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DISCUSSION PAPER

ANALYSIS OF THE EFFECTS OF SUBSIDIES IN FOOD INDUSTRY

Case study: Subsidies of the Ministry of Economy

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The food industry is a significant industry in Serbia, as evidenced by numerous indicators, starting from the fact that it is one of the sectors with the greatest impact on industrial growth, through an average of 3.7% to 4.3% share in GDP to a share of 12% in the country's total exports. The importance of this industry can be seen through the determination of the state to support it through several types of subsidies and incentive instruments: primarily through the subsidies of the Ministry of Economy, which are analyzed in detail below, and to some extent through national measures of the Ministry of Agriculture, Forestry and Water Management and IPARD measures.

*Namely, from 2006 until today, **32 beneficiaries, most of which are medium-sized legal entities, have received over EUR 38.2 million in subsidies through the program of the Ministry of Economy intended for the food industry.***

*As the analysis showed, the value of approved investment projects ranges from **EUR 305,000** to **EUR 45,000,000**, while the amount of approved subsidies ranges from at least **EUR 116,000** to as much as **EUR 12,000,000**. Subsidies granted in this way are related to the increase in the number of jobs, which range from **25** to **312**, per beneficiary, or to the amount of gross salary that beneficiaries pay to employees, as well as to the amount of investment in fixed assets.*

Although the purposes for which the funds were approved can be divided into two basic categories: 1) Construction and/or expansion of production and processing capacities (factories, plants, facilities, halls ...) and 2) Improvement of production capacities, a survey of the beneficiaries showed that they mostly opt for the first category and in most cases invest in the construction of new facilities.

Approved subsidies vary from project to project, however some of the average values of approved incentives are as follows:

- a) On average, the value of an investment project is **EUR 6,754,986**;*
- b) On average, the value of a subsidy is **EUR 1,193,818**;*
- c) On average, the share of a subsidy in the value of an investment project is **22%**;*
- d) On average, **84** new jobs are created per project.*

As part of this analysis, two questionnaires were used – one to survey the beneficiaries and the other to survey non-beneficiaries, or potential beneficiaries. The analysis of the results obtained from the survey showed that the government's assistance in investment projects is of great importance for the businesses. Even though the majority of surveyed beneficiaries believed that their projects would be implemented even without the help of the government, they also said that these projects would be implemented with a delay or to a lesser extent. 90% of the respondents rated the approved subsidies as important for the success of their projects.

Some of the most significant effects of approved subsidies are:

1. All respondents **either retained or increased the total number of employees** in relation to the year when a subsidy was sought. On average, the respondents increased the total number of employees by **92**;
2. All respondents reported **identical income or an increase in income** in 2019 of **4% to as much as 25%** compared to the year when a subsidy was requested;
3. **Most** respondents **would re-apply** for the Ministry of Economy's subsidies.

However, both beneficiaries and non-beneficiaries pointed out that there is room for improvement, mostly in the form of criteria applied in the approval process. Namely, the respondents pointed out that:

- It is necessary **to move away from the "traditional criteria"** in approving state aid, such as the obligation to employ and retain a certain number of workers after the completion of the project;
- **Insufficient emphasis is placed on the need for process automation**, or, the use of modern machines and technologies is not encouraged as much as labor-intensive projects, and
- **Insufficient emphasis is placed on the introduction of new technologies** and modernization of production processes with new and modern machines and technologies that would further improve production and reduce negative impact on the environment, etc.

For this reason, **one of the recommendations of this analysis is that the number of new employees should not necessarily be the main criterion in approving subsidies** for investment projects, rather the introduction of new processes, modernization of production, process automation and investments related to environmental protection and improvement and green technologies should be taken into account.

The good news is that at the time when this study was drafted the relevant government authorities were working on a new regulation which, in addition to existing ones, would introduce criteria concerning production automation (hereinafter: the new Regulation on Determining Criteria for Granting the Incentives for Attracting Direct Investments in Food Production).

Improving the criteria for expert analysis of projects to be supported by subsidies should contribute to a better understanding of the entire supply chain, which includes investment in the development of primary agricultural production, together with the development of processing capacities. **Networking with other bodies** that approve state aid in this sector will also help businesses to obtain start-up funds faster and easier and implement projects significant for the economy and society.

Finally, it is recommended that **investments in intangible assets in the future include certification, promotion or innovative processes** that improve safety, quality, and traceability, with the use of new technologies or other desirable parameters of the final product. Also, in the context of the sustainability of agricultural production, it is recommended **to encourage processing in particular and the placing on the market of organic agricultural products, investments that have a positive impact on the environment and those that contribute to animal safety and welfare, through investment attraction programs or other compatible programs that should encourage the competitiveness of the sector.**

INTRODUCTION

The analysis of the effects of subsidies in the food industry is the result of a joint venture between NALED and the Ministry of Economy launched with the aim of assessing the satisfaction of state aid beneficiaries in the food industry from 2006 until today and defining recommendations for improving the effects of state aid in agriculture and food industry.

The analysis is conducted within the project “P2P - Prepare to Participate” implemented by CEP, NALED, EWB and CSP with the financial support of the European Union. The research findings and recommendations of this analysis can serve as a basis for the adoption of the new Regulation on Determining the Criteria for Granting Incentives to Attract Direct Investments in Food Production, which is expected to be adopted in 2021, or other regulations that could improve the allocation system in the agricultural and food industries.

After several consecutive regulations on the allocation of subsidies in the food industry have been implemented a need arose to assess the effects of state aid in this sector, in order to identify key benefits and room for improvement in the allocation process, but also the type and amount of subsidies needed. The trigger for the impact assessment was the adoption of the proposal for a new regulation, which initiated a discussion among potential beneficiaries of state aid.

The analysis consists of four parts. The first chapter, in addition to listing the key terms, provides an overview of the types and importance of incentives in the food industry, necessary for the reader to gain a “broader picture” of the initial situation in this area. The second part analyzes the regulatory framework that regulates the allocation of incentives in the food industry in Serbia, but also gives a brief overview of EU regulations in this area. The third part provides a detailed analysis of the effects of the subsidies done by observing the scope of the program, user satisfaction, as well as the reasons why some measures haven’t been used by “potential beneficiaries”. In addition, this chapter lists all identified problems concerning regulations, practice and research of attitudes of the beneficiaries and non-beneficiaries. The last chapter, based on the identified problems, gives recommendations for improving the current situation.

As subsidies in the agricultural sector and food industry are numerous and include different forms and instruments of state aid provided by different bodies, the subject of this analysis is narrowed to the subsidies of the Ministry of Economy, with a brief overview of subsidies managed by the Ministry of Agriculture.

METHODOLOGY

The methodology for making this analysis included several steps.

The first step was a desk research through which the basic concepts were identified, as well as the national and supranational regulatory framework governing the granting of state aid in the food industry. The Law on State Aid Control, the Law on Investments and the Regulation on Determining the Criteria for Granting Incentives to Attract Direct Investments in Food Production were used as the main data source, while the main source of data for the transnational framework was the Stabilization and Association Agreement between the European Community and its member states, on the one hand, and the Republic of Serbia, on the other, as well as the official website of the European Commission.

In addition, an analysis of the database available to the Ministry of Economy on the users of subsidies from 2006 until today was conducted.

The second step in making the analysis was to conduct research with beneficiaries and “non-beneficiaries”. Namely, during October 2020, an online survey of the attitudes of the beneficiaries of the subsidies provided was conducted with the basic goal of assessing satisfaction with the measures used, identifying the reasons for not using available programs, as well as identifying potential procedural or other problems when applying for and using subsidies. For the purposes of the research, a semi-structured questionnaire was used, which consisted of 38 questions. The questionnaire was distributed to 26 addresses of beneficiaries in cooperation with the Ministry of Economy. A total of 10 responses were collected.

In addition to the survey of the beneficiaries, an online survey of the attitudes of “non-beneficiaries”, or potential beneficiaries of the program, was conducted in October, with the basic goal of identifying the reasons for not using the available programs. Non-beneficiaries of subsidies in this analysis are companies that have not used any type of subsidies available for the food industry, and could potentially exercise their rights to them. For the purposes of this research, a semi-structured questionnaire consisting of 18 questions was used. The questionnaire was distributed to 45 addresses, members of NALED's Alliance for Food and Agriculture. A total of 8 responses were collected.

The analysis does not deal with subsidies of other bodies and the focus is exclusively on the effects of those subsidies approved by the Ministry of Economy in cooperation with the Development Agency of Serbia. However, in order to facilitate the understanding of the incentive systems granted in the food industry sector, a brief overview of the incentives of the Ministry of Agriculture, Forestry and Water Management granted through national and IPARD measures is presented.

SCOPE AND SIGNIFICANCE OF THE ANALYSIS

The food industry is a significant branch of industry in Serbia, as evidenced by many indicators.

