

ILLICIT TRADE AND INSPECTION CONTROL

1.29

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
Consistently implement the Programme for Suppressing Grey Economy in 2023-2025, with the accompanying Action Plan for the Implementation of the Programme for Suppressing Grey Economy in 2023-2024.	2023		√	
Continue to build the capacity of the Republic inspections by employing new inspectors, as well as by improving both the working conditions and the material compensation of inspectors.	2021			√
In order to increase the efficiency of the penal system towards illegal trade, in accordance with the Action Plan for the Implementation of the Programme for Suppressing Grey Economy in 2023-2024, introduce the specialization of judges for misdemeanor offences in the field of suppressing grey economy and monitoring the work of misdemeanor courts in this process.	2019			√
Improve the system of the fiscal burden for companies operating in the Republic of Serbia by creating a public, electronic register of applicable fees and charges, in order to control parafiscal levies and increase business transparency.	2018			√
Establish a system of reporting on the measures and effects of the Activity Plans (hodograms), and communicate 142 the control results with the stakeholders engaged in economy, in accordance with the Action Plan for the Implementation of the Programme for Suppressing Grey Economy in 2023-2024.	2021			√
Prescribe and implement the fast and efficient procedure for regulating the storage of the confiscated goods between the public and private sectors.	2021			√
Maintain the continuity of the process of improving import and export procedures.	2021		√	

CURRENT SITUATION

The systemic approach to the fight against the grey economy, which began in 2015, was continued by the adoption of the new Programme for Suppressing the Grey Economy for the period 2023-2025 in March and the Action Plan for the Implementation of the Programme for Suppressing the Grey Economy 2023-2024 in June 2023. The fact that the fight against the grey economy and illicit trade is yielding results is confirmed by the continuous growth of the tax revenues collection in 2023, by 16.3% compared to 2022. The total tax revenues of the state in 2023 amounted to RSD 2,593 billion and compared to 2014, before the reform of the Tax Administration started, increased by 124.2%. The total amount of calculated newly discovered revenues in 2023 is almost RSD 35 billion, which is about a quarter more than in 2022.

According to the results of the assessment based on macroeconomic data ("Estimation of the Size and Dynamics of

the Shadow Economy in Serbia, S. Randelović, M. Arsić, S. Tanasković, FREN, 2024), the grey economy in Serbia in 2023 amounted to 21,1% of GDP, which is approximately 14.7 billion euros, out of which two-thirds was in the domain of consumption, and one-third in the domain of income. The grey economy in the domain of consumption in 2023 was estimated at 14.4% of GDP, and the total value of unregistered taxable consumption was around 10 billion euros. Estimated using the modified monetary method, the grey economy in 2023 was 23.6% of GDP.

POSITIVE DEVELOPMENTS

The Government of the Republic of Serbia adopted the Programme for Suppressing Grey Economy for the period 2023-2025 in March 2023, setting out 23 measures to achieve three priority goals – (1) strengthening the capacity of inspections and misdemeanour courts, (2) improving the tax supervision and tax return process and (3) fiscal and

administrative relief of legal operations. After the adoption of the new Programme, in June 2023, the Action Plan for the Implementation of the Programme for Suppressing the Grey Economy in 2023-2024 was adopted, with the precisely defined measures that will be implemented by the end of 2024 in order to meet the set goals. The idea is that by applying all the measures from the Programme for Suppressing Grey Economy and the accompanying Action Plan, the share of grey economy in economic activity in Serbia, reduces to 10% of GDP by 2025, measured by survey method of formally registered business entities, relative to 18% of GDP measured by monetary method.

The Coordination Commission for Inspection Supervision of the Ministry of Public Administration and Local Self-Government has continued with regular activities in order to improve inspection controls. At regular meetings during 2023, annual plans for the next year, as well as progress reports on the work of the republic inspections for the previous year were adopted, confirming the intention to continuously work on the capacity building and the inspections status improvement. In June 2023, the Working Group for Monitoring and Harmonizing the Performance of Inspection Supervision in the Field of Trade was formed, with the aim to contribute to the integral supervision improvements on the market in order to suppress the grey economy in accordance with the Programme for Suppressing the Grey Economy 2023-2025.

The work of most republic inspections is carried out through the information system e-Inspector. In 2023, e-Inspector was actually used by 29 inspections (out of a total 46), and during that period 42.615 supervisions were carried out. By the number of performed inspections through the e-Inspector in 2023, the Market Inspection once again took the lead, with as much as 44% of the total number of the performed supervisions - 18.912 supervisions. Updated checklists and forms in accordance with which inspection supervision is performed are regularly published on the website www.inspektor.gov.rs, which provides the opportunity for businesses to easily familiarize themselves with the conditions for doing business in accordance with the regulations.

Since March 2020, the Contact Centre of Republic Inspections is functioning as a focal point where businesses and citizens can report irregularities in the operations of entities and unfair competition, and file complaints about the work of inspectors. From the beginning of its operation until the end of 2023, the single Contact Centre has received more

than 50.000 submissions. In comparison to 2022, during 2023 number of submissions have risen by 20%, to 14.055, out of which 36% were addressed to Tax inspection, and 9% to the Market inspection. The Contact Centre is connected with the local self-government inspections and the information system e-Inspector, which significantly simplifies the procedure for reporting irregularities. During 2023, the Coordination Commission concluded the Agreement on Cooperation in the Field of Inspection Supervision with the Network of Inspectors of Serbia, as a representative professional association of inspectors, in order to better coordinate and improve the efficiency and effectiveness of work, as well as to implement the activities that will improve the status of inspectors in the Republic of Serbia.

