



GOVERNMENT OF THE REPUBLIC OF SERBIA

**Negotiating position of the Republic of Serbia for the Intergovernmental
Conference on the Accession of Serbia to the European Union
Chapter 20 - Enterprise and Industrial Policy**

Belgrade, January 2017

I. Abstract of the negotiating position

The Republic of Serbia accepts the EU *acquis* foreseen under Chapter 20 - Enterprise and Industrial Policy and by the time of the accession it will be able to fully implement the *acquis* in its form of 1 July 2016. The Republic of Serbia will implement the rest of the *acquis*, i.e. the *acquis* produced after the submission of this negotiating position, by the time of the accession to the EU, in accordance with the results of the negotiations in this Chapter.

The Republic of Serbia does not request specific adaptations under this Chapter.

Regarding certain fields that are the subject matter of the other chapters closely related to Chapter 20 - Enterprise and Industrial Policy, but not formally the subject matter of the *acquis* under this Chapter (state aid), the Republic of Serbia will provide its negotiating position under the respective chapters.

II. Overview of the status of harmonisation

II. 1. Principles of enterprise and industrial policy

The Republic of Serbia is determined to improve the competitiveness of the national economy and its integration into the international economy, to achieve investment growth and improve the business environment for the development of private entrepreneurship. This is noted in Point 31 of the Opening Statement of the Republic of Serbia provided under document AD 2/14 CONF – RS 2/14 and presented at the first Intergovernmental Conference on 21 January 2014.

To achieve these goals, appropriate strategies and policies are being adopted as basis for future measures to be taken. In policy making process, Republic of Serbia is relying on policy cycle model and evidence based policy making. Policy formulation process is grounded on statistical and analytical data, including results of evaluation of past public policies and measures. Public private consultations are embedded at all stages of policy cycle and special attention is given to consultations with the private business sector through relevant business associations such as the Chamber of Commerce and Industry of Serbia (hereinafter CCIS), the Serbian Association of Employers, the Association of Small and Medium Enterprises, the Foreign Investors Council, bilateral chambers of commerce, NALED - National Alliance for Local Economic Development. Implementation is usually based on annual or multi-annual action plans, consisting of measures with designated responsible institutions, deadlines, indicators with sources of verification and sources of funding, if feasible. Growing attention is put not only on monitoring of implementation, but also on evaluation.

Structural reforms relate primarily to a change in the legislative and administrative business framework to improve the business environment, and to actions directly targeting the promotion of new investments and private entrepreneurship development.

In drafting and preparing policies and instruments relating to the improvement of industrial competitiveness, Serbia is greatly guided by the provisions of Article 173 of the Treaty on the Functioning of the European Union. Serbia strives to step up the required structural adaptations of its industry, to create an environment favourable for the development of private entrepreneurial initiatives and small businesses, to promote cooperation between enterprises and to base the improvement of competitiveness as much as possible on a better use of its research potentials and innovation. In addition, Serbia is trying to coordinate its activities with the European Commission and Member States and whenever possible participate in initiatives for the exchange of best practice and periodic monitoring and evaluation. Republic of Serbia already participates in reporting on the implementation of the Small Business Act in the group for policy-relevant Research on Entrepreneurship and SMEs, submits data for preparing the Innovation Scoreboard report, and national experts are involved upon request in the work of the European Commission Expert Groups such as the expert group on the transfer of business, the expert group on Social Entrepreneurship, the EPG working group on innovation.

In this way, national policies, measures and instruments correspond to a great degree to the development objectives laid down in Europe 2020 striving to meet the goals of smart, sustainable and inclusive growth.

II.1.1. Institutional arrangements

Policy formulation and coordination of implementation of industrial policy and SME development policy are the responsibility of the Ministry of Economy.

In order to improve efficiency of public institutions involved in enterprise and industrial policy implementation, analysis of the strategic relevance of institutions under the competence of the Ministry of Economy was conducted in 2015. Based on this document Ministry of Economy has started with the overall reform of the agencies in its jurisdiction and development of a monitoring and evaluation system for their operations.

Since 2016, key executive agency in the field has been the Development Agency of Serbia (hereinafter DAS) established by the Investment Law adopted on 27 October 2015 proposed by the Ministry of Economy and accepted by the Government (Official Gazette of the Republic of Serbia, No 89/15). DAS has retained the capacities and taken over the duties of the National Agency for Regional Development (hereinafter NARD) and the Serbian Investment and Export Promotion Agency (hereinafter SIEPA).

Key institutions for providing financial support to economic entities in various stages of development are the Development Fund of the Republic of Serbia (hereinafter DFRS) and the Serbian Export Credit and Insurance Agency (hereinafter SECIA). In cooperation with the World Bank, Ministry of Economy and Ministry of Finance are preparing diagnostic study of DFRS and SECIA in order to enhance mechanisms for increasing access to finance.

Other important institutions in the support system for economic entities are the Innovation Fund in the field of support to innovative enterprises, and the National Employment Service (hereinafter NES), in the field of support for self-employment and new employment. Non-financial support for improving competitiveness of SMEs at regional level is provided through network of Accredited Regional Development Agencies (hereinafter ARDA). The authorities of the Autonomous Province of Vojvodina and local governments are also active in supporting economic development on their territory in line with their competences and development documents.

