

- Tax procedures Law
- Law on the establishment and operation of economic zones
- Law on VAT
- Law on state aids - lays down the legal basis for the establishment of responsible structures for controlling state aids in Albania.
- Law on Competition Protection

The following institutions are directly responsible for attracting of FDI:

- Albanian Investment Development Agency (AIDA)- relatively new governmental development agency with the aim of increasing competitiveness and attractiveness to foreign investments and supporting the SME development, while being a “onestopshop” for the licensing of tenants in the economic zones³⁸.
- Ministry of Economy, Trade and Energy

Overview of state aid and competition policies

The competition policy law implementation and monitoring is conducted through the Competition Authority³⁹, an independent body that reports to the Parliament, and is in charge of antitrust and merger policies.

The state aid law implementation and control is conducted through the State Aid Department at the Ministry of Economy, as the technical administrative structure⁴⁰, whilst State Aid Commission is the decision taken body⁴¹ chaired by the Minister of Economy

Albania does not provide specific incentive for foreign investors, but rather with the latest changes on the law for foreign investors treats the domestic and foreign investors equally. Specific incentivizing measures:

- Corporate income tax at 10 %
- Personal Income Tax, progressive up to 10%
- VAT at 20% [except for medical care and medicines at 10%]
- Incentive for new capital investments by allowing VAT tax deferral up to 12 months (or more if the investments is longer, under specific rules set by the Ministry of Finance)
- Law on foreign investors provides the following incentives:
 - Equal treatment of the foreign investors with the domestic investors
 - Protection of foreign investments from direct or indirect expropriation or nationalization measures, except for special cases defined by law in the interest of public use
 - Right of foreign investors to expatriate all funds and contributions
 - Judicial protection of foreign investors with respect to the legal rights related to their investments.
 - Positive discrimination to foreign investors, the Government through a Decision of the Council of Ministers, provides for the substitution of the foreign investor in a civil dispute with third private parties⁴²
 - Foreign investment enterprises are allowed to own land⁴³
- Customs duties exemption - for returning emigrants (persons that have lived in another country for a period of not less than 12 months continuously and are coming back to Albania).
- The Competitiveness Fund (AIDA) – SME funds based on a reimbursement of export promotion activities costs, 50% of the costs, up to 1 million LEK ⁴⁴
- The Innovation Fund (AIDA) – SME funds for experts to audit their needs for innovation and technology, based on a reimbursement of funds for up to 400 thousand LEK

³⁸<http://www.aida.gov.al/>.

³⁹ www.caa.gov.al.

⁴⁰http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/2013/23914_rep_albania.pdf.

⁴¹<http://www.mete.gov.al/mei/>.

⁴¹http://www.mete.gov.al/doc/web_fdi_report_english.pdf.

The role of the Parliament related to attracting FDI and state aid and competition policies

The Competition and State Aid Control Authority provide reports to the Parliament on an annual basis, in line with the EU acquis.

Case study – Titan Cement Greece /Antea Cement Sh.A⁴⁵ cement production (PRIVATE, IFC & EBRD INVESTMENT)

In 2007 The Albanian Parliament ratified an agreement between TITAN Cement Greece and the national authorities on the construction of a cement production facility at the location Boka e Kuge. Titan secured land use and mining rights for the next 99 years. Titan Cement from Greece from 2008 initiated a Greenfield investment worth 200 million EUR in Albania through the company Antea Cement. This is still the largest private foreign investment in the country. The investment was realized with the IFC and the EBRD where TITAN holds a 60% stake in the new enterprise, with the International Finance Corporation and the European Bank for Reconstruction and Development holding the other 40%. Up until now it generated over 185 direct employments.

⁴³[http://www.ey.com/Publication/vwLUAssets/Doing_business_in_Albania_2012/\\$File/Doing_business_in_Albania_2012.pdf](http://www.ey.com/Publication/vwLUAssets/Doing_business_in_Albania_2012/$File/Doing_business_in_Albania_2012.pdf).

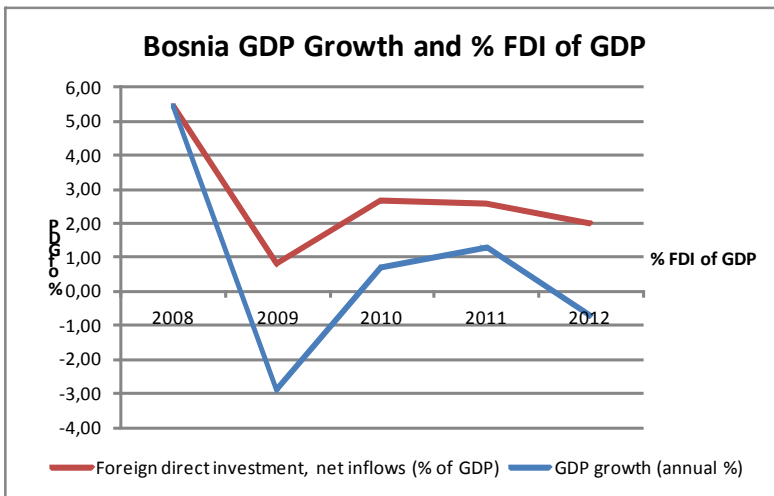
⁴⁴<http://aida.gov.al/?p=916>

⁴⁵<http://www.anteacement.com/default.asp?siteID=1&pageid=27&langid=2>.

