# TABLE OF CONTENTS

**EXECUTIVE SUMMARY** ........................................................................................................................... 1

1 **THE BANK’S PORTFOLIO** .......................................................................................................................... 4
  1.1 OVERVIEW OF THE BANK ACTIVITIES TO DATE .................................................................................. 4
  1.2 IMPLEMENTATION OF THE PREVIOUS COUNTRY STRATEGY .......................................................... 5
  1.3 TRANSITION IMPACT OF THE BANK’S PORTFOLIO ............................................................................ 8

2 **OPERATIONAL ENVIRONMENT** .............................................................................................................. 10
  2.1 POLITICAL CONTEXT .............................................................................................................................. 10
  2.2 MACROECONOMIC CONTEXT ................................................................................................................. 11
  2.3 STRUCTURAL REFORM CONTEXT ........................................................................................................... 12
  2.4 BUSINESS ENVIRONMENT ...................................................................................................................... 13
  2.5 SOCIAL CONTEXT ..................................................................................................................................... 14
  2.6 LEGAL CONTEXT ....................................................................................................................................... 14
  2.7 ENERGY EFFICIENCY AND CLIMATE CHANGE CONTEXT ............................................................... 15

3 **STRATEGIC ORIENTATIONS** .................................................................................................................... 15
  3.1 KEY CHALLENGES AND OPERATIONAL RESPONSES ............................................................................ 17
  3.2 ENVIRONMENTAL AND SOCIAL IMPLICATIONS OF BANK PROPOSED ACTIVITIES............................. 21

4 **ACCESS TO CAPITAL: PRIVATE AND PUBLIC SOURCES OF FINANCE** .................................................. 23
  4.1 PRIVATE SOURCES OF CAPITAL .............................................................................................................. 23
  4.2 MDB FINANCE AND COLLABORATION WITH OTHER IFIS AND MULTILATERAL DONORS .................. 23
  4.3 COOPERATION WITH THE EUROPEAN UNION .................................................................................... 25

ANNEX 1 – POLITICAL ASSESSMENT .................................................................................................................. 26
ANNEX 2 – ASSESSMENT OF TRANSITION CHALLENGES 2013 ...................................................................... 35
ANNEX 3 - LEGAL TRANSITION ....................................................................................................................... 46
ANNEX 4 – SMALL BUSINESS SUPPORT ....................................................................................................... 51
ANNEX 5 – TECHNICAL CO-OPERATION ......................................................................................................... 55
ANNEX 6 – SELECTED ECONOMIC INDICATORS ........................................................................................... 56
ANNEX 7 – GENDER EQUALITY ......................................................................................................................... 57
EXECUTIVE SUMMARY

Serbia is committed to and applying the principles of multiparty democracy, pluralism, and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank.

Serbia has made steady progress on key reforms geared towards integration into the European Union. The Stabilization and Association Agreement between Serbia and EU entered into force on 1 September 2013. As decided by the European Council on 28 June 2013 and confirmed by the December 2013 Council, the EU accession negotiations formally opened on 21 January 2014. Efforts towards EU approximation remain the main external anchor for comprehensive reforms and progress on this front should buoy economic growth prospects and investors’ confidence in general, and will be conducive, in particular, to further improvements in the business environment.

The Serbian economy has struggled considerably in recent years. The legacy of the global economic crisis includes large macroeconomic imbalances, high levels of unemployment, especially among the youth, and significant regional income disparities. In 2012, GDP contracted by 1.5 per cent, on the back of declining domestic private consumption, weak exports and a bad agricultural season, although some improvement occurred in 2013, with an estimated growth rate of around 2.4 per cent, driven by strong export growth and a good agricultural season.

The banking sector has coped reasonably well with the crisis but its stability remains a concern as the levels of NPLs are high. Although Serbia has made progress in cultivating a more favourable business climate, further structural reforms are needed to foster private sector-led development and investment. These include the continuation of the privatization process, finalizing restructuring of the state owned companies, addressing regional income disparities and accelerating public sector reforms.

The short-term outlook for Serbia, as for other countries in the region, is uncertain given the current global turmoil and weak recovery prospects for the Eurozone. Serbia’s current economic difficulties are compounded by a large fiscal deficit and a high level of public debt, both of which need to be reduced to more sustainable levels. The downside risks are significant as Serbia is a relatively small economy and is still grappling with the legacy of the crisis, including high unemployment and restricted credit.

Serbia faces important transition challenges in the coming years. The past four years have revealed the inadequacies of the pre-crisis growth model and the need for a new reform agenda that would foster private sector-led development and investment. Further strengthening of a sustainable and healthy financial sector will be a necessary and crucial component of this agenda.

The role of the state remains large compared with many other transition countries. Major reforms are still pending in areas such as public administration and labour market flexibility. A further challenge in the coming years is to develop a sustainable energy sector. In summary, although reforms have advanced since 2001, in a number of areas the economy still faces fundamental restructuring challenges, both in the public sector, which is large and
inefficient, and in the private sector. In the forthcoming strategy period the Bank’s main strategic orientations will be:

- **Enhancing the role and competitiveness of the private sector:** Serbia’s level of private sector engagement in the economy is modest even by regional standards. The state retains a significant share in key industries, while many private companies are not sufficiently competitive to assure long-term viability, being stymied by the lack of management, technical and operational expertise, as well as that of sound corporate governance. Moreover, the crisis has left a number of companies in need of financial restructuring. Small and medium sized enterprises (SMEs), which form the backbone of the Serbian private sector, face limited access to finance and receive virtually no FDI at present. The Bank will thus work to increase private sector competitiveness, with an added focus on the agribusiness value chain. The Bank will seek to assist SMEs in financing projects conducive to sustainable growth, and will provide technical assistance to improve corporate governance. In the context of the EU integration process, which is expected to be conducive to developing a more favourable environment for FDI, the Bank will seek to support foreign investors in both greenfield and brownfield projects as such opportunities arise. Finally, the Bank will seek selected opportunities to enhance the viability of companies in the process of being fully privatised, through its participation in pre-privatisation and privatisation transactions, preferably alongside strategic investors.

- **Bolstering the banking sector and deepening the financial intermediation:** While the financial sector has survived the crisis without significant bank failures, its role as a driver of economic growth has been significantly diminished. Credit growth is weak, the share of non-performing loans is high, deleveraging pressures persist, and the level of euroisation is high. The Deposit Insurance Fund has been depleted due to the failure of a few local banks and the full repayment of even uninsured deposits. In line with the Joint IFI Action Plan for Growth in Central and South-Eastern Europe, the Bank will seek to help stabilise the financial sector and encourage lending by working with the authorities to explore a possible recapitalisation of the Deposit Insurance Fund in a joint effort with the World Bank. EBRD will also engage with selected banks and non-bank financial institutions to support SME lending. The Bank will continue its policy dialogue, directly with the National Bank and through the Vienna Initiative 2.0, to encourage local currency lending and improve cross-border cooperation on banking sector issues and help in resolving the problem of NPLs.

- **Developing sustainable and efficient public utilities:** Large transition gaps remain in the energy and infrastructure sectors. The implementation of investment projects in these sectors is typically slow and often disrupted. This results in a widely recognised infrastructural gap in the country. Other transition challenges include: adjusting tariffs to cost recovery levels, strengthening the regulators’ capacity, commercialising and restructuring public enterprises, and increasing private sector participation. The Bank will focus its efforts on accelerating the implementation of its already financed projects and, given the limited fiscal space, will carefully select new investments it would consider financing. The Bank will seek to mobilise private sector involvement whenever possible. In the energy sector in particular, the Bank will aim to continue to play a key role in promoting energy efficiency and renewable energy, while assisting with replacing the aging electricity generation capacity and bringing power generation into compliance with the EU environmental standards.
In all these activities the EBRD will seek to align its operation with the priorities of the Government of Serbia and closely cooperate with the European Union and other international financial institutions, multilateral and bilateral donors, both by co-financing selected projects and by coordinating policy dialogue initiatives.

In particular, the Bank will coordinate, and if possible implement joint operations, with the European Investment Bank and the World Bank under the Joint IFI Action Plan for Recovery and Growth.
1 THE BANK’S PORTFOLIO

1.1 Overview of the Bank activities to date

During the current strategy period the Bank has signed 166 projects for a total of EUR 2.58 billion, and mobilised co-financing of EUR 908 million as of 31 December 2013. Since the start of operations in 2001, the total cumulative business volume has reached EUR 3.503 billion and mobilised co-financing EUR 1.5 billion. Only 5.5 per cent of the cumulative commitments were accounted for by regional projects. 36.9 per cent of cumulative business volume to date is in Infrastructure, 29.0 per cent in the Financial Sector, 21.4 per cent in Industry, Commerce and Agribusiness and 12.7 per cent in Energy.

Table 1: Overview of the Bank’s portfolio in Serbia, as of end December 2013

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>NET CUMULATIVE BUSINESS VOLUME</th>
<th>CURRENT PORTFOLIO STOCK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount in EUR million</td>
<td>Number of projects</td>
</tr>
<tr>
<td>Energy</td>
<td>9 724 445</td>
<td>9</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>1 150 150</td>
<td>1</td>
</tr>
<tr>
<td>Power and Energy</td>
<td>8 574 295</td>
<td>8</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>64 1283 1,017</td>
<td>64</td>
</tr>
<tr>
<td>Depository Credit (banks)</td>
<td>54 1,113 925</td>
<td>36</td>
</tr>
<tr>
<td>Leasing Finance</td>
<td>6 85 70</td>
<td>4</td>
</tr>
<tr>
<td>Non-depository Credit (non-banks)</td>
<td>4 85 22</td>
<td>4</td>
</tr>
<tr>
<td>Industry, Commerce &amp; Agribusiness</td>
<td>79 1612 748</td>
<td>53</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>30 835 459</td>
<td>18</td>
</tr>
<tr>
<td>Equity Funds</td>
<td>16 209 42</td>
<td>14</td>
</tr>
<tr>
<td>Information &amp; Communication Technologies</td>
<td>7 86 47</td>
<td>4</td>
</tr>
<tr>
<td>Manufacturing and Services</td>
<td>15 293 135</td>
<td>9</td>
</tr>
<tr>
<td>Property and Tourism</td>
<td>11 188 66</td>
<td>8</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>24 3,952 1,293</td>
<td>23</td>
</tr>
<tr>
<td>Municipal &amp; Environmental Infrastructure</td>
<td>12 934 370</td>
<td>11</td>
</tr>
<tr>
<td>Transport</td>
<td>12 3,018 923</td>
<td>12</td>
</tr>
<tr>
<td>TOTAL</td>
<td>176 7,572 3,503</td>
<td>129</td>
</tr>
</tbody>
</table>

The active portfolio as of end-December 2013 is comprised of 129 projects totalling EUR 2.490 billion. Disbursements reached EUR 1.864 billion during the current strategy period. As a result, the undrawn ratio improved from 48.5 per cent at the end of 2007 to 40.8 per cent at the end of December 2013. However, implementation of a number of public sector projects remains significantly delayed (Serbian Railways, Roads of Serbia, Srbijagas and the Electrical power company “EPS”). The value of impaired assets increased from nil at the time of approval of the current strategy in 2007 to EUR 41 million (2.9 per cent of operating assets) at the end of December 2013.
Table 2: Serbia’s portfolio development from 2007 - 2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cumulative Business Vol.</td>
<td>1,322</td>
<td>1,419</td>
<td>1,829</td>
<td>2,432</td>
<td>2,939</td>
<td>3,106</td>
<td>3,503</td>
<td>1,377</td>
</tr>
<tr>
<td>Current Portfolio Stock</td>
<td>1,113</td>
<td>1,140</td>
<td>1,496</td>
<td>1,956</td>
<td>2,323</td>
<td>2,337</td>
<td>2,490</td>
<td>47</td>
</tr>
<tr>
<td>Number of operations</td>
<td>82</td>
<td>82</td>
<td>98</td>
<td>120</td>
<td>138</td>
<td>123</td>
<td>129</td>
<td>859</td>
</tr>
<tr>
<td>Operating Assets</td>
<td>572</td>
<td>725</td>
<td>856</td>
<td>1,107</td>
<td>1,377</td>
<td>1,366</td>
<td>1,431</td>
<td></td>
</tr>
<tr>
<td>% Undrawn excl. Guarantees</td>
<td>48.5%</td>
<td>36.2%</td>
<td>42.6%</td>
<td>42.4%</td>
<td>39.1%</td>
<td>40.0%</td>
<td>40.8%</td>
<td></td>
</tr>
<tr>
<td>Annual Business Volume</td>
<td>216</td>
<td>127</td>
<td>444</td>
<td>598</td>
<td>533</td>
<td>269</td>
<td>424</td>
<td>2,611</td>
</tr>
<tr>
<td>Number of operations</td>
<td>19</td>
<td>15</td>
<td>24</td>
<td>31</td>
<td>33</td>
<td>20</td>
<td>24</td>
<td>166</td>
</tr>
<tr>
<td>Gross Disbursements</td>
<td>172</td>
<td>223</td>
<td>195</td>
<td>355</td>
<td>403</td>
<td>201</td>
<td>315</td>
<td>1,864</td>
</tr>
<tr>
<td>Annual Cancellations</td>
<td>1</td>
<td>29</td>
<td>31</td>
<td>30</td>
<td>21</td>
<td>5</td>
<td>3</td>
<td>120</td>
</tr>
<tr>
<td>Active Pipeline Stock</td>
<td>323</td>
<td>358</td>
<td>501</td>
<td>618</td>
<td>631</td>
<td>855</td>
<td>490</td>
<td></td>
</tr>
<tr>
<td>Private Sector Share (% Portfolio)</td>
<td>43.7%</td>
<td>47%</td>
<td>44.3%</td>
<td>43%</td>
<td>46.5%</td>
<td>45.0%</td>
<td>44.0%</td>
<td></td>
</tr>
<tr>
<td>Non Sovereign Share (% Portfolio)</td>
<td>52.7%</td>
<td>55.7%</td>
<td>50.6%</td>
<td>50.5%</td>
<td>55.0%</td>
<td>52.8%</td>
<td>54.0%</td>
<td></td>
</tr>
</tbody>
</table>

**Portfolio Ratio**

The private sector portfolio ratio remained stable at 44% as of December 2013. During this period the Bank signed 149 private sector operations and 17 public sector projects with the average size of EUR 9.51 million and EUR 69.1 million, respectively.

The current active public sector portfolio continues to be dominated by large infrastructure projects in the public sector signed since opening of the office. The share of public sector projects is likely to remain significant, given the large scale of potential projects to support infrastructure needs in the country, but it is expected to decline over time. The Bank will pursue greater private sector participation in such projects, subject to market conditions, and focus on expanding its activities with private companies. This approach should result in gradual rebalancing of portfolio ratio in the medium to long term.

1.2 Implementation of the previous Country Strategy

The previous strategy for Serbia was approved in February 2007 and identified the following strategic priorities:

**Corporate Sector:** The Bank was to continue to provide financing for privatisation and post-privatisation restructuring to both local and foreign corporates focusing increasingly on large corporates in their consolidation and future expansion plans, including further regional penetration. The EBRD-Italy Western Balkans Local Enterprise Facility enabled the Bank to support smaller, fast-growing companies through debt, quasi-debt and equity finance.

**Infrastructure:** In Transport the Bank set out to support the completion and development of a modern highway and railway network on Corridor X. In the Municipal Infrastructure sector the Bank aimed to i) continue cooperation with the city of Belgrade and work on completing signed projects, and ii) sought to diversify its financing to medium-sized cities and regions.
In the **Energy sector** the Bank set out to provide continued support particularly through the commercialisation of the energy utilities and possible private sector participation and developing operational activities in the area of sustainable energy and energy efficiency.

**Financial Sector:** The Bank was to i) assist banks with a strong presence to develop new products and increase market share by assisting in further consolidation; ii) provide SME lines, thus fostering the emergence of a healthy SME sector in the country; iii) equity and debt transactions in non-banking financial institutions, primarily in the area of insurance, private pension funds and mutual investment funds.

The Bank’s robust transaction volume in Serbia in the previous strategy period enabled it to achieve important transition objectives in a country where transition challenges remain significant across all sectors.

Support to the **private corporate and MSME sector** was provided both directly, including through the Local Enterprise Facility (LEF) and Small Business Support (SBS) activities, and indirectly through local commercial banks. The Bank was particularly active in financing the high-potential agribusiness sector. The Bank helped the regional expansion of the juice company Nectar through financing their landmark cross-border acquisition of Fructal, Slovenia. The Bank supported the expansion of large agribusiness companies such as Victoria Group and MK Commerce through debt and equity financing. In addition, the EBRD Private Sector Food Security Initiative has supported collateralization options for pre-and post-harvest financing in the form of grain warehouse receipts (GWR) and crop receipts (CRP). For the first time, the adopted law offers opportunities for investments using the new instrument (Serbian GWR Framework).

The Bank also supported a number of SMEs through LEF such as the leading furniture producer Forma Ideale, an investment which was supported with Technical Cooperation (TC) funds aimed at improving corporate governance and financial management.

The Bank assisted in the balance sheet restructuring of corporates in the Manufacturing and Services sector. However, recovery proved to be more challenging than anticipated, which coupled with financial mismanagement of some of the corporates, resulted in several impaired investments currently being worked out.

In the **Property & Tourism sector**, the Bank financed the development of a branded four-star hotel in the central Belgrade district as part of a wider urban redevelopment project, as well as the first modern retail park in Belgrade.

In the **Financial sector** the Bank was active in providing long-term funding to local banks with both equity and debt investments. The Bank focused on supporting the SME segment through a range of products from standard credit lines to selected partners to energy efficiency lines under the Western Balkans Sustainable Energy Credit Line Facility (WeBSECLF) and the Private Sector Support Facility for Western Balkans (PSSF). The WeBSECLF which was approved in 2008 was extended in 2013 to meet the high demand for such loans and further enhance impact in the field of energy efficiency.

