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Screening report

Serbia

Chapter 20 – Enterprise and industrial policy

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I. CHAPTER CONTENT

The *acquis* under the enterprise and industrial policy chapter consists of **policy principles and instruments** which are mainly reflected in communications, recommendations, and Council conclusions and are mostly implemented at national level. At EU level, these are implemented through EU programmes. In addition to horizontal principles and instruments, enterprise and industrial policy may also comprise **sectoral policies**. Overall, EU enterprise and industrial policy is strongly driven by the Europe 2020 strategy.

By establishing general **policy principles**, the EU seeks to promote the formulation of competitiveness enhancing enterprise policies and industrial strategies. These are geared, in line with Article 173 of the Treaty on the Functioning of the European Union (TFEU), towards speeding up structural adjustments, encouraging an environment favourable to business creation, domestic and inward foreign investments, promoting small and medium-sized enterprises (SME), and entrepreneurship and innovation. More specifically, EU SME policy is characterised by policy recommendations and joint policy review mechanisms comprised in the Small Business Act as well as a common SME definition.

Enterprise and industrial **policy instruments** are developed in the EU programme for Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME). The programme provides financial support to enterprises and policymakers and is focused on actions which promote access to finance, access to markets, entrepreneurship, business support services such as the Enterprise Europe Network, development of better policies in support of SMEs. An important policy instrument is Directive 2011/7/EU on combating late payments in commercial transactions. EU space policy programmes are also part of this chapter, as they contribute to improved EU competitiveness.

Through enterprise and industrial **sectoral policies**, the EU promotes a more targeted analysis of competitiveness of specific sectors and the launch of sector specific initiatives such as high-level groups, policy fora, studies and expert panels as well as networking initiatives.

The formulation and implementation of enterprise and industrial policy require adequate administrative capacity at national, regional and local level, including efficient consultation processes and cooperation mechanisms with main stakeholders such as industrial associations.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Serbia and the discussion at the bilateral screening meeting.

Serbia accepted the *acquis* regarding enterprise and industrial policy and indicated that it did not anticipate any difficulties in implementing the *acquis* by accession.

Serbia was significantly affected by the global financial crisis in 2009, which came at the end of a phase (2000 and 2008) of sustained economic expansion and growth of approximately 5.4% annually. Since the initial drop in gross domestic product (GDP) in 2009, the economy has been growing only slowly or even further contracting. No growth is forecast for 2014 in light of the spring floods of the same year that have negatively impacted the already weak domestic demand and diverted investment needs towards damage repairs.

According to the Serbian authorities, the sectoral composition in terms of GDP in Serbia is as follows: services (63%), industry including mining, manufacturing, and supply of electricity, gas, and steam (23%); agriculture, forestry and fisheries (10%); construction (4%).

Ever since 2007, there has been a steady decline in employment in all sectors but the service sector. However, in terms of output, Serbia has seen a change in its industrial structure between 2001-2012 with the manufacturing industry growing in particular in industrial subsectors such as food products, beverages and tobacco, chemicals, automotive and metals. This is also reflected in the increasing importance of industrial exports for the growth of the country. Traditional industrial sectors like the textile industry and mining have lowered their share in the industrial structure.

According to the Statistical Office of Serbia, SMEs contributed 56% of national gross value added (GVA) and 65% of employment in 2011, the latest available data. Most SMEs, over 30% of them, are active in retail trade followed by 16% of SMEs in manufacturing. SMEs active in manufacturing contribute 25% of the GVA, excluding the financial sector.

II.a. Enterprise and industrial policy principles

Serbia outlined efforts to improve the business environment, although pointing that significant problems remain. Serbia ranks 93rd in the World Bank Doing Business Report 2014. The report ranks Serbia most positively when it comes to protecting investors, getting credits, and starting a business. Serbia faces the biggest challenges when it comes to dealing with construction permits and resolving insolvency.

Serbia has adopted a horizontal and cross-sectoral industrial strategy, 'Strategy and policy of industrial development of the Republic of Serbia from 2011 to 2020'. The institution in charge of monitoring this strategy is the inter-ministerial working group, which consists of representatives from the Ministry of Economy and Regional Development, the Ministry of Finance, the Ministry of Energy and Mining, the Ministry of Environmental Protection and Space Planning, the Ministry of Science and Technological Development and the Republic Development Bureau – the latter of which was in charge of the drafting of the strategy. Serbia indicated that there was no systematic consultation of non-governmental stakeholders in relation to this strategy. The strategy was also not supported by the EU or another international institution or programme.

