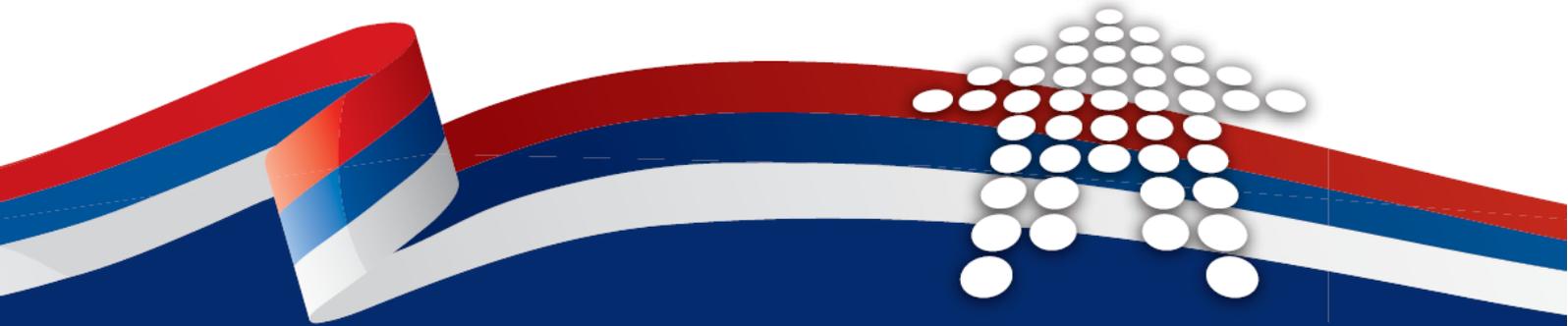




USAID
OD AMERIČKOG NARODA



National Program for Countering the Shadow Economy



December 2015

CONTENTS

I. INITIAL PREMISES

II. STRATEGIC, INSTITUTIONAL AND LEGAL FRAMEWORK FOR DEVELOPING THE NATIONAL PROGRAM

III. ANALYSIS OF CURRENT STATE

IV. OVERVIEW OF COMPLETED ACTIVITIES ON COUNTERING THE SHADOW ECONOMY PRIOR TO NATIONAL PROGRAM ENACTMENT

V. OBJECTIVES OF THE NATIONAL PROGRAM FOR COUNTERING THE SHADOW ECONOMY

VI. MEASURES FOR IMPLEMENTING THE NATIONAL PROGRAM FOR COUNTERING THE SHADOW ECONOMY

OBJECTIVE 1: IMPROVED MONITORING OF SHADOW ECONOMY FLOWS;

OBJECTIVE 2: IMPROVED FUNCTIONING OF THE FISCAL SYSTEM;

OBJECTIVE 3: REDUCTION OF ADMINISTRATIVE AND PARAFISCAL BURDENS ON BUSINESSES AND CITIZENS;

OBJECTIVE 4: RAISING AWARENESS AMONG CITIZENS AND BUSINESSES ON THE SIGNIFICANCE OF COUNTERING THE SHADOW ECONOMY AND MOTIVATION FOR COMPLIANCE WITH REGULATIONS.

VII. IMPLEMENTATION AND MONITORING OF THE NATIONAL PROGRAM

VIII. ACTION PLAN FOR IMPLEMENTING THE NATIONAL PROGRAM FOR COUNTERING THE SHADOW ECONOMY

IX. CONCLUSION

I. INITIAL PREMISES

As a prerequisite for attaining sustainable socio-economic development, a favorable business environment, as well as continuous economic growth, it is necessary to secure equal conditions for all participants on the market and reduce illegal flows of money and the shadow economy.

The National Program for Countering the Shadow Economy (National Program) defines the framework, goals and measures for decreasing the size of the informal sector in the Republic of Serbia.

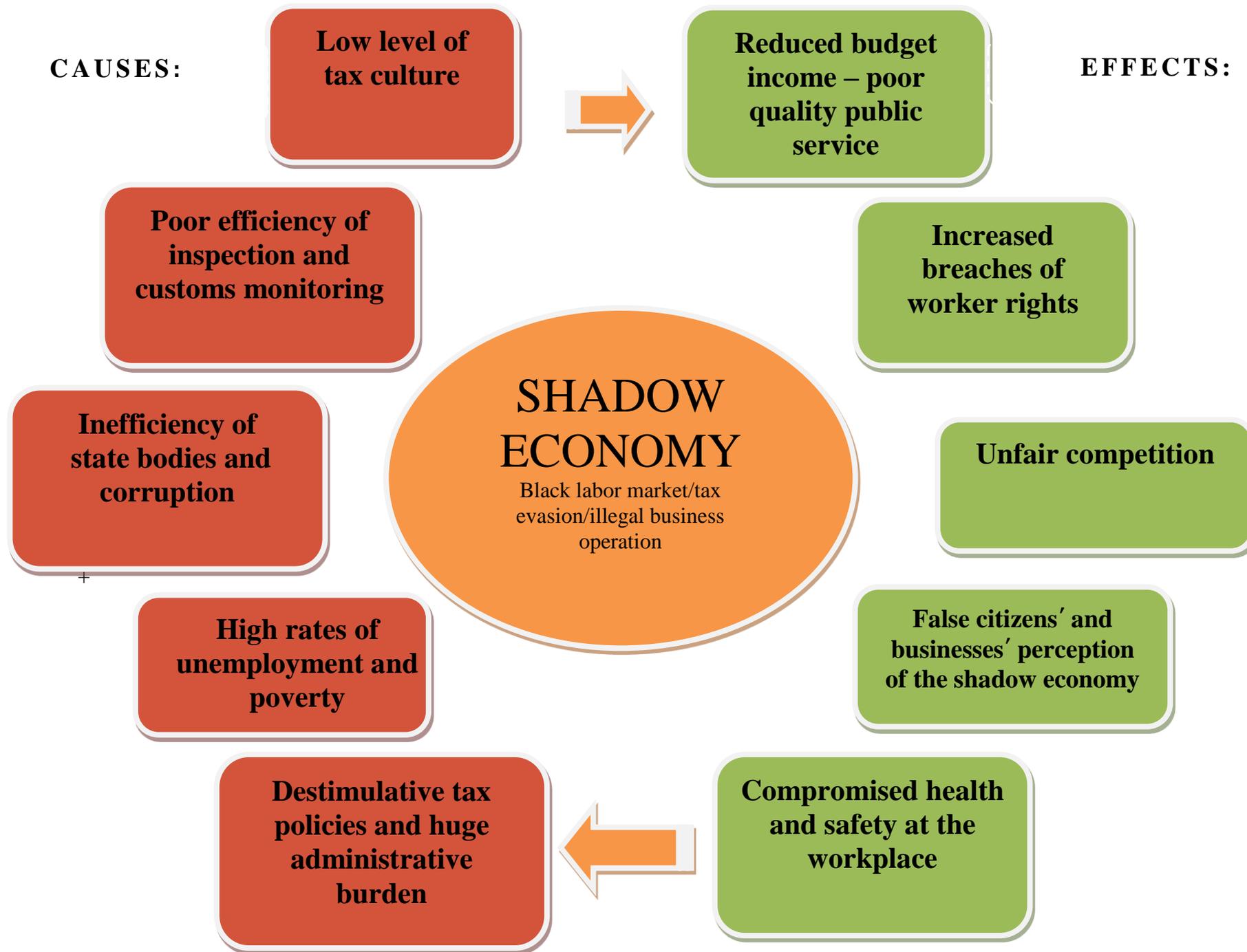
Since 2010, the business community has highlighted the shadow economy, along with high taxation and contribution levels as one of the two main obstacles to doing business legally. Business opinion polls, based on surveys held during August 2015, have shown that nearly two thirds of business representatives (64%) think companies operating in the informal sector represent the largest threat to their own business, emphasizing that reducing the shadow economy should be on the very top of the Government's priority list. In many developing countries, much like in the Republic of Serbia, the shadow economy is a significant obstacle towards both developing and creating a functional market economy.

To ensure an adequate approach towards solving the problems of the shadow economy, its scope, causes and effects have been identified.

Although it has proven difficult to precisely assess the scope of the shadow economy in Serbia, an estimate was calculated using three methods:

- 1) the MIMIC method, a modelling-based approach, which estimates the shadow economy at 30,1% of the gross domestic product (GDP) in 2010;
- 2) the household tax compliance (HTC) method, based on the rate of household tax payment compliance, which values the informal sector at 24% of the 2010 GDP;
- 3) and the Survey on Conditions for Doing Business, that measured the shadow economy in turnover of goods, as well as partial and full unreported employment, which estimates the informal sector at 21% of the GDP in 2013.

Since the Republic of Serbia is a candidate for European Union (EU) membership, the aim of decreasing the shadow economy participation in the GDP to the average shadow economy levels of the countries that most recently joined the EU by the year of accession, becomes self-imposed. By comparison, the research done by the Foundation for the Advancement of Economics (FAE) shows that the average level of the shadow economy in eleven countries that last joined the EU, in their respective years of accession, was 26,82% of the GDP (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).



Based on the analyses, the following basic causes of shadow economy have been identified:

- Low level of tax culture among citizens and businesses, usually caused by distrust in state institutions, non-transparent budget spending, lack of awareness and corruption;
- Complicated regulatory framework susceptible to frequent changes, inconsistent regulation use, inadequate knowledge of regulations and poor public administration capacities for enforcing regulations;
- Relatively high tax and para-fiscal burdens with added administrative barriers and high administrative costs for businesses and citizens;
- Relatively high rates of corruption and state tolerance for the informal sector (inspection, customs, judicial system, police);
- High level of unemployment and poverty.

The effects of the shadow economy are:

- Unfair competition generated by actors who operate their business in the grey zone, causing companies who do business legally to close or switch to shadow economy, the firing of employees and a decrease in investments;
- Reduced budget revenues that cause poorer quality of public services, such as: education, health, police, judicial system, utilities services, etc.;
- Compromised rights of employees, as well as their safety and health (lack of payments of contributions for pension and disability insurance, health insurance and unemployment insurance, insurance against injury at work for students hired through student cooperatives), compromised quality and health safety of products.

Reducing the shadow economy represents the key step towards establishing a predictable and stable business environment and a fair market arena, demanding coordinated efforts by the public administration and players at the market. Repressive measures yield short-term results, and as such are insufficient. Planning and implementing systemic solutions is the only way of influencing the long-term reduction of the shadow economy and its effects. In line with the aforementioned, it is necessary to create a public interest with the aim of improving transparency and interactions not only between the holders of public authority and tax payers, but also among the tax payers themselves.

The conducted analyses concerning the scope of shadow economy its manifestations and institutional capacities for their reduction in the Republic of Serbia, have pointed towards key system flaws in containing the main causes of the shadow economy, and provided guidelines for formulating the basic principles and measures that must be implemented through the National Program and Action Plan.

Therefore, the Government adopts the National Program for Countering the Shadow Economy and moves towards its immediate enforcement with the aim of decreasing the informal sector participation in the GDP of the Republic of Serbia from 30,1% to 26,7%, realizing the following special objectives:

- 1) Improved Monitoring of Shadow Economy Flows;
- 2) Improved Functioning of the Fiscal System;
- 3) Reduction of Administrative and Parafiscal Burdens on Businesses and Citizens;
- 4) Raising Awareness among Citizens and Businesses on the Significance of Reducing the Shadow Economy and Motivation for Compliance with Regulations.

In order for the fight against the shadow economy to be efficient, the public administration and organizations, as well as the entire business community and citizens, must actively participate in the informal sector reduction, as it will yield benefits for the entire society.

II. STRATEGIC, INSTITUTIONAL AND LEGAL FRAMEWORK FOR DEVELOPING THE NATIONAL PROGRAM

1.1. Strategic Framework

The National Program represents a strategic framework for reducing the shadow economy in the Republic of Serbia and is a complement to previously adopted documents that encompass certain segments important to this area, including the Republic of Serbia Public Administration Reform Strategy ('Official Gazette RS', No 9/14 and 42/14 - correction), Action Plan for Implementing the Republic of Serbia Public Administration Reform Strategy for the 2015-2017 period ('Official Gazette RS', No 31/15), Republic of Serbia National Anticorruption Strategy for 2013-2018 ('Official Gazette RS', No 57/13), Action Plan for Implementing Republic of Serbia National Anticorruption Strategy for 2013-2018 ('Official Gazette RS', No 79/13), National Judicial Reform Strategy for 2013-2018 ('Official Gazette RS', No 57/13), Strategy for Supporting Small to Medium Sized Enterprises, Entrepreneurship and Competitiveness for the 2015-2020 period and Action Plan for Implementing the Strategy for Supporting Small to Medium Sized Enterprises, Entrepreneurship and Competitiveness for 2015 with Projections for 2016 ('Official Gazette RS', No 35/15) and Strategy for Investigating Financial Crimes for 2015-2016 ('Official Gazette RS', No 43/15).

The subject of the National Program concerns the development of a systematic approach to reducing the informal sector.

Since the unified policy of reducing the shadow economy contains elements of horizontal policy, certain areas of this program are already covered to a lesser or greater extent by other strategic documents, such as in the area of public administration and inspection oversight reform regulated by the Republic of Serbia Public Administration Reform Strategy and the Action Plan for Implementing the Republic of Serbia Public Administration Reform Strategy for the 2015-2017 period. The complementarity of the National Program with this strategy and its accompanying action plan is seen immediately in its overall objective of reforming the public administration system with regards to the further improvement of public administration efficiency in line with the principles in the European Administrative Space, i.e. securing high quality of services for citizens and businesses, as well as developing a public administration system in the Republic of Serbia that will significantly contribute to economic stability and an increase in citizens' standard of living. The National Program leans towards the accomplishing the same objective, however not from such a general aspect, but rather from the aspect of improving inspection services and their cooperation with judicial bodies to reduce the shadow economy, as well as improvements to the business environment and general citizens' standard of living by cutting administrative barriers and informal sector participation in the GDP of the Republic of Serbia. In addition, a link between the two documents exists in the segment regarding the enhancement of the legal framework and the legislature process, improvements to administrative procedures and inspection oversight reforms, albeit with the National Program setting its overall objective for the purpose of reducing the informal sector. Taking the aforementioned into consideration, a clear connection can be seen between the objectives of the National Program and special objectives of the public

administration reform, and in particular with the enhancement of public finance and procurement management, increased legal security and improved business environment and quality of public services, as well as more transparency, ethical behavior and responsibility in carrying out public administration duties. Furthermore, the National Program supplements the public administration reform measures related to e-administration development, especially in the area regarding the establishment and better management of records, greater reliability and updating of data, connectivity and data exchange. This will be seen in improvements to the bases used for strategic planning and for monitoring the implementation of plans for reducing the shadow economy, simpler determination of facts, case status tracking and registration of rulings in inspection oversight procedures. The significance of e-administration is also recognized in the development of many other services for citizens and businesses aimed at assisting them with administrative procedures that are currently burdening them. Aside from this, the National Program was developed in line with the objectives established by the Republic of Serbia Public Administration Reform Strategy, specifically in the section regarding the improvement of conditions for public and civil participation in public administration activities by including all interested parties in the entire process of reducing the informal sector, which indeed includes the principle of involvement in creating and implementing public policy in this area.

