



Serbia Country Strategy

2023-2028

Approved by the Board of Directors on 14 December 2023



European Bank
for Reconstruction and Development

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		GEFF	Green Economy Financing Facility	WB	World Bank
		GET	Green Economy Transition	WBIF	Western Balkans Investment Framework
		GHG	Greenhouse Gas	WiB	Women in Business Programme
		ICA	Industry, Commerce & Agribusiness	YiB	Youth in Business Programme
		ICT	Information and Communications Technology		
		IEA	International Energy Agency		
		IFC	International Finance Corporation		
		ILO	International Labour Organisation		

Serbia's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank has continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU reform agenda. It has been a formal EU candidate country since 2012 and is currently in the process of EU accession negotiations. At the same time, many challenges remain. Serbia shares, in particular, some key institutional weaknesses common to Western Balkan countries, including in the area of the rule of law and the fight against corruption.

The largest country in the Western Balkans, Serbia has strong growth potential stemming from a well diversified economy and its position as a regional hub at the crossroads of several infrastructure corridors. The economy performed strongly over the past decade and weathered the COVID-19 pandemic well, contracting just 0.9 per cent in 2020, before recovering in 2021-22. Together with FDI-attracting policies, macroeconomic and political stability has boosted growth, while EU accession continues to provide a key external anchor for further reforms. Nonetheless, against the backdrop of global monetary policy tightening and a weaker outlook, public finances came under increased strain in 2022, as surging inflation and expensive energy imports significantly added to the fiscal burden. Longer term growth potential will depend on continued progress on EU approximation.

Although Serbia outperforms its Western Balkan neighbours across all EBRD transition qualities, it still lags EU countries on a number of metrics. The state continues to play a significant role in the economy, with large SOEs weighing on the public budget and in some cases distorting competitiveness. While the adoption of the Strategy of State Ownership and Management of Business Entities owned by the Republic of Serbia for the period from 2021 to 2027 and consequent primary legislation marked positive steps, the Bank will continue to promote enhanced governance across all priorities in this strategy. In the private sector, SMEs continue to suffer from insufficient access to finance and know how, including on the green transition and digital skills, limiting productivity. The global energy crisis also revealed significant structural vulnerabilities in Serbia's lignite-dependent energy sector. The Bank will look to accelerate the green energy transition by supporting Serbia's ambitions to develop renewables and pursue decarbonisation, including through energy efficiency, while advancing reforms of energy SOEs. It will also foster further integration with the EU and Western Balkan neighbours as well as regional development within Serbia, including by financing key rail and road corridors and digital connectivity. Environmental infrastructure and circular economy will also need to be strengthened, where possible leveraging on the private sector.

With that in mind, the Bank is set to pursue the following strategic priorities in Serbia in 2023-2028:

- Accelerating Serbia's green energy transition;
- Enhancing private sector competitiveness, productivity and access to finance; and
- Financing sustainable infrastructure and strengthening regional connectivity.

Serbia – EBRD Snapshot

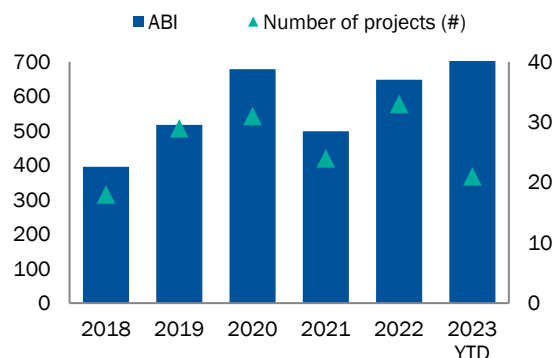


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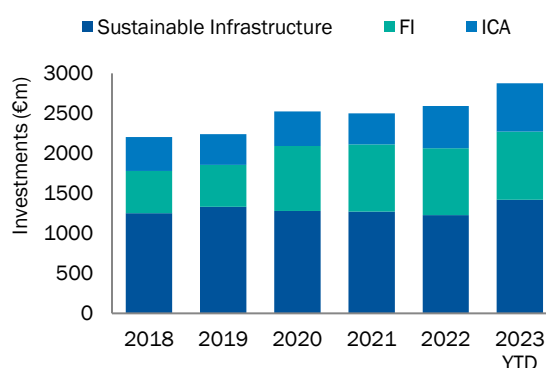
EBRD investment activities in Serbia (as of November 2023)

Portfolio	€2,843m	Active projects	153
Equity share	3%	Operating assets	€2,063m
Private Sector Share ¹	78.5%	Net cum. investment	€8,786m

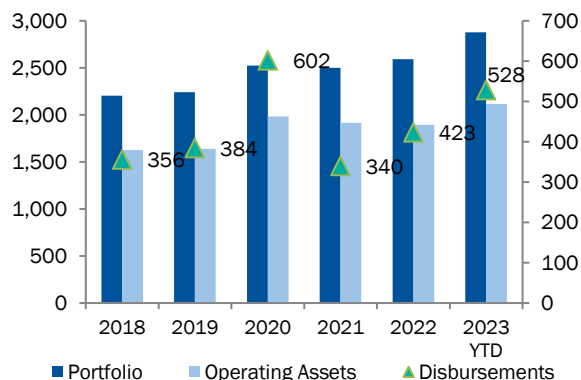
ABI and operations



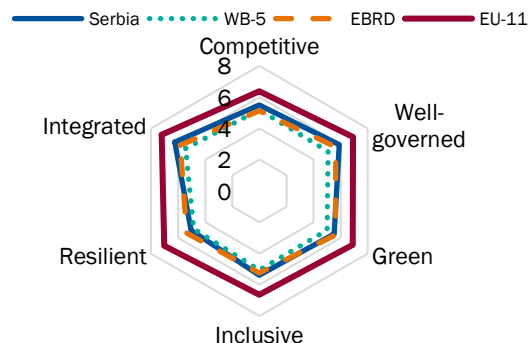
Portfolio composition



Portfolio dynamics



Transition Gaps²



Serbia context figures

	Serbia	Comparators
Population (million) ³ (2022)	6.9	BIH (3.5) Montenegro (0.6) N. Macedonia (2.1)
GDP per capita (PPP, USD) ³ (2022)	23,920	BIH (18,464) Montenegro (25,927) N. Macedonia (20,053)
New Business Density ⁴ (New registrations per 1,000 population, 2020)	2	BIH (1) Montenegro (7.9) N. Macedonia (3.5)
Unemployment (%) ⁵ (2022)	8.7	BIH (12.7) Montenegro (14.7) N. Macedonia (14.4)
Youth unemployment (%) ⁵ (2022)	24.4	BIH (35) Montenegro (29.4) N. Macedonia (32.5)
Female labour force participation (%) ⁵ (2022)	51	BIH (41.1) Montenegro (52.1) N. Macedonia (44.3)
Energy intensity TES/GDP (GJ/2015 \$) ⁶ (2020)	14.7	BIH (16.7) Montenegro (10.5) N. Macedonia (10.3)
Emission intensity/GDP (kgCO2/2015 \$) (2020) ⁶	1.0	BIH (1.2) Montenegro (0.6) N. Macedonia (0.6)

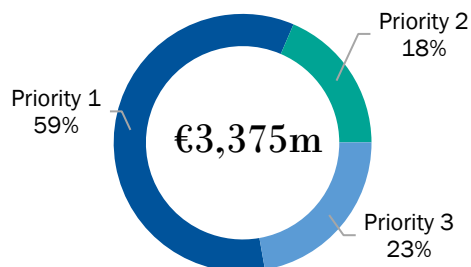
1 Cumulative Bank Investment: 5 year rolling basis on portfolio; 2 Cf. EBRD Transition Report 2022-2023; 3 IMF WEO; 4 WB Entrepreneurship Survey and database; 5 ILO; 6 IEA

1. Implementation of Previous Strategy (2018-2023)

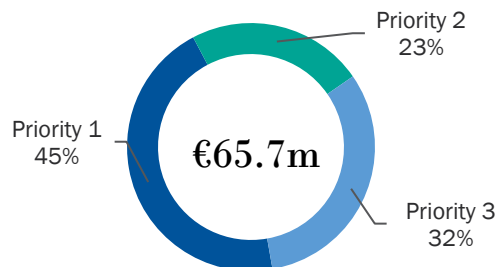
1.1. Key Transition Results Achieved during Previous Strategy (1/2)