The Bank also invested in two state owned banks: Komercijalna Banka, one of the systemic banks, and a regional bank, Cacanska Banka, together with the IFC. These investments enabled the two banks to increase competitiveness on the local market and improve corporate governance through the implementation of institutional building programs, with a view to
prepare the banks for eventual privatisation. Significant TC funds were provided for skills transfer through selected advisors, as well as for capacity building to support new products and to enhance risk management, IT and corporate governance.

Also, as part of an expansion in the range of products offered in the banking sector, Societe Generale Serbia entered into a Partnership for Growth programme which supports strategic initiatives of this local bank consistent with the Bank’s transition mandate over a multi-year period.

In Serbia’s Energy sector the Bank supported primarily sustainable energy and energy efficiency. The Bank supported the construction of hydro power plants (HPP) developed by the state-owned generation company. Financing was provided for metering and associated infrastructure to improve energy efficiency, with the project being jointly funded by the Bank and EIB.

The Bank was less successful in deploying financing through the Western Balkans Sustainable Energy Direct Financing Facility (WeBSEDF), with only one project signed. This was largely due to the delayed adoption of the necessary secondary legislation (i.e. feed-in tariffs and power purchase agreements) together with regulatory and administrative barriers to the development of these projects.

In addition, financing was provided for mining equipment and a coal quality management system which will improve the environmental performance both of the mine, but especially of the existing coal fired power plants, co-financed with KfW.

The Bank engaged in policy dialogue with the government, the regulator and other stakeholders in relation to the revisions to the Energy Law, adopted in 2011, under which the power market was fully opened for suppliers to industrial and small consumers, and for household consumers as of 1 January 2015. The new Energy Law allows for an updated and cost reflective tariff methodology.

In the Municipal Infrastructure sector, the Bank continued cooperation with the City of Belgrade by financing key investments identified under the integrated approach for the capital’s urban transport: the construction of the Ada Bridge, the world’s largest cable bridge supported by a single pylon and a new landmark of the capital, renewal of the bus and tram fleets and the rehabilitation of city’s main boulevards and tram tracks. The Bank’s activities in the sector were not limited to projects in the capital. The Bank financed the first regional, fully EU-compliant solid waste landfill in Duboko to serve nine municipalities in Western Serbia, and supported modernization of the wastewater and water supply infrastructure in the City of Subotica, where a significant step has been made towards eliminating cross-subsidies and adjustment of tariffs. These projects were supported by TC funds used for project preparation and implementation, improvements of financial and operational performance of some of the utility companies, corporate development plans or restructuring programmes for others.

In the Transport sector, a substantial progress has been made in supporting the development and modernisation of the core road and railway networks. Over the strategy period, the Bank supported the road sector through two projects focused on upgrading existing sections and the construction of new sections along Corridor X which is a part of the Pan-European road network, jointly with EIB and the World Bank. In the railways sector, the Bank signed three
loans with Serbian Railways, financing the modernisation of the rolling stock and the rehabilitation of key sections of Corridor X. As part of these projects, the Bank supported a range of reforms designed to improve the efficiency of the sector through restructuring and commercialisation, including the introduction of Public Service Obligation, and creation of a joint stock company, allowing the next stage of restructuring into a railways holding. Economic inclusion measures are being pioneered in the road sector under the Bank’s latest road rehabilitation and safety project. All investments were supported by technical assistance for their implementation, including the reform aspects.

The implementation of some of the portfolio projects in the Infrastructure, Energy and Natural Resources sectors has proceeded slower than anticipated. The reasons include lack of planning, expropriation issues, lengthy tendering processes and abnormally low tender prices under works contracts, often disrupted works and limited or fully stretched implementation capacity.

The Bank actively engaged in the policy dialogue regarding public procurement where it signed a Memorandum of Understanding with the government to promote development and further improvements of public procurement through enhanced legal framework, capacity building and an outreach to the private sector. The Bank provided technical assistance for the development of the new Law on PPPs and concessions, which was adopted in November 2010. Additionally, in 2012 the Bank extended its support to the government in order to assist with capacity building for the recently established PPP Commission. However, to date there have been no suitable opportunities for the Bank to engage in financing transport, energy and municipal infrastructure through PPP structures.

1.3 Transition impact of the Bank’s portfolio

The Bank has addressed a number of transition objectives identified in the strategy through its activities in Serbia during 2007-2013. The strategic priority of assisting market expansion, and improving business standards and skills in the corporate sector was addressed by the Bank’s operations with small and medium-sized private companies in agribusiness, manufacturing and services and property. About thirty per cent of new projects were signed in the corporate sector including the development of commodity based financing for the agribusiness sector. Support of MSMEs through long term debt and capacity support for new product development and improving business standards to financial institutions was delivered mainly through loans with a significant number of commercial banks (over half of all newly signed projects in Serbia), and equity investments. Rehabilitation and modernisation of the country’s infrastructure, restructuring, as well as institutional strengthening and capacity building have been addressed by the Bank’s loans to companies across the transport, municipal and natural resource sectors.

Reflecting the sector distribution of projects in response to strategic priorities, the Bank’s investment activity in Serbia targeted a number of transition objectives during the past strategy period. Almost sixty per cent of all projects targeted market expansion through support of local companies, and expansion of financial products to underserved areas through MSME loans to commercial banks. Around half of all projects addressed improvements and adoption of best corporate and business standards and practices, and a quarter aimed at demonstrating successful restructuring through increasing operating efficiency of the clients.
To ensure quality, the Bank assesses internally the projects’ potential impact in addressing identified transition challenges. Ninety per cent of the new operations signed in Serbia during the strategy period from 2007 to end-Q3 2013 were assessed as having Good or Excellent transition impact potential (the remaining 10 per cent “Satisfactory”)\(^1\). This is well above the institutional target of at least 80 per cent of projects to be rated “Good” or above, established to ensure high quality-at-entry of the Bank’s operations from the transition impact perspective. In particular, the Bank supported the development of the commodity based financing system (Serbian Warehouse Receipts Financing rated “Excellent”) for the agribusiness sector in Serbia working with a number of commercial banks and helping development of the institutional framework.

The Bank regularly monitors transition performance of all projects to ensure that transition impact expected from its activity is ultimately delivered. The performance of projects in the Serbian portfolio is good. The expected transition impact of the Serbia’s active portfolio, reflected numerically in the average rank\(^2\) at end-September 2013 stood at 3.94, better than both the institutional target of 4.35 and the result for the whole portfolio of the Bank (4.05).

Out of 62 operations under implementation in the active monitoring portfolio\(^3\) at end-September 2013, more than one third (37 per cent), have already largely achieved their envisaged transition impact potential. This includes successful restructuring and improved business standards in the agribusiness sector, expansion of products to underserved areas and delivery of capacity building programme to local banks through four MSME support projects. 35 operations (57 per cent) in the active portfolio, largely signed since 2010, are currently assessed as on track to achieving their envisaged transition objectives, including a number of projects under the Municipal Infrastructure Reconstruction Program in a number of cities.

---

\(^1\) See http://www.ebrd.com/pages/research/economics/transition.shtml for transition impact assessment and monitoring methodology

\(^2\) The rank is a combination of the transition impact potential rating and risks to transition impact. The expected transition impact of each operation is usually monitored once a year and is ranked numerically from 1 to 8, with 1 to 3 indicating mostly realized impact, 3 to 6 – generally on track to achieve transition objectives, and 7 to 8 – minimum transition impact achieved or excessive risks.

\(^3\) All active operations more than six months since signing are monitored for their transition impact at least once
Four operations (representing six per cent of the active portfolio) have not been successful in delivering expected transition impact. Two projects in the manufacturing and services sector have not managed to achieve successful restructuring and improved standards as a result of the client’s financial difficulties due to the crisis. Procurement issues and delays have prevented one project in the municipal infrastructure sector to achieve its expected transition milestones. Finally, a mortgage product development project with a local commercial bank has failed to deliver envisaged financial intermediation and skills transfer targets due to the negative effect of the financial crisis.

Twenty two operations in Serbia have been completed (i.e., fully repaid by clients) during the strategy period. All these operations fully or partially achieved their transition impact objectives. Almost 82 per cent of them have achieved their objectives across the financial sector, particularly in providing long-term funding to banks and access to finance to MSMEs, and agribusiness, particularly through supporting development of the retail market in the regions and expansion of commodity backed financing. These also include Bank’s support of a cross-border investment by a Serbian pharmaceutical company into the Russian market. Significant corporate governance improvements were achieved, especially those associated with financial reporting and upgrading of the skills of local staff through training. Expansion to targeted areas, instrument and restructuring have been only partially achieved in three operations in the financial sector due to the effect of the crisis, financial difficulties and changes in the banks’ strategy.

2 OPERATIONAL ENVIRONMENT

2.1 Political context

The parliamentary and presidential elections, held in May 2012, brought to power the Serbian Progressive Party (SNS), which joined forces with centre-left Socialist Party (SPS). These two parties formed the bulk of the new coalition government. The new authorities have demonstrated a largely pragmatic approach to the key domestic and foreign policy issues, including, importantly, to EU approximation, which has remained the top priority.

The level of popular support to SNS has remained remarkably high since the elections, to some extent due to the fight against corruption that it has led. After the first year of the coalition government SNS initiated its major reshuffling designed to increase its efficiency and enable acceleration of the modernisation agenda. The parliament endorsed the new composition of the Serbian government on 2 September 2013. Among the key novelties were departure from the governing coalition of the centrist political party URS led by the Minister of Finance and Economy Mladjan Dinkic and breaking his Ministry into two separate ones. Personnel changes affected more than half of the ministries, including finance and economy, transport, agriculture, regional development, and EU affairs. The authorities announced their intention to engage a number of international experts to help with reforms.

At the end of January 2014 the partners in the governing coalition agreed on the need for early general elections in order to obtain a stronger mandate for continuing comprehensive reforms. Early parliamentary elections took place on 16 March 2014 simultaneously with the local elections in Belgrade. SNS won a landslide victory in both. Its leader Aleksandar Vucic is expected to form the new government as Prime Minister. During the election campaign he promised to speed up reforms for which he will now have all necessary powers. This includes privatisation and restructuring of the public companies, labour market reform and financial
stabilisation, as well as further fight against corruption and organised crime, to which he owes much of his initial political capital. The strong support SNS will enjoy in the new parliament should be conducive to accelerating reforms and may boost investor confidence.

Continuing EU approximation remains the key external anchor for reforms. Since the adoption of the previous Strategy, Serbia applied for (2009) and obtained (2012) the formal status of EU candidate country. On 28 June 2013, the European Council recommended the opening of the EU accession negotiations with Serbia in January 2014 at the very latest. The accession negotiations formally opened on 21 January 2014. In accordance with the new approach of the European Commission, the accession negotiations will start with the chapters of the accession treaty that are related to the rule of law. The focus on the rule of law in the context of the EU accession negotiations is conducive to further improvements in the business environment.

2.2 Macroeconomic context

The Serbian economy has faced considerable difficulties over the past six years. Growth was feeble in the aftermath of the 2009 recession, which was induced by the global financial crisis, and difficulties in the Eurozone in 2011/12 combined with weak domestic demand to return the economy to recession in 2012. The economy entered a double dip recession that year with GDP declining by 1.5 per cent, despite a hike in pre-election spending in the first half of the year. The output drop reflected lower domestic private consumption, weak exports and a bad agricultural season. However, data from 2013 indicate that an export-led recovery took place last year. Preliminary estimates for the year as a whole suggest a growth rate of around 2.4 per cent, driven by strong export growth and a good agricultural season.

Inflation has been somewhat volatile in the past few years. In the latest cycle, which began in mid-2012, inflation rose to a peak of 12.8 per cent year-on-year in October 2012, as a result of higher import costs, increases in administrative prices and a poor agricultural season, which led to higher food prices. Concerns over the fast-growing inflation prompted the National Bank of Serbia (NBS) to tighten the monetary policy by increasing reserve requirements and by raising the key policy rate several times in the second half of 2012. However, upward pressures on prices have been abating in 2013, which has provided some space for monetary easing. Since May 2013, the National Bank of Serbia lowered its key policy rate several times to the level of 9.5 per cent in December 2013. Inflation fell sharply in the second half of 2013, ending the year at just 2.2 per cent, below the lower bound of the central bank’s target band of 4.0±1.5 per cent. It has since returned to the target band, and stood at 2.6 per cent in February 2014.

At end-2012 the dinar was 8.0 per cent weaker in nominal terms than at end-2011. The highest exchange rate in 2012 was recorded in early August, when it hit 119.1 dinar per euro. However, the rate receded to 113.7 dinar per euro by year end. At end-2013 the dinar was 0.8 per cent weaker in nominal term than at end-2012. In the course of 2012 and 2013 NBS intervened in the foreign exchange market in order to ease excessive short-term volatility of the exchange rate and to ensure smooth functioning of the foreign exchange market. In addition, the NBS implemented a number of measures to strengthen confidence in the dinar and promote its use in the financial system, while the government has also contributed to the “dinarisation strategy” by introducing regular auctions in longer-maturity dinar government securities and granting more favourable tax treatment of earnings from interest on dinar savings relative to foreign currency savings.
Credit growth has slowed down substantially over the past couple of years and contracted in Q2 2013 for the first time in recent history. This trend has reflected weakening demand for credit in the economy but also end of the government subsidised lending programme for the corporate sector in Q1 2013. Otherwise, the Serbian banking sector coped well with the crisis of the past few years and the capital adequacy ratio remains strong at close to 20 per cent.

The fiscal situation remains challenging. The end-2012 budget deficit of 6.4 per cent of GDP was well above the 4.25 per cent of GDP target, and the 2013 deficit was even higher at about 7.0 per cent of GDP. Public debt is now above 60 per cent of GDP, well in excess of the administrative limit of 45 per cent of GDP. In October 2013, the government announced a six-point plan for budgetary savings, fiscal stability and economic growth. The plan includes, among other measures, wage reductions for higher-earning public sector workers, cuts in subsidies to public enterprises and increase in the lower rate of VAT. Despite these measures, the budget for 2014 envisages a deficit of above 7.0 per cent of GDP and a further increase in the level of public debt relative to GDP.

Prospects for economic recovery remain limited in the short term, as weak domestic demand and the on-going weaknesses in the Eurozone will continue to have a major dampening effect on the economy. The necessary fiscal retrenchment expected in 2014 will also weigh heavily on GDP growth. Medium-term prospects remain favourable once confidence returns to the domestic and foreign investor community.

2.3 Structural reform context

Serbia has made considerable progress in advancing transition over the past two decades particularly in the areas of price liberalisation, reforms in the trade and foreign exchange system and small-scale privatisation. On the EBRD country-level transition indicators, Serbia scores the highest on these indicators (4, 4, 4- respectively out of maximum score of 4+). Some progress has also been made in large-scale privatisation, but some major enterprises still remain in state ownership and the renationalisation of one of the country’s largest industrial enterprises, steel manufacturer Zeležara Smederevo, has marked a setback in this regard. Serbia scores 3- on this indicator. The largest transition gaps remain in the areas of competition policy (2+) and governance and enterprise restructuring (2+), two areas in which reforms are traditionally more difficult and high scores are associated with countries in advanced stages of the transition process.

At the sectoral level, notable progress has been made in a few areas. Reforms in the railway sector, including unbundling of the infrastructure and rail operators, were implemented in 2011 and 2012 to improve competition and service provision. A new energy law, which was introduced in mid-2011, sets a deadline for the liberalisation of the gas and electricity markets by 2015 and also strengthens the role of the regulator. The telecommunications sector has become more liberalised since 2010, when Norwegian Telenor received an operating license and Serbia Telekom’s monopoly was effectively ended.

The detailed analysis carried out each year by the EBRD’s Office of the Chief Economist of the remaining transition challenges across 16 sectors of the economy demonstrates that Serbia still has a long way to go in its transition. The sector transition scores, on a scale of 1 to 4+, are shown in Figure 2. The scores are based on an assessment of the remaining transition “gaps”, in terms both of the structure of the market in question and of the strength of market-supporting institutions. Across all sectors, the transition gaps in Serbia are assessed as either
“medium” or “large.” The largest gaps lie in the private equity sector, energy and natural resources as well as water and wastewater.

2.4 Business environment

Serbia has undertaken a series of reforms to reduce the regulatory burden on businesses in recent years. These include measures to make starting a business easier by setting up a one-stop-shop for business registration in 2010 and by eliminating the paid-in minimum capital requirement for new businesses in 2012. Serbia has also made progress on insolvency resolution mechanisms. In 2010, the country passed a new bankruptcy law that introduced out-of-court workouts and a unified reorganisation procedure. In 2012, Serbia further strengthened the insolvency process by reducing the starting prices for the sale of assets, prohibiting appeals, adopting an electronic registry for injunctions etc. Reforms have also been implemented to facilitate property registration and contract enforcement. Nevertheless, Serbia still has considerable scope for improving the business environment. In the World Bank Doing Business Report 2014, Serbia ranks 93rd out of 189 countries on the overall ease of doing business, which is worse than most EU countries and some regional peers. The biggest issues remain in the areas of construction permits, paying taxes, contract enforcement and insolvency procedures.

Serbia also ranks relatively low on the World Economic Forum’s global competitiveness indicator – 101st out of 144 surveyed countries. The ranking is particularly poor on the quality of the macroeconomic environment (136th), especially on the fiscal side. Serbia also scores badly on the indicator of the quality of its public institutions (130th), for example property rights, the burden of government regulations, judiciary independence and regulatory framework for dispute settlement. Labour market inefficiencies are also identified as a challenge in the Serbian economy (119th).