The Republic of Serbia National Anticorruption Strategy for 2013-2018 and the accompanying Action Plan for the Strategy's implementation both describe the measures and activities in different areas where high levels of corruption were detected, among which the measures and activities for fighting corruption in public financing and the judicial system, as well as corruption prevention measures, also have significance in reducing the shadow economy, as corruption is one of the main causes of many forms of shadow economy appearance. The National Program complements the established objectives of the National Anticorruption Strategy for 2013-2018 and accompanying Action Plan for the implementation of this strategy, especially in the segment concerning the determination and removal of flaws in the legal framework of customs procedures that enable corruption (it is crucial to improve the Customs Administration IT system) and efficient monitoring of customs regulations enforcement by foreseeing activities for the involvement of all relevant bodies in the work of the Coordination Body and Operational Working Group for the Coordination of Integrated Border Management, establishment of long-term cooperation between the Coordination Body for Integrated Border Management and Steering Committee, implementation of pilot program for integrated border management, improvement of activity coordination among customs, inspections and police, utilization of analysis of penalties in sector regulations and case decisions, as well as the adjustment of sector regulations in line with the results of the analysis.

One of the priorities of the National Judicial Reform Strategy for 2013-2018 is the improvement of legal security and return of citizen faith in the judicial system of the Republic of Serbia, which has more of a direct link with the objective of the National Program for improving cooperation between judicial and inspection bodies on countering the shadow economy. Strategic planning and management in the judicial area, developed in the Action Plan for Implementation of the National Judicial Reform Strategy for 2013-2018, represents one of the initial bases for initiating a quality-oriented system for countering the shadow economy, as opposed to the previous temporary solutions that never yielded adequate results. Furthermore, within the Action Plan enacted with the National Program, several activities have been foreseen for the improvement of criminal offence and corporate crime prosecution processes, implementation of expert training for inspections, customs, prosecutors, police and Fiscal Police for more efficient shadow economy combatting, establishment of an information exchange system among all participants in the process of determining criminal and misdemeanor accountability in the shadow economy area,

formation of special organizational units in prosecutor's office for corporate crime procedures, as well as holding expert trainings for judges in charge criminal prosecution of corporate crime suspects.

A direct correlation between the National Program and the Strategy for Supporting Small to Medium Sized Enterprises, Entrepreneurship and Competitiveness for 2015 to 2020 is seen in the recognition of the shadow economy as one of the main causes of slowed growth in the small to medium sized enterprises sector due to a large, disloyal competition. In relation to this, the Action Plan for Implementing the Strategy for Supporting Small to Medium Sized Enterprises, Entrepreneurship and Competitiveness for 2015 with projections for 2016 envisions the enactment of the National Program as part of its first pillar 'Improvement of Business Environment.'

The Strategy for Investigating Financial Crimes for 2015-2016 establishes, among others, the following objectives: establishment of an efficient structure of public prosecution and courts; increased capacities of judicial function holders in the area of financial investigations; training of judicial function holders in the area of financial investigations and training of police officers, which is to a greater extent directly related to the determined objectives of the National Program concerning the improvement of cooperation between judicial and inspections bodies for the purpose of more efficient countering of the shadow economy. The strategy in question foresees that certain corporate crimes and official misconducts will be categorized as financial criminal offences and corruption. With the aim of improving the quality of judicial bodies and raising prosecutor's offices' capacities, the formation of special departments exclusively in charge of criminal prosecution of offences with elements of financial crime has been planned within higher level prosecutor's offices in Belgrade, Novi Sad, Kragujevac and Niš. Aside from this, the formation of action groups has also been envisioned, in charge of particularly complex cases as well as the determination of liaison officers to serve as links between judicial and other public administration bodies, respectively, and especially for institutions such as: Administration for the Prevention of Money Laundering, Tax Administration, Customs Administration, National Bank of Serbia, Serbian Business Register Agency, Central Securities Depository and Clearing House, Privatization Agency, State Audit Institution, Real Estate Cadaster Department, Anti-corruption Agency, Pension and Disability Insurance Fund, National Directorate for Properties of the Republic of Serbia, ministries responsible for management of relevant ministry databases, etc.

In the aforementioned areas, the National Program brings forth additional content, based on the strategic priorities determined in previously enacted strategic documents, with the content (adjusted to aforementioned strategic documents) representing a continuation of those strategic priorities.

The National Program, from the aspect of the national strategic framework, replaces the hitherto ad hoc approach to reducing the informal sector and introduces a systematic effort of all public administration bodies, the business community and citizens, to ensure the resolving of this issue. With this in mind, the National Program and previous activities concerning shadow economy reduction shares the same basis, objectives and principles, signifying a logical continuation and upgrade to prior policies in the area. By way of this, the continuity and compatibility of this document with prior policies implemented in this area has been ensured.

1.2. Institutional and Legal Framework for Developing the National Program

With the Government's Decision on Establishing the Coordination Body for Directing Activities for Reducing the Shadow Economy ('Official Gazette RS', No 140/14 and 24/15), the Coordination Body for Directing Activities for Reducing the Shadow Economy (Coordination Body) was established, with the aim of coordinating the activities of public administration bodies and guiding activities for the preparation and implementation of the National Program for Countering the Shadow Economy.

The same act established the Expert Group of the Coordination Body (Expert Group) with the task to prepare and submit the Draft National Program along with the Draft Action Plan for Countering the Shadow Economy to the Coordination.

Participating in the activities of the Expert Group are: the Cabinet of the Prime Minister of Serbia, Ministry of Public Administration and Local Self-Government, Ministry of Trade, Tourism and Telecommunications, Ministry of Finance, Ministry of Economy, Ministry of Labor, Employment, Veteran and Social Issues, Ministry of Justice, Ministry of Internal Affairs, Tax Administration, Customs Administration, National Secretariat for Public Policies, National Alliance for Local Economic Development, Fair Competition Alliance and Chamber of Commerce and Industry of Serbia.

In this way, the active participation of key state bodies, whose jurisdiction includes combatting different manifestations of the shadow economy, in the determination of basic objectives, measures and activities for reducing the informal sector, with business and civil society representatives, is ensured. This signifies that countering the shadow economy has become a common goal of the state, economy and all its citizens. At the same time this has enabled responsible institutions, the original proposers of regulations that will reduce the informal sector, to coordinate their activities effectively.

III. ANALYSIS OF CURRENT STATE

The informal sector encompasses business activities and their resulting incomes that avoid or in some other way evade regulations, taxation or oversight by relevant bodies or authorities.

The shadow economy is divided into registered and unregistered from a statistical point of view, legal and illegal from a legal aspect, untaxed and taxed (although income is totally or partly hidden from tax authorities) from a fiscal standpoint, and other (which is operating within the legal framework void as there is a lack of clear tax regulations). A significant problem is posed by the black market, whose operations are frequently associated with criminal activities, and which is also encompassed by this strategic document.

The shadow economy in the Republic of Serbia, using the MIMIC method for calculation, stands at around 30% GDP, placing Serbia in the category of countries with a high level of tax evasion (the average for countries in the region is between 22-33% of GDP, while for Western European countries it stood at 15% participation of informal sector within GDP).

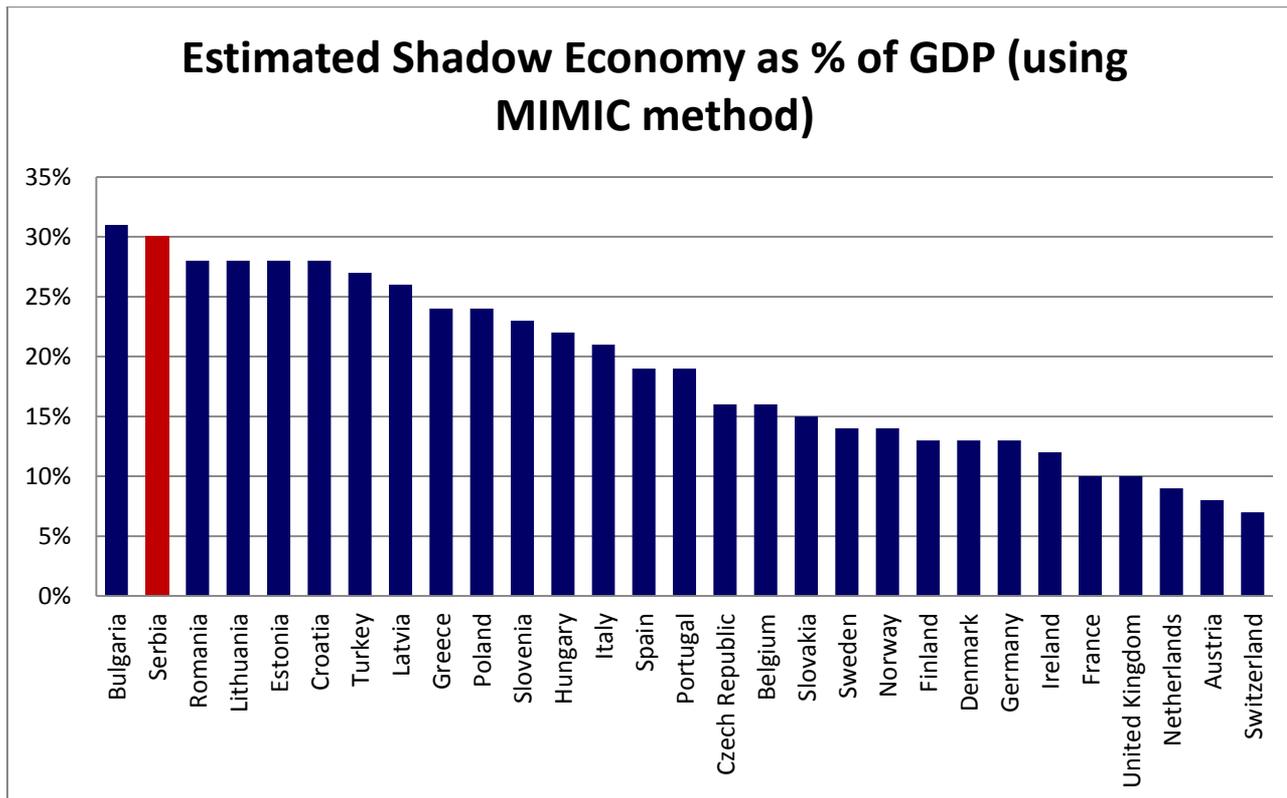


Chart 1. Estimated Scope of Shadow Economy in European Countries – Sources: European Commission and FAE (2013)

With higher levels of tax burden and social insurance contributions, excess administration barriers for doing business, high unemployment rates and low level of economic development - the quality of state institutions and public sector services is deteriorating, citizens exhibit more tolerant behavior and attitude towards corruption, while the scope of the shadow economy is enlarged.

1.1. Sanctioning the Shadow Economy

Currently, the inspection oversight process is governed by the Law on State Administration (‘Official Gazette RS’, No 79/05, 101/07, 95/10 and 99/14) including numerous special regulations – laws and bylaws. Aside from these, there exist many instructions, guidelines, opinions and interpretations utilized by inspections during their activities. In April 2015, the Law on Inspection Oversight was enacted (‘Official Gazette RS’, No 36/15), regulating the contents, types, forms and process of inspection oversight, authorizations and obligations of parties involved in the process and other issues of significance for inspection oversight procedures. This law envisioned a delayed implementation of certain regulations, however it is particularly crucial that regulations concerning inspection oversight of unregistered entities began implementation from 30 July 2015, thereby filling an existent legal gap. The full implementation of this Law is scheduled to begin on 30 April 2016 (phase-in implementation).

With the complete enforcement of the Law on Inspection Oversight, the existing regulatory framework for conducting inspection oversight will be relieved of many limitations for inspectors in the area of countering shadow economy. Additionally, the Law foresaw solutions to current issues of jurisdiction overlaps, i.e. unclear definitions of jurisdiction between inspections in certain cases, which have negative effects on both inspection activities and

inspection subjects, with the former not knowing who to address in cases where there is a lack of clear jurisdiction, and the latter suffering from multiple inspections, each with differing opinions, in cases of jurisdiction overlap.

Aside from this, in certain areas of inspection oversight there is a defined regulatory framework which is not developed through bylaws or implemented fully, making its effective implementation impossible. For example, in line with Articles 23 and 24 of the Law on Food Safety ('Official Gazette RS', No 41/09), the establishment of the Expert Council for Risk Assessment in the Area of Food Safety was envisioned with the task, among other things, to improve and coordinate the implementation of risk assessment methods in the area of food safety, but the Council has not yet been established, thereby allowing food safety controls to be implemented without previously conducted risk assessments.

Furthermore, there are flaws in the cooperation of inspection bodies on the one side, and police, prosecutor's offices and courts on the other, which has as its consequence a negligible level of sanctioning perpetrators of crimes from areas where inspectors have jurisdiction. Inspectors are inadequately trained for submitting reports about criminal offences, such as requests for misdemeanor proceedings, reporting of corporate crime and criminal charges, as well as for conducting the proceedings in courts, seeing as they frequently do not have a background in law. Legal flaws in reports submitted by inspectors give defendants greater chances, or even lead to rejection of reports, resulting in a large number of cases where entities that failed to comply with regulations remained unpenalized. Additionally, there are still a large number of expired proceedings, suspension of proceedings, issued warnings and proceeding terminations in courts of first instance per one submitted proceedings request. In 2013, only 46% of initiated proceedings were completed, with an average duration of 168 days. In addition, only 40,51% of the total number of issued fines were charged (Source: NALED, Analysis of Inspections' Capacities, based on information received from 29 criminal courts in Serbia).

Suitable conditions for shadow economy activities are provided during the import of goods at border crossings and their further distribution via informal flows. Aside from the direct damage caused to the budget of the Republic of Serbia from unpaid tax obligations, the safety of the products is not subjected to controls, posing a significant risk to the health and safety of consumers, in addition to creating disloyal competition for entities that do business legally. The legal framework for specifying jurisdiction of bodies in charge of border control and state border security (Border Police Administration, Customs Administration, Border Phytosanitary Inspection and Border Veterinary Inspection) was established with the enactment of the Law on State Border Protection ('Official Gazette RS', No 97/08), adoption of Agreement on Cooperation in the Field of Integrated Border Management, concluded in 2009 between the Ministry of Internal Affairs, Ministry of Finance, Ministry of Agriculture, Trade, Forestry and Waterpower Engineering and Ministry of Infrastructure, followed by the adoption of the Republic of Serbia Strategy for Integrated Border Management ('Official Gazette RS', No 111/12). In order to enable the smooth functioning of a reliable control system, the May 2009 Government Decision formed the Coordination Body for Implementing the Strategy for Integrated Border Management with the task of, among other obligations, monitoring the implementation of the Strategy for Integrated Border Management (SIBM) on the state and international level, with the Body's activities lead and coordinated by the Ministry of Internal Affairs. Apart from this, the Operational Working Group for Coordinating Integrated Border Management was established, charged with regularly updating the SIBM and Action Plan, as well as coordination of their implementation. Additionally, via a decision made by the Customs Administration Director, the Commission for Coordination of Activities of all Inspection Bodies (Commission) was established in the first half of 2005, with the aim of coordinated and effective implementation of control inspection services in the transport of goods across the state border and giving initiatives for improve the

established rules and procedures regarding the enforcement of laws in this area, taking positions on issues, as well as determining the mechanisms and dynamics of the exchange of information between the Customs Administration and inspections. Participating in the activities of the Commission, along with representatives of the Customs Administration - Department for Integrated Tariff of Serbia (TARIS), instruments of customs and foreign trade protection, taxes and excise duties, are representatives of the Ministry of Health - Border Sanitary Inspection, Ministry of Agriculture and Environmental Protection - Border Veterinary Inspection and the Border Phytosanitary Inspection, as well as representatives of several sectors of the latter ministry in charge of environmental protection (endangered plant and animal species, dangerous chemicals, waste, etc.). However, the practice in some sectors has shown that the composition of the Commission is inadequate for controlling high-risk products, such as excise goods, where it is crucial to ensure the presence of market inspection and Fiscal Police at the time of inspection by customs authorities (which is possible by withholding customs clearance). In fact, if only one sample is taken from the imported goods, whose analysis requires a few days, while the shipment placed on sale in the meantime, it becomes impossible to prevent the sale of goods on the market or through illegal channels (results of samples will be obtained later, when the Market Inspection, Ministry of Internal Affairs and other inspections are no longer able to act). It is therefore necessary to include, above everyone else, representatives of the Market Inspection and Fiscal Police in the activities of the Commission, or to develop a new model of activity coordination between the Customs Administration, Market Inspection and other inspection bodies, and Fiscal Police.

