



*Bulgaria – Serbia IPA Cross-border Programme,
CCI Number 2007CB16IPO006*



LEGAL ANALYSIS

**ON THE PERFORMED INSTITUTIONAL, MACROECONOMIC AND
REGULATORY FRAMEWORK ANALYSES AND THE CONSTRAINTS TO
THE DEVELOPMENT OF EXPORT-ORIENTED SMEs IN PIROT
MUNICIPALITY**

**Valorization of the cultural heritage in the cross border region Montana-
Pirot 2007CB16IPO006 – 2011 – 2 - 243**

Bulgaria – Serbia IPA Cross-border Programme (CCI Number: 2007CB16IPO006)

The Instrument for Pre-accession Assistance Fund /IPA Fund/



Preliminaries

The overall objective of the analyses and recommendations is to increase the competitive advantage of the economic sector in the region and improve its position in EU markets through the development of economic synergy and cooperation between business entities in the Serbian-Bulgarian cross-border region. Activities undertaken are mainly related to improving the capacity of the region with regard to addressing regional issues through partnerships, strengthening of institutional and business capacities with the purpose of answering the set requirements and establishing a model of the EU market for cooperation based on best practices and identified common interests and needs.

Based on legal, economic and market analysis, organization of business forums for the purpose of disseminating best practices through business contacts and development of a strong institutional cooperation, activities should result in the support for Serbian export-oriented enterprises to improve their competitiveness, degree of internationalization and their entry into the new markets, and expanding their position in the market.

General information on Pirot

Pirot municipality is located in south-eastern Serbia between Nis and Sofia, on Corridor 10 which connects Europe with Asia. It covers an area of 1,235 km² with an average maximum temperature of 18.42°C and an average minimum temperature of 5.95°C. The centre of the municipality is situated at an altitude of 368m, whereas altitudes throughout the municipality (min-max) range between 368m and 1,080m. There are three distinct regions: the mountain region, which is the largest one covering 40% of the municipality, and the hill and plain regions each covering 30% of the total area.

Investment priorities

Investment priorities are tourism development (investment in Stara Planina), healthy food, manual production and the development of small and medium-sized enterprises.

The existing economic institutions are banks, insurance companies and the Chamber of Commerce. There is a Department of economy and finance in the Municipality. To the present day, the most important foreign investor is Michelin, France, which operates in the area and under the regime of the Free Zone Pirot.



In addition to large companies, small and medium-sized enterprises have also left their mark in Pirot.

The proximity of neighbouring markets and transport links

Positioned on corridor 10s between the road and railway track, the Municipality of Pirot is prepared to meet transport and transport policy related requirements, as it is equipped with transport and communal infrastructure, freight forwarding and logistics services, customs offices and other.

Upon the completion of Corridor 10, traffic frequency of transporters on leg 10s is expected to increase the number of users who will use the transport services of Pirot based companies, and facilitate the transportation of goods and services of business entities operating in the Municipality of Pirot.

Economic development (SME, agriculture and tourism)

The economic base of the municipality is industry whose share in the total GDP of the economy has always been dominant and occasionally exceeded 50%. However, the reality of today is one of unused industrial facilities.

Problems of organizational and technical nature such as the need to change the qualification and personnel structure, training of the existing staff, the need for a better technical equipment, obsolescence and wear and tear of equipment and machinery, the necessity of introducing economic business operations and an organizational and ownership transformation as fast as possible, are also limiting factors for companies.

1) "Free Zone" JSC Pirot, as a small and medium-sized businesses development incubator, has a strong influence on attracting investments because it has material, human and infrastructural resources. The municipality has provided important incentives for business development in the free zone by introducing a 10 year exemption from payment of fees for obtaining building permits, connections to infrastructure and more. Pirot Municipal Assembly owns a part of the Zone's shares.

2) In the medium-sized enterprises sector, the following industrial branches are represented: industry, trade, construction, hospitality.

3) In the small businesses sector the following industrial branches are represented: leather, textile and food industry. Most small businesses in the municipality are from the private sector and are mainly registered for production, wholesale and retail trade and import-export operations.



In the long turn, agricultural production in Pirot municipality is declining and is falling behind in comparison to its realistic possibilities defined by the available agro-ecological and other conditions. The scope and structure of agricultural production in the last years of the previous and the beginning of this century, according to the data available for the preparation of this analysis, were strongly influenced by the following factors:

a) the majority of agricultural holdings (households) are mixed and elderly, and are mainly oriented towards the subsistence production,

b) average size of holdings is relatively small, with a large number of fragmented plots, which largely increases machinery costs and complicates a more efficient organization of work processes,

c) over a long period of time, the majority of male labour force was working in industry and outside the municipality so that mostly old men and women were left working on farms,

d) small number of specialized commodity holdings,

e) the structure of agricultural production is mainly of subsistence character, which is why the available resources are underutilized, particularly market instruments.

A factor which is common to the entire Republic of Serbia should be added to the above listed ones, namely, for a long period of time investments in agriculture have been much lower than its share in the GDP.

Macroeconomic context

The Serbian economy has been facing significant problems over the past six years. Weak growth is a result of the 2009 recession caused by the global economic crisis, while the recent Eurozone crisis had a significant slowing effect on foreign and domestic demand in Serbia. In 2012 the economy entered a double dip recession when GDP fell by 1.7% compared to the same period last year. The production decline reflects lower domestic private consumption, weak exports and poor agricultural season. In addition, data from the first half of 2013 indicate that a recovery is expected this year as a result of export growth, and a GDP growth of 2.7% in Q1 relative to the same period of the previous year with a 0.2% increase in Q2 compared to the same period of the previous year.

In the past few years the inflation has been unpredictable to some extent. In the last cycle, which began in mid-2012, in September 2012 the inflation rate increased to a maximum of 12.8% compared to the same period last year, as a result of higher import



costs, increased administrative costs and poor agricultural season, which led to a rise in food prices. Concerns about rising inflation prompted the Central bank to tighten monetary policy by increasing the reserve requirement and the basic repo rate several times in the second half of 2012. However, pressures on prices weakened in 2013, which allowed easing of monetary policy. In May and June 2013, the National Bank of Serbia lowered the repo rate by 0.50% and 0.25% to 11%. In September 2013 the inflation rate fell sharply to 4.9% compared to the same period last year (from 7.3% in the previous month) and subsequently decreased to 2.2% in October on an annual basis, which is below the lower limit of the target range of the National Bank of $4.0 \pm 1.5\%$.

Significant pressures on the value of the dinar existed in 2012 and the National Bank intervened several times in order to prevent further depreciation in relation to the euro. The uncertainty of Serbia's fiscal position resulted in repeated pressures for depreciation in 2013, with a significant nominal depreciation of the dinar against the euro, so that at one point the exchange rate reached 119 dinars per euro, although there has been some strengthening since then. The NBS repeatedly intervened to prevent excessive fluctuations that contributed to the growth of non-performing loans which exceed 20% since mid 2013. Credit growth has slowed significantly in recent years and in the second quarter of 2013 it decreased for the first time in recent history. This trend reflects a weaker credit demand, but also the end of the government's programme of subsidized loans in Q1, as one of the most important measures of support to small and medium-sized enterprises.

The fiscal situation remains challenging. At the end of 2012 the budget deficit of 6.4% of GDP was significantly above the targeted 4.25% of GDP, and the public debt now stands at about 60% of GDP, which is significantly above the administrative limit of 45% of GDP. Further increase is expected and the deficit could reach 7.5% of GDP, according to an IMF statement made in October 2013. That same month, the government announced the so-called Six-point plan for budget savings, fiscal stability and economic growth. This plan includes, among other measures, cutting down salaries of public employees with high personal income, a reduction in subsidies to public enterprises and an increase in the lower VAT rate.

Moderate economic recovery is possible in the short term, partly due to a significant increase in industrial production. Growth in 2013 was backed by a good agricultural season. However, the combination of weak domestic demand and the current weakness of the eurozone will continue to have a slowing effect on the economy. Necessary fiscal cost reductions expected to in 2014 will also affect the growth of GDP.

Context of structural reforms



The Republic of Serbia has made significant progress in implementing the transition process over the last two decades, particularly in the areas of price liberalization, reforms in trade and foreign exchange systems and small-scale privatizations. The biggest transition gap remains in the field of competitiveness, where the reforms are more difficult and where the leading countries are those in the advanced stages of the transition process.

Business environment

In the previous few years the Republic of Serbia has undertaken a number of reforms to reduce the regulatory burden on the economy. The reforms include measures to facilitate business start-up and to that end since 2010 a one-stop shop for company registration has been created, and in 2012 a request for payment of the minimum capital for start-ups was withdrawn. Mechanisms for resolving insolvency were improved. A new Bankruptcy Law was passed in 2010 introducing the out-of-court settlement and a unified procedure for company reorganization. In 2012 the bankruptcy proceedings were additionally improved by reducing the initial price for the sale of assets, prohibiting appeals, as well as adopting an electronic registry of injunctions, etc. Reforms to facilitate the registration of immovable property and enforcing contracts were also realized. Notwithstanding the foregoing, a significant improvement of business environment is still ahead. In the World Bank's report on business conditions for 2014 (Doing Business Report 2014), Serbia is ranked 93rd out of 189 economies for the overall ease of doing business, which is still significantly lower compared to other EU countries and countries of the region. The biggest problems are in the areas of construction permits, fees, enforcing contracts and bankruptcy proceedings.

According to the Global Competitiveness Index of the World Economic Forum we take 101st place out of the 144 countries surveyed. The quality of the macroeconomic environment is poorly ranked (136th place), fiscal policy in particular. Serbia also ranks poorly in terms of the quality of public institutions (130th place), for example, the property rights, the bureaucratic burden, the independence of the judiciary and regulatory framework for the resolution of disputes. Labour market inefficiency has also been identified as a challenge to the Serbian economy (119th position).

In various analyses Serbian companies have identified political instability, the informal economy and the sources of funding as key obstacles to doing business.