Strategic alignment 2018-2023

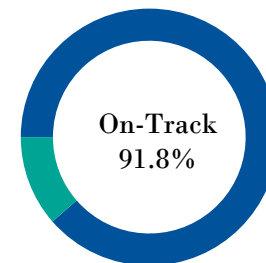
Cumulative Annual Business Investment (ABI)



Technical assistance and investment grants



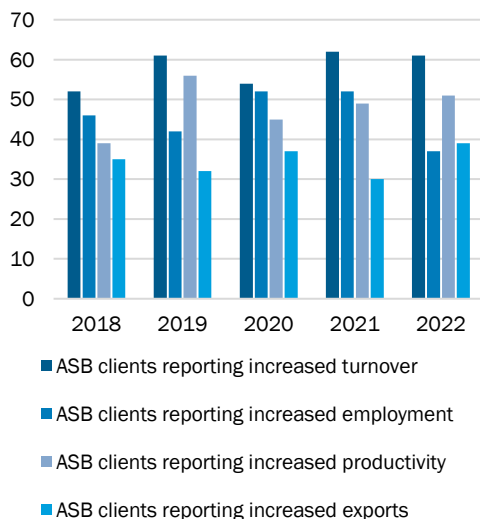
Transition impact performance¹



Priority 1

Foster Competitiveness and Governance by enhancing private companies' capacity, and reforming selected SOEs and public utilities.

Advice for Small Business



Key transition results

- Channelled close to €200m through credit lines, trade financing and guarantees under the EBRD Resilience Framework to help firms meet short-term liquidity needs and weather the Covid-19 crisis.
- Provided tailored advisory services to 430 SMEs, with a focus on digitalisation, strategy and financial management, and supported over 1000 through training and capacity building initiatives. Expanded the WiB, Blue Ribbon and Star Venture Programmes, supporting innovative and high-potential start-ups in fintech and HR, among others.
- Provided €80m loan for the development of science and technology parks in the cities of Nis, Cacak and Krusevac, as well as for the construction of the Bio4 campus in Belgrade, contributing to critical innovation enabling infrastructure.
- Provided capacity building and advocacy support on aspects of green bond issuance, contributing to the first sovereign issue by Serbia and the development of local capital markets.
- Extended a €300m liquidity line to energy SOE, EPS, to enable it to withstand the impact of the energy crises, accompanied by policy engagement and technical assistance on extensive conditionalities related to decarbonisation and governance. Other achievements in the governance field included:
 - helped to develop the Strategy of State Ownership and Management of Business Entities owned by the Republic of Serbia for the period from 2021 to 2027 and Action Plan to improve SOE performance and align governance standards with international best practices;
 - support implementation of CGAPs at rail SOEs, including setting up a compliance unit and enhanced supervisory board at passenger railway operator Srbija Voz;
 - facilitate business inspections reform, including through creation of a contact centre for reporting irregularities, and introduction of e-inspections;
 - digitalise government services, including by training over 850 civil servants and expanding use of electronic IDs.

1. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio



1. Implementation of Previous Strategy (2018-2023)

1.1. Key Transition Results Achieved during Previous Strategy (2/2)

Priority 2

Enhance Integration by improving the transport network, supporting regional economic connectivity reform, and advancing energy interconnectivity.

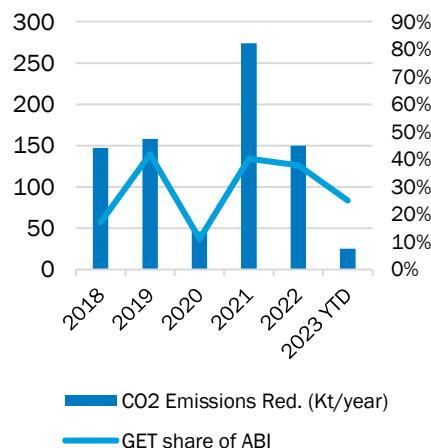
Key transition results

- Helped develop Serbian rail sector through signing a multi tranche €550m loan for High Speed Rail Belgrade to Nis, modernising and upgrading the 230km-long railway line on Corridor X.
- Provided €125m to modernise rolling stock and train depots at Srbija Voz and €85m (co-financed with the EU and EIB under the WBIF) to construct part of Route 7, the 'Peace Highway', connecting Niš and Pristina.
- Signed the first ICT project under the WBIF (€18m) in 2020 to finance design and construction of fibre broadband infrastructure and a second €100m sovereign loan in 2021 to finance further deployment in rural areas, expanding access to high-speed internet to 900 schools and public institutions, and up to 225,000 households.
- Provided €40m sovereign guaranteed loan to state power distribution company EDS to implement a smart metering project to reduce technical and commercial losses, as well as further integrate renewable energy into the system.
- Extended a €72m loan and mobilised approximately €100 million in private finance as part of Serbia's first flagship PPP to fund the modernisation of the Belgrade airport, a key regional gateway.
- Helped establish a Regional Business Registry Portal (BIFIDEX), comprising 1.5m legal entities and 2.2m in personal data from four registries (including Serbia) and continued to support advocacy efforts by the Western Balkans Chamber of Commerce on economic integration, investment promotion and COVID-19 business relevant information.

Priority 3

Support Green economy by fostering energy efficiency, enhancing renewable energy, and promoting sustainable practices.

Key quantitative results



Key transition results

- Played a leading role in strengthening solid waste management through providing €75m to finance a major regional solid waste management programme (also the first co-financing with AFD in the region) and €72.25m for the landmark Belgrade solid waste PPP.
- Assisted the MoME with preparing and conducting the first RES auction which successfully delivered over 400 MW of wind and solar projects. This included extensive support on enabling primary and secondary legislation. Also assisted in the drafting of Serbia's National Energy and Climate Plan and Just Transition diagnostic.
- Provided €18m to support the phase out of outdated coal fired boilers in Kragujevac and helped MoME prepare a multi-city investment programme to introduce renewables in district heating systems and energy efficiency measures in public and residential buildings across the country.
- Enhanced public-private dialogue through supporting the establishment of RES Serbia, the country's leading business association devoted to renewable energy.
- Helped identify key environmental challenges and set out a roadmap for prioritising green investments through a Green City Action Plan (GCAP) in Belgrade.
- Provided over €45m loans for the Serbian Climate Resilience and Irrigation Programme to finance the construction and rehabilitation of primary irrigation infrastructure across the country, and supported the development of Serbia's first Irrigation Strategy.
- Launched the first GEFF in Serbia and financed energy efficiency in public buildings in Belgrade and in Vojvodina.



1. Implementation of Previous Strategy (2018-2023)

1.2. Challenges to Implementation and Key Lessons

Context for implementation

The largest country in the Western Balkans, Serbia has strong growth potential stemming from a well diversified economy and its position as a regional hub at the crossroads of several infrastructure corridors. The economy performed strongly over the past decade and weathered the COVID-19 pandemic well, contracting just 0.9 per cent in 2020, before recovering in 2021-22. Together with FDI-attracting policies, macroeconomic and political stability has boosted growth, while EU accession continues to provide a key external anchor for further reforms. Although Serbia outperforms its Western Balkan neighbours across all EBRD transition qualities, it still lags EU countries on a number of metrics. The state continues to play a significant role in the economy, with large SOEs weighing on the public budget and distorting competitiveness in some sectors. Progress is being made, but further corporatisation and governance improvements, including to strengthen supervisory and ownership functions, are needed. In the private sector, SMEs continues to suffer from insufficient access to finance and know how, including on green transition and digital skills, limiting productivity. The global energy crisis revealed significant structural vulnerabilities in Serbia's lignite-dependent energy sector, including poor governance at state utilities, under-investment in infrastructure, and a lack of progress in developing renewable energy sources, which are now being addressed. The Bank will continue to work closely with other IFIs to promote renewable energy and advocate for decarbonisation, while stepping up efforts to advance crucial SOE reforms, especially in terms of governance. It will also foster further regional integration, including by supporting key rail and road corridors alongside the EU and EIB and utilising donor platforms such as the WBIF, and the upgrade of environmental infrastructure, mobilising private sector participation where possible.