Bosnia and Herzegovina

Bosnia	2008	2009	2010	2011	2012
Population (Total)	3.861.201	3.853.446	3.845.929	3.839.322	3.833.916
GDP (current US\$)	18.543.289.395	17.082.889.410	16.775.469.778	18.252.421.795	17.465.958.606
GDP growth (annual %)	5,42	-2,91	0,70	1,30	-0,70
Foreign direct investment, net inflows (% of GDP)	5,42	0,81	2,65	2,57	2,00
Foreign direct investment, net inflows (BoP, current US\$)	1.004.852.660	138.511.020	443.840.207	468.733.719	349.607.723

Source: <http://data.worldbank.org>.



Source: <http://data.worldbank.org>.

The indicators of the FDI as % of the GDP indicate a relatively stable trend of around 2% with outperforming the overall annual GDP growth indicators. Except for Y2008 as a significant high FDI value of over 1 billion USD and the significantly low 138 million USD in Y2009, the value is around 400 million USD.

Overview of legislation and policies for attracting FDI

The following major legislation in Bosnia and Herzegovina regulates⁴⁶ the business operations and attracting of FDI:

- Law on the Policy of Foreign Direct Investments

- Law on Free Trade Zones
- Law on Competition
- State Aid Law
- Law on the system of state aid
- Law on Registration of Business Entities
- Law on Enterprises (Company Law)
- Law on Concessions

The following institutions are directly responsible for attracting of FDI:

- Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA)
- Government of B&H
- For Republika Srpska – Ministry for economic relations and regional cooperation, and Ministry of Finance

Overview of state aid and competition policies

The measures and policies for attracting and supporting foreign investors in B&H are the following:

- Equal treatment of domestic and foreign investors
- Foreign investors are entitled to transfer abroad the proceeds from the investment in B&H
- Foreign investors may own real estate in B&H
- Foreign Investors Support Fund is established in 2007 by a Council of Ministers provides a financial incentive for investors (due to budget restrictions there are no funds distributed)
- Customs benefits for equipment of the foreign investor being imported as part of share capital is exempt from paying customs duties (except passenger vehicles, slot and gambling machines)
- Free trade zones provide VAT exemption on imported goods in free zones and no import duty for equipment for production in the free zone

Tax benefits in Federation of B&H:

- Corporate tax benefit
 - for companies that generated 30% of revenue from exports is exempt from corporate profit tax for the year
 - For investments of minimum 20 million BAM in 5 years in B&H is being exempt from corporate profit tax for five years starting from first investment year with min 4 million BAM
 - if 50% of total employees are disabled and with special needs on an annual basis

Tax benefits in Republic of Srpska:

- Profit tax base reduction in the value of the investment for: equipment for company production activities, plants and immovable property for manufacturing and processing; tax base reduction in the amount of the personal income tax and personal benefits paid for employers providing 30 new employments in the year.

- Subsidized employments for: Investments of minimum value of 2 million BAM and minimum 30 new employments depending on the development of the area of 3.500 BAM per employee in developed and medium developed, and 5.000 BAM in underdeveloped and extremely underdeveloped LSGUs.
- Investments over 25 million BAM and 100 new employment, no matter of the developmental status of the region receive funds of 15% of the investment value

Brcko district incentives based on Law on incentives to economic development⁴⁷ in Brcko district B&H:

- No fees for company signage
- Reimbursement of the court fees for registration of a business entity for newly established enterprises and entrepreneurs;
- Reimbursement of expenses of connection to power, water and sewage network;
- Reimbursement of paid fees for building permits and approvals for the usage of the facility
- Reimbursement of expenses in the amount of the difference in price of electricity and water paid by the company and the price paid by households;
- Reimbursement for paid employment contribution for newly employed persons;
- Reimbursement for salary for maternity leave in amount of 100%;
- Stimulation of the employer in amount of 50% of total duties for health insurance of newly employed workers
- Reimbursement for new fixed asset investments and up to the amount of determined and paid profit tax or income tax for a year

The role of the Parliament related to attracting FDI and state aid and competition policies

The Competition Council of Bosnia and Herzegovina⁴⁸ is an independent body with sole authority to conduct the competition law and decides on a case basis. The Competition Councils reports on an annual basis to the Council of Ministers of B&H. The State Aid Council is recently established and not yet operational. The Parliament ratifies the Law for state Aid and the establishment of the council.

Case study - RS Silicon doo Mrkonjić Grad

The Italian investor Metalleghe initiated the investment in a production plant for metal silica processing in Mrkonjić Grad, Republic of Srpska. The 20013 Letter of intention was signed between the investor and the prime minister of RS and the Mayor.

The investment is estimated to be 30 million BAM. The awarded grant is of value of 9 BAM based on the Invitation for Award of Grant Financing based on the Decree on Conditions and Implementation of Investment and employment program: [1] grant per new employment depending on the development level of the municipality [2] 15% grants of investment value for investments over BAM 25 million and over 100 new employments.