Sanctioning of shadow economy manifestations is regulated by the numerous sector regulations that are often mutually incompatible and subject to frequent change, with sanctioning practices being inconsistent. It is necessary to amend sector regulations so that sanctions can be, normatively and in practice, adapted to the seriousness of the offense and the economic strength of the entity that is the subject of control, in order to encourage a higher level of compliance by all businesses, and simultaneously to achieve the purpose of punishment – as both a separate, and general prevention. Research has shown that entrepreneurs do not have faith in the system for sanctioning business entities that do not operate in accordance with the law - in fact, only three out of ten entrepreneurs believe that companies that operate in the grey area will be discovered, one out five believe the company will be punished, but only one out of every eight believe that the fee will be collected. This impression is corroborated by examples of systemic deficiencies in inspection oversight, which can be seen through the example of the existence of retail facilities that work 24 hours a day, and have only one registered employee, with inspection procedure finding no irregularities, as the entity fully complies with regulations governing labor relations. Also, given the level of duties and tax burden on the sale of petroleum and its derivatives, there is a continuous interest of entities to avoiding the payment of these duties and trade these products in the grey and black market, as existing regulations and practices do not constitute a sufficiently strong legal and institutional framework fully controlling this phenomenon. Among other things, the business of wholesale, retail sale and storage of petroleum and its derivatives is done by numerous companies, with permits for conducting specified energy business. The number of valid license for performing these functions in the Republic of Serbia is exceptionally greater than the number licenses in neighboring countries. Licenses are issued with a validity period of ten years, but the Energy Law ('Official Gazette of RS, No. 145/14) does not prescribe any checks of fulfillment of license during this period, with regulations and practices in need of improvement in order to enable continuous, comprehensive and coordinated control of compliance with all defined conditions for license holders by supervisory, inspection and regulatory bodies - Market Inspection, Agency for Energy and ministry in charge of energy affairs.

1.2. Tax Policies, Fiscal, Parafiscal and Administrative Burdens on Businesses

The level of shadow economy activities is influenced by: level, predictability and structure of tax burden, efficacy of the Tax Administration in collecting payments, sanctioning policies, complexity and fairness of the tax system.

Namely, increases in tax burden on businesses and an inconsistent tax policy make doing business in the informal sector more attractive. The total tax burden in the Republic of Serbia, measured as share of total tax income in GDP, is moderate and close to the average levels of other Central and Eastern European countries. On the other hand, the fiscal burden for labor, measured as income tax and social insurance contribution share in total labor costs, is relatively high in Serbia, in terms of both absolute value and in relation to Serbia's development level, with income tax amounts, and especially social insurance contributions, being a huge cause of the shadow economy. When entities that do business in the grey zone transfer operations to legal flows, including informal employees, it is usually done by registering employees as receiving minimum wages. If tax burdens are high at that level, they represent a clear obstacle for formalizing from the aspect of job hunting. Additionally, the existence of minimal contributions for social insurance limits formal full-time employment.

Sudden changes of tax burden level represent a particular problem, as business predictability becomes impossible, and the fulfillment adopted business plans and sustainability of the business in general is made more difficult, especially when it comes to small and medium-sized enterprises. Additionally, such changes cause sudden and unplanned changes in retail prices, and therefore market distortions and decrease in competitiveness of entities that operate legally, by entities in the gray zone. This is especially true for excise products (e.g. petroleum, tobacco), as a result of the fact that most of the retail prices for these products constitute fiscal contributions. Recognizing the necessity of amendments fiscal burden in some areas (mostly due to compliance with the recommendations of the EU fiscal policy), undoubtedly the most appropriate solution is the adoption of strategic documents with long-term plans (calendar) for tax burdens in these areas.

The penal system for tax evasion in the Republic of Serbia is normatively defined relatively well, both in terms of types and fine amounts, as well as in terms of their determination. However, inadequate and inconsistent application of available sanctioning mechanisms is a factor encouraging the growth of the shadow economy in the Republic of Serbia. It is already common practice for the state to, from time to time make write-offs for taxpayers based on interest for late payment of taxes, provided that they continue paying their taxes regularly and on time in the future. In this way, taxpayers who regularly pay their obligations are placed in an unequal position, encouraging other taxpayers to behave according to the principle of moral hazard, which negatively affects their future willingness for timely settlement of tax obligations in the regulated manner. This practice needs to be changed, and in parallel with consistent sanctioning of non-compliance with tax regulations, a system of institutional recognition and incentives for businesses that regularly pay all their tax obligations must be established.

The complexity of the tax system, reflected in the large number of tax forms, as well as the complexity of the rules for calculating taxes and non-tax forms (fees and charges), also affects the size of the shadow economy. In the case of a large number of various types of public revenues, i.e. complexity of the rules for the calculation and enforcement of taxes, the possibility of good specialization for tax inspectors in controlling all forms of taxation is lower, which reduces the likelihood of discovering tax evasion. In such cases, it can also lead to unintentional tax

evasion by taxpayers who do not pay taxes because of a lack of information about the existence of tax obligations or lack of sufficient technical knowledge for correct calculation.

The analysis of regulations governing non-tax and parafiscal charges in the Republic of Serbia, which was conducted in 2014 by the National Alliance for Local Economic Development (NALED), showed that entrepreneurs in Serbia are obliged to pay at least 384 non-tax levies, of which the largest number (277 or 72 %) represents charges on the national level. The analysis also showed that the current system of non-tax and parafiscal charges in the Republic of Serbia is characterized by:

- absence of clear objectives to be reached via existing or introduction of new tax charges, i.e. absence of explanation of what the charge is meant to finance, and where investments are desired (allocated spending of revenues);

- legal framework that does not regulate the system as a whole, or in a consistent and fair manner, nor is it applied consistently (as is the case with the Law on Budget System – 'Official Gazette RS', No 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-correction, 108/13 and 142/14). Experience shows that there is still room for holders of public authority to quite 'freely' include various levies via decisions (decisions of management and supervision bodies of public agencies, public corporations and other public bodies);

- questionable functionality of the institutional framework and diminished role of the Ministry of Finance, whose position in the system requires a complete situation overview, performance of comprehensive monitoring and institutional supervision and control of non-tax and parafiscal revenues and levies. Therefore, it is still a frequent case for line ministries and bodies in their composition, public agencies, public enterprises and other public bodies to define the basic elements and the amount of non-tax and parafiscal charges without taking into consideration legally established compulsory elements and procedures. In this sense, the circumvention of rules governing the calculation of prices for the provision of public services is indicative (the Law on Budget System and accompanying Regulations on the Methodology and Process of Determining Public Services Costs);

- lack of transparency that characterizes the process of introducing certain charges and accompanying changes, i.e. defining their basic elements, creating an environment where it is very difficult for the taxpayer to manage the administrative maze of these payments.

The lack of coordination among different levels of authority and different bodies of public administration frequently leads to the situation where same basis (for the same service, law or good) is used for charging multiple taxes or fees (duplication or even multiplication of taxes and charges). For example, the Law on Mining ('Official Gazette of RS', No. 88/11), stipulates that a fee is paid for the use of mineral resources for underground water, used for extraction of useful mineral raw materials and geothermal energy, while the Law on Waters ('Official Gazette of RS', No. 30/10, 93/12) prescribes the payment of a fee for water use for thermal water. Although the Law on Waters stipulates that its provisions do not apply to ground water used for raw materials and geothermal energy extraction, it does not make a distinction between these types of groundwater and thermal water, with both fees being paid in practice in contradiction with the opinion of the Administrative Court that these two fees cannot be paid simultaneously.

Reforming the parafiscal charges system, concurrently ensuring transparency and the predictability of the system for parafiscal charges, would reduce the impact of this factor on the shadow economy in the Republic of Serbia.

Practice has shown that entities outside the VAT system, which pay flat taxes, very often report much smaller turnovers than they really are, which can be easily verified through the number of issued fiscal bills. Furthermore, when crossing data on their reported basic expenses and earnings, it is clear that they cannot even maintain operations in the short term, and especially not for a longer period of time.

Given the number of fiscal cash registers in the Republic of Serbia (about 191.400), number of taxpayers - entrepreneurs and legal entities (around 333.000) and number of field control inspectors (about 500), it can be concluded that physical control on the field, in the way it was implemented until now, does not yield desired results. Bearing in mind the limited capacities of the Tax Administration, and the fact that information technology is continually evolving, it is necessary to recognize and take advantage of all the benefits it provides for more efficient combatting of the shadow economy.

Concurrently, one of the most important aspects of controlling tax evasion and stimulating taxpayers to regularly comply with their obligations is stipulated in the certain procedures conducted by public administration bodies, that involves the control of tax obligations fulfillment for participants in these proceedings, is not sufficiently used. In this regard, public procurement regulations explicitly prescribe that a bidder in the public procurement procedure must prove, inter alia, that he has paid all due taxes, contributions and other obligations. However, experience has shown that institutions that use public procurement do not follow the instructions of the Public Procurement Office concerning the proof of compliance with this requirement, particularly in the procurement procedures of smaller value. At the same time, in practice, an issue was raised regarding the updating of data in the registry of bidders (persons entered in the register do not have to prove compliance with these conditions), as persons who do not fulfill their tax obligations appear as bidders in public procurement procedures. This mechanism must be improved and the delivery of information on irregular payers to the Tax Administration must be enabled.

1.3. Tax culture, Informing Citizens and Businesses about Negative Consequences of Shadow Economy and Their Participation in Its Suppression

Surveys of citizen opinions, conducted annually by Ipsos Strategic Marketing for usage by NALED, have shown since December 2014 consistent results indicating that most citizens of the Republic of Serbia (86%) personally support the fight against the shadow economy. Furthermore, more than half the citizens of the Republic of Serbia (53%) do not justify the existence of the shadow economy and are almost unanimous in their opinion that illegal operations threaten the labor rights, reduce state and business revenues and endanger the health and safety of consumers. However, the research also showed that a large percentage of people do not recognize clearly all forms of the shadow economy and that there is insufficient awareness of citizens about their direct role in combating this phenomenon. Namely, every sixth citizen of the Republic of Serbia does not know what the shadow economy is, but most of all, citizens believe it includes undeclared work (34%), while only 19% know that it also includes the sale of goods on the black market, without fiscal billing and tax payments. Concurrently, 82% of citizens view the informal sector as a means of survival for the poor, and as much as 46% of entrepreneurs believe that the shadow economy is a way of survival for small firms, although they also expressed the view that due to the unfair competition that operates in the gray zone, their business suffers adverse effects (price cutting, reducing turnover, lack of investment in technological development due to reduced income, inability to employ new workers). Also, 86% of respondents supported the suppression of illegal labor, but, at the same time, most of them would not report illegal business - as much as 63% of respondents would not report employers that hired them or their colleagues without formal registration, primarily out of fear of losing their job (12% received salary under the table, in cash, without payment

of taxes and contributions). Furthermore, despite the fact that the respondents agreed with the statement that the shadow economy reduces state revenues (83% of respondents), 81% of respondents would not report a store or café that do not issue fiscal receipts. Studies have also shown that 42% of citizens of the Republic of Serbia have no faith in the way the state handles tax revenues collected from citizens and businesses, while 35% cannot give an assessment due to lack of transparency - which is one reason for the lack of motivation of citizens to pay taxes and encourage others to behave responsibly.

IV. OVERVIEW OF COMPLETED ACTIVITIES FOR COUNTERING THE SHADOW ECONOMY FOR THE PERIOD PRIOR TO NATIONAL PROGRAM ENACTMENT

In recent years, activities aimed at countering the shadow economy were implemented mainly on an ad hoc basis. Bodies and organizations at the local level carried out designated activities individually, limiting themselves to their own jurisdiction, while coordinated activities involving two or more bodies were carried out very rarely.

These activities were most frequently implemented in the areas of controls of fiscal cash register recordings, persons performing unregistered professions, worker registration and suppression of undeclared work, especially in the trade, catering and construction industries (where undeclared work is the dominant form of employment), physical and technical security, suppression illegal trade outside of stores, control - in particular suppression of illegal trade of cut tobacco, turnover control of certain products, such as: footwear, mobile phones and accompanying equipment, secondary raw materials, coffee, confectionery and consumer goods sold on open markets, carpets and flooring, firewood, textbooks sold outside the stores; control of persons without dealer status engaged in brokering and leasing of real estate activities; control of business entities engaged in job-hunting and employment mediation activities without a permit, the legality of income by self-employment; control of catering establishments and facilities containing poker machines; control in the field of gambling, control of advertising of domestic economic entities on foreign television channels that are rebroadcast in the Republic of Serbia, control of implementation of the Regulation on Labeling (Marking) of Petroleum Products ('Official Gazette of RS', No. 46/13), in the area of control of marker presence in derivatives wholesale and retail energy trade facilities, as well as control of fulfillment of minimum technical requirements for trading in derivatives as a condition for licensing, control in the field of agricultural, food industry and environmental protection, as well as control of passenger transportation.

In particular, the Fiscal Police submitted 1130 criminal charges for acts constituting manifestations of the shadow economy to relevant prosecutor's offices from 1 January 2013 to 30 September 2015. Of the total 1130 criminal charges, in the crackdown on illegal trade in cut tobacco, the coordination of the Fiscal Police and other state bodies resulted in the filing of 620 criminal charges against 654 persons. During the operation, 28.2 tons of cut tobacco, 93.8 tonnes of leaf tobacco, 491,747 packs of cigarettes and 40 motor vehicles were temporarily seized. In addition, with the aim of reducing the shadow economy, Fiscal Police activities are focused on the early detection of companies that help legal businesses in avoiding the payment of public revenues, which are among the main generators of the informal sector, also known as 'laundering' or 'phantom' companies. In the period from 1 January 2013 to 30 September 2015, the Fiscal Police sector identified 573 phantom companies.

Besides the numerous control activities, which in addition to their normal preventive property generally also have a repressive property, some of the inspection services within the scope of their activities, which are solely

focused on preventive actions, established cooperation with trade associations and participated in the informing and education of entrepreneurs at round tables, forums and workshops.

Also, in the past year some inspection services, specifically the Market Inspection, has formed a special Group for the Prevention of the Shadow Economy, which is tasked with coordinating inspection supervision of the enforcement of laws and other regulations, with the aim of preventing shadow economy manifestations in trade, electronic commerce and services. This organizational unit prepares orders, procedures, explanations and check lists, plans activities, issues reports and information on the situation in areas within their jurisdictional scope and coordinates interdepartmental cooperation.