In addition to support provided by public institutions that rely on national sources of funding, there are other institutions and organizations which are also active in providing business services, financed with their own sources of funding independently from the state budget (projects funding, membership, public calls, etc.). Some of these latter organisations are Chamber of Commerce and Industry (CCIS), other business associations, network of business incubators and clusters.

II.1.2. Industrial policy

The key policy document in this area is the Strategy and Policy for Industrial Development of the Republic of Serbia for 2011-2020 (hereinafter the Industrial Strategy) adopted on 30 June 2011 proposed by the Ministry of Economy (Official Gazette of the Republic of Serbia, No 55/11).

The strategic concept of industrial development policy is horizontal and cross-sectorial and it is based on creating a competitive and export-oriented economy, primarily in the SME sector, continuing implementation of the country's structural reforms and establishing the most favourable environment for attracting direct investments.

The Industrial Strategy strives to connect and synchronise 13 policies (education, technological development, research and development, restructuring and privatization, investment, ICT, entrepreneurship, employment, energy efficiency, environmental protection, protection of market competitiveness, regional development, and improving corporate governance). Some of these policies have been further elaborated and defined in specific strategic documents such as enterprise development policy, innovation policy etc.

The EU policies in this field have served as a foundation in elaborating the Industrial Strategy and it is therefore harmonized to a large extent with the objectives of Europe 2020 and other operational documents.

The Industrial Strategy was adopted (2011) when real sector reforms were still focused on the privatization of state-owned enterprises. Particular attention was therefore given to support to privatization i.e. to enterprises that were being prepared for privatization in a few strategic sectors (metal complex, auto industry etc.). Therefore, the Industrial Strategy lacks the measures focused on key comparative advantages of Serbia, in particular with regard to sector approach.

During the 2015, the focus of reform moved towards creating an environment of incentives for investments and private sector development, public sector reform, fighting the grey economy and corruption, labour market regulation, modernising the tax system etc. These trends led to changes in the incentives package that has been directed more towards development projects of foreign and domestic private enterprises, areas in which direct investments hold an important role.

A new framework of measures to attract direct investments, and incentives for investments is regulated by the Investment Law from 2015. The incentive measures envisaged in this Law are in line with the rules on state-aid. Investors may have the right to investment incentives in accordance with regulations governing state-aid (regional state aid), tax incentives and fee exemptions, customs concessions, relief from mandatory social insurance. Regarding funds for the incentives, the procedures and criteria for their award are laid down in the Decree on Conditions and Manner of Attracting Investments proposed by the Ministry of Economy and accepted by the Government (Official Gazette of the Republic of Serbia, No 27/16) adopted by the Government, which defined how to determine the maximum level of incentives in relation to permitted expenses and the allocation of funds. The funds are awarded as an incentives for investment projects in the production and service sectors subject to international trade, and basic parameters for determining the maximum incentives in relation to reasonable expenses are the size of an investment, the number of new jobs created, the level of local development of municipality where the investment is made and the company size.

II.1.3. Business environment

Reforms in the field of improving the business environment aim at amending regulations and administrative procedures to remove unnecessary regulatory obstacles to business operations, reduce their costs and save time, i.e. to create a favourable environment for doing business. In reforming the business environment, special emphasis is placed on improving procedures of adopting regulations, monitoring their implementation in practice and including consultations with private sector in all stages of the process.

Concerning market entry, the company registration process was successfully reformed by the introduction of a „one-stop-shop” which started operating in May 2009. In this way, by submitting a single application at the Serbian Business Registers Agency, a company receives a unique tax identification number (TIN) and at the same time is registered at the social and health insurance funds for flat tax or value added tax. Since April 2016, registering a new company is executed on the same day the application is submitted.

Concerning market exit, an important reform of bankruptcy legislation in Serbia started in 2001. Significant improvements in the length of the bankruptcy procedure, the level of creditor settlement and the cost of the bankruptcy procedure were introduced in 2009 with the Law on Bankruptcy proposed by the ministry in charge of economic affairs (Official Gazette of the

Republic of Serbia, No 104/09). Amendments to the Law followed in 2014, and new amendments are being prepared for further optimization of the bankruptcy procedure in the Republic of Serbia.

Significant improvements in reducing parafiscal charges were achieved during 2011 when most of the recommendations of the Comprehensive Regulatory Reform Implementation Unit¹ were implemented, and later, at the end of 2012, when some 130 parafiscal charges burdening the economy were nullified.

A breakthrough in improving the business environment was achieved during 2014 and 2015 by adoption and enforcement of new regulations in labour legislation, building permits and inspection. Problems in these fields had been cited before in various international reports as major obstacles in the business environment in the Republic of Serbia.

The Law on Amendments to the Law on Planning and Construction proposed by the Ministry of Construction, Transport and Infrastructure and accepted by the Government (Official Gazette of the Republic of Serbia, No 132/14 and 145/14) led to a shorter time required for issuing building and use permits. A key novelty is the integrated procedure for issuing a building permit - a „one-stop-shop” - which was further improved from 1 January 2016 by the establishment of an electronic procedure for submitting an application and issuing a building permit.