Implementation challenges

- Cautious approach to commercialisation, privatisation and governance challenges have hampered efforts to improve SOE productivity and governance
- Impediments to renewable energy investments, including delays in launching the first auction, have limited opportunities for wind and solar projects
- The use of directly awarded contracts under bilateral government to government agreements has limited opportunities for the Bank to support critical infrastructure projects
- Difficulty in engaging with smaller municipalities to prepare and implement infrastructure projects (e.g., via Green Cities initiatives) due to capacity constraints
- While strong FDI testifies to improvements in the business environment, the latter is still adversely impacted by informality, inconsistent regulation, and weak governance

Key lessons & way forward

- In close coordination with IMF and other IFIs, continue to promote corporate governance reform at selected SOEs, while also pursuing other PPP opportunities
- Continue offering policy support to remove obstacles to commercially viable projects in the renewables sector, and look for opportunities to engage with the authorities on decarbonisation (e.g., preparations for EU implementation of CBAM)
- Continue strong coordination with other FIs and look to utilise blended finance, particularly with EU/WBIF investment grants, to catalyse infrastructure investments
- Complement investments with crucial capacity building, and look for opportunities to utilise multi-city programmes in areas like buildings energy efficiency and district heating, which are crucial to decarbonisation
- Continue to advocate for reforms to improve the business environment, anchored around EU approximation

2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

Serbia – Main Macroeconomic Indicators

	2020	2021	2022	2023*
GDP growth (% y-o-y)	-0.9	7.7	2.5	1.8
CPI inflation (% avg.)	1.6	4.1	12.0	12.4
Government balance (% of GDP)	-8.0	-4.1	-3.2	-2.8
Current account balance (% of GDP)	-4.1	-4.2	-6.9	-2.3
Net FDI (% of GDP) [minus indicates inflow]	-6.3	-6.9	-7.2	-6.1
External debt (% of GDP)	65.8	68.4	69.3	n.a.
Gross reserves (% of GDP)	28.8	30.8	32.1	n.a.
General government gross debt (% of GDP)	57.8	57.1	55.6	n.a.
Unemployment rate, 15+ (%)	9.0	10.1	9.5	n.a.
Nominal GDP (\$bn)	53.4	62.8	63.5	75.0

Source: National authorities, NBS, ILO, IMF, World Bank.

*Figures for 2023 are projections.

Over the last decade, Serbia increased its standard of living by a third, turned a sizeable budget deficit into a surplus and slashed its unemployment rate by over a half. Nonetheless, as of 2022, GDP per capita remains less than half of the EU-27. GDP is dominated by services, while growth is ultimately led by exports, which have strongly expanded on the back of continuously robust FDI inflows into the manufacturing sector. Serbia weathered the Covid-19 crisis remarkably well, leveraging its well-diversified industrial and agricultural base and solid fiscal position.

Macroeconomic stability was maintained despite the challenging environment. 2022 was marked by surging inflation, an energy crisis, a widened current account and a growth slowdown. Inflation was mainly driven by food and fuel prices and spurred on by increases in regulated electricity and gas prices, peaking in early 2023 and gradually decelerating thereafter. External accounts gradually normalised, following a shock driven by surging prices of energy imports. After a period of record-low policy rates, monetary policy was tightened significantly to rein in inflation. The exchange rate remained tightly managed and stable against the euro, supported by record high reserves and robust FDI inflows. Economic activity started picking up mid-2023.

Public finances came under strain, but remain sustainable. Fiscal needs increased as measures to support the energy sector and mitigate the impact of inflation on the population weighed on the budget while economic activity weakened. Global monetary policy tightening contributed to a worsening of external financial conditions. To ensure liquidity and build additional buffers amidst uncertainty, the authorities replaced a non-disbursing Policy Coordination Instrument with the IMF with a two-year Stand-By Arrangement at the end of 2022. In early 2023, Serbia also successfully tapped the external market with two Eurobond issuances.

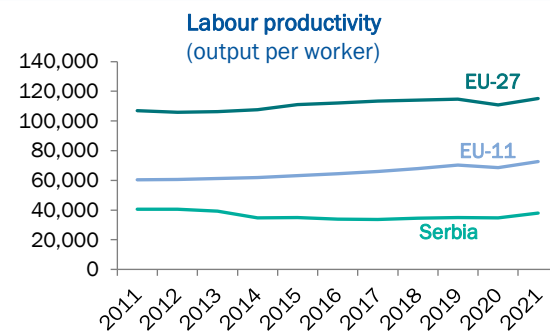
The economy is expected to continue growing at a slower pace. Weak global outlook, in particular of the major trading partners in the Eurozone, will affect external demand. The near-term growth outlook is also impacted by declining yet still high inflation and tightened financing conditions on local and global markets. The continuation of sizeable public investments and continually strong FDI inflow bodes well for the Serbia's economic outlook. Longer-term growth potential depends on the implementation of the structural agenda.

2. Economic Context

2.2 Key Transition Challenges (I/II)

Competitive (5.9)

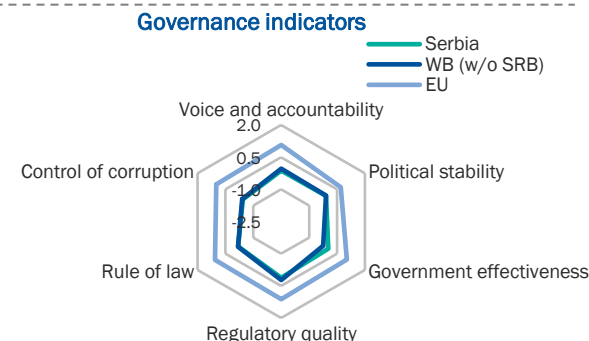
- Serbia's **labour productivity lags** peers and advanced comparators.
- The state continues to play a pivotal role.** The SOE sector is oversized and significantly more inefficient compared to the private sector, stunting productivity growth and hindering competition.
- While the export basket** developed dynamically, supported by the robust inflow of FDI on the back of large government subsidies and low costs, among others, it remains **dominated by low value-added products**. Export-oriented and digitally-intensive services sectors are becoming more prominent; **attracting more investment into higher value added sectors is needed**.
- The EU's **CBAM will affect the competitiveness** of certain Serbian products on external markets.
- Despite notable improvements to the business environment, the **private sector**, in particular SMEs, **continues to face obstacles**, most notably informality and poor workforce skills.



Source: ILO

Well-governed (6.1)

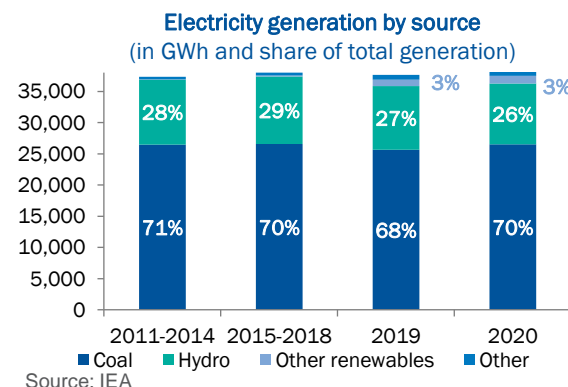
- Governance standards are in line with the Western Balkan average, but lag EU comparators.** Rule of law and control of corruption are perceived as areas that need the most improvement.
- Enhancing institutional quality requires better isolation of civil servants from political pressures.**
- Better transparency, predictability, coordination and capacity would further enhance the quality of policymaking.** Rating agencies believe that the ongoing centralisation of the institutional set up may undermine long-term policymaking predictability, which could weaken investor confidence.
- Still high informality attests to unresolved bureaucratic complexities.** The prevalence of the informal sector is seen as one of the key constraints in the business environment.
- A number of aspects of SOE governance need to be strengthened**, including the regulatory framework, responsibilities of the supervisory board, the process for appointing CEOs, internal control frameworks and non-financial disclosures.