⁴⁴<http://www.doingbusiness.org/law-library/bosnia-and-herzegovina>

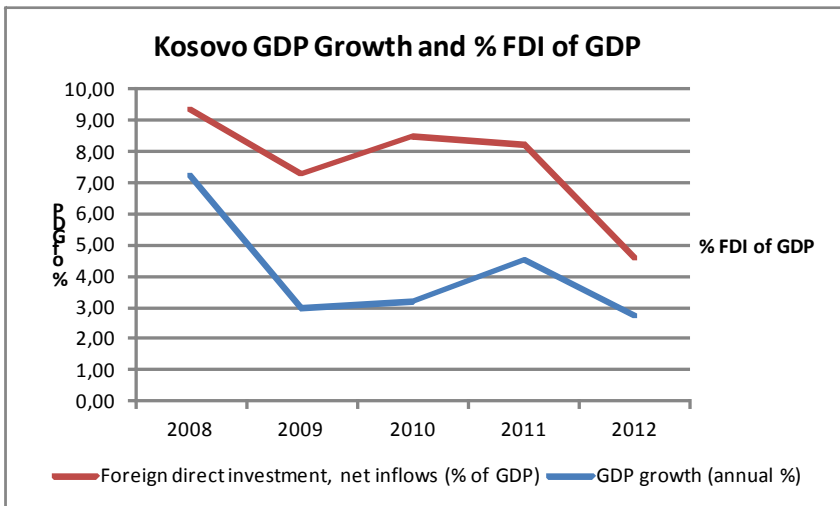
⁴⁷<http://skupstinabd.ba/zakoni/zakon-o-podsticaju-privrednog-razvoja-u-br-d.html>.

⁴⁸www.bihkonk.gov.ba.

Kosovo *

Kosovo *	2008	2009	2010	2011	2012
Population (Total)	1.747.383	1.761.474	1.775.680	1.790.957	1.806.366
GDP (current US\$)	5.771.473.142	5.634.824.257	5.750.799.437	6.636.703.418	6.445.201.981
GDP growth (annual %)	7,20	3,00	3,20	4,50	2,70
Foreign direct investment, net inflows (% of GDP)	9,30	7,24	8,46	8,23	4,55
Foreign direct investment, net inflows (BoP, current US\$)	536.790.832	408.068.783	486.596.952	546.217.229	293.195.750

Source: <http://data.worldbank.org>.



Source: <http://data.worldbank.org>.

The indicators of the FDI, as % of the GDP, indicate a relatively stable trend of around 5% to 8% per annum, outperforming the overall annual GDP growth indicators. Except for the Y2012 low value of the FDI with less than 300 million USD, the value of the FDI in Kosovo * on an annual basis is between 4 and 5 million USD.

Overview of legislation and policies for attracting FDI

The following major legislation in Kosovo * regulates the business operations and attracting of FDI:

- Foreign Investment Law – a law that regulates that the foreign investments which gives them equal treatment with the domestic investors

- Amendment of Law on Business Organizations
- Law on Foreigners
- Law on Competition
- Law on Protection of Competition
- Law on Economic Zones
- Law on goods exempt from custom tax and goods with zero rate of the custom tax
- Law on Value Added Tax
- Law on Taxes on Immovable Property
- Law on PPP and Concessions
- Law on Personal Income Tax
- Law on Leasing
- Law on External Trade

The following institutions are directly responsible for attracting of FDI:

- Investment Promotion Agency of Kosovo * (IPAK)⁴⁹ is the primary Government Institution supporting foreign investment in Kosovo * and export promotion. IPAK provides assistance for international businesses as an executive agency of the Ministry of Trade and Industry. The agency has offices in Pristine and Vienna through ECIKS (an NGO supported by ADA).

Overview of state aid and competition policies

The Competition Protection Law implementation and its monitoring are conducted by the Kosovo * Competition Commission/Authority⁵⁰. There is still no State Aid control Law in force in Kosovo *.

At the same time, there is no unified subsidies program on a national basis yet. The measures for investments are equally applicable to the foreign as are for the domestic investors:

- Corporate Income Tax⁵¹ - taxpayers with revenue below EUR 50,000 may choose to be taxed either on an actual income basis with 10% or on a presumptive tax basis.

- Taxpayers with revenue below EUR 50,000 have to pay: 3 percent of each quarterly gross income from trade, transportation, agricultural or similar businesses but not less than EUR 37.50 per quarter; 5 percent of the company's annual revenue deriving from the provision of services, vocational, entertainment and similar activities but not less than EUR 37,50 per quarter; 10 percent of net rental income for the quarter, reduced by any amount withheld during that quarter

- Losses can be carried forward for 7 years

- Foreign tax credit income taxes paid abroad by residents, are credited up to the maximum amount of tax payable in Kosovo *

- Personal income tax rate depends on the annual value which is progressive and withheld by employers (from 0 to 10%)

- Certain goods are exempt from customs duties

- Possible local level incentives in the local economic zone - special economic zones which are not free economic zones

The role of the Parliament related to attracting FDI and state aid and competition policies

The Kosovo * Competition Agency is composed from five members, president of commission and four commissioners which are appointed from Parliament of Republic of Kosovo *. The agency reports in front of the Parliament on the activities through report preparation on annual basis.