The main focus of the strategy is to ensure dynamic growth of investments, a high rate of export of goods, and growth of industrial employment. An action plan has been adopted for the implementation of the strategy, dividing activities into thirteen categories to be implemented by ministries and institutions responsible. These are: encouraging investments; improvement of business environment; reform of the education system; technological development; innovations; development of SMEs; employment; privatisation and restructuring; information and communication technologies (ICT); regional development; energy efficiency; environmental protection.

The SME sector has benefited so far from an SME Strategy 2008-2013. A new draft SME Strategy is in the process of being drafted by the Department for SME Development in the Ministry of Economy.

The strategy will reflect business sector recommendations and suggestions compiled by non-governmental organisations NGOs and business associations, most notably the National Alliance for Local Economic Development (NALED) and the Foreign Investors Council. The first draft of the strategy was published on the Ministry's web site for public consultations. Representative associations were invited to comment. Furthermore, the European Commission and the World Bank were consulted.

Around 30 institutions will be tasked with the implementation of the strategy, including the National Agency for Regional Development, the Serbian Investment and Export Promotion Agency, the Innovation Fund, the National Employment Service, the Development Fund, and the Serbian Export Credit and Insurance Agency. In addition to this, a new cross-ministerial council for coordination of policies in the area of SME development and competitiveness is planned to be established, as well as an SME forum within the Chamber of Commerce holding regular meetings with SME representatives.

The SMEs are defined in the Law on Accounting and in the Regulation on Rules for Granting State Aid. These define companies as SMEs depending on the number of employed personnel, company's turnover and company's asset value. The two definitions are not identical. The latter does not include micro enterprises as a special category. Moreover, the two definitions take into account different values as ceiling for company's turnover. Serbia announced that it would further change its definition of SMEs in line with the EU regulation.

In order to reduce the burden of regulation on business, Serbia has put in place a mandatory regulatory impact assessment which takes into account the impact of regulation on SMEs and the business environment. As of 2011, the Office for Regulatory Reform and Impact Assessment (ORRIA) performs coordination and quality control of the regulatory impact assessments prepared by the ministries responsible, providing detailed comments. In 2014, this office became a part of Secretariat for Public Policy.

II.b. Enterprise and industrial policy instruments

Serbia participated in the specific programme for Entrepreneurship and Innovation (EIP) of the EU Competitiveness and Innovation Programme since 2008. Since 2014, this programme is replaced by COSME. At the time of the Screening, Serbia announced that it would join COSME in 2015. However, by end 2014, after the Commission adopted the decision on the terms of Serbia's participation to COSME, Serbia delayed the signature of the agreement for participation due the lack of funds.

Under the EIP, Serbia established an Enterprise Europe Network (EEN) member, which provides local companies with information on doing business with EU partners. More than 2,500 SMEs are in the EEN clients database, 7,639 beneficiaries participated at the more than 130 business-to-business meetings, company missions, info days and other related events. More than 80 partnership agreements were signed among Serbian and foreign companies. The Ministry of Economy was the promotional observer of the EEN Serbia project. The leading implementing institution was the National Agency for Regional Development, the Ministry's implementing agency.

Under the part of the EIP dealing with financial instruments, a Serbian bank signed an agreement with the European Investment Fund. Serbia is also implementing EIP-financed

projects in the area of eco-innovation, women entrepreneurship, cluster support, and a number of tourism support measures.

Concerning space policy, Serbia stated that it had the capacity to get involved in the COPERNICUS programme. By end-2014, it has not yet signed an agreement which would formalise its participation and financial contribution.

With regard to national support measures and instruments, Serbia used funds earmarked for the Strategy of Industrial Development to support operational activities in few selected sectors, with emphasis on motor vehicles. Approximately EUR 100 million were spent in 2012. Most of the funds went into financing operational cost of selected companies. The funds were delivered as "soft loans" via the National Development Fund.

Serbia provided an extensive overview of public funding for SMEs between 2008-2013, which was based on the Strategy for Competitive and Innovative Small and Medium-sized Enterprises 2008-2013. In partnership with National Agency for Regional Development (NARD), a key implementing institution, Ministry of Economy implemented the following measures: a programme for standardised set of services; a grant scheme for innovative high growth SMEs; a grant scheme for equipment purchasing (in cooperation with commercial banks); and a programme for NGO support (projects in the area of women, youth and social entrepreneurship respectively). NARD also implemented support measures for innovative clusters, grant scheme for enhancing SME competitiveness, mentoring for entrepreneurs, support for female entrepreneurship, and support for start-ups. The financial support has been in slight decline over the past years.