According to the data of the Statistical Office of the RS, the production of food products, in addition to the production of electricity, metal products and furniture, recorded the biggest growth in July 2020, compared to the same month in 2019.¹ The food industry participates in Serbia's GDP with a share of 3.7% to 4.3%, and together with agricultural production, this sector participates in GDP with a share that is on average from 10% to 13%, depending on the year analyzed; of that, a share of the production of food products amounts to 3% to 3.5%, and the production of beverages between 0.7% and 0.9%.²

In 2019, these figures were slightly lower - agriculture, forestry and water management 6%, food production 2.3% and beverage production 0.5%.³ It is important to mention that the food industry participates in the total export of Serbia in the amount of 12%, and that it records a surplus in foreign trade.⁴ The sector is characterized as labor-intensive and greatly affects the level of employment in Serbia.

The importance of this industry can be seen through the determination of the state to encourage it. Namely, the Law on the Budget of the Republic of Serbia for 2020⁵, the Law on Incentives in Agriculture and Rural Development⁶, as well as the Decree on the Allocation of Incentives in Agriculture and Rural Development for 2020, allocated over 36.7 billion dinars⁷ (including national and IPARD subsidies approved through the Ministry of Agriculture, Forestry and Water Management) for subsidies in agriculture and rural development.

For the sake of comparison, in 2019, the value of the budget allocated for subsidies was over 39.9 billion dinars, in 2018 30 billion, 27 billion in 2017, 24.4 billion in 2016 and 24.5 billion in 2015.⁸

There seems to be a stable growth trend in the allocation of funds for subsidies in agriculture and rural development, with the exception of 2020, when slightly smaller amount was allocated than that allocated in 2019, largely due to the allocation of funds to combat the negative effects of the Covid-19 pandemic.

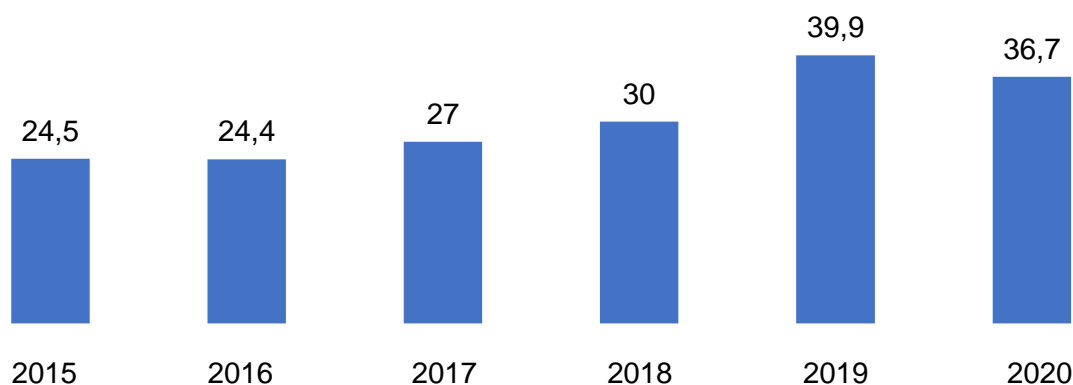


Chart 1: Subsidies in Agriculture and Rural Development in Billions of Dinars

In order to better understand the scope of the analysis, as well as the terms that will be used in the text, below are some key definitions and divisions.

Food industry - Having in mind that the analysis deals with subsidies in the food industry, it is important to know how the Ministry of Economy defines it. The current Regulation on Determining the Criteria for Granting the Incentives to Attract Direct Investments in Food Production defines the food industry as *the processing of*

¹ Republic Statistical Office – Industrial production indices, July 2020

² Review of the current situation with SWOT analysis for the food industry in Serbia, Ministry of Economy, 2017, pg. 17

³ Republic Statistical Office – Gross value added by type of activity, 2019

⁴ *Ibidem*

⁵ Law on Budget of the Republic of Serbia for 2020 (“Official Gazette of the RS”, No. 84/2019 and 60/2020 – regulation)

⁶ Law on Incentives in Agriculture and Rural Development (“Official Gazette of the RS”, No.10/2013, 142/2014, 103/2015 and 101/2016)

⁷ Regulation on the Allocation of Incentives in Agriculture and Rural Development in 2020 (“Official Gazette of the RS”, No. 1/2020, 13/2020, 27/2020, 52/2020, 75/2020, 106/2020, 118/2020, 124/2020)

⁸ Regulations on the allocation of incentives in agriculture and rural development 2015-2019

*agricultural, forestry and fishery products to obtain food for humans and animals, including the production of various intermediate products.*⁹

The term “food industry” within the meaning of the Regulation does not mean retail stores of those producers who own their shops (bakeries, confectioneries, butchers who sell their own products, etc.). In addition, the Regulation does not cover the production of primary agricultural products as inputs for the food industry.

State aid and investments - State aid within the meaning of the Law on State Aid Control (“Official Gazette of the RS”, No. 73/2019) is considered any actual or potential public expenditure or reduced generation of public revenue granted by the state aid provider in any form, which puts a specific market participant in a more favorable position in relation to competitors or gives preference to the production of certain goods and / or services, which distorts or threatens to distort competition in the market and affects trade between the Republic of Serbia and EU member states.

The Law on Investments (“Official Gazette of the RS”, No. 89/2015 and 95/2018) defines investments as:

- direct - investments in tangible and intangible assets of a company and
- indirect - acquisition of shares or stocks in a company

The Regulation on Determining the Criteria for Granting Incentives to Attract Direct Investments in Food Production (hereinafter the Regulation), which we will analyze below, is one of the three regulation adopted on the basis of the Law on Investments.

These three regulations are important because they comprehensively define state aid, what is considered an investment, what an investment project is, who can be a beneficiary and what the conditions for allocation of the subsidies are.

During the adoption of the Law on Investments in 2015, the comments of the European Commission were fully adopted and the Law was harmonized with the relevant provisions of the Stabilization and Association Agreement between the European Communities and their Member States and the Republic of Serbia (“Official Gazette of the RS”, No. 83/08), that is, with the provisions of the Interim Agreement on Trade and Trade-Related Matters (“Official Gazette of the RS”, No. 83/08). The provisions of the Law have been harmonized with the Treaty on the Functioning of the EU, while there has been no harmonization with other regulations because there are no appropriate secondary sources of EU law regulating this subject matter.¹⁰ The Law on State Aid Control is also in line with European Union legislation - primarily with Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union.¹¹

TYPES OF SUBSIDIES IN THE FOOD INDUSTRY

Subsidies in the food industry can be roughly divided into two main categories: a) subsidies of the Ministry of Economy, which participates in the joint implementation of investment projects as a contracting party, and b) subsidies of the Ministry of Agriculture, Forestry and Water Management, which are approved and paid through the Treasury Administration of the Ministry of Finance or through the Directorate for Agrarian Payments.

MAFWM subsidies can be further divided into IPARD incentives¹², which are partly financed with EU funds, and partly with the national budget, and national incentives.¹³ The IPARD 2 Program includes several current

⁹ The definition is taken from the Regulation on Determining the Criteria for Granting Incentives to Attract Direct Investments in Food Production

¹⁰ Taken from [the draft law of 2015](#)

¹¹ [Ibidem](#)

¹² IPARD 2 is an instrument of pre-accession assistance of the European Union in the field of rural development, in the amount of 175 million euros for the period 2014-2020. The funds are intended to strengthen the competitiveness of the food production and processing sector, and the goal is to gradually reach EU standards in terms of hygiene, food safety, veterinary medicine and environmental protection. Investments under the IPARD

measures, of which it is important to single out measure 3, which refers to investments in physical assets related to the processing and marketing of agricultural and fishery products. When it comes to incentives provided based on the national budget, they include direct payments to support primary crop and livestock agricultural production, as well as rural development measures, some of which include support in the processing sector, certification and the like. . In addition, incentives can be approved to a lesser extent through the Development Fund of the Republic of Serbia, the National Employment Service, local governments and other bodies.¹⁴

In order to better understand the existing incentives in this sector, Table 1 provides an overview of the three basic categories of incentives targeting the food industry with a categorization of potential beneficiaries of each incentive group. Limitations, if any, regarding the size of the business according to the number of employees, the annual balance sheet or production capacities are highlighted. The comparison is presented only on the basis of the conditions that need to be met in order to qualify for subsidies. MAFWM, depending on the type of the subsidy that is granted, prescribes additional conditions regarding the production capacity, standards and other criteria, or prescribes special types of subsidies for food processing that takes place on the farm itself.

When it comes to the size of the business entity, the following is implied:

- Small businesses (up to 50 employees and annual turnover or total annual balance sheet up to EUR 10 million);
- Medium-sized businesses (from 50 to 250 employees and annual turnover less than EUR 50 million and/or total annual balance sheet less than EUR 43 million) and
- Large businesses (over 250 employees and annual turnover over EUR 50 million or total annual balance sheet over 43 million).