Social context of analysis



According to the latest data from the National Employment Service and the Statistical Office, the unemployment in Serbia exceeded 20%. It is lowest in Belgrade (21.6%) and highest in Vojvodina, as well as in Eastern and Southern Serbia where it is over 26%. Given the significant share of the shadow economy, the real unemployment rate is probably lower. According to the estimates of the Statistical Office, around 18% of the employed population are working in the informal economy.

Legal context

In the last four years significant legal reforms have been carried out in Serbia in several important areas of the economy. The objective of certain reforms is to accelerate the harmonization of Serbian legal system with the EU legislation in preparation for the full membership in the EU.

Among the various new laws enacted in previous years, the one standing out is the Law on Capital Markets, which came into force in November 2011. Its purpose was to create a more attractive capital market for domestic and foreign investors. The Law on Foreign Exchange Operations was also amended in 2011 with the aim to ease some of the restrictions associated with the operation of the foreign exchange market in Serbia and to provide a more sophisticated legal framework for further development of cross-border lending. This law was further amended in December 2012 when several changes related to foreign credit transactions were made. The new Company Law also entered into force in 2011 and represents an improvement over the previous one, although it mostly relates to joint stock companies. The latest law is the Public Procurement Law, which entered into force on 1 April 2013. This law provides for several new solutions with the aim of increasing transparency, efficiency and effectiveness of public procurement procedures and combating corruption of contractors and bidders.

In contrast to the good direction of legislative reform there are Government moves to suspend incentives for job creation, funding for the internationalization of enterprises and other measures to support production and export-oriented enterprises.

Greater role and competitiveness of the private sector: Private sector participation in the domestic economy is below regional standards. The state still has a significant share in key sectors, whereas a large number of private companies are not competitive enough to survive in the long term due to the lack of adequate human resources, technical and operational expertise, as well as the lack of good corporate governance. Small and medium-sized enterprises (SMEs), which form the basis of the Serbian private sector, are faced with limited funding and practically do not receive any direct investment. The EU integration process is expected to contribute to the development of a more favourable



environment for existing and future enterprises and to the sustainability of small and medium-sized enterprises.

Key challenges and strengthening of the role and competitiveness of the private sector

Transition challenges

- Private sector development is lagging behind most countries in the region. Many existing private companies have inadequate management practices and corporate governance standards, and Serbia is poorly evaluated in international comparisons on competitiveness and the ease of doing business,

- The availability of investment capital supported by the added value is limited particularly for small and medium-sized enterprises. Practically there are no investments of local institutional investors,

- The development of agribusiness is limited by the land registry and cadaster system related problems which prevent the transfer of agricultural land, and the existence of numerous bureaucratic obstacles.

Problem-solving possibilities

In order to promote the development of small and medium-sized enterprises and encourage investments it is necessary to provide long-term loans, working capital and capital investments to healthy local businesses, primarily SMEs through credit lines to local businesses and the enterprise development funds (such as the Enterprise Expansion Fund, ENEF) of international financial institutions, eliminate administrative and other barriers and facilitate the performance of economic activities on the central and local levels, depending on the respective competencies of these levels. For the state and the local self-governments to support the development of the agribusiness sector, it is necessary to work together with companies to develop the entire value creation chain, supporting the further development of a modern retail sector, logistics and a continuing consolidation aimed at improving the competitiveness of enterprises with a higher degree of processing and the continuation of cross-border investments. It is necessary to provide financing to commercial banks and to provide instruments for risk sharing in order to be able to finance agricultural and micro, small and medium-sized enterprises in the agribusiness sector.

To encourage the development of micro, small and medium-sized enterprises, Pirot municipality should form support teams for small businesses within the Local economic development office in order to strengthen the competitiveness of local micro, small and medium-sized enterprises and support the adoption of quality standards and



the improvements to corporate governance, supply chain, marketing and operational efficiency in various sectors.

Regulatory dialogue

It is necessary to introduce new financial instruments to support the development and access to finance for companies involved in agribusiness, as well as small and medium-sized agricultural enterprises.

It is necessary to support the development and implementation of warehouse receipts on all levels and raise awareness regarding the funding opportunities and export operations based on warehouse receipts, and also support technical cooperation with regard to the geographical indications of origin in the meat and fruit sectors.

Key challenges: (i) improving the land registry and cadaster system in order to enable the transferability of agricultural land and allow the consolidation of small agricultural holdings, (ii) reducing the number of bureaucratic barriers to build warehouses, (iii) further improving access to finance, particularly to working capital for the primary agriculture.

A significant progress has been achieved in the entire supply chain, partially due to international trade agreements, but also through greater investment. As in other SE European countries, agriculture market operates freely, but the level of import tariffs remains relatively high. The SAA between Serbia and the EU came into force in August 2013. Accession to the WTO did not occur in 2013.

Production and services

Key challenges: (i) promoting better standards of corporate governance and sound management practices, and (ii) promoting regulatory reform aimed at reducing bureaucratic barriers in the economy in order to improve the establishment of new enterprises and the growth of existing private enterprises.

In recent years, Serbia has made some progress with regard to the reform of enterprises, but the production and services sectors have been seriously affected by the crisis. In December 2009 the European Union (EU) unfroze the Interim Trade Agreement, which allowed the gradual elimination of customs duties and the introduction of special quotas for certain Serbian products. The ratification of the Stabilization and Association Agreement, which was signed in 2008, as a key step in the accession process, started in June 2010 and was recently finalized. This should additionally help further



trade liberalization and approximation of laws with the EU standards, which would accelerate the reform.

With regard to market institutions, the government has introduced significant changes to the Law on protection of competition so as to improve its compliance with the EU rules. The Commission for Protection of Competition now has the right to initiate investigation and perform inspection and to directly impose fines and other sanctions. According to the World Bank's "Doing Business 2014" report, Serbia is ranked 93rd out of 189 economies. According to its regulatory environment, Serbia is ranked behind Macedonia, Montenegro, Romania and Croatia. Therefore, it would require significant changes in order to improve the procedures for starting and closing down businesses, obtaining necessary permits and licenses, and corporate governance standards. Private sector involvement, additional capital and expertise should be greater to increase the level of productivity and efficiency of the business sector.

Micro, small and medium-sized enterprises

Key challenges: (i) deepening and expanding bank lending to small and medium-sized enterprises (SMEs), especially outside Belgrade, and (ii) improving coverage, including information systems which would in turn improve collateral related requirements that apply to bank lending to SMEs.

Banks have become aware of the SME sector potential and many of them have departments for working with micro, small and medium-sized enterprises (MSMEs). However, the funding is limited in smaller towns such as Pirot, and lending to small and medium-sized enterprises is estimated at 38% of bank loan portfolios, while the share of SMEs in value added in Serbia is 50.1%, and SMEs accounted for 59.7% of jobs in 2012. However, MSMEs are lagging behind the EU Member States mainly in the field of internationalization, professionalism and innovation. The positive side is that MSMEs have better access to financing compared to the EU average, with the exception of the "venture capital", which is underdeveloped in Serbia. Strict requirements regarding collateral for business loans are still present. Like in other countries, real interest rates on loans in domestic currency are higher than in case of foreign currency loans, which has led to an increase in foreign exchange exposure of MSMEs since 2006, although it has recently begun to decline. There is a fully functional system for movable property pledge registration, which allows businesses to use movable assets as collateral in their effort to gain access to financing.

Small businesses support team



On the local level, it is necessary to adopt measures to encourage and promote economic transition and help companies to become viable micro, small and medium-sized enterprises and contribute to the development of sustainable infrastructure for assisting MSMEs through administrative and financial support mechanisms.

MSME sector and consultancy services

The MSME sector

MSMEs are the backbone of the Serbian economy, contributing over 52% to value added and 47% to exports, and employ 65% of all employees in the country. Most MSMEs are production companies, wholesale and retail trade and construction companies, which indicates a weak diversification. Despite numerous efforts of the Government, MSMEs continue to operate in difficult business environment, compete with extensive shadow economy and lack access to financing which are main barriers to further growth and development. In addition, 2012 SME policy indicator indicated the lack of corporate governance standards, especially the lack of knowledge in areas of general and financial management, as the key barrier to the private sector development.

As the EU integration process progresses, the competition shall increase. Local businesses need help to harmonize their operations with the European standards, increase production efficiency and develop new and innovative products that will enable them to strengthen their market position and increase exports.

Consultancy services

Consultancy service sector in Serbia is faced with moderate challenges of transition. There is expertise in many areas of consulting, but this kind of service is not available in rural areas and small towns. Most consultants offer several types of services and they are mainly qualified for development planning and market analysis. There is a lack of financial consultants.

The economy is well aware of the benefits of external consulting and there is a demand for consultancy services. A particular challenge for Serbian consulting firms is the need to meet the needs of clients outside Belgrade.

Support for MSMEs



Institutional framework for the SME development in Serbia has progressed towards regional standards. The priorities of the Government in private sector development mainly include improving business legislation, facilitating access to finance and export promotion. The Ministry of Economy is responsible for the legislation pertaining to the SME support, which is implemented through the National Agency for Regional Development (NARD) and the regional development agencies. Direct support includes financial support and basic trainings for the MSMEs, and since recently, the NARD has begun qualifying local consultants in accordance with the Business Consultancy Programme model. Other state agencies, like the Serbia Investment and Export Promotion Agency (SIEPA) and the Innovation Fund also aim to provide a direct support to the private sector development. The business community is represented by the Serbian Chamber of Commerce, the Association of Small and Medium-sized Enterprises and the Serbian Association of Employers, who are all very active in the dialogue with the authorities. In addition, the Association of Business Women is dedicated to the promotion of women's entrepreneurship in Serbia.

The municipality should develop activities and programmes to support the MSME sector through direct support to enterprises and through activities of systemic market development through the work of the Small businesses support team which should operate within the Local economic development office, thus contributing to the development of a competitive, innovative and sustainable private sector that is able to cope with increasing competitive pressures arising from the EU integration. In cooperation with other donors and government authorities, the Small businesses support team should focus particularly on increasing export activities, encouraging innovation and employment in the domestic MSME sector. The municipality should prioritize sectors, such as agriculture, textile industry and others.