The Law on Inspection Oversight adopted on 15th April 2015 proposed by the Ministry of Public Administration and Local Government (Official Gazette of the Republic of Serbia, No 36/15,) laid down a single legal framework for the work of all inspection services, strengthening the preventive function of inspection and establishing a cooperation mechanism. In this way, conditions were created for a more efficient fight against the grey economy and unfair competition, and companies were allowed to better know their rights and duties during an inspection and to reduce their losses in time and expenses due to often unnecessary and unsynchronised inspection visits. This Law established the missing legal framework for inspection over unregistered entities representing unfair competition to companies operating legally.

To enable easier and faster performance of administrative procedures, electronic government services are increasingly being developed. In addition to introducing electronic registration and deregistration of an employee, good progress was made in electronic services for taxpayers (submission of application for withholding tax, value added tax, corporate tax and annual citizen income tax). Also, an important novelty in the field was introduced in the Financial Report Registry at the Business Registers Agency, where the electronic submission of annual financial reports was introduced in 2015.

¹ In 2008, the Government formed the Comprehensive Regulatory Reform Implementation Unit whose task was to carry out a regulatory guillotine in cooperation with the World Bank. The basic objective of the regulatory guillotine was to identify and repeal and/or amend national regulations that created unnecessary administrative procedures and costs for citizens and industry. This process lasted from 2009 to 2011. Starting points were inputs from the industry and citizens on how regulations create the greatest unnecessary obstacles.

For an organised and comprehensive fight against the grey economy, the Government established in December 2014 the Coordination Body for Countering the Shadow Economy and on 17 December 2015 adopted the National Programme for Countering the Shadow Economy with an Action Plan for its implementation for 2016 with activities projected for 2017. The main objective is to reduce the shadow economy's stake in the country's GDP from 30.1% to 26.7%. This objective will be achieved through measures for improving coordination and transparency of operation in all bodies involved in overseeing, processing and punishing misdemeanours and criminal offences in business, improving the functioning of the fiscal system, reducing administrative and parafiscal charges and raising citizens' and companies' awareness of the importance of combating the grey economy.

The provisions of new Law on General Administrative Procedure proposed by the Ministry of Public Administration and Local Self-Government (Official Gazette of the Republic of Serbia, No 18/2016,) came into force in 2016 and laid down that the Administration should not ask citizens and companies to provide data which are part of official records, but that this should be obtained through data exchange between authorities. By full enforcement of these provisions, administrative procedures should be simplified, saving time to citizens and businesses.

In addition to improving the business environment through amended regulations, great attention was paid to improving the process of adopting regulations itself. The obligation of performing a Regulatory Impact Assessment (hereinafter RIA) when proposing a new regulation was introduced in November 2004. The Law on Public Administration (Official Gazette of the Republic of Serbia, No 79/05, 101/07, 95/10 and 99/14) and the Government Rules of Procedure prescribe an obligation for ministries and special organizations to conduct a public consultation with industry representatives and the public when preparing of a law significantly amending or regulating a matter of special importance for the public. In 2014, the Government adopted the Guidelines for the Inclusion of Civil Society Organizations in the Regulation Adoption Process, which recommend publishing a list of regulations whose adoption is proposed in that calendar year on the web site of a responsible public administration authority and e-Government portal, and define the minimum feedback on results of the public consultations conducted.

As result of implemented reforms in the area of business environment, in 2016 Serbia has found itself in 47th place, according to business conditions, the World Bank - World Bank Doing Business Report 2016. Country also ranked among 10 most-improved of the total 189 countries in 2016. Serbia's progress in this business achieved the best position in the last nine years. Country has achieved the most advanced ranking in a 2-year period by improving its position from 91st up to the 47th place (jump by 44 places).

II.1.4. Small and medium enterprises and entrepreneurship

At the beginning of 2015, proposed by the Ministry of Economy the Government of the Republic of Serbia adopted the Development Strategy for Small and Medium Enterprises, Entrepreneurship and Competitiveness for 2015-2020 (Official Gazette of the Republic of Serbia, No 35/15, Ministry of Economy) (hereinafter the SME Strategy), a medium-term framework for SME and enterprise development policy for the coming period.

The strategic vision of the document is based on developing entrepreneurship and competitiveness from private entrepreneurial initiatives, knowledge and innovation with the aim of strengthening domestic micro, small and medium companies and entrepreneurs enough to be ready to respond to the pressure of competition in the common EU market and to contribute to a better standard of living in the Republic of Serbia. The main indicators to be used for evaluating fulfilment of the Strategy's objectives until 2020 are the number of SMEs and entrepreneurs increased up to 350,000, the number of employees in SMEs and entrepreneurship increased up to 950,000 and the achievement of an average annual GVA growth rate of 3% in this sector.

The following priority fields of action in the following five-year period represent six basic pillars of the Strategy: improvement of the business environment, improvement of access to finance, continuous development of human resources, strengthening sustainability and competitiveness of SMEs and entrepreneurs, improvement of access to new markets and the development and promotion of entrepreneurial spirit and the promotion of entrepreneurship among women and young people and social entrepreneurship.