Case study – Etlinger Shtimje (DONOR GRANT SUPPORTED INVESTMENT)

Kolm Pfluger/Etlinger – an Austrian investment for agribusiness production (vegetable and processed vegetable in Shtimje, Kosovo *. An investment value of 500,000 Euro financially supported by the Austrian Development Cooperation (ADC). The joint investment created 150 new jobs in Kosovo *.

⁴⁹<http://www.invest-ks.org>.

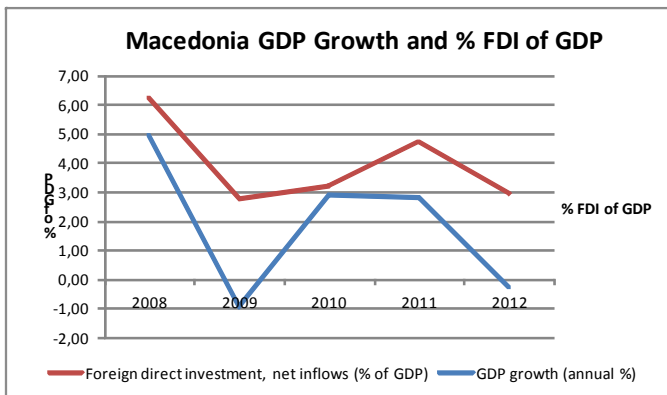
⁵⁰<https://ak.rks-gov.net/?cid=2,11>.

⁵¹<http://www.kpmg.com/AL/en/IssuesAndInsights/ArticlesPublications/Brochures/Documents/2011-Investment-in-Kosovo> *-web.pdf.

Macedonia

Macedonia	2008	2009	2010	2011	2012
Population (Total)	2.098.769	2.100.558	2.102.216	2.103.890	2.105.575
GDP (current US\$)	9.834.038.367	9.313.573.965	9.338.665.631	10.439.099.881	9.612.518.136
GDP growth (annual %)	4,95	-0,92	2,89	2,84	-0,27
Foreign direct investment, net inflows (% of GDP)	6,22	2,79	3,22	4,74	2,94
Foreign direct investment, net inflows ¹ (BoP, current US\$)	611.688.379	259.530.322	300.734.841	495.096.925	282.676.632

Source: <http://data.worldbank.org>.



Source: <http://data.worldbank.org>.

The indicators of the FDI as % of the GDP indicate a stable trend of approximately 3% to 5% with outperforming the overall annual GDP growth in the last five year period. Except for Y2008 the FDI expressed in USD indicate a stable annual value ranging from 260 million USD up to 495 million USD.

Overview of legislation and policies for attracting FDI

The following major legislation in R. Macedonia regulates the business operations and attracting of FDI:

- Law on Competition protection – regulates competition conditions
- Law Against Unfair Competition- regulates fair competition conditions
- Law on Technological Industrial Development Zones⁵³ - regulates the establishment and operations within the TIDZ
- Law on Control of State Aid – regulates the types of state aid the conditions of allowed state aid
- Company Law – regulated the establishment, types and obligations of the companies

- Law on profit tax – regulates the tax obligations coming out of earning of the companies

The following institutions are directly responsible for attracting of FDI:

- Agency for foreign investments and export promotion of the Republic of Macedonia (Investinmacedonia)⁵⁴ the official government agency responsible for attracting and developing foreign investments and export promotion
- Directorate for Technological Industrial Zones⁵⁵ - authority of the Government of the Republic of Macedonia managing the unification the administrative affairs of all Zones in Republic of Macedonia
- Ministers for attracting foreign direct investments
- Ministry of Economy, Sector for attracting investments

Overview of state aid and competition policies

The Competition Protection Law and State Aid Control Law implementation, monitoring and control of state-aid in the Republic of Macedonia are conducted by the Commission for Protection of Competition⁵⁶.

The main policies and measures for attracting FDI in Macedonia are

- Flat tax rate of 10%
- Tax relief - no profit tax on reinvested net earnings before taxation
- Investments in TIDZ offer State Aid scheme as regional state aid:
 - Personal and corporate income tax exemption for the first 10 years;
 - Exemption from value added tax and customs duties payment for goods, raw materials, equipment and machines up to 500 thousand EUR granted as incentive towards building costs depending on the value of the investment and the number of employees
 - Land lease of 99 years;
 - Cost free connection to natural gas, water, electricity;
 - Exemption from payment of utility taxes to the local municipality, and fees for land building permits and green customs channel for goods⁵⁷

The role of the Parliament related to attracting FDI and state aid and competition policies

The Competition Protection Commission is an independent state body with a status of a legal entity, independent in its work and decision making process. The Commission consists of President and four members appointed and dismissed for a five-year period by the Parliament of the Republic of Macedonia, with the right to reappointment.

The Competition Protection Commission is obliged to prepare and submit an annual report covering detailed information on the activities under Law for competition protection and Law on state aid control to the Parliament.