Serbian businesses surveyed in the 2009 EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) identified political instability, practices of the informal sector and access to finance as the key obstacles they face in doing business. The results of a new round of this survey are currently being finalised, which will provide useful insights into how perceptions may have changed over the past four years, especially in light of the aforementioned reforms.
2.5 Social context

Over the past decade, per capita income and living standards in Serbia have improved considerably, despite the recent slowdown caused by the global financial crisis and the subsequent Eurozone crisis. Between 2002 and 2012, real GDP rose by about 30 per cent and PPP adjusted per capita income increased by over 60 per cent.

Unemployment remains high and has increased considerably since the onset of the global financial crisis, rising from 13.6 per cent in 2008 to 22.1 per cent in 2013 according to the latest wave of the Serbian Labour Force Survey. Unemployment is lowest in the capital Belgrade and highest in the Vojvodina region as well as eastern and southern Serbia. The gender discrepancy in unemployment is not as high as in some SEE countries (20.8 per cent for men vs. 23.8 per cent for women) but this disguises a non-trivial gender gap in the activity rate (57.1 per cent for men vs. 40.4 per cent for women of the age of 15 years and older). Unemployment is highest among the youth at around 50 per cent in 2013 (15-24 years age group). The informal sector in Serbia is quite sizable. According to estimates of the Serbian statistics office for 2013, about 19.3 per cent of all the employed work informally.

Serbia performs well on most indicators of access to and quality of education compared to regional peers but lags behind the more advanced countries. According to the Serbian statistics office, over 99 per cent of pupils complete primary school and enrol into secondary school, and about 85 per cent then go on to finish secondary school. In the OECD’s latest Programme for International Students Assessment, which was conducted in 2012, Serbian secondary school students performed better than students from all other SEE countries other than Croatia across all three tests (reading, math and science), though not as well as the OECD average. The tertiary education enrolment rate of around 50 per cent is in line with the regional average but well below the OECD average of around 66 per cent.

2.6 Legal context

The last four years have seen the achievement of considerable legislative reform in Serbia in several important sectors of the economy. The underlying objective of some of the reforms is clearly the recognised need to accelerate the harmonization of the Serbian legal system with EU regulations in preparation for the full EU membership of the country.

Among the various new laws enacted over the last few years, it is worth mentioning the new Law on Capital Market which became applicable in November 2011 aimed at making the Serbian capital market more attractive to domestic and foreign investors. The Law on Foreign Exchange operations was also amended in 2011 with the objective to ease some of the restrictions associated with the operation of the FX market in Serbia and to provide a more sophisticated legal framework for further development of cross-border lending. The law was further amended in December 2012 with several changes relating to foreign credit operations. The new Companies Act was also enacted in 2011 and constitutes a clear improvement compared to the previous regime, although mainly related to joint stock companies. Most recently the new Public Procurement Law became applicable on 1st April 2013. The new law stipulates a number of new solutions aimed at increasing transparency, effectiveness and cost-efficiency of the procedure, as well as at combating corruption by both the contracting authorities and the bidders. Finally, new regulations on renewables and efficient use of energy were adopted in the first quarter of 2013.
2.7 Energy efficiency and climate change context

There is substantial potential for energy efficiency (EE) improvements and development of renewable energy (RE) projects in Serbia. The country’s energy intensity is over four times higher than the EU 27 average and almost twice as high as Czech Republic.

Such potential is higher than in many other countries of the EBRD region due to neglected maintenance of industrial equipment and buildings (especially public ones) as well as the presence of a large stock of equipment beyond its economic and also physical life. This potential is driven by increasing energy prices, out-dated and inefficient industrial equipment, as well as lack of metering and control devices. Such energy price increases create an additional cost burden on businesses and buildings owners/administrators that are already challenged in the current economic climate. Improving energy efficiency is an effective response to this challenge.

Serbia also has promising RE potential that includes a largely untapped hydro, wind, geothermal and solar energy. In addition, the Western Balkans region, including Serbia, is projected to experience temperature increases, reduced precipitation (especially during summer) and greater precipitation variability. As a consequence, Serbia is anticipated to experience a greater likelihood of seasonal water deficits. More variable precipitation may also result in fluctuations in river hydrology and more frequent extreme events such as floods. Water stress will have implications on water-intensive industries including agribusiness. It will affect agricultural production adversely, and increase the demand for irrigation. Hydropower investments may also have to take into account climate-driven changes in hydrology. The need for investment in more efficient and better-managed water supply systems will increase in the face of greater water stress caused by climate change. Action will be needed in climate-sensitive sectors such as water supplies, power and energy (especially hydropower) and water-intensive industries such as mining, agribusiness and manufacturing.

In this context, the EBRD will continue over the next period to focus on sustainable energy projects across the sectors in Serbia, including the provision of finance to local companies to improve productivity, energy efficiency and competitiveness.

Furthermore, Serbia is a Contracting Party to the Energy Community Treaty and has started to implement the relevant EU directives in the fields of EE and RE with implementation deadlines during this country strategy period. At the legal/regulatory level, the Law on Efficient Use of Energy, which was adopted in March 2013, transposes provisions of EU directives into Serbian legislation. The Law sets the ground for EE policy and has provisions on energy management system, labelling of energy-related products, energy performance in buildings, EE requirements in energy production, transmission and distribution, financial mechanisms for EE (including the establishment of the Energy Efficiency Fund) and promotion of energy services market, and as well as the responsible bodies. In addition, Serbia adopted in 2011 a new Energy Law, which regulates to renewable energy (RE).

3 STRATEGIC ORIENTATIONS

Serbia faces some important transition challenges in the coming four years, a period in which it expects to make substantial progress towards the eventual goal of EU membership. The legacy of the global economic crisis is a substantially weakened economy with high levels of
unemployment, especially among the youth, and significant regional income disparities. The past four years have revealed the inadequacies of the pre-crisis growth model and the need for a new reform agenda that fosters private sector-led development and investment. A stable and healthy financial sector will be a necessary and crucial component of this agenda. A further challenge in the coming years is to develop a sustainable energy sector. These priorities will form the core of the Bank’s strategic orientation in Serbia:

- **Enhancing the role and competitiveness of the private sector:** Serbia’s level of private sector engagement in the economy is modest even by regional standards. The state retains a significant share in key industries, while many private companies are not sufficiently competitive to assure long-term viability, being stymied by the lack of management, technical and operational expertise, as well as that of sound corporate governance. Moreover, the crisis has left a number of companies in need of financial restructuring. Small and medium-size enterprises (SMEs), which form the backbone of the Serbian private sector, face limited access to finance and receive virtually no FDI at present. The Bank will thus work to increase private sector competitiveness, with an added focus on the agribusiness value chain. The Bank will seek to assist SMEs in financing projects conducive to sustainable growth, and will provide technical assistance to improve corporate governance. In the context of the EU integration process, which is expected to be conducive to developing a more favourable environment for FDI, the Bank will seek to support foreign investors in both greenfield and brownfield projects as such opportunities arise. Finally, the Bank will seek selected opportunities to enhance the viability of companies in the process of being fully privatised, through its participation in pre-privatisation and privatisation transactions, preferably alongside strategic investors.

- **Bolstering the banking sector and deepening the financial intermediation:** While the financial sector has survived the crisis without significant bank failures, its role as a driver of economic growth has been significantly diminished. Credit growth is weak, the share of non-performing loans is high, deleveraging pressures persist, and the level of euroisation is high. The Deposit Insurance Fund has been depleted due to the failure of a few local banks and the full repayment of even uninsured deposits. In line with the Joint IFI Action Plan for Growth in Central and South-Eastern Europe, the Bank will seek to help stabilise the financial sector and encourage lending by working with the authorities to explore a possible recapitalisation of the Deposit Insurance Fund in a joint effort with the World Bank. EBRD will also engage with selected banks and non-bank financial institutions to support SME lending. The Bank will continue its policy dialogue, directly with the National Bank and through the Vienna Initiative 2.0, to encourage local currency lending and improve cross-border cooperation on banking sector issues and help in resolving the problem of NPLs.

- **Developing sustainable and efficient public utilities:** Large transition gaps remain in the energy and infrastructure sectors. The implementation of investment projects in these sectors is typically slow and often disrupted. This results in a widely recognised infrastructural gap in the country. Other transition challenges include: adjusting tariffs to cost recovery levels, strengthening the regulators’ capacity, commercialising and restructuring public enterprises, and increasing private sector participation. The Bank will focus its efforts on accelerating the implementation of its already financed projects and, given the limited fiscal space, will carefully select new investments it would consider financing. The Bank will seek to mobilise private sector involvement whenever possible. In the energy sector in particular, the Bank will aim to continue to play a key
role in promoting energy efficiency and renewable energy, while assisting with replacing the aging electricity generation capacity and bringing power generation into compliance with the EU environmental standards.

3.1 Key challenges and operational responses

3.1.1 Enhancing the role and competitiveness of the private sector

Transition challenges

- Private sector development has lagged behind most regional comparators. Many existing private companies are marked by weak standards of management practice and corporate governance, and Serbia scores poorly in international comparisons of competitiveness and ease of doing business.
- The restructuring and privatization of state-owned companies has lagged in recent years and is yet to be finalised.
- Private sector involvement in transport and municipal and environmental infrastructure has been very limited to date, and there are almost no examples of successful PPPs.
- The availability of investment capital backed by substantial value-added support remains relatively low. In particular there is little private equity capital for SMEs. Participation of local institutional investors in Serbia’s private equity market remains largely non-existent.
- The agribusiness sector, one of the most important ones in the Serbian economy, remains undeveloped, suffering from underinvestment and low levels of technology. Further development of the agribusiness sector is being hindered by problems in the land register and cadastre system, preventing the transfer of agricultural land, and bureaucratic red tape.
- Challenges in the real estate sector are large and there is a significant under-supply of commercial property in the major cities.

Operational response

To promote private sector development and encourage investment the Bank will seek to provide longer term investment, working capital and equity financing to sound local corporates, predominantly SMEs, including through the Local Enterprise Facility (LEF) and the new Enterprise Expansion Fund (ENEF). To support further development of the agribusiness sector, the Bank will work with companies along the value chain development, supporting further development of modern retail sector, logistics, further consolidation aimed at improving competitiveness of the processing segment, and the continuation of cross-border investments. The Bank will provide financing and risk sharing instruments to commercial banks for on-lending to farmers and MSMEs involved in the agricultural sector. Selectively, the Bank will review opportunities to support private investment in manufacturing and services, natural resources, ICT and property and tourism. In addition, the Bank will seek to support viable projects that support knowledge economy across all sectors.

To increase competitiveness, the Bank will support viable restructuring efforts of state-owned companies in the context of privatization processes by engaging with selected investors and it will work with local banks to identify bankable opportunities for financial and operational restructuring for debt and equity financing.
To spur the development of MSMEs, the Bank will use its instruments of Small Business Support to strengthen competitiveness of local MSMEs and support the adoption of quality standards, improvements in corporate governance, supply chain, marketing and operational efficiencies across various sectors and will also be instrumental to feed in smaller projects to be financed by the Bank.

Policy dialogue

The Bank will continue its policy dialogue with the relevant authorities in order to speed up the process of restructuring and privatisation of state-owned corporates of systemic importance. It will also continue working with the relevant government entities to unlock synergies in the area of financing for, and enhancing the management and corporate governance standards of SMEs. To facilitate foreign direct investments in the country, the Bank will intensify its co-operation with the commercial sections of embassies in the country, bilateral chambers of commerce as well as with relevant government agencies to anticipate the needs of foreign investors and contribute to the improvement of investment conditions.

In the agribusiness sector, the Bank will continue with its on-going policy dialogue on introduction of new financial instruments to support the development and access to finance of agribusiness companies and mid-size and small farming operations.

The Bank will continue to support the development and implementation of crop receipts (CPR) in Serbia, and raise awareness about warehouse receipts (GWR) system established in 2012 under the EBRD Private Sector Food Security Initiative.

Implementation of the Serbia Indemnity Fund TC for the Grain Warehouse Receipts will be started, as well as the TCs for the geographical indications in the Meat and Fruit Sector. There is a potential for public-private policy dialogue, following a request from the industry and the Serbian Government. It is anticipated that policy dialogue will focus on grain and meat and dairy subsectors.

The Bank will support implementation of the Consensual Financial Restructuring Law through a project initiated by the Legal Transition Team in partnership with the Serbian Chamber of Commerce and Industry (CCIS) aimed at raising stakeholders’ awareness of, understanding and, ultimately, confidence in the consensual financial restructuring procedure inter alia through developing institutional capacity of CCIS.

3.1.2 Bolstering the banking sector and deepening the financial intermediation

Transition challenges

- Banks need long term funding (including dinar funding) and institutional support to assist them in growing their business on a sustainable basis.
- Access to finance for SMEs has become much more difficult during the crisis. More funding is needed through commercial banks and micro-lending institutions. There is no regulatory microfinance framework in place.
- The crisis has led to two main problems in the financial sector, which require urgent attention: the rapid rise in non-performing loans and the depletion of the Deposit Insurance Fund.
• The majority of banks’ assets and liabilities are indexed and denominated in EUR. There is a high degree of reluctance to borrow in the local currently and past attempts to encourage dinar lending and savings have yielded limited results.
• There is a need for further consolidation and privatization in the sector with 29 banks operating in Serbia out of which 5 hold roughly 50 per cent market share, 11 are loss making and 6 are state-owned.
• There is a need for further development and widening of insurance products and increased financing for other non-banking financial institutions, primarily in the area of leasing and voluntary pension funds.

Operational response

To increase availability of long term funding (including dinar funding) and encourage introduction of new products, the Bank will expand support to banks, leasing companies and other financial institutions in terms of long term funding and tailored products to increase availability of MSME loans and provide support for energy efficiency, renewables and agribusiness sector. Financing under the TFP will remain particularly important for management of slow-down in industrial production and trade flow.

To increase confidence in the banking sector the Bank will seek to provide support to the Deposit Insurance Agency (DIA), which is responsible for managing the Deposit Insurance Fund (DIF) in order to help underpin confidence in the banking sector, specifically the capacity of the DIF to meet future unforeseen claims. The EBRD’s support for the deposit insurance system is part of a concerted IFI effort in which World Bank and the IMF aim to introduce a bank resolution framework, including a strategy for public banks.

To support development of non-bank financial institutions, the Bank will support investments in the leasing, insurance and voluntary pension funds sectors in order to help deepen the development of non-bank financial institutions and the capital market more generally.

Policy dialogue

The Bank will continue its discussions with the National Bank of Serbia and the relevant Ministries and authorities on developing local currency lending and, enhancing the framework for local capital market development, bank resolution on non-performing loans, and on creating a legal framework for microfinance institutions.

In particular:

• Significant progress is being achieved with the National Bank of Serbia, the Ministry of Finance and the Securities Commission towards our goal to be able to raise funds locally and lend in local currency. In November 2013, the National Bank of Serbia adopted the Decision on Terms and Conditions of Performing Foreign Credit Transactions in Dinars, eliminating regulatory obstacles to lending in dinars. The Bank will interact with potential public and private recipients of local currency funding to promote such product;
• The Bank is expanding its engagement with relevant authorities in assisting with the resolution of Non-Performing Loans. Further than technical assistance provided by the legal transition team on consensual resolution, the Bank will conduct a market
assessment of NPLs and facilitate the interaction between the Ministry of Economy and private equity funds focusing on special situations.

- The Bank will continue working with the authorities on the Vienna Initiative 2.0, in which Serbia is an active member. In particular, under Vienna 2.0, the Bank is working closely with EBA and ECB to include non-EU members into coordination in the context of the EU’s ongoing Banking Union project. In addition, Vienna 2.0 has established two new working groups – on NPLs and on innovative instruments for supporting credit growth – which is expected to come up with policy recommendations to address the resolution of NPLs and the rekindling of credit growth in Serbia and other countries in the region.

3.1.3 Developing sustainable and efficient public utilities

Transition challenges:

- A comprehensive restructuring of public enterprises is required in both the energy and the infrastructure sectors and progress needs to be made regarding implementation of the existing projects and full unbundling of services.
- Cost-reflective tariffs need to be introduced and collection rates to be improved.
- Further efforts are required to find ways to finance investments in the areas of water and waste management, district heating and urban transport in medium-size cities, mindful of fiscal constrains both at national and municipal level.
- Regional integration and trade would significantly benefit from the further development of a modern highway and railway network on Corridor X and inland waterways projects on Corridor VII. Fiscal constrains may hamper investments and additional efforts need to be made to potentially attract private sector investors in some of these areas.

Operational response

The Bank will target both supporting physical infrastructure improvements and promoting sector reform. The Bank will work closely with clients, counterpart ministries and IFIs to progress and implement projects, which are currently experiencing delays in implementation. The Bank will carefully select further potential investments in the transportation sector.

The Bank will encourage private sector involvements in infrastructure and energy sectors and promote use of concessions and well-designed PPPs drawing on best practice and lessons learned from similar projects in other countries. In this context, the Bank will seek to finance and provide technical assistance for projects in the energy sector, which create new generating capacity, stimulate competition, diversify energy sources (in particular renewable energy sources) and increase efficiency.

To support development of public utilities the Bank will seek to finance new projects in municipal infrastructure in medium-sized cities, and work with the authorities to develop appropriate financing structures.

Policy dialogue

Considering that energy and carbon intensity are high in Serbia, the Bank will focus on providing financial and technical cooperation support for renewable energy and energy
efficiency projects. The Bank will continue to support the government in its effort to establish market-friendly policy frameworks and regulations that promote energy efficiency and low-carbon investments and to work on compliance with EU environmental standards.

In the municipal sector, the Bank’s policy dialogue will focus on commercialization of services, capacity building as well as development of a more efficient project implementation structure with the focus on public utility companies, instead of state or city levels. Support will also be provided to municipalities and public utility companies to enhance management accountability of their operations.

3.2 Environmental and Social Implications of Bank Proposed Activities

As part of its efforts to join the EU, the Serbian Government is working intensively to bring its environmental, health and safety (EHS) regulatory framework into line with EU law (acquis communautaire). Alignment with the EHS acquis continues through the national programme for EU integration. Serbia recognises that it needs to strengthen its administrative capacity through improving the resources, technical and operational capacity of authorities to ensure that EU EHS standards are met.