The municipality should further facilitate access to the consulting services of local consultants through involvement in the training process of small and medium-sized enterprises. A more active involvement with the donor community is required in order to obtain greater volume of donations for small businesses located in economically less developed areas, such as Pirot. This involves the provision of services related to business, marketing and branding.

Assistance and training should be focused on supporting the transfer of management skills and specific industry knowledge by working with medium-sized companies that have good potential for exports and growth. This will help them to introduce international standards of corporate governance and to internationalize their products by facilitating access of these enterprises to international best practices, which



will help to improve placement and marketing strategies and establish relations with the EU market.

Activities of the Small businesses support team should include training and other activities in line with the needs of groups of companies, the consultants and the local support to MSMEs in order to maximize the effect of the above activities in the overall transition. Small businesses support team should aim at promoting international best practices in priority sectors by promoting examples of successful ventures and through training. The Business Consultancy Programme should focus on the development of a sustainable and commercially viable market of business consultancy services. Activities should include the following:

- (i) promotion of business consultancy services, particularly in less developed areas, as well as stimulating demand for more sophisticated consulting services;
- (ii) expanding consultancy capacities focused on training in sales and marketing, project management, business diagnostics and basic consulting skills, as well as efficient utilization of resources, and
- (iii) MSME training, which will deal mainly with solving general problems such as the lack of support for women in business, efficiency in resource utilization and environmental management, information and communication technology, innovation and financial management.

Forms of business organization

A limited liability company is the most common legal form of SMEs in the Republic of Serbia, regardless of company size (80%). The following organizational form are joint-stock companies (4%) and most often those are medium-sized enterprises (15%) compared to small and micro enterprises. Limited and general partnerships have a share of less than 1.5% in the SME sector.

Medium-sized companies are usually engaged in the production and processing (51%), small business in wholesale trade (28%), and micro-enterprises in retail trade (18%).

Regarding entrepreneurs, the most common are sole proprietorships – trade and crafts businesses - a total of 69%. The most common activities undertaken are retail trade (39%) and production and processing (23%), followed by wholesale trade (8%) and shops specialized in hospitality (6%).



Sources of financing

The main source of financing are usually own funds, either for working capital financing (75%) or for investments (64%).

In the last few years there is a tendency of an increased use of external sources for financing investments (32%), i.e. a reduced use of own resources (64%). This is particularly the case in the Sumadija and Western Serbia regions, and in Southern and Eastern Serbia, where there has been a significant increase in external sources, as compared to 2012 (25% to 31%, and 22% to 34%).

Proprietorships and micro enterprises are more likely to use their own funds to finance working capital and investments. Small and medium-sized enterprises rely mainly on their own resources to finance working capital, but use external sources much more than micro enterprises and proprietorships. Regarding investments, the main source of funding for medium-sized companies are external sources.

With regard to external sources of financing, the most commonly used are domestic currency loans (76%), followed by loans from individuals (20%), but to a much lesser extent, and by loans from state funds and institutions (13%). Compared to 2012, domestic currency loans are more frequent, particularly in the Southern and Eastern Serbia regions. Foreign exchange loans and state fund loans are more often taken by medium-sized enterprises (16% and 23%, respectively).

Credit debt

More than half of MSMEs are not indebted. The smallest number of debtors are among micro enterprises and entrepreneurs (58% and 61%, respectively) and in Belgrade region (60%). SMEs are for the most part successfully repaying their debts, but at the same time medium-sized enterprises are more than others late with their repayments. Entrepreneurs in the Southeastern and Central-western Serbia are ----- with the settling of debts.

State support programmes

The number of MSMEs who are not informed regarding the government support programmes is decreasing.

About two-thirds of state support beneficiaries (68%) reported that they either increased the number of employees, or their income increased. New products were introduced by around 22% of them, and around 11% of the programme's beneficiaries improved the training of their employees.



Every second entrepreneur is interested in financial assistance from the state. The greatest interest is again among medium-sized companies, as well as in the Central-western and Southeastern Serbia.

State support to SMEs has significantly changed compared to the support provided in 2013. State support in the form of grants was the most desirable support programme for more than half of entrepreneurs (56%), especially in the Central-western and Southeastern region (62% and 67%, respectively), followed by government support for job creation (33%) which was most interesting to SMEs in Southeastern Serbia (45%). Loans with favourable interest rates were very attractive in Southeastern Serbia (43%). Medium-sized companies primarily needed support in relation to export guarantees (10%).

Innovation and cooperation between business entities

Similarly to previous years, the available data support the fact that MSMEs are not particularly dedicated to innovative business operations, which is very unfavourable in terms of the necessity to increase the competitiveness of the sector. The data show that only every fifth company performs its own innovative activities, and every sixth fosters innovative collaboration with other companies or institutions.

Sales and supply markets

Sales and supply markets are mainly local. The entire territory of Serbia is the second-placed market followed by the countries of the region.

The structure of the sales and supply markets differ significantly depending on the business size. Exporters and importers are mostly small and medium-sized enterprises, whereas proprietorships and micro enterprises are more focused on the local market.

Most commonly cited reasons behind market restrictions are strong competition and low demand. Strong competition is a problem particularly in Belgrade and Western Serbia, while the low demand particularly limits proprietorships / entrepreneurs and micro-enterprises, primarily in Southern Serbia.

INCENTIVE MEASURES FOR INVESTMENTS AND RAISING COMPETITIVENESS AND INTERNATIONALIZATION OF SERBIAN ECONOMY

In order to strengthen international competitiveness of the Serbian economy through a strong support to the process of internationalization and strengthening of competitive capacities of domestic enterprises and associations, the Serbia Investment



and Export Promotion Agency (SIEPA) provided grants to fund activities that contribute to the increase in exports from the Republic of Serbia.

Bearing in mind that the Law on the Budget of the RS allocates only a small amount for SIEPA activities in 2014, this measure remains uncertain.

Export credit and insurance

Serbian Export Credit and Insurance Agency (AOFI) is a specialized financial organization that performs financial and insurance operations for export-oriented enterprises. It is established by the Law on the Export Credit and Insurance Agency of the Republic of Serbia.

The Law on Amendments to the Law on the Export Credit and Insurance Agency is currently underway, which should transform the Agency into an Economic Rehabilitation Agency, thus bringing current competences and abilities of the Agency into question in terms of further existence of distinctive mechanisms for assisting the financing of export activities.

The AOFI has been achieving its mission of supporting national exports through different export credit and insurance mechanisms, such as:

- short-term crediting of exports
- insurance of short-term claims abroad from commercial and non-commercial risks
- export claims buy-up - factoring jobs
- foreign buyer financing
- refinancing a foreign buyer through its commercial bank
- financing from other sources other than AOFI credit capital.

Development Fund of the Republic of Serbia

The aim of the Development Fund of the Republic of Serbia is to stimulate a balanced regional economic development, improve the competitiveness of



national economy, stimulate the development of crafts and service activities, as well as employment and capital market development.

The ability to use the Fund's assets in 2014 is uncertain having in mind the plans for the establishment of the Development Bank of Serbia, as well as the large number of non-performing loans caused by the liquidity crisis of the Development Fund' beneficiaries, created in part as a result of the economic crisis.

Cooperation with the European Agency for Reconstruction - loans for SMEs

In the 2001-2002 period, the European Union, through the European Agency for Reconstruction, has approved a donation in the amount of 15 million euros for the financing of small and medium-sized enterprises in the Republic of Serbia. The donation was fully implemented in less than two years, and through regular repayments of principal and interest the Revolving Fund has been established. By the end of August 2010, the donation and the Revolving Fund's assets have been used by 556 small and medium-sized enterprises, in the total amount of 56.3 million euros.

As a result of successful implementation of the donation, at the end of 2005 the European Agency for Reconstruction has transferred ownership of the assets of the Revolving Fund to the Republic of Serbia, with the requirement that the Fund's resources continue to be used under the same conditions and for the same purpose until the end of 2015.

As an agent of the Government of the Republic of Serbia, the National Bank of Serbia is managing the Revolving Fund. It places the Fund's assets to end users at a request of intermediary commercial banks and controls the appropriate use of funds.

Loan purpose

Purchase of equipment and plant for the production of goods and / or providing services, the construction of facilities to accommodate production capacities, where the beneficiary is required to cover at least 20% of the project value from its own funds and has the option to use up to 20% of the loan for working capital.



The Revolving Fund is placing its assets to small and medium-sized enterprises, as its end users, through seven intermediary commercial banks.

National Agency for Regional Development

The National Agency for Regional Development provides various forms of direct and indirect support to businesses, especially small and medium-sized enterprises and entrepreneurs (SMEEs), from practical support for setting-up a company to financial support programmes.

Support for financing:

- SMEE competitiveness support programme
- SMEE innovation support programme
- Support measures for the development of fast-growing enterprises
- Programme for innovative cluster development
- Entrepreneurs association support programme

Financial incentives for investors in Serbia

Grants *may be* awarded to domestic and international companies to finance investment projects in the production sector, sector of services which may be the subject of international trade and for strategic projects in the field of tourism.

Funds *cannot* be allocated for the financing of investment projects in the sectors of primary agricultural production, hospitality, trade, production of synthetic fibres and coal.

For Greenfield and Brownfield projects in the production sector, sector of services which may be the subject of international trade or for strategic projects in the field of tourism, grants are awarded in the amount of 4,000 to 10,000 euros for each person employed under the open-ended contract **for a period of three years from the date of the grant agreement.**



Funds have been allocated on the basis of investment location and the fulfilment of the requirements and criteria prescribed by the legislation, according to the following table:

| Financial support | | | | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Investment projects for which funds are granted | Project of special importance | Large investment project | | Medium investment project |
| Amount (EUR) | Up to 17% of total investment | Up to 17% of total investment | Up to 20% of total investment | Up to 17% of total investment |
| Minimum investment amount | EUR 200 mil | EUR 100 mil and more | EUR 50-100 mil | EUR 30 mil |
| Minimum no. of new work positions | 1000 | 300 | | 150 |

| Financial support | | | |
|-------------------------------|--------------------|-----------------------------------|--|
| | Direct investments | | |
| | Production sector | Internationally tradable services | Strategic projects in the field of tourism |
| Investment projects for which | | | |



| | | | | |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| funds are approved | | | | |
| Amount (EUR) | 4,000-10,000 per new position |
| Minimum investment amount | EUR 0.5 mil | EUR 1 mil | EUR 0.5 mil | EUR 5 mil |
| Minimum no. of new work positions | 50 | 50 | 10 | 50 |

Grant funds were allocated depending on the type of investment as follows:

I For Greenfield investments - in four equal tranches of 25% of the total amount of funds allocated, upon the fulfilment of each of the following requirements: after the conclusion of the sale agreement / submission of land registry and cadastre certificates, after obtaining a construction permit not older than three years from the date of the payment request, upon receipt of the certificate of occupancy, after achieving full employment envisaged by the investment project.