The Strategy's implementation is based on two-year action plans with elaborated priority measures in each of the Strategy's pillars. In addition, monitoring process of the Strategy runs annually and it's based on the reports on implementation of the action plan.

The SME Strategy continues with the policy of full alignment and enforcement of documents establishing European Union policy in the field of entrepreneurship and competitiveness, most of all the Europe 2020 strategy and the Small Business Act (hereinafter SBA).

Findings and recommendations from reports of domestic and international institutions (NALED, World Bank, Foreign Investors Council, OECD etc.) were used in preparing the Strategy, as was information collected through dialogue with the private sector. Continued dialogue between the public and the SME sector on matters significant to enterprise development in the Republic of Serbia is being held through cooperation with the CCIS in which the SME Forum operates, and through consultations with other business and entrepreneurs associations.

To achieve successful coordination of the Strategy's implementation and include industry representatives in the process, the Council for Small and Medium Enterprises, Entrepreneurship and Competitiveness was established (hereinafter the Council) immediately after the adoption of the Strategy, as an intermediate Government working body whose members are representatives of the relevant ministries, industry and professional public.

The recently published SME Policy Index 2016², Western Balkans and Turkey, positively assess recent progress in designing and implementing SME policies in Serbia and implementing the Small Business Act for Europe.

Serbia is also participating in the SME Performance Review, one of the main tools the European Commission uses to monitor and assess countries' progress in implementing the SBA on annual basis. According to the SME Performance Review - SBA fact sheet for 2015 for Serbia – the priorities of SME policy are to reduce and simplify administrative and regulatory requirements, further support to internationalisation of SMEs, develop alternative sources of financing and systematically apply the „SME test”.

II.1.5. SME definition

The SME definition in the Republic of Serbia for the purposes of granting state-aid is laid down in the Decree on Rules for Granting of State Aid and proposed by the Ministry of Finance (Official Gazette of the Republic of Serbia, No 13/10, 100/11, 91/12, 37/13, 97/13 and 119/14).

The SME definition in the Decree is harmonized with Commission Recommendation 2003/361/EC from 6 May 2003 on micro, small and medium enterprises, including provisions relating to linked and partnership enterprises. A small additional harmonization will be required to separate the category of micro enterprises that are currently not differentiated from small enterprises. However, this harmonisation is not important for the practical application of the SME definition for the purposes of granting state-aid.

In this way, predictability and legal security are ensured in Serbia, i.e. SMEs have equal treatment in terms of state-aid as SMEs in the EU. The SME definition from the EU Recommendation and the National Decree is also applied to funds from the EU programmes (COSME, HORIZON 2020).

For the purposes of financial reporting as practiced in the EU, a definition with different SME sorting thresholds from those in the Decree on Rules for Granting of State Aid is used, harmonised with relevant EU directives from the field of corporate accounting and legal auditing. This definition can be found in the Law on Accounting adopted on 16 July 2013 and proposed by the ministry in charge of financial affairs (Official Gazette of the Republic of Serbia, No 62/13).

II.1.6. Innovation policy

The National Strategy for Scientific and Technological Development of the Republic of Serbia for the period 2016-2020 “RESEARCH FOR INNOVATION” (Official Gazette of the Republic of Serbia, No 25/16) and The Law on Innovation Activity (Official Gazette RS, No 110/05, 18/10

² This report is prepared by OECD, the European Commission (DG Internal Market, Industry, Entrepreneurship and SMEs), the European Bank for Reconstruction and Development, the European Training Foundation and the South East European Centre for Entrepreneurial Learning.

and 55/13) regulates basic principles, goals and organization of the application of scientific and technological knowledge, inventiveness and inventions, for the purpose of creating new and improved products, processes and services and hence improving the competitiveness of the national economy.

Innovation is performed through the National Innovation System and consists of many different activities undertaken with the aim of creating new or significantly changed products, technologies, processes and services in accordance with market needs. The National Innovation System consists of a group of organisations, institutions and their mutual connections in the service of generating, diffusing and applying scientific and technological knowledge in the Serbian industry.

Besides the Ministry of Education, Science and Technological Development (hereinafter referred to as MESTD), the Innovation Fund and Intellectual Property Office of the Republic of Serbia are most directly included in implementing Innovation Policy.

In the MESTD Register of Innovation Organizations, which is a part of the public electronic data base, as of June 2016 there are 83 specific organizations registered for the performance of innovation, 11 organizations which provide infrastructural support to innovation and 94 individual innovators.

The most important measures which MESTD implements with the aim of fostering and strengthening innovation are as follows:

1. “Support Programme for Innovation Activities”, which has been implemented since 2007 and financed from the national budget. The main objective of the programme is to support commercially verified results of research and development that derived from cooperation between innovative companies and scientific and research institutions or those of individual innovators. In all five calls of the Programme for Innovation Activities, MESTD supported 391 innovation projects of a total value of EUR10.6m and 124 projects of individual innovators of a total value of EURO.8m. Each project was co-financed by the beneficiaries.