In the case of receiving a State Aid, in the name of the GoM, the Agency for foreign investments and Export Promotion of the Republic of Macedonia signs the agreement with the investor.

Case of Kemet Electronics Makedonija DOOEL

24.07.2011 Kemet Electronics Makedonija Ltd. and the GoM Signed Agreement for Regional State Aid with the aim of creation of new employments related with the investment

Kemet Electronics is US based company for producing capacitors started operations in 2012 in TIDZ Skopje. The announced investment (in two phases) is worth USD 25 million and plans to employ 500 persons. Kemet Electronics intends to produce standard capacitors and in the future will expand their production with additional products⁵⁸.

The maximum intensity of state aid is determined and 50% of the gross eligible investment costs or 50% of the salary costs for the employees for new employments for two years.

According to the KZK (Competition Protection Commission) 2011 Annual Report, with Decision 27/07/2011, for the year 2011 the company received state aid under regional scheme with the value of 2,05 million EUR⁵⁹.

Kemet electronics received the following benefits⁶⁰: tax reliefs (exempt from payment of 10 years profit tax and personal income tax for 10 years, exempt from VAT of import of goods and trade within the zone); customs reliefs; no fee for management of the construction plot; no obligation for building shelter and the related shelter obligations; exempt of submitting guarantee as an instrument for securing the customs debt.

⁵²FDI Net inflows are sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments

⁵³<http://www.fez.gov.mk/tir-zones-law.html>

⁵⁴<http://www.investinmacedonia.com/node/33>.

⁵⁵<http://www.fez.gov.mk/dtirz-today.html>.

⁵⁶www.kzk.gov.mk.

⁵⁷<http://www.investinmacedonia.com/>.

⁵⁸<http://www.fez.gov.mk/kemet-160.html>.

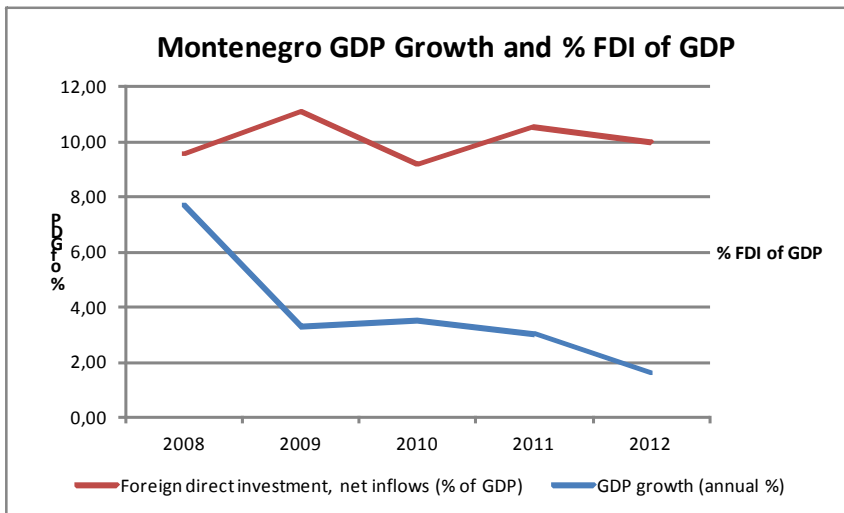
⁵⁹www.kzk.gov.mk.

⁵⁹<http://kzk.gov.mk/images/Vestiimages/971/%D0%9F%D0%A0%D0%95%D0%97%D0%95%D0%9C%D0%98.pdf>.

Montenegro

Montenegro	2008	2009	2010	2011	2012
Population [Total]	618.649	619.408	620.078	620.644	621.081
GDP [current US\$]	4.519.731.947	4.157.852.772	4.114.780.574	4.501.811.520	4.373.170.812
GDP growth (annual %)	6,90	-5,70	2,50	3,23	-0,55
Foreign direct investment, net inflows (% of GDP)	21,57	37,26	18,43	12,36	14,14
Foreign direct investment, net inflows (BoP, current US\$)	975.105.642	1.549.312.935	758.407.500	556.257.883	618.367.296

Source: <http://data.worldbank.org>.



Source: <http://data.worldbank.org>.

The indicators of the FDI as % of the GDP indicate that a stable and significant percentage value in the last five years ranging from maximum 37% in 2009 to minimum 12% in 2011 significantly outperforming the GDP percentage on an annual level. The value of the FDI in Montenegro indicates a declining trend in the last five years, however over half billion USD.

Overview of legislation and policies for attracting FDI

The following major legislation in Montenegro regulates the business operations and attracting of FDI:

- Foreign Investment Law
- Business Organization Law

- Law on Foreign Current and Capital Operations
- Free Trade Zone Law
- Customs Tariff Law
- Law on Tax on Profit of Legal Entities (Law on Corporate Profit Tax)
- Personal Income Tax Law
- Law on State Aid Control
- Law of Competition Protection

The following institutions are directly responsible for attracting of FDI:

- Montenegrin Investment Promotion Agency⁶¹ (MIPA), a government investment agency to promote foreign investments
- Ministry of Economy of Montenegro

Overview of state aid and competition policies⁶²

The policy measures for attracting the foreign investments in Montenegro are envisaged in the Strategy for attracting foreign investment of the MIPA, approved by the Government of Montenegro. The competition protection law implementation and its monitoring are conducted by the Agency for Protection of Competition⁶³.