II For Brownfield investments which do not involve reconstruction - in two tranches: 30% of the total amount of allocated funds upon the conclusion of the sales agreement, title deed and occupancy permit, or lease agreement and occupancy certificate for the facility, and 70% of the total amount of funds after achieving full employment.

III For Brownfield investments which include reconstruction / renovation - in four equal tranches in the case of reconstruction of a building, and after submitting documentation required for Greenfield investments; in three equal tranches in the case of renovation, where instead of a construction permit and occupancy certificate, a work approval decision is presented as proof for the release of the second tranche.

IV For service sector projects which include rental of premises - 30% of the total amount of funds following the conclusion of the lease agreement, and 70% of the total amount of funds after achieving full employment.



Tax Framework

Law on Corporate Income Tax ("Official Gazette of the RS", No. 25/01, 80/02, 80/02 - and other law 43/03, 84/04, 18/10, 101/11 119/12 and 47 / 13)

Law on Personal Income Tax ("Official Gazette of the RS", No. 24/01, 80/02, 80/02 - other law and 135/04, 62/06, 65/06 - correction, 31/09, 44/09, 18/10 50/11, 91/2011, 7/2012, 93/12, 8/13, 47/13, 48/13)

National Employment Service

The National Employment Service is awarding grants for opening up to 50 new jobs. The employer may use this type of subsidy only once per calendar year.

Depending on the municipality's level of development, for each newly employed person, the following lump sums are approved:

- 100.000 dinars per person in the first and second group of municipalities,
- 200.000 dinars per person in the third group of municipalities,
- 300.000 dinars per person in the fourth group of municipalities and devastated areas, when employing up to 10 persons,
- 400.000 dinars per person in the fourth group of municipalities and devastated areas, when employing 11 or more persons.

If people with disabilities are hired for the newly created jobs, the amount of subsidy is as follows:

- 150,000.00 dinars per person in the first and second group of municipalities,
- 250,000.00 dinars per person in the third group of municipalities,
- 400,000.00 dinars per person in the fourth group of municipalities, devastated areas and areas of special interest.

Also, if the unemployment register of the National Employment Service does not list persons with necessary knowledge and skills, the National Employment Service is co-financing training programmes for the purpose of acquiring additional knowledge and



skills needed to work for the employer for up to 6 months, with the requirement of employment. The co-financed amount per student is RSD 150,000.

AP Vojvodina subsidies

Job creation subsidies, in a lump sum, will be granted to employers who create jobs for the employment of unemployed persons registered with the National Employment Service in the territory of AP Vojvodina.

The amount of subsidy is:

- RSD 130,000.00
- Plus RSD 20,000.00 when employing persons over the age of 50, making a total of RSD 150,000 per employee.

The co-financing of costs related to the export-oriented Greenfield development project investments (project documentation, or for leasing premises for a limited time period)

Funds are earmarked and approved using the reimbursement principle for the cost of investment in fixed assets, less the stated amount of value added tax - up to a maximum of EUR 100,000 in RSD equivalent per undertaking.

| Projects | Minimum investment amount | Minimum no. of new jobs | Amount of subsidy |
|----------------|---------------------------|-------------------------|-----------------------|
| Large projects | € 5 M | 300 new | Up to € 100,000 for a |



| | | | |
|---|---------|-------------------|---|
| | | employees | temporary 1-year lease of a Brownfield plant and Up to € 100,000 for project documentation for a Greenfield plant |
| Medium projects | € 3 M | 150 new employees | Up to € 100,000 for a temporary 1-year lease of a Brownfield plant or Up to € 100,000 for project documentation for a Greenfield plant |
| Projects in underdeveloped municipalities | € 1.5 M | 50 new employees | Up to € 100,000 for a temporary 1-year lease of a Brownfield plant or Up to € 100,000 for project documentation for a Greenfield plant |

Businesses must meet the following requirements:

- The implementation of the investment project involving *the construction of a new production plant (Greenfield) or conducting business in new premises built especially for the beneficiary*, for which a long-term lease for a minimum period of six years from the date of subvention approval has been signed (*dedicated Brownfield*);
- Operates in the processing or IT industry (according to the Regulation on Classification of Activities, Official Gazette 54/2010 - all activities in the sector C, and the activity 62.01 in sector J) with a minimum export share of 50% of total turnover in the past 3 years;
- No bankruptcy or liquidation proceedings are initiated against the business;
- Its account has not been blocked in 12 months preceding the date of application;
- The company is regularly paying taxes and compulsory social insurance for employees, for the past six months prior to the month in which the subvention application was submitted, unless the applicant is a newly formed business entity, on the basis of a reasoned request from the competent local government authority;



- The company is registered in the territory of AP Vojvodina.

Summary of tax exemptions and tax credits

| | |
|--|--|
| Exemption from profit tax for a period of 10 years for the investment value of over € 8.8 million and 100 new jobs | Exemption from payment of income tax for persons under 30 and over 45 years of age |
| Tax credit amounting to 20% of the investment for medium and large businesses, to a maximum of 33% of total taxes | Deduction up to 50% of annual income tax |
| The tax credit amounting to 40% of investment for small businesses, up to 70% of total taxes | Duty-free import of equipment that is a part of foreign direct investment |
| Transfer of losses in the period up to 5 years | Deduction of taxable earnings in the fixed amount of RSD 11,000. |

EXEMPTION FROM PROFIT TAX

The exemption from paying profit tax for a period of 10 years has a taxpayer in whose fixed assets, which are used for a registered business, he himself or any other person invests at least one billion dinars, and during the investment period additionally employs under an open-ended contract at least 100 people. The right to exemption is achieved in proportion to the investment.

TAX CREDITS

For investments in fixed assets

A taxpayer who invests in fixed assets in its own registered business is entitled to a tax credit amounting to 20% of the investment. Deduction cannot exceed 33% of the calculated tax for the year in which the investment was made.

Taxpayer - small business is entitled to a tax credit equal to 40% of the investment in fixed assets for its own business activity, and the tax credit may not exceed 70% of the calculated tax for the year in which the investment was made.

Corporate profit tax deduction for a period of 2 years



A taxpayer is entitled to a deduction of corporate profit tax for a period of 2 years if he made profit in the newly established business unit in underdeveloped areas, in proportion to the share of such profit in the total profit of the enterprise. The condition for getting this kind of tax credit is having separate bookkeeping for that unit.

TRANSFER OF LOSSES

Serbian tax laws allow the transfer of losses listed on the tax return into the following accounting period for up to 5 years.

Mandatory social insurance contributions

An employer is exempt from paying contributions in the following cases:

3 years

For trainees under the age of 30 who are registered as unemployed with the National Employment Service

For persons with disabilities

2 years

For trainees under the age of 30 who are registered as unemployed with the National Employment Service for at least 3 months

Persons over 50 years of age who receive unemployment compensation or who are at least 6 months without interruption registered with the NES, prior to employment

Persons aged between 45 and 50 years (exemption of 80%)

Income tax

Income tax in Serbia is 10%. It is not calculated for the following categories:

- reimbursement of expenses for public transport (for commuting) up to the price of a monthly ticket, or to the actual cost of transportation if it is not possible to provide a monthly ticket,
- daily subsistence allowance for business trips in the country, and daily subsistence allowance for business travel abroad to the amount prescribed by the competent state authority,



- daily subsistence allowance for business travel accommodation, according to the bills attached,
- daily subsistence allowance for transportation expenses incurred on business trips, according to the attached bills of public transport companies, and when the use of one's own car for a business trip or for other business purposes is approved in line with the law and other legislation, up to 30% of the price of a litre of super petrol,
- solidarity assistance in the event of illness, medical rehabilitation or disability of an employee or member of his family,
- New Year and Christmas gifts to employees' children up to the age of 15,
- jubilee awards to employees in accordance with the Labour Law,
- non-taxable salary is RSD 11,000 per month, for full-time employees.

In the case of hiring new workers for an indefinite period, the employer is exempt from paying income tax for a period of:

3 years

For trainees under the age of 30 who are registered as unemployed with the National Employment Service

For persons with disabilities

2 years

For trainees under the age of 30 who are registered as unemployed at the National Employment Service for at least 3 months

Persons over 45 years of age who receive unemployment compensation or who are at least 6 months without interruption registered with the NES, prior to employment

Company registration

Registration of all types of companies is the responsibility of the Serbian Business Registers Agency (SBRA).



On average, the registration process takes three days, which is rather efficient compared to Europe and Central Asia, with an average of 32 days.

The following documents are required for the registration:

Integrated application for registration,

Proof of payment:

- 4,500.00 dinars – registration fee paid on the SBRA account - for companies;
- 1,500.00 dinars - registration fee paid on the SBRA account - for entrepreneurs;
- 1,000.00 dinars - fee for the registration and publication of Articles of Association.

Simultaneously with the registration with the SBRA, businesses entities receive a tax identification number (TIN). It should be taken into account that obtaining a TIN does not imply an automatic registration in the VAT taxpayers register, which should be done in the relevant branch of the Tax Administration, if the company has chosen to operate in the VAT system. Submission of registration application for VAT for the newly established businesses is mandatory in cases where the company estimates that over the next 12 months its turnover will exceed 8,000,000 dinars. Upon receipt of the certificate, the SBRA automatically transfers the necessary documentation to the Pension and Disability Insurance Fund and to the Public Health Insurance Institute, provided that all requirements were met.

A company registered with the SBRA may immediately obtain the registration number, provided that the fee of RSD 2,140.00 has been paid on the account of the Statistical Office of the Republic of Serbia.