The EHS regulatory requirements provide a framework for structuring all EBRD financed projects to comply with its Environmental and Social Policy (ESP) and Performance Requirements (PRs). However, the Bank will continue to monitor and focus on the practical implementation of regulatory requirements in practice to ensure that the Bank’s ESP and PRs are met. In the event that projects cannot be structured to meet EU environmental requirements, this will be made clear in the Bank’s information for the Board of Directors with appropriate justification for any derogation, and in the public Project Summary Document. EBRD will work with clients, where appropriate, so that any complementary action to projects that do not meet EU environmental criteria will bring them toward fully meeting EU standards in the future.

Implementation of EU Directives may pose some challenges, especially for the energy and infrastructure projects. EBRD will pay specific attention to ensuring that due process is followed in undertaking Environmental and Social Impact Assessments of all infrastructure projects falling under the requirements of the relevant EU environmental acquis. Assurance will be sought that a participatory public disclosure and consultation will be an integral part of development of such projects.

Health and safety will be an important consideration in all EBRD projects. EBRD will work with clients in all sectors to mitigate the health and safety risks through good project design and best practices in safety management, particularly during construction works.

Although civil society organisations within Serbia play an important role in raising awareness of environmental and social issues, proactive stakeholder engagement processes will also be an important instrument in mitigating social impacts and ensuring the ESP and PRs are met, especially where the projects could have adverse impacts on ethnic minorities, people at risk of social exclusion or otherwise vulnerable people.

Serbia’s labour laws and anti-discrimination legislation are broadly in line with European standards however there are issues in practice, particularly with respect to access to equal employment opportunities for those from certain groups such as the Roma, internally displaced persons, persons living with disabilities and/or women within the workplace. Thus,
measures to address all forms of discrimination and promote equal economic inclusion will be supported by the Bank. Also, when EBRD considers projects that involve privatisation of infrastructure companies (transport, municipal and energy sectors) that require labour restructuring and rationalisation programmes, it will aim to ensure that redundancies are done in a transparent, consultative and non-discriminatory way to minimise any adverse impact on the groups mentioned.

According to the assessment of gender gaps of the Strategic Gender Initiative (SGI), Serbia exhibits large gender gaps in labour practices and employment and female firm ownership. Projects with a gender component might therefore be developed in Serbia, with particular emphasis in those areas. The Bank is already supporting clients in Serbia in strengthening equal opportunities policies and will endeavour to continue working with its clients to further encourage women entrepreneurs’ access to finance, support equality of opportunity in the workplace and promote career advancement, and to ensure that women, as well as men, benefit equally from the Bank’s investments.

Serbia has taken an active part in the Decade of Roma Inclusion 2005–2015 taking measures to increase social inclusion of the Roma. Measures which were necessary to comply with the Bank’s resettlement requirements (provision of permanent accommodation and alternative livelihoods) were taken regarding the relocation of Roma from their informal settlements during the rehabilitation of Gazela bridge in Belgrade. These have been implemented in other subsequent and similar projects and are expected, if relevant, to be implemented in future projects.

Serbia has a diverse landscape and rich ecosystems with protected areas including eight Ramsar sites, one Biosphere reserve, many Important Bird Areas, Important Plant Areas and Prime Butterfly Areas, and seven UNESCO World Heritage cultural and natural sites (Source: Serbian Environmental Protection Agency – SEPA). EBRD will continue to apply its policy requirements relating to the protection of biodiversity when considering financing of projects as these may have the potential to adversely impact biodiversity and/or proposed Natura 2000 sites.

The Bank will continue to support Serbia in its investments to improve and upgrade infrastructure. In transport there will be a focus on the implementation of existing transport corridor projects, where as appropriate, the Bank will promote road safety initiatives and require road safety assessments.

The energy sector is a major polluter, due to the high use of fossil fuels (low-caloric coal, oil and gas). The Bank has several projects with EPS, state-owned electricity utility company, to improve the efficiency of its thermal power plants and for hydro power generation. Energy generation and the application of the Industrial Emissions Directive (IED 2010/75/EU), Best Available Technology (BAT) and cleaner production will be an important consideration for future projects.

Financing projects in the municipal environmental infrastructure sector will offer the Bank significant opportunities to achieve environmental and social benefits and public health improvements. Investment programmes will seek to bring water, wastewater and solid waste management facilities into compliance with the Bank’s PRs and EU standards, whilst also considering affordability issues.
4 ACCESS TO CAPITAL: PRIVATE AND PUBLIC SOURCES OF FINANCE

4.1 Private sources of capital

About two thirds of Serbia’s total public debt is financed externally. External funding has come from official sources (IMF programme and other IFI loans) as well as the private sector (government bonds and bank loans). Over the past two years, Serbia has tapped international capital markets four times, borrowing a total of USD 4.25 billion. In the latest issue, in November 2013, Serbia issued a five-year USD 1 billion bond at a yield of 6.125 per cent. The rest of the public debt was funded domestically and largely through capital markets, with most government bonds purchased by the banking sector.

Domestic capital markets are still in the intermediate stages of development. Although the primary issuance process is functional, Serbia’s government bond market lags behind its SEE peers in terms of secondary market development. Liquidity in the secondary market is negligible and the corporate bond market remains virtually non-existent. The most commonly used instruments in the financial market are government securities and NBS notes, the latter being subject to purchase by banks only. In 2012, market capitalization on the Belgrade Stock Exchange was USD 7,451 million, or about 20 per cent of GDP. The turnover ratio was low at 0.0369.

Corporates obtain financing mainly through commercial banks. The entry of foreign banking groups in Serbia led to a significant increase in access to credit for households and corporates. In the pre-crisis period, private sector credit grew very rapidly, at times at rates over 50 per cent y/y. However, since the global financial crisis that hit the country in 2009, credit growth has slowed down in part due to lower demand in the weakening economic conditions. In early 2013, credit growth was a mere 2-3 per cent y/y while in the second quarter it turned negative. The recent contraction can be attributed in part to the end of a government subsidised lending programme for the corporate sector.

4.2 MDB finance and collaboration with other IFIs and multilateral donors

The Bank will continue to work closely with bilateral and multilateral institutions on key infrastructure projects in the transport, energy and municipal sector. The WBIF is an important forum to discuss with other partners key priorities and financing schemes for proposed actions, and is also an important instrument to boost regional policy dialogue, which is a pre-requisite for regional integration. In the transport sector, the Bank will also continue to co-operate with its traditional partners, the EIB, EU, World Bank, and bilateral donors.

In the power sector, partners include the EU, IFC, OPIC, and KfW/ DEG. Successful co-operation and co-ordination in the reform and modernisation of the sector, and the development of private sector investment will continue. The Bank will seek to mobilise donor funding to deliver investment, policy reform and transition progress consistent with its mandate. In particular, the Bank will further coordinate, and if possible implement joint operations, with the European Investment Bank and the World Bank under the Joint IFI Action Plan for Growth.

The European Investment Bank

The EIB has started its operations in Serbia in 2002 and is working closely with the Bank on a number of projects. To date the EIB has concluded 61 loan agreements making available
financing of EUR 4,022 million for projects in the transport sector, energy, health and education, financial sector in favour of SMEs and municipal infrastructure.

In 2013, EIB financed the projects of reconstruction and road safety, and provided a new credit line Apex Loan for SMEs. Further priorities will remain in the transport, energy, health and municipal infrastructure, while close coordination and co-financing with other IFIs and bilateral donors remains a key feature.

The World Bank
In 2006, the Republic of Serbia inherited the international legal personality of the state union of Serbia and Montenegro and remained a member of the World Bank Group. The membership was regulated in 2001. By late 2013, the World Bank granted to the Republic of Serbia new credits and loans (under IDA and IBRD terms) worth total of USD 1.7 billion. The financing targeted improvements in transport and energy, education, health, poverty and social protection, pension system, agriculture, public financial management.

The lending envelope for the on-going Country Partnership Strategy could reach USD 800 million for period from 2012 to 2015 with the possibility of financial assistance divided evenly between investment operations and development policy lending. This programme also includes the allocation of an additional USD 200 million for budget support to respond to the economic crisis in the country.

The International Finance Corporation
IFC works with private sector clients, government, and civil society to bring the benefit of global expertise to the country through its advisory services and investment projects. IFC’s portfolio in Serbia is USD 680 million. Only in 2012, IFC invested USD 351.2 million and mobilized USD 152.8 million. In addition to its investments, IFC has several advisory services programmes.

IFC’s priorities in Serbia include crisis response, agribusiness, climate change, and improvements in the investment climate. IFC is also focusing its investment services on increasing access to finance by supporting the development of local financial institutions, especially ones that concentrate on SMEs. IFC invested in equity of two local majority state owned banks (Cacanska and Komercijalna), alongside of EBRD, and provided several SME lines to Banca Intesa and UniCredit Serbia. They also recently granted a loan to Victoria Group, Bank’s agribusiness client.

KfW
KfW has been present in Serbia since 2001 and together with its subsidiary DEG have been active in supporting development of efficient frameworks and functioning of social and economic infrastructure. KfW has focused on supporting the national banking sector with refinancing facilities for small and medium entrepreneurs as well as trust-building measures in the banking sector. DEG is directly supporting entrepreneurs with equity capital and long term financing.

In order to strengthen the Serbian financing sector, KfW has founded the revolving Fund 'European Fund for Serbia' (EFS) in 2001, provided SME lines to a number of banks and energy efficiency lines to Banca Intesa, and SME funding to UniCredit bank. KfW also provided technical assistance to Deposit Insurance Fund. In the energy sector, KfW supported a number of projects such as rehabilitation of hydroelectric power plant Bajina
Basta and Zvornik, co-investment with EBRD in Kolubara coal mines, rehabilitation of district heating systems in various towns and a number of other projects.

The International Monetary Fund
In 2006 Serbia continued the membership of the former state union of Serbia and Montenegro in the IMF, regulated in 2000. The Stand-By Arrangement was approved in January 2009 in the amount of EUR 388 million, and in May 2009 it was extended by one year and augmented to EUR 2.9 billion to support the Government’s economic program, to aid a sharper than expected impact of the global financial crisis. The program focused on three main elements: additional fiscal adjustments, maintaining the current level of foreign parent banks’ credit exposure to Serbia and securing additional financial support from international financial institutions. The Arrangement was successfully concluded in April 2011. As economic growth in Europe and the world decelerated once again, Serbia and the IMF signed a Precautionary Stand-By Arrangement in 2011 to preserve macroeconomic and financial stability and improve the country’s investment climate. Given that the adopted budget for 2012 deviated from the fiscal programme agreed at the time, the first review of the arrangement was not concluded. The Arrangement expired in March 2013. Additionally, the IMF provides the Government and the NBS with technical assistance and training in fiscal and monetary policy.

4.3 Cooperation with the European Union
The First Intergovernmental Conference held on 21 January 2014 between the Republic of Serbia and the European Union officially marked the start of negotiations on the Republic of Serbia’s accession to the EU. In light of these new beginnings, EBRD’s cooperation with the European Union will intensify during the country strategy period. In particular, in the private SME sector, the Bank will boost its actions through the new SME platform devised together with the EU and EIB for the Western Balkans and Croatia and approved under the WBIF, the Enterprise Development and Innovation Facility (EDIF), through which a set of financing mechanisms and TC for structural reforms in the areas of private equity and innovation will be made available to the region. Within EDIF, a new fund, the Enterprise Expansion Fund (ENEF), will be created as a vehicle to co-finance equity-driven projects with LEF, thus representing a key element to the co-operation with all other institutional players in the region. In addition, the Bank will seek inclusion of Small Business Support activities into the facility, which are currently funded through national EU IPA source.
ANNEX 1 – POLITICAL ASSESSMENT

Serbia is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank.

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities and for a meaningful role for civil society are largely in line with international and European standards, as assessed by the Council of Europe. Elections are generally conducted in a manner deemed by the OSCE and the Council of Europe to be free and in line with international standards.

In the period since the adoption of the previous Country Strategy, Serbia has made progress in democratic transition, to a great extent geared towards integration into the EU. Both the legislative and institutional frameworks have been improved, enabling the strengthening of democracy, the rule of law, and the protection of human rights and fundamental freedoms. Progress in particular has been made in the areas considered to be the key weaknesses in the Western Balkans countries, such as the functioning of institutions, the judiciary, public administration reform, and the business environment. Serbia’s overall administrative capacity is relatively high by regional standards. Nevertheless serious challenges remain in all of the above-mentioned critical areas, and especially in the rule of law. Maintenance of political will to fight corruption and organised crime is necessary to generate improvements in the business environment. The latter could further benefit from the EU accession negotiations, which are due, in accordance with the new approach of the European Commission (EC), to start with the chapters of the accession treaty that are related to the rule of law.

The progress in democratic reforms has been reflected in Serbia’s accelerated approximation with the EU. Since the adoption of the previous Strategy, Serbia applied for (2009) and obtained (2012) the formal status of EU candidate country. In its Opinion on Serbia’s EU membership bid, EC concluded that Serbia has “considerably progressed towards fulfilling the political criteria”\(^4\). According to the conclusions of the latest EU Enlargement Strategy, published by the EC on 16 October 2013, Serbia “sufficiently fulfils the political criteria” and is making progress in aligning its legislation to the requirements of the EU legislation\(^5\). On 28 June 2013, the European Council recommended the opening of the EU accession negotiations with Serbia in January 2014 at the very latest, reaffirming this at its December 2013 Council\(^6\). The EU accession negotiations formally opened on 21 January 2014.

---

\(^4\) Commission Opinion on Serbia’s application for membership of the European Union, 12 October 2011, p 11
\(^5\) European Commission, communication from the Commission to the European Parliament and the Council, Enlargement Strategy and Main Challenges, 16 October 2013, pp 27, 29
\(^6\) Conclusions of the European Council, 27/28 June 2013, p12; Conclusions of the European Council, 19/20 December 2013, p22
Free Elections and Representative Government

Free, fair and competitive elections

The existing legal framework enables an “overall sound basis for the conduct of democratic elections”. The legal framework benefited from a series of reforms, including the adoption of a number of new laws and amendments that followed the recommendations by the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR) and by the Council of Europe’s Commission for Democracy through Law (the Venice Commission). In particular, the regulation of political finance was strengthened by the adoption in 2011 of a new Law on Financing of Political Activities, as recommended in the Joint Opinion of the OSCE/ODIHR and the Venice Commission and OSCE/ODIHR. In accordance with the recommendations by OSCE/ODIHR, as well as the EU, amendments were made to the law in order to remove the long-criticised provisions that gave political parties disproportionate power in arbitrary choosing candidates from their lists to become MPs. In accordance with the previous recommendations, a single unified voter register was prescribed by the newly adopted law in 2011 and was used for the first time during the 2012 elections.

At the same time, since the legal framework comprises a number of laws for different types of elections, in certain cases their requirements are at odds and could benefit from a harmonisation. OSCE/ODIHR has recommended reviewing the legal framework in order to consolidate various electoral laws and possibly introduce a single comprehensive Electoral Code. It has also been recommended to include in the law specific provisions for international and domestic observation (observation is currently regulated by the instructions of the Electoral Commission, which it issues for each election separately).

250 members of Serbia’s unicameral parliament are elected for four-year terms in a single nationwide constituency under a proportional representation system. Mandates are distributed between candidate lists that surpass a threshold of five per cent of ballots. Parties representing ethnic minorities are exempt from this threshold. The President of the country is elected in direct elections for five years.

All elections that took place during the last decade have been highly competitive and offered a diverse choice to the electorate. The candidates are able to campaign freely. The Central Election Commission is a permanent body, appointed by the political parties represented in the parliament, and operates in an efficient and transparent manner. Media provide voters with diverse and extensive coverage of the electoral campaign.

The parliamentary and early presidential elections, which took place on 6 and 20 May 2012, alongside with provincial elections in Vojvodina, were assessed by OSCE/ODIHR as having been conducted in a “competitive environment, with respect for fundamental human rights and freedoms”. The campaign atmosphere was calm overall, with only “isolated and minor incidents”. The Parliamentary Assembly of the Council of Europe (PACE) concluded in the

---

7 OSCE, Office for Democratic Institutions and Human Rights (OSCE/ODIHR), Limited Election Observation Mission, Serbia, parliamentary and early presidential elections of 6 and 20 May 2012, Final Report, p1
8 Venice Commission and OSCE/ODIHR, Joint Opinion on draft laws on electoral legislation of Serbia
9 OSCE/ODIHR, Limited Election Observation Mission, Serbia, parliamentary and early presidential elections of 6 and 20 May 2012, Final Report, p21
report on the 2012 elections that Serbia “complied with most of the Council of Europe standards in respect of democratic elections”\(^\text{11}\). The last (early) parliamentary elections took place on 16 March 2014. According to the preliminary findings by the International Election Observation Mission, released on 17 March, the elections offered voters a genuine choice and fundamental freedoms were respected throughout the campaign.

**Separation of powers and effective checks and balances**

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and procedures of legislative oversight in prescribed domains of decision-making – is in place in Serbia and largely in line with international and European standards, as assessed by the Council of Europe. The scope of powers of the legislature to hold the government to account is largely in line with international standards.

The functioning of the parliament is broadly in line with international standards and further progress has been made in strengthening its legislative role since the adoption of the previous Strategy. Based on the National Assembly Act from 2010, Rules of Procedure adopted in 2010, and the Rules on the organisation of the services of the parliament, adopted in 2011, the parliamentary working bodies have been streamlined in order to make the parliament more efficient. A number of bills have been initiated by the MPs rather than the government. There are regular monthly Q&A sessions with the prime minister and members of the government. The latest report by PACE on honouring of obligations by Serbia included a recommendation to strengthen the parliament’s oversight role of the executive branch\(^\text{12}\). There has been some progress in this area, as well as in the transparency in the work of the parliament\(^\text{13}\).