The system for electronic exchange of invoices (e-invoices), fully implemented since 1 January 2023, as well as previous introduction of the e-fiscalization, contributed vastly to the fight against grey economy, enabling the use of modern technologies for the purpose of digitization of the trade recording, electronic exchange of invoices and simpler and more efficient control of the state authorities.

Through the implementation of the World Bank project "Western Balkans Trade and Transport Facilitation Project Using the Multiphase Programmatic Approach", with the sub-component "National Single Electronic Window System Development and Implementation" (National Single Electronic Window), it is envisaged for businesses to be able to electronically submit and receive all the documents required by the state authorities to perform foreign trade activities through a single portal, which will enable faster and more efficient foreign trade operations. In March 2024, the Ministry of Construction, Transport and Infrastructure has published the tender for the design and implementation of the National Single Electronic Window, which foresees a deadline of two years for the completion of all works.

REMAINING PROBLEMS

After 5 years since the launch of e-Inspector, only republican inspections are connected with this software solution, while provincial and local self-government aren't. As part of the further functionality improvement of the information system e-Inspector, it is necessary to adjust the software to the specifics of certain inspections and include provincial, city and municipal inspections in the e-Inspector, in order to complete the picture of the actual situation in the area of supervision and inspection services performance at all lev-

els. Additionally, it is necessary to establish the functionality for the exchange of information between the system of the Tax Administration and the Customs Administration with the system e-Inspector. During December 2023, a smaller number of supervisions through e-Inspector were noticed, as a consequence of establishing connection with a system e-Pisarnica. It is necessary to amend the Law on Misdemeanours in order to create a legal basis for the exchange of cases in electronic form between the system e-Inspector and the misdemeanour court system (SIPRES), which would significantly increase the efficiency of work on the proceedings.

The situation in the inspection services of Serbia is still alarming, which is why it must be a priority to agree with the Government of the Republic of Serbia to amend the provisions of the Law on Inspection Supervision in the next term, which would solve a large part of the existing problems. The biggest problem in the inspection services is still unfavourable age structure, since the average age of inspectors in Serbia is 59. Another big problem is the insufficient number of inspectors, taking into account the fact that the occupancy of the state inspection jobs ranges between 30% and 70%, and that year after year there is a large outflow due to retirement. It is especially alarming situation in the Tax Administration, where the number of tax inspectors decreased by more than a quarter in 2023, decreasing the capacity occupancy from 60.4% to only 47.7%. The International Monetary Fund also indicated the need for an urgent response to fill the shortage of staff in the Tax Administration, in order to ensure the efficiency of tax revenue collection. The problem is also an extremely unfavourable material position of inspectors, taking into account that inspectors, depending on their experience, earn between 65.000 and 84.000 RSD, which is below the average salary in Serbia. Having in mind all of the above, activities that ensure an adequate number of the new inspectors and the necessary equipment, as well as the improvement of the performance evaluation system in order to increase the efficiency and hiring of inspectors should be at the top of the priorities.

Illicit trade, in accordance with the actual changes of the business model, has largely moved online from the traditional markets, without clear inspection jurisdictions or competencies to control these channels. Cooperation and greater capacities of the Ministry of Interior and the Prosecutor's Office for high-tech crime will be also necessary in order to properly treat this new area.

Even after the decade since the initiative has been launched, the comprehensive public electronic register and portal with the applicable fees and charges has not been established. Mandatory electronic calculation and collection of all non-tax levies of republican, local and provincial authorities, public companies, local public companies, public agencies would be necessary as it would contribute to transparency, one of the significant elements of predictability of business conditions and would disincentivize the activities of illegal trade.

The system of reporting on the results of the implementation of adopted hodograms for the control of illicit trade in certain sectors/ has not been finalized, and the stakeholders do not have data on the achieved control results.

One of the most significant preventive measures is an adequate system of penalties for illegal trade, and it is still necessary to improve the efficiency of the mutual communication between the control authorities and courts, as well as to specialize judges for misdemeanor offences in the field of suppressing grey economy and to monitor the work of misdemeanour courts in these processes.

An efficient system for storing the confiscated goods was not prescribed in the previous period. Due to insufficient storage capacities in state ownership and the lack of procedures for the use of privately-owned capacities for the storage of the confiscated goods, the activities of inspection authorities are limited.

FIC RECOMMENDATIONS

- Consistently implement the Programme for Suppressing the Grey Economy in 2023-2025, with the accompanying Action Plan for the Implementation of the Programme for Suppressing the Grey Economy in 2023-2024, focusing on introducing the specialization of judges for misdemeanour offences in the field of suppressing grey economy and monitoring the work of misdemeanour courts in this process

- Continue to build the capacity of the Republic inspections by employing new inspectors, as well as by improving significantly the working conditions and the material compensation of inspectors. In accordance with the International Monetary Fund recommendations, work swiftly on the employment of new inspectors in the Tax Administrations, with the aim of strengthening capacities.
- Improve eInspektor functionality, connecting all inspection services and establishing timely information exchange with Tax Administration and Custom Administration.
- Prescribe inspection competences and control measures of illegal trade on the Internet.
- Improve the system of the fiscal burden for companies operating in the Republic of Serbia by creating a public, electronic register of applicable fees and charges, in order to control parafiscal levies and increase business transparency.
- Establish a system of reporting on the measures and effects of the Activity Plans (hodograms), and communicate the control results with the stakeholders engaged in economy, in accordance with the Action Plan for the Implementation of the Programme for Suppressing Grey Economy in 2023-2024.
- Prescribe and implement the fast and efficient procedure for regulating the storage of the confiscated goods between the public and private sectors.
- Maintain the continuity of the process of improving import and export procedures.