Incentive measures in Pirot

Benefits in all Free zones in Serbia:



- Exports of goods and services from the zone and imports of goods and services into the zone are free, customs duties and other charges are not levied.
- Imported equipment, machinery and building materials are not subject to customs duties and other charges.
- Value added tax is not payable on entry of goods into the free zone.
- Value added tax is not payable for transportation and other services to users of free zones that are directly connected to this entry of goods in the free zone.
- Value added tax is not payable on energy-generating products (electricity, gas, mazut, coal).

Features that exist only in Pirot

In order to attract investors and reduce unemployment, the municipality of Pirot offers to investors an additional set of benefits with regard to the construction and use of buildings, as well as in relation to business operations and hiring new employees:

- For the construction of new buildings in the zone, the investors are exempt from the following payments:
 - compensation for the development of urban construction land
 - compensation for municipal administration fees and costs
 - compensation for the use of urban construction land
 - connections to local sewage and water system infrastructure
 - compensation for urban planning conditions and approvals
- For a period of five years, for using facilities their users are exempt from the following payments :
 - local communal fees
 - compensation for the use of urban construction land

50% of the cost of utility services (e.g. waste collection).

Benefits of using the Free zone Pirot logistics centre :

- customs office - customs officer in the zone



- fast and efficient import / export procedure
- trained staff with appropriate certificates and licenses
- terminal for customs inspections and vehicle parking with a security service
- set of logistics services - transportation, loading / handling, forwarding, etc.
- proximity to the EU - 25 km (Pan-European transport corridors 8, 10 and 4)
- small operational logistics centre (railway in the area – 50% cheaper transport)
- over 100 foreign companies already operating in Pirot
- complete infrastructure (railway, streets, water, electricity, telephone, fencing, lighting, security)
- construction of buildings without paying municipal taxes (20-30% cheaper construction)
- available qualified and skilled workforce.

EUROPEAN UNION - SMALL AND MEDIUM-SIZED ENTERPRISES

SME definition used in the field of state support is identical to the common definition of SMEs used by the European Commission as outlined in the Recommendation on Definitions.

- A medium-sized enterprise is an enterprise that meets the following cumulative criteria:
 - employs fewer than 250 employees, and
 - whose annual turnover does not exceed EUR 50 million, and / or a balance sheet total does not exceed EUR 43 million.
- A small enterprise is an enterprise that meets the following cumulative criteria:
 - employs fewer than 50 employees, and
 - has either an annual turnover and / or balance sheet total not exceeding EUR 10 million.
- A micro enterprise is an enterprise that meets the following cumulative criteria:
 - employs fewer than 10 employees, and



- whose annual turnover and / or balance sheet total does not exceed EUR 2 million.

The criteria must be applied to the company as a whole (including subsidiaries located in other EU Member States and outside the EU). The Regulation provides for the definition of autonomous, partner and linked enterprises in order to assess the real economic position when SMEs are concerned.

Removing barriers to small business in the EU

The European Commission intends to facilitate the work of small and medium-sized enterprises by easing ten regulations which are the biggest obstacle to doing business. Among these regulations are those that govern the field of value added tax (VAT), data protection, labour market. There are 20.8 million small and medium-sized enterprises in the EU which employ two-thirds of the total workforce. Small and medium-sized enterprises create 85% of new jobs in the EU and they significantly contribute to innovation and economic growth. The initiative to amend the regulations that present barriers to the operation of small businesses were supported by the EU heads of states and governments of the EU at a summit held on 15 March 2013.

According to a 2008 document on small business, the Commission has put small and medium-sized enterprises at the centre of a "smart" regulation which aims to help economic growth and employment in the EU. After consultation with around 1,000 small and medium-sized enterprises and business organizations, the regulations which represent the greatest barrier to business have been identified. In particular, the aim of the consultation was to determine whether some European regulations hinder employment and growth and to detect areas where barriers should be eliminated.

As the results showed, small and medium-sized enterprises encounter greatest difficulties and costs in respect of regulations on chemicals, value added tax, product safety, recognition of professional qualifications, data protection, waste treatment, labour market, equipment for road transport, public procurement and customs code. In many areas the Commission has already taken steps to improve and simplify the EU regulations, for example, in the case of recognition of qualifications, public procurement and VAT.



With regard to the recognition of professional qualifications, back in 2011 the Commission proposed a new Directive which is currently under consideration by the European Parliament and the Council. The aim of this Directive is to help small and medium-sized enterprises by increasing the mobility of professionals through the introduction of the European Professional Card. Such cards would facilitate and speed up the work of Member States' authorities dealing with the recognition of professional qualifications acquired in another EU country.

Relating to the area of public procurement, in 2011 the Commission has also proposed a new directive which is also still debated in the Parliament and by the Council. It should contribute to increasing the participation of SMEs in public procurements through a significant simplification of procedures, including encouraging smaller procurements.

In relation to the VAT, the latest modernization of regulations dates back to January 2013, when the new and more modern rules on VAT invoicing were introduced, considerably simplifying VAT payments.

With regard to the regulations concerning the labour market, with a view to improving health and safety of workers, in 2012 the Commission has begun a comprehensive review of the umbrella directive on the safety and health of workers and more than 20 related directives. Results are expected in 2015.

With regard to data protection, the Commission has proposed that companies with fewer than 250 employees should not be required to have a Data Protection Officer or the assessment of data protection, except when data processing is their core business.

Consultation with small businesses showed that the sector considers the shortening of payment terms, which was introduced by a directive as of 16 March 2013, as one of the most successful legislation improvements, besides the one that refers to the simplification of accounting and auditing regime. The law that restricts payment deadlines was passed in the Republic of Serbia where it should also contribute to the liquidity of companies, especially those economically weak, who were forced to accept the conditions imposed by the economically stronger companies, who in fact caused their illiquidity and made them borrow funds in order to maintain liquidity.



By recognizing the need for Europe-wide rules, the Commission shall examine the identified barriers to small businesses through a new Regulatory Fitness and Performance Programme (REFIT) which was launched in December 2012. This programme shall reveal regulatory burdens, gaps and inefficiencies in order to eliminate these problems by amending regulations.

It is essential that the European Commission confirms that the EU legislation serves its purpose and helps European businesses to grow and create jobs, that it is simple and takes into account small and medium-sized businesses, especially entrepreneurs.

Following the analysis of its own legislation, the EU should come forward with the list of unnecessary legislation that should be repealed, as well as with a list of legislation whose provisions hinder the development of entrepreneurship.

FINANCING SMEs IN THE EU

Difficult access to finance remains the biggest concern of small and medium-sized enterprises in the European Union, and the problem mostly affects firms that were more recently established and smaller companies. Survey on the access to finance for small and medium-sized enterprises of the European Commission and the European Central Bank (ECB) has shown that one third of the enterprises surveyed did not manage to get the full financing they had planned for during 2013 and 15% of survey respondents saw access to finance as a significant problem for their companies. Some companies have received less funds than they applied for, some did not even dare to apply, and some companies were rejected.

Companies in the EU noted that bank financing conditions worsened in 2013 with respect to interest rates, collateral and required guarantees.

Since the start of the crisis, evidence has consistently shown that SMEs face large and disproportionate obstacles to accessing the finance they need to survive and thrive. This is why the COSME Programme has been introduced, to focus on facilitating access to finance for SMEs.

COSME should provide a guarantee facility for SME loans up to and even over € 150.000 and it is expected that until 2020 around 344.000 EU firms



will receive COSME backed loans. COSME is the Commission's first programme dedicated exclusively to support small and medium-sized enterprises, and will be implemented from 2014 to 2020.

Rejected loans

In total, about one third of the SMEs did not manage to get the full bank loan financing they had planned for during 2013. 13% of their loan applications were rejected and 16% of companies received less than they applied for.

In addition, 2% of companies declined the loan offer from the bank because they found the conditions unacceptable and 7% of SMEs were even too discouraged to ask, because of anticipated rejection. This was particularly the case for young companies, and 11% of those who have been in business between 2 and 5 years did not apply for a loan because of a probable rejection.

The survey confirmed that younger and smaller firms were more likely to obtain only part of the finance they request, or to be rejected outright. The highest rejection rate was among micro companies employing fewer than 10 people (18%) and among SMEs which had been active for less than 2 years (28%). In comparison, only 3% of loan applications from large enterprises (those with 250 or more employees) were rejected.

Experiences of small businesses in the EU

Insufficient collateral or other bank requirements such as guarantees are most often reported obstacle that companies face when seeking bank financing, followed by interest rates being too high.

State aid to small and medium-sized enterprises in the EU

First of all, it is noteworthy that for the SMEs support the Member States can use different instruments which are not considered State aid:

General support measures, which may include general reduction of the taxation of labour and social costs, boosting investment in general education and training, measures to provide guidance and counselling, general assistance and training for the unemployed and improvements in labour law do not constitute State aid and can be thus implemented immediately by Member States.



Some measures that are implemented in small businesses, such as reducing payment delays to improve SMEs cash-flow or the Commission's proposal that the small businesses should be exempted from the excessive burden in terms of accounting rules and statistical reporting also don't entail state aid.

The support measures for SMEs which entail state aid according to Article 87(1) of the Treaty Establishing the European Community have to respect the state aid procedure. Some of these measures will:

- under certain conditions not be considered as state aid
- constitute state aid but can be granted directly by Member States without notification to the Commission
- be generally considered to be compatible state aid if they fulfil the conditions in relevant Commission guidelines and frameworks

The Commission has recently modernised the state aid rules to encourage Member States to better target investments towards objectives of the Lisbon strategy for growth, jobs and the competitiveness. In this context, particular emphasis – and increased possibilities for granting state aid - has been given to SMEs. Indeed, SMEs are eligible for all aid categories allowed under EU state aid rules and for those categories of aid measures which can also be provided to large undertakings.

Having regard to the fact that market failures are bigger for small enterprises in comparison to medium-sized enterprises, different basic aid intensities and different bonuses are set for these two categories.

One and the same SME can at the same time receive aid for a training project (training aid), for buying a machine (investment aid) and for participating in fairs, without having to pass through the usual notification procedure since they concern different activities ("different eligible costs").