In addition to the aforementioned, inspection services operate on the principle of planning, and as such have envisaged controls for the following period in the fields of: trade in excise products (tobacco, alcohol, petroleum products); sale of undeclared goods; sale of goods without proof of origin; conducting unauthorized trade of goods and services, i.e. unregistered activities; evasion of public revenue payments via fictitious invoices with 'phantom' and 'laundering' companies; sale of goods whose declared purchase price is several times lower than production and market prices; undeclared employment of workers; payment of remuneration for work without registration in accounting books and payment of contributions; dual wage systems, such as a declared minimum wage in accounting books and unrecorded portion of salary payments in cash, for the purpose of evading taxes and contributions; unjustified transfer of funds to current account of persons and payment of wages in cash that does not originate from an account, without payment of related taxes on income.

According to information gathered by the Labor Inspectorate from 2014, 30.226 inspections were conducted in the area of labor employment. On these occasions, inspectors found a total 5,831 undeclared employees, and after the actions of the Labor Inspectorate and imposed measures for the elimination of illegalities, businesses employed 4,250 persons. In the first 10 months of 2015, the Labor Inspectorate conducted 50,416 inspections in the area of labor employment and work health and safety, of which 32,183 inspections fell within the former area. During these inspections, conducted from 1 January 2015 to 31 October 2015, labor inspectors identified 11,953 undeclared employees, and after the measures taken by labor inspectors, up to three days after the inspection, businesses had hired 7,318 new employees. The effects of the conducted inspections are much higher, as shown by data on the number of persons registered in the Central Registry of Compulsory Social Insurance, as well as data from the National Employment Service, the Pension and Disability Insurance Fund and the Statistical Office of the Republic of Serbia. Namely, an insight into the Central Registry of Compulsory Social Insurance database found that businesses register other employed persons in the shortest amount of time possible after compulsory social insurance inspections, which is an effect of the completed inspections, affecting among other things the spread of awareness of employers about the need to comply with regulations, and thus achieving greater and longer term employment effect.

V. OBJECTIVES OF THE NATIONAL PROGRAM FOR COUNTERING THE SHADOW ECONOMY

The Overall Objective of the National Program for Countering the Shadow Economy is to reduce the shadow economy share in the GDP of the Republic of Serbia from 30,1% to 26,7% (MIMIC method) by implementing measures defined in the National Program beginning in 2015 and ending in 2020.

Concurrently, the Overall Objective represents the strategic vision of the National Program.

The Overall Objective will be achieved using the following Special Objectives:

Special Objective 1: Improved Monitoring of Shadow Economy Flows;

Special Objective 2: Improved Functioning of the Fiscal System;

Special Objective 3: Reduction of Administrative and Parafiscal Burdens on Businesses and Citizens;

Special Objective 4: Raising Awareness among Citizens and Businesses on the Significance of Reducing the Shadow Economy and Motivation for Compliance with Regulations.

The suggested measures will impact the causes of the shadow economy, leading to:

- Establishment of clear jurisdiction and improvement of activity coordination among public administration bodies on countering the shadow economy, with the foundation of a balanced penalty system;
- Increased public awareness of undesired effects of the shadow economy, including its effects on responsible business entities, labor rights and consumer rights, in addition to increased citizen participation in countering the shadow economy;
- Reduction of shadow economy's scope via implementation of a set of tax, parafiscal and public procurement policies and institutional recognition of responsible businesses.

The realization of the National Program, i.e. of the objectives it has established is based on the following principles:

1. Integrity

State, autonomous province and local government bodies ensure that the issue of countering the shadow economy is included in all sector policies and regulations.

2. Joint responsibility

Informal sector effects that are detrimental to the economic development of the Republic of Serbia demand the involvement of all parties affected by the various manifestations of shadow economy in countering it – public administration bodies, organizations, business community and citizens.

3. Expertise

State bodies and organizations, autonomous province and local government bodies conduct systematic and comprehensive trainings of inspectors, judicial function holders and employees of tax and customs administration, where they learn and perfect theoretical and practical knowledge and skills, ensuring they conduct their job activities professionally, competently and responsibly.

4. Implementation of Incentive Measures

State, autonomous province and local government bodies implement measures directed at transferring business operations from ‘gray’ to ‘white’ zone with a set of measures covering tax, penalty, criminal and public procurement policies, as well as with measures for institutional recognition of and benefits for doing business legally.

5. Raising Awareness of Harmful Consequences of Shadow Economy

The informal sector cannot be efficiently countered without the active participation of the entire society. State bodies and special organizations, in cooperation with business representatives, introduce the public with the various forms of shadow economy and its detrimental causes, implementing measures for the participation of citizens in countering shadow economy.

6. Transparency

Activities of state, autonomous province and local government bodies on countering the shadow economy are transparent, with minimal possibility of corruption.

7. Improvement of Conditions for Doing Business

State bodies and special organizations pursue measures directed at improving the legal system and creating better conditions for doing business by improving inspection oversight regulations and practices, judicial control of the shadow economy, reforming parafiscal charges and reducing administrative burdens on businesses.

VI. MEASURES FOR IMPLEMENTING THE NATIONAL PROGRAM FOR REDUCING THE SHADOW ECONOMY

Special Objective 1: Improved Monitoring of Shadow Economy Flows

Based on the Law on Inspection Oversight (Official Gazette of RS, No. 36/15) and Decision on the Establishment of the Steering Committee (Official Gazette of RS, No. 66/15), the process of establishing a systemic coordination of inspection oversight in the Republic of Serbia has been initiated, which will ensure constant coordination of inspection services in order to reduce conflict and lack of competencies among individual inspections, as well as their efficient work in the countering of the shadow economy. In accordance with the Law on Inspection Oversight, the basic principle of inspection activities will be preventive action and advisory role for businesses, with the goal of achieving a higher level of compliance and better management of public risks. Inspection oversight will be based on previous risk assessments, in order to optimize available resources while achieving more effective control at the same time. In addition, the Steering Committee will coordinate the harmonization of sector laws that regulate the inspection activities with the Law on Inspection Oversight, improvement of working conditions for deployed inspectors, regulation of inspection treatment of shadow economy carriers in their areas. The Steering Committee will draw up guidelines for the application of methods of risk assessment in various fields, which will allow the creation of inspection plans based on the conducted risk assessments. Implementation of a unified information system, which will provide faster and easier exchange of information about the current situation in the field of inspection oversight, will prevent duplication of controls, provide more efficient inspection oversight and facilitate the monitoring of the situation in the area of inspection oversight.

The unified webpage will publish regulations, checklists, monitoring plans, guidelines for conduct according to regulated procedures towards legal entities and individuals, responses to the questions and other documents and information related to inspection supervision, in order to facilitate the adjustment of business entity activities for compliance with current regulations and standardization of inspection practices. Transparent disclosure of information on the results of inspection oversight will provide monthly assessments of the effectiveness of plan implementations, performance of inspectors and, if necessary, correction of the Action Plan. An easy and accessible system for filing anonymous reports of shadow economy case (such as the 'Tax alarm' for reporting tax violations and Office for Quick Responses for Reporting Undeclared Labor) and providing feedback on the status of non-anonymous reports within 72 hours make participation of citizens and businesses in countering different forms of the shadow economy easier, and at the same time provide full transparency of inspection bodies.

Of particular importance is the establishment of a system that will implement pre-planned processes of professional training of inspectors in accordance with the amendments to sector regulations, as well as the enforcement of capacity analyses of inspection bodies with the aim of increasing their efficiency. At the same time, there is a need for establishing criteria for evaluating the performance of inspectors, which would be determined by changing regulations on the method of calculation of earnings and evaluating the performance of inspectors.

Continuous education, improved cooperation and enhanced information exchange between inspection and judicial bodies, Fiscal Police and Customs are essential preconditions for the successful detection, prosecution, and sanctioning of the shadow economy's forms of appearance and the establishment of best practices, which will be achieved by determining liaison officers to the Public Prosecutor's Office and the police. This would ensure uniformity and consistency in the suppression of key forms of the shadow economy and minimize its harmful impact on the budget, quality of public services and safety and health of consumers. Establishing a clear and consistent policy of prosecuting and sanctioning of these occurrences would significantly contribute to the specialization of judicial bodies for prosecution of corporate crimes, which will be done by setting up special departments for financial investigations in high level prosecutor's offices.

For more effective control of illegal trade, in addition to initiating misdemeanor and criminal proceedings in accordance with applicable regulations, all inspections must be authorized to conduct first instance misdemeanor proceedings for committing minor misdemeanor and issue orders which would impose fines of a fixed amount (as defined in the Customs Act - Official Gazette RS, No. 18/10, 111/12 and 29/15).

Based on studies and analyses of the shadow economy, as well as information gathered by inspection and other bodies, as well as business associations, conclusions were made about the need for increased and better organized actions of all competent authorities in the detection of illegal business in certain critical areas and in certain 'hot spots'. By forming working groups for related economic activities, the active cooperation of the relevant public administration bodies and professional associations would be allowed. It is also necessary to regulate the joint actions of relevant public administration bodies at all stages of countering the shadow economy (of detection, prosecution to sanctions) with planning documents, in order to clearly define critical areas or activities in which the forms of the shadow economy inflict the most damage to the health and safety of citizens, and fiscal system of the Republic of Serbia. It is especially necessary to improve coordination of integrated border management by defining activities on a monthly basis and the involvement of all relevant public administration institutions in the work of these bodies (e.g. Fiscal Police, Customs Administration, market inspection, etc.), with the Activity Plan of the

Coordination Commission necessitating the inclusion of permanent cooperation with the Coordination Body for Integrated Border Management. It is also necessary to establish better control of imports, especially of excise products, textiles and agricultural products (raw fruits, vegetables and meat), which are taken over after the import process by 'phantom companies', generating illegal production and further sale in registered and unregistered entities. It is necessary to more efficiently record persons who take over goods after customs clearance (inclusion of mandatory submission of authorization for individual to take over goods on behalf of a legal entity) to facilitate the monitoring of the movement of goods after customs clearance, establishment of a mechanism for launching coordinated action during delivery periods in hot spots. During customs clearing, it is necessary to improve the procedure and frequency of comparing the actual and declared quantity and value of goods, check the purchase price that are often much lower than the actual price, followed by the recording the importer's storage address, controlling the distribution of goods so that external controls of customs procedures achieve a reduction of the shadow economy and the black market. In order to improve the activities of customs services it is necessary to define more precisely the criteria used in the risk assessment process in the Customs Administration and its compatibility with the system of risk assessment of inspection bodies.

A special measure against illegal sale would be disabling the selling of goods on the open market and all other open points of sale if the owner does not possess a document confirming the legal purchase of goods - invoice or fiscal receipt.

In order to combat the shadow economy that is supported by phantom or laundering companies, a set of measures and activities aimed at reducing the risk of establishing such companies (e.g. records of the founders and related parties of the undertakings which was temporarily seized PIB), as well as their efficient detection and sanctioning needs to be defined.

A comparative analysis of punitive measures in sector regulations and the sanctions enforced should provide the basis for assessing the uniformity and adequacy of punitive measures and performing normative and practical harmonization of sanctions according to the weight of the violation and economic strength of the entity that is the subject of control, in order to encourage a higher level of general and specific deterrence.

Since the prior work of inspections has determined many cases of violations of obligations of employers with regard to labor relations, it is necessary to establish and implement the promotion of employment registration as well as registration for mandatory social insurance prior to commencing work, to ensure regular payment of the actual amount of earnings and related taxes and contributions, in order to prevent abuses. For the purpose of using data on incomes for supervision of payment of taxes, it is necessary to initiate the establishment of a regulatory framework and optimization of technical solution to enable the exchange of data on salaries, taxes on income and the corresponding contributions from commercial banks and the Tax Administration.

For certain economic activities it is necessary to possess a license which is valid for a longer period of time, with previous obligation to fulfill certain legal, financial, technical and operational conditions. Although there are legal provisions for termination of licenses due to the cessation of fulfillment of one or more of the conditions for holding a license as well as in the event of non-compliance with regulations governing the performance of the activity, state and regulatory bodies rarely or in certain areas never control the fulfillment of conditions for holding a license after their issue until renewal. In order to improve the system of control of fulfillment of the conditions under which a license is granted, it is necessary to establish a publicly accessible database on issuers and holders of

licenses, prescribing the obligation of regularly submitting (electronically) a certificate of conformity with the conditions under which the license was issued for the entire validity period of the license, with the necessary evidence (without obligation to renew their license annually), which would reduce administrative procedures and raise the accountability of licensors.

Special Objective 2: Improved Functioning of the Fiscal System

Large fiscal and administrative burdens are often the cause for entrepreneurs to transfer legal operations into shadow economy flows. This sort of transition is not always completed in one step, with entrepreneurs who choose this mode of operation often transferring only part of their business and cash flows in the grey area. If the state improves its business environment, maintains a stable fiscal policy without unforeseen and frequent changes in tax rates, and adjusts its fiscal policy to the socio-economic situation in the country, transfer of business into the grey area decreases over time, and with coordinated management of a transparent tax policy, while applying instruments for the implementation of Special Objective 1 (business legality controls), the scope of the economy's transition from the grey area into legal waters is increased.

Changes to tax policy and practice in the forms of introducing benefits for timely payment of taxes and penalties for irregular fulfillment of obligations will make entities that operate in the informal sector transfer into legal channels, while a consistent penal policy will make doing business in the shadow economy unprofitable. In addition, long-term planning of tax policy, in particular by prescribing the deferred entry into force of any unplanned increase in fiscal charges for a period of at least six months from the date of entry into force of the regulations, or the introduction of the 'two dates' rule (precisely determined two dates, e.g. 1 July and 31 December) when amendments or new regulations in the area of fiscal policy come into force, will enable long-term business planning and more investment, as well as predictability. Such procedures establish a stimulating tax system for the transition of entities from the shadow to the legal economy, while simultaneously minimizing the risk and need for a vice-versa process. Indeed, a big effect will be seen from the establishment of the practice of advisory visits by the Tax Administration primarily to micro, small and medium enterprises to familiarize them with tax obligations in accordance with the Corporate Strategy of the Tax Administration for 2013-2018, Transformation Program of the Tax Administration for 2015- 2020.

By enabling businesses that are their first year of operations to be exempt from paying income tax, or income tax from self-employment, or providing them with lower tax rates, establishment of new businesses would be stimulated, as well as the transition of entities from grey into legal flows. Considering the fact that the first couple of years are always the key to the survival of entities on the market, this measure would particularly affect the reduction of the shadow economy, while also establishing a system for stimulating the establishment of new businesses. In addition, stimulative effects would be achieved by establishing benefits during the determination of parafiscal charges in the first year of operation (payment of lower amount of taxes and charges), which would be based on previously conducted analysis of justification and long-term economic viability.

In the case of entrepreneurs that commenced their own self-employed business from an unemployment status, it would be useful to create incentives in the form of exemption from taxes and contributions for a certain period (e.g. a six-month opportunity for exercising labor rights and strengthening their business to make a profit in the foreseeable future).

Also, farms and employers often hire seasonal workers without a work contract or contracts on work engagement without employment relationship, although this phenomenon is not uncommon in hiring workers on full-time jobs. Figures show that informal employment is most present in the sector of primary agricultural production (especially smaller farms) and the construction sector. It is necessary to define a legal framework for ensuring that a farmer, who does not hold the status of legal entity or entrepreneur, may initiate a work relationship with a person as an employer. A voucher system would certainly facilitate and fuel the employment of seasonal workers.

In order to encourage employment, or more specifically the registration of workers, a plan of fiscal measures on the basis of a comprehensive analysis is needed that will affect the increase in employment and the transition of workers from the grey zone in regular flows, as well as elimination of payment of the salary hands on.