Business size	National subsidies (MAFWM)	IPARD, measure 3 (MAFWM)	Subsidies of the Ministry of Economy
Small	* including upper limit of production capacities * possibility for micro-businesses to apply	* including lower / lower and upper limit in production capacities * possibility for micro-businesses to apply	* maximum allowed amount - up to 70% of eligible costs
Medium	* including upper limit of production capacities	* including lower / lower and upper limit in production capacities	* maximum allowed amount - up to 60% of eligible costs
Large	Not included	Not included	* maximum allowed amount - up to 50% of eligible costs

Table 1: Basic Information and Provided Limits

program focus on the dairy, meat, fruit and vegetable, other crops, eggs and wine sectors. In each sector, the type and amount of investment incentive, different criteria and conditions for application are determined.

¹³ National incentives may be: [direct payments \(premiums, subsidies and allowances\)](#), [incentives for rural development \(supporting competitiveness, environmental protection, growth of income, for local rural development strategies and knowledge creation and transfer.\)](#) and [special incentives \(for marketing, accounting data systems, breeding programs, planting material and promotional activities\)](#). Incentives are further divided into: incentives [for plant production](#), incentives for [livestock](#), incentives for [rural development](#), [incentives for organic production](#), [loans](#) and [other incentives](#). Criteria for exercising the right to these funds are provided by [rulebooks](#) and [regulations](#), or funds are awarded through current [public tenders](#).

¹⁴ Some of the programs providing incentives are as follows: Small Business Support Program for the Purchase of Equipment in 2020, Processing Industries Support Program in 2020, Entrepreneurship Support Program through development projects in 2020, Entrepreneurship Support Program through financial support for beginners in business in 2020, but also Development Fund's loans for fixed assets and working capital, other types of credit assistance, subsidies for self-employment of the National Employment Service, etc.

Micro, small and medium businesses can apply for national subsidies provided by the Ministry of Agriculture, Forestry and Water Management¹⁵. However, the MAFWM sets certain limitations concerning production capacities that entrepreneurs must meet. For example, one of the restrictions is condition for investments in milk processing and marketing in the milk processing sector, in the form of an established capacity for milk processing of less than 3,000 liters of milk per day.

Similar to MAFWM national measures, micro, small and medium-sized enterprises can apply for IPARD 2 incentives. Considering the same example of the limitation concerning the production capacity for investments in milk processing and marketing in the milk processing sector, the condition is the determined daily capacity of the facility for milk processing which needs to range from 3,000 to 100,000 liters.

Small, medium, but also large businesses can apply for incentives from the Ministry of Economy in the food industry. Other conditions that must be met are covering of at least 25% of eligible costs, employment of a certain number of persons and minimum value of investment, depending on the municipality where the project is implemented. The conditions are discussed in more detail in the chapter *Regulatory Framework for Granting Incentives in the Food Industry*.

¹⁵ As an example of national incentives of the Ministry of Agriculture, Forestry and Water Management, the Rulebook on incentives for investments in processing and marketing of agricultural and food products and fishery products for the procurement of equipment in the dairy, meat, fruit, vegetables, wine, beer and spirits sector was taken into account. ("Official Gazette of the RS", No. 35/2019, 25/2020)

FOOD INDUSTRY IN THE EUROPEAN UNION

The food industry is the largest manufacturing sector in the European Union, directly employing 4.82 million workers in the EU. The turnover of the food and non-alcoholic beverages industry in the EU in 2017 alone amounted to 1.205 billion euros, while the share of gross added value of this sector was 1.9% of the EU gross added value¹⁶. The indicator of the relevance of this sector is also reflected in the share in GDP - the share of the food sector in the EU GDP is 7.8%, while the share of agriculture is 1.5%.¹⁷

When it comes to state aid in the EU, it is prohibited in principle, but there are significant exceptions to that prohibition. The regulatory framework for state aid is regulated by Articles 107 to 109 of the Treaty on the Functioning of the European Union, while more detailed rules can be found in a number of secondary acts of the Council of the European Union and the European Commission. In addition to regulations and directives, a significant place in the regulation of state aid is occupied by the so-called soft right. A major contribution to the interpretation and application of state aid rules, as in other areas, was made by the EU Court of Justice. The main role of the state aid control procedure is entrusted to the Commission, with the aim of giving a greater role in this process to the national courts of the Member States.

The EU applies certain principles when determining the scope and character of state aid. These are the following principles: selectivity, or the choice of certain companies, and those that have a chance to be profitable after receiving assistance; short duration, means that assistance is limited in time; transparency means that aid is clearly visible and measurable; and, adequacy, means that the form of assistance given is well chosen.

State aid in the EU has been regulated from the outset in a way that does not jeopardize business competition and trade between Member States, thus protecting the common market but also taking into account its positive effects, and allowing countries to support businesses in situations that call for it.

There are also those types of State aid that can be declared compatible with the common market by the Commission. In this regard, Regulation 651/2014 prescribes categories of aid that are compatible with the common market. However, agriculture and the food industry do not fall under the so-called conditionally permitted areas of state aid prescribed by this Regulation, already permitted exemptions of state aid in this area are regulated through the Common Agricultural Policy, which is discussed in more detail below.

Agriculture and food industry in the European Union are regulated through the Common Agricultural Policy (CAP), the Common Fisheries Policy and the EU Food Safety System. Here we will only briefly look at the CAP and the Food Safety System.

The CAP supports farmers in the following ways:¹⁸

1. Through direct financial assistance;
2. Through market measures that the European Commission can take to resolve difficult market situations and
3. Through rural development measures. National (and in some cases regional) development programs are established.

Market measures and financial assistance are financed exclusively with the EU budget, while rural development measures are based on multi-annual programming and co-financed by Member States. The CAP is funded by two EU funds - the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD)¹⁹. The total budget of these two funds for the period 2014-

¹⁶ *Data & Trends of the European Food and Drink Industry 2020*

¹⁷ Eurostat data for 2017

¹⁸ European Commission, *The common agricultural policy at a glance*

¹⁹ European Commission, *The common agricultural policy funding*

2020 amounted to 408.313 billion euros, of which the EAGF makes over 300 billion euros, and the EAFRD almost 100 billion euros.²⁰ The regulatory framework governing the area of the CAP consists of:

- Direct financial assistance (Regulation 1307/2013);
- Common Organization of the Markets in Agricultural Products (Regulation 1308/013);
- Support to rural development (Regulation 1305/2013) and
- Financing, Management and Monitoring of the CAP (Regulation 1306/2013).

In the context of harmonization of regulations and mutual relations between the Republic of Serbia and the EU, Article 73 of the Stabilization and Association Agreement (SAA)²¹ which is an international umbrella agreement, should be taken into consideration. It regulates the priority activities that the Republic of Serbia needs to launch in order to get closer and integrate into the economic and political flows of the European Union. Some of the most important obligations that our country has undertaken by signing this agreement are the gradual establishment of a free trade zone and the harmonization of the legislation of the Republic of Serbia with EU legislation. One of the priority areas that has a direct impact on the establishment of a free trade zone between the EU and the RS is the control of state aid, which together with competition policy, in a narrower sense constitutes Negotiating Chapter 8.²²

When it comes to state aid in agriculture, Serbia, as a country undergoing the accession process, has a separate agricultural policy, and the SAA itself provides for the exemption of agricultural and fishery products in relation to the provisions of Article 73 of the SAA relating to state aid control and competition rules.²³

In accordance with the obligations under the SAA, the Republic of Serbia is obliged to gradually harmonize food safety standards, but also environmental protection standards with EU standards, in the process of joining the EU. The guiding principle of the EU Commission when it comes to food safety is the application of an integrated approach from farm to fork that covers all sectors of the food chain, which is set out in the White Paper on Food Safety.²⁴

²⁰ European Parliament, *Financing of the CAP*

²¹ Law on Ratification of the Stabilization and Association Agreement between the European Communities and their Member States, on the one hand, and the Republic of Serbia, on the other ("Official Gazette of the RS" – International Treaties", No. 83/08)

²² Republic of Serbia, State Aid Control Commission, frequently asked questions

²³ Stabilization and Association Agreement, Article 73, item 9

²⁴ *White Paper on Food Safety*

REGULATORY FRAMEWORK ALLOWING THE MINISTRY OF ECONOMY TO GRANT INCENTIVES IN THE FOOD INDUSTRY

The Ministry of Economy, in cooperation with the Development Agency of Serbia (RAS), is providing financial support to attract direct investments in food production.

Detailed conditions that must be met by applicants for grants are defined by the Regulation on Determining the Criteria for Granting Incentives to Attract Direct Investments in Food Production (“Official Gazette of the RS”, No. 1/2019). The regulation is intended to provide incentives to acquire equipment and technology and a higher degree of processing within the food industry. Consequently, the investment should enable the development, procurement of new equipment and technology for the food industry and accelerate the achievement of goals set by the Action Plan for the implementation of the Food Industry Development Strategy in the Republic of Serbia for 2017-2022,²⁵ creating new jobs and raising level of knowledge and skills of employees in the food industry.²⁶ The regulation does not provide incentives for primary agricultural production.

It is important to note that in 2019, for the first time, the food industry sector was singled out as separate, and that incentives for this sector were approved through public tenders or general regulations that regulated direct investments.²⁷ In 2016, the first regulation was adopted, and its content reminds of the current regulation for this area, or the classification into small, medium and large businesses, it contained an improved definition of investment project and explained the difference between investors and beneficiaries, the term “newly employed” was introduced in relation to investment projects and it stated that the level of development of local self-government is determined by a separate regulation (instead of listing the devastated areas in the regulation itself, as was the case until then).