Types of state aid:

- 1) Investment and employment aid ("*Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation)*" (*Official Journal L 214, 9.8.2008, p. 003-047*))



- 2) General and specific training aid (*"Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation) "*(Official Journal L 214, 9.8.2008, p. 003-047)
- 3) Aid for consultancy and participation in fairs (*"Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation) "*(Official Journal L 214, 9.8.2)

EXPORT TO THE EU

The European Union is a leading business partner of Serbian companies and as such it represents a significant market for the placement of Serbian products. Despite the signed preferential trade agreements and the absence of quotas and tariffs for most products, other technical and other specific documentation that needs to be obtained prior to exporting goods to the EU states seems too complicated to most exporters.

Export Helpdesk is a unique portal of the European Commission (EC) intended for developing countries, which enables timely access to information on requirements, procedures, customs tariffs and documents needed to export to the European Union (EU). In its essence, the Export Helpdesk is a database that allows a detailed search by individual products and/or product groups which companies intend to export to the EU.

It is available in 6 foreign languages (English, French, Russian, Portuguese, Spanish and Arabic), and is available on the following web address:
<http://www.exporthelp.europa.eu/thdapp/index.htm>.

Types of available information:

To simplify web search, the information is divided into four categories:

- Requirements and taxes (requirements that need to be met and documents that need to be filled in order to import goods into the EU market and clear them, types and amounts of internal taxes and excise duties applicable in a particular EU country, legal or market requirements that apply to a specific product);



- Import tariffs (customs, preferential regime pertaining to the country of origin, preferential and non-preferential tariff quotas, import permits and anti-dumping measures);
- Preferential arrangements (list of trade agreements between the EU and developing countries and countries that have signed the agreement, a list of related obligations and facilities outlined in these arrangements, mandatory documents to be enclosed with the product being exported, and rules of origin);
- Trade statistics (trade flows between the EU and third countries by year and by product or group of products, and import/export data value and/or quantity).

Search method

Search can be made by individual products / product groups or by product code.

Each category summarizes the type of data that can be found and a short search tutorial. In order to obtain accurate information, in the User Guide option in each of the categories a correct product code must be entered. This search is facilitated by the "Browse" button in case of a product code search, and by the "Search" button for search by keyword.

Product codes that the system recognizes are those described in the Combined Nomenclature of products based on the international classification, the so-called Harmonized System. Entering an incorrect product code would produce wrong data, i.e. data pertaining to a completely different product. Depending on the category of information that is being searched, the country of origin, destination country, export/import date, trade agreement with the EU, etc. should also be entered.

Additional options are also available to users, such as search examples, detailed presentations, answers to frequently asked questions, links to the EU regulatory bodies, laws and other legislation relating to export to the EU market, glossary of terms, as well as a possibility to ask questions in electronic form regarding particular actual export cases.

Basic information on export to the EU

There are a number of requirements that a company must meet to be allowed to export its products to the EU. Some of these conditions are: functionality,



appearance, low cost, delivery period, quality required for the particular product category, proper marketing.

These requirements are not legally binding, but most companies must meet them to ensure their share of the market. In addition to these, there are legally binding requirements for the placement of products on the internal market of the EU with respect to protecting the health and safety of citizens.

Although it is a free market competition, the state passes laws and regulations that protect health and life of humans, domestic animals, the environment and consumer interests. Before placing a product on the market, for certain product groups a procedure for assessing compliance with relevant technical regulations in the field of safety should be implemented.

The EU legislation on industrial product safety is roughly divided into two areas:

- the "New approach", relating to technical industrial products
- the "Old approach", relating to motor vehicles, foodstuffs, chemicals, medicines for human and veterinary use.

Export markets, especially in European countries, are full of unknowns for exporters, since there is a large number of requirements, such as the European norms, standards, certificates, product quality and traceability requirements. An additional problem for exporters are constant changes in market trends, the existence of country specific regulations, quotas, social responsibility, environmental protection regulations, quality control, etc.

The European Union is a very attractive market, with nearly 500 million consumers, which is characterized by a steady economic growth. The EU as a single market of 27 countries is also a leading business partner of Serbian companies, with approximately 50% share in total trade between Serbia and the world. Unfortunately, the low competitiveness of the Serbian economy is the key factor in relation to our substantial and growing trade deficit with the EU.

Growth in the EU markets puts a number of challenges in front of exporters, particularly those in transition economies, which require a strategic approach that is based on flexibility, innovation and internationally recognized standards. For a



successful performance in the EU market, a good preparation and an appropriate marketing strategy are paramount.

Trade policy

There are a number of trade policy measures that affect access to the EU market. Customs tariffs traditionally represent a central issue in the negotiations on market liberalization, however, other barriers such as quotas and anti-dumping are increasingly becoming the focus of negotiations.

Customs tariffs

All EU countries have a common customs tariff. This means that the same customs tariffs apply throughout the EU, irrespective of the Member State into which the goods are imported. Within the EU the goods can move freely between Member States. Customs tariff amount depends on the type of product being imported and from which country the goods are imported. Different types of products are listed in the product classification used by the EU, which is called the Combined Nomenclature (CN). This Combined Nomenclature consists of the Harmonized System (HS) Nomenclature. TARIC database contains all tariff rates applied in the EU, by product and by origin of the product.

Taxes and excise duties

All products sold in the EU are subject to Value Added Tax (VAT). VAT rates vary between and within countries, however, an agreement was reached on the types of transactions to which the tax applies, as well as the basis for calculating taxes.

Guidelines for exporters of technical industrial products

To facilitate and expedite mutual recognition among the EU Member States, as well as the harmonization of regulations and standards, it is necessary to meet the requirements relating to the user, consumer and product safety, as well as the environmental protection.

Requirements are designed so as to provide a high level of protection. They are binding, so that a product that does not meet the essential requirements cannot be placed on the EU market or put into service on the market. These requirements do not specify, nor provide technical solutions to achieve results. This flexibility allows



manufacturers to choose the manner in which they are going to meet the requirements.

Technical specifications of products which meet essential requirements listed in the directives are stated in the harmonized standards.

Harmonized standards are European standards accepted by the European standardization organizations and which have been prepared in accordance with general guidelines that are set by mutual agreement of the European Commission and the European standardization organizations, and in accordance with the authority given by the Commission after consultation with the EU Member States.

Harmonised standards provide presumption of conformity with the essential requirements, if their basic data is published in the Official Journal of the EU, and if they are taken to the national level.

Application of harmonized or other standards remains voluntary. This means that the manufacturer, if it suits him, may apply other technical specifications. For products that are manufactured in compliance with harmonized standards, the presumption of conformity with the relevant essential requirements of relevant directives also applies.

The EU legislation has developed a consistent modular approach which subdivides conformity assessment into a number of operations: internal production control (module A), CE type-examination (module B), conformity to type (module C), production quality assurance (module D), product quality assurance (Module E), product verification (module F), unit verification (module G), full quality assurance (module H).

In order to standardize the compliance assessment procedure and to make it more efficient, European standards relating to quality assurance (EN ISO 9001 and 2000) are introduced.

CE marking

CE marking indicates that the product complies with the essential requirements and that it was subject to the appropriate conformity assessment procedure. Therefore, the EU Member States cannot restrict the placing on the market and putting into service of products bearing the CE marking.



CE marking is not a symbol of origin, nor a symbol of quality. CE marking indicates that the product is manufactured and designed in accordance with the provisions of the EU directive. It can be said that it is a product passport. CE marking sign is mandatory and must be affixed to a product before the product enters a market and is put into service.

CE marking is affixed by the manufacturer or his authorized representative in the EU.

Standardization

The Directive 98/34/EC defines European standards as technical specifications adopted by the European standardization bodies whose application is not mandatory. The Directive requires that the national standardization bodies notify participants according to the procedure of CEN and CENELEC on any new initiative in the field of standardization. The Directive also establishes a number of fundamental rights such as the right for any national body to be actively or passively involved in the activities planned by other standardization institutions, and the right to propose the replacement of national standards with the EU standards.

The European standardization process works on the following principles: openness and transparency - all parties concerned are involved; consensus - standards are being developed based on a voluntary agreement between the parties; national-level obligation - the official adoption of European standards shall be by majority vote of all national members and binding on all members; technical coherence at the European and national level, efficiency, internationality.

European standardization organizations are:

- CEN European Committee for Standardization
- CENELEC European Committee for Electrotechnical Standardization
- ETSI European Telecommunication Standards Institute

Guidelines for exporters of industrial foodstuffs

Horizontal EU legislation on food (covers all products) is based on the following directives:



- Official control of foodstuffs (Directive 89/397/EEC), additional measures concerning control of foodstuffs (Directive 93/99/EEC) – the directive provides basic principles of official control of foodstuffs, the procedures for carrying out inspection and analysis of samples,
- Labelling of food products (Directive 2000/13/EC) - this directive is relating to labelling, presentation and advertising of foodstuffs in order to provide an information system for food labelling,
- Hygiene of foodstuffs (Directive 93/43/EEC) – the directive describes the general rules and procedures for testing food hygiene throughout all stages after primary production,
- Additives (Framework Directive 89/107/EEC) - refers to colours used in foodstuffs (94/36/EC), sweeteners (94/35/EC) and additives in foodstuffs other than colours and sweeteners (95/ 2/EC, as amended by directives 96/85/EC, 98/72/EC and 2001/5/EC),
- Extraction solvents (Directive 88/344/EEC) - provides a list of extraction solvents that are approved for food processing,
- Materials intended to come into contact with foodstuffs (Framework Directive 89/109/EEC) - lists a group of materials and articles intended to come into contact with foodstuffs.

Vertical legislation of the EU includes certain groups of products such as milk and milk-based products (Directive 92/46/EEC), egg products (Directive 89/437/EEC), meat products (Directive 92/5/EEC), aquaculture animals and products (Directive 91/67/EEC).

Food standards

Food standards can be subdivided into two groups:

- Marketing regulations prepared in line with the Common Agricultural Policy,
- Regulations made with regard to the completion of the internal market.