The Law on Tax Procedure and Tax Administration (Official Gazette of RS, No 80/02, 84/02 - correction, 23/03 - correction, 70/03, 55/04, 61/05, 85/05 - second law, 62/06 - second law, 63/06 - correction of second law, 61/07, 20/09, 72/09 - second law, 53/10, 101/11, 2/12 - correction, 93/12, 47/13, 108/13, 68/14 and 105/14) directly places registered business entities that calculated their taxes incorrectly in an unequal position vis-à-vis non-registered entities, as registered entities have a 15 day deadline to make rectifications and pay the correct amount of tax while unregistered entities have 45 days to register and pay taxes. In this respect, the equalization of positions for all violators of regulations must be leaned towards, as both are in the grey zone during the perpetration of their respective offense.

The fiscalization process in the Republic of Serbia began in 2003, and was fully completed the very next year. Given that more than ten years have elapsed since its introduction and that the scope of fiscalization was repeatedly amended, as well as taking into account significant advances in technology, it is necessary to carry out an analysis of the existing system in order to determine whether there is a need for improvement and the manner of improving the system. Pointing to this is the fact that the monitoring of existing cash registers and the use of generated data on low level turnover, which could also be improved based on an analytical approach. In order to improve fiscal discipline and better planning of inspection oversight, existing recommendations point to the need to improve technological capacities and expand the scope of fiscalization.

According to a preliminary analysis of the costs and benefits of reforming the fiscalization system in the Republic of Serbia, two alternative solutions have been identified – the introduction of online cash registers and improvement of the existing system of fiscalization. The results of the analysis show that the introduction of online fiscal cash registers is a more cost effective solution compared to both improving the existing system and to retaining the current situation, as the net effects are higher - in the three-year period, the positive cumulative net effect of introducing online cash registers is RSD 5.93 billion, while the cumulative net effect of improving the existing system is RSD 1.39 billion. However, since the preliminary analysis did not cover security aspects of the online fiscalization system operation, the former must be supplemented in order to make an overview of the system as a whole, including its advantages and disadvantages. In addition to the financial aspect, the preliminary analysis shows that online cash registers system provides a wider information and analytical basis for inspection oversight and control based on risk assessment, given that it integrates a huge number and various types of data in real time, providing a greater opportunity for continuous improvement of the system as well as the possibility of integration with other areas of inspection control, such as labor inspections. In addition, it is necessary to analyze the possibilities of improving the current system of fiscalization and determine the advantages and disadvantages of both the former and latter systems.

There is a wide range of professions in the Republic of Serbia that are not covered fiscalization compared to the countries in the region, which makes it particularly difficult to control them due to a lack of appropriate mechanisms. For example, in the Republic of Croatia, only a few professions (sale of tickets or tokens in passenger travel, toll collection, wholesale of own agricultural products in markets and open markets, the sale of goods or services through vending machines, etc.), while in Serbia this list considerably longer (Attachment 1 - Analysis of Costs and Benefits of Reforming the Fiscalization System in the Republic of Serbia). Accordingly, it is necessary to conduct an analysis of the current scope of fiscalization in Serbia with recommendations for its expansion. After the adoption of the recommendations, the analysis should serve as a basis for regulating the legal framework for the expansion of the fiscalization scope.

Following the implementation of the broadening of coverage of fiscalization and improvement of the fiscalization system, it is necessary to stimulate non-cash payments, primarily by encouraging the introduction of the possibility of electronic payment in sectors dominated by cash transactions (catering, taxi services, etc.) by subsidizing point of sale terminals to small and micro enterprises, benefits for cashless payments vis-à-vis cash payments, as well as prescribing the maximum fee amount charged by card operators for cashless payments, modeled on European practice.

In order to monitor the success of tax payment collection, especially VAT and excise duties, as well as to further plan activities in the fiscal policy framework, it would be wise to record quarterly trends in tax collection and to publicly announce the data (on the webpages of the Tax Administration and Ministry of Finance). It is necessary to establish a method and implement a technical solution for establishing a traceability chain of VAT in traffic, beginning with primary production or import, across all phases of processing, all the way to final consumers, and to define a way of controlling critical points, i.e. determining the phases of calculation and payment in which interruptions occur.

Another requirement is to devise and implement measures that will lead to increasing tax culture and accountability in doing business and the establishment of fair competition. One way is the establishment of a 'White List' of entities that operate responsibly and legally, for the purpose of their institutional recognition by promoting and facilitating benefits in doing business, in accordance with the determined reduced risk for violations, with clearly defined criteria and procedure for inclusion on the 'White List'.

It is necessary that the control of the fulfillment of requirements for inclusion on the 'White List' be conducted by an independent institution, as well as to ensure regular and efficient verification of the fulfillment of conditions and the impossibility of re-inclusion on the 'White List' within a certain period if it is established that the entity has violated any of the conditions for the 'White List', i.e. that it operated in the grey area.

In the framework of the proposed measures, and in cooperation with business associations, business leaders in the supply chain and public administration bodies at the central and local level, projects for joint introduction of integrated management systems and improving the quality and competitiveness of supply chains will be encouraged. This will allow for the basis for inclusion in the supply chain and logistics private and public companies to be legally-operated business, completely out of grey areas. This means that an entity involved in the supply or logistics chain has registered workers whom they regularly pay salaries, taxes and contributions in their respective full

amounts, that they conducted medical examinations in accordance with the risk assessment act, that they introduced systems for quality management, environmental protection, health and safety at work, etc.

An additional method for stimulating businesses to regularly pay their taxes is already built into the system of public procurement. However, practice shows that tenderers in public procurement procedures pay their employees only taxes and contributions, but not the salary, which makes it necessary to redefine the public procurement policy so that subjects who did not regularly settle their tax liabilities and obligations to employees may not participate as bidders in Public Procurement (impose certain criteria - that they do not have overdue debts in these areas for at least six months prior to participation in the procurement process, etc.). In addition, it is necessary to reinforce the accountability of the National Commission for the Protection of Rights in Public Procurement Procedures for the assessment of evidence on the fulfillment of conditions from Articles 75 and 76 of the Law on Public Procurement (Official Gazette of RS, No. 124/12 and 14/15).

Special Objective 3: Reduction of Administrative and Parafiscal Burdens on Businesses and Citizens

In addition to the fiscal burden on the economy, administrative procedures may also cause a significant burden on doing business, and their simplification highlighted as one of the main goals of the National Program.

With the aim of achieving predictability of the regulatory environment, it is necessary to determine the normative frameworks for provision of services in the most common administrative procedures, which will determine the timeframe for reaching decisions and define objective, clear and transparent conditions for the provision of services. According to a survey conducted by the USAID – Business Enabling Project, the administrative burden on the economy in 2013 amounted to 3.67% of the GDP, based on an analysis of 188 administrative procedures deemed most significant.

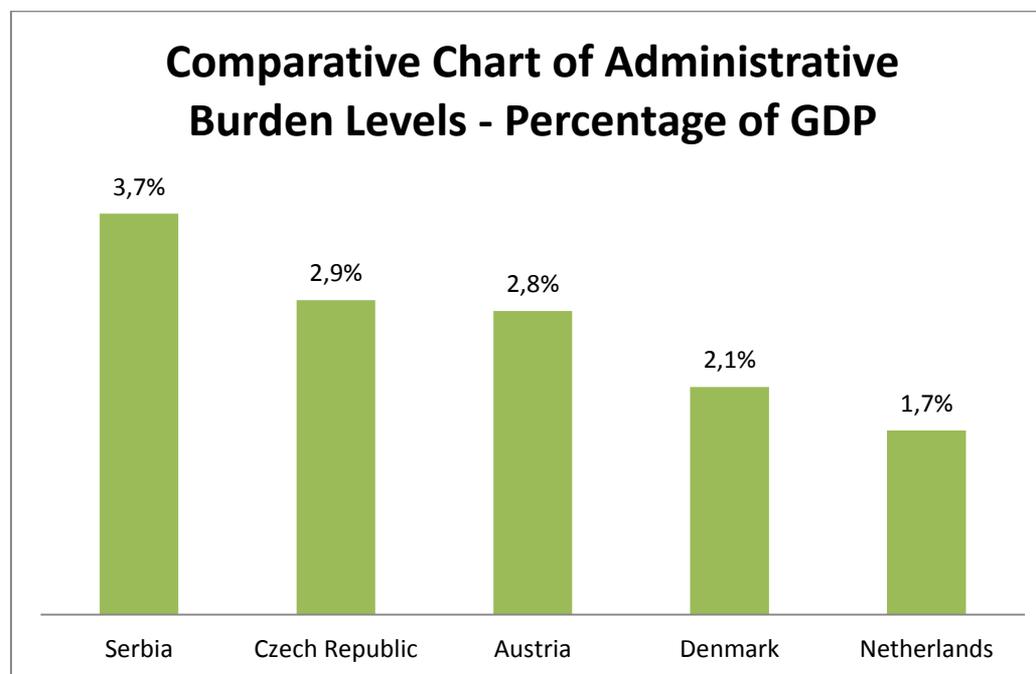


Chart 2. Comparative chart of administrative burden levels as percentage of GDP, Source: USAID-BEP

Introduction of electronic services and one-stop shops in as many areas as possible can help significantly in simplifying administrative procedures and speed up and reduce the costs to the economy. In the coming period it is necessary to continue with improvements to the e-government website, which should unify all administrative procedures and requirements that are implemented by state, autonomous province and local government units. Room for improvement in the area of e-government is significant, especially when taking into account the comparative data on the development in this area compared to other countries in the region.

The establishment of a public registry of parafiscal charges in the form of taxes, fees and other administrative burdens is meant to increase the transparency and predictability of the parafiscal burden on businesses and limit the introduction of new fees that are often unbearable for businesses, forcing entities to transfer parts or their entire business to the grey zone. The public registry should contain a comprehensive overview (also accessible online) of fees and charges for services that holders of public authorizations collect when exercising those authorizations, thus eliminating the unpredictability and arbitrariness of introducing new charges and determining their amount. In this way, legal security is ensured, as well as more purposeful planning of business costs. In line with increasing transparency and legal security in the regulation of all fees for use of public goods, determining a legal framework in the form of legislation that would regulate the fees for use of public goods becomes desirable, with the framework prescribing a system for refunding illegally collected fees and charges. In order to establish the public registry of parafiscal charges on valid grounds, it is first necessary to classify non-tax levies in accordance with determined areas, as well as to regulate the jurisdictions of public administration bodies concerning data updates for the registry.

The provision of a mechanism for verifying compliance of fee calculation by public service provider for their services is essential to ensuring uniformity of public administration procedures in the collection of payments for services provided to citizens and businesses. Amendments to the regulations Law on Administrative Fees which would calculate fee amounts based on the estimated value of the services charged via the fee would ensure the consistent enforcement of the Rulebook on the Methodology and Process of Determining the Cost of Public Service Provision. Establishment of a system to refund illegally collected taxes would further improve the administration's conduct towards citizens and businesses. At the same time, it is necessary to harmonize the practices of public administration bodies in terms of ensuring equal fee levels charged to users of public services.

Establishment of a public registry of procedures i.e. formalities for all citizens and businesses, that would be presented in a way that is accessible to all, with the aim of achieving better understanding of procedures themselves, bodies responsible for their implementation and the costs related to all participants in the procedures.

Special Objective 4: Raising Awareness among Citizens and Businesses on the Significance of Countering the Shadow Economy and Motivation for Compliance with Regulations

The fight against the shadow economy presumes the synergy, or active involvement of all state bodies, organizations, businesses and citizens, because without the full involvement of all these actors it is impossible to achieve the overall objective of countering the shadow economy.

The active participation of the business community and citizens in countering the shadow economy will represent added control of informal sector flows, as well as formal control organized at the public administration level. This form of countering the shadow economy provides an additional effect of positive pressure of citizens and

businesses on public authorities to effectively perform their duties, as well as supporting the establishment of mechanisms for preventing the manifestation of shadow economy. In order to achieve this additional effect and actively involve businesses and citizens in the fight against the shadow economy, first and foremost further efforts need to be made to raise tax culture and awareness of the negative consequences of the shadow economy.

Up until 15 years ago, the economy of the Republic of Serbia functioned in totally different socio-economic conditions, which did not correspond to the terms of a competitive market economy. The reforms which have been started are already on shaky foundations of a collapsed social economy, which was further affected by armed conflict in the region. In the period preceding the reforms, the economy of the Republic of Serbia was affected by sanctions, which further weakened tax culture and increased tax evasion. During this period, non-payment of tax obligations, undeclared employment of workers and unregistered business entities become completely acceptable due to the need for survival. In parallel, the industrial sector, i.e. business and production activities, was fading, with the trade sector strengthening as a result of reselling in the grey zone. At the same time, during the same period, the state became too tolerant towards such methods of doing business, mainly in order to maintain social peace.

The reforms implemented in the recent period were ad hoc in nature, reducing the share of the informal or shadow economy in overall market participation, but is lacked a systematic approach to countering the shadow economy. Throughout this period, the shadow economy's large share in the GDP of the Republic of Serbia was maintained, which was further supported by citizens and businesses guided by the idea that this would reduce their spending. Paying taxes was primarily viewed on their side as an unnecessary phenomenon, as they believe that income from taxes is distributed to the huge number of employees in the public sector, overlooking the fact that payment of taxes facilitates wider public spending for common goods - building schools, kindergartens, and other institutions of general social benefit, improving health and social services, infrastructure and living standards of all citizens.

In order to change this approach of citizens and businesses, the Government must pay special attention to activities aimed at strengthening tax culture and awareness of the harmful effects of the shadow economy.

In this respect, the overall struggle to counter the shadow economy will primarily involve a campaign to raise awareness about the harmful effects of the shadow economy and the need for their participation in the overall struggle to counter it. Activities will begin with the proclamation of 2016 as the 'Year of Countering the Shadow Economy', ensuring greater visibility of the fight against the shadow economy through the campaign and information distribution (developed national campaign identity, short videos, promotional materials, billboards, videos, advertisements, brochures, posters ...).

Special attention will be directed at educating citizens (especially primary and secondary schools) and taxpayers about the harmful effects of the shadow economy. Within the framework of the promotional/educational campaign, supported by past experience of the Tax Administration that proved such methods to be successful, a lottery will be organized with the intent of motivating citizens to take the fiscal receipts, thus becoming the first monitor of legal doing business of entities. In addition, in order to increase the effects of the lottery, contests will be held for local governments based on the ratio of sent applications/envelopes for the prize draw to the number of residents in the local government, as per the defined methodology.

The key aims of the campaign are:

- 1) Greater citizen understanding of what the shadow economy is, its consequences on the standard of living and why it is important to pay taxes;
- 2) Education of citizens in recognizing and reporting shadow economy;
- 3) Education of students aimed at developing fiscal consciousness and recognizing the significance of taxes;
- 4) Strengthening faith in the government and methods of budget resource distribution.

The aforementioned key aims will be reflected in the strengthening of tax culture and creation of an environment that encourages compliance with tax regulations, and finally through an increased income flow into the budget of the Republic of Serbia (above all via VAT).

To monitor the effectiveness of the measures implemented for raising citizen and business community awareness of the significance of countering the shadow economy and its consequences, public opinion polls and studies will be conducted.

VII. IMPLEMENTATION AND MONITORING OF THE NATIONAL PROGRAM

The implementation of the National Program will be based on annual Action Plans that will be prepared together with all line and relevant public administration bodies and via discussion with the private sector and civil society.