Source: World Bank's Worldwide Governance Indicators 2021

Green (6.6)

- The carbon intensity of the economy is high, driven by lignite-based electricity and heat generation.**
- Serbian power plants are significantly more polluting than those in the EU**, regularly breaching emission ceilings. Coal generation capacity is largely outdated and powered by high sulphur content lignite, a situation which is exacerbated by persistent underinvestment, lack of pollution controlling technology as well as increasing usage of other emission-generating products such as heavy oil to offset the declining quality of coal.
- Ambient air pollution is an associated leading environmental health risk.**
- The share of power generation from renewable energy is low** despite significant potential. Scaling up private investment into renewable sources requires a supportive framework and environment.
- Just Transition** should be integral to the country's green transition.
- Energy efficiency is a big cost-saving opportunity for Serbia**, particularly in the residential sector.
- Green transition** also requires rehabilitating and decarbonising district heating, improving municipal infrastructure and increasing resilience and adaptation to climate change impact.



Source: IEA

2. Economic Context

2.2 Key Transition Challenges (II/II)

Inclusive (6.2)

- **Serbia's population is declining and aging at a similar rate as richer European countries.** The old-age dependency ratio (ratio of people aged 65+ compared to the working age population) has converged to EU levels.
- **While emigration is subdued by regional standards, it is long-standing and consistent.** Compared to other skill levels, more medium-skilled vocational education and training (VET) graduates are emigrating, as well as those with more advanced digital skills.
- **Youth unemployment remains over twice as high as overall unemployment.** Better education outcomes adjusted to workforce needs and an easier transition from school to work are key to unleashing private sector potential and addressing youth inclusion issues.
- **Women continue to register poorer labour market outcomes,** including persistent inactivity, with the gap largely driven by social norms.
- **Improving public services and access to finance could help address inequalities.**

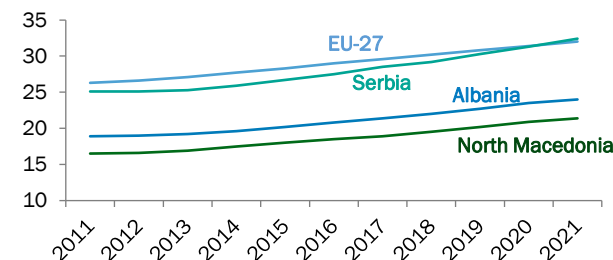
Resilient (7.8)

- While the **financial sector is generally resilient**, well-capitalised, liquid and dominated by foreign-owned banks, the worsening economic outlook requires vigilance.
- There is space for **further growth in financial intermediation.**
- **The banking sector's balance sheet exhibits maturity mismatches**, with largely short-term deposits funding largely long-term loan demand, and relatively high exposure to the public sector.
- **The key banking sector weakness is the traditionally high degree of euroisation.** Combined with underdeveloped capital markets, it limits banks' ability to lend in (long-term) local currency.
- **Capital markets remain shallow, illiquid and generally underdeveloped.**
- **The current energy crisis has uncovered long-standing issues hampering energy resilience and the need to reform the sector**, including an undiversified energy mix, below-cost prices, poor market design, technical issues, import dependence of gas on a single source market and governance issues in key SOEs.

Integrated (6.7)

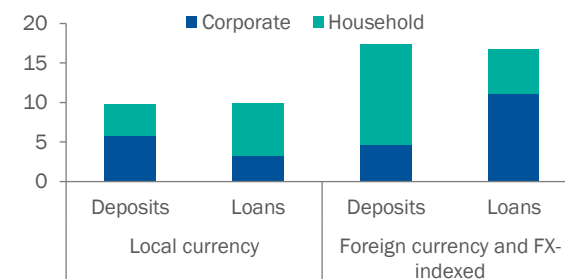
- Infrastructure investment has become a priority for the Serbian government, as evidenced by the strong rise in investment levels and reform efforts. Nonetheless, **serious infrastructure gaps remain, particularly in terms of quality**, given continual underinvestment in the decades prior.
- **Public companies dominate the transport sector.** Enterprises fully or partially owned by the state are dominant across network and infrastructure sectors, including all facets of transport. These SOEs are largely reliant on state subsidies and exhibit governance gaps.
- **Roads are the most popular mode of transport, but road safety needs improvement**, as indicated by a relatively high rate of road accident fatalities.
- **There is large scope for improving the network sustaining utility provision.** Outdated infrastructure results in high losses and pollution, and often exhibits high regional inequalities.
- Serbia's **openness to trade** has increased substantially in the past decade, but there remains substantial space for catch up with new EU member countries. **FDI inflows** are consistently robust, although stock continues to lag behind that of the EU states.

The old age dependency ratio
(ratio of people aged 65+ to the working age population)



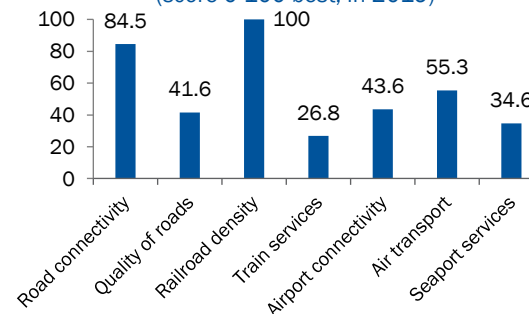
Source: SORS, Eurostat.

Euroisation of banks' balance sheets
(Total amount in June 2022, in EUR billion)



Source: NBS, authors' calculations

Perception of quality
(score 0-100 best, in 2019)



Source: WEF (2019)

3. Government Priorities and Stakeholder Engagement

3.1 Government Reform Priorities

In December 2019, Serbian President Aleksandar Vučić and Prime Minister Ana Brnabić presented ‘**Serbia 2025**’, an ambitious €14 billion investment programme and comprehensive reform agenda aimed at boosting development and increasing economic growth. Its main pillars include:

- **Infrastructure:** upgrades to road and railway infrastructure, municipal infrastructure, including the construction of the Belgrade metro; water transport, such as the expansion of the Novi Sad and Smederevo Ports and the construction of a new port in Belgrade;
- **Energy:** increased power production capacity, investments in new oil and gas pipelines; construction of hydroelectric power plants and development of renewable energy sources; focus on just transition and energy storage needs;
- **Regional integration:** continuation of the European accession process; strengthening of partnerships with actors in the east and west;
- **Agriculture:** irrigation, land consolidation for more optimal production;
- **Tourism:** promotion of tourism infrastructure, such as archaeological sites, sports and mountain ski centres;
- **Environment:** improvements to sewage networks and wastewater treatment plants; air quality monitoring;
- **Science, innovation and education:** development of artificial intelligence; education reforms; emphasis on programming, digital classrooms, dual education, entrepreneurship and financial literacy.

Work continues on a number of important sectoral strategies, including the national **Energy Development Strategy** and **National Energy and Climate Plan (NECP)**, which include measures on energy efficiency, renewables and GHG reductions. The Government has also adopted the **Strategy for SOE Ownership and Governance 2021-2027**, which sets out a path for further reforms of public companies.

While these priorities were reaffirmed following the formation of Prime Minister’s Brnabić’s third cabinet in October 2022, officials have also acknowledged **new challenges** from the war on Ukraine, with energy security a key priority going forward.

3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Further enhance energy and resource efficiency measures and advance decarbonisation across the economy
- Scale up renewable energy, including through further development of the auctions framework and energy storage solutions
- Continue focused support to SMEs, in particular to improve productivity and promote integration in global value chains
- Support market enabling infrastructure, including broadband and science and technology parks
- Promote greater regional connectivity, including by fostering enhanced transport links and energy interconnections

3.3 Key Messages from Civil Society to EBRD

- CSOs endorsed the proposed priorities, praising EBRD’s commitment to supporting Serbia’s development trajectory and engaging CSOs in addressing grassroots issues. Nonetheless, they highlighted transparency and accountability issues, primarily related to access to information for local communities affected by projects.
- CSOs encouraged the Bank to continue focusing on economic inclusion, particularly through support and mentoring of women entrepreneurs in SMEs. Additionally, CSOs called for improved access to finance from commercial banks for youth-led SMEs.
- CSOs expressed concerns over growing pollution from thermal power plants. They acknowledged EBRD’s decision to stop investing in coal-related projects and urged the Bank to continue exploring opportunities in green and renewable energy to accelerate decarbonisation.