Other national actors to provide support measures are as follows: the Serbian Investment and Export Promotion Agency (SIEPA) (provides support for internationalisation of SMEs), the Development Fund (provides favourable credit lines for SME development, start-ups and female entrepreneurs), the Serbian Export Credit and Insurance Agency (AOFI) (provides short term loans to export companies, as well as guarantees for exporting businesses and investment abroad), and the Innovation Fund (provides funding for innovative SMEs through its Mini Grants Programme and Matching Grants Programme).

The National Employment Service provides support for entrepreneurship of both financial and non-financial nature. Provision of assistance for the purpose of the self-employment is realised through information and advisory services in Business Centres, instructive training in entrepreneurship, self-employment subsidies, mentoring programmes, and specialised training.

In order to reduce late payments, the Law on late payments in commercial transactions largely transposed Directive 2011/7/EU on late payments. The law applies to both private and public entities, but it is not applicable to bankrupt commercial entities. The payment deadline for commercial entities is up to 60 days (with some specific exceptions) and 45 days where the public sector is the debtor. A fine in the range of EUR 865- 17,240 can be imposed on the legal person or legal entity or a public sector entity. Lower fines can be imposed on entrepreneurs, and on persons possessing agricultural holdings. The interest rate for delayed payments is prescribed by a special law. The Ministry of Finance keeps a record of public sector obligations in a dedicated database which issues alerts when the 45-day deadline expires.

II.c. Sectoral policies

The industrial policy of Serbia 2011-2020 identifies the following sectors as priorities: food industry; automotive and other transport means; information & communications technologies; and metal industry.

Serbia identified these as key export sectors based on a study by the Republic Development Bureau which surveyed the competitiveness of a stratified sample of 1,000 enterprises.

In order to systematically support sector-based competitiveness, only the Clusters of automotive and the wood industry benefited from public funds.

Serbia has in place a comprehensive sectoral strategy on tourism for the period 2006-2015. The sector is further governed by the Law on Tourism. Serbia has put in place a programme for sustainable rural tourism development. The main priorities of the tourism strategy are as follows: improving the image of the country; increase turnover through support for urban, rural, cultural, mountain, river spa and health related activities; and increase support to SMEs operating in the tourism sector. The Ministry of Tourism has been supporting the development of the sector through various projects. Tourism represents 1.1% of GDP in 2012 and 2% of the total employment.

Serbia described other important sectors as follows:

The construction sector represents 4% of GDP.

The defence industry is estimated to represent 2% of gross value added . In May 2013, the Association of Armament and Military Equipment Producers was formed with the goal of advancing competitiveness of this industry.

The Information and Communications Technology sector has seen significant advancements over the past years. The national industrial strategy identifies it as a sector with a high potential for growth. The sector currently represents 6.1% of GDP.

Serbia's manufacturing represents 24.5% of GDP and is dominated by six sub-sectors:

Production of motor vehicles and trailers represented 6.9% of the manufacturing industry in 2012. This sector has seen an exponential growth in terms of exports and represented 17.82% of total national exports in 2013.

Food processing accounts for the biggest share of manufacturing. It represents 14.4% of all manufacturing GVA and 3.5% of national GVA.

Steel production accounted for 4.6% of the manufacturing industry in 2012. The industry has seen significant decreases in production and exports over the past years.

Chemicals represented 4.8% of the manufacturing industry in 2012 and 4.7% of total national exports in the same year. The chemical industry's share of GDP amounts to 0.6%, but employs 4.81% of all employees. Within this sector, the pharmaceutical industry accounts for 22.1% of production and at least a third of exports. Serbia identifies a potential for high growth in the pharmaceutical market.

Textiles make up 2.46% of the overall Serbian manufacturing and 9.23% of employment in manufacturing. Textiles and articles of apparel accounted for 5.5% of all exports from Serbia in 2012. This is the fourth ranked export-oriented branch of industry in Serbia.

Wood industry accounted for 6.3% of manufacturing in 2012. The sector accounted for 3.4% of total national exports.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Serbia has achieved a satisfactory level of alignment with the *acquis* in the area of enterprise and industrial policy.

The institutional framework is well equipped to design and implement its strategies to support industry and SMEs. However, it has been affected by the ongoing recession and the lack of funds.

The national instruments to support business need to be more stable and supported with adequate finance. Participation in the relevant EU programme would also benefit from stronger national support. Serbia has made good progress in combating late payments, but still needs to fully align with Directive 2011/7/EU.

Serbia would benefit from further improvements in implementation and coordination of its policies and institutions to support businesses. In particular, it needs to improve coordination with non-governmental organisations representing businesses and ensure that its legislation does not necessarily burden companies' operations. Alignment with the EU SME definition is also needed.

With regard to sectoral strategies, one exists only in the tourism sector. In other sectors, measures are selective, subsidising production rather than development and investment.