2. „The Best Technology Innovation Competition” aims to promote entrepreneurship and provide technical assistance to potential and existing high-tech entrepreneurs who are willing and able to transform their own ideas and inventions into marketable innovation. This competition has been organised each year from 2005 by the MESTD in cooperation with the Faculty of Technical Sciences University of Novi Sad, the Serbian Chamber of Commerce and Industry and Intellectual Property Office of the Republic of Serbia.

The Innovation Fund started its operational activities in 2011 with the implementation of the „Innovation Serbia Project” which was financed from the EU IPA funds and administered by the World Bank. Under this project two direct co-financing support programmes for innovation in SMEs were implemented: the „Mini Grants Programme” and the „Matching Grants Programme”. These programmes supported early stage innovative companies and expanding collaboration opportunities for Serbian innovative companies with strategic partners. The total project value was

EUR8.4m, and 53 innovative projects were granted a total of EUR6m. This support programme will be continued.

To further improve cooperation between industry and the academic community and create the conditions and capacity building for technology transfer, the MESTD and Innovation Fund are implementing a new project „Support for Innovation and Technology Transfer in Serbia”, with a total value of EUR6.9m, funded from the EU IPA 2013. Under this project, a grant scheme is implemented to stimulate cooperation between scientific and development institutions and the private sector, and institutional capacity building provided for further technical support to the innovative and R&D sectors in the area of technology transfer.

Innovation policy of the Republic of Serbia in a great extent follows the trends and development aims of the EU member states innovation policy, while Serbia participate in various programmes and projects in this area, like Horizon 2020.

II.2. Enterprise and industrial policy instruments

In line with reform documents and the pace of their implementation, industrial policy instruments have also been changing. The principle of selective measures entailing arbitrary and ad hoc state intervention in resolving urgent issues of state-owned enterprises was abandoned, and the focus was moved to horizontal measures for improving the competitiveness of private companies.

Implementation instruments for the industrial policy cover: mix of legal and administrative measures and activities, financial support including state aid and activities improving access to finance, support the strengthening of competitiveness, support to innovation, introducing the information society, and special support to SMEs.

Still, the most important industrial policy instruments at this moment are incentives for direct investment. The Budget Law for 2016, Article 6 allocated the following amounts (shows allocated amounts for incentives – not including tax breaks):

- RSD 8,133,325,000 in 2016 (EUR 66038689,51³)
- RSD 6,629,660,000 in 2017 (EUR 53,037,280⁴)
- RSD 8,423,203,100 in 2018 (EUR 66,324,433⁵)

From 2014 to June 2016, the total number of supported companies was 33 with a tendency of further increase, in accordance with the remaining available funds.

During the economic crisis, subsidised interest rate programmes for liquidity loans and investments from commercial banks were implemented according to the special programme of the Serbian Government.

³ Average monthly exchange rate value in the period January-June 2016 (source: National Bank of Serbia)

⁴ Estimated exchange rate value 1EUR = 125, 0 RSD

⁵ Estimated exchange rate value 1EUR = 127, 0 RSD

In recent years, policy instruments targeting dominantly SMEs have been developed in line with the state-aid rules and annual allocations for their implementation is gradually increasing. These instruments can be divided into 3 types of direct support:

1. In-kind support to SMEs and entrepreneurs - continuous provision of free information, basic training, mentoring and basic advisory services for SMEs across the country, through a network of 15 development agencies. This has been financed from the national budget since 2012 with a standardized set of services for SMEs.
2. Financial instruments - in addition to favourable loans, guarantees, insurance and factoring enforced through the Development Fund and SECIA, joint programmes were developed with commercial banks (such as the Programme for Support to Small Enterprises for Purchase of Equipment, which blends commercial loans provided by banks with a state grant incentive of 25%).

In addition, credit lines from international financial institutions with state guaranties such as the APEX credit line from the European Investment Bank, together with credit lines initially funded by donors or bilateral co-operation programs (EAR Revolving Fund, Italian Credit Line for SMEs and the credit line from the Danish LEDIB programme) are still implemented through commercial banks and improve access to finance for SMEs.

As a participant in the regional project WB EDIF, the Western Balkans Enterprise Development and Innovation Facility, Serbia is making good use of three instruments for improving financing of innovative SMEs, i.e. the Western Balkans Enterprise Expansion Fund (ENEF) through which existing companies with growth potential can secure capital investments, the Enterprise Innovation Fund (ENIF) through which investment in enterprise capital for innovative start-up companies can be obtained, and a Guarantee Facility.

However, considering that poor access to financing has been recognized as one of the main problems for developing the SME sector in Serbia, and given that significantly higher amounts need to be secured for financial instruments, an initiative has been put forward to earmark a part of national IPA funds for this purpose and thus strengthen programmes financed from national sources. In order to prepare future interventions well in line with the recommendations that apply to the EU member states, the Republic of Serbia has requested that an SME *ex-ante* assessment study be conducted concerning the introduction of financial instruments, in order to analyse the real needs and gaps and receive a proposal for an investment strategy. The European Investment Bank has been engaged for this purpose with the financial support of the EU through IPA funds.

3. Grant schemes for co-financing of innovative projects, private business consultancy services, introduction of standards, trade fair participation, improvement of company information systems and joint clusters projects. Grant schemes have also supported self-employment and female entrepreneurship.

