

General overview and legal framework

General overview

The Serbian industry, private sector and the economy in general have been in a difficult situation for many years the reasons for which were numerous and well known. since the restoration of democracy, the Serbian governments made several attempts and changes to the legal and institutional framework for the purpose of creating an attractive, legally predictable and safe environment for foreign investments, such as changes in the employment, employment related and other taxes, contributions and charges, building permits, strategies including lists of regions, sectors and projects that are in need for development, issuance of concessions and public-private partnerships etc. Since 2014 numerous steps have been taken to further improve political and economic stability such as reform of the public administration, reform of the state-owned enterprises and an overall increase of the productivity in the public sector which attracted numerous FDI.

The strategic direction of the Government of the day, is focused on attracting foreign investment and to this purpose it has created 15 free zones that play an extremely important role in purpose. Active free zones in 2019 achieved a turnover of about 5 billion euros. Over 200 multinational companies with more than 37,000 employees operate in the free zones of Serbia, while the volume of investments in the zones in 2019 amounts to three billion euros. Exports of goods from free zones are increasing from year to year and account for over 13% of total exports of Serbia.

In order to raise awareness on the relevant issues and on the areas that should be further improved, the foreign investors already present in Serbia, formed the Foreign Investors Council (FIC), which is performing an ongoing analysis of the situation in regards the foreign investments in Serbia, targeting the laws and trouble areas and proposing the requisite and necessary changes to the relevant authorities. Another avenue of communication with the authorities in relation to foreign investment is through the various commercial and sectoral chambers, in which foreign and local companies and entrepreneurs are gathered.

It is further worth mentioning the RAS, Serbian Chamber of Commerce, various agencies, NALED and other associations, all contributing to the improvements in this area..

The Law on Investments

The basic law is the **Law on Investments ("Official Gazette of RS", No. 89/2015 and 95/2018)** (Law), which basic idea is that the safe legal framework has been created for foreign and domestic investors, which is recognizable and corresponds to the legislative framework of the EU member states from which foreign investors most often come, but also because of the process of Serbia's accession to the EU. The goal of this Law is to improve the investment environment in the Republic of Serbia and encourage direct investments in order to strengthen economic development and employment growth.

Basically, this Law regulates foreign and domestic investments in new or existing Serbian companies and other forms of performing business for profit.

Investor is a domestic or foreign, legal or natural person who has made an investment in the territory of the Republic of Serbia, in accordance with the law.

According to this Law, basic forms of direct investments are incorporation of for-profit companies in Serbia or the acquisition of shares or equity in existing Serbian companies. However, special forms of foreign investments also exist, such as the granting of concessions for the use of natural resources and/or goods of general use, and/or for performing activities of general interest. Also, foreign investors may be granted approval for BOT (build-operate-transfer) projects on specific buildings, facilities or plants, as well as on infrastructure and telecommunication facilities.

Law guarantees certain rights to the **foreign** investors, whereas they enjoy the same position in everything in terms of their investment and have the same rights and obligations as domestic investors. The most important rights of investors are as follows:

- freedom of investment- except for investments in companies that manufacture and sell armaments, for which specific rules and requirements apply;
- **National treatment**- foreign investors have the same rights and duties as domestic legal or natural persons as regards their investments.

- full legal protection and security- foreign investors enjoy equal legal status and operate under the same rules and conditions as all other companies in Serbia and, consequently, enjoy full legal protection;
- freedom of transfer of investments- foreign investors may transfer back all investments made in Serbia, freely, in convertible currency and without delays, especially the profit and dividends, the property realized after dissolution of company, proceeds from transfer of shares or equity etc.

Various relieves and incentives

The Law prescribes free import of goods that are the object of investment, tax and customs duties exemptions and benefits, as long as they conform to environment protection regulations.

Regulation on determining the criteria for granting incentives for attracting direct investments (*"Official Gazette of RS", No. 1/2019*) (Regulation) regulates in more detail the criteria, conditions and manner of attracting direct investments, keeping records of approved incentives, as well as other issues important for attracting direct investment.

In accordance with this Regulation, the maximum allowable amount of funds that can be allocated to investors is:

- for large companies, a maximum of 50% of eligible costs for the implementation of the investment project can be determined;
- for a medium company, a maximum of 60% of eligible costs can be determined;
- for small companies up to 70% of eligible costs for the implementation of the investment project.

The maximum allowable amount of funds that can be allocated for investments greater than 50 million euros may not exceed 25% of eligible investment costs, and for investments exceeding 100 million euros, this percentage may not exceed 17% of eligible investment costs and determines as follows:

- 1) for a part of eligible investment costs exceeding the amount of EUR 50 million - up to 25% of those costs,
- 2) for a part of eligible investment costs exceeding the amount of EUR 100 million - up to 17% of those costs.

For a direct investment that is considered a single investment project, the maximum allowable amount of funds that can be allocated to the beneficiary of the funds or its related entity is determined up to the percentage from points 1) and 2).

Other bylaws important for the allocation of incentives to attract direct investment are the Regulation on the rules for the allocation of state aid (*"Official Gazette of RS", No. 13/2010, 100/2011, 91/2012, 37/2013, 97/2013 and 119/2014*), Regulation on determining the criteria for granting incentives to attract direct investment in the field of food production (*"Official Gazette of RS", No. 1/2019*), as well as the Regulation on determining the criteria for granting incentives to attract direct investment in the sector of hotel accommodation services (*"Official Gazette of RS", No. 33/2019*).

Free zones offer to investors special reliefs and preferential tax regime, exemption from VAT and customs duties on imports of raw and other materials necessary for production of goods intended for export, on imports of machinery, equipment and construction materials. Additionally, producers do not pay VAT on energy sources. the import and export of goods to the zone is unlimited. Goods imported from the zone to the domestic market are subject to the regime of import of foreign goods. Employers within the free zone are enabled to lease business premises, workshops, warehouses under favorable conditions.

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