The implementation of an organized suppression of shadow economy policy is characterized by complexity and multidimensionality that condition adherence to division of jurisdiction among relevant public administration bodies and their coordination. Another important principle concerns the necessity of constant involvement of, as well as dialogue and cooperation with business, civil society, expert and wider public representatives. Line ministries and public administration bodies are responsible for implementing measures and activities defined by the Action Plan that are under their jurisdiction.

The Coordination Body, formed as a Government body with the task of coordinating the activities of public administration bodies and directing activities for countering the shadow economy, monitors and coordinates the implementation of the National Program. Administrative and technical requirements of the Coordination Body will be handled by the ministry in charge of state administration and local government affairs. In line with this, the designated ministry is responsible for the technical coordination of the implementation of the National Program, in cooperation with the Coordination Body.

The line ministry in charge of financial affairs will make quarterly reports to the Coordination Body on the progress of implementing the National Program, or more specifically the realization of the Action Plan. In addition, the Coordination Body will report annually to the Government on the realization of the National Program.

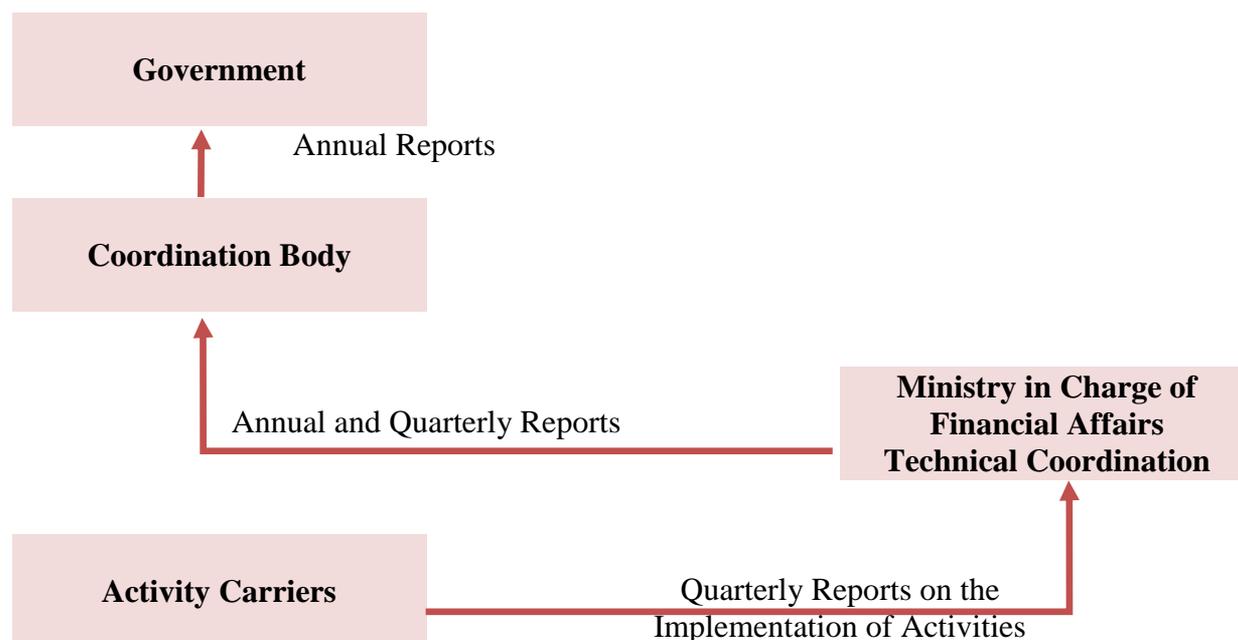


Chart 2 – Coordination of Implementation Strategy

Table 1 – National Program Implementation Cycle

National Program Implementation Cycle		
Year	Activities Before Beginning of Year	Activities During and by the End of the Year
2015	Development of Action Plan for 2016, with projections for 2017	<ul style="list-style-type: none"> - Quarterly reports on implementation status - Annual report on implementation status - Updating indicators
2016	Development of Action Plan for 2017, with projections for 2018	<ul style="list-style-type: none"> - Quarterly reports on implementation status - Annual report on implementation status - Updating indicators
2017	Development of Action Plan for 2018, with projections for 2019	<ul style="list-style-type: none"> - Quarterly reports on implementation status - Annual report on implementation status - Updating indicators - Revision necessity analysis (mid-term external evaluation)
2018	Revision of National Program (if necessary); Development of Action Plan for 2019, with projections for 2020	<ul style="list-style-type: none"> - Adopting amendments to revised National Program (if necessary) - Quarterly reports on implementation status - Annual report on implementation status - Updating indicators
2019	Development of Action Plan for 2020	<ul style="list-style-type: none"> - Quarterly reports on implementation status - Annual report on implementation status - Updating indicators
2020	Implementation of Action Plan for 2020; Revision of National Program with the aim of its enactment for future period	<ul style="list-style-type: none"> - Quarterly reports on implementation status - Annual report on implementation status - Updating indicators - Evaluation of National Program (Final external evaluation) - Initiation of procedure for developing a new strategic document

In 2018, or earlier if necessary, a mid-term external evaluation of the National Program will take place, the results of which will guide the implementation of corrective procedures.

The measures and activities contained in the Action Plans for implementing the National Program will be financed from the budget of the Republic of Serbia, donor funds, as well as international financial institutions, and will stay in line with budget limitations. The ministry in charge of state administration and local government affairs, in cooperation with the ministry responsible for finance, prepares an annual overview of financial assets, and their respective source, intended for the implementation of the Action Plan for the next year, using information that is sent by line and relevant public administration bodies, i.e. activity carriers for the implementation of certain measures and activities from the Action Plan. Preparation of annual overviews of financial assets and their sources will happen simultaneously with the preparation of the Republic of Serbia’s budget for the following year.

The most significant of the identified risks to the implementation of the National Program is the lack of financial means and insufficient cooperation and coordination of relevant public administration bodies. The Coordination Body represents the basic mechanism that can avoid risks concerning cooperation between relevant public administration bodies, with the measure anticipated for avoiding and/or reducing the risks of lack of financial means being project planning and usage of donated resources.

In cooperation with NSPP, the ministry in charge of state administration and local government affairs will develop a system for monitoring the effects of the National Program’s implementation, based on objective and verifiable indicators of success that are supported by relevant and confirmed data.

Basic indicators for tracking the execution of strategic objectives are given in Table 2 - Indicators for monitoring strategic objective realization.

Table 2 - Indicators for Monitoring Realization of Strategic Objectives

Overview of the most significant indicators for monitoring strategic objective realization	Most recent figures	2020	Source
General Indicators			
Shadow economy participation in the GDP of the Republic of Serbia	30,1% (2010)	26,7%	Study on Containing the Shadow Economy
Tax gap, as % of hypothetical VAT	25,1% (2014)	No more than 20%	Study by National Secretariat for Public Policies
Share of informal employees in total employment	24 % (2014)	17 %	Labor force poll (Statistical Office of the Republic of Serbia)

VIII. ACTION PLAN FOR IMPLEMENTING THE NATIONAL PROGRAM FOR COUNTERING THE SHADOW ECONOMY

Activities, with deadlines, bodies and organizations responsible for activity implementation, financial requirements and indicators for monitoring the execution of measures of the National Program will be determined in annual Action Plans, enacted by the Government.

The Action Plan for Implementing the National Program for 2016 with projections for 2017 is published together with the National Program, as its integral part.

IX. CONCLUSION

The National Program will be published in the 'Official Gazette of the Republic of Serbia'.

ACTION PLAN FOR IMPLEMENTING THE NATIONAL PROGRAM FOR COUNTERING THE SHADOW ECONOMY FOR 2016 WITH PROJECTIONS FOR 2017

Overall Objective:		Reduce Shadow Economy from 30,1% to 26,7% of GDP								
		Overall Objective Indicator – Effect Indicator: Reduction of Shadow Economy (as part of GDP) by 3,4%								
		MEASURES OF THE NATIONAL PROGRAM FOR COUNTERING THE SHADOW ECONOMY								
Special Objective 1:		Improved Monitoring of Shadow Economy Flows/Improved Inspection Oversight								
Measure 1.1.:										
		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
Improving the Inspection Oversight System		World Economic Forum Global Competitiveness Index – Quality of Institutions 3,9				Improved Inspection Oversight: World Economic Forum Global Competitiveness Index – Quality of Institutions 5 (by end of 2017)				
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Monitoring of guideline implementation and reporting on inspections' activities, with recommendations for more efficient oversight	Continuous from Q1 2016	At least 80% of inspection services are fully implementing guidelines	Steering Committee Activity Report	Guidelines for implementing inspection oversight	Regular Expenditure	N/A	Steering Committee, Ministry of Public Administration and Local Self-Government (MPALG), All inspections	USAID-BEP	Law on Inspection Oversight ('Official Gazette RS', No 36/2015, henceforth: LIO)

2.	Analysis of regulation compatibility in the inspection oversight area	Continuous from Q3 2016	Formulated and published Steering Committee Report with recommendations for amending regulations and measures for improving coordination of inspections	Steering Committee Report with Recommendations for Amending/Adding Regulations and Measures for Improving Inspection Coordination	/	Regular Expenditure	N/A	Steering Committee, Line Ministries	Inspections, USAID-BEP	LIO
3.	Establishment of a framework for adjusting regulations in the inspection oversight area	2016	1. Statements of agreement from all line ministries are delivered 2. Conclusion finalized by Government that authorizes amendments to necessary regulations	Model statement of agreement, Government conclusion recommending amendments to necessary regulations	/	Regular Expenditure	N/A	Steering Committee, MPALG	Ministries that have inspection departments, USAID-BEP	LIO
4.	Improvement of capacities for enforcing inspection jurisdiction over unregistered subjects, pursuant to LIO	2016	1. At least 80% of inspection services are fully implementing guidelines for oversight of unregistered subjects 2. Conducted at least two trainings during the year for a minimum of 20 inspectors in treatment of unregistered subjects	1. Methodological explanations 2. Treatment Guide 2. Steering Committee Activity Report	/	Regular Expenditure	N/A	MPALG, Inspections within Ministries	USAID-BEP	LIO

Measure 1.2.:										
Improving the Capacity of Inspection for Planning, Enforcing and Reporting in Inspection Oversight										
Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value							
Percentage of conducted control lists of inspector performance in 2013 – 30% of inspections			Percentage of control lists of inspector performance at the end of 2016 – 100% of inspections							
Percentage of existing annual inspections plans for 2013 – 66%			Percentage of existing annual inspections plans – 100% with at least 80% completion rate by the end 2016							
Activities	Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents	
					Program Budget Line	Other Financing Sources				
1.	Analysis of the area of risk assessment for all areas subject to inspection oversight	2016	Developed and published guidelines for utilizing methods of risk assessment in different areas that are subject to LIO	Guidelines for utilizing methods of risk assessment in different areas that are subject to LIO	/	Regular Expenditure	N/A	All ministries that contain an inspection department, Steering Committee	USAID-BEP	LIO
2.	Standardization of the risk assessment process regarding planning and enforcement of inspection oversight	2016	Developed inspection plans based on risk assessment	1. Statute on determining the methodology of implementing risk assessment; 2. Inspection plans	Statute on determining the methodology of implementing risk assessment	Regular Expenditure	N/A	All ministries that contain an inspection department, Steering Committee		LIO Statute on common risk assessment elements in inspection oversight

3.	Analysis of inspection business processes with the aim of determining an initial basis for establishing a unified information system in the area of inspection oversight	2016	Created report on inspection business processes with project proposal	Report on inspection business processes with project proposal	/	Regular Expenditure	N/A	MPALG	USAID - BEP	LIO
4.	Organization of conference, with the Republic of Serbia as the patron, with the goal of raising funds for improving inspections' technical resources, in particular the IT System and equipment	2016	Collected necessary resources as determined in Activities 3	/	/	Regular Expenditure	N/A	All ministries that contain an inspection department, Steering Committee		
5.	Implementation of unified information system in area of inspection oversight	2016 for pilot inspections - 2017 for other inspections	1. IT System implemented in 4 pilot inspections by 30 June 2017 2. IT System implemented in all inspections by the end of 2018	IT System	/	Regular Expenditure	N/A	All ministries that contain an inspection department, Steering Committee	USAID - BEP	
6.	Conducting expert trainings of inspectors for using the IT System in planning inspection oversight	2017	Conducted trainings for at least three pilot inspections (tax, market, labor)	/	/	Regular Expenditure	N/A	Steering Committee, MPALG Inspections		

7.	Conducting expert training of inspectors for inspection oversight regarding amendments to sector regulations	Continuous	Held instructions courses for at least 220 inspector trainers	/	/	Regular Expenditure	N/A	Steering Committee, MPALG Inspections	USAID - BEP	
8.	Analysis of inspection capacities	2016	Created report with proposals for requirements for improving inspection capacities	Report with proposals for requirements for improving inspection capacities	Steering Committee Recommendation	Regular Expenditure	N/A	Steering Committee, Inspections	MPALG	
9.	Adjustment of number of inspectors in line with the determined requirements	Continuous from 2016 to end of 2017	A sufficient number of inspectors is employed in line with the determined requirements based on the analysis of inspection capacities	Inspection Activity Report	Rulebooks on the systematization and organization of jobs in state administration bodies	Regular Expenditure	N/A	MPALG	Inspections	
10.	Securing of missing resources for activities	Continuous from 2016	Acquired equipment in line with the determined requirements	Inspection Activity Report	/	Regular Expenditure	N/A	Inspections	Steering Committee	
11.	Determined criteria for evaluating inspector performance	2016	Amended regulations governing the method of calculating salaries and evaluating inspections	Law on Civil Servant and Employee Salaries Statue on evaluating civil	Law on Civil Servant and Employee Salaries	Regular Expenditure	N/A	MPALG	Steering Committee	

				servants	Statue on evaluating civil servants					
Measure 1.3.:										
Establishing mechanisms for securing the transparency of inspection oversight and interaction with businesses and citizens		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
		World Economic Forum Global Competitiveness Index – Transparency of Government Policymaking 3,6				World Economic Forum Global Competitiveness Index – Transparency of Government Policymaking 3,8 (by the end of 2017)				
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Starting a website (creating a web page) with accessible information on inspection oversight	2016	1. Published and available for free, regulations, control lists, oversight plans and other documents related to inspection oversight 2. Ability to leave comments and questions regarding inspection oversight	Website with accessible information on inspection oversight on the webpage of the Steering Committee	/	Regular Expenditure	N/A	Steering Committee, MPALG Inspections	USAID - BEP	LIO

2.	Establishment of an efficient system for submitting anonymous reports (by phone or email) on shadow economy cases and updates on the status of the report within 72 hours of submission	2016	Development of application and establishment a call center for updating citizens on their reports with 72 hours of submission	/	/	N/A	N/A	Steering Committee, MPALG Inspections		
Measure 1.4.:										
				Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value			
Improvement of the System for Prosecution of Offences and Violations Against Business Entities				Percentage of risk assessment usage in inspection oversight in 2013 – 54%			100% usage of risk assessment in inspection oversight in 2017			
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Provision of expert trainings for inspections, customs, the police and Fiscal Police with the aim of more successfully reducing the informal sector	2016	Conducted at least two trainings during the year for a minimum of 40 inspectors	Steering Committee Report	/	Regular Expenditure	N/A	Human Resource Management Service (HRMS)	MPALG, Ministry of Finance (MoF) – Customs Administration (CA) and Tax Administration (TA), Ministry of Justice	