4. Defining Serbia Country Strategy Priorities

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2023-2028)	What We Want to see in 2028
<ul style="list-style-type: none"> Carbon intensive economy and poor energy efficiency in buildings, exacerbated by underinvestment in energy infrastructure Reliance on unreliable/undiversified energy mix (largely lignite) has undermined energy security, with expensive imports in the energy crisis straining the state budget Significant increase in renewable energy/energy efficiency (esp. buildings) needed Legislative framework for renewables, only recently put in place, delayed investments Energy crisis exposed vulnerabilities, including lack of regional integration, poor infrastructure, weak corporate governance and slow development of renewables 	<ul style="list-style-type: none"> Current grid could accommodate a significant increase in renewable energy Rising costs have brought energy efficiency measures to the fore Anticipated introduction of EU CBAM will likely impact Serbian exports Government commitment to address key weaknesses in the energy sector Commitment towards carbon neutrality by 2050 endorsed in Sofia Declaration; more ambitious targets in latest NDC Political support for GET evident in draft National Energy and Climate Plan that emphasises new generation capacities Potential Just Transition initiatives 	<ul style="list-style-type: none"> Considerable experience in advancing renewable energy projects by developing appropriate regulatory frameworks EBRD can strengthen energy connectivity, including regional networks, and promote market reform EBRD can facilitate green investments and strengthen energy and resource efficiency, particularly for buildings. Capacity to financially and institutionally support climate resilience, mitigation and decarbonisation Strengthen governance and accelerate decarbonisation at key energy SOEs, in coordination with IMF and other IFIs 	Accelerating Serbia's green energy transition	<ul style="list-style-type: none"> Increased renewable energy capacity and a more diversified energy mix Increased energy and resource efficiency
<ul style="list-style-type: none"> Large industrial base but goods exports still dominated by low-value added products Productivity remains far below EU levels Greater integration of local businesses into regional supply chains needed Large state sector still plays a pivotal role Robust banking sector but access to finance still a constraint for small businesses Business climate/governance challenges (e.g., rule of law, corruption and informality) Demographic changes highlighting need for greater inclusion of women/youth and other vulnerable social groups 	<ul style="list-style-type: none"> Strong growth potential given geographic location and access to regional labour market, with robust FDI flows driving increased exports and economic complexity EU approximation remains key external anchor for reforms Recent improvements to the business environment have somewhat eased the administrative burden Potential to further develop the IT/start up ecosystem, with digital-intensive services becoming more prominent 	<ul style="list-style-type: none"> Effective instruments to help SMEs and corporates grow (e.g., value chain, export finance, green economy), including credit lines and non-financial tools through ASB Focused policy engagement to support further business climate reforms EBRD can promote skills-enhancing solutions and greater financial inclusion Specialised financial/advisory support for underserved segments, e.g., WiB, YiB EBRD digital approach can provide a framework to support digital transition 	Enhancing private sector competitiveness, productivity and access to finance	<ul style="list-style-type: none"> A more competitive and sustainable private sector Enhanced financial inclusion and access to skills
<ul style="list-style-type: none"> Infrastructure quality has improved in recent years but needs further upgrading to facilitate integration efforts Municipal infrastructure and services (e.g., water, wastewater, solid waste) at an early stage of development and often polluting, with implementation left to local governments that may lack knowhow and access to finance Regional infrastructure inequality pervasive Transport SOEs reliant on state subsidies and exhibit governance gaps 	<ul style="list-style-type: none"> Serbia is a proponent of further regional integration (e.g., Open Balkan initiative) Serbia 2025 envisions €14b to scale up road, rail and municipal infrastructure Recent launch of high speed railway line SOE reform a major objective in Serbia's 2021-27 SOP (including gradual corporatisation of public enterprises) and a point of emphasis in the IMF programme Successful PPPs (airport, solid waste) may open the door to additional projects 	<ul style="list-style-type: none"> Considerable experience developing sustainable infrastructure via dedicated GET frameworks (e.g., Green Cities) Along with other IFIs, EBRD can finance selected transport projects to facilitate enhanced trade and connectivity Strong track record in supporting commercialisation and improved corporate governance in SOEs In coordination with IFC, strong track record in developing and financing PPPs in the transport and environmental sectors 	Financing sustainable infrastructure and strengthening regional connectivity	<ul style="list-style-type: none"> Improved quality, sustainability and inclusivity of municipal infrastructure Improved quality and connectivity of transport networks and trade infrastructure

5. Activities and Results Framework (1/3)

Priority 1: Accelerating Serbia's Green Energy Transition

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increased renewable energy capacity and a more diversified energy mix	<ul style="list-style-type: none"> • Enable the development of solar and wind power through the creation of supportive regulatory frameworks and financing projects (directly and through intermediated finance), as well as related energy storage • Help to strengthen energy security through investments in energy networks and interconnections, as well as in hydro capacities, consistent with the EBRD's latest Energy Strategy • Support the decarbonisation of district heating systems across the country through the introduction of renewables • Support an improved business environment and human capital development for renewable energy, including by facilitating public-private dialogue 	<ul style="list-style-type: none"> • Renewable energy capacity installed (MW) • Number of (legal/institutional/regulatory) improvements to renewable energy and market design
Increased energy and resource efficiency and climate resilience	<ul style="list-style-type: none"> • Reduce the carbon intensity of the economy by deploying further green direct and intermediated financing and continue to support green economy transition in the corporate sector, including through ASB • Step up energy efficiency investments in buildings across the country, both through direct and intermediated finance, and facilitate capacity building and development of supportive regulations • Promote greater climate resilience, adaptation, circular economy and decarbonisation, including by supporting the preparation of low-carbon and climate resilient strategies • Help improve governance and raise standards at energy sector SOEs, including to strengthen skills • Support PFIs in implementing the transition planning approach under the EBRD's Paris alignment methodology for indirect finance and strengthen their capacity for green lending 	<ul style="list-style-type: none"> • Total CO2e reduced (ton/y) • Total primary energy saved (GJ/y) • Number/volume of EE/RE loans extended by PFIs supported by EBRD

Impact Indicator: Electricity production from renewable sources, WB; Value added from industry per unit of CO2 emissions, WB

Green



Resilient



5. Activities and Results Framework (2/3)

Priority 2: Enhancing private sector competitiveness, productivity and access to finance

Key Objectives	Activities	Tracking Indicators (Outcomes)
A more competitive and sustainable private sector	<ul style="list-style-type: none"> • Step up direct financing to the private sector to support greater competitiveness, sustainability and integration in global value chains of local businesses and FDI attraction • Strengthen intermediated financing of SMEs through dedicated credit lines to PFIs, including in local currency, with a focus on competitiveness, green transition and economic inclusion, as well as through risk sharing and trade finance • Continue to deliver the ASB programme, with a focus on green transition, digitalisation, inclusion, succession planning, internationalisation and supply chain integration • Explore opportunities to facilitate private capital participation in SOEs, and promote capital markets development generally • Support greater corporatisation of SOEs and implementation of the new Law on SOEs • Contribute to improving the business climate, including by digitalising the public administration, reducing informality and promoting climate corporate governance • Finance market enabling infrastructure, particularly in less developed regions, such as broadband in rural areas and science and technology parks in smaller cities • Accelerate the digitalisation of the Serbian economy, with a focus on SMEs and on developing the start up ecosystem (including through the Star Venture programme) 	<ul style="list-style-type: none"> • Number of clients reporting increased exports and/or productivity • Number/volume of loans extended by PFIs disbursed for SMEs, including outside Belgrade • Number of (legal/institutional/regulatory) improvements to the business environment
Enhanced financial inclusion and access to skills	<ul style="list-style-type: none"> • Step up implementation of the Youth in Business and Women in Business programmes, both in terms of intermediated financing and advisory • Alongside corporate clients and other partners, support enhanced vocational training and other skills initiatives to help address gaps and mismatches, including to develop green and digital skills and create a better qualified and inclusive workforce 	<ul style="list-style-type: none"> • Number of women- and youth-led businesses accessing finance • Number of people receiving new/improved skills (incl. green, digital) as a result of training (m/f)

Impact Indicator: Economic Complexity Index, Harvard Centre for International Development; Youth not in employment, education and training, ILOSTAT

Competitive



Inclusive



5. Activities and Results Framework (3/3)

Priority 3: Financing sustainable infrastructure and strengthening regional connectivity