As the mentioned Decree of 2019 is a valid regulation which regulates the allocation of funds in the food industry, the conditions for participation in the allocation procedure referred to in this Regulation will be presented below.

Who is entitled to subsidies and under what conditions?

Подстицаји дефинисани Уредбом се одобравају за инвестиционе пројекте у области производње прехранбених производа. Eligible businesses are those business – companies that file their investment project concerning food production, that apply for subsidies before the project got started and that secure at least 25% of eligible costs²⁸. The approval is dependent on the employment of a certain number of persons and the minimum value of the investment, depending on the municipality where the project is implemented.

Subsidies are awarded for projects with a minimum value of 2,000,000 EUR which provide employment for at least 30 new employees in connection with the investment project.

The investment project must also meet the general conditions set by the Regulation:

1. The direct investment is provided at the same location in the local government unit for at least five years after the implementation of the investment project for large companies, or at least three years for small and medium companies;²⁹

²⁵ Strategic framework with the Action Plan for the food industry in Serbia, Ministry of Economy, 2017

²⁶ [News about the adoption of the Regulation](#)

²⁷ Regulations on the conditions and manner of attracting direct investments from 2006 to 2018 – listed among the references

²⁸ Eligible costs, in terms of this Regulation, are the costs of investment in tangible and intangible assets for the implementation of the investment project and the cost of gross wages for employees in the implementation of the investment project that meet the criteria prescribed in Article 3 of the Regulation. It is also possible to approve incentives for justified costs of investment in fixed assets (Article 14)

²⁹ For the purposes of this Regulation, a large company is considered to be an economic entity that has over 250 employees and an annual turnover of over 50 million euros or a total annual balance sheet of over 43 million euros. A medium-sized business entity has from 50 to 250 employees, an

2. The number of employees with the beneficiary after the implementation of the investment project cannot drop in a period of five years for large companies or three years for small and medium companies, and
3. The investor is obliged to pay employees at least 20% above the minimum wage.

The Regulation also provides special criteria for the allocation of funds (Article 7), additional conditions for large companies (Article 5), as well as exceptions to the right to the allocation of funds (Article 6). The application procedure, the maximum amount of funds, the criteria for awarding incentives and deadlines are defined in detail by the Regulation³⁰.

What types of incentives are there?

When it comes to the type of incentives, the Regulation distinguishes two categories:

1. Incentives for eligible gross salary costs for new jobs related to the investment project

Subsidies are awarded by taking into account two-year gross salary of the total number of workers employed in connection with the investment project. They refer to the total amount that the beneficiary pays for the gross salaries of employees, including the corresponding taxes and contributions (for compulsory social insurance deducted from salaries and contributions paid on salaries).

The amount of subsidies for a new job depends on the level of development of local government determined by the Regulation on Determining a Single List of Regions and Local Government Units by Degree of Development for 2014. The maximum amount of incentives per new job can be seen in the presented table.

Local Governments by Degree of Development	Percentage of investment into gross wages for two years	Amount per new job (maximum)
GROUP I	20%	3.000 EUR
GROUP II	25%	4.000 EUR
GROUP III	30%	5.000 EUR
GROUP IV	35%	6.000 EUR
DEVASTATED AREA	40%	7.000 EUR

Table 2: Maximum amount per new job according to the degree of development of a local government unit

1. Incentives for eligible costs of investment in fixed assets

Subsidies for investments projects may be approved on the basis of gross salaries, and for investments in fixed assets, which imply investments in tangible and intangible assets made as of the date of application for subsidies until the expiration of the deadline for the implementation of the investment project. The lease of business premises where the project is being implemented is also considered as an investment into fixed assets.

The beneficiary may be granted a 20% increase in the amount of the subsidy to cover the costs for investments in fixed assets in the amount of up to EUR 20 million. This amount can be increased by an additional 10% for investments in fixed assets from EUR 20 to 40 million. Finally, this amount can be increased by 5% for investments of more than EUR 40 million. The maximum amount of permitted state aid is determined by regulations for each type of state aid, and here the upper limit is determined by Article 8 of the Regulation.

annual turnover of less than 50 million or a total annual balance of up to 43 million euros. A small business entity is one that has up to 50 employees and an annual turnover or a total annual balance sheet of up to 10 million euros.

³⁰ Article 7 – 12 of the Regulation

Additional subsidies may be granted for labor-intensive projects employing a minimum of 200 workers (Article 15). If it is an investment of special importance (Article 16), it is possible to approve both types of incentives - for eligible investment in fixed assets and for financing the costs of gross salaries of employees, but not exceeding the maximum amounts set by the Regulation (Article 8).

How does the application process look like?

1. If the potential investor (or potential beneficiary) meets all the conditions provided by the Regulation, the first step in applying for a subsidy is to **send the application to the** Development Agency of Serbia on the prescribed form. The prior step may be, but is not mandatory, the **submission of a letter of intent** to be completed and submitted by the investor who intends to implement the investment project. Upon submission of the letter of intent, the Agency informs the investor about the possible amount of the subsidy.
2. The application for incentives is **accompanied by documentation** consisting of: a business plan, financial statements for the previous two years of doing business together with the audit report, excerpt from the relevant register of the country in which the investor is based, assurance that no bankruptcy or reorganization has been initiated against investors and beneficiaries, proof of paid tax liabilities, statement that the responsible persons of investors and beneficiaries have not been convicted for criminal offenses against labor rights and criminal offenses against the economy and statement that the investor and the beneficiary are not companies in difficulty within the meaning of the Law on State Aid Control.
3. Based on the application, the **Agency performs an expert assessment by applying the criteria referred to in the Regulation** and obtains the necessary data. The agency **submits to the investor a proposal of the amount of subsidies** that will be sent to the Economic Development Council and **sends a draft contract to the beneficiary**.
4. **The text of the draft Agreement is also submitted by the Ministry to the Commission for State Aid Control**, in case the amount of subsidies exceeds EUR 10,000,000, or to the Government, for the purpose of giving prior consent.³¹
5. After obtaining the prior consent of the Government, **an agreement on the allocation of the subsidy is concluded** between the beneficiary and the Ministry of Economy, which participates, together with the beneficiary, in the joint implementation of all stages of the investment project.
6. **Funds are disbursed in installments** on the basis of the request for payment filed with the Ministry by the beneficiary.

What are the obligations of the beneficiary (investor)?

- The potential beneficiary needs to **submit all necessary documentation** to apply for the program (see the section *How the Application Procedure Works*);
- It is necessary for the beneficiary to **participate and invest and cover** at least **25%** of costs with its own funds or from other sources that do not contain state aid;
- **After signing the contract** on the implementation of the investment project with the Ministry, the beneficiary is obliged **to adhere to all obligations under the contract in question**;
- The investor, or the beneficiary of funds is obliged **to make the investment in the manner specified in the application** and in the signed contract - in terms of the amount and structure of the investment;
- It is also mandatory to **keep investing at the same location for** at least five years after the implementation of the project in the case of a large company, or at least three years in the case of a small or medium-sized business;
- The beneficiary is obliged **to employ a certain number of people** determined by the signed contract **and to maintain that number** during the project implementation and during the guaranteed

³¹ The regulation also prescribes the required elements of the contract – Article 22.

investment period - at least five years for large companies, or three years for small and medium businesses;

- There is an obligation to **pay salaries to employees** in connection with the investment project, in the amount specified in the contract, which is **at least 20% above the minimum salary**;
- It is necessary for the beneficiary to have certain **collateral**, or to enclose a bank guarantee and two registered and signed blank bills of exchange with a signed bill of exchange authorization in order to collect default interest in case of non-fulfillment of contractual obligations;
- There is an obligation to **report to the Ministry about the implementation of the project** - within 60 days from the date of submission of the request for payment of the last installment, or completion of the project, as well as within 60 days from the expiration of the period for which the investment is guaranteed;
- It is necessary to **inform the Ministry if there is a change in the dynamics of investment**, no later than at the end of the third quarter of the current year, as well as any other relevant changes related to the implementation of the investment project;
- It is necessary to **enable the Ministry to perform periodic control** during the project implementation and during the monitoring phase;
- It is also necessary to **enable the audit to be performed** by an authorized independent audit firm and to provide insight into all relevant documentation;
- **The project must be implemented within the deadline** - usually up to three years from the date of submission of the application, while this deadline can be extended up to five years upon a reasoned request approved by the Economic Development Council. In the case of an investment of special importance, within the meaning of the Regulation, the deadline for implementation is ten years from the date of submission of the application.