									(MoJ), Ministry of Internal Affairs (MIA), Ministries that contain an inspection department	
2.	Establishment of an efficient information exchange system between all participants in the process of determining responsibility for crimes and violations in the area of shadow economy	2016	Established efficient information exchange system between all participants in the process of determining responsibility for crimes and violations in the area of shadow economy, i.e. liaison officers and action groups	Rulebooks on internal systematization and organization of jobs in all inspections, Customs Administration, MIA, Criminal courts and Prosecutor's Offices	/	Regular Expenditure	N/A	Inspections, CA, Criminal courts, Prosecutor's Offices	MPALG, MoJ, MIA, MoF	Strategy for Investigating Financial Crimes
3.	Establishment of special organizational units within Prosecutor's Offices for prosecuting crimes against business entities	2016	Amendment of rulebooks on systematization and organization of Prosecutor's Offices and prosecutors employed as part of their activities	1. Rulebooks on systematization and organization of Prosecutor's Offices 2. Prosecutor's Offices Activity Report	Rulebooks on systematization and organization of jobs in Prosecutor's Offices	Regular Expenditure	N/A	MoJ, Prosecutor's Offices	MoF	Strategy for Investigating Financial Crimes
4.	Establishment of special organizational units within Criminal courts	2016	Amendment of rulebooks on systematization of	1. Rulebooks on systematization of Criminal	Rulebooks on systematization	Regular Expenditure	N/A	MoJ, Criminal courts	MPALG	

	for prosecuting violations in the inspection oversight area		Criminal courts and employed necessary number of judges in each Criminal court for handling these activities	courts 2.Criminal court activity reports	zation and organization of jobs in Criminal courts					
5.	Provision of expert training for prosecutors and police in the prosecution of suspects of crimes against business entities	2016	Conducted at least 4 trainings for at least 80 prosecutors and 60 police officers	Judicial Academy Activity Report	/	Regular Expenditure	N/A	Judicial Academy	The Academy of Criminalistics and Police Studies	
6.	Provision of expert training for judges in the prosecution of suspects of crimes against business entities	2016	Conducted at least 4 trainings for at least 80 judges	Judicial Academy Activity Report	/	Regular Expenditure	N/A	Judicial Academy		
7.	Establishment of inspection capacities for conducting trials of criminal proceedings for lower level social danger violations	2016	1. Amended sector regulations governing fixed, mandated penalties for lower level social danger violations; 2. Conducted expert training for at least 30 inspectors from a minimum of 5 inspections on the implementation of amendments	Steering Committee Report	/	Regular Expenditure	N/A	Ministry of Trade, Tourism and Telecommunications (MTTT), MoF, Ministry of Agriculture and Environmental Protection (MAEP)		

Measure 1.5.:										
Improvement of activity coordination between customs, inspections and the police										
Indicator of Measure Results - Initial Value					Indicator of Measure Results - Target Value					
Percentage of resolved cases during 2013: 47%					Percentage of resolved cases during in 2017: 55%					
Activities	Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents	
					Program Budget Line	Other Financing Sources				
1.	Determining clear criteria for usage in Customs Administration risk assessment, ensuring their continuous updating and compatibility with the risk assessment system of inspection bodies	2016	Amended necessary regulations	Official Gazette RS		Regular Expenditure	N/A	MoF – CA		LIO, Customs Law ('Official Gazette RS', No18/10, 111/12 and 29/15)
2.	Involvement of all responsible bodies in the activities of the Coordination Body and Operational Working Group for the Coordination of Integrated Border Management and clearly dynamics of activities	2016	Amended acts on the formation and activities of the Coordination Body and Operational Working Group	Government Decision	Government Decision	Regular Expenditure	N/A	MIA	MoF, MAEP, MTTT, Ministry of Construction, Transportation and Infrastructure (MCTI)	

3.	Formation of continued cooperation between the Coordination Body for Integrated Border Management and Steering Committee	2016	Amended Customs Law, defining the cooperation between these two bodies	Official Gazette RS	Customs Law	Regular Expenditure	N/A	No	MIA, MAEP	Law on State Border Protection ('Official Gazette RS', No 97/08); Republic of Serbia Strategy for Integrated Border Management ('Official Gazette RS', No 111/12)
4.	Conducting integrated border crossing control pilot	2016	Conducted two pilots during 2016	Coordination Body for Integrated Border Management Activity Report	/	Regular Expenditure	N/A	MIA, MoF, MEAP, MTTT, MCTI		Law on State Border Protection
5.	Adjustment of evaluation practices and further monitoring of taxed goods	2016	Comparisons of real and declared amounts and prices of goods, purchase price check, recording the importer's warehouse address, established method of controlling material disbursement of goods	Customs Administration Activity Report	/	Regular Expenditure	N/A	MoF – CA		Statute on Adjustment of Customs Tariff Nomenclature ('Official Gazette RS', No 130/15) Customs Law
6.	Establishment of uniform practices for	2016	Established uniform practices for	Customs Administration	/	Regular Expenditure	N/A	Communal inspections,	Public Communal	

	controlling the origin of goods sold on open markets (farmer's markets, etc.) during the leasing of selling spaces (counters) procedure, as well as with second hand clothes sales operations		controlling the origin of goods sold on open markets	Activity Report Market Inspection Activity Report Communal inspection activity reports		e		CA, Market Inspection	Companies	
7.	Establishment of mechanism for the coordination and prioritization of activities related to reducing shadow economy on border crossings	2016	1. Established control points at spots where increased illegal trade has been identified 2. Amended Customs law and its accompanying by-law, legally defining the obligation of recording the personal information of persons that took over goods at border crossings	Customs Administration Activity Report Official Gazette RS	Customs Law	Regular Expenditure	N/A	MoF – CA		Strategy for Integrated Border Management
8.	Development of a plan document for the joint operation of bodies responsible for areas/activities critical to the public manifestations of shadow economy	2016	Adopted action plan for joint operations by inspections, customs, police and Prosecutor's Offices for the coming period in the areas of reducing smuggling of excisable goods, fruits, vegetables, meat, baking and	Action plan for joint operations by inspections, customs, police and Prosecutor's Offices	Action plan for joint operations by inspections, customs, police and Prosecutor's	Regular Expenditure	N/A	MoF	MoJ, MIA, Prosecutor's Office of the Republic of Serbia, Inspections	

			textile goods		Offices					
9.	Better control and prevention of founding 'phantom' companies	2016	Introduced records of founders and related persons whose companies tax identification numbers have been provisionally suspended, with the purpose of temporarily disabling them from founding new entities until the end of proceedings	Official Gazette RS	Law on Registering Business Entities Law on Tax Procedure and Tax Administration	Regular Expenditure	N/A	Ministry of Economy (MoE), Serbian Business Registers Agency	MoF	
Measure 1.6.:										
Creation of Uniform Sanction Policies for the Shadow Economy										
Indicator of Measure Results - Initial Value					Indicator of Measure Results - Target Value					
Percentage of resolved cases in 2013: 47%					Percentage of resolved cases in 2017: 55%					
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Analysis of punitive measures in sector regulations and	2016	Prepared report that gives an overview of the current state of	Report on the current state of regulation	/	Regular Expenditure	N/A	MoJ		

	sentenced penalties		regulation amendment proposals in the area	amendment proposals in the area						
2.	Adjusting sector regulations, subject to the conducted analysis of the proportionality and expediency of sentenced penalties	2016	Government Resolution adopted, authorizing the preparation and proposal of regulations amendments and enforcement of recommendations for practice revision	Government Resolution		Regular Expenditure	N/A	MoJ		
Measure 1.7.:										
Enhancement of the Database System for Salaries and Employee Contributions		Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value					
		Number of confirmed unregistered employees in 2014 – in the 30.226 conducted inspections, 5.831 people were confirmed to be unregistered employees			Reduced number of confirmed unregistered employees by 20% by the end of 2017					
Activities	Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents	
					Program Budget Line	Other Financing Sources				

1.	Revision of the system for registering and recording employees	2016	1. Amendment of regulation for registration of new employees, which must be done at least one day before the start of a new employee's contract 2. Amendment of regulation governing the registration of signed employment contracts with responsible states bodies	Official Gazette RS	Law on Labor, Law on Employment, Law on Pension and Disability Insurance, Law on Central Registry of Compulsory Social Insurance, Law on Health Insurance	Regular Expenditure	N/A	Ministry of Labor, Employment, Veteran and Social Issues(MLEVSI), MoF	Central Registry of Compulsory Social Insurance (CRCSI) M. of Health (MoH), Pension and Disability Insurance Fund of the Republic of Serbia (PDI)	
2.	Enabling of data exchange among business banks and Tax Administration	2016	1. Determined regulatory framework for exchange of data about salaries, taxes and contributions among banks, TA, CRCSI, PDI and National Health Insurance Fund (NHIF) 2. Implemented technical solution for data exchange	Official Gazette RS	/	Regular Expenditure	N/A	MoF MLEVSI, MoH	CRCSI, NHIF, PDI	

3.	Establishment of mechanism for more efficient registration of seasonal workers	2016	Amendment of regulations that establish the voucher system	Official Gazette RS	/	Regular Expenditure	N/A	MLEVSI		
4.	Planned suppression of the shadow economy manifested in the unregistered labor of working age persons that are officially on benefits	2016	1. Created plan that regulates working age benefit users' mandatory registration with the National Employment Service (NES), in order to initiate activities for their employment; 2. NES holds training programs for these persons for more efficient entry into the labor market; 3. Introduction of mandatory reporting to the NES for benefit users	/	/	Regular Expenditure	N/A	MLEVSI		

Measure 1.8.: Improved Oversight of Activities that Require a Permit		Indicator of Measure Results - Initial Value									Indicator of Measure Results - Target Value								
		Initial value will be determined in 2016 subject to the Analysis of the Current State									A 10% decrease in the number of persons found to be performing activities without necessary permits or that do not meet permit requirements.								
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents									
						Program Budget Line	Other Financing Sources												
1.	Analysis of current state in the area, identification of all permit issuers and permit carriers	2016	Report on conducted status analysis, including a list of permit issuers and carriers	Report on conducted analysis	/	Regular Expenditure	N/A	MoE	MoF, Chamber of Commerce and Industry of Serbia (CCIS), National Alliance for Local Economic Development (NALED)										
2.	Establishment of a publicly available database with information about permit issuers and carriers	2017	Procedures/Formalities Registry is operational and regularly updated (Special Objective 3)	Procedures Registry	/	Regular Expenditure	N/A	MoF	CCIS, NALED, National Secretariat for Public Policies (NSPP)										

3.	Establishment of a mechanism for increasing permit issuers' responsibility and monitoring fulfillment of conditions for permit possession	2017	1. Enacted mandatory delivery of confirmation of correspondence 2. Regular control of condition fulfillment in line with the risk assessment methodology	Official Gazette RS	/	Regular Expenditure	N/A	MoF	All permit issuers	
Special Objective 2:		Improved Functioning of the Fiscal System								
Measure 2.1.:										
Stimulation of Regulation Compliance and Creation of Incentives for Transferring Shadow Economy Operations to Legal Flows		Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value					
		Participation of informal employment in total employment for Q4 2014: 24%			Participation of informal employment in total employment by the end of 2017: 15%					
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Creation of fiscal measure Plan for encouraging employment	By 1 February 2016	Created fiscal measure plan for encouraging employment, including recommendations for regulations amendments that would introduce stimulation measures,	Fiscal measure Plan for encouraging employment	/	Regular Expenditure	N/A	Government Coordination Body for Directing Activities for Countering the Shadow Economy (Coordination Body),	MLEVSI, NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow

			as well as possible changes to the level of non-taxable salaries in line with the new law that regulates funding of local governments					MoF		Economy
2.	Adjustment of deadlines for payment of tax obligations (for registered and unregistered entities)	2016	Amendment of regulations that now prescribe a 15-day deadline for paying tax obligations and a special due date for registration of unregistered entities	Official Gazette RS	Law on Amendments to the Law on Tax Procedure and Tax Administration	Regular Expenditure	/	Coordination Body, MoF	NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
3.	Introduction of tax cuts for business entities and entrepreneurs during their first year of operation	2016	Amendment of regulation, resulting in a lower level of income taxes for legal entities and entrepreneurs during their first year of operation, with a 3-year limit on the measure's duration from the date of commencement	Official Gazette RS	Law on Amendments to the Law on Legal Entity Income Tax	Regular Expenditure	N/A	MoF	Coordination Body, NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

4.	Introduction of benefits for business entities and entrepreneurs during their first year of operation when determining the amount of parafiscal charges	2016	Amendments to regulations, prescribing lower amounts of fees for business entities and entrepreneurs during their first year of operation	Official Gazette RS	Law on National Administrative Fees Law on Fees for Use of Public Goods	Regular Expenditure	N/A	MoF	Coordination Body, NALED, NSPP	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
5.	Introduction of tax cuts for entrepreneurs that initiated operations from an unemployed status	2016	Amendments to regulations, ensuring that entrepreneurs who were listed as unemployed within the first 6 months since registration do not have pay income tax and contributions	Official Gazette RS	Law on Legal Entity Income Tax Law on Pension and Disability Insurance Law on Compulsory Social Insurance Law on Un/Employment Insurance	Regular Expenditure	N/A	MoF, MLEVSI	Coordination Body, NALED, NES	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

Measure 2.2.: Improvement of Fairness in Fiscal Policies		Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value					
		For 2014, participation of total voluntary payments in the total tax income estimated in the budget of the Republic of Serbia stood at 85%			Participation of total voluntary payments in the total tax income estimated in the budget of the Republic of Serbia for 2017 – 87%					
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Establishment of list of business entities that make regular and timely payments of tax obligations and do business legally – ‘White List’	2016	Determined criteria for classifying business entities as regular tax payers on the ‘White List’; Defined procedures for entry of business entities on the ‘White List’	Government Act	/	Regular Expenditure	N/A	MoF	TA	
2.	Introduction of business benefits for entities on the regular tax payers list	2016	Amendments to regulations prescribing a shorter deadline for VAT returns – automatic implementation of simplified customs procedures, elimination of mandatory collateral submissions in	Official Gazette RS	Statute on Customs Approved Treatment of Goods, Law on Customs, Law on	Regular Expenditure	N/A	MoF, CA, TA	Coordination Body, NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

			customs procedures, including excisable goods procedures		Excise Taxes, Law on Value added Tax					
3.	Introduction of mechanisms for direct communication between regular tax payers and public administration bodies	2016	Defined procedures for communications with public administration bodies	Internal acts of the TA	Internal acts of the TA	Regular Expenditure	N/A	TA	Coordination Body, NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
4.	Encouragement of group projects for implementing integrated management systems and improving the quality and competitiveness in business entity supply chains	2017	Established at least two systems of logistics networks of importers and partners, whose basis for joining is access to legal business-doing that includes internal control based on quality management, environmental protection and work health and safety standards	Government Act	MoE programs	Regular Expenditure	N/A	MoE	MoF, CCIS, Fair Competition Alliance (FCA), Clusters and other business associations	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
5.	Formulation of mechanisms for encouraging regular tax	2016	Amendments to regulations with the purpose of denying	Official Gazette RS	Law on Public Procurement	Regular Expenditure	N/A	Public Procurement Office	MoF	

	payers in public procurement procedures		participation to business entities with inconsistent or untimely tax and employee payments via implementation of criteria that limit participation to only entities that can prove a lack of back taxes towards the state or other public authority holders or debt towards employees in the past 6 months		ent					
6.	Improvement of the accountability system for line institutions in public procurement procedures	2016	Amended Law on Public Procurement, regulating the obligation of the Republic Commission for the Protection of Rights in Public Procurement Procedures to make an assessment of the evidence of condition fulfillment	Official Gazette RS	Law on Public Procurement	Regular Expenditure	N/A	Public Procurement Office	MoF, Republic Commission for the Protection of Rights in Public Procurement Procedures	