Key Objectives	Activities	Tracking Indicators (Outcomes)
Improved quality, sustainability and inclusivity of municipal infrastructure	<ul style="list-style-type: none"> Continue to finance sustainable and inclusive municipal and environmental infrastructure and related services, including in solid waste, wastewater treatment and water provision, along with related technical assistance and capacity building to public utilities and municipalities to improve efficiency of delivery and boost the circular economy Support infrastructure investments that bolster climate change adaptation and resilience (e.g. irrigation and anti-flooding) Continue implementation of projects under the Green Cities programme 	<ul style="list-style-type: none"> Number of individuals with improved access to services (water/wastewater/solid waste)
Improved quality and connectivity of transport networks and trade infrastructure	<ul style="list-style-type: none"> Working closely with other IFIs and donors, seek to: <ul style="list-style-type: none"> support the development of more sustainable and accessible transport modalities, with a particular focus on facilitating the switch to rail and raising skills and standards at the three rail SOEs (including via dedicated corporate development and corporate governance action plans); strengthen regional connectivity by financing key European road and rail corridors/routes and inland waterways, and work to facilitate inclusive procurement; and further promote commercial and private sector solutions in the infrastructure sector 	<ul style="list-style-type: none"> Net increase in transport infrastructure usage and/or capacity Number of clients (SOEs) improving corporate governance with EBRD assistance



6. Mapping of International Partners' Complementarity in EBRD Business Areas

EBRD Business Areas

Indicative annual average annual investments/ grants (€m, 2018-2022)		Sectors								Cross-cutting Themes				
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		FI		Strategic Initiatives			
		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank FIs	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
EIB	399		€		€		€	€	€		€			€
EU	214						€P	€P		€	€P	€		€
WB	210	€	€P	P	€		€	€			€P	P	P	
KfW	151						€	€P	€		€			€
AFD*	117							€P			€P			
IFC	51						€	€	€P	P	€		P	
EBRD	548	€			€		€P	€	€		€	€		€P

€ Area of significant investments

● Focus mostly on private sector

P Area of significant policy engagement

○ Focus mostly on public sector

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of investments signed between 2018-2022.

*AFD investments from 2020 to 2022

Potential Areas of Cooperation



Green

- Seek further alignment with the EU under the Economic and Investment Plan for Western Balkans as well as other IFIs to collectively advance the green agenda
- Look for co-financing opportunities in environmental infrastructure through multi-site and multi-city programmes



Competitive

- Seek cooperation with IFC on unlocking opportunities for private investments
- Continue collaboration with EU on ASB and expanding access to finance for SMEs
- Support Serbia in delivering on reform conditionalities to be agreed as part of the upcoming EU Growth Plan for the Western Balkans, including in the key areas of green and digital transition



Integrated

- Including under the WBIF umbrella, continue close coordination with the EU, EIB, KfW, AFD, CDP and other donors to develop key transport, energy and digital infrastructure projects



Well-Governed

- Continue close coordination with the WB and IMF to advance SOE reforms, including as a means of strengthening energy transition

7. Implementation Risks and Environmental and Social Implications

Risks to the strategy implementation	Probability	Effect	Environmental and social implications
<ul style="list-style-type: none"> Increased external vulnerabilities, e.g., higher inflation, elevated energy prices and disruptions from Russia's war on Ukraine could undermine macroeconomic stability and the post-pandemic recovery 	Yellow circle	Red circle	<ul style="list-style-type: none"> Assessment and Management of E&S Risks and Impacts: Undertake appropriate assessment and mitigation of all direct, indirect, cumulative, and transboundary E&S impacts in accordance with the EU EIA Directive and EBRD ESP and Performance Requirements (PRs). Assess needs for technical assistance in application of international standards on E&S management systems and contractor management.
<ul style="list-style-type: none"> Tight fiscal space and rising public debt may prevent substantial expenditures on large infrastructure projects, necessitating grant resources or concessional finance 	Yellow circle	Yellow circle	<ul style="list-style-type: none"> Labour and Working Conditions: Ensure clients' labour practices comply with EBRD's PR2; in particular, non-discrimination, promotion of equal opportunities and freedom of association. Check informal employment, timely payment of wages and benefits and retrenchment planning during any large-scale privatisation. Some sectors such as construction and agriculture may need support and management mechanisms for addressing GBVH, child, and forced labour risks, including contractors, non-employee workers and supply chain risk assessments. Special considerations are required for vulnerable groups and migrant workers.
<ul style="list-style-type: none"> Persistent governance challenges could undermine the business climate and deter further foreign investment 	Yellow circle	Yellow circle	<ul style="list-style-type: none"> Resource Efficiency and Pollution Prevention and Control: Identify investments that support circular economy, resource efficiency and prevent environmental pollution. Support transition to a diversified, low carbon and resource efficient economy and strengthen resilience to climate change. EBRD priorities will help reduce GHG emissions although total emissions may remain high due to carbon-intensive electricity generation. Support the implementation of Green City Action Plans, as well as improve solid waste management and the transport sector.
<ul style="list-style-type: none"> Limited appetite for private sector participation and PPPs could constrain the Bank's ability to develop infrastructure projects 	Yellow circle	Red circle	<ul style="list-style-type: none"> Health, Safety and Security: aim to improve occupational and community health and safety culture and practice. Road safety and prevention of workplace accidents are priority issues for infrastructure projects and may require TC funds.
<ul style="list-style-type: none"> Weak administrative capacity could inhibit preparation/implementation of municipal infrastructure projects 	Yellow circle	Red circle	<ul style="list-style-type: none"> Land Acquisition, Restrictions on Land Use and Involuntary Resettlement: Encourage clients to improve consultation, access to information and identification of all affected people. Where occupiers have no legal titles, are vulnerable, or represent IDPs, the clients will need to ensure adequate assessment of special needs, design compensation, and livelihood restoration measures in accordance with the Bank's requirements.
<ul style="list-style-type: none"> Efforts to mitigate climate change, e.g., implementation of CBAMs in neighbouring countries, may negatively impact exports 	Red circle	Yellow circle	<ul style="list-style-type: none"> Biodiversity Conservation and Sustainable Management of Living Natural Resources: Undertake assessments (incl. for TC funds) to protect species and habitats of conservation importance and sustainable and resilient management of ecosystem services and natural capital, especially in sectors such as renewable energy, municipal services, and infrastructure.
<ul style="list-style-type: none"> Any weakening of external reform drivers (e.g., EU approximation) could negatively impact the depth and scope of EBRD engagement 	Green circle	Red circle	<ul style="list-style-type: none"> Cultural Heritage: Ensure appropriate assessment processes and mitigation plans are in place to protect tangible and intangible cultural heritage and to identify key stakeholders. Financial Intermediaries: Ensure FI partners have adequate E&S capacity and risk management procedures in place. Stakeholder Engagement: Support clients in developing and implementing meaningful engagement, early project disclosure, and inclusive consultation accompanied by effective grievance mechanisms throughout the project lifecycle.

Red circle High Yellow circle Medium Green circle Low

8. Donor Partnerships Assessment



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Needs Assessment for the New Country Strategy Period

Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including:

- Co-investment grants, alongside for policy support and advisory, to accelerate the energy transition, including energy efficiency, and reforms at key energy SOEs.
- Co-investment grants to narrow the environmental infrastructure gap, particularly in the areas of solid waste management, wastewater treatment and air pollution.
- Introduction of risk-sharing facilities, including through EFSD+ instruments, along with direct and intermediate finance for SMEs to strengthen economic competitiveness and green transition.
- Co-investment and advisory grant support for the private sector to boost the circular economy.
- Grants for advisory to SMEs, including in the key areas of green, inclusion and digital, and with particular focus on less economically developed regions and the start up eco-system.