EFFECTS OF THE SUBSIDIES PROVIDED BY THE MINISTRY OF ECONOMY

Current state of the allocation system

Even though projects greatly differ from one another, some of the average values of approved subsidies are as follows:

- The average value of the investment project is **EUR 6,754,986**;
- The average value of awarded subsidies per beneficiary is **EUR 1,193,818**;
- The average share of the subsidy in the value of an investment project is **22%**;
- On average, **84** new jobs are created per project;

According to the data available to the Ministry of Economy, after the entry into force of the Law on Investments in 2006 until today, **EUR 38,202,202** has been approved for subsidies in the food industry for **32** beneficiaries, of which most beneficiaries are in the category of **medium businesses** (6 micro, 3 small, 13 medium³² and 8 large enterprises)³³. Two companies were deleted from the register³⁴.

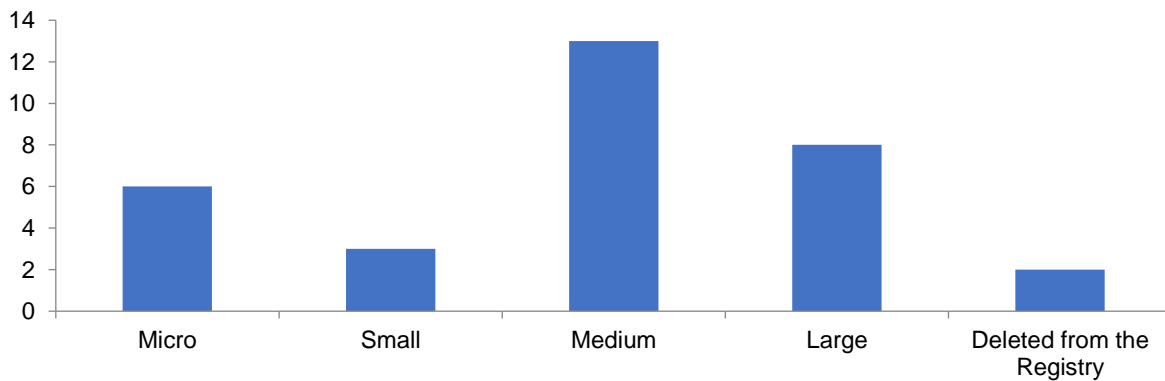
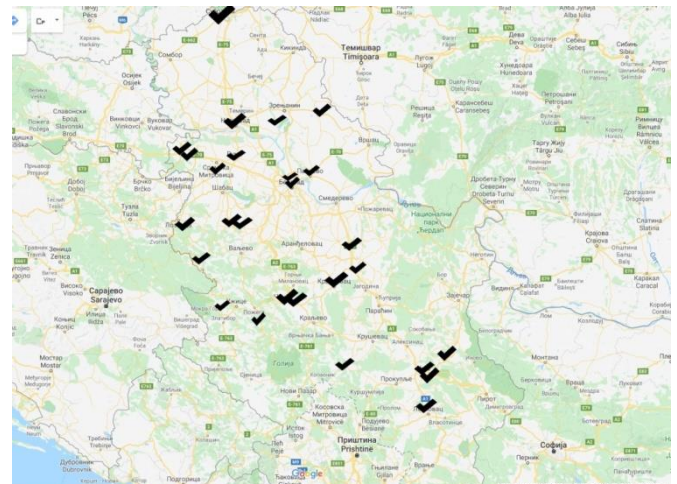


Chart 2: Graph 2. Beneficiaries by size, source: database of the Ministry of Economy and the Business Registers Agency

The purposes for which the funds were approved can be divided into two basic categories:

- Construction and/or expansion of physical capacities for production and processing (factories, plants, facilities, halls ..) and
- Improvement of production capacities;

The municipalities implementing projects are largely evenly distributed regionally. These are the following cities and municipalities: Subotica, Svrlijig, Koceljeva (3), Novi Sad (3), Velika Plana, Leskovac, Brus, Ljubovija, Niš (2), Šid, Čačak 2), Loznica, Kragujevac, Batočina,



Map 1 Regional distribution of subsidies 2006-2020

³² 1 beneficiary in the category of medium-sized businesses used incentives twice.

³³ 1 beneficiary in the category of large businesses used incentives three times.

³⁴ The data about different categories of businesses were found in the official register of the Business Registers Agency – category "Size of Reporting Entities based on the data provided in their financial statements for the previous year"

Pančevo, Sremska Mitrovica, Sečanj, Ruma, Beograd (3), Čajetina, Titel, Šid, Arilje i Paraćin.

16 projects have been completed, 5 are in the monitoring phase, while 11 projects are currently in the implementation phase. The earliest contract was signed in December 2006, while the last three contracts were signed in June 2020.

Looking at the value of approved investment projects³⁵ one may notice that it goes from EUR 305,000 to EUR 45,000,000, while the amount of approved subsidies is from EUR 116,000 to EUR 12,000,000, as shown in the chart below. In addition, the projected number of new jobs ranges from 25 to 312.

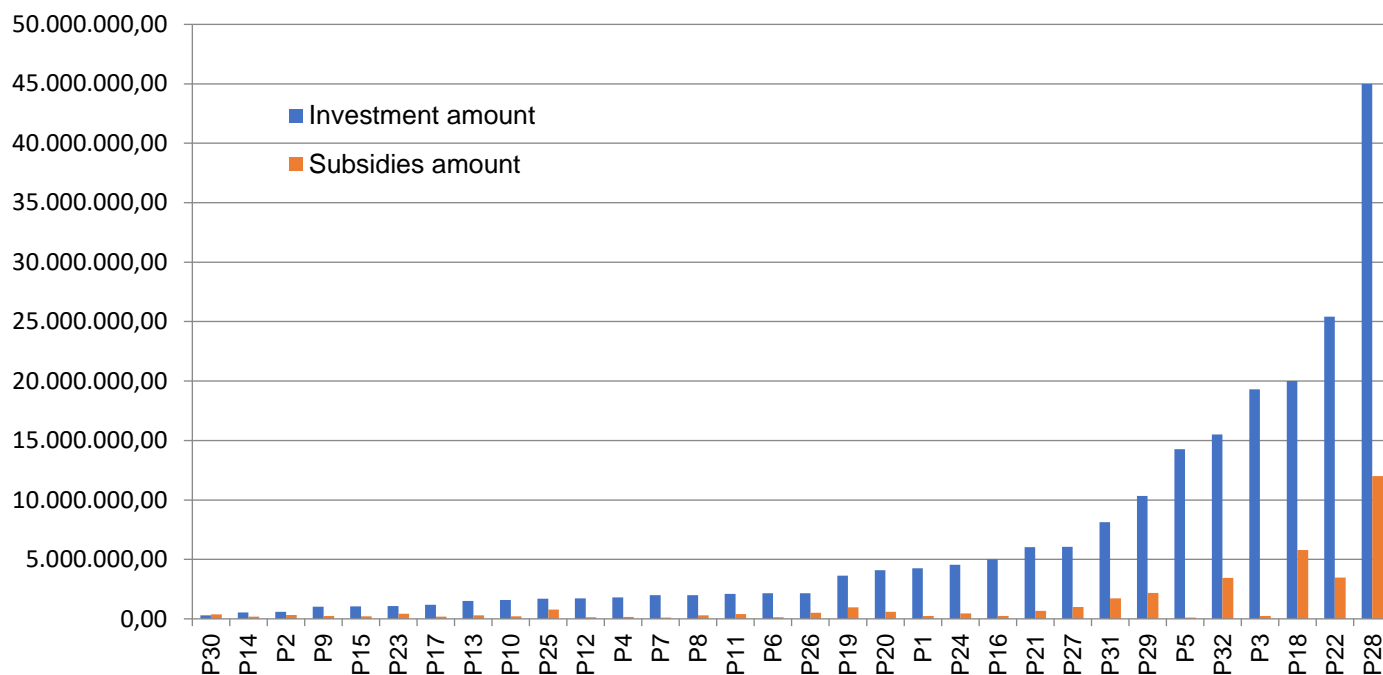


Chart 1: The amount of the subsidy in relation to the total value of the investment project

Observing the share of the subsidy in the total value of the investment project, it can be noticed that the amount of subsidy in one case reaches as much as 120%. This percentage, however, depends on eligible costs which served as a basis for allocation of the subsidy (see next paragraph), as well as which regulation has been applied accordingly. In cases when companies do not reach the prescribed level of investment under the Regulation on determining the criteria for granting incentives to attract direct investment in food production, the general regulation applies so that the investor would not be denied state aid. When we exclude this value, the share of approved subsidies in the value of the investment project averages about 18%, or 22% if we take into account this deviation.

We note that the above table represents only one point of view, because the current regulations governing the granting of state aid determine that the subsidy is calculated in relation to both categories, the two-year gross earnings of all new employees and the amount of investment, and the ratio between the subsidy and eligible costs is calculated on the basis that is more favorable for the investor. Therefore, one procedure, one formula is valid for the calculation of the subsidy, and the other procedure, for the percentage of granted subsidy in relation to those costs that are more favorable for the investor, or in relation to the investment or gross earnings.

³⁵ The value of the investment project implies the total amount allocated to its implementation, regardless of the source of funds (mostly by the awarded state aid, mostly by self-generated funds or in other way).