While the Ombudsman’s Offices and the State Audit Institution have continued to build up their capacity and increased efficiency, amendments to the Law on the Central Bank, adopted in August 2012, have undermined the independence of the Central Bank. However, subsequent amendments adopted in November 2012 aimed at correcting some of them, in line with the recommendations by the EC\(^\text{14}\). These were welcomed by the European Parliament\(^\text{15}\).

**Effective power to govern of elected officials**

Serbia has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, and they are not constrained by non-democratic veto powers or other undue influences.

---

\(^{11}\) Parliamentary Assembly of the Council of Europe (PACE), Observation of the parliamentary elections and the early presidential election in Serbia, Election observation report, 24 May 2012, p6

\(^{12}\) PACE, The Honoring of obligations and commitments by Serbia, Resolution 1858 (2012)


\(^{15}\) European Parliament, Resolution of 18 April 2013 on the 2012 Progress Report on Serbia
Civil Society, Media and Participation

Scale and independence of civil society

According to the Serbian Business Registers Agency, there are currently more than 21,000 civil society organisations (CSOs) registered in Serbia. There is a satisfactory legal and institutional framework for CSOs. The Office for Cooperation with Civil Society was established by the Government in 2011, after years of advocacy by civil society, as a mechanism designed to support the development of a dialogue between the government and CSOs. A national Strategy for Creating an Enabling Environment for Civil Society Development is being prepared.

The right to form trade unions is enshrined in law and labour and trade union rights are broadly respected in practice. However, the capacity of the Social Council remains limited and the trade unions are not satisfied with the existing social dialogue.

Independence and pluralism of media operating without censorship

Serbia has diverse media, comprising both public and private broadcasters and a wide range of print and online editions. Pluralism in the media, which operate freely and without censorship, has increased overall since the adoption of the previous Strategy. A media Strategy was adopted in 2011. Defamation has been decriminalised.

Television is the most important source of information. Despite the drop in circulation, newspapers are still an important source, with their online editions growing in recent years. The high number of media outlets operating in a relatively small market makes it difficult for them to be financially viable. The use of digital and social media has gradually increased. In 2012, the internet penetration rate in Serbia reached 56.4 per cent; and three quarters of Serbia’s internet users had a Facebook account.

In its 2011 report, the Anti-Corruption Council – a government-appointed body – stated that there was lack of transparency in media ownership. A recommendation to consider adopting legislation to support the principles of transparency of media ownership, the prevention of media monopolies, and a neutral financial assistance of the state to the media has been included in the list of recommendations by OSCE/ODIHR in the final report on the 2012 elections. Civil society representatives have expressed concerns regarding the influence on media by political parties, especially at the local level, as well regarding a tendency towards self-censorship. There have been reports of threats and violence against journalists, although the authorities have provided police protection for journalists receiving threats.

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. According to the latest report by PACE on honouring of obligations and commitments by Serbia, progress has been

---

16 http://www.internetworldstats.com/stats4.htm#europe
achieved in the functioning of democratic institutions since its previous report. There are certain rules and procedures regarding public consultations, including those established by recent amendments in the relevant law, but they are not always enforced. While the consultation process has improved, including extensive use of public hearings, consultations are often organised with little time for meaningful debate, and urgent procedures are still used extensively to enact legislation.

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is both guaranteed by the Constitution and implemented in practice, as highlighted by the existence of an opposition able to campaign freely and oppose government initiatives. More than 90 political parties are registered in Serbia. The last general elections were contested by seven coalitions comprising 41 political parties and five associations, and nine other political parties that ran separately. More than 25 political parties are currently represented in the parliament. The main opposition political party currently holds about 25 per cent of seats in the national parliament. The opposition representatives chair a number of parliamentary committees, including on European Integration.

Rule of Law and Access to Justice

Supremacy of the law

The key legislative and institutional safeguards for the supremacy of the law are in place. Constitutional guarantees of access to justice are in place. The right to a fair trial and freedom from arbitrary arrest and detention are enshrined in the Serbian Constitution and criminal code. Serbia continues to make gradual progress in comprehensive reforms of the judiciary and in aligning it with European standards. While progress has been made in adopting and enforcing new laws and in applying international standards, much remains to be done in order to increase the efficiency of the judiciary. Similarly, additional measures to strengthen its independence, impartiality, competence, and accountability will be needed in order to restore the trust and confidence of the citizens.

A new Strategy on judicial reform was adopted in 2013, stipulating further changes to normative framework designed to harmonise it with the European standards. The new Civil Procedure Code, aimed at increasing efficiency in civil procedure, which accounts for two-thirds of all cases before the courts in Serbia, and Criminal Procedure Code have entered into force. In accordance with the new approach by the EC to the EU accession negotiations, the screening ahead of the opening of the accession negotiations with Serbia started with the most difficult chapters – related to the rule of law – in order to provide sufficient time for the country to address all shortcomings. The screening process for the critical Chapter 23 (Judiciary and Fundamental Rights) and Chapter 24 (Justice, Freedom, and Security) has begun in autumn 2013 and is expected to continue for at least 18 months, encouraging further strengthening of the rule of law.

---

19 PACE, The Honouring of obligations and commitments by Serbia, Resolution 1858 (2012)
Independence of the judiciary

The independence and impartiality of the judiciary are guaranteed by the Constitution and key safeguards are in place. This includes the role of the High Judicial Council (HJC) and the State Prosecution Council (SPC), which took over the administration of the budget of the courts and prosecution services in 2012, as well as increased efficiency of the Constitutions Court following amendments adopted in 2011. At the same time, the legal framework still leaves room for undue political influence over the judiciary, in particular as regards parliament’s power to appoint judges and prosecutors21.

The impartiality of judges is broadly ensured. The system for the automatic allocation of court cases has been introduced in all commercial and general courts.

The accountability of the judiciary has increased due to a number of measures implemented in the recent years, including steps taken to set up a disciplinary system.

Government and citizens equally subject to the law

The track record in preventing and combating abuse of authority has improved. A number of verdicts have been issued against individuals for abuse of office and high-level corruption. The HJC introduced a disciplinary prosecutor and commission. The SPC adopted Rules on disciplinary procedure and liability.

Effective policies and institutions to prevent corruption

Although corruption remains a serious concern, and is still perceived by citizens as a widespread phenomenon, the authorities have made some progress over the last years in tackling the problem. According to the 2013 Transparency International Corruption Perception Index (CPI), Serbia was ranked 72nd out of 177 countries, broadly on par with its regional neighbours22.

According to the latest reports by the Council of Europe’s Group of States against Corruption (GRECO) Serbia, which joined GRECO in 2003 as Serbia and Montenegro, has the legal framework that “provides a sound basis for the investigation, prosecution, and adjudication of corruption offences”, but its “effectiveness in practice needs to be increased”23. In its 2010 Report, GRECO addressed to Serbia a number of recommendation related to the transparency of party funding24. The authorities continue the implementation of outstanding recommendations. In 2011, a Law on the Financing of Political Activities was adopted, which was welcomed by PACE as being in line with recommendations of GRECO and the Venice Commission25. The Anti-Corruption Agency has subsequently set up an extensive network for monitoring the elections, collected annual financial reports from a majority of political parties, and undertook targeted checks on asset declarations.

21 Transparency International, Corruption Perceptions Index 2013
22 Transparency International, Corruption Perceptions Index 2013
23 Council of Europe’s Group of States against Corruption (GRECO), Evaluation Report on the Republic of Serbia (Third Round, Incriminations), 1 October 2010, p21
24 GRECO, Evaluation Report on the Republic of Serbia (Third Round, Transparency of Party Funding), 1 October 2010
25 PACE, The Honouring of obligations and commitments by Serbia, Resolution 1858 (2012)
The new authorities, established after the 2012 elections, have intensified the fight against corruption, focusing their efforts in particular on the investigation and prosecution of the alleged wrongdoings in the major privatisations of the last years. The new National Anti-Corruption Strategy for 2013-2018 was adopted in 2013, proclaiming as its main objective “elimination of corruption as much as possible”, and defining as the priority areas political activities, public finance, privatisation, judiciary and police, spatial planning and construction, health, education and sport, and media. In accordance with GRECO’s recommendations, the Strategy seeks to eliminate shortcomings in the legal framework on the financing of political parties, strengthening of the mechanisms for internal financial control in the public sector, control of income and conflict of interest for officials, as well as establishing of efficient coordination between the police, prosecution, courts, monitoring bodies, and other sectors of the society fighting corruption.

The application of the new Criminal Procedure Code to the fight against organised crime, which began in 2012, introduced a new model of criminal investigation giving the prosecution the lead role in collecting the evidence and presenting it before the court in order, \textit{inter alia}, to shorten the investigative phase.

A number of investigations into high-level corruption cases have been launched, including as related to the major privatisations of the last years (the so-called list of 24 privatisations), and a few senior officials and prominent businessmen affiliated with the previous regime have been arrested. The series of arrests of the tycoons and other measures in the area of the fight against corruption have enjoyed overall a high level of popular support. The commitment of the new government to fight corruption and organised crime, including the 24 controversial privatisations, has been welcomed by the European Parliament\textsuperscript{26}. At the same time, allegations of orchestrated media campaigns in certain tabloids against representatives of the opposition and independent bodies under alleged corrupted behaviours have persisted.

\textbf{Civil and Political Rights}

\textit{Freedom of speech, information, religion, conscience, movement, association, assembly and private property}

The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. The Constitution guarantees the basic freedoms and rights of citizens recognised in international law, including the freedom of speech, information, religion and conscience, movement, association and assembly, and private property. Serbia is a signatory to, and has ratified all main international human rights instruments. Since the adoption of the previous Strategy, Serbia has signed and ratified dozens of conventions of the Council of Europe, and as of 2012 has fulfilled all its obligations in that area, with the exception of one convention\textsuperscript{27}.

By the end of 2012 the total number of pending applications submitted to the European Court of Human Rights (ECHR) from Serbia reached 9,478, representing 6 per cent of all filed applications with the ECHR.

\textsuperscript{26} European Parliament, Resolution of 18 April 2013 on the Progress Report on Serbia

\textsuperscript{27} PACE, The Honouring of obligations and commitments by Serbia, Resolution 1858 (2012)
Progress has been made with respect to the promotion and enforcement of human rights, including various activities aimed at promoting tolerance. The administrative capacity of Ombudsman’s offices has been strengthened and their accessibility improved. 18 religious organisations have been registered in addition to seven religious communities recognised under a law adopted in 2006. Although smaller religious groups complain about remaining inconsistencies and lack of transparency in the registration process, overall freedom of thought, conscience, and religion is respected. Some progress has been made with regard to the rights of persons with disabilities. However, while the overall legislative framework is in place, social integration of the persons with disabilities remains limited.

The police response to the attacks against LGBT population has improved. The actions to protect this population from the discrimination taken by the Ombudsman and the Commissioner for Equality were hailed by the Council of Europe and the European Parliament. At the same time, both institutions, as well as the EU, called on the authorities to do more in this area. The Pride Parades were banned in Serbia in 2009, 2011, 2012, and 2013 because of security threats. The one held in 2010 was marred by violence.

Progress has been made regarding property rights, particularly with respect to property confiscated under the communist regime. In 2011, a Law on Restitution was adopted. The Agency for Restitution, established in 2012, invited former owners of properties nationalised after WWII, or their heirs, to submit claims for restitution until 1 March 2014.

The last assessment of the track record of Serbia in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was conducted in January 2013 and adopted in June 2013. UPR recommendations focused on domestic violence and the rights of women and children; discrimination against minorities; human trafficking; and justice. Serbia accepted 139 of the 144 recommendations made through the review process.

Political inclusiveness for women, ethnic and other minorities

The legislative framework for the protection of ethnic minorities is broadly in place, in line with the Council of Europe Framework Convention on Protection of National Minorities, of which Serbia is a party, and is generally respected. According to the 2011 census, some 17 per cent of citizens identify themselves as non-ethnic Serbs (no significant change as compared to the 2002 census). Among more than 20 ethnic minorities, the largest groups are Hungarians (3.53 per cent); Roma (2.05 per cent); and Bosniaks (2.02 per cent). Six political parties and coalitions representing ethnic minorities took part in the last general elections, and another eight ethnic groups were represented by political parties that were part of major political coalitions. In the current Serbian parliament a total of ten seats went to five ethnic minorities’ parties, not counting minorities MPs on the lists of major political parties. In the latest report on honouring obligations by Serbia PACE called on the authorities to develop further strategies to remedy the under-representation of ethnic minorities in public administration.

Inter-ethnic relations in Serbia are uneven and vary from region to region. They are broadly good in Vojvodina, but more tense in the area of Sandzak (with a large Bosniak community) and in three Albanian-populated municipalities of southern Serbia (Presevo, Bujanovac, and Medvedja), where the local Albanian population massively boycotted both the 2011 census

---

28 United Nations, Universal Periodic Review (UPR), Serbia – January-June 2013
29 PACE, The Honouring of obligations and commitments by Serbia, Resolution 1858 (2012)
and the 2012 general elections. Both Sandzak and the three above-mentioned municipalities remain significantly underdeveloped.

Roma remain the most vulnerable and discriminated against minority, although some improvements have been achieved. Serbia continues to take an active part in the Decade of Roma Inclusion 2005-2015. The authorities have undertaken measures to improve the registration of Roma, as well as increase their social inclusion, and access to education. According to UNHCR, there are 66,000 refugees and 210,000 internally displaced persons in Serbia. The living conditions of many of them remain difficult.

The key legislative elements for promoting and enforcing gender equality are in place. There has been a steady increase in the number of women among candidates contesting elections and in the parliament. In the composition of the current Serbian parliament (elected in 2012), women represent an impressive 34 per cent of MPs. There are currently two female members of the Cabinet. In everyday life, besides under-representation in the labour market and pay gaps, the main issue of concern is domestic violence, which often goes unreported. Serbia signed the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence in 2012. The Action Plan for the implementation of the respective national strategy is being prepared.

*Freedom from harassment, intimidation and torture*

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. While poor living conditions in detention facilities, unsatisfactory healthcare and the lack of adequate and specific treatment programmes are still a matter of concern, some progress has been made. The Ombudsman, acting as of 2012 as a National Prevention Mechanism against torture, held its first inspections of prisons, police stations, and social care centres. Some improvements were made to prison infrastructure and action plans designed to reduce the overcrowding were adopted. A delegation of the Council of Europe’s European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) carried out a periodic visit to Serbia in February 2011. In the course of the visit, the CPT’s delegation received several allegations of ill-treatment by law enforcement officials. In the authorities’ response, published in June 2012, information was provided on criminal and disciplinary proceedings launched in recent years against law enforcement officials for acts of alleged ill-treatment[^30].

[^30]: Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Report to the Government of Serbia, and Government Response – June 2012
ANNEX 2 – ASSESSMENT OF TRANSITION CHALLENGES 2013

1.1 Corporates

Agribusiness
Market structure: Medium
Market institutions: Medium

Key challenges: (i) improve land register and cadastre system to enable transferability of agricultural land and allow consolidation of small-sized farms; (ii) reduce bureaucratic red tape for building warehouses; (iii) further improve access to finance, especially seasonal working capital for primary farming.

Serbia has continued to make significant progress in many dimensions along the value-chain partly as a consequence of international trade negotiations but also through increased investment into the sector. Similar to other SEE countries, agricultural markets operate freely but the level of import tariffs remains relatively high. An Interim Agreement on trade and trade-related matters between the Republic of Serbia and EU came into force on 1 February 2010 and was replaced by the SAA that came into force on 1 September 2013 (both agreements were signed in 2008). The accession to the WTO is being negotiated and is expected in 2014. Besides the Ministry of Agriculture, the Directorate for Commodity Reserves (DCR) participates in the market purchasing grain commodities, mainly wheat, and provides support to the market through interventions in case of shortages of staple foods (grain, sugar, oil, etc.). An export ban for wheat is currently not imposed. Although around 90 per cent of farmland is in private ownership, ownership rights to land are still difficult to establish. The land register and cadastre system still need to be improved, secure and readily transferable ownership rights need to be established and an active land market needs to be developed. Building warehouses is still considered cumbersome even by regional standards. Private farms are small in size, which inhibits an efficient usage of irrigation systems and modern agriculture technology. The privatisation and restructuring of food processors has been slow, however, at present this segment is fully dominated by private companies. The sector, however, is fragmented and the market is dominated by SMEs making further consolidation desirable. Further investments in technological upgrade and energy efficiency are needed. Big foreign players have taken interest in the retail market (with Delhaize buying 100 per cent of Delta Maxi and Metro, Intermarche, Agrokor, and Mercator present) and mass grocery retail penetration is relatively high compared to other countries of operation. The banking system has developed rapidly in recent years and lending to the sector improved until 2008, when the availability of commercial financing to the sector sharply contracted due to the global financial crisis (and the situation been stagnant since). Warehouse receipt legislation has been successfully developed with the assistance of EBRD and four banks have by now signed risk-sharing facilities that aim to lend against warehouse receipts (Banca Intesa, Erste Bank, Societe Generale, Credit Agricole). Efforts are being made to ensure wider application of the registered warehouses as well as the warehouse receipts as the financing collateral.
Manufacturing and Services
Market structure: Medium
Market institutions: Medium

Key challenges: (i) accelerate privatisation and post-privatisation restructuring of large enterprises including through the removal of state subsidies in the sector; (ii) promote better standards of corporate governance and sound management practices; and (iii) promote regulatory reforms aimed at reducing red tape in the economy to promote new entry and growth of private enterprises.