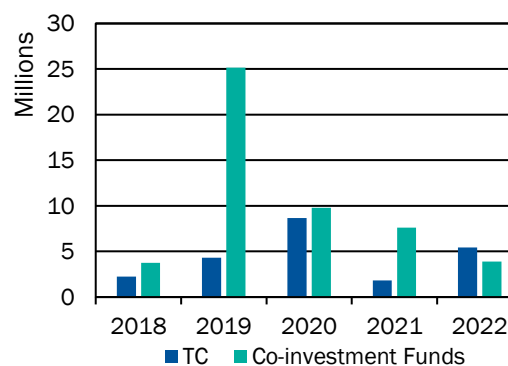
Potential Sources of Donor Funds

- Various **EU and multi-donor regional programs** could meet the country's needs. The WBIF, in particular, will continue to be key to the delivery of public sector infrastructure and energy projects, as well as private sector competitiveness programs focused on access to finance and skills for SMEs.
- The replenishment of the **Regional Energy Efficiency Program** will be key to accelerate the buildings renovation wave and reduce the country's energy intensity.
- EFSD+ guarantees will be important to leverage private sector investment, boosting economic competitiveness and the green economy transition.
- The **Green Climate Fund** and Multilateral Climate Funds in general are essential for CAPEX grants and incentives to address investments in green energy and infrastructure.
- Among **bilateral** funding, **some donors should be prioritised in particular sectors**. Switzerland and Austria, for example, are important partners in the areas of renewable energy and district heating. Taipei China is a strong proponent of digital projects. Luxembourg is an active donor for governance and business climate projects and the CEI for SMEs competitiveness and technical assistance to SOEs.

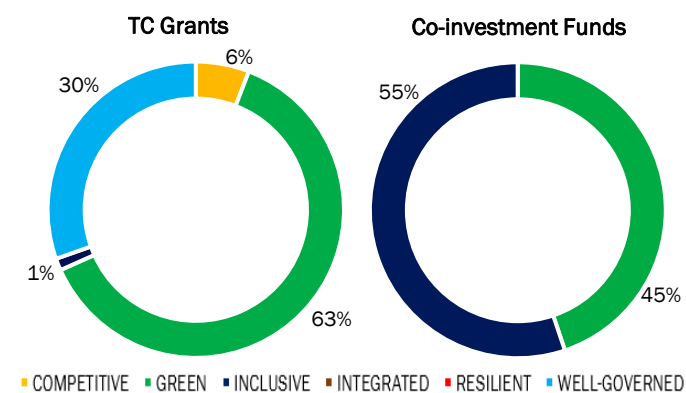
Selected Affordability Indicators

		EBRD regional percentile rank ¹
GDP per capita (PPP, current. \$) ²	23,911	52 th
ODA Country	Yes	N/A
ODA as share of Gross National Income (%) ³	0.88	25 ^h
ODA per capita (\$ - current prices) ³	73.09	48 th

Donor finance during 2018-2022 (€m)⁴



Use of grants in 2022⁵



1. Simple percentile rank reported as the share of EBRD economies represented below Serbia (for which data is available). 2. WDI (2022) 3. OECD (2021) 4. Methodology for reporting co-investment amounts has changed from being based on client signings to being based on earmarks at commitment level in 2022. 2018-2022 TC data and Co-investment 2022 amount are based on earmarks at commitment level, and co-investment funds amounts 2018-2021 are based on client signings. 5. Based on the primary Transition Quality of earmarked donor funds.

Annex



European Bank
for Reconstruction and Development

PUBLIC

Annex 1 – Political Assessment in the Context of Article 1 (1/6)

Serbia's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank has continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU reform agenda. At the same time many challenges remain. Serbia shares some key institutional weaknesses common to the Western Balkan countries, including in the area of the rule of law and the fight against corruption.

The period since the adoption of the previous Country Strategy saw uneven political dialogue, culminating in the boycott by the significant part of the opposition of the 2020 general elections and the establishment of the parliament de facto without a meaningful political opposition. The dialogue has improved since then and the latest parliamentary elections, in 2022, were more competitive and inclusive, resulting in a more diverse and representative legislative.

The constitutional framework for a pluralistic parliamentary democracy is in place. The separation of powers, 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.

Serbia's overall administrative capacity is relatively high by regional standards. Progress in democratic reform since the adoption of the previous Strategy has to a great extent been linked with ongoing approximation with the EU. Progress in particular has been made in improving the legislative and institutional frameworks. Implementation remains an area of weakness. Maintenance of political will to fight corruption and organised crime is necessary to generate further improvements in the business environment. The latter may further benefit from the EU accession negotiations, particularly on the chapters of the accession treaty relating to the rule of law.

Free Elections and Representative Government

Free, fair and competitive elections

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.

The existing legal framework provides an "adequate basis for democratic elections" ¹. The legal framework benefited from a series of reforms, including the adoption of a number of 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). Significant amendments were further adopted in the beginning of 2022 following the inter-party consultations process between the governing coalition and opposition parties. The latter, which addressed some of the prior recommendations by OSCE, included enhanced representation of the opposition in the election commissions, extended timeframes for dispute resolution and the establishment of a Temporary Supervisory Authority to supervise the media coverage of the campaign. Most of the changes enjoyed a broad consensus. However, part of the opposition and civil society representatives considered the changes too limited in scope and too close to the April 2022 elections to address fundamental imbalances favouring the incumbents. A number of OSCE's recommendations to improve the legal framework remain outstanding.

While elections in Serbia are free and while they (particularly the 2022 general elections, which saw active participation of the opposition that had previously boycotted the elections) present diverse political options, there is, according to OSCE, an "uneven playing field".

1. OSCE, Office for Democratic Institutions and Human Rights (OSCE/ODIHR), ODIHR Election Observation Mission (EOM), Serbia, presidential and early parliamentary elections of 3 April 2022, Final Report, 19 August 2022

Annex 1 – Political Assessment in the Context of Article 1 (2/6)

OSCE's Election Observation Mission (EOM) for the 2022 elections attributed the latter to the combination of “unbalanced access to media, undue pressure on public sector employees to support the incumbents, significant campaign finance disparities and misuse of administrative resources.”² ODIHR considers among its recommendations a priority the need for further legal review to address challenges on the misuse of administrative resources and access to media, a clear separation between official functions and campaigning activities, mechanisms to prevent intimidation and pressure on voters, and sanctions for campaign violations and inadequate reporting.

Separation of powers and effective checks and balance

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. There are regular Q&A sessions with the prime minister and members of the government. Overall, however, the parliament's oversight role of the executive branch has not increased significantly and lacks a pro-active approach. The recommendation to strengthen this role of the parliament was included in a number of reports by PACE on honouring of obligations by Serbia.

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.

Civil Society, Media and Participation

Scale and independence of civil society

According to the Serbian Business Registers Agency, there are over 34,000 civil society organisations (CSOs) registered in Serbia. The legal framework for cooperation between the government and CSOs is largely in place. However, the environment for the functioning of CSOs has deteriorated moderately in the last few years. This is primarily due to the investigations into some of the country's most prominent CSOs, media, journalists, and activists as well as legislative changes over the past years. In 2020, the Office for Cooperation with Civil Society - established in 2011- closed down due to the adoption of the Law on Ministries and the formation of Ministry of Human Rights and Social Dialogue. The newly created Ministry has initiated a series of public dialogues with civil society. In 2022, Serbia adopted a strategy for creating a stimulating environment for the development of civil society for 2022-2030 and the respective action plan. However, further efforts are still needed to ensure systematic cooperation between the government and civil society as an essential partner in reforms and a guarantor of effective checks and balances.

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 over 2,500 outlets - both public and private broadcasters and a wide range of print, television, radio and online editions. Television remains the most important source of information, followed by social networks and online media.

2. OSCE, Office for Democratic Institutions and Human Rights (OSCE/ODIHR), ODIHR Election Observation Mission (EOM), Serbia, presidential and early parliamentary elections of 3 April 2022, Final Report, 19 August 2022

Annex 1 – Political Assessment in the Context of Article 1 (3/6)

The internet penetration rate has been growing steadily (74 per cent in 2020 compared to 27 per cent in 2006), with social media playing an increasingly important role (3.9 million Facebook users –almost half of the population - in 2020)³.

Privatisation of state media outlets has not, according to the EC, led to greater diversity of views, nor to the transparency of ownership or funding sources, including state funding (a longstanding shortcoming). The advertising market is limited, which contributes to media outlets' dependence on public co-funding. The EC's latest report on Serbia concluded that while there was "limited progress" as regards the freedom of expression, cases of threats, intimidation, hate speech and violence against journalists remained a concern⁴.