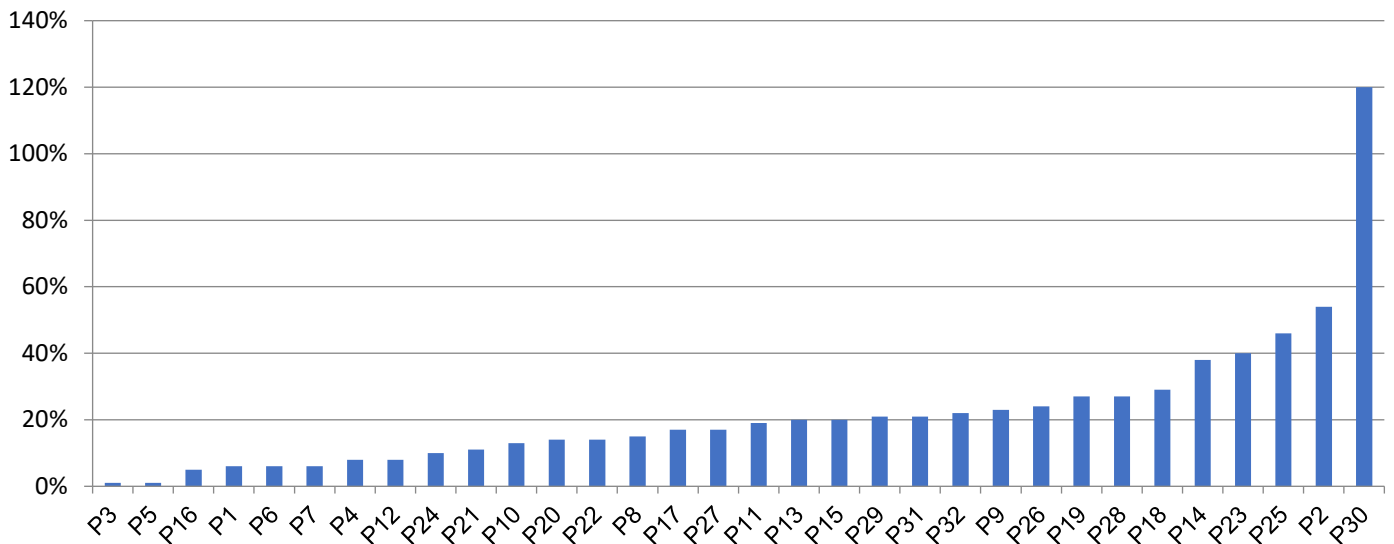


Chart 2: Share of the subsidy in the total amount of the investment project in %

In addition to data collected from the Ministry of Economy, NALED conducted a survey with program beneficiaries in order to collect data on the status and satisfaction of the beneficiaries during the application stage, the implementation stage and later on. The survey was conducted in cooperation with the Ministry of Economy, which provided the contact information of the beneficiaries.

A total of 10 respondents responded to the invitation to participate in the survey. The structure of respondents using incentives is diverse and ranges from the production and processing of potatoes, chocolate, rice, meat products, bread and pastries, baby food to the production and processing of poultry meat. Most of them are medium-sized legal entities³⁶ (6 out of 10), while 3 users belong to the category of large legal entities, and one user is in the category of small legal entities. The number of employees ranges from 9 to 1178. All respondents were established after 2000 and most after 2010 (60% of respondents). Additionally, all respondents applied for incentives between 2015 and 2020.

Summary of the most important results obtained by the survey:

1. Most respondents (8 out of 10) applied with a proposal for an investment project that concerns **the construction of a facility**.
2. On average, with the help of subsidies, **118** new employees were engaged in the investment project, mostly aged 35 to 45. All respondents **also stated that they either retained or increased the total number of employees in relation to the year when they sought subsidies**. Namely, on average, respondents increased the **total** number of employees by **92**, or by an average of 77%³⁷
3. **All respondents reported identical income or an increase in income** in 2019 compared to the year when they sought subsidies, **from 4% to as much as 25%**³⁸.

More detailed survey results are presented below.

³⁶ In accordance with the classification referred to in the Regulation – Article 2

³⁷ It is important to note that not every increase in the number of employees is caused by the implementation of the investment project. Thus, some entities reported that they had 0 employees at the time of application, while today they have over 500 of them, which would statistically imply an increase of 500%. On the other hand, some entities have increased the number of employees by exactly the number agreed with the Ministry. Therefore, this assessment is indicative and serves as an illustration.

³⁸ A large proportion of respondents (30%) did not answer this question.

Which projects were proposed in applications and what type of incentive was most often sought?

- The majority of respondents **applied with an investment project concerning the construction of various facilities** (80% of the respondents used incentives to build a factory or cold store). Only one respondent stated that they used incentives to purchase equipment.
- As a **reason for applying** for incentives, users stated the amount of investment, the possibility of placing goods on domestic and foreign markets, economic development of the municipality, the relationship between the scope of incentives and conditions that needed to be fulfilled, the amount of investment and number of new employees, company development plans, employment, support for the completion of the construction of the facility and the procurement of equipment, grants, the effect of the granted incentive on efficiency, as well as the size of the planned investment.
- **All respondents stated that they were informed about incentives through business contacts.** In addition, most of them (7 out of 10 respondents) were informed using the data available on the web, and half stated that membership in business associations was useful.

What is the educational and age structure of new employees engaged in the investment project?

- The number of employees engaged in the investment project ranged from 13 to 300, averaging 118.
- The age structure of new employees varies from one project to another. **The largest number of the respondents (4 out of 10) stated that new employees are mostly aged 35 to 45 years.** A small number of respondents stated that the majority of new employees are persons aged 25 to 45 or persons aged 45 to 55.
- **Most new employees engaged in the investment project are persons with secondary education,** while one respondent reported that they are mainly persons with higher education.
- 40% of the respondents reported that their costs of gross salaries of employees exceeded the subsidy, mostly because the number of workers hired exceeded the number anticipated in the project proposal.

What is the situation after the completion of the project?

- All respondents **stated that they either retained or increased the total number of employees in relation to the year when they sought subsidies.** Namely, on average, respondents increased the **total** number of employees by **92**.
- **All respondents reported identical income or an increase in income in 2019 compared to the year when they sought the subsidy.** Those who reported an increase did not state the exact amount of income in the year when they sought the subsidy (30% of the respondents), while others recorded an **increase in income from 4% to as much as 25%.**

Beneficiaries' attitudes about the incentive program

Part of the questionnaire for beneficiaries referred aimed at gathering their views on the adequacy of the incentives used, the manner of their implementation, but also about the challenges that beneficiaries had during application, project implementation or completion. Their views are shown below.

Summary of the most important results concerning the attitudes of the beneficiaries:

1. **90% of the respondents rated the approved subsidies as significant for the success of their project.**
2. The majority of the respondents (6 out of 10 respondents) believe that they would have implemented the project without subsidies, but that they would have done so either later (3 respondents), or to a lesser extent (also 3 respondents). One-fifth of the respondents state that they would not be able to implement the project at all.
3. 60% of respondents believe that it is necessary to change the criteria to some extent, and to place more emphasis on the introduction of new technologies, process automation and green technology.

More detailed results of the research of beneficiaries' attitudes are presented below.

What is the significance and satisfaction of beneficiaries with incentives?

9 out of 10 respondents rated the approved incentives as important for the success of the project. Only one respondent stated that the impact was partial. The majority of the respondents (60%) believe that they would have implemented the project without subsidies, but that they would have done so either later (30%) or to a lesser extent (30%). One-fifth of the respondents state that they would not be able to implement the project without incentives.

As many as 7 out of 10 respondents state that subsidies helped them speed up the implementation of their project, 6 out of 10 that more workers were hired than would otherwise be the case, half that more modern equipment was procured, and a third that the subsidies helped them build a larger facility, or procure a larger amount of equipment. Only one respondent stated that green technology that protects the environment has been introduced.

In addition, the importance and satisfaction with incentives is confirmed by the fact that all respondents would re-apply for incentives in the future. It is important to point out that the **majority of respondents are satisfied with the cooperation with the local government in which the project is implemented, and they are very satisfied** in 70% of cases and satisfied in 20% of cases.

The respondents rated various aspects of the incentive program on a scale from 1 (lowest grade) to 4 (highest grade). The companies rated the type of incentives they used the best - a score of 4.

The availability of information in the incentive application process was assessed with a high average score of 3.75. Namely, according to the respondents, information is easily found in the competition, online or by calling the provided numbers. Also, the **transparency of the incentive award procedure was assessed with a high average score of 3.4.**

On the other hand, the respondents rated the procedure for applying for the allocation of incentives with a slightly lower average score of 2.5. It is interesting that no respondent assessed the amount of incentives awarded as either positive or negative.