Measure 2.3.: Improvement of the Fiscalization System		
	Indicator of Measure Results - Initial Value	Indicator of Measure Results - Target Value
	Number of professions from areas, branches and groups of classifications exempt from mandatory recording of turnover via fiscal cash register, in line with regulations of the Statute on Determining Professions Exempt from Registration of Turnover via Fiscal Cash Register ('Official Gazette RS', No 61/10, 101/10, 94/11, 83/12, 59/13 and 100/14) – 2015	Reduced number of professions exempt from registering turnover with fiscal cash registers, in line with legal regulations governing profession classification by the end 2017

Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Determination of initial basis for changing the fiscalization system and proposal for widening the scope of fiscalization	2016	Carried out analysis and made recommendations for enhancing the fiscalization system and widening the scope of fiscalization	Coordination Body Activity Report	Report by Working Group for Improving the Fiscalization System of the Republic of Serbia that gives overview of functiona	Regular Expenditure	N/A	MoF	TA	

					l and technical characteristics of fiscalization, its related costs, as well as analysis of the necessity of widening the scope of fiscalization					
2.	Widening the scope of fiscalization	2017	Adopted recommendations and amended fiscalization regulations, widening the scope of fiscalization coverage.	Official Gazette RS	Amendments to fiscalization regulations	Regular Expenditure	N/A	MoF	Coordination Body, NSPP, NALED	
3.	Improvement of the fiscalization system in line with results received from analysis of effects and recommendations of the Working Group for Improving the Fiscalization System	2017	Began implementation of amended fiscalization regulations	Tax Administration Records	Amendments to fiscalization regulations	Regular Expenditure	N/A	MoF, TA	Coordination Body, NSPP, NALED	

4.	Encouraging the implementation of the improved fiscalization system, as well as electronic payments (cashless transactions)	2017	Amended regulations resulting in: 1. Introduction of online fiscalization system; 2. Introduction of mandatory ownership of terminals for cashless payments for most professions (commerce and service sectors); 3. Regulation of subsidizing methods for the purchase of point of sale terminals for small entrepreneurs and micro business entities	Official Gazette RS	Amendments to fiscalization regulations	Regular Expenditure	N/A	MoF		

Special Objective 3:		Reduction of Administrative Burdens on Businesses and Citizens								
Measure 3.1.:										
		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
Establishment of Public Registry of Parafiscal Charges		Lack of public registry of parafiscal charges; World Economic Forum Global Competitiveness Index– Transparency of Government Policy Making 3,6				Establishment of public registry of parafiscal charges with all such charges to be recorded by the end of 2017; World Economic Forum Global Competitiveness Index– Transparency of Government Policy Making 3,6				
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Analysis of parafiscal charges and their categorization	2016	Completed list of all taxes, fees and other charges, according to their categorization	Coordination Body Activity Report	/	Regular Expenditure	N/A	MoF	NSPP, NALED	
2.	Reduction of number of parafiscal charges	2016	Government Act passed, prescribing the repeal of parafiscal charges deemed unjustified by the analysis	Official Gazette RS	/	Regular Expenditure	N/A	MoF	NSPP	
3.	Establishment of more efficient payment system and distribution system for non-tax income	2016	Analysis of calculation methodology and distribution of non-tax income	/	/	Regular Expenditure	N/A	MoF	NALED	

4.	Establishment of public registry of parafiscal charges	2017	1. Enacted regulation that defines the registry of parafiscal charges as public 2. Defined the jurisdictions of public administration bodies concerning information exchange and registry updating	Official Gazette RS	Law on Unified Registry of Parafiscal Charges	Regular Expenditure	N/A	MoF	Coordination Body, NSPP, NALED	
5.	Initiating a free website with overview of taxes, fees and other charges	2017	Free website available with overview of taxes, fees and other charges	Website of public registry for parafiscal charges	/	Regular Expenditure	N/A	Directorate for e-Government	MoF, Coordination Body, NSPP, NALED	
Measure 3.2.:										
Indicator of Measure Results - Initial Value					Indicator of Measure Results - Target Value					
Establishment of Unified Legal Framework for Regulation of Fees for Use of Public Goods Lack of unified legal framework for regulating fees for use of public goods					Established unified legal framework for regulating fees for use of public goods					
Activities										
Activities	Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents	
					Program Budget Line	Other Financing Sources				
1.	Legal regulation of fees and charges	2016	Enacted law on fees that prescribes a control mechanism and methodology for fee determination	Official Gazette RS	Law on Fees	Regular Expenditure	N/A	MoF	Coordination Body, NALED	

2.	Enacted implementational regulations	2016	Enacted bylaws as planned by the Law on Fees	Official Gazette RS	Ministry of Finance Rulebooks	Regular Expenditure	N/A	MoF	Coordination Body, NALED	
3.	Established system for refunding illegally collected fees and charges	2016	Regulation implemented in Law on Fees	Official Gazette RS	Law on Fees	Regular Expenditure	N/A	MoF	Coordination Body, NALED	
Measure 3.3.:										
Establishment of Public Registry of Procedures/Formalities That Businesses and Citizens										
Indicator of Measure Results - Initial Value					Indicator of Measure Results - Target Value					
Lack of a unified place where all procedures are visible together, or a list of procedures/formalities					Completed list of all procedures and established unified public registry of procedures/formalities					
Activities	Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents	
					Program Budget Line	Other Financing Sources				
1.	Analysis of procedures/formalities and their categorization	2016	Completed list of all procedures/formalities, according to their categorization	Coordination Body Activity Report	/	Regular Expenditure	N/A	NSPP	NALED	
2.	Establishment of public registry of procedures/formalities	2017	1. Enacted regulation that designates the registry of procedures/formalities as public; 2. Defined the jurisdictions of public administration	Official Gazette RS	Law on Unified Registry of Procedures/Formalities	Regular Expenditure	N/A	MoF	Coordination Body, NSPP, NALED	

			bodies concerning information exchange and registry updating							
3.	Establishment of technical platform for the public registry of procedures/formalities	2017	Free website with overview of procedures/formalities	Website of public registry for parafiscal charges		Regular Expenditure	N/A	NSPP	Directorate for e-Government, MoF, Coordination Body, NALED	
Special Objective 4:		Raising Awareness of Citizens and Businesses on the Significance of Countering the Shadow Economy and Motivation for Compliance with Regulations								
Measure 4.1.:										
		Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value					
Raising Awareness of the Shape and Appearance of the Shadow Economy Through Informative, Educational Campaigns		A poll conducted by NALED in 2015 shows that 53% of citizens do not justify the existence of the shadow economy, and are aware of its negative consequences			Increased percentage of citizens who do not justify the existence of the shadow economy, and are aware of its negative consequences to 65% and more by the end of 2017					
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Declaration of 2016 and 2017 as the 'Years of Fighting Shadow Economy'	Q1 2016	A special Government Act declares 2016 and 2017 as the 'Years of	Government Act	Government Act (Decision)	Regular Expenditure	N/A	Coordination Body, MoF	NSPP, NALED, FCA	Decision on Establishing the Coordination

			Fighting Shadow Economy'							n Body for Directing Activities for Countering the Shadow Economy
2.	Increasing the visibility of countering shadow economy through campaign and informing	2016/2017	<p>Developed national campaign identity for promoting the years 2016/2017 as years of fighting the shadow economy – developed and posted material with information about the fight against shadow economy on the webpage of eAdministration/Ministry of Finance;</p> <p>Created and posted banner on webpages of all Government bodies, organizations and groups;</p> <p>Developed and launched promo. material – jingle, short clip ad, posters, brochures, billboards, etc;</p>	Coordination Body Activity Report	Government Act (Decision) and public call, addresses by the Prime Minister and VP of the Government to potential donors/sponsors	Regular Expenditure	N/A	Coordination Body, NALED	MoF, NSPP, Local Government Units (LGUs), PE Post of Serbia (PEPS), RTS and other TV stations, Businesses and business associations	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

			<p>Broadcast of ads, jingle and clips on all media outlets participating in the fight against shadow economy;</p> <p>Put up billboards and posters, ensuring their even distribution</p>							
3.	Execution of national campaign for promoting 2016/2017 ‘Years of Fighting Shadow Economy’	2016/2017	<p>Executed campaign 2016/2017 - ‘Years of Fighting Shadow Economy’;</p> <p>Frequent media activities – media appearances, ads, dedicated shows;</p> <p>Promotions, events and workshops;</p> <p>Annual conference on countering the shadow economy;</p> <p>At least 4 annual promotional events on local level</p>	Coordination Body Activity Report	Government Act (Decision)	Regular Expenditure	N/A	Coordination Body, NALED	MoF, TA, NSPP, LGUs, PEPS, RTS and other TV stations	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

4.	Education on the damaging consequences of the shadow economy	2016/2017	Held educational events on the damaging consequences of the shadow economy;	Coordination Body Activity Report	Government Act (Decision)	Regular Expenditure	N/A	Coordination Body and Ministry of Education, Science and Technological Development (MESTD);	NSPP, NALED, FCA, CCIS	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
		2016/2017	Held at least two workshops or public gatherings per quarter year for citizens and entrepreneurs;					MoF, NSPP and NALED;		
		2016/2017	Held at least two trainings for media representatives and media agencies;					MoF, NSPP and NALED;		
		2016	Prepared educational program via website and social networks;					NALED and FCA;		
		2016/2017	Promotion of fight against shadow economy on social networks;					NALED and FCA;		

		2016	Prepared program for classes in all elementary and high school grades on the damaging consequences of the shadow economy;					MESTD;		
		2016	Held classes on the damaging consequences of the shadow economy in all elementary and high school grades					MESTD		
5.	Conducting opinion poll about the informal sector and Government measures for its reduction	2016/ 2017	Conducted opinion poll about the informal sector and Government measures for its reduction	Coordination Body Report	/	Regular Expenditure	N/A	NALED	TA, MPALG, NSPP, CCIS	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
6.	Preparation of report on implemented measures with recommendations for improvement	2016/ 2017	Adopted report on implemented measures for combatting shadow economy with recommendations for improvement	Coordination Body Report	Government Conclusion	Regular Expenditure	N/A	Coordination Body, MoF	TA, CCIS, NSPP	Decision on Establishing the Coordination Body for Directing Activities for Countering

										the Shadow Economy
Special Objective 4:		Raising Awareness of Citizens and Businesses on the Significance of Countering the Shadow Economy and Motivation for Compliance with Regulations								
Measure 4.2.:										
Organization of Lottery		Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value					
		VAT payment in 2014 – RSD 409.564,2 million			VAT payment increased by 10% upon completion of measure					
Activities		Activity Implementation Period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
1.	Definition of mechanisms, number of cars, dynamic and drawing methods for holding the lottery for citizens and competition for local government units	2016	Created document with defined mechanisms, number of cars, dynamic and drawing methods for holding the lottery for citizens and competition for LGUs	Coordination Body Activity Report	/	Regular Expenditure	N/A	MoF	NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
2.	Establishment of cooperation between relevant bodies, organizations and institutions for holding the lottery for citizens and competition for LGUs	2016	Prepared and signed Memorandum of Cooperation with all carries of activities for holding the lottery for citizens and competition for LGUs	Memorandum of Cooperation	Memorandum of Cooperation	Regular Expenditure	N/A	MoF	PEPS, Media houses, NSPP, NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering

										the Shadow Economy
3.	Identification of lottery and competition sponsors	2016	Identified lottery and competition sponsors	Coordination Body Report	Donation Contracts	Regular Expenditure	N/A	NALED	MoF	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
4.	Identification of media sponsors for the lottery, competition and campaign and signing of Memorandum of Cooperation	2016	Identified lottery, competition and campaign sponsors	Coordination Body Report	Memorandum of Cooperation	Regular Expenditure	N/A	NALED	MoF, TA, PEPS	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
5.	Formation of prize fund	2016	Formed prize fund and established mechanism for attracting donors	Coordination Body Activity Report	Act on forming fund for lottery and competition	Regular Expenditure	N/A	MoF	NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering

										the Shadow Economy
6.	Identification and choice of lottery and competition organizer	2016	Adopted Conclusion that determines the organizer of the lottery and competition	Government Conclusion that determines the organizer of the lottery and competition	Government Conclusion that determines the organizer of the lottery and competition	Regular Expenditure	N/A	MoF	NALED	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
7.	Organizing the lottery for citizens and competition for LGUs	2016	The body or organization designated by the Conclusion enacts the Decision on organizing the lottery and the Lottery Rules; Received Minister of Finance's consent if necessary for the Lottery Rules; Government Act consenting to the organization of the lottery passed; Enacted Decision that confirming the exact	Decision on organizing the lottery and the Lottery Rules; Government Act consenting to the organization of the lottery passed; Decision confirming the exact prizes given out at the lottery in the form of goods and services; Technical instructions for	Decision on organizing the lottery and the Lottery Rules; Government Act consenting to the organization of the lottery passed; Decision confirmi	Regular Expenditure	N/A	Designated lottery carrier	MoF, NALED, PEPS, Mobile Telephony of Serbia (MTS), RTS	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

			prizes given out at the lottery in the form of goods and services; Prepared technical instructions for holding the lottery and competition for citizens and LGUs respectively	holding the lottery and competition for citizens and LGUs respectively; Coordination Body Report	ng the exact prizes given out at the lottery in the form of goods and services					
8.	Establishment of call center for questions, suggestions and criticisms by citizens, as well as a webpage with answers to questions and necessary information about the lottery and competition	2016	Established call center and developed webpage	Coordination Body Report	Act by the Lottery carrier	Regular Expenditure	N/A	Designated lottery carrier	NALED, PEPS, MTS	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy
9.	Defining the campaign, as well as public advertising for preliminary solutions creators for the campaign, including key messages for the lottery and competition	2016	Defined campaign and held public advertising for preliminary solutions creators for the campaign, including key messages for the lottery and competition	Coordination Body Report	Public advertising for preliminary solutions creators for the campaign, including key messages for the lottery	Regular Expenditure	N/A	NALED	Designated lottery carrier	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

					and competiti on					
10.	Preparation of operational plan for leading the campaign and holding the lottery and competition with previously foreseen solutions to possible problems	2016	<p>Created operational plan for leading the campaign and holding the lottery and competition with previously foreseen solutions to possible problems;</p> <p>Held campaign for lottery and competition;</p> <p>Held media activities – appearances in media, advertisements, dedicated shows;</p> <p>Promotions;</p> <p>Prepared and launched promotional material – jingle, short clip ad, posters, brochures, billboards, etc.</p>	Coordination Body Report	/	Regular Expenditure	N/A	NALED	Designated lottery carrier	Decision on Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy

			<p>For the lottery and competition:</p> <p>Broadcasts;</p> <p>Put up billboards and hung posters, ensuring their even distribution</p>							
11.	Holding the lottery and competition	2016/2017	<p>The lottery and competition were held – at least one cycle;</p> <p>Formed team and determined plan for organizing broadcasts of prize draws in the lottery and competition for citizens and LGUs respectively</p>	Coordination Body Report	/	Regular Expenditure	N/A	Designated lottery carrier	NALED, PEPS	