In order to demonstrate its commitment and boost entrepreneurship, in February 2016, the Government of the Republic of Serbia officially started the initiative „Year of Entrepreneurship 2016”. This initiative integrates efforts of responsible ministries and institutions at national level,

and all other partners ready to help develop entrepreneurship and promote entrepreneurial spirit. The activities implemented under the Year of Entrepreneurship are structured in three areas - improvement of the business environment, development and affirmation of entrepreneurial spirit and direct support to entrepreneurship development. A total of RSD 16 billion, which is substantially more than before, was allocated for direct support instruments. They are grouped into support for starting business and support for growth through investment, internationalisation and innovation.

II.2.1. Participation in the EU programmes

In 2008, Serbia signed a Memorandum of Understanding and joined the Entrepreneurship and Innovation Programme (EIP) which was one of the specific programmes under the Competitiveness and Innovation Framework Programme (CIP). Through participation in this Programme, Serbia joined the Enterprise Europe Network which enabled it to provide to Serbian small and medium-sized enterprises a whole new set of services, including better access to information about the single market, and networking with potential partners across Europe. Projects such as Female Entrepreneurship Ambassadors, Mentors for Women Entrepreneurs, South-East Europe Network of Excellence for Cluster (SEENECO), Satellite accounts of cooperatives etc. and several projects in tourism were financed under EIP. An important achievement was the signing of an agreement between former Čačanska banka and the European Investment Fund concerning the use of guarantee instruments for crediting SMEs. In addition, this programme enabled Serbia to take part in numerous European initiatives, including promotional activities (European SME Week and Entrepreneurship Promotion Project and Best Idea in the Field of Promoting Entrepreneurship), participation in EC working groups (social entrepreneurship, business transfer), and instruments for measuring the performance of SME support policies – *the SME Performance Review*.

In 2016, Serbia joined COSME programme, successor of the CIP programme. By joining the COSME, Serbia continues its previous activities in the Enterprise Europe Network, as an official member. Four Serbian commercial banks applied for the financial instruments under COSME, while three of them have already started negotiations with the European Investment Fund in July 2016. The Ministry of Economy runs COSME promotional campaign aiming to better promote and communicate the Program's opportunities for potential beneficiaries across the country.

II.2.2. Combating late payments in business transactions

One of the key measures taken to improve the economy's liquidity, which was seriously affected by the global financial crisis, was the adoption of the Law on Late Payments in Commercial Transactions on 15 December 2012. The basis for this Law was the Directive

2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payments in commercial transactions and its key provisions were transposed into this Law. The Law is harmonized with the above EU Directive to a large extent, and its full harmonisation will be completed by the end of 2018.

The Law aims at increasing the liquidity of the Serbian economy by introducing payment deadlines in commercial transactions between the public sector and business entities and between individual business entities, as well as between public sector entities, introducing interest rate for late payments and compensation for recovery costs. In order to fully align with the directive, it will be necessary namely to reduce maximum deadline of 45 days for settling public sector payments to 30 days and to reduce compensation for recovery costs from RSD 20.000 (roughly EUR 165) to EUR 40.

In order to monitor the implementation of this Law with respect to commercial transactions between the beneficiaries of the Republic of Serbia budget or the budgets of autonomous province and local government units and business entities, where the budget beneficiaries are debtors, or among public entities, an electronic application has been established – the Register of Settlement of Cash Liabilities (*Registar izmirenja novčanih obaveza – RINO*). Register is maintained by the Ministry of Finance, Department for Budget Inspection. In order to properly monitor liabilities that these beneficiaries take and their settlement, Department for Budget Inspection and Treasury Administration at the national, autonomous province and local level collect data submitted by public sector entities through the RINO and the Budget Information system of the treasury unit of the autonomous province.

In July 2015, this Law was amended so as to introduce deadlines for settling cash liabilities where both parties are public sector entities. This was done by providing that the contract between public sector entities may not set a deadline longer than 60 days.

II.3. Sector policies

Until now, the approach in policy-making and provision of support for development of the economy has not been sector-oriented, which resulted in the absence of specific sector policies and programmes, except for tourism as a specific area also covered in this Chapter.

During 2016 Ministry of Economy has started preparatory work in the field of sector strategies development. Methodology for prioritizing industries with highest growth and development potential has been established by using the composite Development Potential Index. Based on the defined methodology, analysis of industry sectors started in order to identify and pre-select priority sectors for which sector strategies will be developed in 2017. The process started with collection and analysis of existing statistics and other data about specific industry sectors and their potentials. Consultations with representatives of business community were held in order to take into consideration all relevant opinions during identification phase.

II.3.1. Tourism

Tourism is an important driver of national and regional economic development and plays a major role in spurring economic growth and creating new jobs in Serbia.

Policy-making in the area of tourism development is the responsibility of the Ministry of Trade, Tourism and Telecommunications. The National Tourist Organization of Serbia (NTO) is responsible for the promotion of Serbia's tourism in Serbia and abroad.

Regarding tourism policy principles, the Draft of the Strategy of the Tourism Development of the Republic of Serbia 2016-2025 is in the process of adoption. The mentioned new strategic framework will be adopted in the second half of 2016.