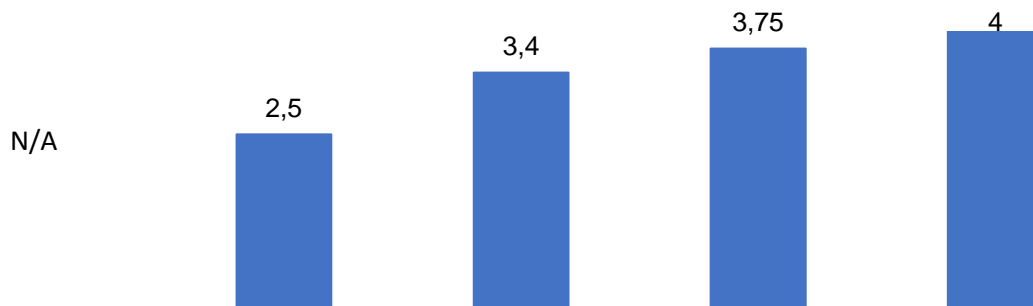


Chart 3: Degree of satisfaction with the used incentive program, Source: NALED 2020 survey

Looking at more detailed data on the application procedure for the incentive program, respondents pointed out that the biggest challenge was creating a business plan, but also collecting documentation to build a facility. On the other hand, looking at the project implementation period, the biggest challenge for respondents is time pressure, finding, hiring and retaining an adequate and qualified workforce.

How is it possible to improve incentives according to the respondents?

Respondents were asked during the survey how the incentive approval procedure, criteria or amount and structure of incentives could be changed to better suit the needs of the economy.

Most respondents focused their answers on increasing the amount of incentives or changing the criteria for approval. Namely, the respondents stated that it would be good to set **aside a higher percentage of incentives for investments, to reduce the ratio of investment and the number of employees, to increase the amount of incentives, but also to take into account the impact of the investment project on the environment**. As we have seen, respondents positively evaluate the types of incentives they used (average score 4 out of a maximum of 4), but still point out that the needs of the economy must be continuously monitored, and the types of incentives adjusted accordingly.

40% of the respondents state that the current criteria for awarding incentives should not be changed. The remaining 60% of respondents believe that it is necessary to change the criteria to some extent in order to **put more emphasis on the introduction of new technologies, process automation and green technologies that reduce the negative impact on the environment**. In addition, the respondents note that the criteria do not include the entire production chain, as well as that too much importance is attached to the number of new employees in relation to other possible criteria, and attention should be paid to that as well.

Attitudes of non-beneficiaries about incentive programs

In addition to the survey with beneficiaries, NALED also conducted a survey of “non-beneficiaries”, or potential beneficiaries. Non-beneficiaries are companies operating in the food industry sector that have not used any type of incentives from the Ministry of Economy so far, and could potentially exercise their rights to them. The survey was conducted with members of NALED’s Alliance for Food and Agriculture with the main goal of examining the reasons for not using the available programs.

A total of 8 respondents responded to the survey: 7 out of 8 respondents are large legal entities, while one respondent is medium-sized. The year of establishment of the sample companies varies from 1958 to 2001, and the main activity of these companies is the production of oils and fats, production and processing of meat, rusks, biscuits and pastries, fruit and vegetable processing, or poultry production and processing. The number of employees ranges from about 200 to 5,500.

Summary of the most important results obtained by researching the attitudes of non-beneficiaries:

- According to the non-beneficiaries, the incentives **did not deviate from traditional criteria** - or obligations to employ a certain number of workers in connection with the investment project and obligations to retain that number after the project is completed;
- In addition, **not enough emphasis has been placed on the need for process automation** - for example, respondents believe that the use of modern machines and technologies instead of the human factor is not encouraged enough where it is expedient and justified;
- Also, **that there is not enough emphasis on the introduction of new technologies**, in terms of modernizing the production process with new and modern machines and technologies that would further improve production and reduce the negative impact on the environment and the like.

More detailed results of the attitudes of non-beneficiaries are presented below.

How familiar are companies with the Ministry of Economy's incentive programs?

Only half of the "non-beneficiaries" stated that they were familiar with the types and amount of incentives in the food industry granted by the Ministry of Economy in cooperation with the Development Agency of Serbia. 37% stated that they were partially aware of these incentives. The rest of the respondents are not aware of the existence of these incentives.

Half of the "non-user" respondents are informed about available incentive programs via the web, a third through business contacts, and a quarter through memberships in business associations. We can notice that this is significantly different from the beneficiaries who largely use business contacts as the main source of information and then the data available online. These results may indicate that the data available on the Internet are not sufficient to adequately inform potential users.

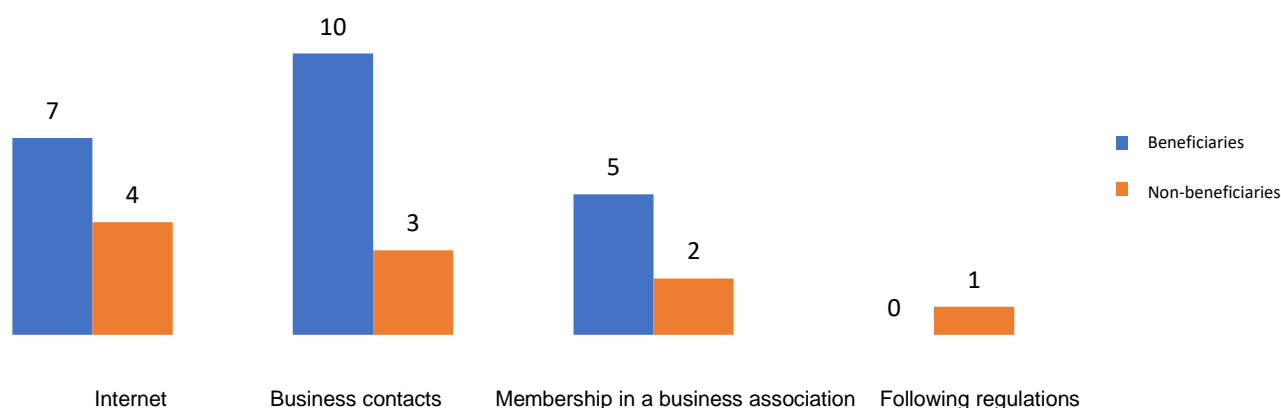


Chart 4: Method of getting information about current incentives, source: beneficiaries and non-beneficiaries survey, NALED 2020

What is the previous experience of the respondents with incentives in the food industry?

One third of the respondents had applied for incentives of the Ministry of Economy before.³⁹ No respondent had applied for any other form of state aid in the past.

³⁹ Respondents who have applied have yet to start implementing an investment project.

The main aspects of business, according to the respondents, where they believe that in the future they will need help in the form of incentives are:

- introduction of new technologies, higher levels of automation, digitalization, process automation;
- investments in the expansion of production and storage capacities, construction of new facilities;
- support for investment in primary agricultural production and
- hiring new workforce;

When asked about plans to apply for incentives in the next period, 3 out of 8 respondents answered in the negative, two respondents did not know and two said they had such plans. One respondent emphasized that they would consider the use of assistance if the obligation to hire and maintain a certain number of employees for a period of several years was abolished.

What are the main reasons for not applying for incentive programs of the Ministry of Economy?

Respondents who did not apply stated that it was a lack of information on the procedure for awarding incentives or that they considered that they did not meet the conditions for the award.

3 out of 8 respondents point out the lack of information on available incentive programs as the main reason for not using incentives. In addition, some respondents believe that they cannot receive incentives even if they apply, and that their problem is the obligation to maintain the number of employees in connection with the investment project.

Most respondents were not familiar with the procedure for applying for incentives and could not assess its simplicity/complexity.

When asked how they assess the conditions prescribed by the Regulation, which of the set conditions seems too complicated and why the respondents answered in the following way:

- the conditions are too administrative, complicated to control and demanding;
- the employment of a certain number of workers should not necessarily be conditioned;
- incentives are not aimed at the development of companies that have been on the market for a long time because they are related to new jobs, and not to the automation of production and new technologies;
- it is very difficult to meet the obligation to maintain a certain number of employees for the next few years after receiving assistance;
- large legal entities are often excluded;
- the biggest problem is favoring labor-intensive projects instead of the higher productivity provided by the automation of the production process;

In addition, the respondents point, as key shortcomings of the incentive program, **lack of structural support for investments in primary production, which is a source of raw materials for food production.** Due to these restrictions, the synergistic effect of incentives on the entire sector is excluded, which puts the domestic food industry in a less favorable position in relation to the competition, primarily from the EU⁴⁰.

The expressed attitudes of non-beneficiaries largely coincide with the attitudes of beneficiaries of funds on how incentive programs can be improved and adjusted to the needs of the economy.