In recent years Serbia made some progress in enterprise reform, but the manufacturing and services sector was badly affected by the crisis. Interim Agreement on trade and trade-related matters between the Republic of Serbia and the EU enabled gradual removal of customs duties and introduction of special quotas for selected Serbian products. The Republic of Serbia started with unilateral application of this Agreement on 1 January 2009, while full implementation of the Interim Agreement started on 1 February 2010. The ratification of the SAA signed in 2008, as a key step in the process of the EU accession, started in June 2010 and was recently completed so that the SAA came into force on 1 September 2013 and replaced the Interim Agreement. These should aid further trade liberalisation and the harmonisation of laws with EU standards, which would speed up reforms. Nevertheless, a major structural reform agenda still lies ahead. Over the past year Serbia made virtually no progress with the privatisation of some large-scale enterprises, nor in attracting FDI which remains well below pre-crisis levels. Many large-scale enterprises continue to rely on significant levels of government subsidies. Among the enterprises that have been privatised, many still suffer from shortcomings in management expertise and corporate governance. In addition, the crisis has left some in need of financial restructuring. Productivity and efficiency indicators remain low. In the area of market institutions the government introduced important changes to competition law to improve harmonisation with EU rules. The Competition Commission now has the right to initiate investigations and inspections and to directly impose fines and other sanctions. According to the World Bank’s 2014 “Doing Business” report, Serbia’s overall world rank was 93 out of 189 countries. Serbia is, based on its business environment, ranked behind FYR Macedonia, Montenegro, Romania and Croatia. Significant changes are thus required to improve procedures for starting and closing a business (although a positive recent development has been the introduction of a new bankruptcy law), for obtaining the necessary permits and licenses as well as for corporate governance standards. Greater private sector involvement and fresh capital and know-how are needed to improve productivity and efficiency levels in the corporate sector.

Real estate
Market structure: Large
Market institutions: Medium

Key challenges: (i) further improving building standards, including energy efficiency and sustainability; (ii) further streamlining property-related bureaucracy, especially the process of obtaining construction permits; and (iii) increasing supply of modern commercial property, especially in the major cities.

The long-term growth prospect of the property sector remains strong due to the significant undersupply of modern commercial and housing space and tourism facilities, especially outside the capital. There is a lack of new products and financial instruments, and
transparency in the sector remains an issue. In 2012, the process of registering property was significantly improved (Serbia is now ranked 41st out of 185 countries in the 2013 World Bank Doing Business in terms of registering property). According to the 2009 BEEPS, Serbia has made progress with regard to access to land, but unresolved land usage rights and ownership issues still remain impediments for potential investors. The mortgage market is underdeveloped and the legal framework for mortgages can be complex. The process of obtaining a construction permit remains inefficient and costly (Serbia ranked 182nd out of 189 countries in the 2014 World Bank Doing Business in terms of dealing with construction permits – it takes 269 days to obtain a permit). Public awareness of sustainability issues remains low. However, a new law on energy efficiency has recently been adopted.

ICT
Market structure: Medium
Market institutions: Medium

Key challenges: (i) privatising the fixed line incumbent Telekom Srbija; (ii) further increasing competition in the fixed line segment; (iii) further developing the telecommunications infrastructure (broadband internet); and (iv) further modernising the regulatory framework (aligning it with the EU 2009 regulatory framework).

The telecommunications sector is regulated by the Republic Agency for Electronic Communications (RATEL). Implementation of competitive safeguards is lagging behind (e.g. local loop unbundling is at an early stage and fixed number portability is yet to be introduced). The digital switchover process is still at a relatively early stage (in 2013, the digital switch-off date was postponed to 2015). In 2012, the fixed-line telecommunications market was finally fully liberalised.

The fixed line segment is dominated by the incumbent Telekom Srbija which continues to be state owned. The government has tried to privatisate the incumbent but without success. The main competitors are cable and mobile operators. Telenor was awarded the second fixed line license in 2010. In the mobile segment, there is competition between three operators, Telekom Srbija, Telenor and VIP mobile, but mobile broadband is still at a relatively early stage. There are no mobile virtual network operators (MVNOs).

1.2 Energy

Natural Resources
Market structure: Medium
Market institutions: Large

Key challenges: (i) implement the provisions of the new Energy Law (2011) and draft and adopt the required secondary legislation; (ii) complete the gradual opening of the gas market envisaged by 2015; (iii) encourage the presence of private-sector players in the oil and gas distribution segment; (iv) complete the on-going unbundling of state-owned incumbent Srbijagas; (v) encourage private operators to enter the mining sector and take steps towards the privatisation of selected state-owned businesses (e.g. lignite, copper); and (vi) tackle transparency and corruption issues in the extractive industry.

Serbia relies on Russia for almost all of its oil and gas supplies. The country has large deposits of coal (mostly lignite), as well as ferrous and non-ferrous metals. Oil production
and refining is dominated by the vertically integrated Serbian company NIS, whose sale to Gazprom has been agreed in 2008 as part of an inter-governmental agreement between Serbia and Russia, which includes the construction in Serbia of a branch of the South Stream gas pipeline and interlinked storage facilities. The downstream oil retail network is extensive and fairly competitive; fuel distribution prices are liberalised. The vertically integrated, state-owned company JP Srbijagas retains the monopoly over the transport, storage, trade and distribution of gas. Its corporatisation and unbundling are key challenges ahead.

The critical challenge over the next few years will be to move ahead with the full gasification of Serbia and to harmonise legislation with the EU Directives (2003/55/EC and 2009/73/EC) on gas market liberalisation. In 2008 the Council of AERS approved new rules that would result in a potential 90 per cent opening of the Serbian gas market. In January 2011, Serbia's Ministry of Energy and Mining presented a new draft Energy law, which was finally approved by the Parliament in July 2011. This new law will align Serbia’s legislation with EU acquis: it envisages gradual opening of the electricity and gas markets to all users by 2015 and third party access to Serbia’s gas grids. Most of the tasks and responsibilities of the energy regulator have been defined in line with requirements of the EU legislation. The regulatory authority approves network tariffs and energy prices for supplies by the public suppliers and the methodologies are defined and published. The energy regulator is operationally and financially autonomous and the Energy Community Secretariat considers it as one of the most independent regulatory bodies in the region with to their knowledge no serious intervention of a political nature.

Despite the significant progress the approval of new Energy Law represents, Market Institutions gap is still perceived to be large. The government still needs to approve secondary legislation and the gradual opening of the market still needs to reach a number of implementation milestones.

**Sustainable Energy**

Market structure: *Large*

Market institutions: *Medium*

**Key challenges:** (i) introduce cost reflective tariffs for end consumers; (ii) removal of institutional barriers to renewable energy project development; and (iii) strengthening project capacity and further developing the enabling legal and institutional framework for renewable energy projects.

Serbia has a generic but extensive legal framework and policies for energy efficiency. Serbian Energy Development Strategy which sets targets to 2015 and promotes the RE generation was approved in 2005. However, institutions are still weak to pursue implementation. Tariffs are not cost reflective (especially for households – major source of cross-subsidies) and do not include environmental costs, although have been increased in the past few years and the average households electricity price is expected to reach EUR 0.8 per kWh in the medium term. Price signals have so far not provided enough incentives to use energy efficiently. The country has a strategic framework for energy efficiency but effective policies and instruments to promote energy efficiency are yet to be developed and implemented. Some progress has been made on RES when the Decree on Feed-in Tariffs entered into force in late 2009 setting feed-in tariffs and this has been updated in 2012 with revised feed-in tariffs and caps on capacity (up to 2020) for wind and solar. However key aspects of the secondary legislation (notably a standardised power purchase agreement)
needed to enable RE investments remain to be finalised. Cumbersome licensing procedures for renewable projects (especially small hydro) are one of the key institutional barriers to RES penetration. The establishment by EPS of a separate subsidiary focused on renewable generation is a positive development. Remaining challenges include increasing energy tariffs to encourage efficient use of energy and RES projects, ensuring the climate resilience of hydropower facilities, strengthening project capacity and further developing the enabling legal and institutional framework for RE projects, including economic incentives as appropriate.

**Power**

Market structure: *Large*

Market institutions: *Large*

*Key challenges:* (i) improve the unbundling and commercialisation of the vertically integrated undertaking; (ii) increase in private sector participation in generation and retail energy supply; and (iii) remove end user price regulation.

Some progress has been made in improving the market structure. Notably, the transmission activity of the vertically integrated state-owned national utility, Elektroprivreda Srbije (EPS), has been legally unbundled (since 2004). However, production of coal as well as trading and supply of electricity are still bundled within the utility. EPS is currently organised as a holding company with mining, generation, distribution, and supply activities operated by legally separated subsidiaries. Recently, accounting unbundling of distribution system operation from the supply activities within the five distribution utilities of EPS has commenced, a single public supplier has been created, and the setting of distribution tariffs. Full market opening, including in the retail sector, is planned from the beginning of 2015 and a revised Energy Law is planned to be enacted by the end of 2013 to introduce the market liberalisation measures required under the EU’s so called ‘Third Package’ of internal energy market reforms that Serbia is required to adopt through the Energy Community Treaty. However, there are no plans in the short-term to privatise or further liberalise the sector, although in 2009 tenders for two large generation investment projects were launched, to be implemented by strategic partners in cooperation with EPS. EPS holds a de facto monopoly, due to the persistence of regulated prices which are set at levels below the market price. Based on changes introduced in a new Energy Law passed in August 2011 the regulatory agency has taken over (from the government) the power to determine the final tariff levels from October 2012. Although several tariff increases have been implemented, regulated tariffs are still not fully cost reflective. Despite an increase in electricity prices by 15 per cent in April 2011, Serbia has among the lowest electricity prices in the Western Balkans, which do not encourage either investment in power generation for the Serbian market or energy efficiency projects. A feed-in tariff mechanism has been developed and was implemented in 2009 for renewable energy generation, and revised in 2012.
1.3 Infrastructure

**Water and wastewater**
Market structure: *Large*
Market institutions: *Large*

*Key challenges:* (i) tariff reform based on a transparent and predictable methodology, without interference from the central government; and (ii) improved contractual arrangements with clearly set service obligations, performance targets, and investment plans.

Local infrastructure has been decentralised to municipalities, although land ownership rests with the government. Full corporatisation is still not in place and utility managers have so far been hired as political rather than professional appointees. At the end of 2011 several legal changes were enacted aimed at depoliticising the daily operations of municipal utilities (adjustments to the concession law, legal regulations requiring professional management appointment for public utilities). Financial and operational performances are fairly good in some of the larger cities but the variation is huge both in terms of technical losses and collection rates. Meter based billing is not the norm throughout the country. Municipalities can in principle access bank financing for infrastructure projects, capped to 50 per cent of their previous year’s revenues and upon obtaining consent of the Ministry of Finance. The recent Budgetary System under the IMF programme limits the overall public debt, including municipalities, which is now capped with the country’s GDP growth.

For most utilities, tariffs mostly cover only operational costs, and rarely are high enough to make a substantial contribution to investment. Cross subsidies are still widespread. Water tariffs are set by the municipalities, but there are limitations set by the central government to control the country’s inflation level. Service contracts are very rare, and the ones that have been developed mostly at the request of IFIs have had mixed success.

**Urban Transport**
Market structure: *Medium*
Market institutions: *Large*

*The key challenges remain in the following areas:* (i) more integrated urban road and street management and planning, in order to direct basic infrastructure investments more efficiently; (ii) improved contractual arrangements with clear targets and predictable revenue stream to enable commercial funding and improved service level; and (iii) increased private participation in provision of services and investments.

Local infrastructure has been decentralised to municipalities although full corporatisation is still not in place. Urban transport is partially liberalised in Belgrade, but only limited private sector participation has taken place within urban bus operations in other municipalities. Contractual arrangements between urban transport companies and municipalities are either non-existent or weak, with the exception of Belgrade and a few secondary cities; where good PSCs are in place for the private bus operators while the contractual arrangements remains non-transparent and weak for municipal service providers such as GSP in Belgrade. The operational and financial performances of urban transport providers are generally mixed. Over the last year the City of Belgrade has improved its traffic management systems and introduced automated fare collection and improved vehicle monitoring. Private concessions in parking have been hampered by the national legislation and limited institutional capacity.
related to PPPs, but in 2012 the new adapted Concession Law was approved, which among other will allow the City to enter parking PPP projects in an acceptable manner. Through long-term agreements between the municipality and the concessionaire, this is expected to demonstrate comprehensive private sector participation and financing in the urban parking sector in the country.

**Rocks**
Market structure: *Medium*
Market institutions: *Medium*

Key challenges: (i) introduction of performance based maintenance contracts; (ii) capacity building for PPP projects and financial closure of the first PPP project; (iii) introduction of electric tolling and private sector participation in toll collection; and (iv) improvements in procurement policy and governance in the sector.

The road directorate is somehow independent as it is a public enterprise with the main sources of revenue being road tolls, fuel excise and vehicle registration fees. Most of road maintenance companies have already been privatised, and maintenance contracts are tendered on a competitive basis. The cost recovery from road user charges was achieved. There was keen interest to develop/implement motorway concessions, but the authorities have not closed any of these yet.

**Railways**
Market structure: *Medium*
Market institutions: *Small*

Key challenges: (i) the improvement in effectiveness of the newly established railway regulator; (ii) increasing competition on railway track, allowing foreign railway operators to operate in the Serbian market; (iii) establishing four companies under a holding structure and make each of these companies profitable/breakeven.

There have been significant reform efforts in railways. A new law on railways was adopted in 2005 and some restructuring efforts have been made (e.g. labour adjustment). Further the new law allowing institutional restructuring was adopted in 2011. The operating and policy setting functions had been separated while core railway businesses (infrastructure, passenger, freight, etc.) are financially and operationally separated. Moreover, the independent regulator, Railway Directorate, was established. The network statement was prepared and the methodology for track access charges was adopted in March 2010. In 2011, the railway operator was converted into a joint stock company with the aim to establish subsidiary companies under a holding structure. However, due to changing Government in 2012, restructuring of Railways has been delayed, and will be expedited in the coming period. Much preparatory work has been done already, and implementation of the new holding structure is expected to be finalised in 2013, with its full implementation in 2014. PSO was introduced in the 2011 budget and continued to be maintained in 2012 and 2013 budgets, but requires further improvements.
Financial Institutions

Banking
Market structure: Medium
Market institutions: Medium

Key challenges: (i) enhance the availability of long term sources of funding (including dinar funding) and increase the share of local currency denominated deposits in total deposits (ii) decrease reliance on parent funding of some foreign-owned banks, (iii) resolving the issue of NPLs and (iv) extending the maturity of local sources of funding.

The Serbian banking sector consists of 29 banks, of which 21 are foreign-owned. Serbia’s banking landscape however might change in the long-term as the large share of foreign ownership exposes the country to current turmoil in western European economies through potential difficulties faced by their parents. In May 2012, Austria’s Hypo Alpe Adria announced that it is looking to sell its subsidiaries in Eastern Europe which would also affect Serbia. Another noteworthy transaction in the banking sector was the acquisition of Austria-based Volksbank International AG by Sberbank, the largest Russian bank, which also included the acquisition of Volksbank’s subsidiary in Serbia. Although an indirect acquisition, this transaction is another confirmation of the rising interest of Russian investors in the Serbian market.

Privatisation is a medium-term goal for the remaining state-owned banks. However the timetable in respect of Komercijalna Banka has been delayed from the originally planned 2015 reflecting government reluctance to sell given relatively low level of market interest and expected valuations. The top five banks hold 48 per cent of assets. Total lending to the private sector increased by around 9 per cent during 2012, after two years of sluggish growth but fell slightly in 2013. The NPL ratio remained elevated, at around 21 per cent of total loans. Reflecting conservative NBS provisioning requirements, however, Serbia’s banking sector is well-provisioned against credit risks. Banking system deposits amounted to 51 per cent of GDP in 2012, with around 80 per cent denominated in FX, mostly euros. There is therefore large room for the development of local currency. The Capital Adequacy Ratio of the banking sector equalled 18.9 per cent as of Q3 2013. The banking system is relatively well supervised. Conservative NBS provisioning requirements have been key to the banking sector’s resilience. The Law on Banks was amended in 2010 and supplemented to widen the set of central bank’s instruments for dealing with crisis situations, to create additional legal grounds for introducing Basel II, and to remove deficiencies detected in the implementation of the Law.

Insurance and other financial services
Market structure: Medium
Market institutions: Small

Key challenges: (i) increase insurance penetration (ii) harmonize insurance legislation with the EU’s acquis communautaire bearing in mind the obligations envisaged by the Stabilization and Association Agreement and Serbia’s process of EU accession. (iii) strengthen capacity at the insurance supervisor (iv) improve the environment and develop the system to encourage investment in Pillar III of the pension system.
There were no new entrants to the Serbian insurance market in 2012 and the market is comprised of 28 companies, out of which 21 were in majority foreign owned. Of these, 7 engaged exclusively in life insurance, 11 exclusively in non-life insurance, six provided both and four reinsurance.

The premium/GDP ratio is under 2 per cent, remaining well below the EU 27 average. In 2012 the three largest companies captured over 60 per cent of Serbia’s insurance market. Market concentration, measured by the Herfindahl-Hirschman index based on the size of balance sheet assets, is moderate and stands at 1.132. The life segment accounts for 19.3 per cent and the non-life segment for 80.7 per cent of the insurance market. Relative to 2011, the insurance premium in 2012 recorded growth of 7.2 per cent, while full coverage motor vehicle insurance premium continued to decline. Foreign companies continue to represent the majority of the market, holding 68.8 per cent of total assets.

Insurance legislation should be fully harmonized with EU’s acquis communautaire. According to the draft Serbian Insurance Law, the requirements from Solvency II will be applied after Serbia joins the EU. Both skills and availability of insurance products have ample room for improvement. The leasing market is developing, with legal framework and supervision in place. The leasing portfolio stood at around 2.5 per cent of GDP at end 2012 (RSD 72.0 billion, down by 10.3 per cent compared with 31 December 2011). 16 companies operate, 10 of which are foreign-owned (5 domestic and one 50-50 foreign-domestic joint venture). The top three players (Hypo Alpe-Adria-Leasing, Leasing Srbija Beograd, and Intesa Leasing Beograd) account for almost around 40 per cent of the market.