The aim of marketing regulations, in accordance with the Common Agricultural Policy, is to promote the stability of agricultural markets, to protect the interests of producers and to help consumers to identify and distinguish between different quality food products.

For some products the country of origin must be indicated, e.g. fruit and vegetables, feathered animals, and since recently, beef. Most of these regulations refer to the names and descriptions to be used for food when being sold to consumers.

Independent export of foodstuffs to the EU internal market is not possible before the state meets its obligations. For products of animal origin, it is necessary to adopt appropriate legislation and regulations on veterinary control and build proper systems that will be recognized by the competent EU authorities.

In addition, companies that intend to export such products to the EU internal market go through a very rigorous control and in the end must obtain the export license and be registered in the list of approved establishments.

To export plants and seeds, a state must adopt laws and regulations and establish a plant health control (phytosanitary inspection system).

For processed food products that are listed in the White Paper "Preparation of the Associated Countries of Central and Eastern Europe for integration into the internal market of the Union", states must establish an Official food control system based on the EU model. This system must be approved by the relevant EU institutions.

To prepare for exports, exporters must ensure compliance with a series of horizontal and vertical directives on foodstuffs, and they must set up their production process in accordance with the Code of Good Manufacturing Practice. Production companies are also required to set up a HACCP system (Hazard Analysis and Critical Control Points).

CE marking is not affixed to foodstuffs as a proof of compliance with the EU requirements.

Before the state meet its obligations, potential exporters may comply their products and their production process with the EU legislation. This process takes a



long time due to the fact that the established habits and approaches to solving problems need to change radically.

EU legislation

- **REGULATIONS** - directly implemented in all Member States without the need to adopt implementing measures at the national level. These documents are considered to be the means of unification of laws across the EU.
- **DIRECTIVES** - are not directly applicable in all EU Member States and require the adoption of implementing measures at the national level within a timeframe defined in a particular directive. They are not binding in their entirety on the Member States, but in terms of results to be achieved. These documents, along with the regulations, are considered the most important legal instruments. Their purpose is to harmonize different goals of the EU and the Member States. These documents are considered to be the means of harmonization, which includes the elimination of national contradictions and conflicts between national laws. Directives are the most important instrument in the establishment and strengthening of the common EU internal market.
- **DECISIONS** - are binding in their entirety for those to whom they refer. They can be addressed to one or all of the EU Member States. Cases in which decisions are commonly used are relating to fair competition or imposing penalties.
- **RECOMMENDATIONS** - are non-binding declaratory instruments. They are envisaged by treaties and used by the EU institutions for expressing the views of the Member States. They do not impose any obligation on those to whom they are directed.

PECA protocols

PECA - Protocols to the Europe Agreement on Conformity Assessment and Acceptance of Industrial Products.

PECA protocols are bilateral agreements between a candidate country which has signed the European Agreement and the European Community. The purpose of PECA protocols is the removal of technical barriers to trade in industrial products. Scope of the PECAs is establishing the legal framework for mutual acceptance of industrial products and mutual



recognition of results of conformity assessments of industrial products to which the EU legislation and the equivalent legislation of the PECA signatory State apply.

DIRECTIVES AND REGULATIONS CONCERNING THE TEXTILE INDUSTRY

Textile

- Labelling requirements of textile products - 96/74/EC, supplement 2006/2/EC (Directives formulate the requirements for proper marking of fibre composition of textile products and methods for quantitative analyses),
- Methods of sampling and analysis for the purpose of determining fibre composition - 73/44/EEC,
- Cashgora, lyocell, nylon, aramid - 97/37/EC,
- Polylactide - 2004/34/EC,
- Elastomultiester - 2006/3/EC.

At the European Community level, the European Commission is responsible for import authorizations for textile products subject to quantitative limits (quotas) or surveillance measures that apply to textile products (as contained in the Council Regulation (EC) No. 3030/93, Council Regulation (EC) No. 517/94 and Council Regulation (EC) No. 3060/95 with the help of the integrated electronic network known as "SIGL" ("Système Intégré de Gestion de Licenses"). Sigl is a computer system linking the European Commission with the departments issuing import authorizations in the Member States.

The following information are available to potential exporters on the website of the European Commission (SIGL):

- per exporting country, the amounts used of direct import quotas and the amounts of products imported under surveillance measures per quota year;
- per textile category, the amounts used of direct import quotas and the amounts of products imported under surveillance measures for all relevant exporting countries per quota year;
- per exporting country, quotas per quota year;



- per textile category, the amounts used of quotas for all relevant exporting countries per quota year.

Using the EU web portal for textile products

Exporters should follow certain steps in order to find information on import licenses.

They can verify information on the utilization of textile products in terms of direct imports and in terms of Outward Processing Trade (OPT).

The website also contains information on EU trade policy in relation to textiles.

- 1 Step: Subscribe to the SIGL Web page (System of EU licenses) at the Directorate General for Trade,
- 2 step: click on the background information provided in order to gain access to information on quotas and licenses that are searched,
- 3 step: click on the data on quota utilization in order to find data - per product category and country of origin - the amount of quotas, quotas allowed at the Member State level and the utilized percentage of quotas.

The Republic of Serbia adopted the Law on Ratification of the Agreement on Trade in Textile Products between the Republic of Serbia and the European Community (published in the "Official Gazette of RS", no. 45 of 31 May 2005).

The Agreement establishes a regime which applies to trade in textile products originating in Serbia and the European Community. The parties have agreed that the Community will continue to provide tariff-free treatment of textile products originating in Serbia in accordance with the applicable Community regulations.

This agreement envisaged the suspension of quotas applied to imports of textile products originating in Serbia, which were listed in Annex 1 to the Agreement, to the Community.

With a view to ensuring the effective functioning of this Agreement, Serbia and the European Community agree to cooperate fully in order to prevent, investigate and take any necessary legal and/or administrative action against circumvention by



transshipment, re-routing, false declaration concerning the country or place of origin, falsification of documents, false declaration concerning fibre content, quantities, description or classification of merchandise and by whatever other means.

The classification of products covered by this Agreement is based on the tariff and statistical nomenclature of the Community and all its amendments.

Serbia and the European Community recognize that re-imports of textile products into the Community after processing in Serbia are a specific form of industrial and trade cooperation.

Should quantitative restrictions be established under the conditions specified in this Agreement, these re-imports shall not be subject to these quantitative restrictions if they are subject to the specific arrangements laid down in Title 3 of the Agreement.

Exports from Serbia of cottage-industry fabrics woven on hand or foot-operated looms, garments or other made-up articles obtained manually from such fabrics and of traditional folklore handicraft products shall not be subject to the quantitative restrictions established under this Agreement, provided that these products originating in Serbia meet the conditions laid down in Annex 6 to the Agreement.

Import into the Community of textile products covered by this Agreement shall not be subject to any quantitative restrictions that may be established under this Agreement, provided that they are declared to be for re-export outside the Community in the same state or after processing, within the framework of the administrative system of control which exists within the Community.

Cottage industry and folklore handicraft products originating in Serbia

The exemption provided for in Article 12 of the Agreement (exemption from quotas) in respect of cottage industry products, applies to the following types of products only:

- a) fabrics woven on looms operated solely by hand or foot, being fabrics of a kind traditionally made in the cottage industry of Serbia;
- b) garments or other textile articles of a kind traditionally made in the cottage industry of Serbia obtained manually from the fabrics referred to above and sewn exclusively by hand without the aid of any machine;
- c) traditional folklore products of Serbia made by hand, in a list to be agreed between Serbia and the Community.



Exemption shall be granted in respect only of products covered by a certificate issued by the Customs Administration of Serbia. These certificates must indicate the reasons justifying their issuance. The competent authorities of the Community will accept them after having checked that the products concerned have fulfilled the conditions established in this Agreement.

Relevant legal framework for exporters and terms

CUSTOMS OPERATIONS

1) The Customs Law, 2) Customs Tariff Law, 3) Excise Duty Law, 4) Regulation on customs approved treatment of goods, release of goods and payment of customs debt, 5) Decision on identifying goods subject to special export, import or transit conditions.

FOREIGN TRADE OPERATIONS

The Foreign Trade Law, Regulation on detailed conditions for implementation of antidumping measures, Regulation on detailed conditions for implementation of compensatory measures, Regulation on detailed conditions for implementation of protective measures against excessive imports, Decision on recording and reporting on particular foreign trade operations and the content of these records or reports, Decision on detailed conditions for payment and collection in kind.

CONCLUSION OF FOREIGN TRADE AGREEMENT

When concluding a foreign trade agreement attention should be paid to the delivery parity by using the INCOTERMS (international rules for the interpretation of commercial terms).

Payment and collection instruments are the following: Letter of Credit L / C, cheque, documentary collection, bank transfer, bill of exchange.

CHEQUE- a written statement by which the issuer (signer) gives the bank an unconditional order to pay the bearer a specified sum of money. Unlike bills of exchange which are issued when there is no money in the account, a cheque is issued only when sufficient funds are available. Bank draft is a kind of a cheque in which the issuer (drawer) and the institution that pays the cheque (drawee) are the same institution, i.e. the bank.



BILL OF EXCHANGE - an instrument with three participants: the drawer, the drawee and the payee . When the drawee is a bank, bill of exchange is also a cheque. Bill of exchange is a transferrable document, payable against order of a company which may transfer the bill by endorsement and by transfer of ownership. The bill of exchange is unique in that the payee does not have to pass the bill to the drawee. Instead, the payee may transfer the bill to another party, who may submit the bill to the drawee for payment, or to transfer it again to another party. The payee endorses the bill by placing his signature.

BANK TRANSFER - bank transfer is a payment instrument where an importer instructs a bank to execute a cross-border payment from his account with the bank. After receiving a payment order, the bank requires the correspondent bank to pay the foreign buyer / supplier. This type of payment is used when there isn't any substantial risk (after delivery of goods), for advance remittance, for small amount payments.