The specific measures for investors are:

- 100% Profit tax relief and personal income tax relief - for newly established companies (or business units) in economically underdeveloped municipalities for production activities. The tax reliefs are not applicable for primary agriculture production, transport and ship building, fishery and steel.
- Subsidizing of categories of unemployed – perceptual exemption of personal insurance and benefits for defined categories of unemployed as of certain age, long term unemployed, business zones, etc.
- Local tax reliefs on a municipal basis such as reduction of: communal and other tax, subsidized rent/price for business zones, property tax, PPP arrangements, infrastructural projects, etc.
- Free Zone Port of Bar⁶⁴ incentives:
 - use of land and facilities with long-term lease as per fixed conditions;
 - customs, customs duties and VAT exempt for goods entering the Zone;
 - goods can be temporarily taken out of the Zone;
 - goods from the Zone pay customs and customs duties only for the foreign component in the goods;
 - profit tax exemption;
 - Free profit transfer and deposits.
- Besides the foreign investment subsidizing measures the State Aid measures are generally thought the following forms: (1) Horizontal aid – aimed at the restructuring and improvement of existing companies (2) Vertical aid – regional development support through Investment-development fund⁶⁵ (SME support, infrastructure for municipalities, etc.) and Agency for employment⁶⁶ (benefit relief for unemployed).

The role of the Parliament related to attracting FDI and state aid and competition policies

According to the Foreign Investment Law the incitement and promotion of foreign investments that contribute to the economic development of Montenegro is conducted on the basis of the Strategy for the Promotion of Foreign Investments adopted by the Government of Montenegro while the promotion is done by the Montenegrin Agency for the Promotion of Foreign Investments. The Agency for Protection of Competition of Montenegro and the Commission for State Aid control is responsible in front of the Government and is obliged to submit their annual report of work to the Government and the Parliament of Monte Negro.

Case study – Portomontenegro Yachting industry /

Portomontenegro is a luxury yacht homeport combined with marina village and one of the largest investments in Montenegro. The investor Adriatic Marines in 2007 bought the marina and ship building Sava Kovačević - Arsenal for 23 million euro. According to the investor up to this point the investment is valued at 200 million EUR and created new 800 employments⁶⁷. According to the investor there have been no specific subsidies provided directly to the company. However in the shipbuilding sector under the sector state aid there have been granted 105 thousand EUR for 2012. The subsidies including the state aid for Montenegro are largely aimed at domestic companies with difficulties for restructuring.

Milk Industry Simic

According to the 2012 report of the State Aid commission, one of the domestic company that received the largest individual incentive under the state aid for agriculture – subsidy, is the milk producing company Mljekara „Šimšić“ – Danilovgrad, which for 2012 received a grant with the value of 248 thousand EUR out of the total milk sector subsidy value of 658 thousand EUR. The total state aid for 2012 has been 41,9 million EUR.

Kontejnerski Terminal

In 2011, the Ministry of Maritime Affairs and Transport awarded a regional state aid to the company Kontejnerski Terminal (Container Terminal), as aid in the form of a guarantee for the loan approved by EBRD, amounting to 787 thousand EUR for the loan of 4 million EUR⁶⁸.

⁶¹<http://www.mipa.co.me/>.

⁶²Strategija privlačenja stranih direktnih investicija 2013-2015.

⁶³<http://www.azzk.me/>.

⁶⁴<http://www.lukabar.me/eng/szona.htm>.

⁶⁵<http://www.irfcg.me/>.

⁶⁶<http://www.zzscg.org/home/default.asp>.

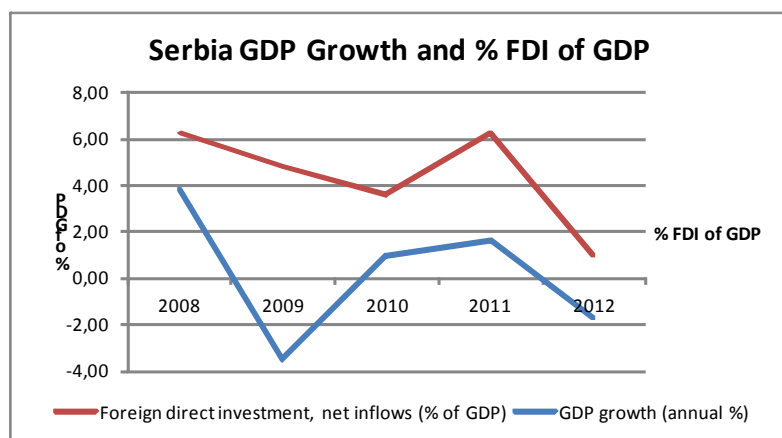
⁶⁷<http://www.vijesti.me/vijesti/korlet-ovakvo-brodogradiliste-bijelaj-je-prijetnja-zivotnu-sredinu-clanak-159738>.