The legal framework for the development of tourism is provided by the Law on Tourism proposed by the Ministry of Trade, Tourism and Telecommunication (Official Gazette of the Republic of Serbia, No. 36/09, 88/10, 99/11 and various laws No 93/12 and 84/15). According to the new Law on Tourism, a Destination Management Organization can also be the manager of a tourist area. Special attention is given to attract foreign demand and to develop entrepreneurship in tourism sector.

With respect to financing instruments, there are a number incentive financial measures, including financing for investment in tourism infrastructure and superstructure and subsidies for projects aimed at improving and developing the tourism supply in Serbia. This financing is open to non-governmental organizations, local tourism organizations and small enterprises. Since 2015 two new policy instruments have been involved – vouchers for support domestic demand and subventions for tour operators (receptive agencies) in Serbia that organize visits of foreign tourists in Serbia.

III Plans for full harmonization of the legislative and institutional framework with the EU acquis and rationale for the negotiation requests

III. 1. Principles of industrial policy and enterprise development policy

The Republic of Serbia will continue to pursue policies directed towards the creation of conditions for economic growth and for a stronger competitiveness of the national economy, primarily by creating an attractive environment for new investments and the development of enterprises.

These policies and instruments for their implementation will be harmonised with the relevant EU policies in line with Article 173 of the Treaty on the Functioning of the European Union, and the Europe 2020 Strategy. In this regard, particular attention will be accorded to activities focused on increasing the competitiveness of the processing industry and the SME sector in line with the principles of smart growth, and on an increasing integration with international

value chains. Through its industrial and entrepreneurship development policies Serbia will strive to base its competitiveness less on its relatively cheap work force and more on investments in human resources through better education and training meeting the needs of the business sector, to encourage the creation of innovative products with higher added value, use of digital technologies in business operations, and business cooperation between Serbian companies and European and international partners, including clusters.

The Republic of Serbia will stay committed to principles of sound, transparent policy making process and consultations with businesses and other relevant stakeholders in all stages of policy cycle. Policy implementation will be fostered and monitoring and evaluation practices upgraded.

III. 1. 1. Industrial policy

The industry, primarily the manufacturing industry and reindustrialization process, have significant importance for economic development of Republic of Serbia. In the near future industrial policy will be thoroughly reviewed and updated. The Ministry of Economy will coordinate the process of industrial strategy revision and future implementation, and Inter-ministerial body will be formed with members coming from relevant ministries, industry and professional public. The Ministry of Economy will also be responsible for monitoring and evaluation of the Industrial Strategy implementation.

Review of the existing industrial strategy will be based on an objective analysis of the implementation gaps for the current policy document, and also on a better understanding of the needs of the economy. Quantitative and qualitative analyses will be performed by the World Bank Project „Competitiveness and Jobs” and recommendations for the new industrial strategy will be prepared.

In depth performance and value chain analysis of four pre-selected sectors and recommendations including recommendations for strengthening the value chains will be finished by February 2017. Also, an overview on performance, value chains and recommendations for the remaining manufacturing sectors will be finished by June 2017.

The new industrial strategy will not present new policy direction but it will be logical evolution of government economic policy, inspired by the general principles of EU industrial policy. In line and consistent with the previous policy document, the principle of industrial restructuring will be maintained, engaging more and more in technology-intensive industries and withdrawing from labour-intensive sectors, and focusing on the operationalization of the smart and inclusive growth approach.

The new industrial strategy will have matrix structure i.e. it will combine horizontal and vertical policy interventions. Horizontal policy interventions will be realized through the implementation of existing strategies like Strategy for Small and Medium Enterprises, Entrepreneurship and Competitiveness for 2015-2020, the National Strategy for Scientific and

Technological Development of the Republic of Serbia for the period 2016-2020, Strategy for the Development of Education in Republic of Serbia by 2020. as well as development of new horizontal measures if needed. On the other hand, vertical policy interventions will be developed through sector strategies.

During 2016 Ministry of Economy has started preparatory work in the field of sector strategies development. The process of sector strategies development will result in policy documents for selected sectors accompanied with relevant action plans embracing elaborated measures, defined responsible institutions, deadlines, indicators with sources of verification and sources of funding. Robust monitoring and evaluation mechanism will be designed. Strategies with Action Plans for four selected sectors will be finished by June 2017. All activities mentioned above related to development of sector strategies and action plans are supported through the World Bank Project „Competitiveness and Jobs”.

The development of sector strategies and action plans will be based on participatory approach, meaning direct involvement of all public and private stakeholders in both, the processes of elaboration and future implementation. The Ministry of Economy will be responsible for securing the participation of the business, academic and scientific sectors in the process of designing sector strategies and organization of workshops, public discussions and/or round tables (21 event is planned) in order to ensure participatory approach and stakeholders involvement in designing strategies and action plans. The participatory process for Strategy development aims not only to share and elaborate all initiatives, but, also, to identify, activate and coordinate partnerships for future implementation of single actions and projects.

The sector-oriented approach will ensure that the available resources/inputs (human, technology, natural and financial resources) are used for support measures more efficiently in sectors that have the best development chances to accelerate economic growth. After the policies and relevant action plans for defined sectors are adopted, budgetary financial resources will be planned in line with the available public resources.