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. The period of 2020-2022 saw a serious setback when significant part of the opposition boycotted general elections resulting in the parliament de facto without a meaningful political opposition. The early general elections of April 2022 were preceded by two parallel processes of inter-party dialogue involving the authorities and the opposition, which has been an improvement in terms of channels of participation.

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. While the 2020 general elections were largely boycotted by the opposition, the early parliamentary elections of 2022 were contested by seven political parties and ten coalitions of political parties. More than 30 political parties are currently represented in the national parliament. A quarter of the parliament's standing committees is chaired by the opposition.

Rule of 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.

In March 2022, the action plan for the 2022-2025 judicial development strategy was adopted, further specifying reform activities. While progress has been made in adopting new laws, much remains to be done in order to increase the efficiency of the judiciary.

Independence of the judiciary

The independence and impartiality of the judiciary are guaranteed by the Constitution and key safeguards are in place.

Serbian authorities were often criticised in the past for exerting undue political influence over the judiciary. In February 2022, they took important step towards strengthening the independence and accountability of the judiciary – by approving relevant amendments to the Constitution, alongside the constitutional law setting out the steps and the deadlines for their implementation. The Venice Commission of the Council of Europe was consulted during the drafting process and most of its recommendations were addressed. The amendments envisage that all judicial appointments (with the exception of the future top Prosecutor) will be the competence of either the future High Judicial Council (HJC) or the High Council of Prosecutors, increasing safeguards against potential political influence.

In order to give practical effect to these improvements, the relevant implementing legislation needs to be adopted as a next step, followed by the actual implementation. In the latest progress report on Serbia, released in November 2023, EC acknowledged "timely adoption of most of the implementing legislation giving practical effect to the 2022 constitutional amendments, while two of the implementing laws still need to be adopted"

⁵.

3. Internet World Stats: <https://www.internetworldstats.com/europa1.htm>; 4. European Commission, Serbia 2023 Report (2023 Communication on EU Enlargement Policy); 5. European Commission, Serbia 2023 Report (2023 Communication on EU Enlargement Policy);

Annex 1 – Political Assessment in the Context of Article 1 (4/6)

Broadly speaking, despite the above-mentioned positive developments, concerns remain regarding the impartiality and professionalism of the judiciary.

Government and citizens equally subject to the law

A new Law on Ombudsman and amendments to the Law on access to information were adopted in 2021. Citizens' right to administrative justice remains limited, as review of Administrative Court judgments is possible only in a limited number of cases and only through extraordinary legal remedies.

Effective policies and institutions to prevent corruption

Corruption remains a serious concern, and is still perceived by citizens as a widespread phenomenon. According to Transparency International's 2022 Corruption Perception Index (CPI), Serbia ranked 101st out of 180 countries (significantly worse compared to its 77th position in 2017)⁶.

In its latest (Fifth Evaluation Round) report, the Council of Europe's Group of States against Corruption (GRECO) addressed to Serbia a number of recommendations related to corruption prevention and promoting integrity in top executive functions and in law enforcement agencies. It acknowledged the important role played by the Agency for the Prevention of Corruption (APC) in many areas. At the same time, it noted the lack of a public strategy on corruption prevention explicitly covering persons with top executive functions (PTEFs); the need for systematic control by APC of the asset declaration of PTEFs; and the need for further efforts to increase the transparency of the legislative process in connection with government initiatives and contacts by PTEFs with lobbyists. GRECO also recommended revamping the existing Code of Police Ethics and adopting a strategy for the prevention of corruption in police.

Serbia is currently undergoing a compliance procedure in the framework of the Fourth Evaluation Round covering members of parliament, judges and prosecutors.

In the latest compliance report, 61.5 per cent of recommendations were fully implemented and 38.5 per cent partly implemented⁷. While there is a track record of successful investigation and prosecution of corruption cases in general, there are not many convictions for high-level corruption, even if the number has slightly increased recently.

Civil and Political Rights

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 the main international human rights instruments.

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 persons with disabilities remains limited.

In September 2022, Serbia hosted – the first in the Western Balkans – the Europride.

6. Transparency International, Corruption Perceptions Index 2022; 7. GRECO, Fifth Evaluation Round, Evaluation Report, Serbia, 5 July 2022

Annex 1 – Political Assessment in the Context of Article 1 (5/6)

The Europride route was initially banned by the authorities and the holding of the march was uncertain until the very last moment. The period prior to the march was marked by legal and political uncertainty amidst contradictory communication from the authorities. The march eventually took place on 17 September 2022 and passed without major incidents.

Progress has been made regarding property rights, particularly with respect to property confiscated under the communist regime. Based on the coefficient for financial restitution when restitution in kind is not possible, the government issued bonds in January 2022.

The latest 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 adopted in 2018. Among the top recommendations were those related to rights of the child (16 per cent of recommendations), women's rights (16 per cent) and minority rights (16 per cent). Serbia supported 92 per cent of a total of 184 recommendations made through the review process⁸.

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. There are 23 ethnic minorities in Serbia, which have constituted and exercise their rights through their respective National Minority Councils. According to the 2011 census (results of the 2022 census will not be published until April 2023), some 17 per cent of citizens identify themselves as non-ethnic-Serbs.

The largest groups are Hungarians (3.53 per cent); Roma (2.05 per cent); and Bosniaks (2.02 per cent).

During the last general elections, 70 out of 116 registered political parties were registered as representing ethnic minorities. In the current Serbian parliament, 13 seats went to ethnic minority parties, not counting minority MPs on the lists of other political parties and coalitions.

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 municipalities of southern Serbia with significant ethnic Albanian population (Presevo, Bujanovac and Medvedja), where the local Albanian population massively boycotted the last census. Both Sandzak and the three above-mentioned municipalities remain underdeveloped.

Roma remain the most vulnerable and discriminated against minority, although some improvements have been achieved. The authorities have undertaken measures to improve the registration of Roma, as well as increase their social inclusion, and access to education. In 2022, Serbia adopted a new strategy, with the aim of aligning with the EU Roma strategic framework for 2020-2030.

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, women represent an impressive 38 per cent of MPs. In 2017, Serbia elected the first ever (also in the wider Western Balkan region) female Prime Minister, who has since been re-elected two more times. There are also several female members of the Cabinet.

8. United Nations, Universal Periodic Review (UPR), Serbia, and UPR Info Statistics, available at [\(https://upr-info-database.uwazi.io/en/library/?q=\(allAggregations:lf,filters:\(cycle:\(values:!\(%27567eec7b-d5ab-4c36-a712-57c38fae9124%27\)\),state_under_review:\(values:!\(ixiq18ibzas\)\)\),from:0,includeUnpublished:lf,limit:30,order:desc,sort:creationDate,types:!\(%275d8ce04361cde0408222e9a8%27\),unpublished:lf\)](https://upr-info-database.uwazi.io/en/library/?q=(allAggregations:lf,filters:(cycle:(values:!(%27567eec7b-d5ab-4c36-a712-57c38fae9124%27)),state_under_review:(values:!(ixiq18ibzas))),from:0,includeUnpublished:lf,limit:30,order:desc,sort:creationDate,types:!(%275d8ce04361cde0408222e9a8%27),unpublished:lf))

Annex 1 – Political Assessment in the Context of Article 1 (6/6)

During the last general elections, the law requiring a 40 per cent gender quota was honoured by all political parties (women were 42 per cent of all candidates and led four candidate lists). Three out of eight presidential candidates were also women.

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.

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last carried out its periodic visit to Serbia on 9-19 March 2021. The focus of the visit was to examine the treatment of persons deprived of their liberty by the police and the practical application of safeguards surrounding their detention. The report, while welcoming the measures taken by the Serbian authorities to reduce prison overcrowding and to upgrade the prison estate, noted a significant number of allegations of various forms of ill-treatment of detained persons by police officers. It also concluded that investigations by prosecutorial authorities and the police oversight mechanism into allegations of ill-treatment did not comply with the criteria of effectiveness as set out inter alia in the mandatory instruction previously adopted by the Republic Public Prosecutor⁹.

9. Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Report on the periodic visit to Serbia, 9-19.03.2021, available at <https://rm.coe.int/1680a5c8a4>