The state pension system remains largely unreformed. Although private pension funds are allowed, major challenges remain with respect to the development of the system to encourage contributions payments into Pillar III. Building up of a funded second Pillar pension system seems unlikely to-date. Pension assets to GDP stand at 0.47 per cent in 2012. An increase of the retirement age is considered likely. Voluntary pension funds have been operating in Serbia for seven years.

**Micro, Small and Medium-sized enterprises**

**Market structure:** Medium

**Market institutions:** Medium

*Key Challenges:* (i) deepening and broadening bank lending to SMEs in particular in the regions; and (ii) broadening the scope of coverage from credit information systems that would lead to improving collateral requirements applicable to SME bank lending.

Banks have become more aware of the potential of the SME sector and many of them have now special departments to work with MSMEs. Financing is however limited outside the major cities, and lending to SMEs is estimated at 38 per cent of banks loan portfolios, while the share of SMEs in Serbian value added is 50.1 per cent and SMEs account for 59.7 per cent of employment according to the SBA factsheet 2012. However, MSMEs lag behind their EU counterparts mainly in the areas of internationalisation and skills and innovation. On the positive side, MSMEs are performing better in the area of access to finance than the EU average, with the exception of venture capital, which is insufficiently developed in Serbia. Collateral requirements for extending bank loans to enterprises are still high. Similar to other countries, real interest rates for loans in local currency were more expensive than loans in foreign currency, leading to an increase in the foreign currency exposure of MSMEs since
2006 although it has recently started to decrease. Serbia’s bankruptcy law came into force in 2004 and it is in line with international standards. There is a fully functioning system for the registration of movable assets allowing firms to use movable assets as collateral in their efforts to access bank finance. Credit information system has improved its effectiveness and coverage significantly to 100 per cent of adults in 2011 (and stayed at that level in 2012). Since 2010, a new law on personal data protection guarantees that borrowers can inspect their own data, thus improving access to credit information. However, only credit information from and to financial institutions is distributed and not from retailers or utility companies. The cadastre system has also improved during 2011 as the registration process was accelerated. Time and cost of enforcing contracts have been reduced compared to other countries. In 2012 the parliament approved the opening of a state-owned Development Bank; the bank will have a department dedicated to MSMEs.

**Private equity**

Market structure: *Large*

Market institutions: *Medium*

Key challenges: To create better conditions for the development of private equity in Serbia (i) improve corporate governance, transparency and business practices and (ii) develop a local institutional investor base.

The basis for a viable private equity industry is gradually being established, in part through entry of a small number of foreign investment funds with offices in the country. However, both the number of market participants and the number of transactions remain very low. Less than ten regional fund managers include Serbia in their scope. There is no country dedicated fund manager. In 2012 active capital stood at 0.32 per cent of GDP and capital available for investment at 0.17 per cent. Most capital is focused on buyouts and some reasonable amounts are available in mezzanine capital and growth capital. On the institutional side, Serbia’s conformity with OECD Principles of Corporate Governance is low compared to its South-European peers. Local institutional investor participation is generally non-existent with only very limited participation by individuals and corporates.

**Capital markets**

Market structure: *Large*

Market institutions: *Medium*

Key challenges: (i) improve liquidity on the Government bond market (ii) develop the money market and related instruments, in particular repo transactions between private counterparties (iii) improve regulation on listing and trading of bonds and derivatives.

Although the primary issuance process is functional, Serbia’s government bond market lags behind its SEE peers in terms of secondary market development. Liquidity in the secondary market is negligible and the corporate bond market remains virtually non-existent. The most commonly used instruments in the financing market are government securities and NBS notes, the latter being subject to purchase by banks only. The money market remains at early development stages both in terms of infrastructure and market activity. National Bank of Serbia publishes daily information on money market rates (BELIBOR) and government securities of different maturities (3, 6, 12, 242, 36, 60, and 84 months).
The current regulatory regime in the Republic of Serbia only provides for repo transactions in which either the Republic of Serbia or the NBS participate, and only with respect to securities issued by the Republic of Serbia or the NBS, thereby impeding the development of an active repo transactions market with a wide number of market participants and with a wider variety of underlying collateral. As repo transactions are an important part of money markets, a revision of the current regime to allow repo transactions among other market participants and with a wider range of securities, would help developing this segment.

In 2012, market capitalization on the Belgrade Stock Exchange was RSD 776 billion. The turnover ratio was low at 0.0369. Securities market legislation is substantially in line with IOSCO principles, though regulation on listing and trading of bonds and derivatives could be improved.

Serbia’s regulatory regime has been amended by the adoption of new Operating Rules of the Central Securities Depository and Clearing House (in April 2012) hence there are no longer any restrictions regarding participations or financing instruments which can be subject of repo transactions. However, a restriction remains in terms of performing repo transactions by the Republic of Serbia and the National Bank of Serbia using the financing instruments they issue – which should therefore, be removed, particularly because the National Bank of Serbia amended its regulations in April 2013 to expand the list of collaterals in monetary operations (including repo transactions and credit facilities) with top-rated securities issued by international financial organizations.
ANNEX 3 - LEGAL TRANSITION

This annex presents information on legal topics directly relevant to the Bank’s investment strategy for the new period. It is based on assessments conducted by the EBRD Legal Transition Team and also reflects, where appropriate, current technical cooperation activities developed by the Bank in the relevant legal areas.

In connexion with the promotion of the SME sector, the legal environment for secured transactions, insolvency and corporate governance will be crucial. As the Bank also intends to promote the use of concessions and PPPs, some analysis is provided below on the corresponding legal framework.

**Secured transactions**

In 2001, with EBRD technical assistance, Serbia undertook to reform its secured transactions and a Law on Registered Charges over Movable Property was adopted by the Serbian parliament in May 2003. It provided for the first time in the country the legal means by which lenders, investors and borrowers could secure their operations with non-possessory pledge over movable property and rights. After ten years of usage it can be said that the reform proved to be a very successful one as the introduced system is highly appreciated and used by the market players which consider it reliable. The quality of the law is also reflected in the fact that no amendments were needed or proposed since its introduction, a rare case for Serbia.

As regards immovable property, the Law on Mortgages adopted in 2005 aimed to establish legal framework for mortgages based on international best practices. However, the legal practice over recent years has proved that the law has some substantial weaknesses, which hinder the legal clarity and efficiency of its implementation. These ambiguities made it possible for mortgage debtors to abuse the system by obstructing the enforcement of their creditors’ rights. This has consequently decreased the confidence of lenders in the system and increased transactions costs. For example, debtors are reported to obstruct the out of court procedure by filing before the court an injunction against the procedure without serious grounds, despite the fact that the intention of the law was to limit the grounds for such injunction.

Another example occurs in the case of second or later-ranking mortgages. The law is rather ambiguous on whether the second ranking mortgage survives the out-of-court enforcement of the first mortgage. If it did, it would have very negative consequences for the first ranking mortgagee who would have to sell the property still encumbered with a mortgage. This uncertainty has deterred many lenders from using out of court enforcement.

In addition to the enforcement-related issues, which became prevalent given the financial crisis in Serbia since 2009, other issues have also been identified (e.g. extension of mortgages established over land to developed buildings, overly strong position of lessees of the property in relation to the mortgage creditors, amending registration of mortgage, etc.).

In July 2013, the Serbian Ministry of Finance has officially requested EBRD’s assistance for the reform of the Mortgage Law. The request is being considered. In addition, EBRD is currently conducting a feasibility study with the aim to establish the feasibility and marketability of a national reverse factoring programme and is assisting Serbian Ministry of
Agriculture to introduce crop receipts – a pre-harvest financing tool based on taking collateral over future agricultural production.

**Insolvency**

Bankruptcy proceedings in Serbia are governed by the Law on Bankruptcy which became effective as of 23 January 2010, and replaced the earlier 2004 law. The Bankruptcy Law, which is generally of a high quality, facilitates both the reorganisation of the debtor’s business by means of a reorganisation plan or its liquidation. There have been significant developments in bankruptcy legislation to encourage reorganisation in bankruptcy proceedings, which appear to have had a positive effect also on the consensual (out of court) restructuring environment. In 2011, amendments were made to the Bankruptcy Law to enable debtors to file a bankruptcy petition accompanied by a ‘pre-packaged reorganisation plan’, which involves the debtor obtaining the necessary level of creditor support for a reorganisation plan prior to filing the bankruptcy petition. If a ‘pre-packaged plan’ is approved by the court, bankruptcy proceedings are closed and there is no need to appoint an insolvency office holder. The ‘pre-packaged reorganisation plan’ therefore provides a useful and efficient tool for restructurings, where it is difficult or impossible to reach a universal agreement with all creditors and has proved to be very popular over the last couple of years in Serbia.

Voluntary pre-bankruptcy workouts may now also be concluded within the scope of the Companies (Arranged Financial Restructuring) Act of 2011 (‘Consensual Financial Restructuring Law), which became effective in April 2012. The Consensual Financial Restructuring Law establishes a framework, administered by the Serbian Chamber of Commerce and Industry (CCIS) in which the terms of a financial restructuring can be agreed between a debtor and two or more of its banking creditors using the services of a CCIS appointed mediator. Special incentives, such as tax relief for the write-off of debts and postponement of amounts owed to the State for debtors, as well as lower risk classification of the restructured debt and preservation of the ranking of existing collateral post-restructuring for creditors, are offered in relation to financial restructuring agreements concluded and certified by the CCIS under the Consensual Financial Restructuring Law.

On 21 August 2013 the Legal Transition Team of the EBRD launched a project in Serbia, in partnership with the CCIS in support of effective implementation of the Consensual Financial Restructuring Law. To date, the number of consensual financial restructuring cases before the CCIS has been low. This appears to be due, at least in part, to lack of stakeholder awareness of the new procedure and its benefits, as well as unfamililiarity of local stakeholders with the mediation framework in which the consensual financial restructuring cases are conducted.

The main activities of the EBRD project are intended to take place over the next 12-18 months and to consist primarily of raising stakeholders’ awareness and understanding and ultimately, confidence in the consensual financial restructuring procedure by:

- a programme of outreach activities targeted at key stakeholder groups, including banks, businesses and law firms that may use and/or participate in the consensual financial restructuring procedure; and
- a series of initiatives to develop the institutional capacity of the CCIS and its team of mediators to ensure a professional, efficient and within the limits of confidentiality, a transparent consensual financial restructuring mediation service. Institutional capacity
strengthening is needed for the CCIS to handle a rise in the number of consensual financial restructuring cases.

**Corporate Governance**

The adoption of the new Law on Business Entities in 2011 constitutes a clear improvement from the previous regime. However, there are few issues that are still unresolved and on which authorities should dedicate some attention:

- **The value of shares in an IPO:** In the event of an IPO, pricing should be the result of negotiation between the issuer’s management, and the underwriters. International practices suggest that the right to determine the value of shares to be issued should belong to the board. Instead, in the new law, the general shareholders’ meeting maintains the authority for deciding the value of shares in new issues.
- **Board of directors in limited liability companies and oversight over management:** Although the legislation seems to allow for limited liability companies to have a board of directors under the one-tier system, in practice such companies are obliged to register under a two-tier system in order to establish a board of directors.
- **Comply or explain:** In line with EU legislation, the new law requires listed companies to issue a compliance statement with the corporate governance code as an integral part of their annual report. The statement should also contain explanations for the practices not in line with the code. However, notwithstanding the legal requirement, listed companies do not seem to comply with this requirement.
- **Public information on shareholders of unlisted joint stock companies:** The new law mandates that public information related to all joint-stock companies are maintained in the Central Securities Depository and Clearing House. However, this novelty does not seem to be properly implemented and it is in fact now very difficult to identify shareholders of unlisted companies.

**Concessions and public-private partnerships (PPPs)**

The Serbian Law on Public-Private Partnership and Concessions was adopted on 22 November 2011. The new law, which was prepared with EBRD technical assistance, has a fairly wide scope and covers institutional PPPs in addition to contractual arrangements. The law takes into account the EU principles of equal treatment, fair competition and is largely based on the EU procurement fundamentals.

The law usefully provides an open list of sectors where PPP may be granted; clearly distinguishes between PPP, concession and a license; provides for a private party to create security over the project assets, rights and proceeds; enlists a detailed procedure for concession awards; and for an international arbitration where the concessionaire is a foreign entity. In line with the EU rules it refers to the public procurement procedure for non-concession PPP projects.

Article 65 of the Law envisages establishment of a Public-Private Partnership Commission that will provide technical assistance in the implementation of public-private partnership and concession projects in accordance with the Law. The Commission was established by a Government’s decision on 9 February 2012.
Following the EBRD technical assistance with preparation of the new law and with institutional capacity of the newly set up PPP Commission, the key issue remains the enhancement of local officials’ capacity for project initiation and preparation involving proper project identification and training at the municipal level.

Renewable energy

The Energy Sector Development Strategy of the Republic of Serbia by 2015 (adopted in May 2005) (the “Strategy”) and the Energy Sector Development Strategy Implementation Programme of the Republic of Serbia until 2015 for the period 2007-2012 (adopted in 2009) (the “Programme”) are the two main policy documents, which underline the significance of renewable energy and place its development high on the government’s agenda. The National Action Plan for Renewable Energy sets forth specific actions to be taken by the government in order to achieve the national renewable energy target. These include: review of the regulatory framework with a view to setting forth appropriate legal incentives promoting renewable energy use, simplification of administrative procedures, as well as introduction of an energy management system and a systematic project planning in the renewables sector.

The Energy Law of 2011 (the “Energy Law”), replacing the previous energy law of 2004, is the key piece of legislation for the renewable energy sector. Covering a broader energy sector, the Energy Law has marked a significant step in aligning the sector legislation with the EU acquis. A number of implementing regulations has been adopted, including those on the conditions for acquiring the status of privileged power producer (2013), on incentive measures for privileged power producers (2013), and on introducing feed-in tariffs (most recent one, of 2013). At the same time, several implementing regulations which are envisaged under the Energy Law are not yet issued, leaving the sector in transitional phase. The energy laws in Serbia are largely in line with the EU’s Second Energy Package, and implementation of the Third Energy Package is one of the government’s priorities.

The adoption of a sector-specific law and secondary legislation and the implementation of the Third EU Energy Package, including 2009 Renewable Energy Directive remain the main sector objectives for the government. To encourage sector investment, the government should also focus on establishing a favourable regulatory environment by simplifying administrative procedures, strengthening capacity of public authorities, and removing obstacles to financing.

Energy efficiency

Similar to the renewables sector, Serbia’s current policy framework for the energy efficiency sector is set forth in the Strategy and the Programme mentioned above, which promote more efficient use of energy and growth of energy efficiency measures in various sectors. The First Energy Efficiency Plan of the Republic of Serbia for the Period from 2010 to 2012 sets specific instruments intended to facilitate energy efficiency penetration, including: refurbishment of residential and industrial facilities with energy efficiency equipment, adoption of new construction / building regulations promoting minimum energy performance standards and certificates of building energy performance, utilities billing based on actual consumption / metering, establishment of the energy efficiency fund to provide financial support to the energy efficiency projects, introduction of energy efficiency credit lines, and promotion of energy service companies.
Much of the described remains yet to be implemented. The Energy Law, being a core law in the broader energy sector, provides only very basic regulation for the energy efficiency sector. Overall, the energy efficiency framework remains to be yet brought in line with the EU standards as part of the country’s EU accession process. The Energy Efficiency Agency has been set up to facilitate country’s efforts in this respect.
ANNEX 4 – SMALL BUSINESS SUPPORT

The EBRD promotes economic transition by assisting enterprise change in viable micro, small and medium enterprises and contributing to the development of a sustainable MSME support infrastructure through the mechanisms of Small Business Support (SBS): The Enterprise Growth Programme (EGP) and Business Advisory Services (BAS).

Previous SBS experience in Serbia

The EBRD initiated SBS activities in Serbia in 2001 with the EGP, followed by the launch of BAS in 2006. To date, SBS has raised more than EUR 14.3 million in donor funding from the EU, the Netherlands, the EBRD Shareholders’ Special Fund and other bilateral donors. This has been further matched by almost EUR 2.4 million in client contributions.

To date, the EGP has carried out 180 projects, mainly in the manufacturing industries. Most projects aim at improving sales and marketing practices as well as organisational and management structures. At completion, 95 per cent of managers claim that their business’ prospects have improved as a result of EGP interventions. Assisted enterprises increased turnover by 46 per cent and exports by 38 per cent on average. In addition, 14 per cent of EGP beneficiaries received financing in excess of EUR 67 million. The EGP has further organised a number of trainings addressing problems typical for specific industry sectors or wider groups of SMEs (for instance, human resources management training that benefited 99 enterprises in 5 cities) and business matching trips.

BAS has implemented more than 400 projects, mainly related to quality management implementation in area of food safety and environmental standards, ICT and accounting and financial reporting across a wide number of industries. Over 260 projects have been evaluated to date, of which 70 per cent were rated successful or highly successful. 67 per cent of BAS assisted enterprises have reported an increase in turnover, with a median increase of 37 per cent. 49 per cent of assisted enterprises reported an increase in their workforce, and BAS contributed to the creation of more than 1,900 new jobs (net). In addition, 25 per cent have received financing in the total amount of more than EUR 48 million (with an average amount of EUR 630,000). BAS has also undertaken a number of activities involving wider groups of entrepreneurs and/or consultants to build up skills and help develop an adequate MSME support infrastructure. These activities included trainings, workshops, Round Tables and conferences and focused on energy efficiency, information technologies, and promotion of consultancy services among SMEs.

In terms of cross-cutting issues, BAS support gender equality through a dedicated “Women in Business Programme” aiming at improving business prospects of female entrepreneurs and facilitating financing. In addition, SBS puts strong focus on energy efficiency and environmental management, as well as economic development outside of the main cities.