⁴⁰ Allocation of incentives for primary agricultural production in R. Serbia is traditionally under the jurisdiction of the MAFWM (author's note)

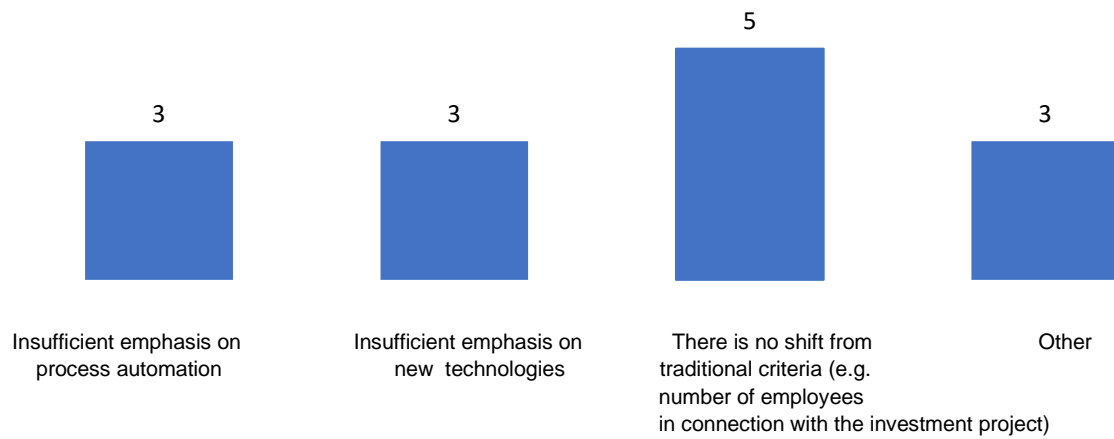


Chart 5: Main shortcomings in the criteria for awarding incentives, source: non-beneficiaries survey, NALED 2020

IDENTIFIED PROBLEMS

Even though the survey of attitudes of beneficiaries gave solid results in terms of assessing satisfaction with the incentive program used, survey of non-beneficiaries, regulatory analysis and practice have shown room for improvement when it comes to applying for incentives, approving, awarding and using incentive programs, but also their design.

It turned out that there is a **lack of coordination and cooperation between the Ministry of Economy and the Ministry of Agriculture, Forestry and Water Management**, as well as other bodies regarding the allocation of state aid in the sector of primary agricultural production and food industry. At the same time, there seems to be a lack of link between the entire food production and processing chain, and separate regulations apply to both branches. It is further complicated by the fact that companies are often engaged in both production and processing and that there is no clear overview of what types of incentives are available in these sectors and what the conditions are involved in each of them.

Before applying for incentives provided by the Ministry of Economy, which begins with communication with the DAS, it is important to consider how potential beneficiaries are informed about available programs. Unlike the beneficiaries, who are mostly informed about them through their business partners, non-beneficiaries mostly use information available on the Internet. This results in only **half of the non-beneficiaries being aware of the types and amount of incentives of the Ministry of Economy**.

Also, the **process of applying for incentives and awarding a contract to the investor**, or the beneficiary **is divided between the Ministry of Economy and the Development Agency of Serbia (DAS)** (see the section *How the Application Procedure Works*). DAS collects applications, supporting documentation, proposes the amount of incentives, while the Ministry contracts and participates in all phases of project implementation.

When it comes to the application process, beneficiaries **cited the development of a business plan as the biggest challenge**. In addition, beneficiaries rated the simplicity of the procedure with an average score of 2.5 out of a maximum of 4, which shows that there is room for improvement and simplification of the procedure itself.

In the process of approving and granting incentives, the most common problem is the **criterion related to the number of employees in connection with the investment project, as well as the obligation to maintain a certain number of employees for several years after the project**. Emphasizing this criterion gives the impression that labor-intensive projects are favored at the expense of projects that place emphasis on the use of modern technologies instead of relying exclusively on the human factor.

As another shortcoming, users pointed out that **investments in intangible assets do not include innovative processes** or certification processes that improve product safety, ensure better quality or otherwise improve the competitiveness of the final product and invest in production processes.

Similarly, it was pointed out that **insufficient emphasis is placed on the need for process automation**, for the introduction of modern technologies and technologies that have a positive effect on preserving the environment.

Another problem pointed by non-beneficiaries, or potential beneficiaries about the incentive program, is that the **quantities of primary agricultural products** that are purchased for processing are not included as one of the criteria for approving and awarding incentives.

Finally, a fairly **high threshold when it comes to the minimum value of the project (EUR 2,000,000) and the minimum number of new employees (30 employees)** has been observed as the general conditions set by the existing regulatory framework.

CONCLUSION AND RECOMMENDATIONS

State aid in investment projects is of great importance for the businesses, which is confirmed through the analysis of the attitudes of the beneficiaries of incentive programs. Therefore, the next step is to listen to the needs of the businesses and adapt to new production processes, automation and modernization, with the aim of improving the competitiveness of this sector. This analysis can serve as a good basis to initiate a dialogue between stakeholders and decision makers.

Improving the criteria for expert analysis of the submitted projects should contribute to a better understanding of the entire supply chain, which includes strategic investment in the development of primary agricultural production, together with the development of processing capacities, keeping in mind market demands, improving competitiveness, sustainability and reaching international standards. Coordination between state bodies approving state aid in this sector will also help businesses to obtain start-up funds faster and easier and implement projects of importance to the economy and society.

Given the specificities of the agro-food sector, it is **recommended to include the entire supply chain in the context of approving and granting incentives**, as well as strategic projects related to investments in sustainable development of primary agricultural production, together with the development of processing capacities.

In light of that, **it is important to network the Ministry of Agriculture, Forestry and Water Management and the Ministry of Economy to approve and grant incentives, and work together with other bodies that approve similar forms of state aid in this sector**. Given the synthesis of primary agricultural production and processing capacities and the direct dependence of the development of this sector on sufficient quantities of quality and affordable primary agricultural products, as well as long-term predictability of supply, such an incentive policy can achieve a synergistic effect of investment in the agro-food sector. The main goal is to improve the competitiveness of the domestic agro-industry, using incentive mechanisms similar to that in the EU through the Fund for Agriculture and Rural Development.

It is necessary to **work on the "visibility" of these programs**, since the research showed that only half of the target group (entities in the food industry) is familiar with the existing incentive programs.

In terms of the application process, approval and monitoring of subsidies allocated and the implementation of the investment project, the recommendation is to **streamline and administratively relieve the process by transferring competencies to only one body**. It seems that there are no obstacles for DAS as a public agency that collects applications for the incentive program with accompanying documentation, handles administration, applies project evaluation criteria, etc. to take over the entire process of contracting and monitoring the implementation of projects. In that way, the procedure itself would be faster and simpler, and a significant burden would be removed from the Ministry, which could allocate the available human resources to regulatory and other activities. Also, it is **recommended that all documents that can be obtained from other government bodies be obtained in that fashion**, instead of asking the beneficiary, i.e., the investor to do so. This is especially true for the various data available from the Business Registers Agency and /or the Tax Administration.

In addition to coordinated efforts of decision makers at the strategic level, it is necessary to support the food industry sector to follow current trends and conquer new or retain existing markets. **Investments in intangible assets should also include certification processes, promotions or innovative processes** that improve safety, quality, traceability with the use of new technologies or other desirable parameters of the final product, which means defining such investment attraction programs, implying the rules of regional state aid, that would be directly linked with programs supporting competitiveness.

The same should be taken into account when it comes to the limit on the maximum amount of funds allocated. **The recommendation is to increase the allowed amount of incentives by a certain**

percentage when the specified conditions have already been met: processing and marketing of organic agricultural products, investments that will have a favorable impact on the environment and investments that will contribute to improving animal welfare.

As it follows from the analysis of the attitudes of non-beneficiaries, or potential beneficiaries of incentive programs, the **proposal is that the investment project is not necessarily evaluated solely based on the number of new employees** involved with the investment project, to take into account the introduction of new processes, modernization of production, process automation, protection and improvement of the environment, use of green technologies, promotion of local development and the like. At the same time, the analysis does not dispute the general need to increase employment, having in mind socio-economic reasons and a number of fiscal and financial benefits, both for local government budgets and the consolidated budget of the Republic of Serbia, and for the economy, society and family households, employment through the implementation of investment projects.

In accordance with all the above, **it is necessary to improve the existing criteria for expert analysis of projects** by including an assessment of the effects on environmental protection and reducing the effects of climate change, harmonization with EU standards, transition to organic agriculture, or processing of organic products, local development, as well as process automation. It is also necessary to consider the export orientation of companies as one of the criteria, since the food industry sector significantly affects the foreign trade of the Republic of Serbia and in that sense has a surplus, and additional encouragement of such companies would further improve exports and domestic products markets. Additional focus should be on improving product quality standards, resource efficiency and the circular economy. The criteria should also include the amount of primary agricultural products purchased for processing, instead of just observing the number of subcontractors, since the use of advanced technologies in primary agricultural production increases productivity, professionalizes agricultural production and enlarges holdings.

Finally, it is necessary to consider **reducing the existing high threshold in relation to the minimum value of the project and the required number of new employees**. Survey of beneficiaries' attitudes has shown that many do not meet the minimum threshold required to apply for incentives, and do not apply under the regulation governing the allocation of incentives in the food industry, but apply for incentives under the "general regulation" governing direct investment. This practice seems superfluous if the adoption of a new regulation for the allocation of incentives in the food industry is considered, and in that sense it is necessary to take into account lower value projects that suit smaller businesses, but also not to impose additional restrictions on large businesses, legal entities already excluded from national and IPARD incentives granted by the Ministry of Agriculture, Forestry and Water Management.

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