III. 1. 2. Business environment

The priorities for further improvement of the business environment have been identified in a number of strategic documents, most important of which are the Strategy for Regulatory Reform and Improvement of the Public Policy Management System until 2020, the SME Strategy, the Programme for Improving Serbia’s *Ease of Doing Business* Ranking 2015-2017 and the National Programme for Suppression of the Shadow Economy.

The reforms conducted to date will be continued, especially with respect to operation of the inspection services, the tax administration, combating the shadow economy and efficient implementation of the recently introduced legal provisions in the field of construction, as well as general administrative procedure.

The most important new structural reform in this area, which is part of the 2016-2018 Economic Reform Programme, concerns the inception of a systematic engagement to improve the administrative framework for the operation of the business sector by the establishment of a unified public register of all administrative requirements and procedures. This will allow business entities and citizens to have a transparent overview of key elements of each administrative requirement or procedure they can face in interaction with the public administration or public enterprises, including all costs in the form of fees, taxes or parafiscal charges. The register will present a starting point for simplifying procedures and abolishing unnecessary burdens, superfluous costs or parafiscal charges. This will be implemented in parallel with the establishment of the Point of Single Electronic Contact (PSEC) portal containing information relevant for service providers compatible with the requirements of the Services Directive 2006/123/EC.

In the further course of reforms in other areas of the business environment, it will be particularly important to increase the number of e-Government services.

III. 1. 3. Policy for the development of small and medium enterprises and entrepreneurship

SMEE development policy as defined in the SME Strategy and its Action Plan is already aligned with the EU SME policy and principles. Serbia will therefore adjust and align its policies with any changes in the EU policies and guidelines taking into account developments in the EU itself by the time of Serbia's accession. An external evaluation of achievements in implementing this strategy will be conducted in 2018, and unimplemented recommendations from the SME Policy Index and SBA fact sheet for Serbia will be thoroughly analysed in order to take the required remedial action.

In the near future, priority action under six pillars of the SME Strategy will focus on:

1. Improvement of the business environment, in line with the *Think Small First* principle. In addition to the priorities already mentioned in the special section on the business environment, the plan is to introduce SME Test as a mandatory part of the regulatory impact assessment (RIA) for legislation identified as potentially having a significant effect on the operation of SMEs;
2. Enhancement of access to finance for SMEs through partnership with the banks based on risk-sharing instruments (guarantee schemes), development of new financial instruments (micro-finance and venture capital) and improvement of ability of the SMEs to access various sources of financing.
3. Continuous development of human resources. Particular attention will be given to the introduction of entrepreneurship in the system of education and introduction of elements of dual education;

4. Strengthening SMEE competitiveness and innovation with a focus on environmental aspects;
5. Improvement of access to new markets in order to increase the number of exporters, the volume of exports and the quality of SME export products and integration in international value chains;
6. Development and promotion of the entrepreneurial spirit and promotion of entrepreneurship among women and youth, and social entrepreneurship.

III. 2. Instruments to promote enterprise and industrial policy

New industrial policy and sector action plans will define industrial policy implementation instruments that will consist of mix of legal and administrative measures and activities, financial support including state aid and support for strengthening of competitiveness. Direct support for enterprises will have stronger focus on stimulating new investments or investments in technological renovation, research and development and innovation, environmental protection, etc. Individual incentives will be awarded for investment projects and for new jobs, in line with the rules governing regional state aid for large-scale investment projects. Budgetary resources will be planned and allocated according to the state aid rules and available funds in the budget.

The plan for the coming period is to continue implementing and further increasing of budget allocations for the instruments for promoting entrepreneurship, according to the budget potential and interests of the national economy. Further development of new instruments will be based on the evaluation of the performance of previous instruments and on the analysis of further needs of the economy. Particular attention will be given to areas that have not been adequately covered, such as support for the improvement of environmental aspects of business and support to hi-tech start-up companies according to their specific needs and in cooperation with the already developed start-up community. In this context, extension of the incubator and accelerator network will be considered, as well as various options for funding programmes.

Full harmonisation of national legislation with the EU Directive on combating late payment in commercial transactions will be completed by the end of 2018 at the latest.

III. 3. Sector policies

Part III. 1. of this Negotiating Position, which addresses plans for a review of existing Industrial Strategy, states that in the coming period industrial policy will have a much more prominent sector approach. Particular attention will be given to four sectors that will be identified through the World Bank Project on Competitiveness and Jobs as priority sectors for which detailed strategic policies will then be developed.

Based on detailed analysis that will be conducted while developing the development strategies of the four priority industrial sectors, future measures and instruments will be determined.

IV. Adoption of the *acquis* and negotiation requests

The Republic of Serbia accepts the EU *acquis* in Chapter 20 – Enterprise and industrial policy, and will be in position to fully implement the *acquis* as it stands on 1 July 2016, by the time of accession. The Republic of Serbia will have adopted the remaining *acquis*, i.e. the *acquis* created after the submission of this negotiating position, by the time the accession, in accordance with the outcome of negotiations in this Chapter.

The Republic of Serbia does not request any specific adjustments in this Chapter.