DOCUMENTARY L / C - LETTER OF CREDIT - is one of the most important payment instruments in foreign trade operations, which enables a safe exchange of goods and protects the interests of both the seller and the buyer. Letter of Credit is an irrevocable obligation of the issuing bank (the bank that opens a Letter of Credit upon importer's order) to pay the L/C beneficiary (exporter) for the delivered goods / services the amount stated in the document, if the documents presented to the Bank are in accordance with the predetermined conditions defined in the text of the Letter of Credit. As the L/C is a strictly formal document, all parties must follow the predefined terms. As with guarantees, L/C are divided into Nostro (import operations) and Loro (export operations) Letters of Credit, depending on whether they are issued in favour of a company in Serbia or a company abroad. Letters of Credit are subject to the Uniform Rules and Practice for Documentary Credits (as of 1 July 2007, the UCP 600 , issued by the International Chamber of Commerce in Paris, applies).

DOCUMENTARY COLLECTION - one of the instruments of payment transactions which, according to its capacity, falls in the middle between bank transfers and Letters of Credit. The basic purpose of a foreign documentary collection is that once the exporter-seller has submitted the shipping documents to his bank to collect payment, he is no longer able to dispose of the goods, and the importer - buyer may not obtain possession of goods prior to paying for those shipping documents, i.e. before he pays his bank the value of supplied goods or accepts the bill of exchange, if deferred payment has been agreed.

CUSTOMS OPERATIONS AND PROCEDURES



All goods entering or leaving the customs territory must pass through customs border crossings, as a place that is designated for the import, export and transit of goods, crossing of persons and vehicles through the customs. The person bringing the goods into the customs territory shall declare goods and shall, without delay, transport them to a customs office or other place specified by the customs authority. Prior to delivery and declaration, with the approval of the customs authorities, the goods may be examined, sampled, with the aim of determining the customs approved treatment or use. Goods presented to customs authorities must be covered by a Summary declaration.

Summary declaration is lodged at the time the goods are presented to the customs authority, and the customs authority may extend the deadline for its lodging no longer than by the end of a business day following the presentation of goods.

The customs authority may, before placing the goods under a customs procedure, also approve the use of commercial and transport documents, as a summary declaration, provided it contains the information necessary to identify the goods.

To speed up the customs procedure, upon a written request of the person who imports or exports goods, the Customs Administration may issue the Binding Tariff Information and the Binding Origin Information. These binding documents have the effect of a decision passed in the administrative procedure.

In addition to the standard national Summary declaration, the customs procedure uses the following types of documents:

- Document defined by the TIR Convention
- Document defined by the ATA Convention
- Standard international documents - SAD (Single Administrative Document)
- Summary declaration
- Declaration of customs value (DCV)

All goods to be placed under a customs procedure shall be covered by a declaration, which means that for the purpose of implementing the procedure, besides the releasing of goods for free circulation, the declarant shall submit a request for approval of its implementation to the customs office.

EXPORT

In case of taking of goods out of the customs territory, according to the Customs Law, the customs authorities must issue an approval. This means that domestic goods are



placed under export procedure after being given approval, except in the case when goods are placed under a procedure of passive refinement or under a procedure of transit of domestic goods from one place to another within the customs territory of the Republic of Serbia passing through the territory of a third country. Release of goods for export requires exporters to export the goods from the customs territory in the same condition the goods were at the time of accepting export declaration. Export declarations shall be submitted to the authority competent according to the seat or residence of the exporter or the place where the goods are packed or loaded for export. When performing export operations, particular attention should be paid to the general rules for issuing Certificates of Origin. Certificate of Domestic Origin EUR1 is issued by the competent customs office in the case of the use of preferential treatment for goods exported into the EU or into countries with which we have concluded Free Trade Agreements. With regard to the Non-preferential Certificate, which refer to exports to the U.S.A., New Zealand, Ukraine and Belarus, they are issued by the Serbian Chamber of Commerce on the “FORMA” form.

DOCUMENTATION REQUIRED FOR EXPORT OF GOODS AND SERVICES

Each export of goods is accompanied by certain mandatory documents, as follows: sale agreement with a foreign partner, commercial documents, transport documents, customs documents, insurance document.

When concluding a sales agreement with a foreign buyer, the payment method (payment instrument) and security instrument, if it is a credit operation, have to be stipulated. International sale of goods is governed by the United Nation’s Convention on Contracts for the International Sale of Goods (1980), which is known as the Vienna Convention.

COMMERCIAL DOCUMENTS

Commercial documents accompanying goods from the place of dispatch to the final destination usually refer to the description of goods. This group of documents includes the following documents: commercial invoice, which is a bill issued by the seller on the company memo. Every commercial invoice should contain the following elements:

- date of issue and the number of contract to which the invoice relates
- quantity of goods
- description and characteristics of the goods (state the tariff heading)



- unit price expressed in the agreed currency and unit of measure
- total value of the goods in the agreed currency
- number of pre-invoice that the customer previously approved
- name of the place of dispatch and designation of the means of transport by which the goods will be dispatched
- parity in accordance with the agreed provisions of Incoterms
- instructions for payment of goods

Other elements of the invoice depend on the type of goods and are stipulated in the agreement.

Specification of goods

The document is issued by the seller and includes a description of product that is the subject of sale: length, width, thickness, number, individual and total volume of goods and the number of pallets / containers. This document is particularly important for the customer because it is used as the basis for verifying whether the contractual provisions have been met. In addition, according to this document, the parties agree on transport arrangements (given the fact that it contains the essential elements for determining the mode of transport).

Certificate of quality

Foreign buyers or customs authorities sometimes require certificates of quality of goods being exported. These certificates are issued by the relevant certification bodies. Number of certificates that accompany goods in foreign trade depends on the characteristics of goods, the importing and exporting countries' legislation and the customer requirements. The lack of a single certificate can slow or even prevent the export or import.

Most commonly required approvals: phytosanitary certificate or health safety certificate relating to foodstuffs. These documents are intended for the buyer. They confirm that the goods were inspected by an authorized institution. The document should certify that the inspected goods are healthy and not infected.

Certificate of Origin

This is a document of great importance to importers because it indicates a possible preferential origin of goods in their country and therefore reduces the cost of customs clearance. For example, this document is required to qualify for duty-free imports of goods from Serbia into the EU and export of goods from Serbia to the Russian Federation. The name of the certificate is EU1 and it is verified by the customs, and for



exports to the Russian Federation the required certificate is FORM A, which is also issued by the customs office.

Delivery note

This document is issued at the time when the goods leave the warehouse or storage area. It is signed by the warehouse keeper / driver / buyer thus confirming that the goods are ready for transport. Basic elements of a delivery note are: buyer information, registration number of the vehicle on which the goods are loaded, the driver's name and information regarding the goods.

TRANSPORT DOCUMENTS

Transport documents are regulating the dispatch and transport of goods and represent an evidence for exporters on the completed sale of goods. Another important role of these documents relates to the transfer of risk in certain operations, if this is provided for in the contract or the relevant Incoterms clause. During the customs clearance procedure transport documents must be made available to the customs authorities.

The most important documents relating to transport include: Truck waybill (CMR), Rail Consignment Note (CIM), Bill of Lading, Forwarding Certificate, Disposition for the Shipment of Goods.

Truck waybill (CMR)

This document is issued by the carrier and it serves as proof that the goods have been accepted for transportation. In this document the carrier undertakes to carry the goods and duly hand it over to the consignee. CMR is made out in three copies, one for the consignor, the second accompanies goods until they reach the consignee, and the third copy is for the carrier. The waybill contains information on: the consignor, the consignee, a detailed description of goods, vehicle license plates, transportation costs and customs duty, as well as a list of enclosed documents. If the goods are loaded on more than one vehicle, or if there are several different types of goods, the consignor and the carrier may require a separate waybill for each vehicle or each product group.

CUSTOMS DOCUMENTATION

The export customs procedure uses the following set of documents: documents defined by the TIR Convention and the ATA Convention, Standardized international documents: SAD (Single Administrative Documents), a list of items, transport and



commercial documents and accounting records that can replace the basic customs document, Standardized national document - Summary declaration, which is used in special cases where the transport documents cannot be accepted.

EXPORT INSURANCE

Insurance of goods is performed in order to protect against possible losses and damages during shipping. While being transported and regardless of the means of transport, route or type of transport, goods are subject to a number of different risks which may cause damage (impairment of value), and in the worst case a complete loss. Insurance of goods is an obligation of the seller or the buyer, depending on the contractual provisions. The most commonly used insurance documents are Insurance Policy and Certificate of Insurance.

Insurance Policy is a written document based on which the cargo insurance agreement is concluded in the manner and under the conditions specified in the policy. It represents a security that can be issued in the name, to order or to bearer.

Certificate of Insurance is a document issued by an insurance company in the situation where there is a General Insurance Contract between the insurer and the policyholder and his partner. In such cases, the Insurance Policy is not issued for each type of goods that is insured and transported, but based on the General Contract a Certificate of Insurance is issued containing the same data as the Insurance Policy.

Export credit insurance policy provides for export business receivables collection on the completion of export.

Export operations carry risk related to the collection of receivables. Depending on the conditions of sale, i.e. whether the goods are sold on deferred payment or credit, whether the exporter is going to collect its claim depends on the creditworthiness of the buyer. There is a possibility that, before the maturity of receivables, the buyer goes bankrupt or becomes insolvent, which would prevent the collection of claims. Collection risks can also occur due to economic and political developments in the debtor's country, for example, a ban on transfers and a moratorium on payments, which could even be a consequence of bad weather conditions.

Exporter- the seller may use different preventive payment security instruments, such as bills of exchange, bank guarantees, third party surety or lien on goods, but most often exporters choose export credit insurance.



Concluding remarks

In the situation of suspension and reduction of almost all incentives and grants that existed until 2014 at the republic level, Pirot municipality should consider using its budget, and if available, donor and other sources of funding to partly assume the role of stimulating economic activity in its territory in the priority sectors, especially with regard to the following:

- 1) organization of trainings,
- 2) connecting the economy with financial institutions and providers of consulting services to improve management and increase competitiveness,
- 3) providing incentives for employment and internationalization,
- 4) lifting administrative and other barriers within the jurisdiction of the municipality and initiating the removal of barriers within the jurisdiction of other bodies,
- 5) exemption or deduction of payment of utility fees for site infrastructure development,
- 6) exemption or deduction of payment of local fees and the like.