MSME and Consulting sector in Serbia

The MSME sector

MSMEs form the backbone of the Serbian economy, contributing to more than 52 per cent and 47 per cent of value added and exports, respectively, and generating 65 per cent of the country’s employment. The vast majority of MSMEs are concentrated in manufacturing,
wholesale and retail trade and in the construction industry, indicating a certain lack of diversification. Despite numerous government efforts, MSMEs continue operating in a difficult business environment and competition from the extensive informal economy and insufficient access to finance are remain main obstacles for growth. In addition, the SME Policy Index 2012 identified lack of corporate governance standards, in particular related to skills in general and financial management, as a main impediment to private sector development.

As approximation to the EU is gradually progressing, domestic enterprises are further facing competitive pressures. They require assistance in aligning operations with European standards, raising efficiency in their production and focussing on developing new and innovative products that will enable them to strengthen their market position and increase exports activities.

The consultancy market

The consultancy sector in Serbia is facing medium transition challenges. Expertise is available in a large number of consultancy areas, but external advice remains largely inaccessible in rural areas. Most consultants offer a variety of service, but the majority is qualified for development planning and market analysis. There is still a lack of financial consultants, as well as experts in energy efficiency and renewable energy. In general, the quality of the services on offer is adequate, however, many consultants have yet to develop a more client-based approach and understand the necessity of better marketing their services.

The local business community is aware and appreciates the benefits of external advice, and demand for consultancy services exists. A particular challenge of the Serbian consultancy industry, however, is to match the demand with a corresponding supply outside of Belgrade. Lastly, the industry shows a certain level of formalisation and institutionalisation through the Serbian Association of Management Consultants (UPKS), which BAS supports through promotion of best world practices and standards.

Infrastructure of MSME support

The institutional framework for SME development in Serbia is advanced by regional standards. The government’s priorities in private sector development mainly evolve around improving business regulations, facilitating access to finance and promoting export activities. The Ministry of Economy is responsible of MSME-supportive policies, which are implemented through the National Agency for Regional Development (NARD) and regional development agencies. Most direct support measures include financial support and basic trainings to MSMEs, and more recently, NARD has commenced to also qualify local consultants in line with the BAS model. Other state agencies, such as the export promotion agency SIEPA and the Serbian Innovation Fund, also aim at directly supporting the development of the private sector economy. The business community is represented through the Serbian Chamber of Commerce, the SME Association and the Union of Employers of Serbia, who all actively engage in policy dialogue with the authorities. In addition, an Association of Business Woman is dedicated to promoting female entrepreneurship in Serbia.
Continuation of SBS in Serbia

The EBRD will continue supporting the Serbian MSME sector through direct enterprise support and systemic market development interventions through SBS, thereby contributing to the development of a competitive, innovative and sustainable private sector able to cope with increasing competitive pressures stemming from EU approximation. In close cooperation with other donors and national authorities, SBS will in particular focus on increasing export activity, and fostering innovation and employment in the domestic MSME sector. It will mainly work with enterprises in priority sectors such as agribusiness, ICT, pharmaceuticals, transport and metal processing. Particular focus will further be placed on facilitating client access to finance through the Bank and its partner financial institutions in Serbia, and the EBRD will implement the BAS/LEF accounting improvement programme (AIP) as a pre- and post-investment tool to raise enterprise financial management practices and standards. Possible inclusion into the WB EDIF will further increase SBS’ role as a facilitator for financing. Cross-cutting issues, in particular gender equality but also environmental management, rural development and young entrepreneurship will continue to be addressed in SBS’s activities.

The Bank will further enable MSMEs to access consulting services by facilitating projects with local consultants through the BAS instrument. A flexible grant scheme will be applied through annual updates of the Grant Guideline Matrix to prioritise intervention and avoid duplication of efforts with international donors and governmental organisations. Typically, higher grants will be allocated for smaller enterprises located in economically less developed areas outside of Belgrade and the Vojvodina region, and for projects involving consultancy services where market demand is less mature. These include resource efficiency and environmental management, but also sophisticated services related to operations, marketing and branding, as well as ICT and engineering solutions.

Through the EGP, the Bank will support the transfer of management skills and specific industry knowledge, and will work with mid-sized corporates that have good export and growth potential. It will support them in introducing international corporate governance standards and internationalising their products by enhancing enterprises exposure to international best practises, assisting in the development of sales and marketing strategies and creating linkages with the EU markets.

SBS assistance at enterprise level will be complemented with trainings and other activities addressing the needs of groups of companies, consultants and local SME support infrastructure in order to maximise the programme’s transition impact in Serbia. SBS will aim at promoting best international practises in priority sectors through dissemination of successful showcases and trainings. BAS will also focus on developing a sustainable and commercially viable local business advisory services market. Activities will include:

(i) visibility and dissemination to promote the use of business advisory services, especially in economically less developed areas, and to stimulate demand for more sophisticated consultancy services;

(ii) consultancy capacity building focused on trainings in sales and marketing, project management, business diagnostics and core consultancy skills as well as resource efficiency and
(iii) **MSME trainings**, which will mainly focus on addressing cross-cutting issues such as women in business, resource efficiency and environmental management, ICT/innovation and financial management.

Furthermore, SBS will build further existing partnerships with relevant local institutions to strengthen institutional support in order to sustain assistance to the industry in the long-term.
# ANNEX 5 – TECHNICAL CO-OPERATION

## TC COMMITMENTS BY DONOR THROUGH EBRD, 2007-2013 (H1)

<table>
<thead>
<tr>
<th>Donor</th>
<th>TC Commitments (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>724,599</td>
</tr>
<tr>
<td>Canada</td>
<td>268,492</td>
</tr>
<tr>
<td>Central European Initiative</td>
<td>350,000</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>350,000</td>
</tr>
<tr>
<td>EBRD Shareholder Special Fund</td>
<td>4,090,929</td>
</tr>
<tr>
<td>EU</td>
<td>5,724,423</td>
</tr>
<tr>
<td>European Western Balkans Joint Fund</td>
<td>2,700,000</td>
</tr>
<tr>
<td>France</td>
<td>402,020</td>
</tr>
<tr>
<td>Germany</td>
<td>250,000</td>
</tr>
<tr>
<td>Greece</td>
<td>41,100</td>
</tr>
<tr>
<td>Ireland</td>
<td>52,000</td>
</tr>
<tr>
<td>Italy</td>
<td>731,706</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>86,329</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,938,537</td>
</tr>
<tr>
<td>Portugal</td>
<td>450,000</td>
</tr>
<tr>
<td>Spain</td>
<td>244,500</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,458,734</td>
</tr>
<tr>
<td>Taipei China</td>
<td>102,500</td>
</tr>
<tr>
<td>Western Balkans Fund</td>
<td>2,757,059</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>22,722,928</strong></td>
</tr>
</tbody>
</table>

## TC COMMITMENTS BY SECTOR THROUGH EBRD, 2007-2013 (H1)

<table>
<thead>
<tr>
<th>Sector/Team</th>
<th>TC Commitments (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Development *</td>
<td>8,809,522</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>344,047</td>
</tr>
<tr>
<td>Enterprise Support</td>
<td>35,580</td>
</tr>
<tr>
<td>Chief Economist</td>
<td>4,650</td>
</tr>
<tr>
<td>E2C2</td>
<td>250,000</td>
</tr>
<tr>
<td>Environment</td>
<td>540,912</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>1,543,386</td>
</tr>
<tr>
<td>LTT</td>
<td>777,839</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>10,416,992</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>22,722,928</strong></td>
</tr>
</tbody>
</table>

Note: Commitment values based on year end or period end data for each year.

* This sector category encompasses direct assistance to SMEs and indirect assistance through policy dialogue between the EBRD, the authorities and commercial/business associations (e.g. Investment Councils)
## ANNEX 6 – SELECTED ECONOMIC INDICATORS

### Serbia

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output and expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(Percentage change in real terms)</strong></td>
</tr>
<tr>
<td>GDP</td>
<td>5.4</td>
<td>3.8</td>
<td>-3.5</td>
<td>1.0</td>
<td>1.6</td>
<td>-1.5</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Private consumption</td>
<td>7.9</td>
<td>6.7</td>
<td>-2.8</td>
<td>-0.9</td>
<td>-1.1</td>
<td>-1.9</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Public consumption</td>
<td>13.3</td>
<td>4.1</td>
<td>-1.9</td>
<td>0.4</td>
<td>1.0</td>
<td>1.8</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>29.7</td>
<td>8.5</td>
<td>-22.1</td>
<td>-5.5</td>
<td>8.4</td>
<td>3.4</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>11.7</td>
<td>9.8</td>
<td>-8.0</td>
<td>15.3</td>
<td>3.4</td>
<td>4.5</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>46.6</td>
<td>25.3</td>
<td>-32.5</td>
<td>3.3</td>
<td>20.0</td>
<td>-4.4</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td><strong>Labour Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(Percentage change)</strong></td>
</tr>
<tr>
<td>Gross average monthly earnings in economy (annual average)</td>
<td>21.9</td>
<td>17.8</td>
<td>-3.3</td>
<td>7.5</td>
<td>11.2</td>
<td>8.8</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>Real LCU wage growth</td>
<td>15.2</td>
<td>5.7</td>
<td>-10.3</td>
<td>1.5</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (end-year)</td>
<td>18.1</td>
<td>14.7</td>
<td>17.4</td>
<td>20.0</td>
<td>24.4</td>
<td>23.1</td>
<td>20.1</td>
<td></td>
</tr>
<tr>
<td><strong>Prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(Percentage change)</strong></td>
</tr>
<tr>
<td>Consumer prices (annual average)</td>
<td>11.2</td>
<td>8.6</td>
<td>7.8</td>
<td>5.9</td>
<td>11.3</td>
<td>6.7</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td>Consumer prices (end-year)</td>
<td>10.2</td>
<td>7.0</td>
<td>6.6</td>
<td>10.4</td>
<td>7.9</td>
<td>12.2</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td><strong>Fiscal Indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(in per cent of GDP)</strong></td>
</tr>
<tr>
<td>General government balance</td>
<td>-1.4</td>
<td>-2.0</td>
<td>-3.7</td>
<td>-3.7</td>
<td>-4.2</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>General government revenues</td>
<td>44.0</td>
<td>42.8</td>
<td>42.2</td>
<td>42.5</td>
<td>40.6</td>
<td>41.7</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>General government expenditure</td>
<td>45.3</td>
<td>44.8</td>
<td>46.0</td>
<td>46.4</td>
<td>44.9</td>
<td>48.7</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>General government debt</td>
<td>34.6</td>
<td>33.4</td>
<td>38.1</td>
<td>45.5</td>
<td>49.5</td>
<td>61.8</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td><strong>Monetary and financial sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(Percentage change)</strong></td>
</tr>
<tr>
<td>Broad money (M2, end-year)</td>
<td>40.0</td>
<td>1.2</td>
<td>10.6</td>
<td>-6.0</td>
<td>18.9</td>
<td>-1.5</td>
<td>14.4</td>
<td></td>
</tr>
<tr>
<td>Credit to the private sector (end-year)</td>
<td>40.1</td>
<td>34.1</td>
<td>14.3</td>
<td>25.7</td>
<td>5.7</td>
<td>9.4</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>Non-performing loans ratio</td>
<td>...</td>
<td>11.3</td>
<td>15.7</td>
<td>16.9</td>
<td>19.0</td>
<td>18.6</td>
<td>21.1</td>
<td></td>
</tr>
<tr>
<td><strong>Interest and exchange rates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(in per cent per annum)</strong></td>
</tr>
<tr>
<td>Local currency deposit rate</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>12.0</td>
<td>10.8</td>
<td>11.9</td>
<td>8.8</td>
<td></td>
</tr>
<tr>
<td>Euro deposit rate</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>5.3</td>
<td>5.1</td>
<td>4.6</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Local currency lending rate</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>17.2</td>
<td>17.7</td>
<td>18.7</td>
<td>18.5</td>
<td></td>
</tr>
<tr>
<td>Euro lending rate</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>8.5</td>
<td>7.9</td>
<td>7.0</td>
<td>6.5.</td>
<td></td>
</tr>
<tr>
<td>Policy rate</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
<td>8.7</td>
<td>11.5</td>
<td>10.1</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>Exchange rate (end-year)</td>
<td>53.7</td>
<td>62.9</td>
<td>66.7</td>
<td>79.3</td>
<td>80.9</td>
<td>86.2</td>
<td>83.1</td>
<td></td>
</tr>
<tr>
<td>Exchange rate (annual average)</td>
<td>58.2</td>
<td>58.6</td>
<td>67.6</td>
<td>78.6</td>
<td>73.3</td>
<td>87.9</td>
<td>85.2</td>
<td></td>
</tr>
<tr>
<td><strong>External sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(in per cent per annum)</strong></td>
</tr>
<tr>
<td>Current account</td>
<td>-7.0</td>
<td>-10.3</td>
<td>-2.7</td>
<td>-2.5</td>
<td>-4.0</td>
<td>-4.1</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Merchandise exports</td>
<td>22.4</td>
<td>22.8</td>
<td>20.7</td>
<td>26.6</td>
<td>26.8</td>
<td>29.4</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Merchandise imports</td>
<td>47.3</td>
<td>49.0</td>
<td>37.8</td>
<td>43.0</td>
<td>43.8</td>
<td>47.6</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>6.4</td>
<td>5.6</td>
<td>4.7</td>
<td>3.1</td>
<td>5.8</td>
<td>0.8</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Gross reserves, excluding gold (end-year)</td>
<td>39.8</td>
<td>25.0</td>
<td>36.6</td>
<td>35.8</td>
<td>38.4</td>
<td>36.4</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>External debt stock</td>
<td>64.6</td>
<td>62.3</td>
<td>80.3</td>
<td>86.3</td>
<td>74.1</td>
<td>88.1</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Public external debt</td>
<td>25.1</td>
<td>17.5</td>
<td>29.4</td>
<td>33.5</td>
<td>31.6</td>
<td>42.9</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Private external debt</td>
<td>39.5</td>
<td>44.8</td>
<td>50.9</td>
<td>52.8</td>
<td>42.5</td>
<td>45.2</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Gross reserves, excluding gold (end-year)</td>
<td>5.5</td>
<td>7.3</td>
<td>8.7</td>
<td>7.2</td>
<td>8.4</td>
<td>7.1</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td><strong>Memorandum items</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>(Denominations as indicated)</strong></td>
</tr>
<tr>
<td>Population (end-year, million)</td>
<td>7.559</td>
<td>7.528</td>
<td>7.528</td>
<td>7.469</td>
<td>7.299</td>
<td>7.299</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>GDP (in billions of Dinars)</td>
<td>2,277</td>
<td>2,661</td>
<td>2,720</td>
<td>2,882</td>
<td>3,239</td>
<td>3,386</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>GDP per capita (in US dollars)</td>
<td>5,304.4</td>
<td>6,485.4</td>
<td>5,497.2</td>
<td>5,035.1</td>
<td>6,035.4</td>
<td>5,309.4</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>FDI (in million of US dollars)</td>
<td>3,460.4</td>
<td>2,989.9</td>
<td>1,935.1</td>
<td>1,322.1</td>
<td>2,713.1</td>
<td>352.6</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>External debt - reserves (in US$ million)</td>
<td>24,952.2</td>
<td>28,492.6</td>
<td>17,030.1</td>
<td>18,371.6</td>
<td>16,788.1</td>
<td>19,527.6</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>External debt/exports of goods and services (in per cent)</td>
<td>211.3</td>
<td>199.3</td>
<td>273.7</td>
<td>238.7</td>
<td>203.2</td>
<td>221.5</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Broad money (M2, end-year in per cent of GDP)</td>
<td>26.2</td>
<td>33.2</td>
<td>35.6</td>
<td>41.0</td>
<td>41.8</td>
<td>47.7</td>
<td>n.a.</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 7 – GENDER EQUALITY

Human Development

According to the 2012 Human Development Index (HDI), a composite index of health, education, and living standards indicators, Serbia is ranked 64th out of 187 countries, slightly above the regional average for South Eastern Europe.

Labour Market

Data available for 2012 show important gender gaps in the labour market in the Republic of Serbia with significantly larger rates of inactivity and lower employment rates for women. According to the Statistical Office of the Republic of Serbia, as much as 62 per cent of women compared to 43 per cent of men were neither employed nor looking for a job in 2012. Just 28.7 per cent of women were employed in Serbia in 2012, almost 14 percentage points less than men whose employment rate stood at 42.8 per cent.\(^{31}\) By sector, women tend to cluster in traditionally female occupations outnumbering men in the service sector and public employment. Male employment by contrast concentrates in mining, manufacturing, construction and transport. UNECE data showed a low gender pay gap of 4 per cent in 2007, significantly below the EU average of 16.4 per cent.\(^{32}\)

Education

There are no significant gender gaps in education, with girls attending tertiary education in slightly higher proportions than boys. In 2010, 48 per cent of primary school students were girls and 52 per cent were boys, while 50 per cent of the graduates from secondary school were girls.\(^ {33}\) According to UNECE, in 2011 55.6 per cent of students in tertiary education were women and 44.4 per cent were men. Women were mostly enrolled in traditionally female fields such as education, humanities, arts, social sciences, business, law and healthcare.\(^ {34}\)

Entrepreneurship and access to finance

Women entrepreneurship rates are lower than those of men in Serbia. 16 per cent of women are self-employed compared to 31 per cent of men, according government statistics.\(^ {35}\) The Business Environment and Enterprise Performance Survey (BEEPS) for 2009 shows that 29 per cent of the 388 surveyed firms had female participation in their ownership compared to 36 for the Eastern Europe and Central Asia region. 16 per cent of firms had a female top manager, slightly below the Eastern European and Central Asian average (19 per cent). According to the same survey, women-owned firms were 7 percentage points more likely to see their loans applications rejected in Serbia than firms owned by men (22.4 per cent for firms with a female owner compared to 15.3 per for male owned firms).

---


\(^{35}\) Ibid.