⁶⁸<http://www.emim.org/files/3.pdf>.

Serbia

Serbia	2008	2009	2010	2011	2012
Population (Total)	7.350.221	7.320.807	7.291.436	7.258.745	7.223.887
GDP (current US\$)	47.760.580.366	40.249.479.880	36.990.001.284	43.291.846.196	37.488.935.010
GDP growth (annual %)	3,80	-3,50	1,01	1,63	-1,70
Foreign direct investment, net inflows (% of GDP)	6,27	4,81	3,62	6,24	0,95
Foreign direct investment, net inflows (BoP, current US\$)	2.996.385.201	1.935.601.654	1.340.194.855	2.700.435.377	355.286.702

Source: <http://data.worldbank.org>.



Source: <http://data.worldbank.org>.

The indicators of the FDI as % of the GDP indicate that a varying trend in the last five years ranging from maximum 6% in 2008 to less than 1% in 2012 following the trend of the overall annual GDP growth in the same period. Except for Y2012, when the value of the FDI is 355 million USD, the rest of the period Serbia accounts an annual value of FDI ranging from 1,34 billion USD, to little less than 3 billion USD, outperforming the annual GDP growth.

Overview of legislation and policies for attracting FDI

The following major legislation in Serbia regulates the business operations and attracting of FDI:

- Law on Competition protection – regulates fair competition conditions
- Law on control of state aid – regulates the conditions and control of state aid for competition protection market economy, improvement of the business development (does not regulate agriculture and aquaculture)
- Law on Free Zones – regulated the establishment and roles of the free economic zones

- Law on business companies (Company law) – regulated the establishment, obligations of all company types
- Law on profit tax – regulates the tax obligations coming out of earning of the companies
- Customs Law – regulates the customs rules

The following institutions are directly responsible for attracting of FDI:

- Serbia Investment and Export Promotion Agency (SIEPA) - is a government agency for promotion of foreign direct investment, and their support
- Serbian Export Credit and Insurance Agency (AOFI)⁶⁹ – is a governmental export credit agency for the purpose of export promotion and development of foreign economic relations
- Ministry of Economy - through the above agencies
- Free Zones Administration⁷⁰ - an administrative entity within the ministry of Finance, that carry out the state administration activities in the field of free zones

Overview of state aid and competition policies

The Competition Protection Law implementation and the monitoring is conducted by the Commission for Protection of Competition⁷¹ and State Aid Law implementation and the control of state-aid in Serbia is conducted by the Commission for State Aid control⁷² within the Ministry of Finance of R. Serbia comprised of representatives of the Ministries of finance, economy, infrastructure, environmental protection and Commission for Protection of the Competition.

Specific investment support measures in Serbia are:

- State Grants for Greenfield and Brownfield investments - (valid for all sectors except primary agriculture, the hospitality industry, retail, and the production of synthetic fibers and coal) in the form of non-refundable state funds between 4 and 10 thousand EUR per new job created within three years of the day of signing the contract on awarding funds.
 - State Grants for large investors
 - investments over €200 million, and 1.000 new jobs within 10 years, up to 17% of the investment's total value;
 - investments over €100 million and minimum of 300 new jobs within a time period less than 10 years, up to 17% of the investment value
 - investments of between €50 and €100 million a minimum of 300 new jobs within a time period less than 10 years up to 20% of the investment
 - Medium-sized investments of over €30 million and at least 150 new jobs within 10 years up to 17% of the total investment
 - Financial investments depending on the sector, territorial development level, investment size and minimum full time jobs created ranging from 4 to 20 thousand EUR per new job created.
 - The National Employment Service Grants - for employment, apprentice and re-training, funds available per employee/apprentice
 - Corporate Profit Tax Holiday –an exemption for a period of 10 years for large companies, if investments in fixed assets are over €9 million and employ at least 100 additional employees throughout the investment period and for investments in underdeveloped regions exempt from corporate profit tax for 5 years under certain conditions

- Corporate Profit Tax Credits - tax payable reduced by 20% (or 40% for small enterprises) of the amount invested in fixed assets for the tax period however not exceeding 33% (or 70% for small enterprises) of the total tax liability for a single year. If not used up it can be carried forward for up to 10 years.

- Carrying Forward of Losses – up to five years

- Salary Tax and Social Insurance Charges Exemptions – for 3 or 2 years depending on certain categories of workers

- Annual Income Tax Deductions for non-Serbian citizens, where rate depends on the income compared to the average salary in Serbia, a taxation starts if it is three times the average Serbia salary by 10% and the percentage increase as the amount increases

- Free economic zone benefits:

- Value Added Tax Exemptions for income generated through commercial activities within the current six Free Zones: Subotica, Novi Sad, Zrenjanin, Sabac, Kragujevac, and Pirot.

- Customs-Free Imports of: raw material and semi-finished goods for export production in the free economic zones or authorized by the customs for outward processing production and of imported equipment and machinery which is part of the foreign investor's capital of a company in Serbia.

- Additional Local Incentives size depending on the location: construction land lease fee exemptions or deductions, payments in installments, with the prior consent of the Serbian Government; construction land development fee relief; etc⁷³.

