guidelines, that are regularly published in the Inspection Practice Book, the efficiency of inspection controls are being improved. It was recommended that inspection services, in addition to strategic and annual plans for inspection supervision, prepare and agree on special plans for managing crisis situations, which foresee the

measures and actions by which inspections proceed in the event of a crisis, as well as, based on the analysis of regular and extraordinary inspections carried out in the previous period, plan the number of future extraordinary inspections, in order to preserve the public interest and properly plan the schedule of inspection supervisions.

Inspection supervisions are continuously carried out in accordance with checklists and inspection forms, which are regularly published and updated on www.inspektor.gov.rs. Availability of all documents provides businesses with a simplified access to information on the requirements for operating a business in accordance with regulations. In March 2022, the Ministry of Public Administration and Local Self-Government established a special Department for Coordination of Inspection Supervision, to inherit all activities undertaken since June 2017 by the Support division / Team for inspections reform that has been donor funded to support work of the Coordination Commission for Inspection Supervision, including digitization and further regulation of policies in the field of inspection supervision.

The use of the Single Contact Center for reporting irregularities to the republic's inspections, which was launched in March 2020, and upgraded with new features in next 12 months, such as artificial intelligence (Chabot IVA application available on also on www.inspektor.gov.rs, and on viber messenger) as well as linking with local self-government inspections and e-Inspector information system, significantly simplified the procedure for reporting irregularities. In the coming period, it is planned to promote the Single Contact Centre as a unique place for businesses to report illegal activities and obtain all answers to questions from the jurisdiction of inspections.

After a delay and transitional period, the implementation of the new fiscalization system began on May 1, 2022, at the same time as the mandatory implementation of electronic invoicing within the public sector (G2G) and private sector to public (B2G). Implementation of e-Fiscalization and e-Invoice, as important tools in the fight against grey economy, envisioning the use of modern technologies for the purpose of digitalization of transaction recording, electronic exchange of invoices and a simpler and more efficient control by state bodies.

Regarding improvements to import and export procedures, we would like to mention that UNECE (United Nations Economic Commission for Europe) has prepared a

study entitled "Regulatory and Procedural Barriers to Trade in Serbia" which was officially presented in July of 2021 ([Regulatory and Procedural Barriers to Trade in Serbia: Needs Assessment \(ECE/TRADE/460\) | UNECE](#)). The study was prepared in cooperation with representatives of the Serbian economy and contains numerous recommendations for improving the subject procedures. Additionally, the implementation of the World Bank's Western Balkans Trade and Transport Facilitation Program with the application of a Multiphase Programmatic Approach is underway, where we would like to highlight the subcomponent of the project "National One-stop Shop (NOSS)". The implementation of NOSS is aimed at providing businesses with a possibility to electronically submit to and receive from state bodies all documents that are necessary for performing foreign trade activities through a single portal. It was estimated that NOSS could start operating within a framework of three years, given that the implementation requires extensive activities in order to identify and provide necessary infrastructure and adequate software solution.

REMAINING ISSUES

In order to achieve the continuity of systematic efforts to suppress the grey economy, a new Program for Suppressing the Grey Economy for the period up to 2025 should have been adopted in 2021. The Program proposal was drafted during 2021, but there was a delay in its adoption, which is now expected only at the end of 2022, after the new Government of the Republic of Serbia is formed. In the meantime, as macroeconomic context significantly changed, it would be reasonable to revise draft Program accordingly, prior to its final adoption.

In the framework of further improvements to the e-Inspector software functionalities, we would like to emphasize the importance of the linking of all inspections and the necessity to establish new functionality for information exchange between the Tax Administration and Custom Administration with the e-Inspector system. Additionally, it is necessary to link the e-Inspector with the Misdemeanor court information system (SIPRES), to enable information exchange and improve efficacy, for which the changes to the Law on Misdemeanors will be needed.

Activities to ensure an adequate number of new inspectors and necessary equipment, as well as to improve the performance appraisal system in order to increase efficiency and earnings of inspectors, should remain among top pri-

orities. As a result of the natural outflow due to retirements, an additional reduction in the capacity of inspections is expected, therefore it is necessary to continue actively working on this issue to provide unhindered continuation of all inspections activities. The Action plan for employment of new inspectors at the state level 2019-2021 has been 50% achieved as of August 2021. Reasons for delay in implementation lies in complex and long-lasting employment procedures, as well as insufficient attractiveness of inspection jobs (i.e. inadequate salary levels).

A public electronic register and portal with valid fees and charges, as one of the important elements of predictability of the business environment and the disincentive of illegal trade activities, have not been implemented either.

A reporting system for the results of the implementation of adopted flowcharts for controls of illicit trade in certain sectors/goods has not been finalized yet, and no data on the outcome of such controls is available to stakeholders.

One of the most important preventive measures is setting up an adequate system of penalties for illicit trade so further improvements are needed regarding the efficiency of communication between control bodies and courts, as well as further specialization of commercial courts.

Having in mind the estimated scope of activities and the goal of simplifying the import and export procedures, it is recommended that the state authorities should keep this topic among the priorities.

FIC RECOMMENDATIONS

- Adopting the Program for the Suppression of the Grey Economy for the period 2022-2025 and the accompanying Action Plan for the implementation of this program for the period 2022-2023.
- Continuing with capacity building of republic inspections by employing new inspectors, and by improving working conditions, including material status for inspectors.
- With the aim of increasing the efficiency of the illicit trade penal system, introducing specialization of judges for misdemeanor offences in the field of suppression of the grey economy.
- Improving the system of fiscal burden for companies operating in the Republic of Serbia by creating a register of applicable fees, in order to further control parafiscal levies.
- Establishing a system of reporting on the measures and effects of Action Plans (flowcharts), while communicating the results of controls to stakeholders from the economy.
- Establishing and implementing a fast and efficient procedure for regulating the storage of seized goods between the public and private sectors.
- Developing a system of advanced analytical methods for the use of data obtained from e-Fiscalization, and regularly publishing the results of the processed data.
- Supporting the full implementation of the Law on Electronic Invoicing and related by-laws in accordance with the planned dynamics
- Maintaining the continuity of the process of improving import and export procedures.