III.a. Enterprise and industrial policy principles

Serbia will need to develop its analytical and policy governance capacities to ensure closer co-operation with Member States, as envisaged by Article 173 TFEU, and monitor performance of its industrial policies in the context of the Europe 2020 framework.

Industrial and enterprise policies of Serbia are narrower than EU recommendations in these areas, but they take largely into account main EU principles.

The institutions and measures for the implementation of these policies are regularly assessed by the SME Policy Index and the Small Business Act Performance Review. These two studies are financed and partially written by the European Commission and are the basis for regular economic dialogue between the EU and Serbia. Serbia is rated as good performer which has been steadily progressing over the years. The SME Policy Index praises its measures for more innovative SMEs. Serbia scores low in the dimension of entrepreneurial learning and bankruptcy procedures. In addition, the enterprise policies have limited impact on the business environment. Major difficulties are outside the scope of the industrial and enterprise policies, such as competition from the informal sector, unregulated state aid to few companies and red tape, particularly construction permits and various para-fiscal charges.

As regards the SME sector, Serbia's policies and actions recognise the importance of SMEs for macroeconomic development and employment. The sector is comparatively larger than in the EU and is more concentrated in manufacturing than in the EU. SMEs are supported by several strategies, which are largely based on EU principles.

The SME definition applied by the authorities is partially in line with the recommended definition of the European Commission, but it does not deal with linked and partner enterprises. Moreover, the definition is prescribed in two legal acts, which are not fully consistent. Serbian SMEs would benefit from the full implementation of the EU recommendation in a single legal act, as this would enable them to better predict their treatment by the national authorities and in EU programmes, for which this definition is binding.

Serbia has established a system of regulatory impact assessment. However, many laws important for the operation of businesses and the business environment are adopted in Parliament under urgent procedure and with limited public consultation. This practice should be discontinued unless urgency is duly justified.

III.b. Enterprise and industrial policy instruments

Serbia successfully participated in the specific programme for Entrepreneurship and Innovation under the EU Competitiveness and Innovation programme (CIP) from 2008 to 2014. Serbia therefore demonstrated capacity to cooperate with the EU and its Member States in this policy area. In order to maintain this capacity, Serbia will need to invest funds and strengthen the political will to fully engage in the new programme COSME 2014-2020. The current situation, in which Serbia participates only in selected programmes, such as EEN (see below) is unsustainable for a candidate country.

The Commission evaluated the performance of the Serbian member of the Enterprise Europe Network as satisfactory over the 2008-2012 period. Serbia has not yet applied for the new EEN call will finance the network from 2015 to 2020. Serbia has however applied to another call "Business Cooperation Centre in third countries, which would allow Serbia to participate in the network as a third country (in that case, Serbia would participate without any financial support from the EU).

The most extensive national financial instruments concern industrial development. They are often provided on *ad hoc* basis and are not systemically in line with the strategy. Many of these funds are not yet subject to State aid control and might not be fully efficient. When supporting industrial development, Serbia will need to fully respect EU State aid rules and ensure the transparency of its support schemes. The issue of State aid is dealt with under Chapter 8.

There is a wide range of instruments concerning SMEs and entrepreneurship activities. They are regularly assessed by the Serbian State Aid Commission and are evaluated as good according to the EU Small Business Act performance review. In order to better support its companies, Serbia will need to expand these instruments.

Further efforts are needed to improve access to finance for companies, especially in view of the negative credit growth. Serbia has some mechanisms in place to reduce the interest rate for bankable projects, but more could be done to improve guarantee schemes or other equity instruments. Serbia will be invited to analyse these possibilities under the forthcoming COSME programme and in the context of Instrument for Pre-Accession Assistance (IPA) projects.

Serbia implements the main principles of Directive 2011/7/EU on combating late payments in commercial transactions. Serbia is thus already partly aligned with the directive but will need to fully align with it before accession. The implementation of the law limiting payment deadlines has been relatively successful with regard to public sector payments, for which a control and monitoring system has been set up by the Treasury. However, the law needs to be further aligned with EU legislation. It needs to oblige the public authorities to pay for the goods and services within 30 days after they have been invoiced. It needs to provide a legal basis for enterprises to claim reimbursement of their recovery costs related to late payments. It also needs to define that even small amounts of interest for late payments may be charged.

III.c. Sectoral policies

Serbia puts sector policies high on the agenda of its industrial policy. However, little has been done to establish comprehensive and regular support for any sector with the exception of *ad hoc* support for investment into industrial activities and few sectoral clusters.

Tourism benefits from comprehensive support in line with the EU principles for this sector, including sustainability.