The role of the Parliament related to attracting FDI and state aid and competition policies

Commission for Protection of Competition is an independent state organization which is responsible in front of the Parliament, and is obliged to prepare and submit an annual report covering detailed information on the activities under Law for Competition protection to the Parliament.

The incentivizing Laws are voted on by the Parliament while the exact amounts of support are brought through the adopting various rulebooks and other regulations.

Case of FAS⁷⁴ FIAT Automobiles Serbia

The largest investment in the automobiles sector in Serbia as part of the Kragujevac Free Zone is the FIAT project. The export value of FIAT in 2013 is valued at over 1,5 billion EUR (according to SIEPA).

The protocol between Fiat Automobili Srbija for regulation of the relationship, intended a state financial support of 14 million EUR (6 million EUR for 2013 and 8 million EUR for 2014) under the condition to open a defined number of new employments. Through the Decree on the Conditions for Incentivizing Production of and Demand for Passenger Vehicles Produced in the Republic of Serbia in 2013 [23.03.2013]⁷⁵, and FIAT as the sole producer in Serbia, subsidized the sales up to the value of over 6 million EUR (720 million RSD) through: the reduction of the price of the new car model „500L” on the domestic market for 3 thousand EUR per car and ensure that the commercial banks and leasing companies enable financing of the models with an annual interest below 3%.

⁶⁹www.aofi.rs.

⁷⁰<http://www.usz.gov.rs/eng/o-nama.php>.

⁷¹ www.kzk.org.rs.

⁷²<http://www.mfin.gov.rs/pages/issue.php?id=7271>.

⁷³<http://www.usz.gov.rs/files/publikacije/Investment%20Incentives%20in%20Serbia%202013.pdf>.

⁷⁴<http://www.usz.gov.rs/eng/proizvodjaci.php>.

⁷⁵http://www.mfin.gov.rs/UserFiles/File/dokumenti/2013/uredba_putnicka_vozila057_lat.pdf.

Practical guidelines for improving parliamentary oversight

A. Competition policy and state aid in the countries of Western Balkans

In line with the conducted assessment on the current state-of-play on the level of legislative alignment and the institutional set up major challenges remain for the parliamentary oversight over the competition policy and state aid in the countries of Western Balkans.

- One of the major challenges for achieving alignment for the competition policy chapter is the necessity to develop and strengthen the enforcement capacity of the competent bodies for protection of competition and for monitoring and control of state aid;
- The full alignment in this chapter requires a fundamental change in business culture;
- Concerning state aid policy it is important to realise that state aid does not come for free. Nor it is a solution that can instantly solve problems. The tax payers in the end have to finance state aid and there are opportunity costs to it. Giving aid to undertakings means taking funding away from other policy areas. State resources are limited and they are needed for many essential purposes, such as the educational system, the health system, national security, social protection and others. It is therefore necessary for the countries to make their choices transparently and to prioritise action;
- There is a need to strengthen the instruments for parliamentary oversight over competition policy and state aid.

Suggested improvements:

- The obligation for submission of an annual report by the competent authority to the Assembly represents a useful tool for parliamentary oversight over the competition policy and the state aid policy. Therefore in the countries where there is no such instrument established it would be useful to establish it.
- The role of the Parliament in state aid control should be strengthened by capacity building activities for the MP's as well as for the parliamentary staff and
- One of the instruments for parliamentary oversight of the state aid policy is the discussions and monitoring through the Parliamentary committees on budget and finance. Therefore the awareness should be raised among MP's and parliamentary staff on the elements of state aid and state aid rules.

B. FDI and state aid in the countries of Western Balkans

Given the information in this toolkit and the conducted assessment we can propose the following practical guidelines to improve parliamentary scrutiny over policies of state aid, competitiveness and attracting foreign direct investments in the countries of Western Balkans:

- The discussion on FDI and national competition in the global world is still considered a topic that should be addressed by the executive power only.
- Parliaments of Western Balkan are focusing more on annual reports from institutions in an ex-post fashion and are limited in monitoring the process of state aid and attracting FDI.
- The reports are focusing more on input and output measures without looking for information from the

executive power related to outcome and performance of the state aid and policies to attract FDI.

- There is de-facto no proper cost-benefit analyses so that one can understand better why each policies and measures for state aid and attracting FDI are proposed by the executive power.
- There is neither debate nor proper “next generation” policies proposed by the executive power on how to integrate the FDI with national economies and how to include domestic companies in the supply chain.

Suggested improvements:

- Parliaments should be involved early in the process of designing the state aid and attracting FDI by the executive power. Parliament is the right place to discuss all the aspects of state aid and attracting FDI before actually conducted by the executive power.
- Within the annual reports of the proper institutions related to state aid and attracting FDI there should be reported also analyses of efficiency and effectiveness of FDI
- Parliaments should ask executive power to prepare proper ex-ante cost-benefit analysis of each state aid and FDI policies proposed.

Attracting FDI and state aid policies is very specific part of the public finances that deserves efficient and effective control by the parliaments otherwise it will end up in ministries giving discretionary concessions to FDI the way they seem appropriate instead of conducting socio-economic policy for better performance of the national economy.

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